



ITV delivers another year of strong growth

ITV plc Annual Report and Accounts
for the year ended 31 December 2013

Stock code: ITV



Online Annual Report

The Online Annual Report is available at ar2013.itvplc.com

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
- Governance documents
- Corporate Responsibility content



Strategic Report

The Strategic 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 key performance indicators to explain the progress we have made, a description of the principal risks and uncertainties facing the Company, and an indication of potential future developments.

The Strategic Report is prepared in line with the relevant provisions of the Companies Act 2006 and the Company has had regard to the guidance issued by the Financial Reporting Council in its Exposure Draft: Guidance on the Strategic Report. It is intended to provide shareholders with a better 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 potential future developments, and in other content, this report and accounts contains statements that are based on knowledge and information available at the date of preparation of the Strategic Report, and what are believed to be reasonable judgements, and therefore cannot be considered as indications of likelihood or certainty. 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.

Welcome to our Annual Report 2013

Look out for these icons within the report



Read more **content** within this report



Indicates **Corporate Responsibility** content



Read more **content** online

Cover picture:

Behind the scenes on
Ant and Dec's Saturday
Night Takeaway

What's inside

Strategic Report

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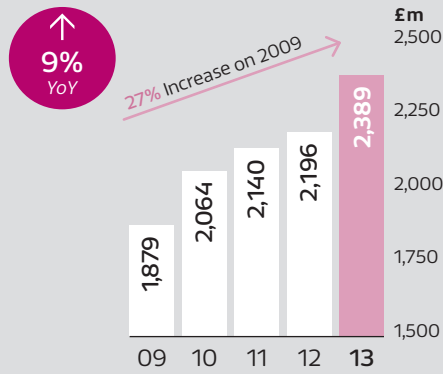
Overview

Investor Proposition

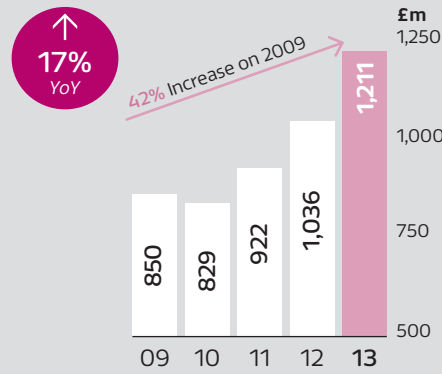
- We are four years into our strategic plan and ITV is now a demonstrably stronger and more efficient business –operationally, financially and creatively
- Over the last four years we've grown our revenues and delivered double digit profit growth every year, our adjusted earnings per share has increased sixfold and our cash conversion has been consistently strong
- Creativity lies at the heart of our strategy and our investment in quality content is driving revenue and profit growth across the business
- While we have made great progress and ITV is now a much more balanced business, there is still a great deal to do
- We remain committed to our strategy to build an international content business and as an integrated producer broadcaster we are building a unique position to exploit the increasing global demand for proven content across a range of platforms
- ITV Studios has grown strongly, both organically and through acquisitions, and going forward growth will come increasingly from our international business as we become a more global business
- Our Broadcast business is robust, with the best year-on-year on-screen performance for ten years, and Online, Pay & Interactive continues to deliver double digit revenue growth as we make our content available on more platforms

2013 Highlights

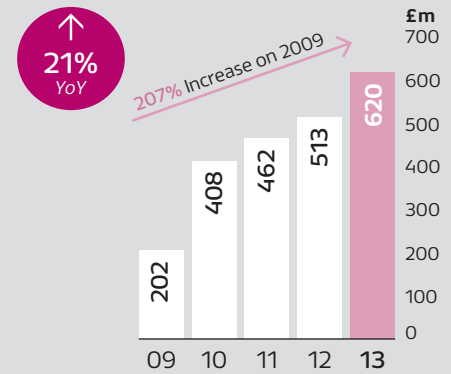
Group external revenues
£2,389m
(2012: £2,196m)



Non-NAR revenues*
£1,211m
(2012: £1,036m)

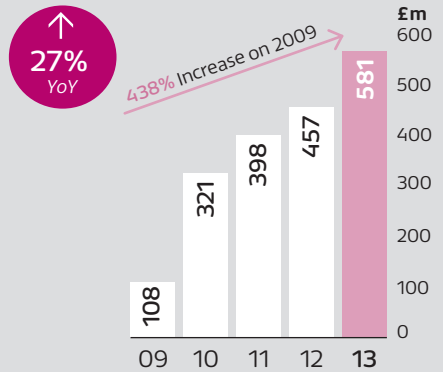


EBITA before exceptionals
£620m
(2012: £513m)



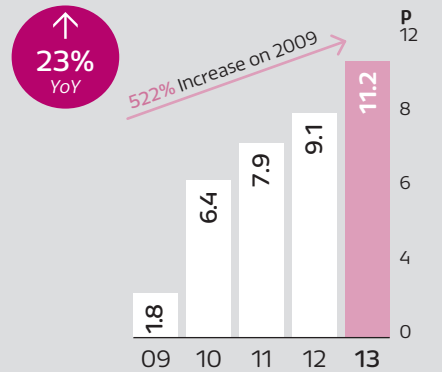
Adjusted profit before tax
£581m
(2012: £457m)

Profit before tax is £435m
(2012: £334m)



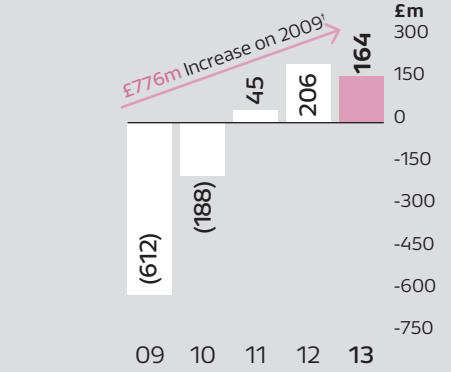
Adjusted EPS
11.2p
(2012: 9.1p)

EPS is 8.3p (2012: 6.6p)



Net cash/(debt)
£164m
(2012: £206m)

*Including distributions to shareholders, cash has increased by around £1.1 billion between 2009 and 2013



Facts and Figures – 2013 vs 2012



4%

Increase in ITV Family share of viewing – best year-on-year performance in ten years



16%

Increase in Online, Pay & Interactive revenue



16%

Growth in long form video requests



20%

Increase in ITV Studios' revenues

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

Overview

ITV at a Glance

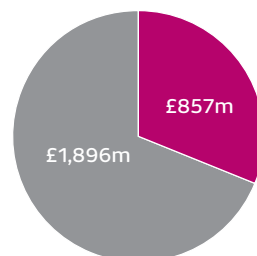
ITV is an integrated producer broadcaster, operating the largest commercial family of channels in the UK. In addition to traditional broadcasting on our channels, we deliver our content on demand through numerous platforms, both directly and via ITV Player. Through ITV Studios we produce content for both our own channels and third parties in the UK and increasingly overseas. Our distribution business sells finished programmes and formats worldwide.

Broadcast & Online

ITV broadcasts a wide variety of content on its family of free to air (FTA) channels consisting of ITV, the largest commercial television channel in the UK, and the digital channels, ITV2, ITV3, ITV4 and CITV. In 2014 we will launch ITVBe, our new FTA lifestyle and reality channel. The family of channels attracted a total share of viewing of 23.1% in 2013, the largest audience of any UK commercial broadcaster. Programming is primarily funded by television advertising revenues. ITV has the largest share of our estimate of the UK television advertising market at 45.4% in 2013.

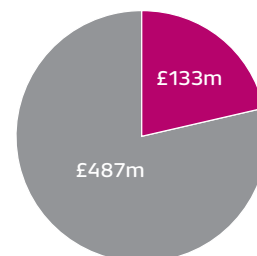
In addition to linear broadcast, ITV delivers its content across multiple platforms. This is either through ITV Player, available on ITV's website, itv.com, and platforms such as Virgin and Sky, or through direct content deals with services such as Lovefilm and Netflix. ITV's content is now available on 19 platforms and in 2014 we will launch our new pay channel, ITV Encore, on Sky.

ITV Total Revenues



● Broadcast & Online

ITV EBITA



● ITV Studios

ITV Studios

ITV Studios is the Group's international content business. It is the largest production company in the UK and produces programming for ITV's own channels and for other broadcasters such as the BBC, Channel 4 and Sky. ITV Studios also operates in five international locations, the US, Australia, Germany, France and the Nordics, producing content for local broadcasters in these regions. This content is either locally created IP or created elsewhere by ITV, mainly the UK. We have made a number of acquisitions in the UK, US and the Nordics as we look to build our international business. Global Entertainment, ITV's distribution business, licenses ITV's finished programmes and formats and third party content internationally.

ITV Strategy

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. We have a clear and consistent strategy which is based on four key strategic priorities as follows:

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

Read more on [Strategic Priority One](#) on page 19

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

Read more on [Strategic Priority Two](#) on page 23

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

Read more on [Strategic Priority Three](#) on page 27

4 Build a strong international content business

Read more on [Strategic Priority Four](#) on page 31

Business Model

How ITV generates value

As an integrated producer broadcaster, we have a unique opportunity to deliver value from our investment in quality content. Our investment in our programme budget for our broadcast channels delivers unrivalled audiences that drive our advertising revenues. Our channels also provide a shop window for our own content to make it famous before selling it internationally.

By creating and owning content we can grow new revenue streams by exploiting that content across multiple platforms, both free and pay. Investment in our creative pipeline and in selective acquisitions is building our international content business as we sell our programmes and formats internationally as the demand for proven content continues to grow.



Overview

Market Review

The media environment in which ITV operates, both as broadcaster and producer, continues to be dynamic. We must ensure that we adapt as the market changes as it presents great opportunities for ITV as an integrated producer broadcaster.

Broadcast & Online

Over recent years the number of ways to watch TV has greatly increased. Viewers are now able to choose between a variety of traditional platforms, both free and pay. On demand viewing allows people to watch content away from traditional television with programmes delivered over the top to devices including mobiles, tablets and connected TVs. Linear viewing via the TV set is still dominant with on demand a relatively small part of overall viewing, but it is growing fast: we cannot be complacent and must ensure that our online offering is strong to compete in this market.

Traditional television viewing

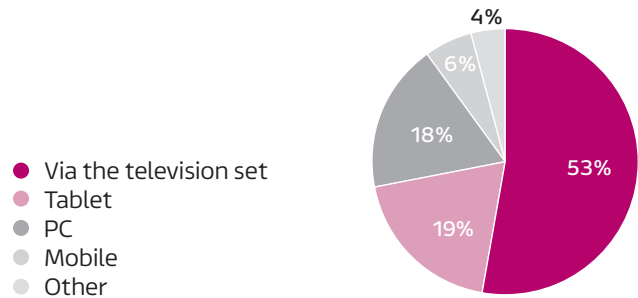
ITV competes for viewers with the BBC and other commercial broadcasters, including the Channel 4, Channel 5 and Sky families of channels. The process of digital switchover in the UK completed in 2012, increasing the number of channels available to all viewers from the traditional five terrestrial channels to a choice of hundreds. The erosion of audience share experienced by the terrestrial broadcasters during this transition has now levelled. Relatively little has changed in terms of viewing behaviour. In the last five years the public service broadcaster (PSB) families have only lost 1.2 share points. BBC One and ITV continue to be the only channels consistently able to deliver peak audiences of more than five million, and the PSB families receive around 72% share of viewing (SOV). ITV Family SOV in 2013 was 23.1%, second only to the BBC's family of channels at 32.2%. SOV for the Channel 4, Channel 5 and Sky families was significantly smaller at 11.0%, 6.0% and 8.0% respectively.

Total television viewing has been largely stable over the past decade with average viewing of 232 minutes in 2013 compared to 224 minutes in 2003. Total viewing saw a decline of 4% in 2013 due to the lack of a large one-off sporting event and the good weather over the summer. Viewing of commercial channels was only down 1% to 153 minutes per day.

Platforms

The platforms on which viewers watch television is important to ITV as for linear viewing our SOV is higher in free to air homes. The current platform mix is around 48% free to air (Freeview and Freesat) and 52% Pay (including Sky, Virgin and BT). We continue to support free platforms with developments such as YouView, which is estimated to have distributed over 900,000 boxes by the end of 2013.

ITV VOD viewing by platform



Source: ComScore, Sky, Virgin, BT Vision

Video on demand and catch up

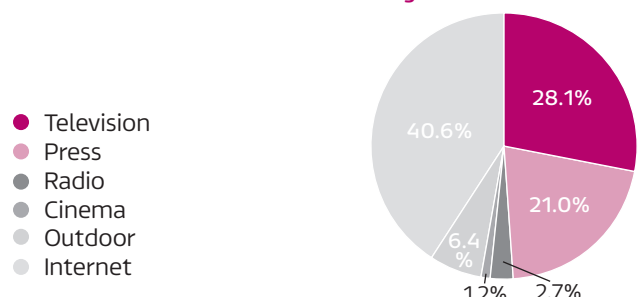
Video on demand (VOD) viewing of lawful long form content is growing rapidly but remained around 3% of all viewing in 2013. Growth is being driven by viewing on mobiles, tablets and the television set, while PC viewing is declining (Source: Internal estimates, 3Reasons).

The number of homes with Personal Video Recorders (PVRs) has increased to around 63%, with PVR catch up viewing of around 12% (2012: 10%). The line between catch up and VOD is becoming more blurred with the growth of connected devices as viewers no longer need to record programmes. ITV continues to improve the quality and distribution of ITV Player to take advantage of this growing demand.

Advertising revenues

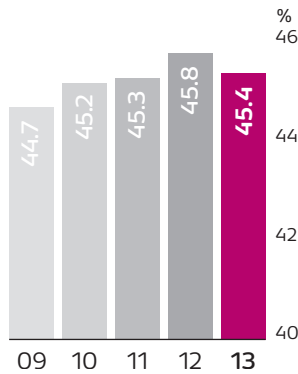
ITV generates revenues from advertising through traditional broadcast and also increasingly online. ITV competes with the commercial broadcasters and other advertising mediums, such as the internet and print, for its advertising revenues. Over the last five years TV has broadly maintained its share of total advertising spend at around 28% whilst the internet, which is growing rapidly, continues to take share from press. ITV's share of the television advertising net revenues (SOB) was 45.4% in 2013, slightly behind 2012 (45.8%). However, it is getting increasingly difficult to measure the market as all broadcasters have differing definitions and therefore include sources of revenue other than pure spot advertising.

Television's share of the advertising market



Source: Advertising Association, January 2014

ITV Family Share of Broadcast (SOB)



Source: ITV actuals, ITV estimate for Total TV

Subscription and Pay revenue

ITV also earns revenues from pay TV, both directly from the viewer and through licensing its channels and content. The total UK pay TV market has been growing moderately and was estimated to be £6.1 billion in 2012 (Source: Screen Digest). Much of this goes to platform owners such as Sky and Virgin as subscriptions from the viewer, with the remainder being paid by platform owners to content owners, such as ITV, and rights holders.

A big growth area in pay TV is now subscription VOD, where viewers have unlimited access to content for a period of time. 2012 was the first year that VOD subscription took off in the UK, and the two main services, Netflix and Lovefilm which offer ITV content, are growing fast.

ITV Studios and the Global content market

Over the last few years the proliferation of entertainment platforms and the increasingly competitive nature of the broadcasting industry has created strong demand for quality proven content and formats that travel internationally. This is because broadcasters and platform owners want to increase the certainty of their audiences, either mass or targeted, around which to sell their advertising. This provides great opportunities for ITV as a leading content creator and producer.

ITV Studios production regions

ITV Studios is the largest commercial production company in the UK, and the third largest European producer after Fremantle and Endemol, producing over 3,500 hours of content per year for ITV and other broadcasters in the UK. ITV Studios also produces programming for local broadcasters in five international locations: the US (the largest international base), Australia, Germany, France

and the Nordics. Global Entertainment, ITV's distribution business, sells finished programmes and formats around the world and is one of the top three European distributors of television content.

The global content market

The global content market is estimated to be worth around \$50 billion. Approximately 29% of this (\$15 billion) is accounted for by the US, 8% by the UK (\$4 billion), and the remaining 63% by the rest of the world.

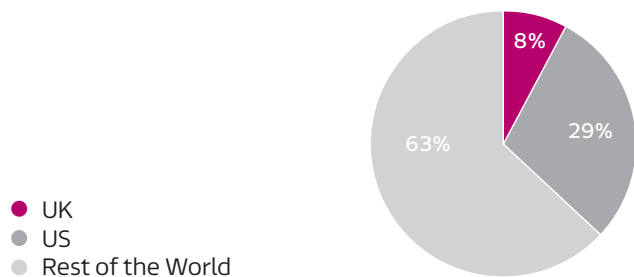
Entertainment and factual entertainment formats such as *Come Dine With Me*, *Hell's Kitchen* and *I'm A Celebrity Get Me Out Of Here!* are a significant part of global content sales. We are also seeing a resurgence of drama and comedy, and a rise in reality programming, for example *Duck Dynasty* and *Real Housewives*.

The UK and US drive global creativity in TV formats and finished tape sales. The UK is the world leader for the volume of exported formats, ahead of other top exporters the US, Holland and the Nordics, and second only to the US in catalogue sales.

In the UK and internationally ITV competes with a large number of independent producers, including 'super-indies' such as Fremantle and Endemol. The independent producers are largely privately owned, and do not have the advantage of being an integrated producer broadcaster.

The US is the largest creative market in the world and while dominated by vertically integrated conglomerates, there is a thriving independent market valued at about \$3.5 billion in which ITV competes. ITV Studios is now one of the five largest independent producers in the US.

Global Content Market – \$50 billion



Source: Internal estimates

Overview

Chairman's Statement

Archie Norman



Dear Shareholder

ITV today is a much stronger business in almost every respect than when the restructured Board and leadership team were formed four years ago. When we set out our transformation programme in 2010 the core objective was to rebalance the business, to open up new growth paths, and to ensure it is more resilient in a changing media landscape. Whilst there is much further to go, this programme is well under way with strong growth in all sources of non-net advertising revenue.

After years of underperformance, our content business is now delivering consistent growth under strong creative leadership. Selected international acquisitions have accelerated progress, particularly in the USA, to form the basis for a global content network. Meanwhile, online, pay and sponsorships have all shown strong and profitable growth. This has been achieved against the backdrop of difficult economic conditions and subdued consumer markets.

As a result ITV today is in unrecognisably better health, with strong leadership and a good talent base at all levels. This does not of course mean we can afford to let the pace of change diminish. While the traditional broadcast television model remains robust, the market for 'television-like' content is changing faster than ever with new forms

of viewing emerging, more catch up, more consumption on connected and mobile devices and indeed new entrants competing for share of the viewers' time. Therefore we must continue to adapt ITV to take advantage of these opportunities.

We see great opportunities ahead as we build on the creative capability of ITV internationally. However, these will also pose challenges to the way we work internally and externally. And as we extend our reach it remains vital to sustain the health of our growing channel family in the UK and especially of our flagship channel ITV.

Our ability to tackle these challenges with confidence is reinforced by the transformation of our financial position which has been the result of tight cash management, debt restructuring and cost control: we now have a robust balance sheet and strong cash flow generation. The Board is very mindful of the need to balance the investment requirements of the business to deliver future growth with increasing shareholder returns. The Board has proposed a 35% increase in the ordinary dividend to 3.5p and a 4.0p special dividend in line with last year.

ITV remains a regulated business and as the media landscape changes we continue to see the need for the relaxation of regulatory constraints as non-regulated forms of competition grow. However, we are pleased that our public service licences have now finally been renewed providing a stable platform for another ten years.

“We are a talent driven, people intensive business. Our progress has been driven by the leadership, creativity and motivation of our people”

Our philosophy of management has been to combine very strong commercial and management leadership with great creative talent. This approach is also reflected at Board level where we seek to retain a mix of deep commercial and creative understanding around the Board table. I am delighted therefore that Sir Peter Bazalgette has joined our Board this year. Mike Clasper, who made a huge contribution to the Board in good times and bad over the last eight years has stood down with our thanks.

Finally, we are a talent driven, people intensive business. Our progress has been driven by the leadership, creativity and motivation of our people. And I want to thank all our colleagues at ITV for their hard work, and our shareholders for their continuing support.

Archie Norman
Chairman

“The Board is very mindful of the need to balance the investment requirements of the business to deliver future growth with increasing shareholder returns”

Picture:

ITV Studios' format Big Star's Little Star averaged 4.2 million viewers and will be returning for a second series in 2014.



Strategy and Operations

Chief Executive's Review

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Broadchurch

Broadchurch was ITV's most watched new drama series since *Downton Abbey* and its most watched new weeknight drama series since *Doc Martin* in 2004.

It averaged 9.4 million viewers with the finale attracting 10.5 million viewers and has won multiple awards.



Strategy and Operations

Chief Executive's Review

Adam Crozier

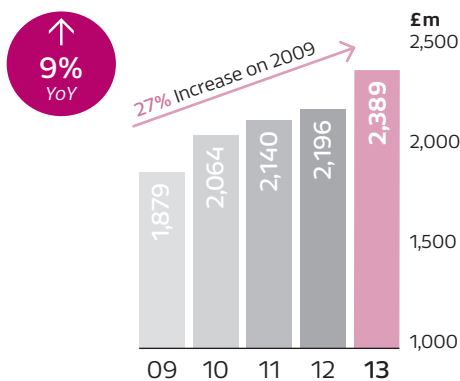
ITV delivers another year of strong growth



2013 was another strong year for ITV, both operationally and financially, as we continue to make progress with our strategy of growing and rebalancing the business. External revenues were up 9%, with non-NAR revenues up £175 million (17%), and for the fourth year in a row we delivered double digit profit growth.

2013's performance builds on the consistently strong results we have delivered since we announced our strategy. Since 2009 we have increased Group external revenues by 27%, EBITA before exceptional items (EBITA) by 207%, adjusted earnings per share (EPS) by 522% and improved our cash position by over £750 million, even after returns to shareholders and investment in the business.

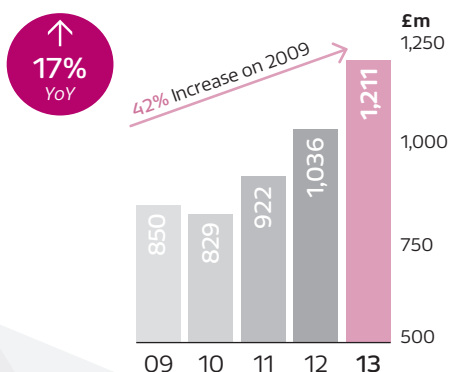
Group external revenue growth



Our Broadcast business remains in good shape. In 2013 we had the best year-on-year viewing performance for ten years with ITV Family SOV up 4%, and the television advertising market returned to growth. Online, Pay & Interactive revenues continue to grow strongly and are now a material part of the business. ITV Studios, which again delivered significant revenue growth, is becoming an increasingly international business as it grows both organically and through selective acquisitions.

Our vision remains to create world-class content, which we can make famous on our channels, before exploiting its value across multiple platforms, both free and pay, in the UK and internationally. While there is still much to do and good potential for growth, the progress we are making is clearly evident in our results.

Non-NAR revenue growth



“2013's performance builds on the consistently strong results we have delivered since we announced our strategy”

2013 operating and financial performance

ITV's financial results reflect a good performance across the business. ITV NAR grew 2% and, in line with our strategy, non-NAR revenues grew £175 million or 17% to £1,211 million.

Good revenue growth, together with our tight cost control, has led to 21% growth in EBITA before exceptional items (EBITA) to £620 million, 27% growth in adjusted profit before tax (PBT) to £581 million and 23% growth in adjusted EPS to 11.2p. Group margins have improved by three percentage points to 26% and we delivered £28 million of cost savings, £8 million ahead of our original target.

Broadcast & Online revenues grew by 3% to £1,896 million (2012: £1,834 million) and EBITA increased by 20% to £487 million (2012: £406 million). This was driven by 2% growth in ITV Family NAR and 16% growth in Online, Pay & Interactive as we have increased the quality and distribution of ITV Player and further developed our pay opportunities.

On-screen we have had a very strong year with ITV share of viewing (SOV) up 3% and ITV Family SOV up 4% as we have continued to increase the quality and variety of the schedule.

ITV Studios delivered 20% growth in total revenue to £857 million (2012: £712 million) and 24% growth in EBITA to £133 million (2012: £107 million). This was driven by the international studios business, with growth coming both organically and from the acquisitions we have made in the UK and internationally.

Our continued focus on cash and costs and our strong profit to cash conversion, saw us grow our free cash flow by over £100 million. We generated £433 million of free cash before investment and shareholder returns to end the year with net cash of £164 million. We have taken further steps to improve the efficiency of the balance sheet with additional debt buybacks and the redemption of the convertible bond.

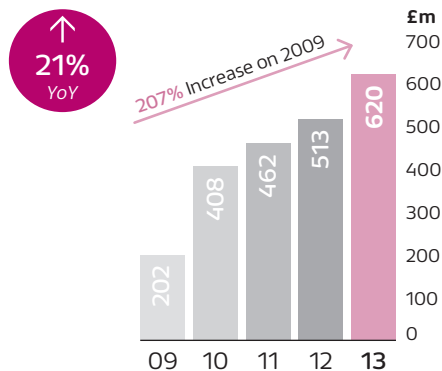
The Board has proposed a final dividend of 2.4p (2012: 1.8p) giving a full year dividend of 3.5p (2012: 2.6p) – an increase of 35%. The Board is committed to a progressive dividend, taking into account the outlook for the business, while balancing the need to invest for growth and to maintain a robust financial position.

In addition to the final dividend, the Board is proposing a special dividend of 4.0p per share (£161 million). The cash distribution reflects the Board's confidence in the ongoing growth and cash generation of the business. Going forward we will continue to show capital discipline and balance the need to invest for future growth with increasing returns to shareholders.

Picture:

The second series of the award winning Paul O'Grady: For The Love of Dogs averaged 5.7 million viewers.

EBITA before exceptionals



Strategy and Operations

Chief Executive's Review continued

Our strategy and the changing media environment

We are now four years into our five year Transformation Plan which is based on our four key priorities. We remain committed to this strategy as the progress we have made over the last four years shows it is the right strategy for ITV.

The demand from viewers for quality content is strong not just in the UK but globally. Linear viewing remains healthy and we must ensure that our Broadcast business continues to be strong, generating significant profits and cash. However, we must not be complacent and we must adapt to the challenges and opportunities of the dynamic media environment in which we operate.

While on demand is still a relatively small part of total viewing, we must make sure that our digital offerings are high quality, competitive and widely available so we can keep up with changing consumer behaviour and demands. We continue to experiment with new free and pay offerings to explore how viewers want to consume our content.

In such a rapidly evolving market, creating and owning high quality content is more important than ever, so we will continue to invest in a quality creative pipeline and exploit our advantage as an integrated producer broadcaster.

2014 and beyond

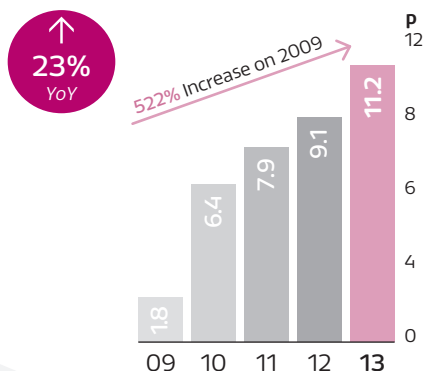
The television advertising market continues to show signs of improvement with ITV Family NAR expected to be up 5% to 6% in the four months to the end of April. We expect to outperform our estimate of the television advertising market over the full year. Our good on-screen performance in 2013, the strong 2014 schedule including the FIFA World Cup in June and the advertising deals we have done to date, puts us in a good position to achieve this.

Online, Pay & Interactive should deliver another year of good revenue growth as we continue to exploit opportunities in digital media and drive new revenue streams. Our new pay channel, ITV Encore, which will launch on Sky in 2014, will contribute towards this.

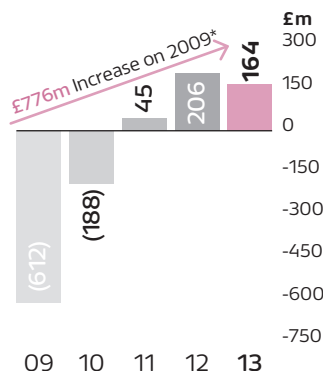
We anticipate good revenue growth in ITV Studios, primarily driven by the recent acquisitions we have made in the UK and internationally. Key to our success is creative content and therefore we will continue to invest in the pipeline of ideas and look at potential acquisitions and partnerships.

We remain committed to our strategy of rebalancing ITV and expect all parts of the business to see further growth in 2014. While a healthy broadcast business remains at the core of ITV, going forward we expect growth to increasingly come from Online, Pay & Interactive and from ITV Studios internationally.

Adjusted EPS



Net cash/(debt)



* Including distributions to shareholders, cash has increased by around £1.1 billion between 2009 and 2013.

**Picture:**

Emmerdale averaged 7.3 million viewers in 2013 with a 34% share, up 3% compared to 2012.

Strategy and Operations

Performance Dashboard

1

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

Milestones achieved

- Record employee engagement at 91%
- Rolled out ITV rebrand across all of ITV
- £28 million of cost savings – £118 million since 2009
- Fourth year of double digit profit growth
- Improved group margin by 3% points to 26%
- Net cash of £164 million after increase in shareholder returns
- Cash conversion again over the 90% three year rolling target

Focus for 2014

- Maintain high levels of employee engagement in ITV
- Further simplify our operating structures as we grow in scale and geography
- £10 million cost savings target
- Relentless focus on cash
- Maintain a robust, efficient and flexible balance sheet

KPIs

- Employee Engagement

KPIs across all four priorities

2

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

Milestones achieved

- Best ITV Family SOV year-on-year performance for ten years
- Increased variety and quality of schedule
- ITV2 and 3 largest digital channels
- ITV NAR grew 2% as TV ad market returned to growth
- Innovative sponsorship and brand extension partnerships with advertisers
- Sales team were awarded 'Sales Team of the Year' in 2013 at the Media Week Awards
- Won six National Television Awards

Focus for 2014

- Maintain strong on-screen viewing performance
- Launch new free to air channel ITVBe
- Expect to outperform our estimate of the TV ad market
- Drive further value from 30 second spot and related revenues
- Implement new ten year licence

KPIs

- ITV Family Share of Viewing (SOV)
- ITV Family Share of Commercial Impacts (SOCl)
- ITV Family Share of Broadcast (SOB)

- EBITA before exceptional items
- Adjusted earnings per share

3

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

- Further improved quality of ITV Player
- ITV content available on 19 platforms
- Long form video requests up 16%
- 11.7 million downloads of ITV Player app
- Renegotiated deals with BT and Virgin and extended Virgin deal to include ITV2, 3, 4 HD channels
- Trialling direct to consumer pay opportunities
- 3.5 million registered users of ITV Player

Focus for 2014

- Continue to improve quality of ITV Player
- Increase distribution of ITV Player
- Launch new pay channel, ITV Encore
- Implement new deal with Sky which was renegotiated at the start of 2014
- Develop further innovative and targeted advertising opportunities
- Launch advertising on catch up on Sky and Virgin

KPIs

- Total long form video requests

4

Build a strong international content business**Milestones achieved**

- 20% growth in total revenue driven particularly by international
- 24% growth in EBITA
- ITV Studios' share of ITV output increased to 59%
- Investing in creative pipeline – 121 new commissions
- Creating programmes that return and travel
- Eight programmes that are produced in three or more countries
- Completed four acquisitions in UK and US

Focus for 2014

- Invest in creative talent and pilots to maintain a healthy pipeline
- Focus on long running returnable series
- Exploit programmes that travel
- Further strengthen global production capabilities as we become an increasingly international business
- Continue to look at potential acquisitions
- Scale international distribution business

KPIs

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

- 'Profit to cash' conversion
- Non-NAR revenues



Read more on our Financial KPI's within the KPI section on page 36

Strategy and Operations



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



Strategic Priority 1

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

In 2013 we have again made significant progress in making ITV lean, creatively dynamic and fit-for-purpose.

We continue to make ITV a better business both creatively and commercially, through driving out complexity, developing our people, driving cultural change throughout the organisation, investing in our core systems and technologies, and in our brand.

As well as operating efficiently it is vital that we also operate responsibly. Our behaviour impacts our employees, our shareholders, our viewers, the wider community and the environment. Our Corporate Responsibility strategy, which is aligned to our four key priorities, aims to help grow our business by strengthening stakeholder pride and loyalty in ITV, as well as mitigating the risks to the business. Ensuring the welfare and human rights of our employees is a key consideration in our day-to-day activity, both in the UK and internationally, and we use United Nations human rights frameworks as guiding principles.

This report highlights issues which are material to our business strategy. However, our commitment goes beyond the business plan and regulatory requirements. As a responsible industry leader we undertake a number of initiatives that demonstrate our commitment to behaving responsibly and to a sustainable future for our industry, which can be found on our website.



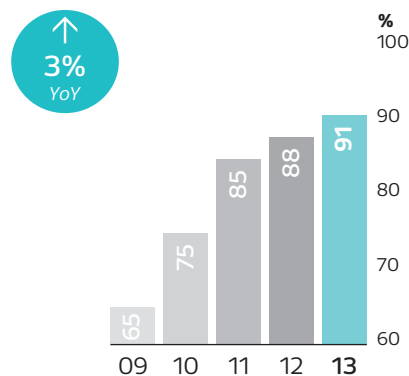
www.itvplc.com/responsibility

Our people

Our people are key to the success of ITV. It is essential that we develop and support them so that we can attract and retain the best talent. We measure our employee engagement annually and we are pleased to see it has again improved to 91% (2012: 88%), which compares to a benchmark for comparable company surveys of 77%. Employee participation has also increased to 88% (2012: 80%), which compares to a benchmark of 69%.

We have continued to simplify the way we operate and to increasingly work as One ITV. This makes it easier for people to do their jobs and to help deliver value from our integrated producer broadcaster model and to drive future growth. However, there is still more we can do.

Record employee engagement



ITV at the heart of popular culture

At the start of 2013 we successfully rolled out the ITV rebrand with the emphasis on putting ITV at the heart of popular culture. This was one of the most extensive media rebrands ever undertaken and was developed in-house by ITV Creative. We rolled out a new identity for our five channels, our entire online estate, and our production and distribution businesses in the UK and internationally, all on the same day. The rebrand has significantly improved ITV's brand health as measured by YouGov and has helped make ITV the 'most loved' commercial network in 2013.

Relentless focus on cash and costs

In 2013 we delivered £28 million of cost savings, £8 million ahead of the original target. These savings are largely not employee related. Since 2009 we have taken £118 million of costs out of the business. These savings have funded our investment in our creative and commercial capabilities, specifically in our creative pipeline, in technology and online.

“As well as operating efficiently it is vital that we also operate responsibly”

Strategic Priority 1



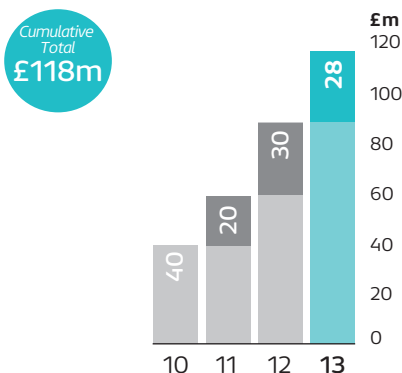
Strategic Priority 1

Our focus on costs and cash has enabled us to significantly strengthen and improve the efficiency of our balance sheet. Our cash generation remains strong with free cash flow up over £100 million year-on-year. Profit to cash conversion was 97% and we have ended the year with net cash of £164 million even after significant investment in acquisitions, property and returns to shareholders. We have also continued to improve the efficiency of the balance sheet with £211 million of debt buybacks (nominal) and the redemption of the convertible bond, both of which deliver significant interest cost savings for 2014 and beyond.

The steps we have taken on the balance sheet along with another period of double digit profit growth has led the Board to propose a final dividend of 2.4p (2012: 1.8p) giving a full year dividend of 3.5p (2012: 2.6p) – an increase of 35%. The Board is committed to a progressive dividend, taking into account the outlook for the business, while balancing the need to invest for growth and to maintain a robust financial position.

In addition to the final dividend, the Board is proposing a special dividend of 4.0p per share (£161 million). The cash distribution reflects the Board's confidence in the ongoing growth and cash generation of the business. Going forward we will continue to show capital discipline and balance the need to invest for future growth with increasing returns to shareholders.

Cumulative cost efficiency savings



2014 and beyond

We have made great strides in creating a better business and we will continue to make further improvements across the organisation in 2014.

We will maintain our focus on costs but, given the savings we have made to date, further significant savings are getting harder to achieve. For 2014 we have identified a further £10 million of non-network programme budget cost savings.

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. The balance sheet we now have gives us the flexibility to invest where appropriate to drive future growth and improve shareholder returns.



Corporate Responsibility

People and diversity

Ensuring our culture, environment and processes are inclusive is essential to helping us attract diversity amongst the skills, experience and make-up of our workforce. As an example of our leadership and commitment ITV currently chairs the Creative Diversity Network, whose remit is to take joint industry responsibility for action on diversity.

Environmental matters and social, community and human rights issues: More details can be found on our Corporate Responsibility website, while the greenhouse gas disclosures are included in the Directors' Report.



Read more on page 62.



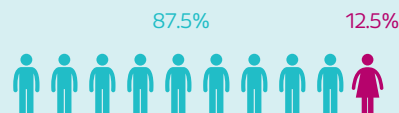
More information on our responsibility agenda can be located at www.itvplc.com/responsibility

Gender split

Directors

7 males

1 female



Senior Managers*

13 males

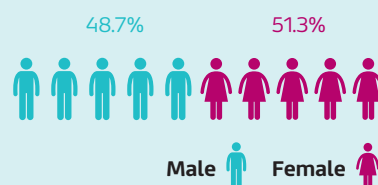
5 females



Employees†

2,264 males

2,388 females



* Of the five female senior managers, four were directors of consolidated Group companies

† Employee gender split based on total headcount at the end of 2013

Strategy and Operations

2

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

The final series of Poirot aired in 2013 with the final episode of the ITV Studios' drama watched by an average of 6.4 million viewers. Poirot has now been sold to over 150 countries.



Strategic Priority 2

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

A strong broadcast business is central to our strategy. As a business it generates significant profits and cash and its content can be repackaged to drive new revenues. As an integrated producer broadcaster, our family of broadcast channels provides a platform on which to make ITV Studios content famous before exploiting it internationally.

ITV Family NAR grown by 2%

In 2013, ITV Family NAR grew by 2% based on pure spot advertising. This is slightly behind our estimate of the television advertising market, up 3%. However, it is getting increasingly difficult to measure the market as all broadcasters have differing definitions and therefore include sources of revenue other than pure spot advertising.

Since 2009 we have grown our Share of Broadcast (SOB) from 44.7% to 45.4% in 2013. We have achieved this through the quality of our schedule and the unrivalled reach that ITV offers. ITV is the UK's strongest marketing platform, delivering the mass audiences which are so much in demand from advertisers. In 2013 ITV delivered 99.9% of all commercial audiences over five million viewers and 100% of audiences over six million.

Our digital channels, ITV2, 3 and 4, provide more targeted demographics, which together with ITV main channel, ensures that we deliver both mass and targeted reach.

Our broadcast performance has helped to drive 3% growth in Broadcast & Online revenues to £1,896 million.

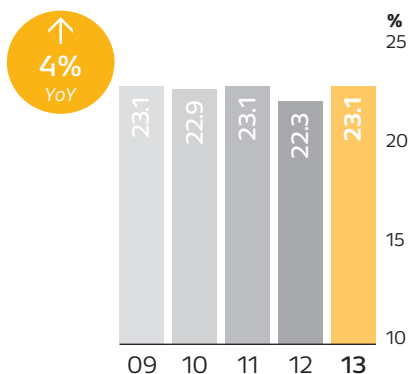
Strong on-screen performance

The improved quality and variety of the schedule has driven a consistently strong on-screen performance throughout 2013. ITV Family SOV was up 4% over the full year – the best year-on-year performance for over ten years. ITV main channel SOV was up 3%, ITV main channel SOCI was up 1% and ITV Family SOCI was flat. ITV digital channels performed broadly in line with last year.

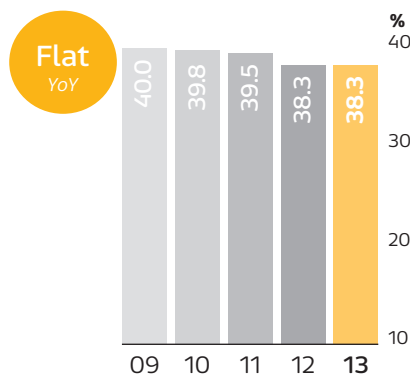
ITV had many on-screen successes in the year with both new and returning programmes. Based on the series average, ITV broadcast the highest rating drama with *Downton Abbey*, the highest rating new drama launch with *Broadchurch* and highest rating entertainment programme with *I'm A Celebrity Get Me Out of Here!* Other notable successes include *Lewis*, *Poirot*, *Mr Selfridge*, *Doc Martin*, *Ant & Dec's Saturday Night Takeaway*, *The Chase*, *Tipping Point*, *Paul O'Grady: For the Love of Dogs*, and *Her Majesty's Prison: Aylesbury*. Our sports programming again delivered good audiences, in particular the *Champions' League* and *England international friendlies*.

The strong on-screen performance is not just due to the success of these new and returning series. Much of our core schedule, in particular *Coronation Street*, *Emmerdale* and our *News* programmes, have all performed strongly in 2013. *Coronation Street* was the highest rating soap, and for the first time *Emmerdale* had a higher average share of viewers than *Eastenders* over the year. Both our national and

ITV Family Share of Viewing (SOV)



ITV Family Share of Commercial Impacts (SOC)



Strategy and Operations

Strategic Priority 2

regional news programmes have grown their audience share as we remain committed to providing high quality, impartial news.

The improved quality of ITV channels has again been recognised publicly in 2013 with ITV winning Channel of the Year at the Edinburgh Television Festival and ITV2 winning digital channel of the year at the Broadcast Digital Awards. ITV also won six National Television Awards including most popular serial drama for Coronation Street and most popular entertainment programme for I'm a Celebrity Get Me Out Of Here!

ITV2 and ITV3 remain the two largest digital channels in the UK and our digital channels again aired successful new and returning programmes, including Tricked, The Big Reunion, Duck Dynasty, Plebs, Celebrity Juice, The Only Way is Essex, The Tour de France and The French Open.

Our viewing performance is clearly healthy but there remain areas we would like to improve. While overall the digital channels performed well, ITV4's performance was slightly disappointing and the early daytime schedule on ITV has not performed as well as we had hoped. We will continue to rejuvenate some of our programmes and trial new ideas across our channels. We aim to increase our success rate in launching new programmes through research, viewer panels and pilots.

Our advertising is sold based upon the on-screen performance in the previous year and therefore our strong viewing performance in 2013 puts us in good stead for 2014.



Picture:

Birds of a Feather returned in 2014 and became the most watched comedy on ITV since records began with 9.5 million viewers.

During 2013 we experienced a number of transmission outages on our channels. High quality transmission is an absolute priority for ITV and we have a number of projects ongoing to ensure our transmission and distribution technologies are fit-for-purpose.

Maximising the value of our airtime

We compete with broadcasters and other media for our share of television advertising and advertising revenues in general. We aim to maximise the value of our 30 second spot and drive related revenue streams through sponsorship, interactivity and brand extensions. For example, the successful sponsorship campaigns and off-air endorsements including Morrisons with Ant & Dec's Saturday Night Takeaway, Tesco Finest with Downton Abbey, and Boots and This Morning. Following the successful broadcast of The Big Reunion on ITV2 in 2013 we also launched the live Big Reunion Tour and recommissioned the programme.

Traditional broadcast model remains robust

While the media environment is developing rapidly, the traditional television broadcast model remains structurally robust. On demand viewing is growing fast, but it remains around 3% of total viewing and people continue to watch around four hours of television a day.

We must ensure that even though our Broadcast business is strong we continue to make our digital offerings more widely available and competitive.

Renewal of licence

In February 2014, ITV's Public Service Broadcasting licences were renewed for a full ten years which gives us the certainty we require to continue to invest for the long term in our broadcast business and high quality content.

2014 and ahead

As we look into 2014 and beyond we must continue to focus on delivering a strong on-screen performance by offering a rich and varied schedule, including our new free to air lifestyle and reality channel ITVBe. There will be both challenges and opportunities. From the second half of 2015 we will no longer hold the live rights for the Champions' League but this will potentially open up parts of the schedule which will give us an opportunity to invest more in ITV Studios content.

The television advertising market continues to show signs of improvement with ITV Family NAR expected to be up 5% to 6% in the four months to the end of April. Over the full year we expect to outperform our estimate of the television advertising market. Our on-screen performance in 2013 and our strong schedule for 2014, including the FIFA World Cup and the advertising deals we have done, puts us in a good position to achieve this.



Corporate Responsibility

Using the power of our reach to inspire, engage and empower people to make a positive difference in our society.

ITV together with its much loved channels, popular programmes, celebrities and viewers have helped raise millions for charitable causes in 2013.

Social action has also been at the heart of many of our Corporate Responsibility campaigns in the form of volunteering and community action – often in collaboration with charities and other UK-wide social action organisations.

Responsible programming and complying with Ofcom's Broadcasting Code is absolutely key for ITV.



More information on our responsibility agenda can be located at www.itvplc.com/responsibility



Strategy and Operations

3

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

Picture:

Reality show *The Only Way Is Essex* was one of the top five most watched programmes on ITV Player in 2013. The show's new home will be on ITVBe.



Strategic Priority **3**

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

Online, Pay & Interactive are fast growing new revenue streams which we are driving from distributing our content across a range of platforms, both free and pay. This is either by selling advertising around our content online or pay revenues through licensing our content to third party platform owners or, to a lesser extent, through transactions directly with the consumer through ITV Player.

In 2013 we have continued to increase the quality and the availability of ITV Player and further developed our pay services. This, combined with the continued growing demand for watching our content via non-traditional channels as well as linear channels, has seen us again deliver strong growth, with revenues up 16% to £118 million.

Online advertising

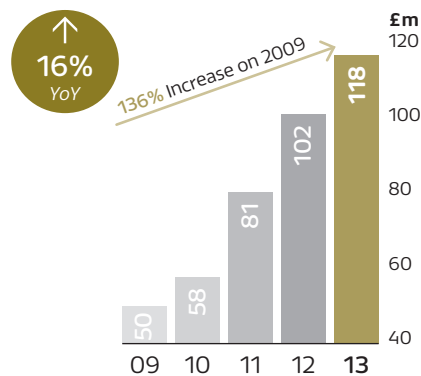
Over the last few years we have invested to improve the quality of our online offering and ITV Player is now fit to compete with the best in the digital market. In 2013 we continued to enhance our online offering with improvements to the ITV Sports and ITV News sites.

We have also been working to increase the distribution of ITV content digitally so that it is available when and how people want to watch it. Our content is now available on 19 platforms.

The rapid increase in video on demand (VOD) is adding to a huge demand for quality content, both free and pay, and as an integrated producer broadcaster we are in a unique position to create value from this. Mobile and tablet viewing is driving VOD and there have now been over 11.7 million downloads of the ITV Player app since it was launched.

The increased quality and distribution of the ITV Player has led to continued good growth in long form video requests, which were up 16% in 2013. Advertiser demand continues to be strong for ITV's VOD and we must manage our advertising load to meet that demand while maintaining a good user experience.

Online, Pay & Interactive Revenues



Pay services

As consumer viewing behaviour evolves, we continue to explore, experiment and develop our pay services – both direct-to-consumer and to broadcasters and platform owners. We have trialled pay opportunities on the ITV Player with episode premieres of programmes such as Scott & Bailey for ITV and Plebs for ITV2, and have offered box sets to download to rent. We have also launched an ad free subscription model on iOS – the first broadcaster to do so.

During the year we renegotiated a number of our current deals with platform owners and also agreed a number of new deals to make our content available on more platforms.

**Picture:**

Britain's Got Talent achieved an average audience of 10.9 million viewers and was one of the top ten most watched programmes on ITV Player in 2013.

Strategic Priority **3**

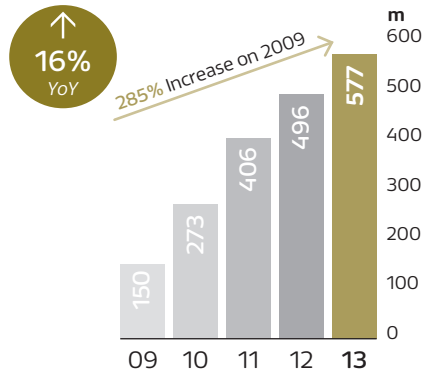
We renewed our deals with BT and Lovefilm and we have renegotiated our Virgin deal to include HD versions of ITV2, 3 and 4 and to enable us to deliver adverts in our catch up content in the future. We have agreed deals with Amazon for transactional VOD, simulcast channels with Everything Everywhere and a catch up service on Virgin Atlantic. We have also launched ITV Essentials, an international catch up service for our Soaps.

In January 2014 we announced that we will be launching our first pay channel, ITV Encore, on Sky. As part of the wider deal with Sky, ITV content will also be made available through Sky's range of connected platforms including Sky Go, Now TV and Sky Store.

Interactivity

We are further deepening our relationship with our viewers and ITV Player now has 3.5 million registered users. We are increasing our interaction and consumer engagement through competitions, voting, second screens and through social media to drive more value from our brands for ITV and for our advertisers.

Long Form Video Requests



2014 and beyond

We expect to again deliver double digit revenue growth in Online, Pay & Interactive in 2014. Our online revenues will grow through the increased distribution of ITV Player and through increased consumer demand. In 2014 we will start to deliver stitched advertising in our catch up services on Sky and Virgin. We continue to develop our pay services and during 2014 we will launch ITV Encore.



Corporate Responsibility

Building trust online

We strive to continue to build trust and confidence in our digital platforms, applying the same standards online as we do on air.

We listen to the issues that matter to our viewers, in particular safeguarding children, protection of personal data and accessibility to our programmes.



More information on our responsibility agenda can be located at www.itvplc.com/responsibility



Strategy and Operations

4

Build a strong international content business

Picture:

Mr Selfridge has now been sold to over 150 countries. The programme returned for a second series in early 2014.



Strategic Priority **4**

Build a strong international content business

A strong international content business lies at the heart of our strategy to create and own more of our own content, make it famous in the UK on our channels and distribute it across multiple platforms in the UK and internationally. As an integrated producer broadcaster we are in a unique position to do this.

The high demand globally for quality content from broadcasters and platform owners provides a significant opportunity for us. We are building real momentum as we continue to invest in a strong and healthy creative pipeline in the key creative markets and specifically in genres that return and travel – drama, entertainment and factual entertainment, good examples of which are Mr Selfridge, Come Dine With Me and The Chase.

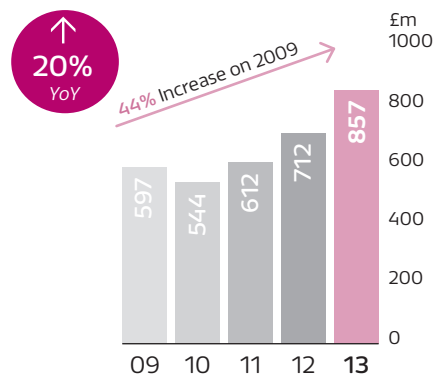
In 2013 we delivered a 20% increase in total ITV Studios revenue with good performances across the business – particularly driven by international production – and 24% growth in EBITA. We delivered good organic growth and are building on this with the acquisitions we have made both in the UK and internationally. Our portfolio of acquisitions are performing in line with our expectations and we will continue to look at further acquisitions which fit with our strict strategic and financial criteria.

The strong performance in 2013 builds upon the significant progress we have made over the last few years. While there is still a great deal to do, ITV is now an international studios business – we are the number one commercial producer in the UK, a top five independent producer in the US and the third largest European distributor of television content.

UK Production

In the UK we have increased our production revenues by 12%. Growth has come in particular from drama, entertainment and factual, with original hours commissioned in these genres up 55%, 16% and 49% respectively, including the benefit of our acquisitions. Growth also came both on and off ITV. We have again increased ITV Studios' share of ITV output, which increased to 59%, up from 50% in 2009.

Total ITV Studios Revenue



On ITV we have delivered new commissions including Lucan, Big Star's Little Star and Tricked. As we focus on programmes that return and travel, our recommissions are very important. We are building a track record for producing programmes that return, including Mr Selfridge, Ant & Dec's Saturday Night Takeaway and Surprise Surprise, which all have international appeal.

Off ITV our new commissions include Pressure Pad for the BBC and Kingfishers for Discovery while our recommissions include Graham Norton, Shetland and University Challenge for the BBC, and 24 Hours in A&E, Friday Night Dinner and Come Dine with Me for Channel 4.

Strategy and Operations

Strategic Priority **4**



International Production

Our international production business continues to grow very strongly, with revenues up 56%, driven by the US.

Our US businesses have secured a number of new commissions such as *The Chase*, which was originally commissioned in the UK, and many recommissions of programmes which demonstrate their longevity and their international appeal. These included *Hell's Kitchen* which broadcast its 11th series in 2013, *Kitchen Nightmares* which broadcast its 5th series, *Cake Boss* which broadcast its 6th series and is developing spin-off shows, and *Duck Dynasty* which has broken cable viewing records in the US and is now also on ITV4. A number of these shows have already been recommissioned which will be reflected in the 2014/5 results.

Our other international production bases in Australia, Germany, France and the Nordics also produce their own original formats and versions of UK formats. Their original formats include *Der Letzte Bulle* in Germany, *Mad As Hell* in Australia and *Night Patrol* in Norway. UK formats produced locally include *I'm a Celebrity Get Me Out Of Here!* and *The Audience* in Germany, *Four Weddings* in France and *Hell's Kitchen* in the Nordics. They have also secured a number of new commissions for 2014 including UK formats, such as *Hell's Kitchen* in Germany.



Global Entertainment

The growth in the UK and international production businesses is starting to feed our international distribution arm, whose revenues were up 2% to £135 million.

Global Entertainment's successes in the year include *Mr Selfridge*, *Poirot*, *Marple*, *Lewis* and *Hell's Kitchen US*, which have all now been sold to over 150 countries. We also continue to sell formats successfully, for example *Come Dine with Me*, *Four Weddings* and *The Chase*, and we now have eight programmes sold in three or more countries. As well as distributing ITV's own content we are adding to our catalogue through the distribution of third party content, such as *Rectify* for AMC and *River Monsters* for Icon Films. We are seeing strong growth in sales to digital platforms which is more than offsetting the decline in DVD sales.

We have delivered revenue growth in the period, but it takes time for the creative pipeline to flow through and the market for third party rights remains very competitive.

Pictures:

Left: *Duck Dynasty* was the most watched non-fiction series in US cable TV history.

Right: *The Chase* has now been sold in six countries including the UK and the US.

Acquisitions

Our acquisitions focus to date is on the two key markets which have a track record for creating and owning intellectual property, namely the UK and US. We are looking for companies that have a good creative pipeline and produce in genres that have the potential to travel.

In the UK we are seeking to enhance our skills in key genres. In 2013 we acquired UK producers The Garden and Big Talk to increase our capability in creating factual entertainment and comedy formats that travel and in delivering commissions for other broadcasters.

In the US we continued to build strength and scale with the most recent acquisitions of High Noon and Thinkfactory who produce reality, entertainment and drama programmes, such as Cake Boss and R&B Divas. These complement our existing business, including Gurney Productions which we acquired at the end of 2012.

2014 and beyond

In 2014 we again anticipate good growth, primarily driven by the acquisitions we have made in the UK and internationally. As ever ITV's revenue growth will not be a straight line because of the phasing of the delivery schedule required by our network and cable customers. A challenge for the UK business is that ITV main channel will be spending less on original commissions given the World Cup cost in the first half of 2014.

We will continue to invest in our creative pipeline to develop programmes that return and travel and we will also look at potential acquisitions in the key creative markets. Our international production business will remain a key focus as the demand for quality content globally continues to grow and will increasingly be the main driver for ITV Studios growth.

On 19 February 2014 we acquired a 51% controlling interest in DiGa Vision, a US independent producer of reality and scripted programming. There is a put and call option to buy the remainder of the company over three to six years.



Corporate Responsibility

Responsible programming

Through our programming we aim to tackle and portray social and community issues that are relevant to our audience, in an appropriate manner. As an international content producer we understand the influence and impact our content can have on society.

Beyond our regulatory requirements we strive to produce content that is relevant for a global market and authentically portrays its audience.



More information on our responsibility agenda can be located at www.itvplc.com/responsibility



Performance and Financials

A review of Operational
and Financial performance
in 2013

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Downton Abbey

Series four of Downton Abbey launched with 12 million viewers, the drama's biggest ever launch episode.

The series averaged 11.9 million viewers with a 40% share, making it the most watched drama series on any channel in 2013.

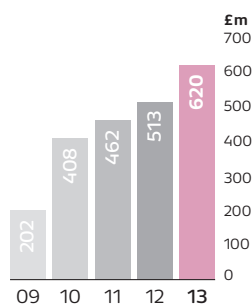


Performance and Financials

Key Performance Indicators

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

EBITA before exceptional items



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.

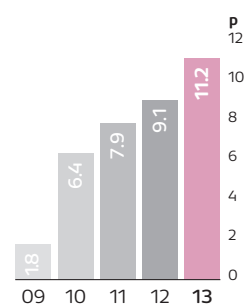
Related Priority **1** **2** **3** **4**

Performance

In 2013 this has increased by £107 million or 21%. This is as a result of the 9% growth in external revenues, driven by significant growth in non-NAR and 2% increase in NAR, and our continued focus on costs delivering £28 million of savings in 2013. Since 2009 EBITA has increased by over 200%.

The Group margin has improved year on year, up three percentage points to 26%.

Adjusted earnings per share



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

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.

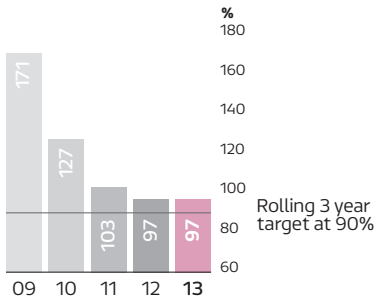
Related Priority **1** **2** **3** **4**

Performance

Adjusted earnings per share has increased by 2.1p, a 23% increase year-on-year to 11.2p. This reflects the improvement in revenue and profit and the reduction in adjusted financing costs as we improve the efficiency of the balance sheet.

Since 2009 adjusted earnings per share has increased by over 500%.

'Profit to cash' conversion



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

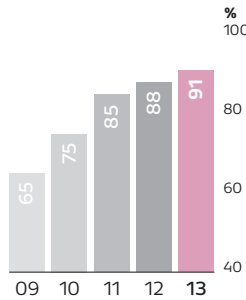
A key priority is to keep tight control on cash and costs and this measure primarily reflects our working capital management and capital expenditure control. As such, it remains ITV's aim to keep this 'profit to cash' conversion as high as possible, and in excess of 90% on a rolling three year basis.

Related Priority 1 2 3 4

Performance

Profit to cash conversion is again over 90% which is our rolling three year target. This is despite significant capital expenditure. This demonstrates our continued focus on working capital management which has helped drive a significant improvement in our cash position.

Employee engagement



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 strategy.

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

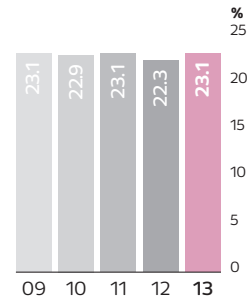
Related Priority 1

Performance

Employee engagement has again improved year on year to 91% which indicates employees' pride in ITV and their commitment to supporting change across the business. Company participation was also high at 88%.

These measures are well above benchmark as well as having improved year-on-year.

ITV Family Share of Viewing (SOV)



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.

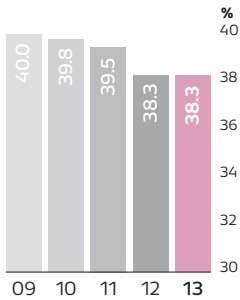
Related Priority 2

Performance

ITV Family SOV had its strongest year-on-year performance for ten years, up 4%, as we further improved the quality and breadth of the schedule.

Performance and Financials

ITV Family Share of Commercial Impacts (SOCI)



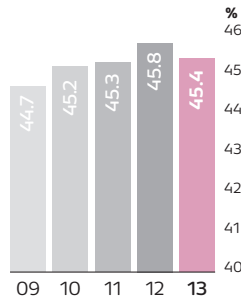
Strategic priority 2 aims to maximise audience share from our existing free-to-air broadcast business, and ITV Family Share of Commercial Impacts (SOC) is another key indicator of this. SOC is the trading currency in the television advertising market, and since it only covers commercial television it 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 SOC.

Related Priority 2

Performance

ITV Family SOC was flat year-on-year. ITV main channel was up 1%, however, offsetting this was the performance of ITV4, which did not perform as well as we had hoped.

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.

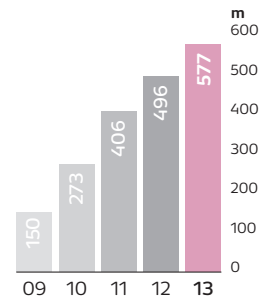
It is getting increasingly difficult to measure the total television advertising market as all broadcasters have differing definitions and therefore include sources of revenue other than pure spot advertising.

Related Priority 2

Performance

ITV SOB was slightly down year on year. In 2014 we expect to outperform our estimate of the television advertising market over the full year. Our on-screen performance in 2013, the strong schedule for 2014 including the FIFA World Cup, and the advertising deals we have done, puts us in a good position to achieve this.

Total long form video requests



Our strategy looks to drive new revenue streams by exploiting our content across multiple platforms.

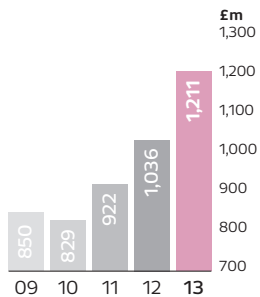
Long form video requests is a measure of the total number of our videos viewed across all platforms (such as itv.com, Virgin, Sky and mobile devices) and therefore provides a key measure of how much of our content is being viewed online.

A long form video is a programme that has been broadcast on television and is available to watch online and on demand in its entirety.

Related Priority 3

Performance

Long form video requests were up 16% at 577 million. We have improved the quality of ITV Player and increased the distribution of our content onto more platforms. ITV content is now available on 19 platforms. Growth in long form video requests has been driven by mobile and tablet viewing.

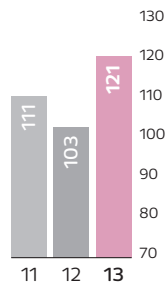
Non-NAR revenues

Growing non-NAR revenues is key to the strategy 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).

Key drivers of non-NAR revenue are the growth in Online, Pay & Interactive and Studios, particularly international.

Related Priority 2 3 4**Performance**

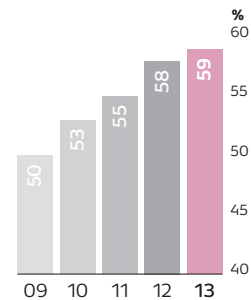
Non-NAR revenues have grown by 17% in 2013 as we continue to rebalance the business. Non-NAR growth is driven by Studios revenues – particularly international – and Online, Pay & Interactive.

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.

Related Priority 4**Performance**

The number of new commissions has increased in 2013 as we continue to invest in our creative pipeline both organically and through acquisitions.

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. A key part of building a strong international content business, is to increase ITV Studios' supply of programmes to ITV, where we aim to make them famous and then sell them around the world.

* Excludes ITV2, 3 and 4.

Related Priority 4**Performance**

The percentage of ITV output from ITV Studios has increased again this year to 59%. The improvement has been driven by an increase in Drama commissions.

Performance and Financials

**Picture:**

Cake Boss season six recently premiered on TLC in the US. The show is made by High Noon which ITV acquired in 2013.

CAKE
BOSS

Financial and Performance Review

Ian Griffiths

Delivering revenue growth in all parts of the business



We have again delivered a strong set of results with good revenue growth and double digit profit growth. There was growth from all parts of the business, our acquisitions are making a material contribution and the relentless focus on costs and cash is evident in our healthy financial position. We ended the year with £164 million of net cash even after significant investment across the business and increased returns to shareholders.

Twelve months to 31 December	2013 £m	2012 (restated) £m	Change £m	Change %
Net Advertising Revenue ('NAR')	1,542	1,510	32	2
Total non-NAR revenue	1,211	1,036	175	17
Total revenue	2,753	2,546	207	8
Internal supply	(364)	(350)	(14)	(4)
Total external supply	2,389	2,196	193	9
EBITA before exceptional items	620	513	107	21
Group EBITA Margin	26%	23%		
Adjusted earnings per share	11.2p	9.1p	2.1p	23
Adjusted diluted earnings per share	10.8p	8.7p	2.1p	24
Dividend per share	3.5p	2.6p	0.9p	35
Special dividend	4.0p	4.0p	–	–
Net cash as at 31 December	164	206	(42)	

The profit before tax (PBT) and earnings per share (EPS) from the Consolidated Income Statement are as follows:

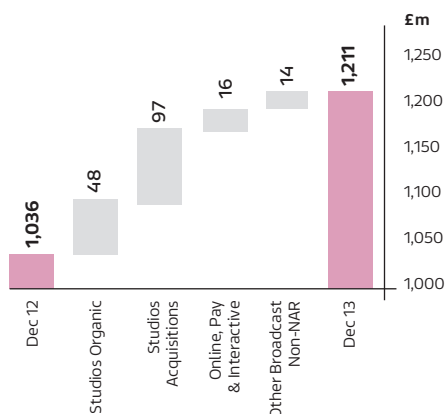
Twelve months to 31 December	2013 £m	2012 (restated) £m	Change £m	Change %
Profit before tax	435	334	101	30
Earnings per share (EPS)	8.3p	6.6p	1.7p	26
Diluted earnings per share	8.1p	6.4p	1.7p	27

Performance and Financials

Financial and Performance Review continued

External revenues were up 9%. Total non-NAR revenues grew £175 million (17%) and ITV Family NAR was up 2%.

Non-NAR revenue tracker



This revenue growth, combined with our tight cost management and our higher margin new revenue streams, saw us deliver 21% growth in EBITA to £620 million and 23% growth in adjusted EPS to 11.2p. Group margins improved by three percentage points to 26%.

EBITA before exceptional items tracker



We again maintained our focus on cash and costs. We delivered £28 million of cost savings, £8 million ahead of our original target and our tight working capital management has delivered a strong profit to cash ratio at 97%, again above our 90% rolling three year target. We have continued to take steps to improve the efficiency of the balance sheet having bought back £211 million of gross debt and exercised our right to redeem the convertible bond. Together, these actions have reduced our level of total debt to £354 million and further reduced our financing costs.

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 reported results is set out in the earnings per share section that follows.

Adjusted profit before tax and adjusted EPS remove the effect of exceptional items which include acquisition related costs (professional fees, primarily due diligence, and performance based employment linked contingent payments), impairment of intangible assets, amortisation of intangible assets acquired through business combinations, net financing cost adjustments and other tax adjustments.

Following revisions to IAS 19, we are required to restate our prior period results which have resulted in the following:

	2012 as originally reported	2012 (restated)	Income statement impact
Net Financing Costs	(99)	(106)	(7)
Broadcast & Online EBITA	413	406	(7)
Group EBITA	520	513	(7)
Tax Charge	(80)	(77)	3
PBT	348	334	(14)
PAT (excl. NCI)	267	256	(11)
Adjusted PBT	464	457	(7)
Adjusted Tax Charge	(105)	(104)	1
Adjusted PAT (excl NCI)	358	352	(6)
EPS	6.9	6.6	(0.3)
Diluted EPS	6.7	6.4	(0.3)
Adjusted EPS	9.2	9.1	(0.1)
Diluted Adjusted EPS	8.9	8.7	(0.2)

Broadcast & Online

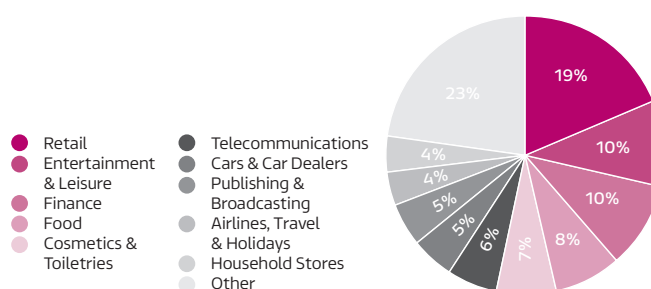
Twelve months to 31 December	2013 £m	2012 (restated) £m	Change £m	Change %
Net Advertising Revenue ('NAR')	1,542	1,510	32	2
SDN external revenues	71	62	9	15
Online, Pay & Interactive	118	102	16	16
Other commercial income	165	160	5	3
Broadcast & Online non-NAR revenue	354	324	30	9
Total Broadcast & Online revenue	1,896	1,834	62	3
Total schedule costs	(983)	(996)	13	1
Other costs	(426)	(432)	6	1
Total Broadcast & Online EBITA before exceptional items	487	406	81	20
Broadcast & Online EBITA margin	26%	22%		

Broadcast & Online delivered a strong performance. Revenues were up £62 million (3%) and with tight control of costs and growth in new higher margin revenues, we delivered an £81 million (20%) increase in EBITA.

Revenue growth was driven by a 16% increase in Online, Pay & Interactive revenues and 2% growth in ITV Family NAR as the television advertising market returned to growth. The television advertising market again showed significant fluctuations across the year, often driven by the timing of sporting events or programmes delivering large audiences. ITV Family NAR was down 3% in the first half of the year as there were tough comparatives in Q2 caused by the absence of a big sporting event but this recovered over the second half which was up 8%. In 2014 with the FIFA World Cup in Q2 we expect again to see significant variations by quarter.

There also continues to be volatility by sector. In 2013 we continued to see strong demand from advertising sectors driven by technology and highly competitive industries. Good growth was seen in entertainment & leisure, telecommunications, cars, publishing & broadcasting, airlines & holidays and household stores. While retail as a whole did not show significant growth as the high street subsector remained weak, supermarkets did spend more. Finance declined year-on-year driven by banks and building societies. Food was weak due to the margin pressure being experienced within the sector.

Category analysis



Over the full year, ITV NAR based on pure spot advertising was up 2% which is slightly behind our estimate of the television advertising market up 3%. However, it is getting increasingly difficult to measure the market as all broadcasters have differing definitions and therefore include sources of revenue other than pure spot advertising.

In 2014 we expect to outperform the television advertising market. Our on-screen performance in 2013, the strong schedule for 2014 including the FIFA World Cup, and the advertising deals we have done, puts us in a good position to achieve this.

SDN revenues increased 15% benefiting from the launch of the 12th and 13th video streams in the year. No similar one-off benefit is expected in 2014.

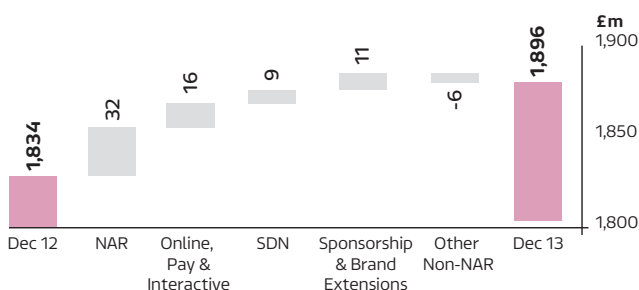
Online, Pay & Interactive revenues grew strongly, up 16% to £118 million. Within this, online advertising revenues increased as long form video requests grew 16%, which has been helped by our continued improvement in the quality and distribution and the enhanced offerings of itv.com and ITV Player. Our pay revenues have also grown as we have renegotiated deals with Virgin, BT and Lovefilm. These pay revenues are mainly from platform owners paying us for our channels. Our content is now available on 19 platforms. Our interactive revenues, which include competitions and voting, have been broadly flat year-on-year but we continue to drive engagement and interaction with our content.

Performance and Financials

Financial and Performance Review continued

Other commercial income includes sponsorship, minority revenues, media sales and other income. In total these are up 3%, with growth coming from sponsorship and brand extensions as we have broadened our commercial relationship with our advertisers, for example with Morrisons sponsoring Ant & Dec's Saturday Night Takeaway which included a full brand endorsement of Morrisons and Ant & Dec TV adverts.

Broadcast & Online revenue tracker



Schedule costs were down as a result of the savings we have secured on our FA Cup and Champions League rights and lower overall sports costs as there has been no large one-off sporting event. This has enabled us to invest in more hours of drama and entertainment, including programmes from ITV Studios. Other costs were flat as we manage our overheads tightly which has mitigated inflationary pressures and funded our investment in the business.

ITV Studios

Twelve months to 31 December	2013 £m	2012 £m	Change £m	Change %
UK Productions	456	408	48	12
International Productions	266	171	95	56
Global Entertainment	135	133	2	2
Total Studios revenue	857	712	145	20
Total Studios costs	(724)	(605)	(119)	(20)
Total Studios EBITA before exceptional items	133	107	26	24
Studios EBITA margin	16%	15%		
Sales from ITV Studios to Broadcasting & Online	364	350	14	4
External revenue	493	362	131	36
Total Studios revenue	857	712	145	20

In 2013 we again delivered strong revenue growth, up 20%. All parts of the business performed well, with significant growth coming from International Productions both organically and through the acquisitions we have made.

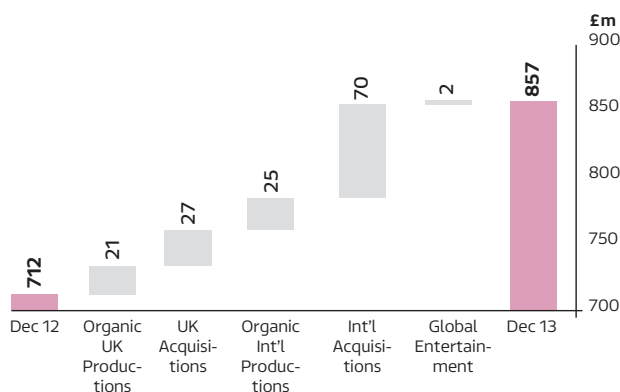
Through this strong revenue growth, our continued focus on costs and changes in our revenue mix, we delivered 24% growth in EBITA.

Organic revenue growth was 7% and acquisitions delivered just under £100 million of revenue growth and £15 million of EBITA in line with our expectations.

UK Productions grew on and off ITV, with total revenue up 12%. This has been driven by drama, entertainment and factual with programmes such as Mr Selfridge, Lewis, Vera, Ant & Dec's Saturday Night Takeaway and The Chase for ITV as the demand for high quality content has grown. Off ITV we have produced Graham Norton and Shetland for the BBC, 24 Hours in A&E for Channel 4 and Four Weddings for Sky Living.

International Productions grew very strongly, up 56%. This was driven particularly by America for a number of reasons. Firstly they delivered good organic growth with additional volumes of programmes such as Hell's Kitchen. Secondly 2013 was the first full year of owning Gurney Productions, who produce the hugely popular show Duck Dynasty. Finally our other acquisitions also performed well with programmes such as Cake Boss produced by High Noon. We also had a good year in Germany and France with I'm A Celebrity Get Me Out Of Here! and Come Dine With Me in Germany and Four Weddings in France.

ITV Studios total revenue tracker



The strong growth in our UK and international production businesses is starting to feed our global distribution business, with programmes such as Mr Selfridge, Poirot, Marple, Lewis and Hell's Kitchen US selling to over 150 countries. In addition, eight of our formats have been sold in three or more countries this year, including I'm a Celebrity Get Me Out Of Here!, Dancing on Ice, Coach Trip and The Audience. However, this is a process that does take time. We are seeing strong growth in sales to digital platforms which is more than offsetting the decline in DVD sales.

The majority of costs incurred in ITV Studios vary directly with levels of activity. However, we continue to maintain our focus on costs and to drive efficiencies in the production process.

Acquisitions

In 2012 and 2013 we acquired a number of content businesses in the UK, the US and the Nordics. These have been made against strict strategic and financial criteria. Financially we look at ownership of intellectual property, return on capital employed and discounted cash flow. Strategically we look at the talent, creative pipeline and type of content to ensure it has the potential to return and travel. We have structured the deals, with earnouts or put and call options, to base a significant part of the consideration, which is capped, on future performance and therefore align incentives and lock in creative talent. To date our portfolio of acquisitions is performing in line with our expectations.

In 2012 we acquired Gurney Productions in the US, So TV in the UK, Mediacircus in Norway and Tarinatalo in Finland.

In April 2013 we acquired 100% of the UK independent producer The Garden to enhance our capability in creating factual entertainment formats that travel and to increase our strength in delivering commissions off ITV. We made an upfront payment of £18 million with a further capped cash payment contingent on The Garden's future performance. In July 2013 we acquired 100% of Big Talk Productions and associated companies (Big Talk) to strengthen our comedy and light entertainment capability. We paid an initial cash consideration of £13 million and there are further capped cash payments contingent on Big Talk's future performance.

In May 2013 in the US we acquired 60% of High Noon Entertainment for an upfront cash consideration of \$26 million (£16 million) and in June we acquired 65% of Thinkfactory Media for an upfront cash consideration of \$30 million (£19 million), to further build our strength and scale. There are put and call arrangements in place to buy the remaining minority stakes.

The total initial payment for 2012 and 2013 acquisitions is £108 million with a further expected £97 million (undiscounted) payable which is based upon our current view of their performance over the payment period. The total maximum consideration of £293 million (undiscounted contingent consideration of £185 million and initial consideration of £108 million) for all these acquisitions is payable only if the businesses deliver 20–30% compound average annual growth rate in earnings.

On 19 February 2014 we acquired a 51% controlling interest in DiGa Vision, the US independent producer of reality and scripted programming. There is a put and call option to buy the remainder of the company over three to six years.

Company	Geography	Genre	Initial consideration (£m)	Total expected consideration* (£m)	Total maximum consideration* (£m)	Expected payment period
2013						
The Garden	UK	Factual Entertainment	18	35	46	2018
High Noon	US	Reality, Entertainment	16	34	61	2015–2021
Thinkfactory	US	Reality, Entertainment & Scripted	19	31	61	2017–2019
Big Talk	UK	Comedy & Scripted	13	30	30	2015–2018
Total for 2013			66	130	198	
Total for 2012			42	75	95	
Total			108	205	293	

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

Performance and Financials

Financial and Performance Review continued

Net financing costs

Net adjusted financing costs of £25 million were £19 million lower than last year as a result of the full year benefit of the debt bought back in 2012 and part year benefit of the debt buyback and the redemption of the convertible bond in 2013.

The £61 million of losses on buybacks relate to the exceptional loss on the £211 million (nominal) of debt we bought back in the year. The partial repayment of the 2019 bilateral loan in March of £138 million (nominal) resulted in an exceptional loss of £38 million and will save £48 million of future interest costs.

The £73 million convertible bond buyback, together with the early redemption of the remaining balance for equity, resulted in an exceptional loss of £23 million and will save £16 million of future interest costs as well avoiding the dilution of our shareholders.

In 2012 losses were incurred on the buyback of certain bonds.

In January 2014 we bought back the remaining tranche of the 2019 bilateral loan for £95 million.

Twelve months to 31 December	2013 £m	2012 (restated) £m
Financing costs directly attributable to loans and bonds	(18)	(38)
Cash-related net financing (costs)/ income	(2)	3
Cash-related financing costs	(20)	(35)
Amortisation of bonds	(5)	(9)
Adjusted financing costs	(25)	(44)
Mark-to-market on swaps and foreign exchange	(9)	(11)
Imputed pension interest	(20)	(16)
Losses on buybacks	(61)	(36)
Other net financial costs	-	1
Net financing costs	(115)	(106)

Tax

The effective tax rate on adjusted profit before tax of £581 million is 23% which is comparable to the standard tax rate of 23.25% (2012: the effective tax rate on adjusted profits of 23% was lower than the standard rate of 24.5% due to the adjustments made for prior periods and the recognition of overseas deferred tax credits). The total tax charge is £105 million (2012: £77 million).

Cash tax paid of £67 million (2012: £62 million) arises as a result of making payments for taxable profits partially offset by the use of losses and the tax treatment of allowable pension contributions. The majority of cash tax is paid in the UK.

Twelve months to 31 December	2013 £m	2012 (restated) £m
Profit before tax	435	334
Exceptional items (net)	2	12
Amortisation and impairment of intangible assets*	54	49
Adjustments to net financing costs	90	62
Adjusted profit before tax	581	457

* In respect of intangible assets arising from business combinations.

Twelve months to 31 December	2013 £m	2012 (restated) £m
Tax charge	(105)	(77)
Charge for exceptional items	(1)	(2)
Charge in respect of amortisation and impairment of intangible assets*	(12)	(12)
Charge in respect of adjustments to net financing costs	(21)	(15)
Other tax adjustments	3	2
Adjusted tax charge	(136)	(104)
Effective tax rate on adjusted profits	23%	23%

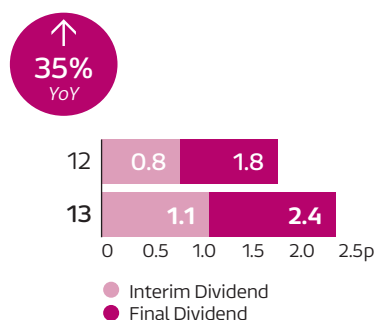
* In respect of intangible assets arising from business combinations.

Dividend

The Board has proposed a final dividend of 2.4p (2012: 1.8p) giving a full year dividend of 3.5p (2012: 2.6p) – an increase of 35% on 2012. The Board is committed to a progressive dividend, taking into account the outlook for the business, while balancing the need to invest for growth and to maintain a robust financial position.

In addition to the final dividend, the Board is proposing a special dividend of 4.0p per share or £161 million (2012: 4p per share special dividend). The cash distribution reflects the Board's confidence in the ongoing growth and cash generation of the business. Going forward we will continue to show capital discipline and balance the need to invest for future growth with increasing returns to shareholders.

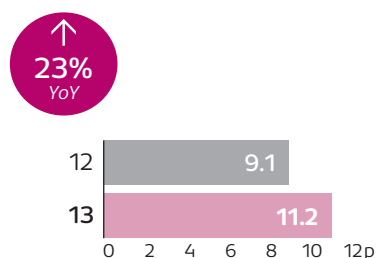
Dividend chart



Earnings per share

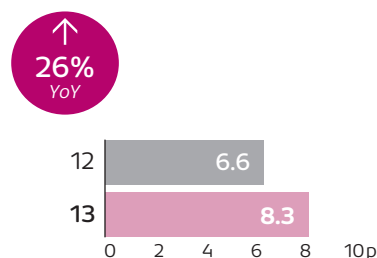
Adjusted earnings per share is 11.2p (2012: 9.1p). Earnings per share is 8.3p (2012: 6.6p).

Adjusted Earnings per Share



The main differences between reported and adjusted earnings per share are exceptional items which include acquisition related costs (professional fees, primarily due diligence, and performance based employment linked contingent payments), impairment of intangible assets, amortisation of intangible assets acquired through business combinations, net financing cost adjustments and other tax adjustments.

Earnings per Share



The adjustments shown below 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.

Twelve months to 31 December 2013	Reported £m	Adjustments £m	Adjusted £m
EBITA before exceptional items	620		620
Exceptional items (operating)	(8)	8	-
Amortisation and impairment of intangible assets	(66)	54	(12)
Net financing costs	(115)	90	(25)
Share of losses of JVs and Associates	(2)	-	(2)
Gain on sale and impairment of subsidiaries and investments (non-operating exceptional items)	6	(6)	-
Profit before tax	435	146	581
Tax	(105)	(31)	(136)
Profit after tax	330		445
Non-controlling interests	(4)		(4)
Earnings	326		441
Shares (million), weighted average	3,929		3,929
Earnings per share (pence)	8.3p		11.2p

Performance and Financials

Financial and Performance Review continued

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 day-to-day operation of the business.

Operating exceptional items are mainly acquisition related expenses, including professional fees, primarily due diligence, and performance based employment linked contingent payments. There are no restructuring costs in 2013.

Non-operating exceptional items largely relate to the profit on disposal of STV shares in the year resulting in a gain of £6 million.

Cash flow, working capital and free cash flow

Cash flow and working capital management

Twelve months to 31 December	2013 £m	2012 (restated) £m
EBITA before exceptional items ('profit')	620	513
(Increase)/decrease in programme rights and other inventory distribution rights	(42)	29
(Increase)/decrease in receivables	(15)	17
Increase/(decrease) in payables	42	(45)
Working capital movement	(15)	1
Depreciation	24	27
Share-based compensation and pension service costs	20	16
Cash flow generated from operations before exceptional items	649	557
Acquisition of property, plant and equipment and intangible assets	(45)	(61)
Adjusted cash flow	604	496
'Profit to cash' ratio	97%	97%*

* Previously reported profit to cash ratio for 2012 was 95%. This has increased to 97% because of the restatement of EBITA.

Our focus on cash remains a priority and we generated £604 million of cash from £620 million of EBITA before exceptional items. This performance is largely due to the continued management of working capital balances. Our profit to cash ratio of 97% has been maintained at a strong level and continues to be ahead of our KPI target of 90% on a three year rolling basis.

This calculation includes £45 million of capital expenditure, which largely relates to the new state-of-the-art Coronation Street set. However, it excludes the acquisition of the Company's London headquarters for £58 million as management considers it to be a material one-off capital expenditure and not a day-to-day operational investment.

Free cash flow

Twelve months to 31 December	2013 £m	2012 (restated) £m
Adjusted cash flow	604	496
Net interest paid	(24)	(33)
Cash tax	(67)	(62)
Pension funding	(80)	(72)
Free cash flow	433	329

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

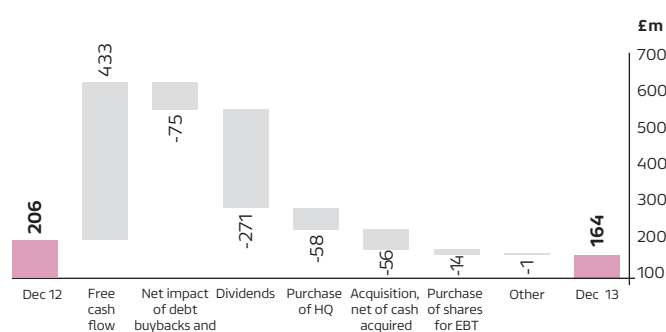
Free cash flow reflects our underlying cash generation and our strong free cash flow generation gives us flexibility to invest in the business and reward our shareholders. This is a key strength of ITV today.

Free cash flow before dividends, acquisitions and debt repayments remains very strong and is up over £100 million (32%) year-on-year, in line with the growth in profits.

Net cash, liquidity risk and funding

Net cash at the year end was £164 million, compared to net debt of £52 million at 30 June 2013 and £206 million net cash at the end of 2012.

Net cash tracker



One of the key strengths of our business is our strong cash generation but it is weighted to the second half of the year as we make a number of significant payments both regular and one-off in the first half of 2013, including acquisitions, dividends, the pension deficit funding contribution, debt buybacks and the purchase of our London headquarters. In spite of this investment and shareholder returns we ended the year with similar cash position to 2012.

Adjusted net debt

Twelve months to 31 December	2013 £m	2012 £m
Net cash	164	206
Expected contingent payments on acquisitions	(97)	(36)
Pension deficit (IAS 19R)	(445)	(551)
Operating leases	(414)	(518)
Adjusted net debt	(792)	(899)
Adjusted net debt to EBITDA	1.2	1.7

Net debt/net cash is one measure of the strength of our financial position. However, we believe it is appropriate to look at all our financial commitments and have developed an adjusted net debt measure, similar to how credit rating agencies could look at our balance sheet. The ratio of adjusted net debt to EBITDA before exceptional items is 1.2. This level of indebtedness is slightly lower than previous years and reflects the improved profitability and strong cash generation of the business as well as reduced lease commitments and a lower pension deficit as measured by IAS 19.

As can be seen from the table, adjusted net debt includes the undiscounted estimate of the contingent payments in relation to all the acquisitions we have made in 2012 and 2013, the pension deficit on an IAS 19 basis, and our operating lease commitments (undiscounted) which are mainly for broadcast transmission contracts and property. Lease commitments have reduced year on year as a result of the acquisition of our London headquarters.

Debt structure and liquidity

We continued to strengthen our balance sheet and maintain access to liquidity with our strong underlying cash generation, the £125 million invoice discounting facility and our £250 million Revolving Credit Facility (RCF). In June 2013 we extended the maturity of the RCF by a further year to July 2016. The facility remains undrawn and, subject to agreement by the banks, is extendable by a further year. The facility contains leverage and interest cover financial covenants as is normal for a facility of this nature.

We have bought back over £1.1 billion of debt (including the £73 million of convertible we bought back) since October 2009 and we now have a much more efficient balance sheet. After the year end we bought back the remaining £62 million (nominal) of the March 2019 bank loan (see post balance sheet events). Given what we have bought back over the last few years we do not expect to be able to make any further material changes in the efficiency of our balance sheet.

The debt buybacks in the year were as follows:

- In March 2013 we repaid £138 million (nominal) of the £200 million covenant free bilateral loan with a maturity of March 2019. This was satisfied by £30 million of cash and by gilts secured against the loan and resulted in an exceptional charge of £38 million. This repayment will save £48 million in future interest costs.
- During the year we repurchased £73 million (nominal) of the £135 million convertible bond with a maturity date of November 2016 for a cash cost of £169 million. In September we exercised our right to redeem the outstanding principal amount of the convertible bond. This redemption and conversion process was completed on 21 October and resulted in 95 million new shares being issued. Settling the convertible has resulted in £16 million of interest cost savings over the remaining period of the bond. Partly buying back the debt has avoided the full dilution which would have occurred if the entire convertible had been redeemed. Settling the convertible has also resulted in an exceptional charge of £23 million shown in financing costs and in a net £74 million loss attributable to equity, which has been reflected directly in retained earnings.

The actions we have taken will improve our adjusted financing costs going forward. In 2014 we expect adjusted financing costs to be about £10–£12 million, a saving of around £15 million after the repurchase of the remaining 2019 loan.

Performance and Financials

Financial and Performance Review continued

Financing

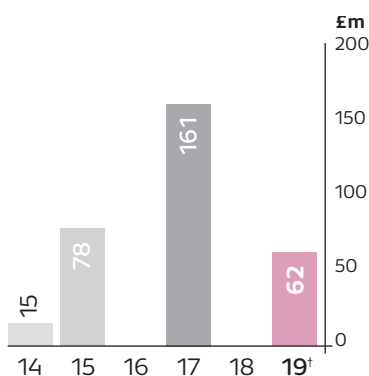
We are financed using debt instruments with a range of maturities. Following the buyback of the 2019 loan in January 2014, the remaining debt, other than the finance leases, is publicly traded Eurobond debt. Borrowings at 31 December 2013 (net of currency hedges) are repayable as follows:

Amount repayable	£m	Maturity
€50 million Eurobond*	15	June 2014
£78 million Eurobond	78	Oct 2015
£161 million Eurobond	161	Jan 2017
£62 million Bank loan†	62	Mar 2019
Finance leases	38	Various
Total debt repayable on maturity	354	

* Net of cross currency swaps.

† Bought back in full in January 2014

Debt maturity profile at 31 December 2013*



* Excludes finance leases.

† Bought back in full in January 2014.

There are no financial covenants on any of our debt instruments, other than the RCF which remains undrawn.

The recent debt buyback of the 2019 loan removes the last of the high coupon debt taken out in 2008/9.

Ratings

Our credit ratings have improved during 2013 with all three ratings agencies upgrading their long-term credit ratings. In March and April respectively, Standard & Poor's and Fitch upgraded our long-term credit rating to investment grade BBB- (Stable outlook). In August Moody's Investors Service also upgraded their long-term credit rating to investment grade Baa3 (Stable outlook).

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. Continuing to execute our strategy will strengthen our position against all these metrics.

Pensions

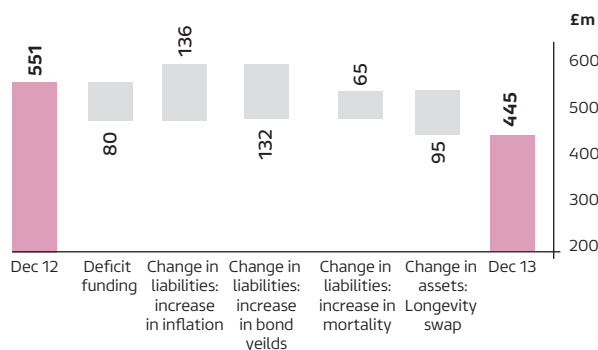
IAS 19

The aggregate IAS 19 deficit of the defined benefit schemes at 31 December 2013 was £445 million (31 December 2012: £551 million). This was partly as a result of the £80 million annual deficit funding contribution. Total liabilities have also reduced as a result of an increase in the implied discount rate used to value liabilities. This was largely offset by an increase in the rate of market-implied inflation. A review of the mortality assumption produced a further increase in the liabilities, reflecting an increased allowance for longer life expectancy.

In 2011 the Group entered into a longevity swap to protect against further increases in life expectancy. Changes in accounting standards mean that the assumptions used to value this swap are now based on market fair values, rather than best estimates. These changes have resulted in a significant actuarial gain in 2013 with the book value of the swap decreasing from a £118 million liability in 2012 to a £23 million liability in 2013.

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

IAS 19 Pension deficit tracker



Actuarial valuations

Full actuarial valuations are carried out every three years with the latest completed 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.

The Trustee of the Scheme will undertake actuarial valuations as at 1 January 2014 with the outcome expected by 2015.

Deficit funding contributions

Following completion of actuarial valuations as at 1 January 2011 the Group has agreed with the Trustee that the level of contributions to the main section 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 exceeds £300 million, the Group will increase the fixed contributions by an amount representing 10% of EBITA pre exceptional items over the threshold level, 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) should 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.

For Sections B and C of the Scheme the Group has agreed with the Trustee that it will make deficit funding contributions of £5.5 million per annum in order to eliminate the deficits in these sections by 31 March 2021.

In 2014 we expect to make a total deficit funding contribution of £89 million, which is £9 million higher than 2013 reflecting the increase in EBITA year-on-year.

Post balance sheet events

On 16 January 2014 we agreed to repay the remaining £62 million of the 2019 bilateral loan. This repayment will save around £44 million in adjusted financing costs over the remainder of the loan – around £8 million on an annualised basis, and will lead to an exceptional loss of £30 million for 2014. The repayment was satisfied by a one-off cash payment of £95 million.

Ian Griffiths

Finance Director

Performance and Financials

Risks and Uncertainties

ITV has a formal risk management process which is embedded within the business to support the identification and effective management of risks across the business. It is regularly reviewed and adapted as the Company, industry and macro environment evolves.

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



Risk management framework and risk appetite

The Board is responsible for establishing a robust and appropriate risk management framework and risk management process for ITV. The Board, supported by the Audit Committee, regularly reviews the risk management framework, its content and its operations. This includes reviewing the risks themselves and the mitigating actions.

The Board also reviews risk appetite to ensure ITV is carrying an acceptable level of risk. During the year it conducted an exercise to assess the current risk appetite of the business and the actual risk the business takes with respect to the following categories: financial, market, operational, compliance and regulation, creative investment and organisational. This is considered to be the first step towards using risk appetite as a decision making tool and further work will be undertaken in 2014 to enhance this process. The Board also continues to monitor closely ITV's specific financial risks, including foreign exchange, borrowing levels, interest rates and pension risks.

The Audit Committee keeps the overall effectiveness of the risk management framework and the risk management process under review.

Risk management process

The Management Board has responsibility for the content and operation of the risk management framework and performs regular reviews of all risks. In 2013 all the HILL and Strategic risks were reassessed and further refined to improve our risk management. As well as management review, process level risks are also subject to an ongoing review by internal audit.

Mitigating actions have been identified for all the HILL and Strategic risks. Each strategic risk has been mapped to at least 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 performance indicators (KPIs) on page 36 or a subset of these KPIs. All HILL and strategic risks are owned by at least one member of the Management Board.

Risk monitoring process

ITV's risk monitoring process is embedded in the running and review of the business. Risks are primarily controlled through the risk management process. In addition to the risk specific mitigating actions outlined below, risks are regularly discussed and considered through day-to-day operations and through a number of divisional Board and review processes.

Internal Audit Plan

The internal audit plan is driven from ITV's risk management framework. As outlined above management has completed a number of activities with respect to HILL risks, Strategic risks and Process level risks. Internal audit reviews the auditable elements of these risks and this informs the areas and topics that internal audit focuses on.

High Impact, Low Likelihood Risks (HILL)

Risk Theme	HILL Risks	Mitigating Factors
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.	<ul style="list-style-type: none"> The business is cash generative and in a net cash position. Working capital management remains a key focus and ITV's profit to cash conversion rate remains above ITV's 90% rolling three year target. ITV has a £250 million revolving funding facility with a number of banks which remains unused. The low gross debt levels that ITV now has would enable the Company to obtain debt from the marketplace if needed.
Financial	There is a major collapse in investment values leading to a material impact on the pension scheme deficit.	<ul style="list-style-type: none"> There is regular communication between ITV and the pension trustees. The pension scheme's assets are invested in a diversified portfolio, with a significant amount of the fund held in bonds. ITV has worked with the pension trustees to limit the potential deficit by entering into deals to limit exposure, for example, a longevity swap.
Operational	A significant event removes a number of the key management team from the business on a long-term or permanent basis.	<ul style="list-style-type: none"> There is a business resilience plan in place which includes succession plans or nominated replacements for all key positions within the Company.
Reputation	An event with public interest that causes significant reputational and brand damage.	<ul style="list-style-type: none"> There is a Company-wide Code of Conduct in place which employees should follow.
Reputation	There is a major health and safety incident that results in a significant loss of human life.	<ul style="list-style-type: none"> ITV has a central Health & Safety team and Health & Safety policies and procedures are in place, with appropriate training for employees where required. Regular inspections are undertaken at all sites, which are run alongside a programme of Health & Safety audits.
Reputation	A major incident results in ITV being unable to continue with scheduled broadcasting for a sustained period.	<ul style="list-style-type: none"> A risk register of broadcast operations including third parties is in place and reviewed on a regular basis. An end-to-end review of the broadcast cycle is regularly undertaken. An incident management process has been agreed and disaster recovery plans are in place.
Reputation	There is a significant or unexpected change in regulation or legislation.	<ul style="list-style-type: none"> ITV regularly communicates with legislative groups, legal panels and Ofcom to monitor potential policy and regulatory developments.

Performance and Financials

- 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. They require regular monitoring by the Management Board and are frequently discussed at management and divisional boards.

All of the strategic risks identified have been mapped to the four strategic priorities of the Strategy and have been grouped by key risk themes.

Strategic Risks	Mitigating Factors	Strategic Priorities
<p>The Market There is a major decline in advertising revenues and ITV does not build sufficient non-NAR revenue streams to offset the financial impact of this decline.</p>	<ul style="list-style-type: none"> Growing non-advertising revenues, in areas such as ITV Studios and Online, Pay & Interactive, remains a key part of the strategy. ITV continues to focus on cash and costs, ensuring the Company has an adequate financial liquidity and balance sheet flexibility. 	2 3 4
<p>The Market The television market moves significantly towards pay television as a preferred model, negatively impacting ITV's free-to-air revenues.</p>	<ul style="list-style-type: none"> ITV continues to support free platforms, including YouView, to keep free-to-air strong. ITV looks at and evaluates the opportunities for expanding its existing pay services and other pay offerings. ITV explores other platforms to understand viewing habits and what people are prepared to pay for. 	2 3
<p>The Market A faster than expected shift to Video on Demand (VOD) or other new technologies causes a sustained loss of advertising revenue.</p>	<ul style="list-style-type: none"> The business continues to develop ITV Player VOD services, maximise the distribution of ITV Player and grow its VOD advertising business. ITV monitors the market for new technology and where appropriate explores how ITV can participate. 	2 3 4
<p>People ITV fails to attract, develop and retain key creative, commercial and management talent with the skills required for the changing business.</p>	<ul style="list-style-type: none"> ITV invests in training and development for all key colleagues in the business. Strategic focus on working across the business to embed and strengthen the culture of 'One ITV' way of working. Succession plans are in place for all key positions within the Company. 	1 2 3 4
<p>Organisation, Structure and Processes ITV fails to evolve its organisational structure and culture to ensure that it is capable of delivering continued growth from the new businesses or revenue streams.</p>	<ul style="list-style-type: none"> ITV constantly reassesses the business to create a fit-for-purpose organisation. ITV continues to embed and strengthen the culture of 'One ITV' way of working. 	1 2 3 4
<p>Organisation, Structure and Processes A significant high profile incident or series of events such as transmission incidents or a major regulatory breach causes significant reputational damage.</p>	<ul style="list-style-type: none"> ITV has ongoing projects to ensure transmission and distribution technologies are fit-for-purpose. There are disaster recovery and incident management plans in place in high risk areas of the business to help deliver a rapid and flexible response. 	1

Strategic Risks	Mitigating Factors	Strategic Priorities
<p>Organisation, Structure and Processes There is significant loss of programme or sports rights or ITV fails to identify and obtain the optimal rights packages.</p>	<ul style="list-style-type: none"> ITV is focused on both protecting and exploiting existing rights and ensuring that future rights generated accrue to ITV. ITV has a detailed model to evaluate the value of third party rights to ensure it only buys rights that make economic sense. 	2 3 4
<p>Organisation, Structure and Processes ITV fails to create and own a sufficient number of hit programmes/formats.</p>	<ul style="list-style-type: none"> ITV maximises opportunities for ITV Studios to create successful shows by investing in the creative pipeline and focusing on programmes and genres that can return and travel internationally, i.e. drama, entertainment and factual entertainment. ITV is focused on hiring and retaining the right key creative talent. 	2 3 4
<p>Organisation, Structure and Processes ITV fails to properly resource, creatively and operationally, the growth businesses, in particular online and international content.</p>	<ul style="list-style-type: none"> Talent management plans have been developed and reviewed to ensure adequate succession planning across ITV. ITV continues to embed and strengthen the culture of 'One ITV' way of working. Lessons from recent investments are captured through post acquisition reviews. 	3 4
<p>Organisation, Structure & Processes ITV loses a significant volume of personal or sensitive data.</p>	<ul style="list-style-type: none"> A management board sponsored Information Security Steering Group is in place to ensure the appropriate management of information security. Mandatory online training modules, awareness campaigns and simplified information security policies for employees. Monitoring of information sharing outside of ITV. 	1 2 3 4
<p>Technology ITV remains heavily reliant on legacy systems, which could potentially restrict the ability to grow the business. These systems and processes may not be appropriate for non-advertising revenues or international growth.</p>	<ul style="list-style-type: none"> System requirements are kept under review with business growth and system modernisation projects implemented as appropriate. A replacement plan is in place for the legacy systems which remains under constant review and development to ensure technology systems meet the needs of the business. 	1 2 3 4
<p>Technology ITV fails to ensure appropriate business continuity planning and resilience within its core systems, processes, platforms and technology infrastructure.</p>	<ul style="list-style-type: none"> Disaster recovery plans are in place with tests conducted annually on business critical systems. Internal Audit review the disaster recovery plans and the test results as appropriate. 	1 2 3
<p>Technology There is a sustained cyber/viral attack causing prolonged system denial or major reputational damage, for example the ability to broadcast our channels or the availability of ITV Player.</p>	<ul style="list-style-type: none"> We continue to improve our ability to monitor, detect and respond to cyber threats internally and through partnerships with specialist security organisations. Mandatory online training modules, awareness campaigns and simplified information security policies for employees. There are disaster recovery and incident management plans in place for high risk areas of the business to help deliver a rapid and flexible response. A management board sponsored Information Security Steering Group is in place to ensure the appropriate management of information security. 	1

The Strategic Report as set out on pages 2 to 55 was approved by the Board on 26 February 2014 and signed on its behalf by:

Adam Crozier
Chief Executive

Governance

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24 Hours in A&E

24 Hours in A&E is made by The Garden, part of ITV Studios, for Channel 4. The fourth series aired in 2013 with the fifth series airing in early 2014.



Governance

Board of Directors



Archie Norman
Chairman

Appointment to the Board
1 January 2010

Age 59

Committee membership
Nomination (Chairman),
Remuneration

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

External appointments

- Chairman, Lazard London (2014)
- Chairman, Hobbycraft Group Ltd (2013)
- Director of Target Ltd (2012)
- Adviser to Wesfarmers Limited (2009)
- Director of Coles Group (2007)
- Governor, National Institute of Economic and Social Research (1997)

Previous experience

- Founder, Aurigo Management Partners LLP (2006–2013)
- Senior Adviser to Lazard (2003–2013)
- 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)



Adam Crozier
Chief Executive

Appointment to the Board
26 April 2010

Age 50

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)



Ian Griffiths
Group Finance Director

Appointment to the Board
9 September 2008

Age 47

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)



Sir Peter Bazalgette
Non-executive Director

Appointment to the Board
1 June 2013

Age 60

Committee membership
Nomination

Key areas of prior experience
Media consultant, digital media
investor and former television
producer

External appointments

- Chairman, Arts Council of England (2013)
- Non-executive director of Ntopia (2011)
- Non-executive director of Mirriad Ltd (previously Chairman 2012–2013)
- President of the Royal Television Society (2010)
- Senior non-executive director, Chairman of Remuneration Committee and member of Audit Committee, YouGov plc (2005)

Previous experience

- Non-executive director of DCMS (2011–2013)
- Non-executive director of Base79 Ltd (2008–2013) and adviser up to 2008
- Trustee of DebateMate (2009–2013)
- Chairman of ENO (2012)
- Non-executive director of Critical Information Group plc (2009–2012)
- Adviser to Sony Music division (2009–2012) and Chairman of UK production business at Sony Pictures Television Inc (2009–2012)
- Deputy Chairman and Director of National Film and Television School (2002–2009)
- Chairman of Endemol UK Ltd (2002–2008) and adviser until 2008
- Joined Endemol in 1998, became Chief Creative Officer of Endemol Group BV and Endemol Entertainment UK Ltd (2005–2007)
- Non-executive director of Channel Four Television Corp (2001–2004)



Roger Faxon

Non-executive Director

Appointment to the Board
31 October 2012

Age 65

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



Andy Haste

Senior Independent Director

Appointment to the Board
11 August 2008

Age 52

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)



Baroness Lucy Neville-Rolfe DBE, CMG

Non-executive Director

Appointment to the Board
3 September 2010

Age 61

Committee membership
Nomination, Audit

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

External appointments

- Member of Supervisory Board, Metro AG (2013)
- Non-executive director, 2 Sisters Food Group (2013)
- Director, Hermes Equity Ownership Services Limited (2013)
- Member UK India Business Advisory Council (2013)
- Member PWC Advisory Board (2013)
- President, Euro Commerce, Brussels (2012)
- Member of UK Trade and Investment Strategic Advisory Group (2011)
- Governor, London Business School (2011)
- Member of the Coalition Government's Efficiency and Reform Board (2010)

Previous experience

- Non-executive director, The Carbon Trust (2008–2013)
- Member of China-Britain Business Council (2007–2013)
- Executive Director, Corporate and Legal Affairs, Tesco plc (2006–2013)
- Corporate Leaders Group on Climate Change (2006–2012)
- 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)



John Ormerod

Non-executive Director

Appointment to the Board
18 January 2008

Age 65

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 Misy 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



Mary Fagan
Group Communications and
Corporate Affairs Director

Appointed
January 2011

Age 56

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.



Peter Fincham
Director of Television, Channels and
Online

Appointed
May 2008

Age 57

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.



Andrew Garard
Group Legal Director and Company
Secretary

Appointed
November 2007

Age 47

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.



Fru Hazlitt
Managing Director, Commercial,
Online and Interactive

Appointed
August 2010

Age 50

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.



Kevin Lygo
Managing Director, ITV Studios

Appointed
August 2010

Age 56

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.



Simon Pitts
Director of Strategy and Technology

Appointed
January 2011

Age 38

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 to the ITV Management Board in the role of Director of Strategy and Transformation in January 2011, and more recently to Director of Strategy and Technology to combine the leadership of ITV's Technology Group with the implementation of the Company's overall strategic plan. Prior to ITV, Simon worked in the European Parliament in Brussels where he specialised in media issues.

**Picture:**

DCI Banks returned in 2014 for its 3rd series with an average audience of 7.6m for the first episode.

Governance

Directors' Report

The Directors present their report together with the audited consolidated and parent company financial statements for the year ended 31 December 2013. The comparative period is for the year ended 31 December 2012.

Directors

A table showing Directors who served in the year can be found on page 70. Biographies for Directors currently in office can be found on pages 58 and 59. In accordance with the UK Governance Code (the Code), each Director will retire and submit himself or herself for election or re-election at the AGM on 14 May 2014.

On 1 June 2013 Sir Peter Bazalgette was appointed as a Non-executive Director, and will seek election as a Director of the Company at the AGM on 14 May 2014. On 31 December 2013 Mike Clasper stepped down from the Board. Andy Haste was appointed Senior Independent Director in his place.

Post balance sheet events

Details of post balance sheet events can be found on page 173.

Dividends

The Board has proposed a final dividend for the year ended 31 December 2013. Details of this and other dividends paid for the year are as follows:

	2013	2012
Interim dividend	1.1p	0.8p
Final dividend	2.4p	1.8p
Total Ordinary	3.5p	2.6p
Special dividend	4.0p	4.0p
Total Payments	7.5p	6.0p

The final dividend and special dividend for 2013 will be paid on 30 May 2014 to shareholders on the register on 2 May 2014. The ex dividend date is 30 April 2014.

Share capital

Issued: At the date of this report there were 4,025,409,194 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 or by writing to the Company Secretary.



www.itvplc.com/about/governance

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 391.2 million of the Company's ordinary shares. The authority remains valid until the AGM in 2014 or 15 August 2014, 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 2013 are set out on page 166. During the year shares have been released from the trust in respect of share schemes for employees.

Substantial shareholdings

As at 31 December 2013 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.

	At 31 December 2013	
	Shares ¹	%
Sky Holdings Ltd ²	291,684,730	7.50%
Majedie Asset Management Limited	195,687,610	5.01%
Blackrock, Inc.	195,504,921	5.00%
Brandes Investment Partners, L.P.	194,304,930	4.99%
AXA S.A.	196,862,678	4.93%

1. The number of shares is based on announcements made by each relevant shareholder using the Company's issued share capital at that date.

2. Subsidiary of British Sky Broadcasting Group plc.

3. Following the year end there have been no further notifications received.

A profile of shareholdings is set out on page 175.

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.

Financial instruments

Note 4.5 to the accounts gives details of the Group's financial risk management policies and related exposures.

Political donations

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 might fall within the broader definition of 'political expenditure' contained within the Companies Act 2006. Shareholder authority for such expenditure was given at the 2013 AGM. However, during 2013 the Group made no payments falling within this definition (2012: nil).

Employees

Employment of disabled persons

The Company continues to meet its legal obligations as outlined in the Equality Act 2010 by actively encouraging applicants with disabilities whilst ensuring we retain the best talent within our workforce.

This is reflected in an award of the annual Department for Work and Pensions Two Ticks Disability Symbol status.

Our policies and procedures fully support our disabled colleagues. With a robust reasonable adjustment policy, an HR Disability manager, disability specific online resources and on-site diversity experts, we have taken active measures to ensure employees are fully supported.

The Company is committed to the development and growth of all its employees. Our learning and development portfolio is inclusive and accessible to employees. Alternative formats are available to all employees, which include large print, use of British sign language interpreters and Braille.

The Company's commitment around the disability agenda extends beyond our legal obligations. For a comprehensive outline of our activity visit our Corporate Responsibility website.



www.itvplc.com/responsibility

Employee involvement

Attracting and retaining talent is critical to ITV's success. It is therefore in our interest to ensure that we provide the appropriate rewards and opportunities for development so that people feel engaged with the Company.

In 2013 ITV carried out an engagement campaign consisting of a series of roadshows during which the Management Board visited ITV locations. This gave employees an opportunity to feed back their thoughts and concerns about the business. Engagement was reinforced through forums such as the intranet, regular hard copy newsletters and briefings between management and its teams. These channels enabled employees to understand the financial and economic factors affecting the Company's performance, how their role contributed towards the execution of the strategy and how they could benefit from company success through involvement in employee share schemes and information on their rights and benefits.

We have continued to measure and listen to employees through employee surveys and employee engagement has increased again in 2013 to 91% (2012: 88%) with 93% of respondents proud to work for ITV.

Governance

Directors' Report continued

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 defined benefit (DB) sections are closed to new members but are still open to future accrual.

ITV Pension Scheme Limited is a corporate trustee and manages the DB and DC assets of the Scheme, which are held under trust separately from those of the Group. Members of the trustee board are formally appointed as directors of ITV Pension Scheme Limited. There are nine directors including the chairman – five appointed by the Company and four nominated by the members.

A member nomination selection process took place during June 2013 and on 1 July 2013, one trustee was reappointed and two new trustees were appointed. There is currently a vacancy for a company appointed director.

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. It is the responsibility of the trustee to have in place appropriate training for its directors and effective committee structures. 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.

The trustee directors receive regular training throughout the year and also have the support of the various professional advisers. The chairman and the pensions executive identify training opportunities. Training is delivered both by attendance at external courses and with targeted training to support specific agenda items at the start of each trustee board meeting. Where appropriate, longer training sessions are organised. Comprehensive records are kept of all training completed by each trustee director and training is discussed as part of the trustee evaluations conducted on an annual basis.

The trustee board completes regular assessments of its advisers and has prepared a Service Charter that outlines the terms of the appointment and clarity on the services provided. The aim of the document is to support the ongoing monitoring of the adviser or services provider and will be introduced as they are reviewed and appointed. During 2013 The Scheme Actuary and Investment Consultant were

reappointed and the DC Investment Platform provider was replaced.

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 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 determines the point at which the new duties affect their organisation (the 'staging date'). ITV had a staging date of 1 March 2013 however, in line with permitted legislation ITV postponed auto-enrolment until 29 May 2013 when eligible employees were enrolled into the ITV Auto-enrolment Pension Plan.

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 2013 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.

For further information please see page 50 and note 3.7.

Health and safety

The Health and Safety (H&S) of our employees, contractors and visitors 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

	2013	2012
Lost time accidents reported under RIDDOR	2	5
Major accidents (as defined by RIDDOR)	0	3
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.

The statistics are for UK permanent and fixed-term employees.

For more detail on the Company's health and safety management system and implementation visit our Corporate Responsibility website.



www.itvplc.com/responsibility

Greenhouse Gas emissions

The Company is required to report annually on the quantity of carbon dioxide emissions in tonnes emitted as a result of activities for which it is responsible, our Greenhouse Gas emissions.

All new regulatory data for the financial year ended 31 December 2013 is disclosed below for direct and indirect emissions. Data on other emissions where available and more information on our energy use, environmental impacts, and how we aim to make a positive difference can be found on our Corporate Responsibility website.



www.itvplc.com/responsibility

Our total Greenhouse Gas emissions

Indicator	2013
Total gross CO ₂ e emissions	43,485 (tCO ₂ e)
Scope 1: Direct emissions	17,117 (tCO ₂ e)
Scope 2: Indirect emissions	26,368 (tCO ₂ e)
Total Revenue	£2,753m
Emissions per unit/£m turnover	15.8 (tCO ₂ e)

Source: Utiylix analysis of ITV data.

The latest conversion factors specified in Defra and DECC's 2013 guidance were used as methodology. 44% of our data consumption is based on estimate. This is where we are the occupier of a property but do not pay the energy bills directly. Estimates are calculated from observed ITV consumption intensity and published benchmarks where relevant.

Risk management

Details of our High Impact Low Likelihood (HILL) and Strategic risks and our approach to risk management are set out on pages 52 to 55.

Going concern

The going concern statement is set out on page 115.

Auditor

KPMG has instigated an orderly wind-down of KPMG Audit Plc as a result of an internal reorganisation and requested that going forward the audit is instead undertaken by KPMG LLP (an intermediate parent of KPMG Audit Plc). KPMG Audit Plc will not therefore be seeking reappointment as auditor of the Company and in accordance with the Companies Act 2006, a resolution proposing the appointment of KPMG LLP as our auditor will be put to the 2014 AGM.

Annual General Meeting

The AGM will be held on Wednesday, 14 May 2014 at 11.00 am at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London, SW1P 3EE. The Notice of the AGM contains an explanation of special business to be considered at the meeting.

A copy of the Notice will be available on our website.



www.itvplc.com/investors/annual-general-meeting

Governance

Directors' Report continued

Directors' Responsibilities

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

Each of the Directors, whose names and functions are listed on pages 58 and 59, confirm that, to the best of their knowledge:

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

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

The Board has conducted a review of the effectiveness of the Group's systems of internal controls for the year ended 31 December 2013. In the opinion of the Board, the Company has complied with the internal control requirements of the UK Corporate Governance Code throughout the year, maintaining an ongoing process for identifying, evaluating, and minimising risk. Further information is set out in the Audit Committee Report on page 79.

By order of the Board

Andrew Garard

Company Secretary
26 February 2014

ITV plc

Registered number 4967001

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.

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 Strategic Report, 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.

Chairman's Governance Statement



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

Dear Shareholder,

The Board believes that a high standard of corporate governance is a key contributor to the long-term success of the Company.

The Board remains committed to ensuring that a combination of good leadership and the highest standards of corporate governance is maintained through a combination of a robust internal framework of systems and controls underpinned by the right values and culture. This framework of policies and processes is regularly reviewed against developments in the legislative, regulatory and governance landscape.

This governance report comprises the following sections:

- How the Board works
- Effectiveness
- 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 and exercises a degree of rigorous enquiry and intellectual debate. This serves to promote continuous and sustained improvement across the business.

The Board consisted of a majority of independent Non-executive Directors throughout the year. Further details of our Board composition and appointments are set out in the Governance Report.

In addition to scheduled formal Board and Committee meetings, there are meetings for cross interaction among the members of the Board, Management Board, Senior Independent Director, Non-executive Directors and myself. These meetings provide a sense of value added from the engagement of the Board members in all their interaction with the Company, formal or otherwise. In 2013, the Board continued its programme of visiting different areas of the business. This year the Board members took a trip to Stockholm where they met with colleagues to discuss our continuing growth in the Nordic region. The Company has a policy and programme for induction and continuing professional development for Directors. On appointment each Director takes part in a comprehensive induction programme. To enhance performance and effectiveness, the Board has established a process for the annual development of the Board, its committees and individual Directors.

We remain committed to sharing our business vision with our shareholders by maintaining regular open dialogue and effective communication. We believe that continued engagement with our shareholders is highly beneficial to all parties as it helps to build a greater understanding of our investors' views, opinions and concerns.

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 (the Code).

I am pleased to report that ITV has complied with the provisions of the Code throughout the year ended 31 December 2013.

Archie Norman

Chairman
26 February 2014

Governance

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.



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 70. 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 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. Board meetings are structured around the following areas:

- Operational and functional updates
- Financial updates
- Strategy and risk
- Progress against strategy
- 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
- Senior Independent Director and Non-executive Directors (without the Chairman present)

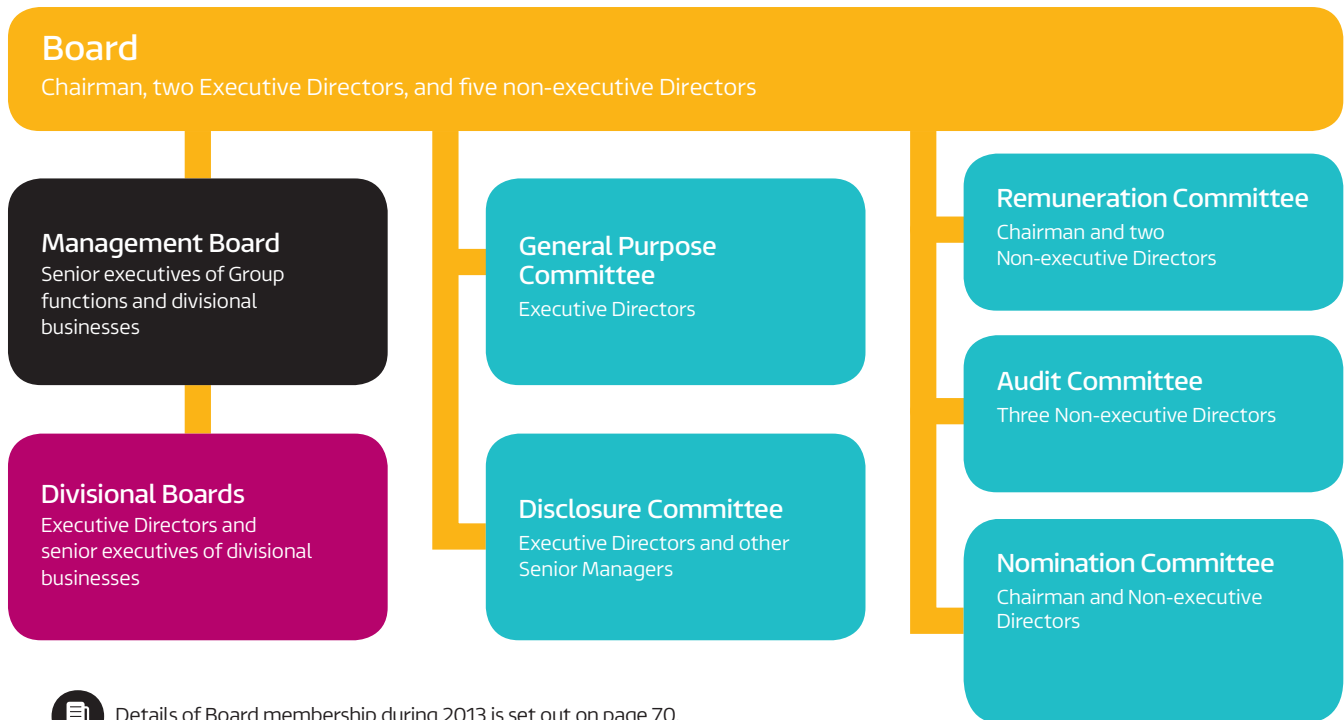
What have we focused on during 2013?

- UK and international content strategy
- Broadcast strategy
- Risk appetite, profile and mitigation
- Five year strategy review
- Succession planning
- Governance and board performance

Our plans for 2014?

- Next iteration of the five year strategy
- Pension investment strategy
- Property strategy
- Risk appetite, profile and mitigation
- Succession planning
- Governance and Board performance

Our Governance structure



The diagram above shows ITV's governance structure.

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

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

Composition and appointments

In June 2013 the Board appointed Sir Peter Bazalgette as a Non-executive Director. Peter was selected from a number of potential candidates. The Board felt that Peter's wealth of experience in media consultancy, digital media and as a former television producer would be an asset to the Board assisting with the execution of the business strategy. 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 was asked by the Board to continue in this position for a further twelve month period. He stepped down from the Board on 31 December 2013. Andy Haste was appointed as Senior Independent Director in his place.

As recommended by the Code, there will be resolutions to elect or re-elect each of the Directors at the AGM in May 2014.

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.

www.itvplc.com/about/governance

Skills and experience

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.

Biographical details for the Directors are set out on pages 58 and 59.

Governance

Corporate Governance continued

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 2013

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

	Status	Notes	Date of appointment to the Board	Board		Nomination Committee		Remuneration Committee		Audit Committee	
				Scheduled	Ad hoc	Scheduled	Ad hoc	Scheduled	Ad hoc	Scheduled	Ad hoc
				11	1	2	1	5	1	5	2
Peter Bazalgette	Independent	1	1 June 2013	7	1	1	–	–	–	–	–
Mike Clasper	Independent SID		3 January 2006	11	1	2	1	5	1	5	1
Adam Crozier	Executive		26 April 2010	11	1	–	–	–	–	–	–
Roger Faxon	Independent	3	31 October 2012	11	1	1	1	–	–	–	–
Ian Griffiths	Executive		9 September 2008	11	1	–	–	–	–	–	–
Andy Haste	Independent		11 August 2008	11	1	2	1	5	1	5	1
Lucy Neville-Rolfe	Independent	2, 3	3 September 2010	11	1	1	1	–	–	4	2
Archie Norman	Independent Chairman		1 January 2010	11	1	2	1	5	1	–	–
John Ormerod	Independent		18 January 2008	11	1	2	1	5	1	5	2

1. Peter Bazalgette joined the Board on 1 June 2013. Four of the 11 scheduled Board meetings were held prior to his appointment.

2. Lucy Neville-Rolfe was appointed to the Audit Committee on 1 May 2013 and so did not attend the meeting held prior to this.

3. Non-attendance at Nomination Committee was due to Board meeting overrun and unavoidable other commitments.

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.



www.itvplc.com/about/governance

Audit Committee



See the Audit Committee Report on page 75

Remuneration Committee



See the Remuneration Report on page 82

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.

The Company also has the following Committees:

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 the Executive Directors and other 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.

Effectiveness

Evaluation

The Board has established an ongoing evaluation and development process. The process focuses on roles and responsibilities, culture, balance of skills and experience, diversity and how the Board works together. In particular, it focuses on how effective the Directors are in assisting the executive team in achievement of the strategy.

At the end of 2012 the Board embarked on a comprehensive Board Development Programme facilitated by Gurnek Bain of YSC, a global firm of business psychologists. This included a rigorous assessment of performance, agreement on the Board's aspirations for itself and identification of steps required to achieve its objectives. Over the past 12 months each board member has had access to feedback and advice from YSC to help develop their own performance and the Board has held a number of collective discussions to review and agree on progress. At the end of the process further feedback was given and a programme for future development was agreed. It is ITV policy to ensure that all board members have continued access to coaching, feedback and support, and a further healthcheck review will be undertaken on the anniversary of the completion of the programme in 2014.

YSC have also been involved in supporting the review of the board make up and composition. They have no other connection with the Company.

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 annual re-election by shareholders as recommended by the Code.

0–2 years

25%



2–4 years

37.5%



4–7 years

37.5%



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.
- Apprentice Programme.

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

Governance

Corporate Governance continued

Diversity

It is the Board's policy to retain a strong but relatively small board bringing a balance of in depth commercial and creative experience. Although given the size of the Board specific formulaic targets are not appropriate it is our intention to increase the gender and ethnic diversity of board membership as opportunities arise.

Diversity within the organisation is integral to achieving our business aims. Reflecting the demographics of our customers and understanding their needs ensures that our brand, services and products are accessible, inclusive and have wide appeal.

The Company's aim is to represent our society both within the organisation and on-screen. Year-on-year progress has been achieved in working towards this target. Key activity in 2013 included:

- Diversity awareness training for line managers, supervisors and programme makers.
- Sustaining programme portrayal monitoring across 75% of our programmes.
- Workshops across the country to support future generations of diverse talent from Black, Asian, Minority Ethnic and individuals with disabilities.
- Developing and maintaining partnerships with external organisations to support and recognise diverse talent. For example, partnering with the inaugural Asia Media Awards and working with government to deliver the first ever Disability Confident conference to FTSE 100 companies.

Induction

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 Chief Executive 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

Additional specific induction programmes are in place when Non-executive Directors join committees.

Continuing professional development

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. For further information on board development see the Evaluation section on page 71.

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.



www.itvplc.com/about/governance

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.



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 2013.

Private shareholders represent more than 95% of our shareholders holding 3.36% of our shares. We encourage shareholders to register their email addresses to receive information from us in a timely manner.

Governance

Corporate Governance continued

Annual General Meeting (AGM)

The AGM will be held on 14 May 2014 (further details can be found on page 65). The Notice of Meeting sets out the resolutions being proposed. The Notice, together with any related documents, is made available to shareholders on or website 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 93% to 100%.



www.itvplc.com/investors/annual-general-meeting

In 2013 the meeting was attended by 131 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 as soon as possible after the meeting.



www.itvplc.com/investors/annual-general-meeting

Shareholders who are not able to attend the meeting can vote online in advance via our website or by completing and returning a form of proxy.

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

Audit Committee Report

In this report . . .

The purpose of this report is to highlight areas that the Committee has reviewed during the year, reporting back to shareholders the significant financial reporting issues and judgements made in connection with the preparation of the Company's financial statements. The report also notes any areas or specific topics, such as risk, that the Committee has reviewed. Also highlighted is how the Committee has assisted the Board in reviewing the Company's internal control environment, and what the Committee has done to review the effectiveness of both internal and external auditors. This year the report addresses the changes in the UK Corporate Governance Code by describing in more detail what the Committee does, and what processes and controls are in place to help ensure that the annual report presents a fair, balanced and understandable view of the business.



“We seek not just to respond to changes but to support and challenge management to develop controls as they anticipate future opportunities and risk.”

Dear Shareholder,

On the following pages we set out the Audit Committee's Report for 2013. The report comprises four sections:

- How the Committee works
- What we focused on in 2013
- Internal controls
- Our auditors

Strong and effective risk management and control procedures underpin our ability to execute and implement our strategy. The principal aims of the Committee are to support the maintenance and continuing development

of a strong control environment across ITV and to ensure the integrity of the financial information provided to our shareholders. We do this in the context of a business with ambitious plans and a growing international footprint.

We seek not just to respond to changes but to support and challenge management to develop controls as they anticipate future opportunities and risks.

As requested by the Board, the Committee has considered the processes and controls in place to help ensure that the annual report presents a fair, balanced and understandable view of the business. As a result of this work the Committee concluded that the processes and controls were appropriate and was able to provide positive assurance to the Board.

In reporting to you, we have sought to respond to shareholders' changing requirements and expectations of audit committees. This is no doubt the start of improved communication between audit committees and shareholders and we welcome feedback.

John Ormerod

Chairman, Audit Committee
26 February 2014

Who is on the Committee

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

- John Ormerod (Chairman)
- Andy Haste
- Lucy Neville-Rolfe (appointed 1 May 2013)

Mike Clasper stepped down from the Board and as a member of the Committee on 31 December 2013.



Full details of **attendance at committee meetings** can be found in the table on page 70

Governance

Audit Committee Report continued

How the Committee works

The Committee members have between them a wide range of business and financial experience 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 qualification and experience, are set out on pages 58 and 59

The Chief Executive, Group Finance Director and internal and external auditors attended meetings during the course of the year at the invitation of the Chairman of the Committee. Members of the Management Board and other senior management have attended certain meetings by invitation. The Committee as a whole has regular private sessions with both internal and external auditors and also, when appropriate, with the Group Finance Director.

In addition, throughout the year the Chairman of the Committee has individual sessions with other Committee members and 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 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, themes or areas of risk that the Committee has identified, together with standing items that the Committee is required to consider regularly under its terms of reference. Reports are provided by management, internal audit, and external audit, addressing the key risks and reporting matters faced by the Group. Following each meeting the Committee communicates its main discussion points and findings to the Board.

In addition to formal meetings, from time to time, Committee members have informal briefings on topics relevant to the Committee's work from members of the operational and financial management teams and external auditor.

In reviewing the various topics on its agenda the Committee members receive input from management, internal audit and external audit as appropriate. Committee members draw upon this and their own experience to provide a constructive challenge to the judgements made by management and consider alternative scenarios or accounting treatments in reaching their conclusions.

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 published financial information of the Company (having regard to matters communicated by the auditor);
- review the consistency of, ongoing appropriateness of, and changes to, accounting policies, consider the methods used to account for significant or unusual transactions;
- review the effectiveness of the internal control and risk management processes;
- review the Group's whistleblowing process for employees;
- review and approve the internal audit plan;
- monitor and review the effectiveness and independence of the internal audit function;
- monitor and review the effectiveness of management in addressing internal and external audit actions;
- review the quality and effectiveness of the external audit and the procedures and controls designed to ensure auditor independence;
- consider and make recommendations to the Board in relation to the appointment, reappointment, replacement, and remuneration of the Company's external auditor; and
- where requested by the Board, provide advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Committee's terms of reference can be accessed on our website.



www.itvplc.com/about/governance

What we focused on in 2013

In planning its own agenda, and reviewing the audit plan of the internal and external auditor, the Committee takes account of significant issues and risks, both operational and financial, likely to impact on the Company's financial statements. The Committee also addresses specific queries referred to it by the Board or Remuneration Committee. In 2013, the Remuneration Committee asked the Committee to report by exception on significant unusual or non-recurring transactions which came to its attention and the effect of which the Remuneration Committee may wish to consider in connection with its assessment of remuneration.

An annual review of the performance of the Committee was conducted for the year. In addition to feedback from members of the Committee, input was sought from the Group Finance Director, KPMG, internal audit and the Chairman of the Board. Overall, the review concluded that the Committee is responding appropriately to its terms of reference and will continue to develop its role.

Below is a summary of some of the more significant risks and issues discussed in the year by the Committee.

During 2013 there were no topics where there was significant disagreement between management, our external auditor and the Committee or unresolved issues which needed to be referred to the Board.

Technology Risk

As the Group has progressed through the strategy, the technology infrastructure supporting the business has evolved to support the rebalancing of the business opportunities from new revenue streams and the production business. Legacy systems supporting the existing business remain in place, while emerging technology has been adopted to support new opportunities. It is therefore important to have in place an effective technology governance framework that seeks to address the risks posed by the Group's technology environment. The governance framework, which is reviewed by the Committee, seeks to identify and manage key risks and provide oversight and methodologies around governing change and major projects.

In 2012 reviews by internal and external audit highlighted a number of opportunities to improve the governance of our core systems. The Committee and management agreed a set of actions and a workplan to address these, most of which were completed by the end of 2013. Work will continue to finalise remaining actions which will be kept under review by the Committee and internal and external audit.

The Group has a technology governance and assurance team who ensure a coordinated approach is in place to mitigate the risks faced in technology. In 2013 two key high risk areas were reviewed by the Committee:

- As part of a wider end-to-end review of the broadcast transmission infrastructure (including interaction with third party outsource providers), the incident management and governance processes were revisited, and a number of changes were agreed for implementation.
- There has been significant media coverage of the recent increase in attacks on corporate infrastructure. Examples of such issues include the loss of customer data due to hacking and the disruption of corporate social media feeds. In response to these cyber security threats, the Committee discussed management's assurance plans around information security and technology infrastructure.

Financial Reporting

As part of the Committee's review of the interim and year-end financial statements, the following were discussed:

Complex discrete transactions in the year

The Group completed certain transactions during the period which were outside the normal course of business. The Committee carefully reviewed these one-off transactions to ensure that the judgements applied by management were reasonable and any complex accounting guidance followed correctly. The topics discussed in the year covered acquisitions, debt settlements and large property acquisitions.

Acquisition accounting (see note 3.4 for details of acquisitions): following the acquisition of four businesses during the year, the Committee debated the accounting for the key areas of judgement: the determination of whether ITV has control of the entity and should therefore consolidate its accounts in the Group's accounts, the presentation of performance-related contingent payments or earn-out costs in the income statement, and determining the fair values of the net assets acquired:

- **Control:** this was particularly relevant for acquisitions that were structured so that the Group acquired a majority equity interest in a company, but less than 100%. The Committee debated ITV's majority representation, control of budgets and decision-making power on the new boards and concluded that the Group does control each of the businesses acquired.
- **Performance-related consideration and earnouts:** the Group's acquisitions include an amount which is payable

Governance

Audit Committee Report continued

based on future performance of the business. Structuring the acquisition this way helps manage risks in terms of initial capital outlay and creates a joint incentive between ITV and the previous owners to grow the business. This is a feature that is common for acquisitions in the creative industry. Where the payment is also linked to employment, IFRS requires it to be accrued as a remuneration operating cost over the period to payment. The Committee debated the presentation of the transaction and concluded that these costs are linked to a capital transaction and their size and nature warrants them being excluded from underlying earnings (adjusted profit). Once acquired and the earnout period has been completed, operational salary and bonuses payable to the sellers are treated as part of operating costs.

- **Intangibles:** the Committee reviewed the results of the exercise to allocate the purchase price between intangible assets and goodwill and agreed with management's allocation.

Debt settlements: as part of management's continued efforts to improve the balance sheet and remove remaining expensive debt, the Group repurchased significant debt in the year. Accounting for these repurchases, though complex, required little judgement. However, due to the significant loss of £61 million the Committee sought to ensure the accounting standards had been applied correctly. The Committee considered the source of the inputs management used in calculating the amount of loss to be recognised and concluded that the accounting was appropriate.

Acquisition of the London Television Centre: the Group acquired its headquarters in January. The Committee discussed the analysis undertaken by management to allocate the purchase price between the value of the land and building, which is required by the new accounting standard on fair value measurements. Real estate consultants were engaged to provide an estimate of the land value. The Committee considered the results of the exercise and agreed with management's allocation (see note 3.2).

Recurring transactions in the year

There are a number of areas where the Group transacts as part of its business as usual. However, these areas may require the application of judgement by management or have underlying complexity that should be considered on an ongoing basis by the Committee. Consequently, the topics noted below are regularly reviewed by the Committee:

Revenue: every year the Committee considers management's assessment of the Group's internal controls framework, which includes control over revenue. The Group's processes and controls around existing revenue streams, such as NAR and Studios revenues, have remained consistent and effective during the year.

As new revenue streams emerge – which has been seen in areas such as the Online, Pay & Interactive business – the Committee reviews policies adopted by management to recognise revenue and considers the related controls. The policies and controls adopted in 2013 are consistent with prior years and are considered appropriate by the Committee. No changes have occurred during the year.

Deal debt: deal debt is where management provides for over/under delivery of advertising value to agencies. The Committee reviews management's approach and method of determining the provision required and ensures consistency is applied in estimating inputs. The Committee is satisfied that the provision has been calculated on a consistent basis with prior years.

Royalty accruals: the Group is required to make royalty payments for content broadcast and distributed. Such payments are in accordance with individual contracts, and the large variety of terms results in a complex and manual process. As part of the agreed 2013 plan, internal audit reviewed the controls around the royalty accrual process without significant finding. As with previous years, the Committee considered the estimated accrual to be reasonable.

Pension accounting: the Group's defined benefit pension scheme is a significant liability on the Group's balance sheet (see note 3.7) and the value of the scheme will fluctuate due to changes in underlying assumptions. The main assumptions which drive these fluctuations include the forecast bond yield rates and the forecast inflation rate. A particular feature affecting 2013 has been the valuation of a longevity swap. A recent change to IFRS has required the swap to be recorded at fair value on a different basis from the best estimate of value on which the swap was previously recorded. The Committee considered both the process management undertook to finalise the assumptions, and how these assumptions benchmark against the market. In particular, because of the size of the valuation adjustment to the longevity swap of £95 million, the Committee confirmed the changes in IFRS had been appropriately applied with our auditors and the sources of information on which the recorded valuation was based. The Committee concluded that that the process was robust and the resulting calculation appropriately balanced.

Tax: the Group recognises certain provisions and accruals in respect of tax. The Committee debates the nature and key risks which give rise to corporate tax, payroll and VAT issues, and discusses the activities management undertake to resolve the matters that give rise to such provisions. Where support from our tax advisers is received, the results and views of their work are also reviewed. The Committee concluded that the provisions at the year-end were appropriate (see note 2.3).

Risk Management

The Committee continued to consider the process for managing risk within the business.

Every year the Board and senior management review and challenge the Group's High Impact Low Likelihood (HILL) risks, and the strategic risks. Each risk is assigned an owner and has a series of mitigating actions identified. An updated list of risks is included within the Strategic Report on pages 53 to 55.

For each HILL risk the Committee reviewed the Group's current level of exposure and considered the appropriateness of the mitigating actions being taken by management.

The Committee also considered management's response to each strategic risk, including the level of assurance provided around the risk and how the risk is tracked using key risk indicators. With regard to process risks the Committee reviewed how effective management was in addressing the findings of internal and external audit, as well as the method by which management accepted process risks.

The Committee was comfortable with the processes in place for risk management, that the internal audit plan for 2014 was aligned to the highlighted risks and with those process risks that have been accepted.



Read more on risk management in the Risks and Uncertainties section on page 52

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, along with an update of the Group's performance against strategic KPIs and cash. Actual results are compared to budget and forecasts, and key trends and variances are 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.
- 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.
- Data analytics:** during the year the Group implemented a suite of automated analytics tests that enables the Group to continuously highlight exceptions from the norm over its transactional financial data. Going forward, this will make the control environment stronger and more efficient.

Governance

Audit Committee Report continued

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, which adheres to the underlying principle that they cannot implement controls that they audit. During the year Deloitte provided the Group with advice on remuneration policy and the external remuneration environment. Other services included tax and corporate finance advice.

The effectiveness of internal audit is assessed over the year using a number of measures which include (but are not limited to):

- an evaluation of each audit assignment completed using feedback from the part of the business that has been audited; and
- a high level annual review that is completed by obtaining feedback from senior management in each division.

At the start of the year the Committee considered and approved the internal audit plan, which included audits across the Group as well as assurance over live projects. During the year the Committee reviewed findings from these internal audit reports, the actions taken to implement the recommendations made in the reports and the status of progress against previously agreed actions. All internal audit reports are available to the Committee as required.

External auditor

Auditor engagement

Throughout the year the Committee receives reports from the auditors on their plans and the progress and results of their work.

The Committee considers carefully the scope of planned work and the assessment of risk and materiality on which it is based. In particular the Committee reviews the audit fee arrangements to ensure that there is an appropriate balance between the scope of work and the cost of assurance. The Committee's aim is to support a robust and effective audit and strong reporting lines to the Committee.

In 2012 the Committee conducted a tender process for external audit services, the main outcome of which was the reappointment of KPMG, and a plan for the development of the external audit approach over a two to three year period.

The principal planned changes agreed were that:

- the scope of the external audit will consider developments in certain areas of the business earlier than otherwise might have been considered necessary on a traditional assessment of financial materiality, such as certain online revenues and controls over and at smaller overseas acquisitions ; and
- the data analytics implemented by management as part of the internal control initiatives will allow for all year round routine audit tests through exception reporting, making the control environment both stronger and more efficient. Further, the embedded technology will support internal and external audit's systems evaluation and testing.

The Committee continues to monitor the implementation of these changes.

Auditor effectiveness

Audit quality is reviewed throughout the year with the focus on: strong audit governance; the firm's methodology and its effective application to ITV; robustness of challenges and findings on areas which require management judgement; and the quality of the senior members of the audit team.

In particular, the effectiveness of the audit is assessed over the year using a number of measures including (but not limited to):

- reviewing the quality and scope of planning of the audit and its responsiveness to changes in our business;
- implementation of planned improvements identified in the audit tender process;
- monitoring the independence and transparency of the audit;
- reviewing the Financial Reporting Council's Audit Quality Review (AQR) reports for KPMG and other audit firms; and
- seeking feedback from KPMG on any external or internal quality review of our audit.

At the conclusion of each year's audit the Committee performs a specific evaluation of the performance of the external auditor. This is supported by the results of questionnaires completed by the Executive Directors and relevant senior management, both finance and non-finance, covering areas such as quality of audit team, business understanding, audit approach and management. Where appropriate, actions are agreed against the points raised and subsequently monitored for progress. There were no significant findings from the evaluation this year and the Committee considers the external audit to have been robust and effective.

Independence, objectivity and fees

The Committee seeks to ensure the objectivity and independence of our auditors through:

- focus on the assignment and rotation of key personnel;
- the adequacy of audit resource; and
- policies in relation to non-audit work.

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 for 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.

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 our website.



www.itvplc.com/about/governance

Other than in exceptional circumstances management and the Committee do not expect non-audit fees to be in excess of fees for audit and audit related services. The non-audit fees for 2013 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. No changes have been made to the policy during the year.



Details of the related audit and other services are set out in note 2.1 on page 123

The significant non-audit engagements related to VAT and corporate tax services, including tax advice. Significant engagements require the prior approval of the Chairman 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 2013. The resolution was passed and KPMG Audit Plc was reappointed for a further year.

KPMG has instigated an orderly wind-down of KPMG Audit Plc as a result of an internal reorganisation and requested that going forward the audit is instead undertaken by KPMG LLP (an intermediate parent of KPMG Audit Plc). KPMG Audit Plc will not therefore be seeking re-appointment as auditor of the Company and in accordance with the Companies Act 2006, a resolution proposing the appointment of KPMG LLP as our auditor will be put to the 2014 AGM.

Governance

Remuneration Report

In this report . . .

The purpose of this report is to set out for shareholders the principles and policy we apply to remuneration for our Executive Directors and to update you on how we have applied these for the financial year ended 31 December 2013. The report also aims to demonstrate how our remuneration policy is aligned to our strategy, supports the retention of the Executive Directors and rewards them for outperformance.

This report is subject for the first time to amended legislation on remuneration and we will be asking our shareholders at the 2014 AGM to approve our:

- Remuneration policy as set out on pages 85 to 92. This will be a binding vote.
- Annual Report on Remuneration as set out on pages 93 to 101. This will be an advisory vote.

We would encourage our shareholders to provide us with feedback if they feel we could provide more clarity in our reporting.



“Rewarding the Executive Directors for continuing to deliver strong business performance and shareholder value is key to ITV’s continued success.”

Dear Shareholder,

On the following pages we set out the Remuneration Report for 2013. Our report looks quite different this year as we are required for the first time to comply with new UK regulations on the disclosure of directors’ remuneration.

Remuneration review

During 2013 we undertook an extensive review of our approach to remunerating Executive Directors. As a result of this review we will be asking our shareholders to support three resolutions on executive remuneration matters at our AGM in May 2014:

- We will be seeking shareholder approval for a new Long Term Incentive Plan (new LTIP).
- We will be asking our shareholders to formally approve our remuneration policy for the first time.
- We will be holding an advisory vote on our Annual Report on Remuneration.

We have consulted extensively with our major shareholders on these proposals and where appropriate their comments have been reflected.

Objectives for the remuneration review

The principal objective of the review was to ensure that the remuneration framework remains aligned with the strategy of the business as ITV moves into the next phase.

The current remuneration arrangements were put in place for 2011 when the Board set out to build a top calibre, highly motivated team to lead the renewal of ITV and have strongly supported the strategy over this time. Performance has been outstanding and delivered real value to shareholders over the period to 31 December 2013, including:

- Share price growth of 177% (around 40% per annum).
- £5.1 billion of additional value to shareholders.
- Significant outperformance of the FTSE 250 and FTSE 100.

The Committee wants to ensure that the remuneration framework continues to incentivise and reward strong business performance and shareholder value during the next phase of the strategy, and acts as a retention tool to retain the key management team that has delivered outstanding performance to date.

Summary of the key changes

The adjustments to remuneration strategy include the following elements:

- **Simple to understand** – We heard that going forward shareholders wanted us to adopt a simpler approach to remuneration. We have therefore removed the link between the voluntary deferral of annual bonuses and long-term incentive award levels.
- **Performance measures aligned to the next phase of our business strategy** – Our new LTIP will ensure that the continued delivery of our strategy is rewarded. We have amended the performance tests to reflect strategic challenges and align them more closely with the continuing evolution into a more balanced business.
- **Increased shareholding guidelines** – We have increased the minimum shareholding requirements for our Executive Directors. The combination of executive shareholding requirements, deferred annual bonuses and share-based long-term incentives will strongly align executive incentives with shareholder value.
- **Longer holding periods** – Reflecting the preference of the Committee and our shareholders, we are also introducing an additional two year holding period for awards under the new LTIP. This will be phased in over the next two award cycles.
- **Adjusted salaries to reflect the size and complexity of the Executive Director roles** – Our remuneration policy for Executive Directors has been, and will continue to be, that salary increases will generally follow those of the wider employee population. This approach has been adopted since their appointment. During that time the shape and size of the business has changed significantly and performance has been strong. We have therefore increased base salaries to reflect increased responsibilities, performance, marketability and the challenges ahead. Following these increases it is our intention to return to normal policy in 2015. We have also increased pension allowances in the year to reflect

the levels of pension provision provided to Executive Directors in comparable organisations.

- **Provide market competitive levels of remuneration comparative to performance** – We are proposing to increase long-term incentive opportunities to levels that reflect the current size and challenge of the Executive Director roles, the level of performance delivered and the current size of the Company.
- **Performance targets set at stretching levels to reflect business outlook** – Performance target ranges will continue to be set at levels that reward strong business performance. The level of vesting for threshold performance has been reduced, reflecting the increased award levels. When considering performance outcomes the Committee will look beyond formulaic results to ensure the outcomes align with the overall business performance.

The Committee has been thoughtful about the combined value of all of the proposed changes, as well as the individual elements. In summary, the overall remuneration packages are intended to support the retention of the Executive Directors in the business and to reward them for continuing to deliver strong business performance and shareholder value.

The increase in total remuneration for the Chief Executive from 2012 to 2013 results from the vesting of his joining award in 2013, together with the first vesting under a PSP award since he joined ITV. The level of vesting of both awards reflects the outstanding performance to date and a significant increase in share price.

Further details are provided in our remuneration policy.

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

We look forward to receiving your support for all three resolutions at our forthcoming AGM.

Andy Haste

Chairman, Remuneration Committee
26 February 2014

Governance

Remuneration Report continued

Who is on the Committee

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

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

Mike Clasper stepped down from the Board and as member of the Committee on 31 December 2013.



Full details of **attendance at committee meetings** can be found in the table on page 70

How the Committee works

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 Executive Directors, Management Board and other senior executives (together the Senior Executive Group);
- approve the design of the Company's annual bonus arrangements and long-term incentive plans, including the performance targets that apply for the Senior Executive Group; and
- determine the award levels for the Senior Executive Group based on performance against annual bonus targets and long-term incentive conditions.

Principles considered when setting remuneration

The Company operates in the particularly competitive media market. We aim to balance the need to attract and retain 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 the prevailing best practice and a fair outcome for investors.

A significant proportion of the remuneration package is tied to the achievement of stretching performance conditions which align remuneration with our strategy to deliver strong business performance and create shareholder value. Individuals should be rewarded for success and performance measured over clear timescales. The remuneration package is focused on rewarding sustained long-term performance and aligning executives with the shareholder experience.

What we did in 2013?

In addition to the remuneration review described in the Chairman's letter, during 2013 our work was broadly in four areas:

Setting targets

- setting the business and personal performance targets for 2013 annual bonuses aligned with the business plan for the year;
- setting the performance targets that would apply to the ITV Performance Share Plan (PSP) awards made in 2013; and
- carrying out a preliminary review of annual bonus targets for 2014.

Reviewing outcomes

- reviewing the annual bonus outcomes and award levels for 2012 and indicative 2013 outcomes ahead of final approval in 2014; and
- approving the performance outcomes of the 2010 awards under the PSP, including the awards made on recruitment to Adam Crozier.

Reward framework

- agreeing the base salaries for the Senior Executive Group with effect from 1 January 2013 using the same process as applied to the wider employee population;
- reviewing the pension allowances provided to Executive Directors;
- agreeing the remuneration packages for new appointments to the Senior Executive Group and the arrangements for any leavers from this group; and
- agreeing a new remuneration framework and new LTIP as set out in the Chairman's letter.

Governance

- considering the final BIS regulations on executive pay and how these will be integrated into the future remuneration strategy; and
- agreeing the Remuneration Report for 2012, prior to its approval by the Board, and approval by shareholders at the AGM in May 2013.

The Committee reports regularly to the Board on its work.

An annual review of the performance of the Committee was conducted. Feedback was also sought from the Chief Executive, Group HR Director and Deloitte. Overall the review concluded that the Committee is responding appropriately to its terms of reference and will continue to develop its role.

Remuneration policy

The table below summarises the main elements of the remuneration packages for the Executive Directors and will be effective from the date approved by shareholders and will apply until shareholders next consider and vote on the policy.

Fixed Elements	Purpose and link to strategy	Operation	Maximum potential payment	Performance Metrics
Base Salary	<p>Reflects the individual's skills, responsibilities and experience.</p> <p>Supports the recruitment and retention of Executive Directors of the calibre required to deliver the business strategy within the competitive media market.</p>	<p>Reviewed annually and paid monthly in cash.</p> <p>Consideration is typically given to a range of factors when determining salary levels, including:</p> <ul style="list-style-type: none"> • Personal and Company-wide performance. • Typical pay levels in relevant markets for each executive whilst recognising the need for an appropriate premium to attract and retain superior talent, balanced against the need to provide a cost-effective overall remuneration package. • The wider employee pay review. 	<p>There is no maximum salary increase. However, ordinarily salary increases will be in line with the average increase awarded to other employees in the Company.</p> <p>Increases may be made above this level to take account of individual circumstances, which may include:</p> <ul style="list-style-type: none"> • Increase in size or scope of the role or responsibility. • Increase to reflect the individual's development and performance in role. 	<p>None, although overall individual and business performance is considered when setting and reviewing salaries.</p>
Provision for an income in retirement	<p>To provide competitive post-retirement benefits or cash allowance as a framework to save for retirement.</p> <p>Supports the recruitment and retention of Executive Directors of the calibre required to deliver the business strategy within the competitive media market.</p>	<p>Executives can choose to participate in the ITV defined contribution scheme, receive a cash allowance or receive payments into a personal pension or a combination thereof.</p> <p>Contributions are set as a percentage of base salary.</p> <p>Post-retirement benefits do not form part of the base salary for the purposes of determining incentives.</p>	<p>The maximum contributions or cash allowances for the Executive Directors are 25% of base salary.</p>	<p>None</p>
Benefits	<p>Ensures the overall package is competitive and provides financial protection for employees and their families.</p>	<p>The Company provides a range of market competitive benefits including travel related benefits, private medical insurance and other insurance benefits.</p> <p>Additional benefits may also be provided in certain circumstances, if required for business need. For example (but not limited to), relocation expenses, housing allowance and education support.</p>	<p>Set at a level which the Committee considers to be appropriately positioned taking into account typical market levels for comparable roles, individual circumstances and the overall cost to the business.</p>	<p>None</p>

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Remuneration Report continued

Variable Elements	Purpose and link to strategy	Operation	Maximum potential payment	Performance Metrics
Annual Bonus Scheme (Bonus) and Deferred Share Award Plan (DSA)	<p>Incentivises executives and colleagues to achieve key strategic outcomes on an annual basis.</p> <p>Focus on key financial metrics and objectives to deliver the business strategy.</p> <p>The element compulsorily deferred into shares rewards delivery of sustained long-term performance, provides alignment with the shareholder experience and supports the retention of executives.</p>	<p>Measures and targets are set annually based on business plans at the start of the financial year and pay-out levels are determined by the Committee following the year end based on performance against objectives.</p> <p>Paid once the results have been audited. Annual bonus calculations that are based on the financial results for the year are audited by Internal Audit and reviewed by the Audit Committee before consideration by the Committee.</p> <p>The Committee has the discretion to amend the bonus pay-out should any formulaic assessment of performance not reflect a balanced view of overall business performance for the year.</p> <p>Two-thirds of the bonus is delivered in cash and one-third is deferred into shares under the DSA for a period of three years.</p> <p>During the deferral period share awards may be reduced or cancelled in certain circumstances. Further detail is provided on page 88.</p> <p>Dividends are paid to participants on the deferred shares during the deferral period.</p>	<p>The maximum bonus opportunity for any Executive Director will not exceed 200% of salary.</p> <p>The current bonus opportunities are 180% of salary for Adam Crozier and 165% of salary for Ian Griffiths.</p> <p>Increases above the current opportunities, up to the maximum limit, may be made to take account of individual circumstances, which may include:</p> <ul style="list-style-type: none"> • Increase in size or scope of the role or responsibility. • Increase to reflect the individual's development and performance in their role. 	<p>Performance measures and targets are set by the Committee each year based on corporate objectives closely linked to the strategic priorities and individual contributions.</p> <p>The majority of the bonus opportunity will be based on the corporate and financial measures.</p> <p>The remainder of the bonus will be based on performance against individual objectives.</p> <p>Up to 20% of the maximum opportunity will be received for threshold performance.</p>

Variable Elements	Purpose and link to strategy	Operation	Maximum potential payment	Performance Metrics
New LTIP	<p>Incentivises executives to deliver performance which is aligned to the business strategy over the longer term and the creation of shareholder value.</p> <p>Acts as a retention tool to retain the executives required to deliver the business strategy.</p>	<p>Awards are made under the LTIP rules, which shareholders have been asked to approve at the 2014 AGM.</p> <p>Awards are made annually with vesting dependent on business performance during the performance period. The performance period will be three years, other than in exceptional circumstances.</p> <p>The Committee has discretion to amend the final vesting level should any formulaic assessment of performance not reflect a balanced view of the business performance during the performance period.</p> <p>Awards will be required to be held for an additional period of two years after the end of the performance period. This is called the holding period and will be phased in during 2014 and 2015.</p> <p>Dividends are earned on deferred shares during the holding period.</p> <p>During the holding period awards may be reduced or cancelled in certain circumstances. Further detail is provided on page 88.</p>	<p>Our current operational policy is to make awards of 225% of salary each year.</p> <p>Under the new LTIP rules, the maximum annual award that may be granted in any financial year is 350% of salary.</p> <p>The Committee would consult with shareholders if it was considering increasing awards above the current operational policy.</p>	<p>Performance is measured against corporate targets closely linked to the Company's financial and strategic priorities.</p> <p>Performance metrics are:</p> <ul style="list-style-type: none"> Adjusted EPS Non-NAR and its components Viewing performance <p>For details on 2014 targets see page 99.</p> <p>LTIP awards will vest based on financial performance.</p> <p>A gateway condition must be achieved before any portion of the award vests.</p> <p>Each performance metric will operate independently.</p> <p>The performance range will be determined for each metric. The proportion of each element of the award that will vest for threshold performance against a metric will be 20%.</p>
SAYE	Provides all employees, including Executive Directors the opportunity to voluntarily invest in Company shares.	Executive Directors are entitled to participate in the plan on the same basis as other employees.	Participation limits are as per the rules of the plan and in accordance with HMRC limits.	None

Should the Company choose to implement a tax efficient all-employee share participation plan (for example a SIP) the Executive Directors would be eligible to participate in accordance with any shareholder approved plan rules and HMRC limits.

Governance

Remuneration Report continued

Legacy plans

The Committee may make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above. This would apply where the terms of the payment were agreed before the policy came into effect or at a time when the relevant individual was not a director of the Company and the payment was not in consideration for the individual becoming a director of the Company.

Subject to the approval by shareholders of the new LTIP, there is no current intention for further awards to be made to Executive Directors under the PSP, details of which are set out below:

Purpose and link to strategy	Operation	Maximum potential payment	Performance Metrics
<p>Incentivises executives to deliver performance that is aligned to the business strategy over the longer term and the creation of shareholder value.</p> <p>Acts as a retention tool to retain the executives required to deliver the business strategy.</p>	<p>Awards are made under the PSP rules which shareholders have previously approved.</p> <p>The Committee has the discretion to amend the final vesting level should any formulaic assessment of performance not reflect overall business performance.</p>	<p>Under the plan rules, the maximum annual award that may be granted in any financial year is 150% of salary.</p>	<p>Performance is measured against corporate targets closely linked to the Company's financial and strategic priorities.</p> <p>A gateway condition must be achieved before any portion of the award vests.</p>

Malus and clawback

Malus is the possible reduction of deferred awards and clawback is the possible recovery of awards that have already been made to executives. Deferred awards under the DSA and awards under the new LTIP or PSP, including awards held during any additional holding period, may be reduced or cancelled at the Committee's discretion in such cases as material misstatement of results, gross misconduct or fraud.

Performance measures and target setting

The annual bonus is assessed against both financial and individual targets determined by the Committee. This enables the Committee to reward both annual financial performance delivered for shareholders, and performance against specific financial, operational or strategic objectives set for each director, which are closely linked to the strategic priorities of the business.

The Committee sets targets for the long-term incentive plans taking into account external forecasts, internal budgets and business priorities. Targets are set to be appropriately stretching in this context with maximum performance being set at a level which is considered to be the delivery of exceptional performance.

When considering performance outcomes the Committee will look beyond formulaic results to ensure the outcomes align with the overall business performance.

Non-executive Directors

The table below summarises the main elements of remuneration for Non-executive Directors:

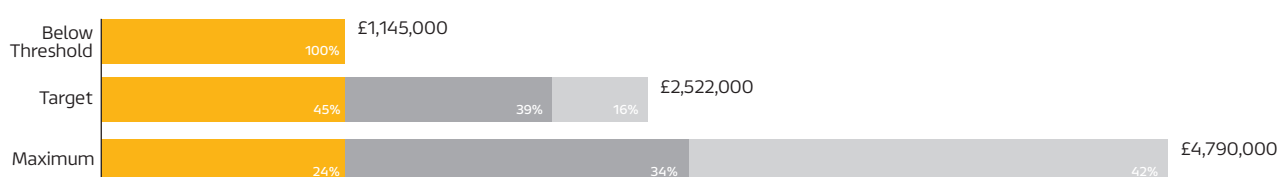
Component	Approach of the Company
Chairman fees	<p>The Committee determines the fees of the Chairman and sets the fees at a level that is considered to be appropriate, taking into account the size and complexity of the business and the expected time commitment and contribution of the role.</p> <p>The fee is a fixed annual fee of which 25% (40% for the current Chairman) after statutory deductions, is used to acquire shares in the Company. The shares are purchased quarterly and held by a nominee until retirement from the Board.</p>
Non-executive fees	<p>The Board determines the fees of the Non-executive Directors and sets the fees at a level that is considered to be appropriate, taking into account the size and complexity of the business and the expected time commitment and contribution of the role.</p> <p>Fees are structured as a basic fee with additional fees payable for membership and/or chairmanship of a committee or other additional responsibilities.</p> <p>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 held by a nominee on their behalf until they retire from the Board.</p>
Benefits	Additional benefits may also be provided in certain circumstances, if required for business purposes.

Application of remuneration policy

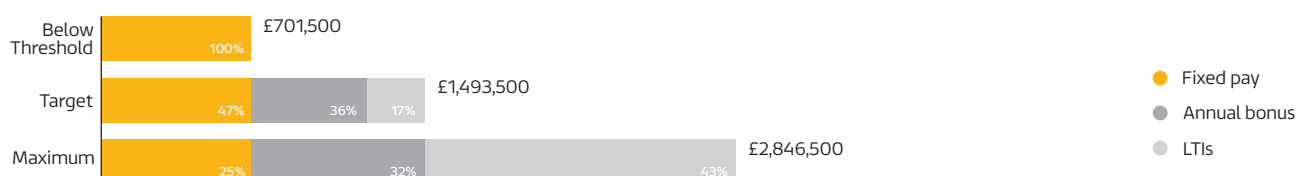
The chart below provides an indication of the level of remuneration that would be received by each Executive Director under the following three assumed performance scenarios:

Below threshold performance	Fixed elements of remuneration only – base salary, benefits and pension
On-target performance	Assumes 60% pay-out under the annual bonus Assumes 20% pay-out under the LTIP (aligned with threshold performance)
Maximum performance	Assumes 100% pay-out under the annual bonus Assumes 100% pay-out under the LTIP

Adam Crozier



Ian Griffiths



Notes:

- The scenarios do not include any share price growth assumptions or take into account any dividends that may be paid.
- Fixed pay is the salary as at 1 January 2014, pension is per the remuneration policy, and the value for benefits is equivalent to that included in the remuneration table on page 93.
- Annual bonus is based on 180% of salary for Adam Crozier and 165% of salary for Ian Griffiths.
- LTI amount is based on 225% of salary for both Executive Directors.

Governance

Remuneration Report continued

Recruitment remuneration

When agreeing the components of a remuneration package for a new Executive Director, the Committee will apply the principles detailed below.

The package will be competitive to attract and retain the best candidate for the job.

Where possible, the Committee will always seek to align the remuneration package with the remuneration policy outlined above. However, where appropriate, elements of the package may be outside of this policy to meet the circumstances of the individual upon recruitment. The Committee will ensure that the arrangements are in the best interests of both ITV and its shareholders and remain subject to the overall variable pay limits set out below.

Ongoing remuneration	<p>In determining an appropriate remuneration structure and levels, the Committee will take into account all relevant factors to ensure they are able to recruit the best candidate for the job and that the arrangements are in the best interests of both ITV and its shareholders. The Committee will typically seek to align the ongoing remuneration package with the ongoing remuneration policy outlined in the table on pages 85 to 87.</p> <p>The maximum level of variable remuneration which may be granted to a new director upon appointment (excluding any buy-out awards for forfeited remuneration) will not be greater than 550% of salary (the sum of the maximum bonus and maximum new LTIP opportunities).</p>
Buy-out awards for forfeited remuneration	<p>The Committee may make awards to 'buy out' a candidate's remuneration arrangements that are forfeited as a result of leaving their previous employer.</p> <p>In doing so, the Committee will take account of relevant factors including any performance conditions attaching to forfeited awards, the likelihood of the awards vesting and the form and timing of the awards. The Committee will typically seek to make buy-out awards on a comparable basis to those that have been forfeited.</p> <p>In exceptional circumstances, the Committee may grant a buy-out award under a structure not included in the policy but that is consistent with the principles set out above.</p>

The Committee will take all relevant factors into account (including the candidate's location, the calibre of the individual, external influences, internal relativities and the overall business context) when determining the new remuneration package and seek to ensure that no more is paid than necessary.

In the Remuneration Report following the appointment, the Committee will fully explain to shareholders the remuneration package for the appointed individual and the rationale for such arrangements and will display such information on the ITV plc website and announce via a regulatory information service as soon as practicable following the appointment.

Service contracts and loss of office

Executive Directors

Executive Directors have rolling 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.

A payment in lieu of notice, including base salary, contractual benefits and contractual provision for an income in retirement may be made if:

- the Company terminates the employment of the executive with immediate effect, or without due notice; or
- termination is agreed by mutual consent.

The Company may also make a payment in respect of outplacement costs, legal fees and the cost of any settlement agreement where appropriate.

With the exception of termination for cause or resignation, Executive Directors will be eligible for a bonus award prorated to reflect the proportion of the financial year for which they were employed and subject to performance achieved, provided they have a minimum of three months' service in the bonus year.

The treatment of shares awarded under the DSA, new LTIP and PSP on termination, are set out below.

	Good leaver	Mutual agreement	Resignation/misconduct	Change of control
DSA	Injury, ill health, disability or transfer of undertakings. Awards release in full at the leaving date. For other good leaver reasons awards release at the end of the deferral period.	Committee has the right to exercise its discretion as to the extent to which awards, if any, may release, for example where someone is asked to leave because of a change in circumstances outside of their control.	Awards lapse. Note 2	Awards release in full at effective date of change.
New LTIP	During performance period:			
	Injury, ill health or disability, redundancy, retirement or transfer of undertaking. Awards are prorated for time served and subject to achievement of the performance conditions during the performance period. Awards become exercisable at end of holding period.	Committee has the right to exercise its discretion to apply good leaver treatment, for example where someone is asked to leave because of a change in circumstances outside of their control.	Awards lapse.	Outstanding awards would normally vest and become exercisable subject to satisfaction of performance conditions and capped based on the time in the performance period since grant, subject to the discretion of the Committee.
	During additional holding period:			
	Awards become exercisable at end of holding period.	Awards become exercisable at end of holding period.	For resignation, awards become exercisable at end of holding period. In the case of misconduct awards will lapse.	Awards become exercisable at effective date of change.
PSP	Injury, ill health or disability, redundancy, retirement or transfer of undertaking. Awards are prorated for time served during the performance period and become exercisable at normal vesting date subject to achievement of the performance conditions.	Committee has the right to exercise its discretion to apply good leaver treatment, for example where someone is asked to leave because of a change in circumstances outside of their control.	Awards lapse.	Outstanding awards would normally vest and become exercisable subject to satisfaction of performance conditions and capped based on the time in the performance period since grant.

Notes:

1. If a participant dies all awards vest in full with no regard to performance conditions.

2. DSA awards made to Executive Directors in March 2011, 2012, 2013 and 2014, prior to the adoption of the remuneration policy set out here release in full on resignation.

Governance

Remuneration Report continued

Non-executive Directors

Each Non-executive Director, including the Chairman, has a contract of service with the Company. Non-executive Directors will serve for an initial term of three years, subject to election and annual re-election by shareholders, unless otherwise terminated earlier by and at the discretion of either party upon one month's written notice (12 months for the current Chairman).

The Directors' service contracts and letters of appointment are available for inspection at the Company's registered office.

External appointments

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.

Adam Crozier is currently a non-executive director of G4S plc.

Employment conditions elsewhere in the Company

When setting the policy for directors' remuneration, the Committee considers the pay and employment conditions of employees elsewhere in the Company.

The Company does not consult directly with employees in respect of determining the Directors' remuneration policy. However, the Committee does receive general feedback from employees via the HR function as part of the output from the employee engagement survey and receives a report on employment practices elsewhere in the Company.

Shareholder views

The Committee maintains regular and transparent communication with shareholders. We believe that it is important to regularly meet with our key shareholders to understand their views on our remuneration arrangements and what they would like to see going forward. We welcome feedback from shareholders at any time during the year.

Where we are proposing to make any significant changes to the remuneration framework we seek major shareholders' views and take these into account when determining any changes to the remuneration policy.

Annual Report on Remuneration

The sections of the Annual Report on Remuneration that have been audited by KPMG Audit Plc are page 93 to page 96 (up to and including payments to past directors or for loss of office) and page 100 (from Interests in Shares as at 31 December 2013) to page 101.

Total remuneration

Executive Directors

The table below sets out in a single figure the total remuneration for both Executive Directors for the financial year.

	Salary		Taxable benefits		Bonus (cash and shares)		PSP awards		Joining award		Pension		Total	
	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000
Adam Crozier	841	818	20	19	1,403	1,345	2,042	0	3,950	658	109	74	8,365	2,914
Ian Griffiths	461	449	14	14	713	683	2,130	771	0	0	81	69	3,399	1,986
	1,302	1,267	34	33	2,116	2,028	4,172	771	3,950	658	190	143	11,764	4,900

The increase in total remuneration for the Chief Executive from 2012 to 2013 results from the vesting of his joining award in 2013, together with the first vesting under a PSP award since he joined ITV. The level of vesting of both awards reflects the outstanding performance to date and a significant increase in share price.

Further information in relation to each of the elements of remuneration set out in the table above are detailed below.

Salary

Executive Directors' base salaries were increased by 2.75% with effect from 1 January 2013 in line with the average increase given across the Company.

Taxable benefits

The benefits provided to the Executive Directors include the cost of private medical insurance and car related benefits.

Bonus (cash and shares)

The bonus paid in respect of the financial year includes amounts that will be compulsorily deferred into shares for a three year period as set out below.

	% of maximum bonus opportunity earned	Value deferred into shares under the DSA £000	Value paid in cash £000	Total value of 2013 Bonus £000
Adam Crozier	92.75%	468	935	1,403
Ian Griffiths	93.79%	238	475	713

Annual incentives are provided to Executive Directors through the bonus with one-third of any award deferred into shares under the DSA. The performance conditions that apply to the bonus are set on an individual basis and are closely linked to the Company's corporate, financial and strategic priorities.

The Committee set 2013 performance targets and measures which continue to support both the delivery of the strategy and key operational outcomes.

The majority of the bonus (60%) was based upon the achievement of corporate and financial targets.

The remainder of the bonus (40%) was based upon the contribution the executive makes to the overall strategy through the delivery of specific targets. The personal targets include a combination of specific financial metrics and key strategic deliverables.

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 the maximum bonus opportunity.

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Remuneration Report continued

The table below provides a summary of the performance measures, the level of performance achieved against the targets and the resulting level of payout. The Board believes that the annual bonus performance targets are commercially sensitive information and will remain so until two years after the end of the financial year. The targets will be disclosed once they are no longer commercially sensitive. The targets remain commercially sensitive whilst they are used in the business planning processes for subsequent years.

Performance measure	Weighting	Performance achieved		Payout level		Strategic Target
		Adam Crozier	Ian Griffiths	Adam Crozier	Ian Griffiths	
ITV plc EBITA (before exceptional items)	40%	104.31%	104.31%	93.87%	93.87%	1 2 3 4
Profit to cash conversion	6.67%	107.78%	107.78%	100%	100%	1 2 3 4
Cost savings	6.67%	111.6%	111.6%	100%	100%	1
Rebalancing of revenues	6.67%	100%	–	100%	–	4
Balance sheet performance	6.67%	–	100%	–	100%	1
Individual targets	40%	88%	90.6%	88%	90.6%	1 2 3 4

Details of overall payout levels are set out in the table on page 93.

PSP and joining awards

The new regulations require us to show awards in the remuneration table above according to the year in which the performance period for each performance condition came to an end.

As a result, where an award has more than one performance condition, it may be split across two years within the remuneration table.

2013 value: 75% of awards made in 2010 were subject to TSR over a three-year period ending in 2013. 100% of the awards made in 2011 were subject to performance conditions measured to 31 December 2013. The 2013 values for these awards are set out below. For details of the total award and share price at the award dates see the table on page 101.

	Awards that vested and released in 2013			Awards that vested in 2013 and release in 2014			Total £000
	Number of shares vesting	Value at award date £000	Value at vesting date £000	Change in share price	Value at award date £000	Value at 31/12/13 (194p) £000	
Adam Crozier							
April 2010 Award	3,086,283	1,743,750	3,950,442	126.5%	–	–	–
March 2011 Award	1,052,416	–	–	–	961,908	2,041,687	112.25%
							5,992,130
Ian Griffiths							
March 2010 Award	700,366	398,438	910,476	128.5%	–	–	–
March 2011 Award	631,619	–	–	–	574,530	1,219,463	112.5%
							2,129,939

Details of the TSR performance achieved for the 2010 awards are below.

Performance measure	Weighting	Targets	Performance achieved	Payout level
TSR measured against selected FTSE 250 companies ¹	37.5%	Median and below – nil vesting Upper quartile – 100% vesting Vesting on a straight line in between	Upper quartile	100%
TSR measured against a specific international industry peer group ²	37.5%	Median and below – nil vesting Upper quartile – 100% vesting Vesting on a straight line in between	Upper quartile	100%
Total	75%			100%

1. The constituents of the FTSE 250 index (excluding companies from the basic materials, financial services, oil and gas and industrial sectors).

2. An industry specific group of 23 companies: British Sky Broadcasting Group, Scripps Networks, Canal Plus, Telecinco, CBS, TF1 (TvFse: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.

Details of the performance achieved for the 2011 awards are below. A gateway condition of minimum cumulative adjusted EPS had to be met before any portion of the award could vest.

Performance measure	Weighting	Targets	Performance achieved	Payout level
Cumulative adjusted EPS	50%	21p = 30% vesting 24p = 100% vesting Vesting on a straight line basis between	28.3p	100%
Family SOV	25%	Maintain 2010 level = 50% vesting +2% on 2010 level = 100% vesting Vesting on a proportionate basis between	+0.41% above 2010 level	96.22%
Annual Non-NAR growth	25%	5% growth = 30% vesting 10% growth = 100% vesting Vesting on a straight line basis between	13.49%	100%
Total	100%			99.05%

2012 value: 25% of awards made in 2010 were subject to financial measures (split equally between Family SOV and cumulative adjusted EPS) measured to 31 December 2012. 75% of the award made in 2009 to Ian Griffiths was subject to TSR measured to 1 June 2012. The value of these elements on vesting is included in the remuneration table.

Pension

Pension contributions represent a cash allowance in lieu of pension. The cash payments were reviewed during 2013 to ensure they were market competitive and were increased to 25% of base salary for both Executive Directors with effect from 1 October 2013 (previously 9% for Adam Crozier and 15% for Ian Griffiths).

Non-executive Directors

The table below sets out in a single figure the total remuneration for Non-executive Directors for the financial year.

	Notes	Fees		Taxable Benefits		Total	
		2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000
Peter Bazalgette	1	35	0	–	–	35	–
Mike Clasper		96	94	–	–	96	94
Roger Faxon		61	10	–	–	61	10
Andy Haste		81	79	–	–	81	79
Lucy Neville-Rolfe	2	64	59	–	–	64	59
Archie Norman	3	500	300	–	–	500	300
John Ormerod		86	84	–	–	86	84
		923	626	–	–	923	626

1. Fees paid from appointment on 1 June 2013.

2. Lucy Neville-Rolfe joined the Audit Committee on 1 May 2013.

3. The Chairman was appointed in 2010 for a three-year term on a fee of £300,000 per annum and on joining received an award of 1,200,000 shares, which at the time was valued at £600,000. The 2012 figures do not include an amount in relation to these shares. Under the new legislation the value would have been shown in 2010.

Governance

Remuneration Report continued

PSP awards made during the year

PSP awards were made in March 2013 to both Executive Directors. Awards were made in the form of nil-cost options, subject to performance over the period to 31 December 2015 as follows:

	Award Date	% Salary awarded	Number of options ¹	Performance period ends	Vesting date
Adam Crozier	01.03.13	90	624,647	31.12.15	28.03.16
Ian Griffiths	01.03.13	90	342,549	31.12.15	28.03.16

1. The number of options is calculated using the average share price over a three day period prior to award date which was 129.5p.

The awards are subject to performance measures and targets as set out below. In addition a minimum gateway cumulative adjusted EPS target must be reached before any portion of the award can vest.

Performance measure	Weightings	Targets
Cumulative adjusted EPS	50%	30.4p = 30% vesting 33.4p = 100% vesting Vesting on a straight line basis between
Family SOV	25%	23% = 50% vesting +2% = 100% vesting Vesting on a proportionate basis between
Annual Non-NAR growth	25%	5% growth = 30% vesting 10% growth = 100% vesting Vesting on a straight line basis between

Payments to past Directors or for loss of office

No payments were made during the year.

Consideration of Directors' remuneration

The following Directors were members of the Committee when matters relating to the Directors' remuneration for the year were considered:

- Andy Haste (Chairman)
- Mike Clasper (stepped down from the Board and as a member of the Committee on 31 December 2013)
- Archie Norman
- John Ormerod

The Committee obtains advice from various sources in order to ensure it makes informed decisions. The Chief Executive and Group Finance Director are invited to attend committee meetings as appropriate. No individual is involved in decisions relating to their own remuneration.

The Group HR Director is the main internal adviser and provides updates on remuneration, employee relations and human resource issues.

Deloitte LLP have been appointed by the Committee after consultation with the Board as an independent adviser on remuneration policy and the external remuneration environment. During the year they provided advice on benchmarking, shareholder consultation and new long-term incentive arrangements. Total fees for the advice provided to the Committee during the year amounted to £131,000.

Deloitte are a founding member of the Remuneration Consultants Group and 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, corporate finance and pensions matters, and acted on a consultancy basis to provide internal audit support under separate engagement terms.

The Committee has formally reviewed the work undertaken by Deloitte for the Committee and elsewhere in the Company and is satisfied that the advice they have received has been objective and independent.

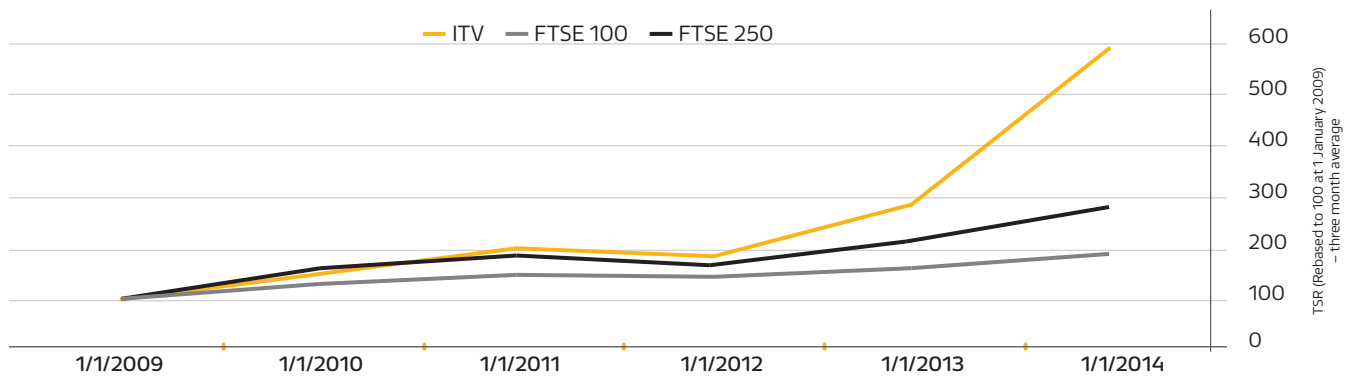
Shareholder voting

At the AGM held on 15 May 2013, votes cast by proxy and at the meeting in respect of the Directors' remuneration were as follows:

Resolution	Votes For	%	Votes Against	%	Total votes cast	Votes Withheld
Approval of Remuneration Report	2,705,212,305	98.16	50,644,260	1.84	2,755,856,565	11,233,377
Approval of PSP	2,699,058,785	97.69	63,763,062	2.31	2,762,821,847	4,267,522

Historic performance

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 2013. Both indices have been shown as the Company has been a constituent of both over the last five years.



Source: Datastream

Governance

Remuneration Report continued

Chief Executive remuneration

The table below provides a summary of the total remuneration for the Chief Executive over the last five years including details of the annual bonus payout and PSP vesting levels in each year.

		Total remuneration £000	Bonus % of maximum	PSP vesting % of maximum
2013	Adam Crozier	8,365	93	87
2012	Adam Crozier	2,915	91	12
2011	Adam Crozier	2,158	88	–
2010	Adam Crozier (for the 8 month period served)	1,350	95	–
	John Cresswell (for the 4 month period served)	661	83	–
2009	Michael Grade	2,583	94	–

The table below provides details of the percentage change in the base salary, benefits and bonus of the Chief Executive between 31 December 2012 and 31 December 2013 compared to the average percentage change for other employees.

	Notes	% change in base salary	% change in benefits	% change in bonus payment
Chief Executive	1	2.75	1.5	1.55
All employees	2,3	5.94	(3)	20.18

1. Benefits include the cost of medical insurance and car related benefits. The level of benefits remains the same as for 2012. The percentage decrease is due to a fall in the cost of medical insurance. The percentage increase for the Chief Executive is due to a minor increase in the cost of car related benefits.

2. As the majority of employees are based in the UK, overseas employees have not been included.

3. The percentage change in benefits is the average change for all employees (excluding the Chief Executive) with any of the same benefits as the Chief Executive.

Spend on pay

The table below shows pay for all employees compared to other key financial indicators.

	Notes	2013 £m	2012 £m	% Change
Employee pay	1	173	166	4
Ordinary dividend		115	78	47
Special dividend		157	–	100
Employee headcount	2	3,845	3,731	3

1. Employee pay is the total UK permanent and fixed-term employee base salary bill.

2. Employee headcount is the total UK permanent and fixed-term full-time equivalent headcount.

Remuneration policy for 2014

The following provides details of how the remuneration policy will be implemented in 2014.

Salary

Executive Directors base salaries were increased with effect from 1 January 2014 as follows.

	1 January 2014 £000	1 January 2013 £000	% Change
Adam Crozier	900	841	7.0
Ian Griffiths	550	461	19.3

Our remuneration policy for Executive Directors has been, and will continue to be, that salary increases will generally follow those of the wider employee population. This approach has been adopted since their appointment. During that time the shape and size of the business has changed significantly and performance has been strong. We have therefore increased base salaries to reflect increased responsibilities, performance, marketability and the challenges ahead. Following these increases it is our intention to return to normal policy in 2015.

Taxable benefits, pension and bonus

These will be paid in line with the remuneration policy.

New LTIP awards

Awards will be made in line with the remuneration policy under the new LTIP. The proposed performance measures and targets for awards to be made in 2014 are detailed below. In order to ensure that Executive Directors are only rewarded if value is delivered to shareholders, awards will be subject to an initial cumulative adjusted EPS performance gateway equal to that required for threshold performance. If this gateway is achieved, performance will then be assessed by reference to the conditions detailed below.

Performance measure	Weightings	Threshold	Maximum
Cumulative adjusted EPS	50%	371 p	42.3 p
Family SOV	20%	23.05%	23.51%
Non-NAR	10%	5% growth pa	10% growth pa
International Production revenue	10%	5% growth pa	15% growth pa
Online, Pay & Interactive revenue	10%	5% growth pa	18% growth pa

Threshold vesting for all targets is 20%. Vesting between threshold and maximum (100%) is on a straight line basis.

When assessing performance against the Family SOV target the Committee will also have regard to the health of the main ITV channel.

The target range for awards to be made in future years will be reviewed and set in the context of the operating environment at that time.

Chairman and Non-executive Director Fees

Non-executive Director fees were increased with effect from 1 January 2014 as set out below.

Notes	1 January 2014 £000	1 January 2013 £000	% change
Chairman (all inclusive fee)	500,000	500,000	-
Board Fee	62,224	60,559	2.75
Additional fees for:			
Senior Independent Director	25,000	25,000	-
Audit Committee Chairman	20,000	20,000	-
Audit Committee Member	5,137	5,137	-
Remuneration Committee Chairman	1	15,000	33.33
Remuneration Committee Member	5,137	5,137	-

1. Increased to reflect the time commitment required for this role.

Governance

Remuneration Report continued

Directors' share interests

Shareholding guidelines

The Committee continues to recognise the importance of Executive Directors being 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 based on a percentage of base salary. 50% of the requirement must be obtained within three years of appointment and the remainder within five years as follows.

	% of salary required under shareholding guidelines	% of salary held at 31 December 2013
Adam Crozier	400	434
Ian Griffiths	200	554

The guidelines were increased in 2014 from 200% of salary for Adam Crozier and 150% of salary for Ian Griffiths.

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

Interests 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 at 31 December 2013.

	26 February 2014 ¹	31 December 2013	31 December 2012
Peter Bazalgette	2,370	1,249	–
Mike Clasper ²	112,361	110,758	100,363
Adam Crozier	1,633,488	1,633,488	298,258
Roger Faxon	6,051	4,953	–
Ian Griffiths	1,511,922	1,511,922	881,852
Andy Haste	88,397	87,085	78,058
Lucy Neville-Rolfe	28,318	27,258	22,154
Archie Norman	1,235,969	1,221,432	1,163,167
John Ormerod	136,059	134,627	122,788

1. Shares were acquired for the Non-executive Directors on 2 January 2014 under a Trading Plan using 25% (40% for the Chairman) of their fees, after statutory deductions, for the quarter to 31 December 2013 as part of the share acquisition policy set out in the remuneration policy on page 89.

2. Mike Clasper stepped down from the Board on 31 December 2013.

Outstanding interests under share schemes

The following tables provide details of Directors' interests in outstanding share awards.

Award date	Notes	At 1 January 2013	Awarded in year	Vested in year	Exercised in year	Lapsed in year	31 December 2013	At price used for award (pence)	Share price at date of vesting (pence)	Date of release/exercise in year
Adam Crozier										
Deferred Share Award Plan										
28 March 2013	A	4	–	346,228	–	–	346,228	129.5	–	–
28 March 2012	A		477,112	–	–	–	477,112	88.6	–	–
28 March 2012	B		238,557	–	–	–	238,557	88.6	–	–
08 March 2011	A		276,314	–	–	–	276,314	91.4	–	–
08 March 2011	B		276,314	–	–	–	276,314	91.4	–	–
Joining Award										
26 April 2010		3	4,115,044	3,600,663	3,600,663	514,381	–	56.5	128.0	29 April 2013
Performance Share Plan										
01 March 2013	C		–	624,647	–	–	624,647	121.1	–	–
01 March 2012	C		899,347	–	–	–	899,347	81.9	–	–
28 March 2012	D		238,557	–	–	–	238,557	88.6	–	–
08 March 2011	C	3	786,196	–	–	–	786,196	91.4	–	–
08 March 2011	D	3	276,314	–	–	–	276,314	91.4	–	–
Ian Griffiths										
Deferred Share Award Plan										
28 March 2013	A	4	–	175,891	–	–	175,891	129.5	–	–
28 March 2012	A		234,406	–	–	–	234,406	88.6	–	–
28 March 2012	B		117,204	–	–	–	117,204	88.6	–	–
08 March 2011	A		203,478	–	–	–	203,478	91.4	–	–
08 March 2011	B		203,478	–	–	–	203,478	91.4	–	–
Performance Share Plan										
01 March 2013	C		–	342,549	–	–	342,549	121.1	–	–
01 March 2012	C		493,192	–	–	–	493,192	81.9	–	–
28 March 2012	D		117,204	–	–	–	117,204	88.6	–	–
08 March 2011	C	3	431,140	–	–	–	431,140	91.4	–	–
08 March 2011	D	3	203,478	–	–	–	203,478	91.4	–	–
26 March 2010		3	933,820	817,092	817,092	116,728	–	56.9	120.4	9 April 2013
01 June 2009			1,188,812	–	1,188,812	–	–	35.8	120.4	9 April 2013

1. No awards are outstanding that have vested but not been exercised.

2. There are no performance conditions attaching to the DSA. Performance conditions that apply to the outstanding awards under the PSP are set out in the table below.

Strategic target	Weightings	Threshold	Vesting	2011		2012		2013	
				Threshold	Maximum	Threshold	Maximum	Threshold	Maximum
Gateway				21p		26.15p		30.4p	
Cumulative adjusted EPS ¹	50%	30%		21p	24p	26.15p	28.76p	30.4p	33.4p
Family SOV ²	25%	50%		Maintain at 2010 levels (platform adjusted)	+2%	Maintain at 2011 levels (platform adjusted)	+2%	23%	+2%
Annual Non-NAR growth ^{3 4}	25%	30%		5%	10%	5%	10%	5%	10%
				Cumulative adjusted EPS years 2011 to 2013		Cumulative adjusted EPS years 2012 to 2014		Cumulative adjusted EPS years 2013 to 2015	
				Vesting between threshold and maximum (100%) on a straight line basis (EPS, Non-NAR) and a proportionate basis (SOV).					

3. A proportion of the performance conditions were met in the financial year and the value of that proportion is included in the total remuneration table on page 93 and described on pages 94 and 95.

4. DSA awards made in 2013 for 2012 performance are included in the Bonus (cash and shares) column for 2012 in the remuneration table on page 93.

A – Compulsory deferral, B – Voluntary deferral, C – Core Award, D – Matching Award

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Lucan

Two part ITV Studios drama Lucan attracted an average audience of 4.7 million viewers and a 19% share.



Financials

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

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of ITV Plc for the year ended 31 December 2013 set out on pages 109 to 173. 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 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows.

The Audit Committee's consideration of these significant risks is set out in the Audit Committee Report on page 75.

The risk

Our response

Revenue recognition and contractual arrangements (see note 2.1)

The Group's revenue consists primarily of advertising, programme production and programme rights.

Net Advertising Revenue ('NAR') (£1,542 million)

The majority of ITV's advertising revenue ('NAR') is subject to regulation under Ofcom's Contract Rights Renewal system ('CRR'). CRR works by ensuring that the annual share of TV advertising that will be placed with ITV by each advertising agency can change in relation to the viewing figures for commercial television that it delivers. The CRR system, the pricing of the annual contractual arrangements with advertising agencies and the details of each advertising campaign, together with the related processes and controls, are complex and involve estimation.

In particular, the pricing mechanism means it is possible for a difference to arise between the price received by ITV for an advertising campaign and the value it delivered, mainly as a result of the actual viewing figures being different from the agreed level. Where the Group has over-delivered viewers this is referred to as a 'deal credit', or a 'deal debt' where delivery has fallen short. Rather than the price paid for that campaign being adjusted, these differences are noted for each agency and then taken account of when agreeing either future campaigns or the annual contract. Only a net deal debt position with an agency is recorded in ITV's accounts, as a liability.

NAR is therefore considered a significant risk due to:

- the quantum and complexity of contractual agreements with advertising agencies;
- the complexity of the systems and processes of control used to record revenue; and
- the level of estimation involved in determining the deal debt liability at the period end.

Our audit procedures included:

- testing of controls, assisted by our own IT specialists, including those over: input of individual campaigns' terms and pricing, comparison of those terms and pricing data against the related overarching contracts with advertising agencies; linkage to transmission/viewer data; and segregation of duties;
- testing management's review controls over: contract approval; periodic deal reconciliations; and the deal debt adjustment;
- analysis of revenue based on our industry knowledge and external market data, following up variances; and
- challenging the year end deal debt adjustment based on comparison with customers' correspondence and agreed terms of business.

The risk	Our response
<p>Other revenue streams ('Non-NAR revenue') (£847 million of external revenue)</p> <p>Non-NAR revenue includes revenue from: programme production, the sale of programme rights, transmission supply arrangements and the Online, Pay & Interactive division within the Broadcast segment. Recognition of non-NAR revenue is primarily driven by the related contracts. It is considered to be a risk as the contracts can be complex and the terms are varied, with the result that accounting for the revenue generated in any given period can require individual consideration.</p>	<p>Our audit procedures included testing of controls over the timing of revenue recognition, and the accounting for new contractual arrangements. We considered the revenue policies against the relevant accounting standards. For the larger contracts entered into during the year, and for a statistical sample of all contracts, we tested whether revenue had been recognised in accordance with the contractual terms, given the requirements of the relevant accounting standard.</p>
<p>Acquisition accounting (see notes 3.3 and 3.4)</p> <p>During the year, ITV acquired four production companies for an aggregate initial consideration of £66 million.</p> <p>Accounting for acquisitions requires the Group to determine the fair value of the consideration transferred, the non-controlling interests ('NCI') and the assets acquired as part of the acquisition.</p> <p>This requires the Group to make a number of judgements, which focus on, but are not limited to: assessment of the earnout arrangements entered into with selling shareholders (whether it is acquisition consideration or post-acquisition remuneration), assessing options granted to the Group over shares of the acquired business (whether the Group has a liability for the option price) and determining the fair value of the assets acquired.</p> <p>In summary, acquisition accounting is considered to be a significant risk due to the level of judgement required to be applied over numerous assumptions in establishing the fair values of consideration transferred and acquired assets.</p>	<p>For each significant acquisition:</p> <p>We critically assessed the treatment of earnout arrangements and options against the relevant accounting standards.</p> <p>We used our own valuation specialists to assist us in critically assessing the appropriateness of the identified intangibles against the criteria of the relevant accounting standards.</p> <p>Our audit procedures also included testing the principles and integrity of the asset valuation models used, comparison of the input assumptions to externally and internally derived data as well as our own assessments in relation to key inputs such as the likelihood of shows being recommissioned; and the impact of the loss of key talent on the forecasts.</p>
<p>Defined benefit pension schemes (£445 million, see note 3.7)</p> <p>The valuation of the pensions liability requires significant judgement and estimation to be applied across numerous assumptions.</p> <p>Further, the application of IFRS 13 'Fair Value Measurement' in 2013 has led to a change in the valuation approach for the longevity swap, with the value of the swap increasing by £95 million in 2013.</p> <p>The key valuation assumptions are set out in note 3.7 in the 'keeping it simple' section on page 148. When deciding on these assumptions the Group takes independent actuarial advice relating to their appropriateness.</p> <p>The valuation is considered to be a significant risk as, given the quantum of the net deficit, small changes in the assumptions can have a material financial impact on the Group.</p>	<p>Our audit procedures included an assessment of the competency and objectivity of the actuarial specialists engaged by the Group.</p> <p>We compared the valuation methodology, in particular for the longevity swap, with relevant accounting standards and market practices.</p> <p>We also challenged the key assumptions supporting the retirement benefit obligation and swap valuations, with input from our own actuarial specialists. This included a comparison of the mortality, discount and inflation rates used against externally derived data.</p> <p>We obtained third party confirmation of the pension schemes assets as at 31 December 2013.</p> <p>We considered the appropriateness of the disclosures described in note 3.7.</p>

Financials

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

The risk	Our response
Royalty accruals (£71 million, see note 3.1.5)	
<p>The Group pays royalties directly to artists/producers for all content used. The contractual terms of these agreements are varied and complex.</p> <p>The related IT systems can only address part of the processing, necessitating a significant manual element in calculating the year end royalty accrual recorded by the Group. Overall the process is complex, though core to the Group's operations.</p> <p>The volume and variety of contracts being interpreted and accounted for combined with the manual nature of the process increases the risk of error.</p>	<p>Among other procedures, we tested controls over the recording of royalty costs and the approval of royalty payments.</p> <p>We also re-performed a sample of the year end calculations, agreeing key inputs to contracts and the underlying system data.</p> <p>In addition, we performed analytical procedures comparing royalty costs as a percentage of the related income streams to budgets and prior periods, taking account of any expected changes.</p>

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

Our materiality for the Group financial statements as a whole has been determined with reference to:	For 2013 our materiality for the Group financial statements as a whole was set at:	Consequently, corrected and uncorrected audit differences are explained to the Audit Committee.
Group profit before tax.	£21m	
We consider this to be one of the principal considerations for members of the company in assessing the financial performance of the Group.	This represents 5% of Group profit before tax.	We explain audit differences with a quantitative impact of over £1 million, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

The Group's principal operations are in the United Kingdom and represent 89% of total Group revenue, 95% of Group profit before tax and 92% of Group total assets. Only the UK operations are scoped in for Group reporting purposes. The Group audit team performed the audit of the UK operations as if they were a single aggregated set of financial information using the materiality levels set out above.

Although not in-scope for Group reporting purposes, in agreement with the audit committee and coterminous with the audit of the Group and the UK operations, audits were performed in Australia and Germany to local materiality levels and specified audit procedures were also performed on four entities in the US. Together these audits and specified audit procedures covered 99% of total Group revenue, 99% of Group profit before taxation; and 99% of total Group assets.

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

In our opinion:

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

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

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

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

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

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the 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 115, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 67 to 74 relating to the Company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

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

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 66, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Mark Summerfield (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
26 February 2014

Financials

Introduction and Table of Contents

 In this section . . .

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

 Keeping it simple . . .

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

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Consolidated Income Statement

For the year ended 31 December	Note	2013 £m	2012 (restated) £m
Revenue	2.1	2,389	2,196
Operating costs		(1,843)	(1,750)
Operating profit		546	446
Presented as:			
Earnings before interest, tax, amortisation (EBITA) before exceptional items	2.1	620	513
Operating exceptional items	2.2	(8)	(7)
Amortisation and impairment of intangible assets	3.3	(66)	(60)
Operating profit		546	446
Financing income	4.4	10	20
Financing costs	4.4	(125)	(126)
Net financing costs	4.4	(115)	(106)
Share of losses of joint ventures and associated undertakings	2.1	(2)	(1)
Loss on sale and impairment of non-current assets (exceptional items)	2.2	-	(6)
Gain on sale and impairment of subsidiaries and investments (exceptional items)	2.2	6	1
Profit before tax		435	334
Taxation	2.3	(105)	(77)
Profit for the year		330	257
Profit attributable to:			
Owners of the Company		326	256
Non-controlling interests		4	1
Profit for the year		330	257
Earnings per share			
Basic earnings per share	2.4	8.3p	6.6p
Diluted earnings per share	2.4	8.1p	6.4p

Financials

Consolidated Statement of
Comprehensive Income

For the year ended 31 December	2013 £m	2012 (restated) £m
Profit for the year	330	257
Other comprehensive income:		
Items that are or may be reclassified to profit or loss		
Revaluation of available for sale financial assets	(3)	(1)
Exchange differences on translation of foreign operations	(6)	(1)
Items that will never be reclassified to profit or loss		
Remeasurement gains/(losses) on defined benefit pension schemes	48	(213)
Income tax (charge)/credit on items that will never be reclassified	(13)	50
Other comprehensive income/(cost) for the year, net of income tax	26	(165)
Total comprehensive income for the year	356	92
Total comprehensive income attributable to:		
Owners of the Company	352	91
Non-controlling interests	4	1
Total comprehensive income for the year	356	92

Consolidated Statement of Financial Position

As at 31 December	Note	2013 £m	2012 (restated) £m
Non-current assets			
Property, plant and equipment	3.2	259	156
Intangible assets	3.3	954	938
Investments in joint ventures and associated undertakings		4	6
Available for sale financial assets		–	3
Held to maturity investments	4.1	–	145
Derivative financial instruments	4.3	41	99
Distribution rights	3.1.1	10	17
Net deferred tax asset	2.3	52	93
		1,320	1,457
Current assets			
Programme rights and other inventory	3.1.2	322	252
Trade and other receivables due within one year	3.1.4	388	366
Trade and other receivables due after more than one year	3.1.4	14	14
Trade and other receivables		402	380
Derivative financial instruments	4.3	32	–
Cash and cash equivalents	4.1	518	690
		1,274	1,322
Assets held for sale	3.5	–	25
		1,274	1,347
Current liabilities			
Borrowings	4.2	(62)	(7)
Derivative financial instruments	4.3	(6)	(1)
Trade and other payables due within one year	3.1.5	(702)	(622)
Trade payables due after more than one year	3.1.6	(42)	(31)
Trade and other payables		(744)	(653)
Current tax liabilities		(36)	(29)
Provisions	3.6	(19)	(25)
		(867)	(715)
Net current assets		407	632
Non-current liabilities			
Borrowings	4.2	(318)	(632)
Derivative financial instruments	4.3	(27)	(48)
Defined benefit pension deficit	3.7	(445)	(551)
Other payables		(40)	(14)
Provisions	3.6	(8)	(12)
		(838)	(1,257)
Net assets		889	832
Attributable to equity shareholders of the parent company			
Share capital	4.7.1	403	391
Share premium	4.7.1	174	122
Merger and other reserves	4.7.2	248	283
Translation reserve		7	13
Available for sale reserve		4	7
Retained earnings		22	1
Total equity attributable to equity shareholders of the parent company		858	817
Non-controlling interests		31	15
Total equity		889	832

Ian Griffiths

Group Finance Director

Financials

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 earnings £m			
Balance at 1 January 2013		391	122	283	13	7	1	817	15	832
Total comprehensive income for the year										
Profit		-	-	-	-	-	326	326	4	330
Other comprehensive income/(cost)										
Revaluation of available for sale financial assets		-	-	-	-	(3)	-	(3)	-	(3)
Exchange differences on translation of foreign operations		-	-	-	(6)	-	-	(6)	-	(6)
Remeasurement gains on defined benefit pension schemes	3.7	-	-	-	-	-	48	48	-	48
Income tax on other comprehensive income	2.3	-	-	-	-	-	(13)	(13)	-	(13)
Total other comprehensive income		-	-	-	(6)	(3)	35	26	-	26
Total comprehensive income for the year		-	-	-	(6)	(3)	361	352	4	356
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Equity dividends		-	-	-	-	-	(271)	(271)	(1)	(272)
Equity portion of the convertible bond	4.1	10	52	(22)	-	-	(70)	(30)	-	(30)
Movements due to share-based compensation	4.7.7	-	-	-	-	-	14	14	-	14
Purchase of own shares via employees' benefit trust	4.7.7	-	-	-	-	-	(13)	(13)	-	(13)
Issue of new shares	4.7.1	2	-	-	-	-	-	2	-	2
Total contributions by and distributions to owners		12	52	(22)	-	-	(340)	(298)	(1)	(299)
Total transactions with owners		12	52	(22)	-	-	(340)	(298)	(1)	(299)
Changes in non-controlling interests ^(a)	3.4	-	-	(13)	-	-	-	(13)	13	-
Balance at 31 December 2013	4.7	403	174	248	7	4	22	858	31	889

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

Consolidated Statement of 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 earnings (restated) £m	Total £m	Non-controlling interests £m	Total equity £m
					Translation reserve £m	Available for sale reserve £m				
Balance at 1 January 2012		389	120	300	14	8	(25)	806	3	809
Total comprehensive income for the year										
Profit		-	-	-	-	-	256	256	1	257
Other comprehensive income/(cost)										
Revaluation of available for sale financial assets		-	-	-	-	(1)	-	(1)	-	(1)
Exchange differences on translation of foreign operations		-	-	-	(1)	-	-	(1)	-	(1)
Remeasurement losses on defined benefit pension schemes	3.7	-	-	-	-	-	(213)	(213)	-	(213)
Income tax on other comprehensive income	2.3	-	-	-	-	-	50	50	-	50
Total other comprehensive cost		-	-	-	(1)	(1)	(163)	(165)	-	(165)
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)
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	832

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

The Consolidated Statement of Changes in Equity has been restated to reflect the impact of amendments to IAS 19R. See section 1 for details.

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Consolidated Statement of Cash Flows

For the year ended 31 December	Note	£m	2013 £m	2012 (restated) £m
Cash flows from operating activities				
Profit before tax		435		334
Gain on sale and impairment of subsidiaries and investments (exceptional items)	2.2	(6)		(1)
Loss on sale and impairment of non-current assets (exceptional items)	2.2	–		6
Share of losses of joint ventures and associated undertakings	2.1	2		1
Net financing costs	4.4	115		106
Operating exceptional items	2.2	8		7
Depreciation of property, plant and equipment	3.2	24		27
Amortisation and impairment of intangible assets	3.3	66		60
Share-based compensation and pension service costs	3.7/4.7.7	20		16
(Increase)/decrease in programme rights and other inventory, and distribution rights		(42)		29
(Increase)/decrease in receivables		(15)		17
Increase/(decrease) in payables		42		(45)
Movement in working capital	3.1.7	(15)		1
Cash generated from operations before exceptional items			649	557
Cash flow relating to operating exceptional items:				
Net operating loss	2.2	(5)		(7)
Increase/(decrease) in payables and provisions		(6)		5
Cash outflow from exceptional items			(11)	(2)
Cash generated from operations			638	555
Defined benefit pension deficit funding		(80)		(72)
Interest received		38		42
Interest paid on bank and other loans		(60)		(72)
Interest paid on finance leases		(2)		(3)
Net taxation paid		(67)		(62)
			(171)	(167)
Net cash inflow from operating activities			467	388
Cash flows from investing activities				
Redemption of gilts	4.1	165		–
Acquisition of subsidiary undertakings	3.4	(66)		(38)
Cash balances of subsidiaries acquired in period	3.4	10		–
Proceeds from sale of property, plant and equipment		4		–
Acquisition of property, plant and equipment		(101)		(50)
Acquisition of intangible assets		(2)		(11)
Loans granted to associates and joint ventures		(4)		(9)
Loans repaid by associates and joint ventures		–		3
Proceeds from sale of subsidiaries and joint ventures		–		4
Proceeds from sale of available for sale investments		8		–
Net cash inflow/(outflow) from investing activities			14	(101)
Cash flows from financing activities				
Bank and other loans – amounts repaid		(365)		(309)
Capital element of finance lease payments		(8)		(8)
Issue of share capital		2		4
Equity dividends paid		(271)		(78)
Dividend paid to minority interest		(1)		(1)
Purchase of own shares via employees' benefit trust		(13)		(3)
Net cash outflow from financing activities			(656)	(395)
Net decrease in cash and cash equivalents			(175)	(108)
Cash and cash equivalents at 1 January	4.1		690	801
Effects of exchange rate changes and fair value movements			3	(3)
Cash and cash equivalents at 31 December	4.1		518	690

Notes to the Financial Statements

Section 1: Basis of Preparation

In this section . . .

This section sets out the Group's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates. This section also shows new EU endorsed accounting standards, amendments and interpretations, and whether they are effective in 2013 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 2012 consolidated income statement and consolidated statement of comprehensive income have been restated for the retrospective application of IAS 19 Revised (see note 3.7). In addition, the consolidated statement of financial position has been restated for fair value adjustments to the net assets acquired with acquisitions in 2012 (see note 3.4).

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 the Group maintained its positive net cash position while paying a special dividend. The Group has also sought to gain further efficiencies in the balance sheet by repurchasing further debt where it is economically beneficial to do so (see section 4 for details on capital structure and financing).

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

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

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

Subsidiaries, joint ventures, associates and special purpose entities

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

A joint venture is 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

Financials

Section 1: Basis of Preparation continued

their activities and receiving the majority of the residual or ownership risks related to the SPEs or their assets.

SPEs are used in limited circumstances by the Group. The only significant SPE is the pension funding partnership that was established in 2010 between the Group and the Trustee of the ITV Pension Scheme as a way of establishing payment streams to the pension scheme. The partnership, which is a Scottish Limited Partnership, is controlled and consolidated by the Group.

Current/non-current distinction

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

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

Classification of financial instruments

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

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

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

Recognition and derecognition of financial assets and liabilities

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits with a maturity of less than or equal to three months from the date of acquisition, cash held to meet certain finance lease commitments and gilts 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.

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.

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)
- Business combinations (note 3.3 and note 3.4)

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

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

Financials

Section 1: Basis of Preparation continued**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 2013:

Accounting Standard	Requirement	Impact on financial statements
IAS 19 Revised – Employee Benefits	<p>The IASB issued numerous amendments to IAS 19, ranging from the concept of expected return on plan assets to simple clarifications and rewording of disclosures.</p> <p>The most significant amendment is the requirement to calculate net interest income or expense using the discount rate used to measure the defined benefit obligation, whereas the previous standard required a separate expected return on assets to be used.</p> <p>The amendment also clarifies that administrative costs should be recognised within operating costs, which differs from previous practice of including it as a deduction of assets.</p> <p>The revised standard has been implemented in the current year by the Group, with retrospective application.</p>	<p>The impact on the income statement has been reflected in the current year and has resulted in finance costs of £20 million (which is adjusted for in calculating adjusted profit), and operating costs of £13 million, which is included within EBITA. The 2012 comparative performance has been restated to reflect an increase in finance costs of £7 million to £16 million, and an additional £7 million in operating costs to £15 million. The impact on 2012 statutory EPS is a decrease from 6.9p to 6.6p.</p> <p>The above amendments have not had any impact on the 2013 and 2012 net asset position of the Group.</p>
IAS 1 Financial Statement Presentation	<p>The amendments to IAS 1 change the grouping of items presented in other comprehensive income. 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.</p>	<p>The statement of other comprehensive income has been amended to reflect the update in presentation but there is no impact on the Group's financial position or performance.</p>
IFRS 13 Fair Value Measurements	<p>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.</p> <p>Longevity swap IFRS 13 has resulted in a change in the method of valuing a longevity swap (previously accounted for under IAS 19R). Under the new method the Group will be applying market-based assumptions to the measurement process (previously the best estimate was taken).</p>	<p>Longevity swap The value of the longevity swap has increased from a negative asset of £118 million in 2012 under the old method to a negative asset of £23 million in 2013 under the new method. Had the old valuation method applied at 31 December 2013, the value of the longevity swap would have been negative £140 million. The impact of the new valuation method is an increase in the net assets position of £117 million, with the remaining £22 million offsetting movement being changes in market conditions over 2013. The movement has been reflected within the net remeasurement gain presented in the statement of other comprehensive income.</p> <p>The change in value of the swap has had no impact on the consolidated income statement of the Group. Further details are in note 3.7.</p> <p>There have been no other material impacts noted for the Group.</p>

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 32 Financial Instruments	The amendments clarify the offsetting criteria, such as when an entity has a legal right to offset and when gross settlement is equivalent to net settlement.	Based on the preliminary analyses performed, the amendments are not expected to have any impact on the Group.
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 material 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 material 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 material impact expected on the Group's financial position or performance.

Financials

Section 2: Results for the Year

In this section . . .

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

Keeping it simple . . .

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

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

Following revisions to IAS 19, we have restated our prior period results and the details of those restatements are included in note 3.7.

2.1 Profit before tax

Accounting policies

Revenue recognition

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

Applicable segment	Class of revenue	Recognition criteria
Broadcast & Online	Advertising	on transmission or display
Broadcast & Online	Sponsorship	on transmission of the sponsored programme or series
Studios	Programme production	on delivery of episode and acceptance by the customer
Studios	Programme rights	when contracted and available for exploitation
Broadcast & Online	Participation revenues (interactive & 'red button' services)	as the service is provided
Studios	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)
Broadcast & Online	Digital revenue: Catch up	an estimate is accrued in the month and trued 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 2013 and 31 December 2012 are therefore 'Broadcast & Online' and 'ITV Studios', the results of which are outlined in the following tables:

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

	Broadcast & Online 2012 (restated) £m	ITV Studios 2012 £m	Consolidated 2012 (restated) £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	406	107	513
Share of losses of joint ventures and associated undertakings	(1)	–	(1)

Intersegment revenue, which is carried out on arm's length terms, is generated from the supply of ITV Studios programmes to Broadcast & Online for transmission primarily on ITV. This revenue stream is a measure which forms part of the Group's strategic priority of building a strong international content business.

In preparing the segment information, centrally managed costs have been allocated between reportable segments on 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. Upon transmission of these programmes, Broadcast & Online generates revenue from the sale of audiences for advertising airtime and sponsorship. Other sources of revenue are from: participation revenue, digital revenue (including pay), online advertising, digital terrestrial multiplex SDN, brand extensions and licensing channels and content to pay operators.

ITV Studios

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

A significant portion of ITV Studios' UK 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 managed by the central treasury function, which manages the cash position and funding of the Group.

Financials

Section 2: Results for the Year continued

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

	2013 £m	2012 (restated) £m
EBITA before exceptional items	620	513
Operating exceptional items	(8)	(7)
Amortisation and impairment of intangible assets	(66)	(60)
Net financing costs	(115)	(106)
Share of losses of joint ventures and associated undertakings	(2)	(1)
Loss on sale and impairment of non-current assets (exceptional items)	–	(6)
Gain on sale and impairment of subsidiaries and investments (exceptional items)	6	1
Profit before tax	435	334

Whilst becoming more international, the Group's principal operations are in the United Kingdom. Its revenue from external customers in the United Kingdom is £1,982 million (2012: £1,895 million), and total revenue from external customers in other countries is £407 million (2012: £301 million).

There are three media buying agencies (2012: three) acting on behalf of a number of customers that represent the Group's major customers. These agencies are the only customers which individually represent over 10% of the Group's revenues. Revenues of approximately £527 million (2012: £486 million), £235 million (2012: £239 million) and £210 million (2012: £233 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:

	2013 £m	2012 £m
Wages and salaries	255	236
Social security and other costs	42	35
Share-based compensation (see note 4.7.7)	14	9
Pension costs	19	20
	330	300

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

	2013	2012
Broadcast & Online	2,049	2,102
ITV Studios	2,208	1,957
	4,257	4,059

The increase in full-time equivalent employees in ITV Studios is primarily driven by the four acquisitions completed in 2013 as well as an increase in production from the core UK business. Broadcast & Online headcount reduction is driven by the regional news operations due to changes in Ofcom regulations combined with efficiency savings.

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



Read more on the Remuneration Report on page 82.

Depreciation

Depreciation in the year was £24 million (2012: £27 million), of which £12 million (2012: £15 million) relates to 'Broadcast & Online' and £12 million (2012: £12 million) to 'ITV Studios'.

Operating leases

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

2013	Transponders	Property	Total
Within 1 year	36	12	48
Later than 1 year and not later than 5 years	138	23	161
Later than 5 years	194	11	205
	368	46	414

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

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 11 years with payments increasing over time, limited by specific RPI caps. These supply agreements are classified as operating leases, in accordance with the Group's policy on leases detailed in note 3.2.

Included in 2012 property commitments were future minimum lease payments of £82 million contracted on the London Television Centre, a property which the Group acquired in January 2013 (see note 3.2).

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

The total future minimum sublease payments expected to be received under non-cancellable subleases at the year end are £2 million (2012: £4 million).

The total operating lease expenditure recognised during the year was £45 million (2012: £40 million) and total sublease payments received were £2 million (2012: £2 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.



Read more on the Group's policy regarding additional assignments in the Audit Committee Report on page 80.

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

	2013 £m	2012 £m
For the audit of the Group's annual accounts	0.7	0.8
For the audit of subsidiaries of the Group	0.2	0.1
Audit-related assurance services	0.1	0.1
Total Audit and Audit-Related assurance services	1.0	1.0
Taxation compliance services	0.1	0.1
Taxation advisory services	0.2	0.3
Other assurance services	0.2	–
Total Non-Audit Services	0.5	0.4
Total fees paid to KPMG	1.5	1.4

There were no fees payable in 2013 or 2012 to KPMG and associates for the auditing of accounts of any associate of the Group, internal audit services, services relating to corporate finance transactions entered into or proposed to be entered into, by or on behalf of the Group or any of its associates.

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

2.2 Exceptional Items

Keeping it simple . . .

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

Accounting policies

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

Subsequent revisions of estimates for items initially recognised as exceptional 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.	2013 £m	2012 £m
Operating exceptional items:			
Reorganisation and restructuring costs	A	–	(5)
Acquisition related expenses	B	(8)	(2)
Total net operating exceptional items		(8)	(7)
Non-operating exceptional items:			
Loss on sale and impairment of non-current assets	C	–	(6)
Gain on sale and impairment of subsidiaries and investments	D	6	1
Total non-operating exceptional items		6	(5)
Total exceptional items before tax		(2)	(12)

Financials

Section 2: Results for the Year continued

A – Reorganisation and restructuring costs

In 2012 £5 million of costs were incurred relating to restructuring initiatives to drive cost efficiency in line with the strategy.

B – Acquisition related expenses

Acquisition related expenses of £8 million include professional fees (mainly financial and legal due diligence) incurred on the acquisitions completed during the year of £5 million (2012: £2 million; see also note 3.4), and expenses in the period with respect to performance based, employment linked contingent costs accrued to former owners of £3 million (2012: nil).

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

In 2012 a £6 million loss on sale and impairment of non-current assets was incurred primarily as a result of an impairment on previous premises of £5 million.

D – Gain on sale and impairment of subsidiaries and investments

In 2013 the credit principally relates to the gain of £6 million recognised on disposal of STV shares. In 2012, the £1 million credit related 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.

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 before tax to the tax charge and the movements in deferred tax assets and liabilities.

Following revisions to IAS 19, we have restated our prior period results and the details of those restatements are included in note 3.7.

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:

	2013 £m	2012 (restated) £m
Current tax:		
Current tax charge before exceptional items	(78)	(63)
Current tax charge on exceptional items	(2)	(2)
	(80)	(65)
Adjustments for prior periods	3	10
	(77)	(55)
Deferred tax:		
Origination and reversal of temporary differences	(25)	(27)
Adjustments for prior periods	(3)	5
	(28)	(22)
Total taxation charge in the income statement	(105)	(77)

In order to understand how, in the income statement, a tax charge of £105 million (2012: £77 million restated) arises on a profit before tax of £435 million (2012: £334 million restated), the taxation charge that would arise at the standard rate of UK corporation tax is reconciled to the actual tax charge as follows:

	2013 £m	2012 (restated) £m
Profit before tax	435	334
Taxation charge at UK corporation tax rate of 23.25% (2012: 24.5%)	(101)	(82)
Non-taxable income/non-deductible expenses	1	(4)
Recognition of previously unrecognised temporary differences	–	8
Adjustments for prior periods	–	7
Impact of changes in tax rate	(4)	(3)
Other	(1)	(3)
Total taxation charge in the income statement	(105)	(77)

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.

A deferred tax asset of £10 million is recognised on overseas temporary differences in the USA. The deferred tax asset of £9 million in 2012 was on overseas temporary differences in the USA and Germany.

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 2013, the effective tax rate is comparable to the standard rate of UK corporation tax. In the year ended 31 December 2012, the effective tax rate was lower than the standard rate of UK corporation tax primarily due to the reversal of over provisions for prior periods and recognition of overseas deferred tax assets. As explained in the Financial and Performance Review, the Group uses an adjusted tax rate to show the cash tax impact on its adjusted earnings.

Taxation – Other comprehensive income

Within other comprehensive income a tax charge totalling £13 million (2012: credit of £50 million) has been recognised representing deferred tax. An analysis of this is included in the deferred tax movement table.

Financials

Section 2: Results for the Year continued**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 2013 £m	Recognised in the income statement £m	Recognised in equity £m	At 31 December 2013 £m
Property, plant and equipment	(6)	–	–	(6)
Intangible assets	(34)	15	–	(19)
Programme rights	1	–	–	1
Pension scheme deficits	96	(27)	(13)	56
UK tax losses	17	(16)	–	1
Interest-bearing loans and borrowings, and derivatives	–	–	–	–
Share-based compensation	9	(1)	5	13
Overseas	9	1	–	10
Other	1	–	(5)	(4)
	93	(28)	(13)	52

	At 1 January 2012 £m	Recognised in the income statement (restated) £m	Recognised in equity (restated) £m	At 31 December 2012 £m
Property, plant and equipment	1	(7)	–	(6)
Intangible assets	(49)	15	–	(34)
Programme rights	1	–	–	1
Pension scheme deficits	71	(24)	49	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	(22)	50	93

At 31 December 2013, total deferred tax assets are £81 million (2012: £133 million) and total deferred tax liabilities are £29 million (2012: £40 million).

The deferred tax balance relates to:

- property, plant and equipment temporary differences arising on assets qualifying for capital allowances;
- temporary differences on intangible assets arising on business combinations;
- programme rights temporary differences on intercompany profits on stock;
- pension scheme deficit temporary 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 temporary differences in receiving the benefit of the Group's tax losses;

- interest-bearing loans and borrowings and derivatives temporary differences on hedging instruments;
- share-based compensation temporary differences on share schemes;
- overseas temporary differences on intangible assets and net operating losses arising in the US and Germany; and
- other temporary differences on miscellaneous items.

Due to the change in the statutory tax rate, deferred tax is provided at 20% (2012: 23%), which is the rate that has been substantively enacted to apply on 2 July 2013. The impact of the change in the tax rate is £6 million (2012: £7 million), of which £4 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 £91 million to the Group's defined benefit pension scheme.

The adjustment in equity to the deferred tax balance primarily relates to the actuarial gains recognised in the period.

A deferred tax asset of £446 million (2012: £513 million) in respect of capital losses of £2,230 million (2012: £2,230 million) has not been recognised due to uncertainties as to the amount and whether a capital gain will arise in the appropriate form and relevant territory against which such losses could be utilised. For the same reasons, deferred tax assets in respect of overseas losses of £14 million (2012: £13 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 £326 million (2012: £256 million) divided by 3,929 million (2012: 3,888 million) being the weighted average number of shares in issue during the year.

Diluted EPS reflects any commitments the Group has to issue shares in the future. In 2013, this comprised share options and the 2016 convertible bond. To calculate the impact it is assumed that all share options are exercised and that the 2016 convertible bond is converted into shares in its entirety.

When calculating the impact of the convertible bond, only ten months of dilution were suffered since the bond was settled in October (see note 4.1 for details).

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

Following revisions to IAS 19, we have restated our prior period results and the details of those restatements are included in note 3.7.

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

Earnings per share 2013

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

Adjusted earnings per share 2013

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

Earnings per share 2012 (restated)

	Ref.	Basic £m	Diluted £m
Profit for the year attributable to equity shareholders of ITV plc		256	264
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		6.6p	6.4p

Financials

Section 2: Results for the Year continued

Adjusted earnings per share 2012 (restated)

	Ref.	Adjusted £m	Diluted £m
Profit for the year attributable to equity shareholders of ITV plc		256	264
Exceptional items	B	10	10
Profit for the year before exceptional items		266	274
Amortisation and impairment of acquired intangible assets	C	37	37
Adjustments to net financing costs	D	47	47
Other tax adjustments	E	2	2
Adjusted profit	F	352	360
Total weighted average number of ordinary shares in issue – million		3,888	4,123
Adjusted earnings per ordinary share		9.1p	8.7p



Read more on our rationale for determining the adjustments to profit in the Financial and Performance Review on page 47.

Details of the adjustments to earnings are as follows:

A. The Group dilutes EPS for the impact of any convertible instrument outstanding during the year. As detailed in note 4.1, in 2013 the Group partially settled the 2016 convertible Eurobond for equity. Consequently, diluted profit for the period attributable to equity shareholders of ITV plc includes an adjustment for interest and accretion recognised in the year on the convertible Eurobond which would not have been incurred if the bond had been converted to equity at the beginning of the period. There will equally be a dilutive impact on the weighted average number of shares for the period to settlement resulting in an additional 136 million shares (2012: 192 million shares for the full year).

B. Both operating and non-operating exceptional items (detailed in note 2.2) are adjusted to reflect profit for the year before exceptional items. A net tax credit of £1 million (2012: £2 million credit) is recognised on the total exceptional items charge of £2 million (2012: £12 million charge).

C. Amortisation and impairment of acquired intangible assets of £42 million (2012: £37 million) is calculated as total amortisation and impairment of £66 million (2012: £60 million), less amortisation of software licences and development of £12 million (2012: £11 million). A related tax credit of £12 million (2012: £12 million) is then recognised on the net amount.

D. Gross adjustments to net financing costs of £90 million (2012: £62 million restated) relate to mark-to-market movements on swaps and foreign exchange, losses on buybacks and imputed pension interest charges. This is reduced by a tax credit of £21 million (2012: £15 million restated) to give a net adjustment of £69 million (2012: £47 million restated).

E. Other tax adjustments primarily reflect the impact on the deferred tax charge resulting from a decrease in the statutory tax rate from 23% to 20% and to reflect the reversal of credit in respect of losses (2012: the rate at which we recognised deferred tax decreased from 25% to 23%).

F. Adjusted profit is defined as profit for the year before exceptional items which include acquisition related costs (professional fees, primarily due diligence, and performance based, employment linked contingent payments), impairment of intangible assets, amortisation of intangible assets acquired through business combinations, net financing costs 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 note 2.3.

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

3.1 Working capital

Keeping it simple . . .

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

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:

	2013 £m	2012 £m
Cost:		
At 1 January	140	125
Additions	16	15
At 31 December	156	140
Charged to income statement:		
At 1 January	123	114
Charge for the year	23	9
At 31 December	146	123
Net book value	10	17

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.

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 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

Financials

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.

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:

	2013 £m	2012 (restated) £m
Acquired programming	110	102
Production	109	97
Commissions	46	24
Sports rights	57	28
Other	-	1
	322	252

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 £1 million (2012: £3 million).

3.1.3 Programme commitments

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

	2013 £m	2012 £m
Within one year	444	439
Later than one year and not more than five years	431	474
More than five years	3	47
	878	960

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:

	2013 £m	2012 (restated) £m
Due within one year:		
Trade receivables	295	264
Other receivables	40	44
Prepayments and accrued income	53	58
	388	366
Due after more than one year:		
Trade receivables	11	14
Other receivables	3	-
Total trade and other receivables	402	380

£306 million (2012: £278 million) of total trade receivables that are not impaired are aged as follows:

	2013 £m	2012 £m
Current	296	274
Up to 30 days overdue	8	2
Between 30 and 90 days overdue	2	2
	306	278

The balance above is stated net of a provision of £7 million (2012: £7 million) for impairment of trade receivables. Of the provision total, £3 million relates to balances overdue by more than 90 days (2012: £4 million) and £4 million relates to current balances (2012: £3 million).

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

	2013 £m	2012 £m
At 1 January	7	11
Charged during the year	1	3
Receivables written off during the year as uncollectable (utilisation of provision)	(1)	(4)
Unused amounts reversed	-	(3)
At 31 December	7	7

3.1.5 Trade and other payables due within one year Accounting policies

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

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

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

	2013 £m	2012 (restated) £m
Trade payables	43	34
Social security	7	7
Other payables	216	193
Accruals and deferred income	436	388
	702	622

3.1.6 Trade payables due after more than one year

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

	2013 £m	2012 (restated) £m
Trade payables	42	31

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

3.1.7 Working capital management

Cash and working capital management continues to be a key focus. During the year the cash outflow from working capital was £15 million (2012: inflow of £1 million) derived as follows:

	2013 £m	2012 £m
(Increase)/decrease in programme rights and other inventory and distribution rights	(42)	29
(Increase)/decrease in receivables	(15)	17
Increase/(decrease) in payables	42	(45)
Working capital (outflow)/ inflow	(15)	1

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

The increase in programme rights and other inventory is largely driven by an increase in commissions and sports rights. The broadcast sports rights mainly represent payment for the FIFA World Cup and Rugby World Cup.

The increase in receivables has been driven by higher revenues, compared to December 2012, resulting in an increase in trade receivables.

The increase in payables primarily relates to trade payables, and an increase in the Group VAT liability.

Financials

Section 3: Operating Assets and Liabilities
continued

3.2 Property, plant and equipment

 Keeping it simple . . .

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

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

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

Accounting policies**Property, plant and equipment**

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

Leases

Finance leases are those which transfer substantially all the risks and rewards of ownership to the lessee. 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 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	£m
Cost						
At 1 January 2012	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
Additions	58	24	1	23	–	106
Reclassification of acquired property	32	(32)	–	–	–	–
Reclassification from assets held for sale (note 3.5)	33	1	–	8	–	42
Disposals and retirements	–	–	–	(13)	–	(13)
At 31 December 2013	137	69	17	221	16	460
Depreciation						
At 1 January 2012	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
Charge for the year	1	1	–	22	–	24
Reclassification of acquired property	7	(7)	–	–	–	–
Reclassification from assets held for sale (note 3.5)	12	1	–	8	–	21
Disposals and retirements	–	–	–	(13)	–	(13)
At 31 December 2013	23	11	15	138	14	201
Net book value						
At 31 December 2013	114	58	2	83	2	259
At 31 December 2012	11	60	1	82	2	156

There are no additions in 2013 relating to acquisitions made in the year (2012: £2 million).

Included within property, plant and equipment are assets in the course of construction of £66 million (2012: £38 million). Included within this are construction costs in relation to the new Coronation Street set, which was completed in early 2014.

During the year, the Group acquired the freehold and leasehold at its headquarters, the London Television Centre, for £56 million and stamp duty of £2 million.

Capital commitments

There are £3 million of capital commitments at 31 December 2013 (2012: £10 million) which primarily relate to the development at MediaCity, including the new location for Coronation Street, in Manchester.

Financials

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 and recognised within Other payables. Contingent consideration classified as an asset or liability that is a financial instrument is measured at fair value with changes in fair value recognised in the income statement. The determination of fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount rate.

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

Financials

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 strategy 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 2012	3,379	173	328	–	121	62	79	4,142
Additions (restated)	32	2	4	10	–	10	–	58
Reclassification from tangible assets	–	–	–	–	–	6	–	6
At 31 December 2012 (restated)	3,411	175	332	10	121	78	79	4,206
Additions	58	4	20	–	–	–	2	84
Foreign exchange	(2)	–	–	–	–	–	–	(2)
At 31 December 2013	3,467	179	352	10	121	78	81	4,288
Amortisation and impairment								
At 1 January 2012	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
Charge for the year	–	16	20	2	9	12	7	66
At 31 December 2013	2,654	159	326	2	83	60	50	3,334
Net book value								
At 31 December 2013	813	20	26	8	38	18	31	954
At 31 December 2012 (restated)	757	32	26	10	47	30	36	938

All additions in the year are due to the acquisition of four production companies, as detailed in note 3.4 (2012: £48 million due to acquisitions).

2012 goodwill additions have been restated to reflect fair value adjustments of £6 million recognised upon finalisation of the purchase price allocation exercise.

Following an annual review of the amortisation periods and residual values of the intangible assets, the Group has adjusted its estimated residual value for the film libraries, resulting in an increased annual amortisation charge in the period.

Goodwill impairment tests

The following CGUs represent the carrying amounts of goodwill.

	2013 £m	2012 (restated) £m
Broadcast & Online	342	342
SDN	76	76
ITV Studios	395	339
	813	757

There has been no impairment charge for the year (2012: 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.

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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 2% (2012: 1%–2.5%). The growth rate used is consistent with the long-term average growth rates for the industry and is appropriate because these are long-term businesses.

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

Broadcast & Online

The goodwill in this CGU arose as a result of the acquisition of broadcasting businesses since 1999, the largest of which 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 2013 (2012: 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. Current industry consensus for the advertising market is 3.5% for 2014. The impairment test also assumed that ITV renews its broadcasting licences, which occurred in February 2014. No impairment was identified. Also as part of the review, a sensitivity of -5% was applied to 2014 for the purposes of the impairment test, again with no impairment identified.

A pre-tax market discount rate of 11.3% (2012: 12.3%) has been used in discounting the projected cash flows.

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

SDN

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

No impairment charge arose on the SDN goodwill during the course of 2013 (2012: 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 13.1% (2012: 14.4%) 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.

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. ITV Studios goodwill also includes all of the goodwill arising from recent acquisitions in 2013 and 2012.

No impairment charge arose in the ITV Studios CGU during the course of 2013 (2012: nil).

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

A pre-tax market discount rate of 12.2% (2012: 12.9%) 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.

All of the deals are structured so that a large part of the payment made to the sellers is determined based on future performance ('consideration'). Accounting standards require some of this consideration to be included in the purchase price used in determining goodwill ('contingent consideration'), while the rest is required to be recognised as a liability or expense outside of acquisition accounting (put option liabilities and performance based, employment-linked contingent payments known as 'earnout' payments).

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



Read more on how each of these businesses plays an important role in helping the Group execute its strategy in the Financial and Performance Review on page 45.

Acquisitions

During 2013 the Group completed four acquisitions, all of which have been included in the results of the Studios operating segment. Each of these businesses fits with the Group's strategy to create world class content for multiple platforms, free and pay, both in the UK and internationally. The following sections provide a summary of each acquisition.

Acquisitions in the United Kingdom

The Garden Productions

On 22 April 2013, the Group acquired 100% of The Garden Productions Limited ('The Garden'), a company that specialises in factual entertainment productions. Initial consideration of £18 million was paid in cash. Contingent consideration included a performance based payment due in 2014 of a maximum of £8 million which is no longer expected to be paid.

The Group also agreed to an earnout payment that will be based on the business meeting certain performance targets. The maximum payment is £28 million (undiscounted) and the expected payment is being accrued over the earnout period (five years), and will largely be reported within exceptional items relating to acquisitions in the income statement.

Intangibles, being the value placed on key contractual arrangements, of £8 million were identified. Goodwill, which

represents the value placed on the opportunity to diversify and grow the content and formats produced by the Group, has been provisionally valued at £12 million. The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

Big Talk Productions

On 26 July 2013, the Group acquired 100% of the share capital of Big Talk Productions Limited and associated companies ('Big Talk'), a business that specialises in scripted programmes. Initial consideration of £13 million was paid in cash. Contingent consideration includes a performance based payment due in 2015 of £1 million (maximum of £2 million undiscounted) and in 2018 of £2 million (maximum of £4 million undiscounted).

The Group also agreed to an earnout payment that will be based on the business meeting certain performance targets. The maximum payment is £11 million (undiscounted) and the expected payment is being accrued over the earnout period (five years), and will largely be reported within exceptional items relating to acquisitions in the income statement.

Intangibles, being the value placed on key contractual arrangements, of £3 million were identified. Goodwill, which represents the value placed on the opportunity to diversify and grow the content and formats produced by the Group, has been provisionally valued at £12 million. The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

Acquisitions in the United States

On 10 May and 18 June 2013, the Group acquired 60% and 65% of the membership interests in High Noon Entertainment ('High Noon') and Thinkfactory Media ('Thinkfactory') respectively. The Group consolidates all of the earnings of both businesses and the vendors' remaining interest will be recognised as a non-controlling interest in equity.

High Noon specialises in reality and entertainment programmes, while Thinkfactory has a mixture of reality, entertainment and some scripted programming. It is the Group's view that the acquisitions will strengthen and complement ITV's existing position as a producer for major US television networks.

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

Further details of each US acquisition is summarised below.

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Section 3: Operating Assets and Liabilities continued

High Noon Entertainment

Initial consideration of £16 million (\$26 million) for 60% was satisfied in cash and contingent consideration includes a performance based payment due in 2015 of £2 million (\$3 million undiscounted, maximum of \$10 million).

A call and put option has been granted over the 40% non-controlling interest. The call option is exercisable in the first half of 2016 and then following the expiry of the vendors' put option, which is exercisable in 2019.

The maximum additional consideration that the Group could pay for the remaining 40% equity interest is £45 million (\$74 million; undiscounted). Final payment will be entirely dependent on future performance of the business, and the maximum payout will only be achieved if the business continues to deliver substantial growth over the next five years.

Intangibles, being the value placed on brands, customer contracts and contractual arrangements, of £7 million were identified and goodwill was valued at £16 million.

Based on the Group's projections at acquisition, the value of the put option was valued at £8 million (\$13 million, discounted). The total was allocated, for accounting purposes, between a put option liability and an earnout accrual. Consequently, a put option liability of £6 million (\$10 million) has been included in the Statement of Financial Position. Any changes in the fair value of the put option liability arising from a reassessment of projections will be reported within financing costs on the income statement, and excluded from adjusted profit. The remaining £2 million (\$3 million) will be accrued over the put option vesting period as an earnout payment and will be reported within exceptional items relating to acquisitions in the income statement.

At the year end, the value of the put option was estimated to be £16 million (\$28 million; undiscounted).

Thinkfactory Media

Initial consideration of £19 million (\$30 million) for 65% was satisfied in cash.

A call and put option has been granted over the 35% non-controlling interest. The call option is exercisable in the first half of 2017 and then following the expiry of the vendors' put option, which is exercisable in 2019.

The maximum additional consideration which the Group could pay for the remaining 35% equity interest is £42 million (\$70 million; undiscounted). Final payment will be entirely dependent on future performance of the business, and the maximum payout will only be achieved if the business continues to deliver substantial growth over the next five years.

Intangibles, being the value placed on brands, customer contracts and contractual arrangements, of £8 million were identified and goodwill was valued at £18 million.

At acquisition the put option was valued at £9 million (\$13 million, discounted). The total has been allocated between a put option liability and an earnout accrual, resulting in a £7 million (\$10 million) put option liability included in the Statement of Financial Position. Any subsequent changes in the fair value of the put option liability arising from a reassessment of projections will be reported within financing costs on the income statement, and excluded from adjusted profit. The remaining £2 million (\$3 million) will be accrued over the put option vesting period as an earnout payment and will be reported within exceptional items relating to acquisitions in the income statement.

At the year end, the value of the put option was estimated to be £12 million (\$20 million; undiscounted).

Effect of acquisition

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

Recognised values on acquisition

£m	The Garden	High Noon	ThinkFactory	Big Talk	2013 Total	2012 Total (Note D)
Consideration transferred:						
Initial consideration (net of cash acquired) (Note A)	14	13	18	11	56	35
Contingent consideration	1	2	–	3	6	1
Total consideration	15	15	18	14	62	36
Fair value of net assets acquired (Note B):						
Property, plant and equipment	–	–	–	–	–	2
Intangible assets	8	7	8	3	26	16
Trade and other receivables	2	11	8	11	32	7
Trade and other payables	(7)	(13)	(9)	(12)	(41)	(9)
Fair value of net assets	3	5	7	2	17	16
Non-controlling interest measured at fair value (Note C)	–	6	7	–	13	12
Goodwill	12	16	18	12	58	32
Other information:						
Present value at acquisition of the liability on options	–	6	7	–	13	12
Present value at acquisition of the earnout payment	5	2	2	6	15	9
Contributions to the Group's performance:						
Revenue – acquisition to date	10	22	20	9	61	6
Profit after tax – acquisition to date	1	1	1	–	3	–
Revenue – January to December	15	38	24	19	96	47
Profit after tax – January to December	2	2	1	1	6	6

Note A: Cash of £4 million was acquired with The Garden, £3 million was acquired with High Noon, £1 million with Thinkfactory and £2 million with Big Talk.

Note B: Provisional details of fair value of net assets acquired in 2013 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.

Note C: Non-controlling interest arises where the Group acquires less than 100% of the equity interest in a business, but obtains control.

Note D: During 2013 a payment of £4 million was made to settle pre-acquisition cash of £6 million. Additional fair value adjustments of £6 million were recognised upon finalisation of the purchase price allocation exercise and recognised in goodwill. The December 2012 balance sheet has been restated to reflect the fair value adjustments to goodwill.

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 2012

During 2012 the Group completed four acquisitions which have all been included in the ITV Studios operating segment.

The Group acquired a 61.5% controlling interest in Gurney in December 2012. Total payments of £29 million (\$46 million) were made, consisting of initial consideration of £25 million (\$40 million) and £4 million (\$6 million) paid for

cash acquired. A call and put option was granted over the non-controlling interest. The discounted put option liability ('options') at the acquisition date was £12 million and the maximum consideration which the Group could pay for the remaining 38.5% equity interest is £42 million (\$71 million; undiscounted). Final payment will be entirely dependent on future performance of the business.

Intangibles, being the value placed on brands, customer contracts and contractual arrangements, of £8 million were identified and goodwill of £26 million has been recognised.

The Group acquired 100% of the share capital of the remaining three businesses for total consideration of £13 million. The maximum additional amount payable is £11 million (undiscounted), and is primarily being accounted for as an earnout payment. Total goodwill of £6 million was recognised on acquisition and represents the value placed on the opportunity to diversify and grow the content and formats produced by the Group.

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Section 3: Operating Assets and Liabilities continued

Acquisition costs largely comprise legal and financial diligence fees. Details of that, along with earnout costs expensed in the period, are disclosed in exceptional items note 2.2.

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.

IFRS provides strict criteria that must be met for an asset to be classified as held for sale. Where the Group no longer considers an asset to meet any of the criteria, it is reclassified.

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.

Assets held for sale

The movement in assets held for sale since 1 January 2013 is summarised in the table below:

	2013 £m
At 1 January 2013	25
Disposal of properties held for sale	(4)
Property reclassified to tangible fixed assets	(21)
At 31 December 2013	–

At the beginning of the year the Group was actively marketing certain freehold properties in Manchester following the Group's decision to relocate to a new site at MediaCity. The sale of one Manchester property was completed in 2013 for consideration of £4 million, with an immaterial gain on sale. The remaining properties are under a conditional offer, with the sale not expected to complete until 2015. As a result, they have been reclassified to tangible fixed assets.

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	Restruc- turing provisions £m	Property provisions £m	Other provisions £m	Total £m
At 1 January 2013	10	4	8	15	37
Additions	–	1	–	–	1
Utilised	(3)	(4)	(4)	–	(11)
At 31 December 2013	7	1	4	15	27

Provisions of £19 million are classified as current liabilities (2012: £25 million). Unwind of the discount is nil in 2013 and 2012.

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

3.7 Pensions

Keeping it simple . . .

Historically, the Group has 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, and inflation. 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.

Financials

Section 3: Operating Assets and Liabilities continued

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.

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 and to monitor the schemes' funding position. 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 2013.

Defined contribution schemes

Total contributions recognised as an expense in relation to defined contribution schemes during 2013 were £8 million (2012: £9 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 as at 1 January 2014, and is expected to be agreed in 2015. The Group will monitor funding levels annually.

The defined benefit pension deficit

The defined benefit pension deficit at 31 December 2013 was £445 million (2012: £551 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:

	2013 £m	2012 £m
Total defined benefit scheme obligations	(3,315)	(3,244)
Total defined benefit scheme assets	2,870	2,693
Net amount recognised within the consolidated statement of financial position	(445)	(551)

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 2014 for current service are expected to be in the region of £10 million (2013: £11 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 2014 the Group expects to make deficit funding contributions of £89 million (£80 million was paid in 2013) 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;
- £32 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.



Read more on the Scheme commitments in the Financial and Performance review on page 51.

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 – the cost to the Group of benefits arising in the future which are attributable to the members' service in the current period. This is charged to operating costs in the income statement.
- Past service cost – refers to the cost or credit as a result of changes in the benefits offered to members or a reduction in the number of employees covered by the scheme. This is recognised through operating costs in the income statement.
- Settlement gains/(losses) – these occur when the Group 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 or losses can arise from the transfer of member benefits into alternative pension arrangements, fully insuring benefits or on business disposals.
- Increase due to interest cost – future pension obligations are stated in present value, in that a discount factor is used to state the current worth of a future cost. This interest cost is the unwinding of the discount on the present value of the obligation. Broadly, it is determined by multiplying the discount rate at the beginning of the period by the present value of the obligation during the period. This is recognised through net financing costs in the income statement.
- Actuarial losses/(gains) – in order to value the Group's defined benefit obligation at the end of a period, it is necessary to apply certain assumptions in relation to demographic and financial trends. Where there is a difference between previous estimates and actual experience, or a change to assumptions, this will give rise to actuarial gains or losses, which are recognised through other comprehensive income
- Benefits paid – any benefits paid out by the schemes will lower the obligations of those schemes.

Financials

Section 3: Operating Assets and Liabilities
continued

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

	2013 £m	2012 £m
Defined benefit obligation at 1 January	3,244	3,036
Current service cost	8	7
Interest cost	133	140
Net actuarial loss	70	200
Benefits paid	(140)	(139)
Defined benefit obligation at 31 December	3,315	3,244

The present value of the defined benefit obligation is analysed between wholly unfunded and funded defined benefit schemes in the table below:

	2013 £m	2012 £m
Defined benefit obligation in respect of funded schemes	3,271	3,203
Defined benefit obligation in respect of wholly unfunded schemes	44	41
Total defined benefit obligation	3,315	3,244

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:

	2013	2012
Discount rate for:		
Past service liabilities	4.45%	4.2%
Future service liabilities	4.60%	4.2%
Inflation assumption for:		
Past service liabilities	3.35%	2.9%
Future service liabilities	3.40%	2.9%
Rate of pensionable salary increases	0.9%	0.9%
Rate of increase in pension payment (LPI 5% pension increases)	3.25%	2.8%
Rate of increase to deferred pensions (CPI)	2.35%	2.2%

IAS 19 requires that the discount rate 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, using the yield curve as the basis of estimation and differentiating between past service (the defined benefit obligation) and future service (the current service cost). Differentiating in this way represents a refinement in the basis of estimation applied in prior periods, where previously the discount rate was based on the term of the past service liabilities and there was no differentiation between past and future service. There is no impact of the refinement on the defined benefit obligation as at 31 December 2013, as this continues to be valued by reference to a single rate for past service liabilities. The use of a different discount rate and inflation rate for future service liabilities has no material impact on the 2014 income statement charge.

The inflation assumption has been set by looking at the difference between the yields on fixed and index-linked Government bonds, also differentiating between past and future service. The inflation assumption is used as a basis for the remaining financial assumptions, except where inflation caps have been implemented. Both the discount rate and the inflation assumption have been selected by considering yields taken from yield curves at terms, and weighted by cash flows, consistent with the pension obligations. The yield curves are constructed by our actuarial advisers from the yields available on relevant AA rated corporate bonds (for the discount rate) and fixed and index-linked Government bonds (for the inflation assumption).

In estimating the life expectancy of pension scheme members, the Group has used the SAPS Normal year of birth tables with CMI 2013 improvements, with a 1.25% p.a. long-term trend and a minus one year age rating (i.e. tables are adjusted so that a member is assumed to be one year younger than actual age). At the 2012 year end, PA92 year of birth tables with medium cohort improvements were used, with a 1% per annum underpin and a one year age rating. Using these tables the assumed life expectations on retirement are:

	2013	2013	2012	2012
Retiring today at age	60	65	60	65
Males	27.8	23	26.8	21.9
Females	30.4	25.5	30.1	25.1
Retiring in 20 years at age	60	65	60	65
Males	29.8	24.8	28.8	23.7
Females	32.4	27.4	32.2	27.0

The tables above reflect published mortality investigation data in conjunction with the results of investigations into the mortality experience of scheme members. The Group estimates the average duration of its UK scheme's liabilities to be 15 years (2012: 15 years).

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 £240 million
	Decrease by 0.5%	Increase by £270 million
Rate of inflation (Retail Price Index)	Increase by 0.5%	Increase by £80 million
	Decrease by 0.5%	Decrease by £60 million
Rate of inflation (Consumer Price Index)	Increase by 0.5%	Increase by £40 million
	Decrease by 0.5%	Decrease by £30 million
Life expectations	Increase by 1 year	Increase by £80 million

The above sensitivity for life expectations excludes the longevity swap. It is estimated that a £50 million benefit would arise from a one year increase in the market based assumption of mortality.

The sensitivities above consider the impact of the single change shown, with the other assumptions assumed to be unchanged. The inflation sensitivities allow for the consequential impact on the relevant pension increase assumptions. The sensitivity analyses have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

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

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.

Financials

Section 3: Operating Assets and Liabilities
continued*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 expectancy of the majority of pensioner members by transacting a longevity swap. Under the swap, the Trustees of the Scheme agreed to make predetermined 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. In prior periods, the present value as at the year end was calculated using the same assumptions applied to the defined benefit obligation. However, the introduction of IFRS 13 in the year means that the Group must now value the swap under market-based assumptions, which represents a change from previous best estimates. This results in a nil valuation of the swap at inception, subsequently adjusted for changes in the market life expectancy and market discount rates.

Pension scheme assets are measured at their fair value and can change due to the following:

- The investment income on scheme assets is determined based on the discount rate at the beginning of the year and calculated as the expected percentage return multiplied by the fair value of the scheme assets. This is recognised through net financing costs in the income statement.
- Remeasurement gains and losses arise from differences between the actual and expected final asset values and are recognised through other comprehensive income.
- A deduction from scheme assets is made for scheme administration expenses, which are recognised through operating costs in the income statement.
- Employer's contributions and cash contributions by scheme participants are paid into the schemes to be managed and invested.
- Any benefits paid out by the schemes will reduce the value of the schemes' assets.
- Movements in the value of the longevity swap. The value of the longevity swap is sensitive to changes in the discount rate or market life expectancy and movements are recognised as a remeasurement gain or loss in other comprehensive income.

The movement in the fair value of the defined benefit scheme's assets is analysed below:

	2013 £m	2012 (restated) £m
Fair value of scheme assets at 1 January	2,693	2,646
Investment income on scheme assets	113	124
Return on assets	118	(13)
Employer contributions	91	82
Benefits paid	(140)	(139)
Administrative expenses paid	(5)	(7)
Fair value of scheme assets at 31 December	2,870	2,693

At 31 December 2013 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 2013 £m	Market value 2012 £m
Equity-type assets		
UK Quoted	172	144
Unquoted	-	-
Overseas Quoted	575	488
Unquoted	1	-
Government bonds		
UK Fixed	410	437
Index-linked	980	934
Overseas Quoted	20	25
Unquoted	1	-
Corporate bonds		
UK Quoted	115	121
Unquoted	-	-
Overseas Quoted	268	284
Unquoted	7	5
Other assets		
Property	49	49
Infrastructure	65	48
Hedge funds/alternatives	165	150
Insurance policies	38	37
Cash and cash equivalents	27	89
Longevity swap fair value	(23)	(118)
Total scheme assets	2,870	2,693

The Trustee holds a longevity swap 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. The introduction of IFRS 13 as discussed below has resulted in a change in the approach and assumptions used to value the swap. As a result, the negative value of the swap has reduced by £95 million, with the associated gain being recognised as a remeasurement gain on assets in other comprehensive income within equity.

The scheme is invested in a range of asset classes and uses derivative financial contracts to improve the efficiency of the portfolio and to help manage risks.

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 manages 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 2014 to develop the expected long-term rate of return on assets assumption for the portfolio. The benchmark for the main section of the scheme in 2014 is to hold broadly 47% liability-matching and 53% return-seeking assets. 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.

Financials

Section 3: Operating Assets and Liabilities
continued

The actual return on the scheme's assets for the year ended 31 December 2013 was an increase of £231 million (2012: increase of £111 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:

	2013 £m	2012 (restated) £m
Amount charged to operating costs:		
Current service cost	(8)	(7)
Scheme administration expenses	(5)	(7)
	(13)	(14)
Amount charged to net financing costs:		
Net interest on defined benefit scheme obligations	(20)	(16)
Total charged in the consolidated income statement	(33)	(30)

Amounts recognised through the consolidated statement of comprehensive income

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

	2013 £m	2012 (restated) £m
Remeasurement gains and (losses):		
Return on scheme assets excluding interest income	118	(13)
Actuarial losses on liabilities arising from change in:		
– demographic assumptions	(66)	–
– financial assumptions	(4)	(200)
	(70)	(200)
Total recognised in the consolidated statement of comprehensive income	48	(213)

The £70 million actuarial loss on the scheme's liabilities was principally due to the change to mortality assumptions. The £118 million remeasurement gain on scheme assets primarily results from the change in valuation method applied to the longevity swap, as discussed below.

Changes to accounting standards

A revised version of IAS 19 'Employee benefits' has been in force from 1 January 2013 and changes a number of disclosure requirements for post employment arrangements and restricts the options previously available on how to account for defined benefit pension plans. The Group adopted the revised standard from this date and has applied it retrospectively to the Group's 2012 results.

The most notable change resulting from IAS 19 (Revised) which impacts the Group is the requirement for the expected returns on pension plan assets, previously 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 retrospective application has resulted in an additional charge of £14 million in the consolidated income statement for 2012, of which £7 million has been charged to operating costs and £7 million is a reduction in interest income on assets, within net financing costs. The impact on basic and diluted EPS for 2012 was a reduction of 0.3p. This change has not impacted the Group's net assets.

IFRS 13 'Fair Value Measurements' was introduced and came into effect from 1 January 2013. The most significant impact on the Group is the requirement to value the longevity swap using IFRS 13 market-based assumptions, instead of the previous requirement to apply assumptions consistent with those used for the defined benefit obligation. Applying IFRS 13 to the swap valuation results in a swap value of nil at inception in August 2011, and a negative swap asset of £23 million as at 31 December 2013. The £95 million remeasurement gain arising in the period, primarily as a result of this change in valuation method, has been recognised as a return on scheme assets within other comprehensive income, and reduced the Group's defined benefit pension obligation by the same amount.

Section 4: Capital Structure and Financing Costs

In this section . . .

This section outlines how the Group manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets.

The Directors determine the appropriate capital structure of ITV, specifically, how much is raised from shareholders (equity) and how much is borrowed from financial institutions (debt) in order to finance the Group's activities both now and in the future.

The Directors consider the Group's capital structure and dividend policy at least twice a year ahead of announcing results and do so in the context of its ability to continue as a going concern, to execute the strategy and to deliver its business plan. During the year the Group's credit rating improved, and the Board continued to focus on improving the efficiency of the balance sheet through the partial repurchase of the bilateral loan and the repurchase and redemption of the 2016 convertible bond.

In 2014 the Board will further review its policies on capital structure to support the strategy. 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.

4.1 Net cash

Keeping it simple . . .

Net cash is the Group's key measure used to evaluate total cash resources net of the current outstanding debt. In defining total outstanding debt the Directors consider it appropriate to include:

- the currency impact of swaps held against those debt instruments;
- equity components of debt instruments (principally the convertible bond which was settled in the year); and
- the amortised cost adjustment which reflects the increase in coupon rates for specific bonds caused by the change in ITV's credit status to and from investment grade in between August 2008 and August 2013.

Financials

Section 4: Capital Structure and Financing Costs
continued

The table below analyses movements in the components of net cash during the year:

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

	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	45	172	(11)	206

Cash and cash equivalents

Included within cash equivalents is £36 million (2012: £43 million), the use of which is restricted to meeting finance lease commitments under programme sale and leaseback commitments, and gilts of £36 million (2012: £37 million) over which the unfunded pension commitments have a charge (see note 3.7 for details).

Held to maturity investments

In March 2013 gilts with a nominal value of £138 million secured against the £200 million bilateral loan were utilised in part repayment of the loan (2012: the gilts had a carrying value of £145 million).

Loans and loan notes due within one year

During the year the 2014 Eurobond was reclassified to current borrowings.

Loans and loan notes due after one year

In March 2013 £138 million of the £200 million covenant free loan with a maturity of March 2019 was repaid from cash and with the held to maturity gilts secured against the loan. All other terms, including the interest cost of 13.55%, remain unchanged. The repayment resulted in an upfront loss of £38 million, shown in net financing costs, and future interest savings of £48 million (2012: £75 million of the October 2015 bonds and £89 million of the January 2017 bonds were repurchased).

Currency components of swaps held against euro denominated bonds

As at 31 December 2013 the currency element of the cross currency interest rate swaps is a £26 million asset (2012: £25 million asset) effectively reducing the net amount repayable on the bond at maturity.

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 contained an option for the issuer to convert a portion of the debt into ITV's equity (from November 2013), the components were treated as separate instruments. The accounting policy for this compound instrument is detailed in note 4.2 (i.e. partly debt and partly equity).

During 2013 the Group settled the entire convertible bond through a combination of repurchase and redemption, resulting in future interest cost savings of £16 million and share dilution of 95 million shares:

- the Group repurchased £73 million nominal for a cash cost of £169 million, resulting in a loss of £13 million recognised in net financing costs and a loss attributable to the equity component of £83 million, which has been reflected in retained earnings;
- the remaining nominal of £62 million was redeemed in exchange for 95 million new shares being issued. The Group recognised a loss of £10 million in net financing costs with respect to the redemption, and the residual equity element of £9 million was released to retained earnings.

The impact of the redemption on the Group's equity is detailed in note 4.7.

Amortised cost adjustment

The purpose of the amortised cost adjustment is to exclude the impact of the coupon step-up on net debt. When ITV's Standard & Poor's credit rating was lowered to BB+ in August 2008 a coupon step-up (an increased interest cost) in the 2014 and 2017 bonds was triggered. Consequently the debt carrying values had to be revalued under IFRS, resulting in a non-cash increase in net debt and associated loss in net financing costs of £30 million as at 31 December 2008. Since then the accounting treatment has been unwinding this through an annual interest expense, which is excluded from adjusted net financing costs.

In August 2013, the Group's investment grade status was fully restored, resulting in a reversing of the previous coupon step up for the 2017 bond. This 'step down' triggered another revaluation of the amortised cost of the debt under IFRS, leading to a gain of £5 million which has been recognised within interest expense on financial liabilities in net financing costs, on a basis consistent with the unwind described above.

At year end, the amortised cost adjustment remaining is nil (2012: £7 million).

4.2 Borrowings and held to maturity investments**Keeping it simple . . .**

The Group borrows money from financial institutions and debt investors in the form of bonds and other financial instruments. The Group's bonds generally have fixed interest rates and are for a fixed term.

The interest payable and receivable on these instruments is shown in the net financing costs note in note 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 had one compound financial instrument, the 2016 convertible bond, that was redeemed in the year as described in note 4.1.

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Section 4: Capital Structure and Financing Costs
continued

The liability component of a compound financial instrument is recognised initially at the fair value of a normal bond 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 and excludes the favourable impact of the cross-currency interest rate swaps:

	Loans and loan notes £m	Finance leases £m	2013 £m
Current			
In 1 year or less, or on demand	41	21	62
Non-current			
In more than 1 year but not more than 2 years	78	7	85
In more than 2 years but not more than 5 years	161	10	171
In more than 5 years	62	–	62
	301	17	318
Total	342	38	380

	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 repayable within one year

The Group has one loan repayable in 2014. The unsecured £41 million (€50 million) Eurobond has a coupon of 10.0% and matures in June. The Group expects to pay £15 million at maturity, net of cross-currency interest rate swaps.

Loans and loan notes repayable between one and two years

The unsecured £78 million Eurobond has a coupon of 5.375% and matures in October 2015.

Loans and loan notes repayable between two and five years

The Group has one loan that is repayable between two and five years as at 31 December 2013. The unsecured £161 million Eurobond matures in January 2017 and has a coupon of 7.375%, which decreases to 6.125% from January 2014 following the coupon step down discussed in note 4.1.

Loans and loan notes repayable after five years

The £62 million (previously £200 million) covenant free loan raised in February 2009 and partially repaid in 2013 (see note 4.1) matures in March 2019 and charges interest of 13.55%. In January 2014 the remaining nominal was repurchased. See note 5.3 for details.

Fair value versus book value

The tables below provide fair value information for the Group's borrowings and held to maturity investments:

Assets	Maturity	Book value		Fair value	
		2013 £m	2012 £m	2013 £m	2012 £m
Held to maturity investments	Mar 2019	–	145	–	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	
		2013 £m	2012 £m	2013 £m	2012 £m
€50 million Eurobond	June 2014	41	39	43	48
£78 million Eurobond	Oct 2015	78	78	83	84
£135 million Convertible bond	Nov 2016	–	110	–	223
£161 million Eurobond	Jan 2017	161	167	179	178
£62 million loan (previously £200 million loan)	Mar 2019	62	200	95	309
		342	594	400	842

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. This calculation of fair value is consistent with assets and liabilities valued under level 2 of the fair value hierarchy detailed in note 4.6.

Movements in book values of the 2016 and 2019 bonds are the result of redemption and buybacks in the period.

Finance leases

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

	2013			2012		
	Minimum lease payments £m	Interest £m	Principal £m	Minimum lease payments £m	Interest £m	Principal £m
In 1 year or less	22	1	21	9	2	7
In more than 1 year but not more than 5 years	18	1	17	39	1	38
In more than 5 years	–	–	–	–	–	–
	40	2	38	48	3	45

Finance leases principally comprise programmes under sale and leaseback arrangements. The net book value of tangible assets held under finance leases at 31 December 2013 was £1 million (2012: £2 million).

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Section 4: Capital Structure and Financing Costs
continued

4.3 Derivative financial instruments

 Keeping it simple . . .

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

The Group is exposed to changes in interest rates on its net borrowings and to changes in foreign exchange rates on its foreign currency transactions and net assets. In accordance with Board approved policies, which are included in note 4.5, the Group uses derivatives to hedge these underlying exposures.

Derivative financial instruments are initially included in the balance sheet at their fair value, either as assets or liabilities, and are subsequently remeasured at fair value or 'marked to market' at each reporting date. Movements in instruments measured at fair value are recorded in the income statement in net financing costs.

An interest rate swap is an instrument to exchange a fixed rate of interest for a floating rate, or vice versa, or one type of floating rate for another. A cross-currency interest rate swap exchanges a fixed or floating interest rate in one currency for a floating or fixed interest rate in another currency.

Analysis of the derivatives used by the Group to hedge its exposure and the various methods used to calculate their respective fair values are detailed in this section.

Accounting policies

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. Hedge accounting as defined under IFRS has not been adopted by the Group for the derivatives held.

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 forward foreign exchange contracts is determined by using the difference between the contract exchange rate and the quoted forward exchange rate at the reporting date. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and 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.

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

When the Group's 2014, 2015 and 2017 Eurobonds were issued, the Group used a portfolio of interest rate swaps and cross-currency interest rate swaps to convert a portion of the fixed rate coupons into floating rates. The Group subsequently layered on additional swaps to take these floating rates back into fixed rates. Consequently, the Group is now 100% fixed on its gross borrowings. The return to fixed rate locked in an interest benefit for the Group, since the fixed rate receivable on the original swap portfolio is higher than the fixed rate payable on the swaps subsequently layered on, resulting in a net mark-to-market gain on the portfolio. On the 2014 €50m Eurobond, this also locked in a foreign exchange benefit for the Group, whereby the net effect of the related swap portfolio at maturity is to receive €50 million (to settle the bond maturity) and to pay £15 million.


Given the bond repurchases in recent periods, the remaining principal outstanding on the 2015 and 2017 Eurobonds is now less than the notional amounts on the related swaps. However, the notional amounts on all of the swaps in the portfolio match, so that there is no remaining floating interest rate exposure and the Group remains 100% fixed rate on its debt portfolio.

4.4 Net financing costs

Keeping it simple . . .

This section details the interest income generated on the Group's cash and other financial assets and the interest expense incurred on borrowings and other financial assets and liabilities. The presentation of these net financing costs in this note reflects income and expenses according to the classification of the financial instruments.

In reporting 'adjusted profit', the Group adjusts net financing costs to exclude mark-to-market movements on interest rate and foreign exchange derivatives, gains/losses on bond buybacks, imputed pension interest, interest and fair value movements in acquisition-related liabilities and other financing costs.

 Read more on our rationale for adjustments made to financing costs in the Financial and Performance Review on page 46.

Mark-to-market movements reflect the change in value of our derivative instruments between the later of inception or 1 January 2013, and 31 December 2013. The value at year end is not necessarily the same as the value at which they will be settled at maturity.

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 imputed interest on pension assets and liabilities. Interest income and expense is recognised as it accrues in profit or loss, using the effective interest method.

Net financing costs

Net financing costs can be analysed as follows:

	2013	2012 (restated)
	£m	£m
Financing income:		
Interest income	7	16
Change in fair value of instruments classified at fair value through profit or loss	3	-
Foreign exchange gain	-	4
	10	20
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	(29)	(60)
Net interest on defined benefit pension scheme obligations	(20)	(16)
Losses on early settlement	(61)	(36)
Foreign exchange loss	(1)	-
Other interest expense	(14)	(9)
	(125)	(126)
Net financing costs	(115)	(106)

Gains relating to changes in fair value of instruments of £3 million (2012: losses of £5 million) relate principally to the unwinding of the interest rate swaps as they near maturity.

As detailed in note 4.1, losses on early settlement of £61 million (2012: £36 million) were incurred as a result of the debt settlements during the year. The partial repurchase of the £62 million 2019 bilateral loan resulted in a loss of £38 million, while the repurchase and redemption of the convertible bond resulted in a loss of £23 million.

 Read more in the Financial and Performance Review on page 46.

Other interest expense includes the interest element of the acquisition related contingent liabilities as detailed in note 3.4.

Financials

Section 4: Capital Structure and Financing Costs continued

The Group has restated 2012 net interest on defined benefit pension scheme obligations by £7 million in accordance with revisions to IAS 19. Details of the impact on 2012 are discussed in note 3.7.

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 as hedges to manage 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, i.e. the Group does not use derivatives to speculate. 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 foreign currency commercial transactions are entered into and the date they are settled; recognised monetary assets and liabilities held in a non-functional currency; 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 using either a natural hedge where one exists, or through forward foreign exchange contracts taken out for up to two years. The Group also utilises foreign exchange swaps to manage foreign currency cash flow timing differences.

The Group ensures that its net exposure to foreign currency 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 bond have been fully hedged by cross currency interest rate swaps.

The Group's investments in overseas subsidiaries are not hedged as those currency positions are considered to be long-term in nature.

At 31 December 2013, 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 £8 million (2012: £6 million) higher/lower. Equity would have been £17 million (2012: £13 million) higher/lower.

At 31 December 2013, 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 £7 million (2012: £8 million) higher/lower. Equity would have been £15 million (2012: £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 and 2013. 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.

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 2013, if interest rates had increased/decreased by 0.1%, post-tax profit for the year would have been unchanged (2012: 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, held to maturity investments and on in-the-money derivatives. There is also credit risk relating to the Group's own credit rating as this impacts the availability and cost of future finance.

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 investment guidelines with respect to surplus cash that emphasises preservation of capital. The guidelines set out procedures and limits on counterparty risk and maturity profile of cash placed. Counterparty limits for cash deposits are largely based upon long-term ratings published by the major credit rating agencies and perceived state support. Deposits longer than 12 months require the approval of the Audit Committee.

Borrowings

ITV's credit ratings improved in 2013 with all three ratings agencies upgrading their long-term credit ratings. In March and April respectively, Standard & Poor's and Fitch upgraded the Group's long-term credit rating to investment grade BBB- (2012: BB+). In August Moody's Investor Service upgraded their long-term credit rating to Baa3 (2012: Ba1). 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 and to ensure access to short-term appropriate facilities. 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 2013 the Group has available two undrawn committed facilities worth a total of £375 million (2012: £375 million). The first is a £125 million invoice discounting facility, maturing in September 2015, which is secured on advertising receivables and which has no financial covenants. The second is a £250 million Revolving Credit Facility ('RCF') which is provided by a small group of relationship banks and which matures in July 2016, following an election made in July 2013 to extend the maturity by one year. The RCF, which is unsecured, can be extended by a further year subject to agreement by the banks. The facility has leverage and interest cover financial covenants normal for such a facility.

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Section 4: Capital Structure and Financing Costs
continued
 Keeping it simple . . .

The table below analyses the Group's financial liabilities including derivatives 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:

	Total contractual cash flows £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
At 31 December 2013					
Non-derivative financial liabilities					
Borrowings	(483)	(92)	(108)	(216)	(67)
Trade and other payables	(744)	(702)	(31)	(10)	(1)
Other payables – non-current	(97)	-	(4)	(75)	(18)
Derivative financial instruments					
Interest rate swaps	55	37	9	9	-
	(1,269)	(757)	(134)	(292)	(86)
At 31 December 2012					
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)

In 2012 held to maturity investments were included within the table above as the £138 million March 2019 gilts were used as security against the £62 million 2019 loan (previously £200 million loan).

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

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

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

	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 (disposal detailed in note 2.2)	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	-

	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)	-
Contingent consideration	(1)	-	-	(1)
	(50)	-	(49)	(1)

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Section 4: Capital Structure and Financing Costs continued

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.

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

The acquisitions in the period gave rise to an additional £6 million of contingent consideration (see note 3.4 for details). The unwind of interest and fair value movement in the liability was immaterial in the period (2012: nil), which is recognised in other interest expense in net financing costs.

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 2013 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 earnings.

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 market price at grant date or a Black-Scholes model, as appropriate, taking into account the terms and conditions of the individual scheme. For performance-based schemes, the relevant Group performance measures are projected to the end of the performance period in order to determine the number of options expected to vest. Based on this number, and the option fair values, their present value is determined.

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 2013 of £403 million (2012: £391 million) and share premium of £174 million (2012: £122 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.



Read more on the Company's financial position on page 169.

4.7.2 Merger and other reserves

Merger and other reserves at 31 December 2013 include the following reserves:

	2013 £m	2012 £m
Merger reserves arising on historic mergers	119	119
Capital reserves	112	112
Capital redemption reserves	36	36
Revaluation reserves	6	6
Equity element of the 2016 convertible bond	-	22
Put option liabilities arising on acquisition of new subsidiaries	(25)	(12)
Total	248	283

The equity element of the 2016 convertible bond was reduced to nil in the year following redemption of the bond, as detailed in note 4.1.

The £13 million increase in liabilities on the options for the acquisition of new subsidiaries relates to the non-controlling interests of High Noon Entertainment and Thinkfactory Media, as detailed in note 3.4.

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 £326 million (2012: £256 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 2.4p per share and a special dividend of 4.0p per share.

4.7.6 Non-controlling interests

In 2013 £4 million (2012: £1 million) of profit was attributable to non-controlling interests.

4.7.7 Share-based compensation

A transaction will be classed as share-based compensation where the Group receives services from employees and pays for these in shares or similar equity instruments. If the Group incurs a liability whose amount is based on the price or value of the Group's shares then this will also fall under a share-based transaction.

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.



Read more on the Group's share-based compensation schemes in the Remuneration Report on page 82.

Exercises of share options granted to employees can be satisfied by market purchase or issue of new shares. No new shares may be issued to satisfy exercises under the terms of the 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 £14 million in 2013 (2012: £9 million).

Financials

Section 4: Capital Structure and Financing Costs
continued

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)	2013 Weighted average exercise price (pence)	Number of options (‘000)	2012 Weighted average exercise price (pence)
Outstanding at 1 January	68,387	11.06	81,479	12.74
Granted during the year – nil priced	12,726	–	19,184	–
Granted during the year – other	13,371	126.97	6,218	66.79
Forfeited during the year	(4,900)	7.69	(16,948)	3.80
Exercised during the year	(21,385)	5.97	(18,052)	14.52
Expired during the year	(523)	51.51	(3,494)	106.17
Outstanding at 31 December	67,676	14.52	68,387	11.06
Exercisable at 31 December	846	–	6,407	2.30

For those options exercised in the year, the average share price during 2013 was 150.44 pence (2012: 84.03 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)	2013 Weighted average remaining contractual life (years)	Weighted average exercise price (pence)	Number of options (‘000)	2012 Weighted average remaining contractual life (years)
Nil	–	44,439	1.88	–	54,618	1.97
20.00 – 49.99	31.09	2,960	1.29	35.00	5,324	1.68
50.00 – 69.99	67.38	5,399	2.11	65.76	6,598	2.87
70.00 – 99.99	73.58	1,639	1.31	73.69	1,847	2.27
100.00 – 109.99	102.59	1,899	3.16	–	–	–
110.00 – 119.99	–	–	–	–	–	–
120.00 – 149.99	131.44	11,339	3.20	–	–	–

Share schemes

Further details of the ITV share plans and awards can be found in the Remuneration Report.



Read more on the Remuneration Report on page 82.

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 2013 and 2012 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	04 Apr 2012	85.25	68.81	43.00%	3.25	2.82%	0.65%	17.97
ITV – five year	04 Apr 2012	85.25	68.81	50.00%	5.25	2.82%	1.18%	22.36
ITV – three year	13 Sept 2012	86.70	66.60	38.00%	3.25	2.82%	0.38%	17.46
ITV – five year	13 Sept 2012	86.70	66.60	50.00%	5.25	2.82%	0.81%	23.32
ITV – three year	05 Apr 2013	121.00	102.59	36.00%	3.25	2.73%	1.04%	32.83
ITV – five year	05 Apr 2013	121.00	102.59	49.00%	5.25	2.73%	1.80%	48.43
ITV – three year	13 Sept 2013	183.40	131.44	34.00%	3.25	2.73%	0.31%	63.33
ITV – five year	13 Sept 2013	183.40	131.44	47.00%	5.25	2.73%	0.72%	85.08
Performance Share Plan								
ITV – three year	01 Mar 2012	88.00	–	*	3.00	*	*	88.00
ITV – three year	10 Sept 2012	88.70	–	*	3.00	*	*	88.70
ITV – three year	01 Mar 2013	123.40	–	*	3.00	*	*	123.40
ITV – three year	28 Mar 2013	129.40	–	*	3.00	*	*	129.40

* Awards do not include market based performance conditions; therefore, 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.

Financials

Section 4: Capital Structure and Financing Costs
continued**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 2013 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 2013	14,849,415	1,484,942
ITV Deferred Share Award Plan		(529,004)	
ITV Performance Share Plan		(18,322,427)	
ITV SAYE Scheme		(2,555,209)	
Subscription for new issue shares		19,500,000	
Shares purchased		8,834,678	
	31 December 2013	21,777,453	2,177,745

The total number of shares held by the EBT at 31 December 2013 represents 0.54% (2012: 0.38%) of ITV's issued share capital. The market value of own shares held at 31 December 2013 is £42 million (2012: £16 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.

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:

	2013 £m	2012 £m
Sales to joint ventures	10	11
Sales to associated undertakings	11	9
Purchases from joint ventures	27	24
Purchases from associated undertakings	57	52

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

Principal joint ventures, associated undertakings and investments

The Company indirectly held at 31 December 2013 the following holdings in significant joint ventures, associated undertakings and investments:

Name	Note	Interest in ordinary share capital 2013 %	Interest in ordinary share capital 2012 %	Principal activity
Freesat (UK) Limited	a	50.0	50.0	Provision of a standard and high definition enabled digital satellite proposition
Digital 3&4 Limited	a	50.0	50.0	Operates the Channel 3 and 4 digital terrestrial multiplex
YouView TV Limited	a	14.3	14.3	Internet connected television platform
Noho Film and Television Limited	a	50.0	50.0	Television drama and film production company
Independent Television News (ITN) Limited	b	40.0	40.0	Supply of news services to broadcasters in the UK and elsewhere
Mammoth Screen Limited	b	25.0	25.0	Production of television programmes
ISAN UK Limited	b	25.0	25.0	Operates voluntary numbering system for the identification of audiovisual works

a Joint venture.

b Associated undertaking.

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

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

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

	2013 £m	2012 £m
Amounts owed by joint ventures	–	1
Amounts owed by associated undertakings	4	6
Amounts owed by pension scheme	2	2
Amounts owed to associated undertakings	–	2

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

Transactions with key management personnel

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

	2013 £m	2012 £m
Short-term employee benefits	8	8
Share-based compensation	5	6
	13	14

Financials

Section 5: Other Notes continued

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 2013 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 2013. 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 16 January 2014, the Group repurchased the remaining 2019 Bilateral loan, with a nominal value of £62 million, for £95 million. Although this resulted in a loss of £30 million recognised within net financing costs, the Group will receive future cash interest savings of £44 million.

5.4 Subsidiaries exempt from audit

 Keeping it simple ...

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

Listed below are subsidiaries controlled and consolidated by the Group, where the Directors have taken the exemption from having an audit of its financial statements for the year ended 31 December 2013. This exemption is taken in accordance with Companies Act s479A.

Company name

12 Yard (North) Productions Limited
Broad Street Films Limited
Campania Limited
Carbon Media Limited
Carlton Content Holdings Limited
Carlton Finance Limited
Carlton Food Network Limited
Carlton Programmes Development Limited
Carlton Screen Advertising (Holdings) Limited
Carltonco 103
Carltonco Forty Investments
Carltonco Ninety-Six
Cosgrove Hall Films Limited
David Young 12 Yard Productions Limited
DTV Limited
Granada Media Limited
Granada Screen (2005) Limited
Granada Television Overseas Limited
ITC Entertainment Holdings Limited
ITV (HC) Limited
ITV International Channels (Asia) Limited
ITV News Channel Limited
Juice Music UK Limited
Link Electronics Limited
Morning TV Limited

ITV plc Company Financial Statements

Company Balance Sheet

As at 31 December	Note	2013 £m	2013 £m	2012 £m	2012 £m
Fixed assets					
Investments in subsidiary undertakings	iii		1,648		1,646
Held to maturity investments			–		145
Derivative financial instruments			41		99
			1,689		1,890
Current assets					
Amounts owed by subsidiary undertakings		1,280		3,424	
Derivative financial instruments		32		–	
Other debtors		26		4	
Cash at bank and in hand and short-term deposits		319		513	
		1,657		3,943	
Creditors – amounts falling due within one year					
Borrowings	v	(41)		–	
Amounts owed to subsidiary undertakings		(1,342)		(4,285)	
Accruals and deferred income		(22)		(8)	
Derivative financial instruments		(5)		(1)	
		(1,410)		(4,294)	
Net current assets/(liabilities)			247		(351)
Total assets less current liabilities			1,936		1,539
Creditors – amounts falling due after more than one year					
Borrowings	v		(301)		(594)
Derivative financial instruments			(27)		(48)
			(328)		(642)
Net assets			1,608		897
Capital and reserves					
Called up share capital	vi		403		391
Share premium	vii		174		122
Other reserves	vii		36		58
Profit and loss account	vii		995		326
Shareholders' funds – equity			1,608		897

The accounts were approved by the Board of Directors on 26 February 2014 and were signed on its behalf by:

Ian Griffiths

Director

Financials

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.

For financial assets and liabilities classified at fair value through profit or loss the fair value change and interest income/expense are not separated.

Compound financial instruments are instruments that are classified as partly debt and partly equity due to the terms of the instrument. The Company had one compound financial instrument, the 2016 convertible bond, that was redeemed in the year as described in note v.

The liability component of a compound financial instrument is recognised initially at the difference between the fair value of a normal bond 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 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 the profit and loss account over the term of the instrument on an effective interest basis.

Dividends

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

ii Employees

Two (2012: two) Directors of ITV plc were employees of the Company during the year, both of whom remain at the year end. The costs relating to these Directors are disclosed in the Remuneration Report.

iii Investments in subsidiary undertakings

The principal subsidiary undertakings are listed in note xi. The balance at 31 December 2013 was £1,648 million (2012: £1,646 million).

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 in less than one year

Loans repayable within one year as at 31 December 2013 comprise:

- an unsecured £41 million (€50 million) Eurobond (£15 million net of cross currency swaps) which has a coupon of 10.0% maturing in June 2014

Loans repayable after more than one year

Loans repayable after more than one year as at 31 December 2013 include:

- an unsecured £78 million Eurobond which has a coupon of 5.375% maturing in October 2015;
- an unsecured £161 million Eurobond which has a coupon of 7.375% maturing in January 2017; and
- in March 2013 £138 million of the £200 million covenant free loan with a maturity of March 2019 was repaid from cash and with the held to maturity gilts secured against the loan. All other terms, including the interest cost of 13.55%, remain unchanged. The loss on repayment was £38 million, which is shown in financing costs. The repurchase resulted in future cash interest savings of £48 million. Subsequent to year end, in January 2014, the remaining £62 million nominal was repurchased. Details are included in note xii.

Convertible bond

In November 2009 the Company issued a £135 million convertible Eurobond with a maturity date of November 2016 and a coupon of 4%. As the bond contained an option for the issuer to convert a portion of the debt into ITV plc's equity (from November 2013), the components were treated as separate instruments.

During 2013 the Company settled the entire convertible bond through a combination of repurchase and redemption, resulting in future interest cost savings of £16 million and share dilution of 95 million shares:

- the Company repurchased £73 million nominal for a cash cost of £169 million, resulting in a loss of £13 million recognised in net financing costs and a loss attributable to the equity component of £83 million, which has been reflected in the profit and loss account within shareholders' funds.
- the remaining nominal of £62 million was redeemed in exchange for 95 million new shares being issued. The Company recognised a loss of £10 million in net financing costs with respect to the redemption, and the residual equity element of £9 million was released to the profit and loss account within shareholders' funds.

vi Called up share capital

	2013 £m	Authorised 2012 £m	2013 £m	Allotted, issued and fully paid 2012 £m
Ordinary shares of 10 pence each				
Authorised:				
8,000,000,000 (2012: 8,000,000,000)	800	800		
Allotted, issued and fully paid:				
4,025,409,194 (2012: 3,912,026,854)			403	391
Total	800	800	403	391

The Company's ordinary shares give shareholders equal rights to vote, receive dividends and to the repayment of capital. The Company issued 20 million new ordinary shares during the period, for total consideration of £2 million. A further 95 million new ordinary shares were issued as a result of the conversion of £62 million of the £135 million convertible Eurobond into equity, creating an additional share premium of £52 million.

Financials

Notes to the ITV plc
Company Financial Statements continuedvii 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 2012	389	120	63	497	1,069
Movement for year	2	2	(5)	(171)	(172)
At 31 December 2012	391	122	58	326	897
Retained profit for year for equity shareholders	-	-	-	996	996
Share-based compensation	-	-	-	14	14
External dividend paid	-	-	-	(271)	(271)
Equity portion of the convertible bond	10	52	(22)	(70)	(30)
Issue of shares	2	-	-	-	2
At 31 December 2013	403	174	36	995	1,608

The profit after tax for the year dealt with in the accounts of ITV plc is £996 million (2012: loss of £107 million).

The profit and loss account reserves of £995 million at 31 December 2013 are all distributable.

The Company received £1,117 million of dividends from subsidiaries in 2013 (2012: £nil).

The Directors of the Company propose a final dividend of 2.4p 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 2013 of £51 million (31 December 2012: £33 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 2013 (2012: 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:

	2013 £m	2012 £m
Short-term employee benefits	3	3
Share-based compensation	2	4
	5	7

xi Principal subsidiary undertakings and
investments

Principal subsidiary undertakings

The principal subsidiary undertakings of the Company at 31 December 2013, 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	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

Name	Principal activity
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
Big Talk Productions Limited	Production of television programmes
High Noon Group LLC ^{1,7}	Production of television programmes
The Garden Productions Limited	Production of television programmes
Thinkfactory Group, LLC ^{1,8}	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

⁷ 60% owned

⁸ 65% owned

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

Principal joint ventures, associated undertakings and investments

The Company indirectly held at 31 December 2013 the following interests in significant joint ventures, associated undertakings and investments:

Name	Note	Interest in ordinary share capital 2013 %	Interest in ordinary share capital 2012 %	Principal activity
Freesat (UK) Limited	a	50.0	50.0	Provision of a standard and high definition enabled digital satellite proposition
Digital 3&4 Limited	a	50.0	50.0	Operates the Channel 3 and 4 digital terrestrial multiplex
YouView TV Limited	a	14.3	14.3	Internet connected television platform
Noho Film and Television Limited	a	50.0	50.0	Television drama and film production company
Independent Television News Limited	b	40.0	40.0	Supply of news services to broadcasters in the UK and elsewhere
Mammoth Screen Limited	b	25.0	25.0	Production of television programmes
ISAN UK Limited	b	25.0	25.0	Operates voluntary numbering system for the identification of audiovisual works

a Joint venture

b Associated undertaking

xii Post balance sheet events

On 16 January 2014, the Company repurchased the remaining 2019 Bilateral loan, with a nominal value of £62 million, for £95 million. Although this resulted in a loss of £30 million recognised within the profit for the year, the Company will receive future cash interest savings of £44 million.

Financials

Financial Record

	2013 £m	2012 (restated) £m	2011 £m	2010 £m	2009 £m
Results					
Revenue	2,389	2,196	2,140	2,064	1,879
Earnings before interest, tax and amortisation (EBITA) before exceptional items	620	513	462	408	202
Amortisation of intangible assets	(66)	(57)	(59)	(63)	(59)
Impairment of intangible assets	-	(3)	-	-	-
Share of losses of joint ventures and associated undertakings	(2)	(1)	(2)	(3)	(7)
Exceptional items	(2)	(12)	1	19	(20)
Profit before interest and tax	550	440	402	361	116
Net financing costs	(115)	(106)	(75)	(75)	(91)
Profit before tax	435	334	327	286	25
Taxation (charge)/credit	(105)	(77)	(79)	(16)	69
Profit after tax	330	257	248	270	94
Non-controlling interests	(4)	(1)	(1)	(1)	(3)
Profit for the financial year	326	256	247	269	91
Basic earnings per share	8.3p	6.6p	6.4p	6.9p	2.3p
Adjusted earnings per share	11.2p	9.1p	7.9p	6.4p	1.8p
Dividend per share	3.5p	2.6p	1.6p	-	-
Special dividend per share	4.0p	4.0p	-	-	-
Consolidated statement of financial position					
Share capital	403	391	389	389	389
Reserves	455	426	417	272	(44)
Total equity attributable to equity shareholders of the parent company	858	817	806	661	345
Non-controlling interests	31	15	3	2	1
Net assets	889	832	809	663	346
Represented by:					
Property, plant and equipment and intangible assets	1,213	1,094	1,101	1,120	1,191
Investments	4	9	5	5	6
Distribution rights	10	17	11	12	16
Inventory	322	252	285	284	388
Trade and other receivables (including assets held for sale and derivative financial instruments)	449	479	475	511	565
Deferred tax asset	52	93	65	73	50
Total assets	2,050	1,944	1,942	2,005	2,216
Net cash/(debt)	164	206	45	(188)	(612)
Deferred tax liability	-	-	-	-	-
Other liabilities	(1,298)	(1,281)	(1,145)	(1,105)	(1,182)
Provisions	(27)	(37)	(33)	(49)	(76)
	889	832	809	663	346

Shareholder Information

Shareholder profile

Information as at 31 December 2013

	Holders Number	%	Shares held Millions	%
Type of holder:				
Insurance companies	7	0.01	0	0.00
Banks and nominee companies	2,460	4.12	3,839	95.36
Individuals	56,925	95.33	135	3.36
Others	321	0.54	51	1.28
Totals	59,713	100.00	4,025	100.00

	Holders Number	%	Shares held	%
Size of holding:				
1 – 100	9,740	16.31	346,447	0.01
101 – 200	8,148	13.65	1,222,098	0.03
201 – 500	15,423	25.83	4,978,168	0.12
501 – 1,000	9,808	16.43	7,172,614	0.18
1,001 – 2,000	7,515	12.59	10,818,644	0.27
2,001 – 5,000	5,101	8.54	15,762,847	0.39
5,001 – 10,000	1,726	2.89	12,301,121	0.31
10,001 – 50,000	1,285	2.15	26,009,203	0.65
50,001 – 100,000	188	0.31	13,614,940	0.34
100,001 – 500,000	336	0.56	86,967,481	2.16
500,001 – 1,000,000	131	0.22	93,895,771	2.33
1,000,001 – 5,000,000	196	0.33	457,459,506	11.37
5,000,001 – 10,000,000	45	0.08	319,355,231	7.93
10,000,001 – 50,000,000	56	0.09	1,152,494,459	28.63
50,000,001 and above	15	0.03	1,823,010,664	45.29
Totals	59,713	100.00	4,025,409,194	100.00

Financials

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 Asset Services, 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 9.00 a.m. to 5.30 p.m.

Alternatively you could email them at:
shareholderenquiries@capita.co.uk

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:


 **0871 664 0454**

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 2699** 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**

 **www.sharegift.org**

Share price information

The current price of ITV plc ordinary shares is available on the Company website

 **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**

 **www.mpsonline.org.uk**

 **mps@dma.org.uk**

Registered office

The London Television Centre
Upper Ground
London
SE1 9LT

 **020 7157 3000**

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	14 May 2014
Interim Management Statement	14 May 2014
Half year results announcement	30 July 2014

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 FCA before getting involved by visiting:

 www.fsa.gov.uk/register/home.do

- Report the matter to the FCA either by calling their Consumer Helpline 0800 111 6768 or by completing an online form at:

 www.fca.org.uk/scams

- 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 FCA website:

 www.fca.org.uk

 www.fca.org.uk/consumers/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.

Financials

Glossary

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

Digital switchover – 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

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 requests – 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

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

Ofcom – the regulator established to govern UK broadcasting as well as other areas of the media and telephony industry

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

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 television platform combining Freeview channels with catch up and on demand services.





itv

ITV plc
The London Television Centre
Upper Ground
London
SE1 9LT

www.itv.com

Investors:
www.itvplc.com

