More than TV

ITV plc Annual Report and Accounts
for the year ended 31 December 2018

We are an integrated producer broadcaster, creating, owning and distributing high-quality content on multiple platforms. This is so much **More than TV** as we have known it.

Key financial highlights

Group external revenue[1]

£3,211m
(+3%)
(2017: £3,130m)

Non-advertising revenue[2]

£1,971m
(+5%)
(2017: £1,874m)

Adjusted EBITA[3]

£810m
(-4%)
(2017: £842m)

Statutory EBITA

£785m
(-3%)
(2017: £810m)

Adjusted EPS

15.4p
(-4%)
(2017: 16.0p)

Statutory EPS

11.7p
(+15%)
(2017: 10.2p)

Dividend per share p (ordinary)

8.0p
(+3%)
(2017: 7.8p)

Leverage[4]

1.1x
(2017: 1.0x)

Corporate website
We maintain a corporate website at **www.itvplc.com** containing our financial results and a wide range of information of interest to institutional and private investors.

Notes
Alternative Performance Measures: We use both statutory and adjusted measures in our Strategic Report, the latter of which, in management's view, reflects the underlying performance of the business and provides a more meaningful comparison of how the business is managed and measured day-to-day. A full reconciliation between our reported and adjusted results is provided in our Alternative Performance Measures section on pages 44 and 45. Our KPIs are set out on pages 28 to 31.

1. The Strategic Report also refers to total revenue, which includes all ITV revenue, both internal and external.
2. Non-advertising revenue includes all ITV revenue, both internal and external, excluding total advertising revenue.
3. EBITA before exceptional items has been adjusted to reflect the inclusion of production tax credits ('adjusted EBITA').
4. Leverage is reported net debt to adjusted EBITDA.

Contents

Key

Read more content within this report

Read more content online

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. 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.

2018 Highlights

ITV delivered another strong operating performance in 2018 with fantastic viewing on-screen and online, and 3% revenue growth in an uncertain economic and political environment.

In 2018

98%
of all commercial audiences over 5 million were on ITV

36.1%
share of commercial impacts for the ITV Family, up 5%

+11%
increase in ITV2's 16–34s share of commercial impacts

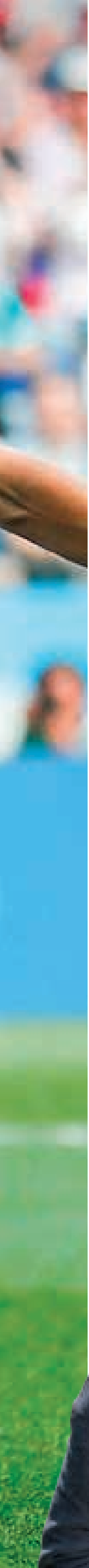
26.6m
viewers for England's semi-final match at peak

23%
increase in long-form video requests

8.5m
paying relationships in Direct to Consumer

56%
of ITV Studios revenue now generated from outside the UK

249
new commissions
& 210
recommissions



I'm a Celebrity...Get Me Out of Here! had its most watched series ever, averaging 11.8 million viewers and 45% share. It was also the biggest show on TV in 2018 (excluding sport).

Britain's Got Talent was the second most watched programme on ITV in 2018 (excluding sport). In June 2018, the 12th series was won by comedian Lee Ridley, also known by the stage name of Lost Voice Guy.

Gordon, Gino and Fred: Road Trip brought in an average audience of 5.1 million viewers and a 23% share across its three episodes in September 2018.

Torvill & Dean was a one-off drama broadcast on ITV on Christmas Day attracting 4.7 million viewers.

Unforgotten returned to ITV for its third series. It is produced by Mainstreet Pictures, part of ITV Studios UK portfolio. Unforgotten averaged 6.1 million viewers and a 24% share, up in share on the second series.

Coronation Street remains the most watched soap in the UK. It averaged 7.5 million viewers in 2018 with a 35% share, up slightly year-on-year.

Dancing on Ice successfully returned to our screens in January 2018 for its tenth series, after a four-year break. The series averaged 6.2 million viewers and a 28% share, making it the fourth largest entertainment show on ITV in 2018.

ITV at a Glance

ITV, as an integrated producer broadcaster (IPB), creates, owns and distributes high-quality content on multiple platforms globally. We also continue to diversify our business through the opportunities presented from consumers' willingness to pay for great content and to engage with ITV as a trusted brand.

Broadcast & Online

We operate the largest family of commercial channels in the UK and deliver our content through linear television broadcasting and on demand via the ITV Hub.

ITV broadcasts a wide variety of content on its family of free-to-air channels and the ITV Hub. Our investment in programming is primarily funded by television and online advertising revenue. We sell all of our key demographics across 13 regional licences and more targeted advertising on the ITV Hub. ITV grew total viewing across its channels and platforms by 3% year-on-year in 2018.

Direct to Consumer

ITV generates revenue directly from consumers through subscription video on demand (SVOD) on the ITV Hub+, competitions, live events, gaming apps, merchandise and pay per view events, driving value from consumers' increasing willingness to engage with brands.

The ITV family of channels attracted a total share of viewing (SOV) of 23.2% in 2018 up 7% year-on-year, the largest audience of any UK commercial broadcaster. Our main channel is the largest commercial channel in the UK, delivering 98% of all commercial audiences over five million.

Our free-to-air digital channels provide more targeted demographics for advertisers, such as 16–34s, ABC1s, Men, and Housepersons with Children, and consist of ITV2 and ITV3, the two largest digital channels in the UK, ITV4, ITVBe, and CITV. ITV2 is the most watched digital channel for 16-34s and 16-24s. It is also ahead of Channel 4, Channel 5 and BBC Two for 16-24s. We also have high definition (HD) versions of our digital channels available on pay platforms.

In addition to linear broadcast, ITV delivers its content across multiple platforms. This is either through our over-the-top (OTT) service the ITV Hub, available on 28 platforms including ITV's website (itv.com), pay providers such as Virgin and Sky, and through direct content deals with services such as Amazon, Apple and Netflix.

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

ITV already has the ITV Hub+ which is a SVOD service where subscribers have access to ad-free content, the ability to download catch up content and EU portability.

Our joint venture with the BBC, BritBox US, provides an ad-free SVOD service in the US and Canada offering the most comprehensive collection of British content available in these countries. BritBox US subscribers continue to grow steadily, exceeding 500k in 2018. We also hold an equity stake in a British content SVOD service, Cirkus, in the Nordics, Germany, Austria and Switzerland.

23.2%
share of viewing for the ITV Family in 2018 (2017: 21.7%)

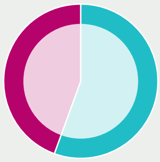
9.2%
share of commercial impacts for 16–34s on ITV2 (2017: 8.3%)

28m
registered users on the ITV Hub (2017: 21m)

£81m
Direct to Consumer revenue in 2018 (2017: £65m)

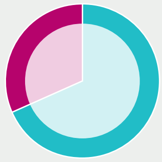
ITV total revenue (inc. internal revenue)

- Broadcast & Online: £2,096m
- ITV Studios: £1,670m



ITV adjusted EBITA

- Broadcast & Online: £555m
- ITV Studios: £255m



ITV Studios

We have built significant scale in key creative markets around the world, creating and producing programmes and formats that return and travel, namely drama, entertainment and factual.

ITV Studios creates and produces content in the UK and internationally across 12 countries, while our distribution business, Global Entertainment, and the distribution arm of Talpa, Talpa Global, sell finished programmes and formats worldwide.

ITV Studios UK

ITV Studios UK is the largest commercial producer in the UK. We produce programming across a diverse range of genres such as drama, entertainment and factual entertainment for ITV's own channels, as well as for other UK broadcasters such as the BBC, Channel 4, Channel 5 and Sky.

ITV America

ITV America is underpinned by the production of unscripted content. However, we have been growing our presence in the scripted content market, using our strong cash flows to produce high-profile dramas with the potential to travel and build international appeal. We sell to over 30 broadcasters and platform owners across the US.

ITV Studios Rest of World

ITV Studios also operates in the Netherlands (through Talpa Media), Germany, France, Italy, Australia, the Nordics, and the Middle East. Talpa produces and distributes entertainment formats while the other businesses increasingly produce scripted content, as well as unscripted content, for local broadcasters in these regions and OTT platforms. This content is either created locally or are formats that have been created elsewhere by ITV, primarily the UK and Talpa.

Global Entertainment

Global Entertainment, ITV's distribution business, owns the rights to ITV programmes and formats and acquires third-party content, distributing this to other broadcasters and platforms internationally. Within this business, we also finance productions for ITV and third parties to acquire global distribution rights.

8,900+ hrs
of original content produced and delivered in 2018
(2017: 8,400+ hours)

50+ labels
in 12 different countries supplying over 200 channels or platforms

57 ITV formats
sold in 2018
(2017: 62 ITV formats)

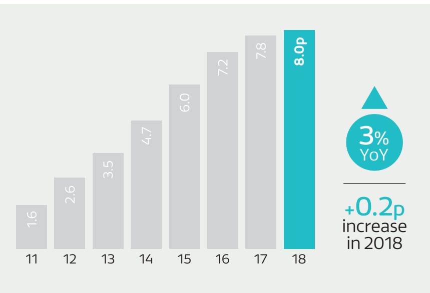
Chairman's Statement

Sir Peter Bazalgette
Chairman

> We live in an era of increased scrutiny and governance for public companies. Quite rightly people ask, what are we for?

Dividend per share p (ordinary)

8.0p



2018 saw ITV demonstrate its resilience in a testing year for UK plc. ITV's share price has not reflected the many achievements we report on here, affected as it is by political and economic uncertainty in the UK. But beyond that Carolyn McCall, a year in as Chief Executive, hit the ground running with her strategy – furthering our creative culture, modernising our advertising offering, developing more direct relationships with our consumers and establishing a data-led business to drive our growing online services. All of this addresses the structural challenges of this digital era and converts them into opportunities. She reports on 'More than TV' later.

We live in an era of increased scrutiny and governance for public companies. Quite rightly people ask, what are we for? A good way of answering this is to look to our stakeholders. Who are they and have we delivered for them? ITV has five broad groups with which we connect:

Customers

First, we deliver compelling programmes and entertainment to our viewers and consumers in the UK and around the world. For the third year running we have increased our share of viewing, with hit dramas, entertainment and sport which strike an emotional and cultural chord with our mass audience. This is underpinned not just by BARB viewing figures, but also by a careful qualitative research dialogue. And increasingly we'll be building relationships directly with consumers.

ITV has always partnered with brands, to whom we offer demonstrably effective and safe advertising and sponsorship opportunities. These are increasingly informed by enhanced data insights. But our major customers also include broadcasters and platform owners in the UK and internationally via our growing production company, ITV Studios. They rely on our quality content to drive their own viewers, subscribers and revenues.

Eat them to defeat them is ITV's bold new advertising campaign inspiring people to eat better.

Shareholders

We remain very focused on delivering value to our shareholders and Carolyn's clear strategic plan – More than TV – will do this. We consult our major shareholders regularly. This included a Capital Markets Day in September, 2018.

We've been explaining how we're strengthening ITV to ensure it's well positioned to address the opportunities and challenges of the digital media landscape. Reflecting our solid operating performance in 2018 and the Board's confidence in the business with its strong cashflows, we're proposing an 8p dividend, up 3%.

Citizens

As the largest commercial broadcaster in the UK, ITV reaches millions of people on a daily basis through our channels and online services. Our huge and varied output reflects society and our significant reach gives us the opportunity to enrich the national conversation. This has included inspiring people to eat better with the ground breaking campaign for vegetables – *Eat them to defeat them*, motivating children to take more exercise with *The Daily Mile*, encouraging the nation to preserve and plant native trees through *The Queen's Green Planet* campaign or raising awareness of health issues, such as mental health with *Project 84*.

As a Public Service Broadcaster we also have an important role to deliver properly resourced, trusted and impartial national and regional news and current affairs. This is critical to democracy, more so than ever in this internet era of rumour and paranoia. And we're investors in Britain's growing creative economy, with our substantial production bases in Manchester, Leeds and London, our network of regional newsrooms and our training programmes for the next generation of talent. In short, we're investors in civil society – we make content with a public purpose.

Legislators and Regulators

A key principle of post-war Britain has been the free and universal provision of the highest quality public service television, enabling everyone to participate in the life of the UK, regardless of means or geographical location. This is a fundamental part of bringing the UK together which is more important than ever. Of course we deliver our legal and regulatory obligations but we deliver much more civic value than this, as I have outlined. We do all this with no public funding and continue to work closely with politicians, policymakers and regulators, not least to sustain the commercial freedoms that enable us to continue playing this role.

Colleagues

At the heart of ITV and its success is our strong creative and commercial talent. We run our business in a way that nurtures an engaged and inclusive workforce. This means attracting people from all social and cultural backgrounds to work with us, enabling everyone to be their best. And via our network of 'Ambassadors' we maintain a close conversation with our 6,000 colleagues globally.

We strive to ensure that our workforce reflects the diverse make up of modern society. This is reflected in our gender balance with around 50% of our workforce being female and almost half of our workforce outside London. And our workforce is also increasingly outside the UK. We now have four network groups actively supporting diversity – ITV Embrace is our BAME network; ITV Balance is our work-life network; ITV Pride serves as our LGBT+ network; and The Women's Network. We were also pleased to be singled out by the most recent Hampton Alexander report as the sixth best performer in the FTSE 100 for gender diversity in our combined Management Board and direct reports team and the fourteenth best performer at Board level.

▲ **Butterfly** was a three-part drama broadcast on ITV in 2018, and brought in an average audience of 3.7 million viewers and an average share of 15%.

At the end of 2018 Ian Griffiths retired as our Chief Operating Officer and Chief Financial Officer after more than a decade of excellent service and leadership. We thank him and wish him well in the future. And we welcome Chris Kennedy as Ian's successor, with his wealth of FTSE 100, media and direct to consumer experience.

I'm pleased to report the arrival of two new recruits to our plc Board: Duncan Painter is a serving FTSE 250 chief executive and has a critical knowledge of data-led enterprises, particularly in the field of entertainment and advertising. Edward Bonham Carter joins as Senior Independent Director, in which role he'll deploy his lifetime's expertise in the financial sector, both as an executive and as a shareholder.

Finally I'd like to thank all our ITV colleagues for their sterling contributions in a year of change. One thing doesn't change, of course: we all still want compelling entertainment, we all like to be told great stories. And at ITV we believe we have a good story to tell.

Sir Peter Bazalgette
Chairman

Chief Executive's Report

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

Carolyn McCall
Chief Executive

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

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

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

2018 Financial highlights

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

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

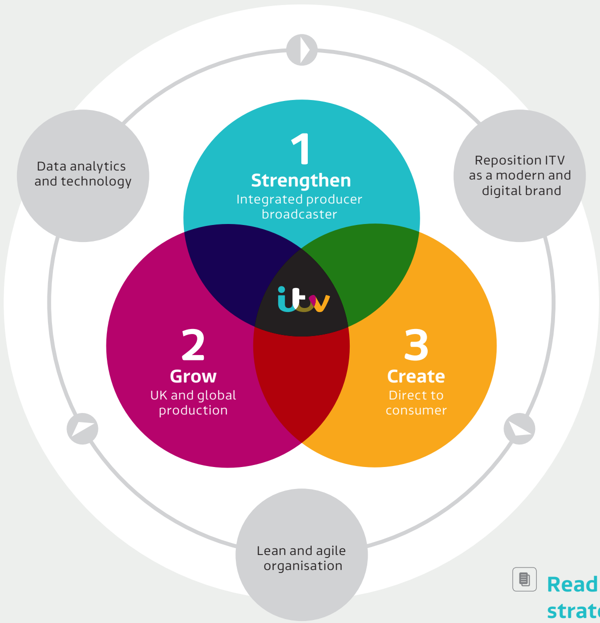
ITV Studios delivered 6% growth in total revenue with organic revenues up 4% and our portfolio of acquisitions continuing to perform well. The UK was broadly flat while international revenues continue to grow with the growth in the rest of world more than offsetting the decline in ITV America which was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

▼ **Horse Racing** continued to perform well on ITV main channel and ITV4, attracting valuable male audiences.

More than TV

ITV's vision is to be… More than TV.

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



Read more about our strategy on page 24

Our vision and strategy

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

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

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

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

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

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

Queer Eye is produced by ITV America for Netflix and achieved critical acclaim in 2018, winning three Emmys.

Chief Executive's Report
continued

▲ **Timewasters** produced by Big Talk Productions, part of ITV Studios UK, was recommissioned for a second series in 2018 following success on ITV2 in 2017. Timewasters will return to our screens in 2019.

▼ **The Chase** produced by Potato, part of ITV Studios UK, for ITV main channel maintained its status as one of ITV's best ever gameshows delivering its highest ever annual average in 2018 of 3.3 million.

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

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

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

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

Integrated producer broadcaster (IPB)

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

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

1. Repositioning ITV and driving light viewers

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

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

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

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

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

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

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

The Voice UK returned in January 2018 with new judge, Olly Murs. The series averaged 0.9 million viewers aged 16-34, with an average audience share for the demographic of 33%.

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

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

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

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

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

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

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

Chief Executive's Report
continued

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

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

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

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

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

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

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

Britain's Brightest Family produced by Gameface Productions, part of ITV Studios UK, was new to ITV in 2018 with Anne Hegerty, star of The Chase and I'm a Celebrity... Get Me Out of Here!, as host.

Direct to Consumer

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

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

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

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

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

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

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

Investments and cost savings

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

Colleagues

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

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

Regulation

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

▲ **Cleaning Up** starring Sheridan Smith launched on ITV in January 2019 with over six million viewers.

▶ **Emmerdale Experiences** from our Direct to Consumer business offers fans the opportunity to visit the Emmerdale Village and enjoy the studio experience.

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

Outlook

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

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

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

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

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

Carolyn McCall
Chief Executive

Investor Proposition

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

A strong platform for delivery

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

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

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

Unique market position

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

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

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

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

Highly cash generative

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

Attractive investment opportunities

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

Compelling shareholder returns

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

52%

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

88%

profit to cash conversion (2017: 91%)

8.0p

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

Non-Financial Information Statement

We aim to comply with the non-financial reporting requirements contained in Sections 414CA and 414CB of the Companies Act 2006. The table below, and the information it refers to, is intended to help stakeholders understand our position on key non-financial matters.

Reporting requirement	Policies and standards which govern our approach	Risk management and additional information
Environmental matters	• Albert certification • Greenhouse Gas Emissions	Corporate Responsibility Strategy, page 16 Directors' Report, page 109
Colleagues	• Code of Conduct • Equal Opportunities Policy • Health and Safety Policy Statement • Whistleblowing Policy • Diversity and Inclusion Policy	Directors' Report, page 109
Human rights	• Modern Slavery Statement • Privacy and Data Protection Policy • Information Security Policy	Audit and Risk Committee Report, page 80 Directors' Report, page 109
Social matters	• Corporate Responsibility Strategy	Corporate Responsibility Strategy, page 16
Anti-corruption and anti-bribery	• Anti-Bribery and Corruption Policy • Code of Conduct • Sanctions Policy • Tax Strategy	Directors' Report, page 109 Finance Review, page 46
Policy embedding, due diligence and outcomes		Risks and Uncertainties, page 54 Finance Review, page 46 Directors' Report, page 109 Corporate Responsibility Strategy, page 16 Audit and Risk Committee Report, page 80
Description of principal risks and impact of business activity		Risks and Uncertainties, page 54
Description of the business model		At a Glance, page 4, Business model, page 26
Non-financial key performance indicators		Operating and Performance Review, page 32 Key Performance Indicators, page 28

Corporate Responsibility Strategy

Using the power of ITV to shape culture for good.

As the largest commercial broadcaster in the UK and a growing international business, ITV reaches millions of people on a daily basis through our programmes and channels. The huge variety of our output and the relationship we can build with our audiences give us the opportunity not just to reflect society, but also to shape culture for good.

ITV has two main platforms for creating positive social impact. First and foremost, through our programmes: we influence and inspire audiences. Secondly, through how ITV runs as an organisation: enabling an inclusive and diverse network of people and reducing our environmental impact.

In 2018 we delivered powerful initiatives across these platforms, just some of which are in the following summaries. We have also been refining our global Corporate Responsibility (CR) strategy for 2019 and beyond; the resulting goals and social cause will be announced later in the year. The CR Board, which is accountable for the implementation of the CR strategy, reports through the Management Board to the Board.

Looking ahead: The new strategy

In 2019, ITV will launch its new Social Purpose strategy, a critical part of ITV being More Than TV: entertaining millions, growing brands, and shaping culture.

After extensive stakeholder engagement through 2018 among senior management and more widely among colleagues, our new Social Purpose strategy sets out how we actively contribute to shaping culture: influencing wider culture through our audiences, and changing our internal culture within ITV, through our colleagues and partners.

Our three focus areas:

1. Looking after our health
We want to support people to feel good, through actively encouraging better physical health, and nurturing our mental health

2. Reducing our impact on the planet, while increasing our impact on audiences
We want to reduce our greenhouse gas emissions, limit our waste, and source responsibly from our suppliers

3. Fostering creativity through diversity
We want to increase social mobility, while also improving and promoting better representation across gender, ethnicity, age, sexuality and disability.

Changing culture in the UK and wider world

Through our programmes
Every week, our programmes reach around 40 million viewers in the UK. That gives us the opportunity to shape society, start conversations and encourage action on the things that matter.

We create change through our programmes in a number of ways. Highlights in 2018 include inspiring people to eat better and move more with the ITV Feel Good campaign; encouraging the nation to preserve and plant native trees through the Queen's Green Planet campaign and contributing to promoting diversity, by casting disabled actors in key roles in our soaps.

On the following page we showcase the Project 84 campaign – which aimed to get men talking about their mental health and help prevent male suicide.

40m
viewers reached weekly through our programmes

Gender split

Board of Directors

6	4
60% Male (2017: 66.7%)	**40%** Female (2017: 33.3%)

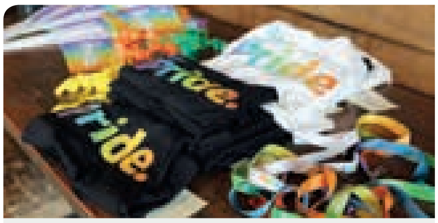
Changing culture within ITV

Project 84

Every week in the UK, 84 men take their own lives. In March 2018, ITV partnered with the Campaign Against Living Miserably (CALM) and Harry's Razors to draw attention to this tragic but little-discussed issue. Replica statues of 84 real men who took their lives were installed on ITV's South Bank offices in London. Launched on This Morning and supported by extensive media and social media coverage, the campaign reached over 22 million people, received a mention in Prime Minister's Questions, and most importantly, encouraged public action. CALM's online petition to demand government action was signed by 290,000 people and in October 2018, a new minister for suicide was announced.

Through our people

Our people are the driving force of ITV. We run our business in a way that nurtures an engaged and inclusive workforce. This means attracting people from all social and cultural backgrounds to work at and with ITV, enabling everyone to be their best at work, and empowering our people to give back to communities and causes important to them.

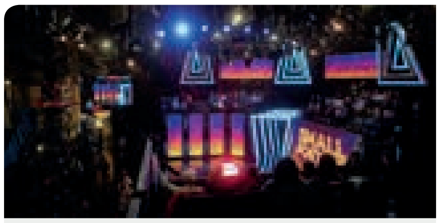


ITV's Employee Network Groups

At ITV we're proud of the diversity of our workforce. Our employee network groups are an important way of actively supporting that diversity. In 2018 all four network groups were live for the first time. Embrace, our BAME network, Balance, our work-life network, ITV Pride, our LGBT+ network, and The Women's Network supported colleagues throughout 2018 with a vibrant calendar of events, talks, and workshops taking place across our UK hub sites in London, Leeds and Manchester and shown on our intranet for international colleagues to view.

Through our actions

ITV is a responsible and transparent business. Reducing our environmental impact is an increasing focus as we seek to go beyond legislative and regulatory requirements.



Improving the impact of production

Reducing the environmental impact of our productions is an important workstream at ITV that has been driven through the Productions Green Team. The team has been instrumental in encouraging action within all production genres. As a result, in 2018 for the first time our World Cup and Royal Ascot coverage achieved albert certification. Likewise, ITV Creative, ITV's in-house creative agency, became the first UK agency to be awarded certification. albert certification, administered by BAFTA, rewards productions that implement sustainable production techniques.

Senior Management[1]

95	69
57.9%	42.1%
Male	Female
(2017: 57.1%)	(2017: 42.9%)

All colleagues[2]

2,927	3,209
47.7%	52.3%
Male	Female
(2017: 47.3%)	(2017: 52.7%)

ITV will be publishing its second gender pay gap report ahead of the April 2019 deadline, and will also be voluntarily publishing its ethnicity pay gap for the first time.

1. A colleague who is a member of the senior leadership team or Management Board.
2. Colleague gender/gender identity split is based on total headcount at 31 December 2018.

Market Review

The market environment in which we operate is dynamic. It is changing and evolving rapidly, becoming increasingly competitive. Consolidation of media and telecoms companies, the increasing influence of technology and data, growing consumer demands and the evolution in the way viewers consume media, bring both challenges and exciting opportunities.

Key market trends

Global demand for content continues to grow with the proliferation of channels, platforms and new entrants, with particularly strong demand for high-quality global and local scripted content, as well as unscripted formats that travel with a strong track record. We estimate that the global content market is growing at around 4-5% per annum, with some genres such as scripted rising faster than others.

A key driver of this change over recent years has been the evolution in the delivery and availability of content with a substantial increase in the number of ways to consume content. Viewers are able to choose from a variety of platforms, both free and pay to watch live, catch up and box set content. This has led to the rapid growth of viewing on mobile devices and via connected TVs. However, linear television viewing remains resilient as the most popular way to consume content for all demographics.

The growth in demand for content can be further attributed to a number of factors, including: a larger international pay television market; the consolidation of pay providers with content companies and distributors; convergence in the television market, where telecoms and new media companies are competing with traditional media companies for content and viewers; online players such as Netflix and Amazon investing heavily in new original and local content; and online advertising-driven platforms such as Google and Facebook creating a new market for short form and digital content.

With the proliferation of channels and platforms looking for brand defining content, we have seen an increase in viewer expectations which has driven an increase in the cost of some content, particularly scripted. As a result, deficit financing and co-productions or partnerships have become increasingly important in financing productions in the UK and US, where distributors are often funding the difference between what the content buyer is paying for the original broadcast and the cost of production in return for distribution rights.

192

linear television viewing minutes per day, down 5% on 2017

4–5%

estimate growth in content market

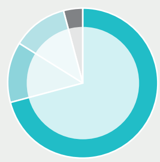
20%

UK SVOD growth year-on-year

Broadcast television, online and direct to consumer

Changes in viewing habits

Long-form content viewing



Live (including simulcast)	71%
Timeshifted (PVR) up to 28 days	13%
VOD: Broadcaster catch up	4%
VOD: Other	12%

Source: 2018 BARB/Thinkbox data

The number of ways for viewers to engage with content has expanded and offers increased flexibility, which has impacted viewing habits globally. With this we have seen a marked increase in viewing on over-the-top (OTT) platforms, via non-TV devices (such as smartphones, games consoles and tablets) and TV VOD. This evolution is not uniform across demographics, with younger viewers spending proportionally more time consuming video content on non-TV devices and TV VOD, whilst older demographics spend comparatively more time engaging with linear television.

In the UK linear viewing remains the most popular form of media entertainment by a significant margin. However, online viewing, while currently only a small share of total viewing, has grown rapidly, particularly via OTT services such as Netflix and Amazon, which have seen strong growth over the last few years.

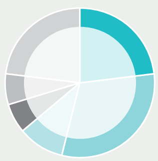
It is our ambition to maximise our volume of total viewing across our linear and online platforms and develop SVOD. We continue to invest in ITV's online offering, the ITV Hub and the ITV Hub+, the subscription version of the ITV Hub, both of which have shown strong growth in the last few years.

An important part of our Direct to Consumer strategy is the launch of a domestic SVOD proposition. We are in the concluding phase of talks with the BBC to establish a strategic partnership to bring BritBox to the UK, offering an unrivalled collection of British boxsets and original series all in one place. This is in addition to our existing SVOD propositions, BritBox US in the US and Canada, and an equity stake in Cirkus.

TV viewing, and in particular free-to-air TV and public service broadcaster viewing, is more resilient in the UK than in other markets, because per capita, we have a higher spend on local, original content than most other developed markets; and the existence of the BBC, with whom we have to compete for viewers but not revenue. That in turn gives us a platform from which to launch SVOD services using similar, indigenous content that connects to viewers in a way that US series, with very few exceptions, do not.

Linear television viewing

SOV by broadcaster



ITV Family	23.2%
BBC Family	30.7%
Channel 4 Family	10.2%
Five Family	6.3%
Sky Family	6.6%
Other	23.0%

Source: BARB

Key metrics

+3%
growth ITV total viewing in 2018

16–34's
most popular channel in 2018 was ITV

98%
of commercial audiences >5m

+32%
growth in online viewing in 2018

Linear television is offered through both free-to-air and pay services in the UK. Free-to-air television is delivered through services including Freeview, YouView and Freesat, while linear pay television is delivered through operators such as Sky, BT, Virgin and TalkTalk. The market dynamics of the pay market are changing as established pay television providers face increasing competition from BT and OTT providers Netflix and Amazon. The platform mix between free-to-air and linear pay television has remained relatively constant for a number of years. In 2018 the mix was 54% free-to-air and 46% linear pay. Including SVOD services, the platform mix in the UK is 36% free-to-air and 64% paid viewing.

The UK average linear television viewing in 2018 was 192 minutes per person per day, down from 203 minutes in 2017. ITV has countered this trend showing a growth in the hours of live linear television viewing year-on-year, up 2%.

The average for 16–34s was 106 minutes per day which declined by 13% (2017: 123 minutes). In contrast across the ITV main channel the average number of minutes increased for 16–34s by 2% and across the ITV family of channels decreased only 2%, and as such ITV saw a 13% share growth for this demographic year-on-year (Source: BARB).

Younger viewers are more skewed to watching content outside of the traditional seven-day measurement window and often on non-TV devices. The data presented in this report is for the seven-day window measured by BARB. Since October 2018, BARB has published a joint-industry, audited measure of linear and online viewing combined across all devices, which includes viewing on TVs, PCs, tablets and smartphones, providing a more comprehensive measure of viewing for a 28-day measurement window. This is currently only available on a programme by programme basis and is not available to calculate aggregate channel or broadcaster viewing volume or share.

While it is clear that younger viewers do watch less linear television than other demographics, if the right content is delivered, they will watch it either via linear television or online. Love Island on ITV2 was an example of this in 2018, with an average of 2.0 million 16–34s viewers with a 46.2% share across the series. On linear, I'm a Celebrity... Get Me Out of Here! achieved an average of 3.0 million 16-34s viewers, which was its biggest audience ever for this demographic. The series launched with 3.8 million 16-34s viewers, which was the second biggest audience of 2018 for this age-group, beaten only by the England World Cup semi-final, also on ITV.

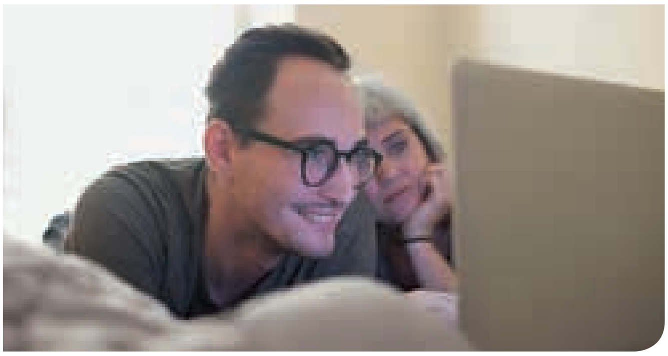
ITV competes for linear viewers with the BBC and commercial broadcasters including Channel 4, Sky and Channel 5. ITV and BBC One continue to be the only channels consistently able to deliver mass audiences as well as targeted demographics, and in 2018, ITV delivered 98% of all commercial audiences over five million viewers and 96% over three million.

In 2018, the ITV family of channels achieved the highest SOV in ten years, increasing their SOV to 23.2% (2017: 21.7%), with the main channel up 9% to 16.9% (2017: 15.5%), compared with BBC One, down 2%, driven by consistently strong performances across the daytime schedule, growth in key entertainment shows, unmissable drama, and outstanding audiences for the 2018 Football World Cup.

Market Review
continued

Broadcast television, online and direct to consumer

Online viewing



Online viewing includes catch up viewing of broadcaster content via the television set or non-TV devices, and video on demand (VOD) delivery of other long-form content such as box sets and movies via platforms such as Sky, Netflix and Amazon.

While online viewing has grown rapidly, and continues to do so, it still accounts for only a small proportion of total viewing time. In the UK, we estimate 71% of all viewing of legal long-form content is live (excluding online simulcast viewing) (2017: 75%), with a further 13% timeshifted via a Personal Video Recorder (PVR) and watched within 28 days of the original broadcast date (2017: 13%).

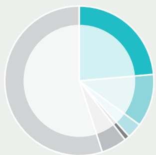
Of the estimated 16% of content viewed on demand (2017: 13%), 4% is catch up viewing of broadcaster content via the television set or to non-TV devices (2017: 4%). The remaining 12% of content is other VOD viewing, where viewing of box sets via services such as Sky, Netflix and Amazon is replacing viewing of DVDs (2017: 8%). In the UK, in viewing share terms, Netflix would represent the third biggest channel behind BBC One and ITV.

This is growing quickly, driven by accessibility of these services on smartphones, tablets and connected televisions, providing flexibility in viewing and adaptability to changing lifestyles, facilitating viewers to watch content whenever and wherever they want.

In 2018 viewing on the ITV Hub has grown 32% year-on-year.

Advertising revenue

Television's share of the advertising market



Source: Advertising Association January 2019

ITV generates advertising revenue through linear television, online VOD and sponsorship, competing with both other commercial broadcasters and increasingly alternative advertising media for its advertising revenues. ITV's total advertising revenue in 2018 is £1,795 million, up 1% year-on-year. As an integrated producer broadcaster, cash from these revenue streams funds the broadcast of our content in the UK and content creation globally.

In the UK, television advertising (including spot, online VOD, sponsorship and other television revenues) continues to hold a significant share of the overall advertising market with a 23.7% share in 2018 (2017: 25.5%). The decrease year-on-year can be attributed to the ongoing political and economic uncertainty in the UK around Brexit with advertisers reducing spend on television as they try to manage margins.

The make up of television advertisers is changing as new markets are being disrupted by insurgent brands. Some categories have grown rapidly, the stand out being the online brands. The well publicised issues with the high street and FMCG companies have put them under pressure and as a result they are spending less and have largely reduced spend across all media.

While online advertising has grown rapidly, concerns remain as to what some online advertising delivers, especially when compared with television in terms of both investment return and potential reputational risk. Some forms of online advertising have no trusted measurement system, the adverts may not be seen by a human, the adverts may be off screen or viewed without sound, and the content around the advertising may not be appropriate for that brand or socially responsible. The ITV Hub delivers the key demographics and growing volumes in a high-quality, trusted and measured environment for online advertisers.

Subscription video-on-demand (SVOD)

41% of homes in the UK have an SVOD service, up from 30% in 2017

Source: 2018 BARB/Thinkbox data

Other Direct to Consumer

8.5m

Paying Direct to Consumer relationships, up 27% on 2017

With no uniformity in the definitions used by broadcasters, the UK television advertising market is extremely difficult to measure, and therefore it is not possible to give ITV's share of total advertising.

Online advertising can deliver a more targeted advertising proposition and ITV is making good progress on developing a scaled, programmatic addressable advertising proposition on the ITV Hub.

ITV also earns revenue from various third parties, including Sky and Virgin, through the licensing of channels and content, including our HD digital channels (ITV2 HD, ITV3 HD and ITV4 HD) and catch up VOD.

Increasingly homes are supplementing their free and pay television with other forms of paid content including SVOD services such as Netflix and Amazon, or by purchasing additional channels through 'no-contract' providers such as NowTV. Many households have multiple subscriptions to paid content, and we expect this to increase. Around 41% of homes in the UK have an SVOD service, up from 30% in 2017, and this is growing at a steady rate (Source: BARB).

We are in the concluding phase of talks with the BBC to establish a strategic partnership to bring BritBox, our exciting new SVOD proposition, to UK audeinces. This will provide an unrivalled collection of British boxsets and original series all in one place. Research has demonstrated there is high demand and a willingness to pay for an additional service. ITV is well positioned to deliver this.

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

ITV Hub+ offers the content available on the ITV Hub ad-free, available for download and with EU portability. The number of subscribers, including subscribers via Amazon, has more than tripled year-on-year.

BritBox US, our joint venture with the BBC launched in 2017, provides an ad-free SVOD service offering the most comprehensive collection of British content available in the US and Canada. Subscribers have continued to grow steadily, exceeding 500k in 2018.

Consumers are increasingly willing to pay to engage with great brands, content and intellectual property (IP), whether that is through competitions, live events, gaming, merchandise or pay per view.

Developing deeper and broader insights about our customers and viewers is increasingly possible and more valuable with the greater use of data analytics.

Generating revenue directly from consumers, while small, is not new for ITV, however, it presents an area of great potential growth with our fantastic brands and loyal viewers. Vital to this growth is making data analytics a key competency across the organisation. To support this we are investing in technology platforms to collect, process, store, and analyse these data sets, as well as investing in people to turn that data into insight.

Market Review
continued

Global content

Scripted

UK

In the UK, we see higher demand and stronger viewing figures for domestically produced content over imported series. Original, high-quality scripted content is central to our strategy and essential for the growth of broadcasters and OTT players, with its the ability to drive viewing and grow brands.

We are a major producer of scripted content delivering some of the most unmissable scripted content in 2018 both on and off ITV including Bodyguard, Trauma, Poldark, Unforgotten, and Vera.

The deficit on high-cost productions is covered through global and secondary sales, with our strategy of making content available in different territories, on different broadcasters or OTT platforms and at different times, either exclusively or non-exclusively, in order to maximise overall revenues. As a distributor as well as a producer, ITV is in a strong position to deficit finance its own productions and therefore produce high-quality content and retain the rights to it as well as acquiring rights for third-party productions.

Poldark is produced by Mammoth Screen (part of ITV Studios UK) for the BBC. 2018 saw the show return for a fourth series, and it has been sold in over 150 countries.

US

The US dominates global production and is the largest content market in the world. This represents a significant opportunity for ITV, with a strong, and evolving, presence in the region.

As with the UK, the market continues to see a significant increase in demand for drama, particularly US drama. Original scripted content is essential for broadcasters and OTT platforms to drive viewing and attract subscribers. Drama is brand defining, and is used as a tool for differentiation and prominence in an increasingly competitive global environment. The rise of Netflix and Amazon, which are investing heavily in signature high-quality original scripted content, has significantly increased competition in the market.

Leveraging our network relationships and international distribution network, we have expanded our US scripted business and are developing a portfolio of returning drama. We are taking advantage of the increased demand from OTT platforms and other viewing windows around the world. Our 2019 scripted pipeline includes the delivery of Snowpiercer to TNT and the remainder of series five of Good Witch to Hallmark.

In recent years in the US, we have invested in backing talent and intellectual property (IP), rather than large scale acquisitions. This allows us to attract and collaborate with innovative and entrepreneurial creatives, with minimal risks, and attractive returns. For example, in 2017 we took a 45% stake in Blumhouse Television, the TV division of the company founded by prodigious film producer Jason Blum, which in 2018, produced Into the Dark for Hulu, and co-produced The Purge for USA Network and Sharp Objects for HBO.

Rest of World

In Europe, we have seen the resurgence in demand for local scripted content, with acquired US content not performing as well as it has done historically on broadcast channels. The OTT platforms also drive growth across Europe for local scripted content, with the platforms tailoring their proposition on a regional basis to differentiate the offerings and attract subscribers. There is now also global demand for high-quality, foreign language scripted content on both broadcast and OTT platforms resulting in a broadening market for European content.

Over the last few years we have invested to strengthen our position in the European market through our 2017 acquisitions of Tetra Media Studio in France and Cattleya in Italy. These acquisitions produce both long-running and new, critically acclaimed foreign-language dramas for free-to-air, pay and OTT platforms locally and internationally. Examples include Profilage and Balthazar from Tetra Media Studio, and Suburra and Zero Zero Zero from Cattleya. A review of the risk of a change to legislation or regulation on our European operations as a result of Brexit is included on page 57.

Profilage is produced by Tetra Media Studio for TF1 in France. The ninth series delivered in January 2019.

Unscripted

UK

While not growing as quickly as scripted content, demand for unscripted content remains strong as networks continue to require lower-cost, high-volume popular series. The UK remains the dominant producer and exporter of unique unscripted formats.

ITV is the largest commercial production company for unscripted content in the UK. The large independent production companies, such as Endemol Shine Group and Fremantle, continue to be ITV Studios' main competitors in non-scripted content.

2018 saw the successful return of Dancing on Ice with the title having been rested for a number of years. Dancing on Ice was recommissioned and returned to ITV in January 2019.

Returning series, including Love Island, I'm a Celebrity... Get Me Out of Here! and The Chase achieved record-breaking audiences in 2018, and continue to go from strength to strength, and provide the very strong track record to then sell the formats internationally.

US

The US remains a strong and vast market for unscripted content, with continued demand from broadcasters for proven successful programming and new entertainment formats. There is growing pressure in the US cable market with significant external competition. OTT platforms have also started to supplement their catalogue with unscripted titles, which provides a lower-cost alternative to expensive scripted titles, and to appeal to new audiences, or supplement the viewing of existing subscribers.

ITV America is one of the largest producers of unscripted content in the US with over 450 hours of original content produced in 2018. Having focused our US acquisitions on the unscripted genre and grown organically, the business has developed a foundation of formats such as Real Housewives, Marriage Bootcamp, Four Weddings, The First 48, Alone, Mama June and Forged in Fire. 2018 also saw the delivery of three-time Emmy winning Queer Eye and Girl Incarcerated to Netflix. Queer Eye will return in 2019 to Netflix for a third series. New in 2019 from ITV America is the hit ITV format, Love Island, for CBS.

Rest of World

Demand remains strong across all major territories for unscripted content as, consistent with the UK and US, networks require lower-cost alternatives to scripted content. The market demands a combination of proven global formats, as well as the development and production of local original ideas. Demand is not growing as fast as for scripted content.

ITV has a presence in what we consider to be the most attractive TV production markets, leveraging our international formats and local creative expertise to grow our overall business.

International production of Love Island tripled in 2018, with shows on air in Germany, Australia, Norway, Sweden, Finland and Denmark. I'm a Celebrity... Get Me Out of Here!, further to the hugely successful UK version, is produced in Germany and Australia, and a new version has been commissioned by TF1 in France. The show is the number one entertainment show in Germany and is on air for its 13th run, and a fifth season launched on Network Ten in Australia in January 2019.

Love Island was the most watched show on any digital channel in 2018 with the best performing series yet with an average of 4.0 million viewers and a share of 17%. In 2019 Love Island will be produced by ITV for CBS in the US.

Our Strategy

In 2018 we undertook a strategic refresh to help us highlight the opportunities for ITV and also the challenges we need to address. It was very much a refresh as ITV is a strong business, no longer solely reliant on advertising. However the market is changing and to reflect this we have developed a clear vision and initiatives to drive growth.

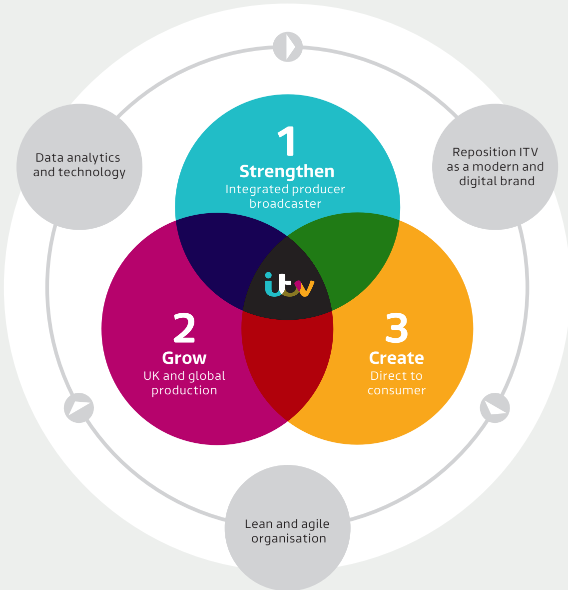
ITV's vision is to be... More than TV

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

ITV strategy

To deliver our strategy we need to do three things extremely well:

- Communicate and market ourselves effectively and innovatively to engage across our platforms and gain more light viewers.
- Be a lean and agile organisation with a culture that can constantly adapt to change.
- Ensure that we embed data, analytics and technology right across our business.



Our vision is 'More than TV', building upon ITV's unique and winning combination of creativity and commercial strength driven by investment in data and technology.

ITV will be More than TV – it will be a structurally sound integrated producer broadcaster where our ambition is to maximise total viewing and increase total advertising revenue; it will be a growing and profitable global content business, which drives returns; and it will create value by developing and nurturing strong direct consumer relationships, capturing the increasing willingness of consumers to pay for content and experiences with a really trusted brand.

We will focus on three key areas:
- Strengthening the integrated producer broadcaster
- Growing UK and global production, and
- Creating a scaled Direct to Consumer business

These are not independent silos. They work together – reinforcing each other, creating synergies and delivering value.

Key Performance Indicators – Targets and Strategic Ambitions

Description	KPI	
		Target – over 3 years to 2021
ITV Group	Total non-advertising revenue	Grow by at least **5% CAGR**
	Cost savings	Deliver **£35** to **£40 million** run-rate of cost savings by 2021
	Profit to cash conversion	Maintain at around **85%**
		Target – over 3 years to 2021
1 Strengthen Integrated producer broadcaster	Online revenue growth	**Double-digital growth** per annum
	Online viewing	**Double-digital growth** per annum
	ITV Hub registered users	Increase to **30 million**
	Brand consideration	Increase to **60%**
		Strategic ambition – over 3 years to 2021
	Total advertising revenue	**To grow total advertising in a flat NAR market**
	Total ITV viewing	**To maintain total viewing**
	ITV Family SOV	**Above 21%**
		Target – over 3 years to 2021
2 Grow UK and global production	Total Studios revenue growth	Grow by at least **5% average CAGR**
	Studios adjusted EBITA margin	Maintain at **14%** to **16%**
	Total production hours	Grow to **10,000 hours**
		Target – over 3 years to 2021
3 Create Direct to Consumer	Direct to Consumer revenue (excluding BritBox SVOD revenue)	Grow to at least **£100 million**
	Paying product relationships (excluding BritBox SVOD subscribers)	Grow to **10 million**

1 Strengthen
Integrated producer broadcaster

We'll strengthen our core UK Integrated Producer Broadcaster (IPB) business to ensure that we can address the opportunities and challenges of structural change and provide a strong, branded and data rich relationship with our viewers and advertisers.

There are five key components to our IPB strategy; repositioning ITV and driving light viewers; enhancing the development and distribution of the Hub; investing in data, analytics, insight and technology so we understand and serve our viewers better; supporting our advertisers better, building our addressable advertising capabilities, driving effectiveness and expanding our portfolio of data driven marketing solutions; and working more closely with Studios, maximising the value of our investment in content.

2018 key performance indicators

£1,795m (2017: £1,781m)
Total advertising revenue

+36% (2017: +14%)
Online revenue growth

17.1bn hrs (2017: 16.6bn hrs)
Total ITV viewing

23.2% (2017: 21.7%)
ITV Family SOV

446m hrs (2017: 337m hrs)
Online viewing

28m (2017: 21m)
ITV Hub registered users

59% (2017: 58%)
Brand consideration

2 Grow
UK and global production

Our aim is to be a leading creative force in global content production.

The core drivers of this business are creative talent, creating and effectively monetising hits, and being disciplined and efficient.

We are focused on developing more hits. In order to do this we need to keep attracting and retaining leading talent, and nurturing the right creative and commercial environment to do this. We will also consider selective value creating acquisitions and talent deals in both scripted and unscripted to obtain creative talent and IP.

We have eliminated the option of doing any scaled US scripted acquisitions for the foreseeable future.

2018 key performance indicators

£1,670m, up 6%
(2017: £1,579m)
Total Studios revenue growth

15% (2017: 15%)
Studios adjusted EBITA margin

8,900+ (2017: 8,468)
Total production hours

£1,971m (2017: £1,874m)
Total non-advertising revenues

3 Create
Direct to Consumer

The expanded reach, engagement and insight into viewers, allied to new online functionality and enhanced data analytics will serve to grow the number of consumer relationships we can monetise while also enhancing the average revenue per relationship.

We are in the concluding phase of talks with the BBC to establish a strategic partnership to bring BritBox, our exciting new SVOD proposition to UK audiences. This will provide an unrivalled collection of British boxsets and original series all in one place. Our research has shown willingness to subscribe to a new SVOD service, and a strong appetite for quality British content – and we are very well positioned to deliver this.

2018 key performance indicators

£81m (2017: £65m)
Direct to Consumer revenue

8.5m (2017: 6.7m)
Paying product relationships

£1,971m (2017: £1,874m)
Total non-advertising revenues

KPI definitions and historic performance can be found on pages 21 to 31

ITV Group

15.4p
(2017: 16.0p)
Adjusted EPS

£1,971m
(2017: £1,874m)
Total non-advertising revenues

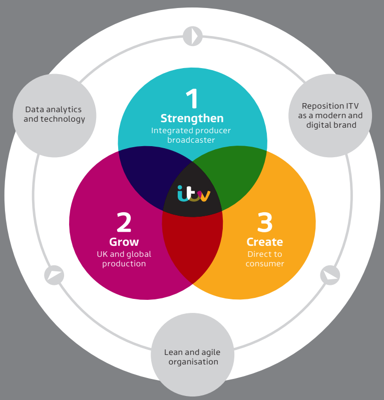
On track to deliver
£15 million cost savings in 2019

88%
(2017: 91%)
Profit to cash conversion

Our Business Model

Our vision is 'More than TV'. We will use our creativity and commercial expertise to strengthen the integrated producer broadcaster, grow the UK and global content business, and create value in developing and enhancing direct consumer relationships. We are confident that our vision and strategy is the right long-term plan for ITV in a dynamic market environment.

Our strategy is to strengthen, diversify and grow the business, creating a robust, future-facing ITV.



Competitive advantage

Delivering unrivalled commercial audiences
The scale of our channels and the significant investment we make in quality content give ITV unique scale and reach across the key demographics on our main channel and more targeted audiences on our family of channels and the ITV Hub.

World-class content
At the core of ITV is our focus on creativity and content, whether selling our unique content around the world or investing in third-party content to broadcast across multiple platforms. Internationally we have built production and distribution scale in key global creative markets through organic growth, selective acquisitions and talent deals.

Global distribution
ITV has built relationships globally with major networks, platform owners and local broadcasters, and owns the rights to a diverse portfolio of shows, particularly drama and entertainment, for international distribution.

Intellectual property
ITV has developed and acquired shows that are hugely popular. Owning this intellectual property allows us to monetise it internationally through programme and format sales and also commercially in the development of interactive experiences, games, apps and consumer products.

65%
Our channels reach over 65% of the UK population each week

£1bn
We invest over £1bn annually in content for our UK family of channels

40,000+
hours of television and film content in the Global Entertainment catalogue

Our strategic assets

Our strategic assets underpin ITV's competitive advantage

Creating and owning the rights to quality content and intellectual property

Our strong, trusted brand, products and culture

Our talented commercial and creative people

Our diversified revenue streams

By developing and managing the rights to content, ITV is able to maximise the value of its programme brands across a range of revenue streams, making ITV a more balanced business and enabling it to drive value from different revenue models.

Advertising

Our family of channels and the ITV Hub drive significant advertising revenues from the ability to deliver both mass audiences and more targeted demographics to advertisers. This funds our investment in the programme budget.

Commercial partnerships

We work with advertisers and advertising agencies to provide unique and innovative commercial partnerships and sponsorship opportunities that extend beyond pure spot advertising.

Direct to Consumer

We monetise our consumer interactions through competitions, live events, merchandising, pay per view, and SVOD. In the UK we currently generate SVOD revenue through the ITV Hub+, and we have agreed a joint vision for BritBox UK with the BBC and are now working on a formal agreement. Internationally we deliver SVOD revenues through our joint venture with the BBC, BritBox US, in the US and Canada and Cirkus in the Nordics, Germany, Austria and Switzerland.

Pay

We earn pay revenue from platforms in the UK by licensing our HD channels and our online VOD services.

Original production

We produce original content commissions for broadcasters and platform owners internationally from our production bases in the UK, the US, the Netherlands, Germany, France, Italy, Australia, the Nordics and the Middle East.

Distribution

We own the rights to a significant catalogue of programmes and formats that we sell and license to broadcasters and platform owners internationally. The strong global demand for content provides a significant opportunity for us.

5%

growth in non-advertising revenue

Creating value for...

Advertisers

Through delivering unique scale and breadth of demographics as well as more targeted opportunities and new innovative ways of engaging with consumers around quality programme brands

Audiences

Through a varied, high-quality programming schedule, which they can watch and engage with on a variety of platforms

Broadcasters and platform owners

Through delivering quality programming that they can then monetise through their own business models

Customers

Through our Direct to Consumer business we drive engagement and interaction with our much loved brands

Shareholders

Through a track record of creating shareholder value and delivering significant shareholder returns

Our people

Through investing in and developing our talent and creating a culture that nurtures them to become both commercial and creative

Key Performance Indicators

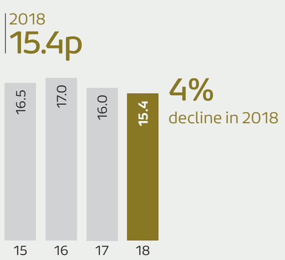
In 2018 we redefined our KPIs to align our performance and accountability to our strategic priorities. As we implement our strategy our KPIs may evolve to ensure they remain appropriate to our business and our priorities. We have set targets or strategic ambitions for our KPIs for three years to 2021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

ITV Group

Adjusted EPS[1]

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

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



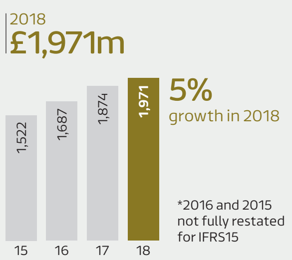
Total non-advertising revenues

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

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

Target
3 years to 2021

Grow by at least 5% CAGR



Cost savings

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

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

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

Target
3 years to 2021

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

Profit to cash conversion

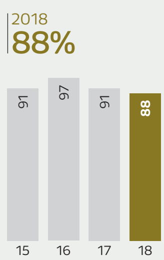
Definition
This is our measure of our effectiveness of cash generation used for working capital management. It is calculated as our adjusted cash flow as a proportion of adjusted EBITA. Adjusted cash flow, which reflects the cash generation of our underlying business, is calculated on our statutory cash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

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

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

Target
3 years to 2021

Maintain at around 85%



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

1 Strengthen
Integrated producer broadcaster

Total advertising revenue

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

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

Strategic ambition

To grow total advertising in a flat NAR market

2018
£1,795m

1%
growth in 2018

Online revenue growth

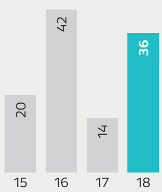
Definition
Online revenues are advertising revenues from VOD via the ITV Hub. With the investment in the ITV Hub and the significant growth of viewing on the ITV Hub these are now a material part of our advertising revenues and an important measure of our success.

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

Target
3 years to 2021

Double digit growth per annum

2018
36%



Total ITV viewing[2]

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

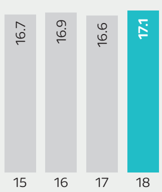
Performance
On-screen and online viewing performed strongly with total ITV viewing up 3% to 17.1 billion hours with growth in both linear and online viewing.

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

Strategic ambition

To maintain total viewing[2]

2018
17.1bn hours



3%
growth in 2018

ITV Family SOV

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

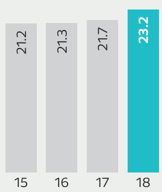
Performance
ITV Family SOV grew 7% in 2018 to 23.2%. Our ITV Family SOV is now the highest it has been for ten years. Within this, the ITV main channel was up 9% to 16.9% and the digital channels were up 2% in the year mainly across ITV2 and ITV3, up 5% and 10% respectively. ITV2 was the most watched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

External source: BARB/AdvantEdge

Strategic ambition

Above 21%

2018
23.2%



7%
growth in 2018

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

Key Performance Indicators
continued

1 **Strengthen**
Integrated producer broadcaster

2 **Grow**
UK and global production

Online viewing

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

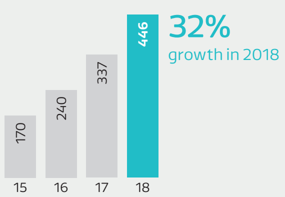
Performance
The ITV Hub and ITV Hub+, the online home for our family of channels and content, is growing rapidly, driven by viewers' appetite for our content on catch up, VOD and simulcast. Online viewing was up 32% in 2018, driven by viewing on mobile devices, connected TVs and streaming media players.

External source: Crocus and comScore Data Analytics

Target
3 years to 2021

Double digit growth per annum

2018
446m hours



ITV Hub registered users

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

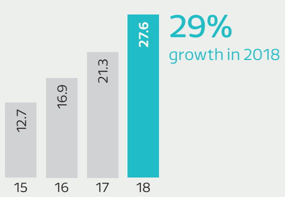
Performance
The ITV Hub grew the number of registered users 29% to 28 million in 2018. This growth is driven by the great content and good user experience, supported and enhanced by a process of continued improvement and investment.

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

Target
3 years to 2021

Increase to 30 million

2018
27.6m



Brand consideration

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

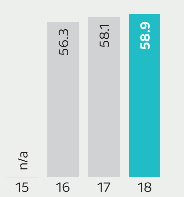
Performance
A new measure for ITV's spontaneous brand consideration was introduced in 2016 and in 2018 we achieved the best ever at 58.9%, growing a percentage point among all adults and two percentage points among light viewers.

External source: YouGov

Target
3 years to 2021

Increase to 60% for all adults

2018
58.9%



Total Studios revenue growth

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

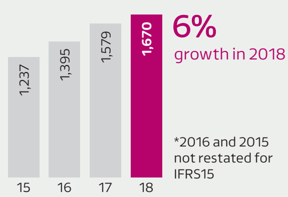
Performance
ITV Studios total revenue grew 6% to £1,670 million, including an unfavourable currency impact of £11 million. Revenue growth was driven by Rest of World and Global Entertainment, as we continue to build our capabilities in key creative markets.

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

Target
3 years to 2021

Grow by at least 5% average CAGR

2018
£1,670m



*2016 and 2015 not restated for IFRS15

3 **Create**
Direct to Consumer

Studios adjusted EBITA margin[1]

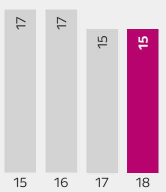
Definition
This is the key profitability measure used across the Studios business. The profile of adjusted EBITA margin differs for production and distribution activities, and further varies with each production due to genre and maturity. Adjusted earnings before interest, tax and amortisation (EBITA)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

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

Target
3 years to 2021

Maintain at 14% to 16%

2018
15%



Total production hours

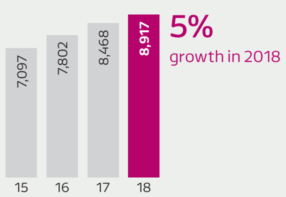
Definition
Total hours of programming produced is an important measure of the scale and success of our global studios business. It measures the number of hours produced across all genres and geographies for ITV and other broadcasters and platform owners.

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

Target
3 years to 2021

Grow to 10,000

2018
8,917 hours



Direct to Consumer revenue

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

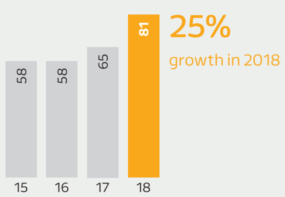
Performance
Direct to Consumer revenue grew 25% to £81 million in 2018, on track to achieve the £100 million revenue by 2021 as set out in the strategy. The target excludes revenue from any new UK SVOD proposition.

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

Target
3 years to 2021

Grow to at least £100 million

2018
£81m



Paying product relationships

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

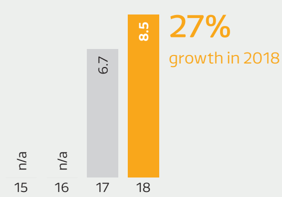
Performance
Paying product relationships grew 27% to 8.5 million in 2018, on track to deliver the target ten million relations by 2021. The target excludes relationships from any new UK SVOD proposition.

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

Target
3 years to 2021

Grow to 10 million

2018
8.5m



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

Operating and Performance Review

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

Key highlights

Group external revenue	Total advertising revenue	Total non-advertising revenue	Adjusted EBITA
£3,211m	**£1,795m**	**£1,971m**	**£810m**
(2017: £3,130m)	(2017: £1,781m)	(2017: £1,874m)	(2017: £842m)

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

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

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

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

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

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

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

Adjusted EPS	Statutory EPS	Net debt	Dividend per share (ordinary)
15.4p	**11.7p**	**£927m**	**8.0p**
(2017: 16.0p)	(2017: 10.2p)	(2017: £912m)	(2017: 7.8p)

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

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

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

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

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

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

The Company continues to keep the potential implications of Brexit under review. Workstreams are in place across the business to identify, manage and mitigate the impact across advertising, broadcast licensing, tax, data, copyright and IP. The most significant risk is the likely impact on the wider advertising market. Further detail is included in the Risks and Uncertainties section on page 56.

Operating and Performance Review
continued

Broadcast & Online

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

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

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

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

Financial Performance

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

Spot and VOD advertising categories have shown different trends in spend across the year. On a combined basis advertising categories such as Retail, FMCG, and Airlines, Travel and Holidays continued to see declines in advertising spend due to the uncertain economic outlook, leading advertisers to reduce spend in order to maintain margins. Within Retail, we have seen

Emmerdale performed strongly in 2018, with an average of 6.4 million viewers and a 33% share, increasing half a share point on 2017.

Girlfriends arrived on our screens in January 2018 for a new six-part series.

Good Morning Britain had a strong performance throughout 2018 and the show continues to see share gains and has done so every year since launch back in 2014.

Who Wants to be a Millionaire? returned after a four year break with new host, Jeremy Clarkson. The 2018 series averaged 4.9 million viewers and 22% share.

spending decline from both supermarkets and the high street. Entertainment & Leisure was up, particularly around the World Cup, telecommunication grew with spend around product launches and Government spending increased with both national and regional campaigns. Digital disrupter brands continue to spend heavily on television, up 10% on 2017, to build brand awareness and having witnessed the immediate response from customers to spot advertising.

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

Viewing

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

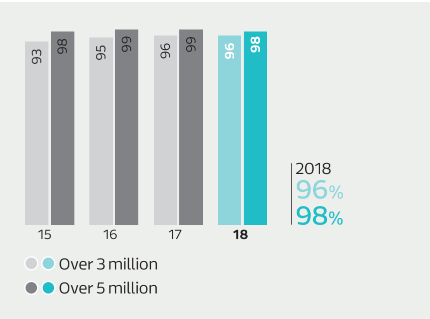
ITV Family SOV grew 7% to 23.2% with a strong performance across the schedule. This level of growth is the biggest in ITV's recent history and never before has ITV delivered three years of consecutive share growth. Our ITV Family SOV is now the highest it has been for ten years. Main channel SOV grew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

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

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

Operating and Performance Review
continued

ITV commercial audiences



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

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

Innocent was ITV's best performing new drama of 2018 and the third best performing new drama on TV, averaging 7.0 million viewers and a 29% share.

ITV Hub

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

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

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

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

Our SVOD & pay offerings

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

britbox
POWERED BY BBC + ITV

ITV HUB+

ITV BOX OFFICE

CIRKUS

32

ITV managed YouTube channels – driving significant growth in viewer engagement

Strong advertising proposition

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

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

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

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

Responsive to a changing media environment

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

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

Increasingly homes are supplementing their free, pay television and advertising video on demand (AVOD) platforms with SVOD

Endeavour returned for another successful series in 2018, averaging 6.0 million viewers and a 22% share.

Operating and Performance Review
continued

services. SVOD has seen strong growth in the UK over the last few years with approximately 41% of UK householders subscribing to at least one of Netflix, Amazon or NowTV. As a creator, owner and distributor of sought after content, ITV is well positioned to take advantage of the opportunities from the changes we are seeing in the media environment and consumer behaviour.

Direct to Consumer

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

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

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

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

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

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

SDN

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

Other revenue

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

This Morning Live has another successful year with over 30,000 attendees.

The **Ninja Warrior UK Aqua Park** launched in May 2018.

ITV Studios

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

Financial Performance

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

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

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

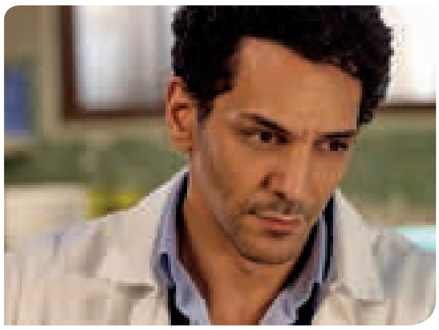
Twelve months to 31 December	**2018 £m**	2017 £m	Change £m	Change %
Sales from ITV Studios to Broadcast & Online	**551**	523	28	5
External revenue	**1,119**	1,056	63	6
Total ITV Studios revenue	**1,670**	1,579	91	6

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

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

Vera had its best performing series ever in 2018, averaging 8.4 million viewers and a 30% share. It was up by over 1.0 million viewers on the previous series, including 0.7 million ABC1 Adults.

Balthazar produced by Beaubourg, part of Tetra Media Studio, for TF1 was one of the most watched programmes in France in 2018.



Operating and Performance Review
continued

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

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

Growing demand for content

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

Building scale in key creative markets

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

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

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

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

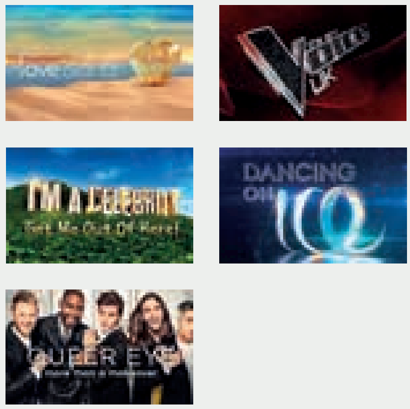
ITV America total revenue declined 21% to £245 million (2017: £310 million), and 18% to £255 million (2017: £310 million) when adjusted for the unfavourable foreign exchange impact. We have delivered a lower volume of programmes from our

The ABC Murders was produced by Mammoth Screen (part of ITV Studios UK) for the BBC.

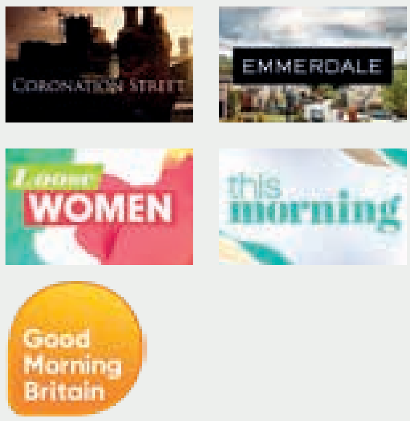
▲ **What Would Your Kid Do** created and distributed by Twofour, has been commissioned in eight territories including Belgium, Turkey, Hungary and Serbia.

Scripted

Unscripted



Core ITV



entertainment portfolio with Duck Dynasty and American Grit not returning, a reduction in the volume of Pawn Stars episodes delivered, and no Hell's Kitchen delivered following the delivery of two series in 2017. There is growing pressure in the US cable market with significant external competition. This volume decline was partly offset by new series, The Four and Knife or Death, and a higher volume of Emmy award winning Queer Eye delivered, and a higher number of Good Witch episodes. Snowpiercer and the remainder of the fifth series of Good Witch will deliver in 2019.

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

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

Operating and Performance Review
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Studio, produced Balthazar, one of the year's top ten most watched dramas in France. 2019 is set to be another strong year for Tetra Media Studio, with Vernon Subutex for Canal+ and the delivery of Profilage to TF1.

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

Expanding our global distribution business

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

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

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

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

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

Suburra is produced by Cattleya for Netflix. The second series was released in February 2019.

Investing in content with international appeal

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

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

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

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

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

Productivity

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

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

People

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

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

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

Broadcast and content technology

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

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

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

Production facilities

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

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

▼ **ITV Feel Good** offers colleagues support and advice on having a balanced and healthy working lifestyle.

Alternative Performance Measures

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

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

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

Key adjustments for adjusted EBITA, profit before tax and EPS

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

Production tax credits

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

Exceptional items

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

Acquisition-related costs

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

Restructuring and reorganisation costs

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

Property costs

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

Amortisation and impairment

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

Net financing costs

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

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

Reconciliation between statutory and adjusted results

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

1. £25 million adjustment relates to production tax credits which we consider to be a contribution to production costs and working capital in nature rather than a corporate tax item.
2. Exceptional items largely relate to acquisition costs, primarily employment linked consideration, as well as restructuring and property costs. £10 million non-operating exceptional items mainly relates to the gain on sale of Manchester Quay Street. Further detail is included in the Finance Review.
3. £85 million adjustment relates to amortisation and impairment of assets acquired through business combinations and investments. We include only amortisation on purchased intangibles such as software within adjusted profit before tax.
4. £7 million adjustment is primarily for non-cash interest cost. This provides a more meaningful comparison of how the business is managed and funded on a day-to-day basis.
5. Tax adjustments are the tax effects of the adjustments made to reconcile profit before tax and adjusted profit before tax. A full reconciliation is included in the Finance Review.

Other Alternative Performance Measures

Total revenue

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

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

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

Adjusted net debt

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

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

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

Net pension deficit

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

Profit to cash conversion

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

Free cash flow

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

Finance Review

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

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

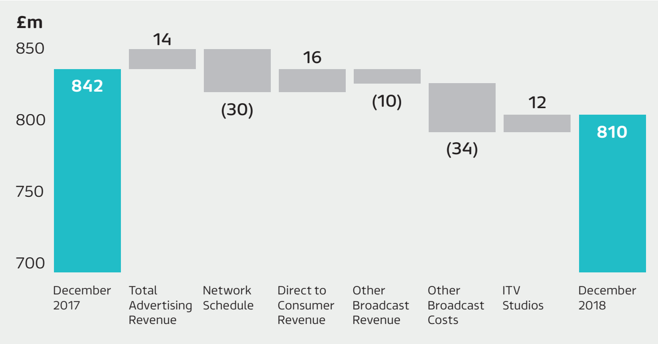
This Finance Review focuses on the more technical aspects of our financial results while the operating and financial performance has been discussed within the Operating and Performance Review. Our Alternative Performance Measure explain the adjustments we make to our statutory results and focus on the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

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

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

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

Adjusted EBITA tracker



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

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

Exceptional items

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

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

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

Net financing costs

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

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

JVs and associates

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

Profit before tax

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

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

Profit before tax (PBT)

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

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

Tax

Adjusted tax charge

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

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

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

Finance Review
continued

Cash tax

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

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

Tax strategy

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

www.itvplc.com/investors/governance/policies

We have four key strategic tax objectives :

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

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

EPS – adjusted and statutory

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

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

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

Dividend per share

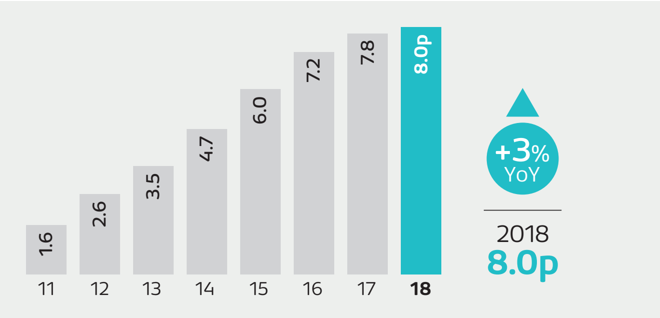
ITV continues to deliver a strong operational performance in an uncertain economic and political environment. Reflecting the Board's confidence in the business and its strategy, as well as the continued strong cash generation, it has proposed a full year dividend of 8.0p, up 3% (2017: 7.8p). This is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

Acquisitions – between 2012 and 2017 (undiscounted)

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

* Undiscounted and adjusted for foreign exchange. All future payments are performance related.
** Undiscounted and adjusted for foreign exchange, including the initial cash consideration and excluding working capital adjustments.

Dividend per share p (ordinary)



Acquisitions

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

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

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

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

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

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

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

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

Finance Review
continued

Cash generation

Profit to cash conversion

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

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

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

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

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

Free cash flow

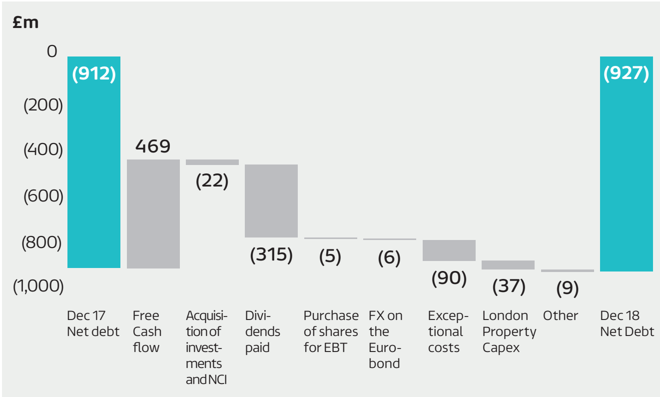
Twelve months to 31 December	2018 £m	2017 £m
Adjusted cash flow	**712**	763
Net interest paid	**(42)**	(38)
Adjusted cash tax*	**(119)**	(118)
Pension funding	**(82)**	(80)
Free cash flow	**469**	527

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

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

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

Net debt tracker



Funding and liquidity

Debt structure and liquidity

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

Net debt

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

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

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

* Net of £25 million cross-currency swaps.

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

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

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

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

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

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

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

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

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

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

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

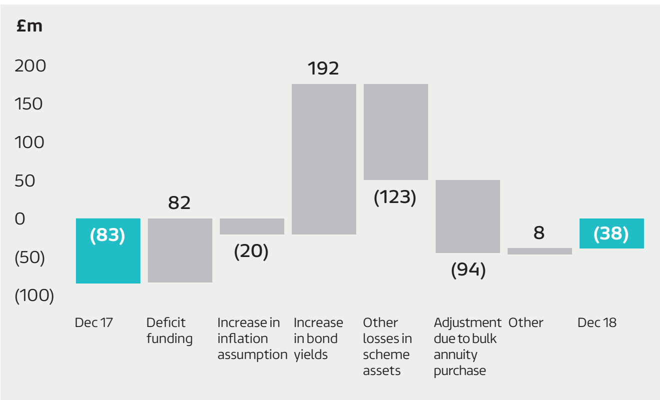
Finance Review
continued

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

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

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

Net pension deficit tracker



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

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

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

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

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

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

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

2019 full year planning assumptions

Profit and Loss impact

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

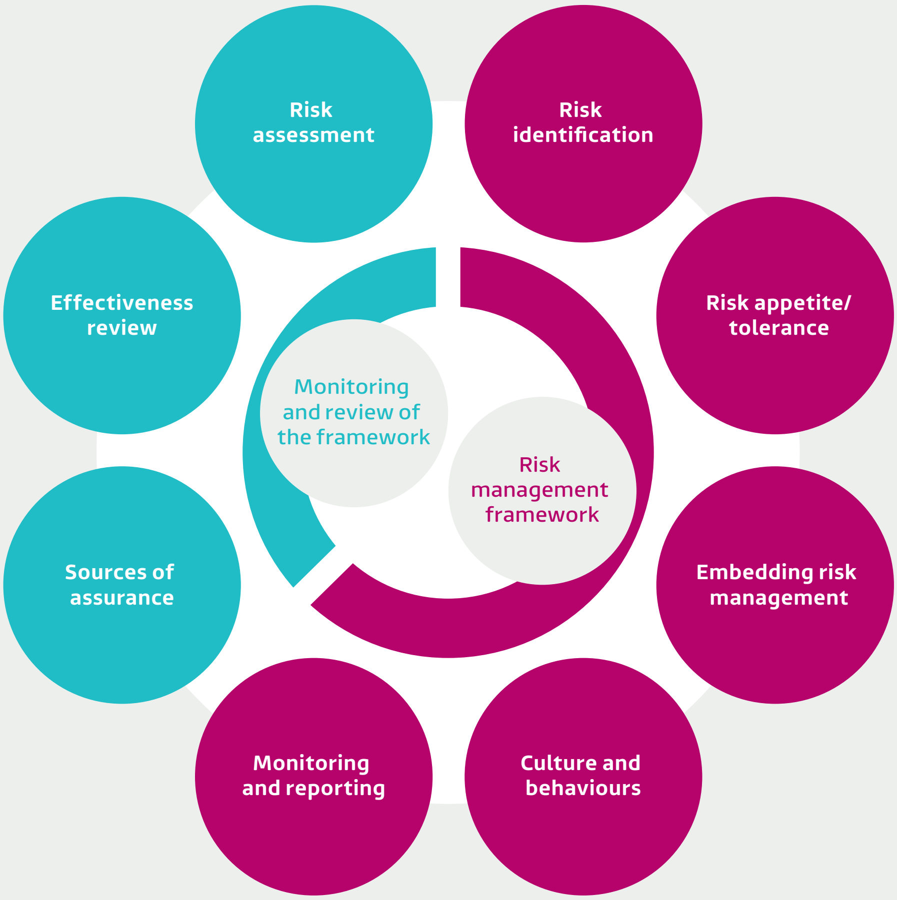
Cash impact

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

Risks and Uncertainties

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

Risk management framework



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

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

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

Board

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

Management Board

Has responsibility for:

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

Divisional Boards

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

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

Audit and Risk Committee

Has responsibility for:

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

Details of risk reviews undertaken during the year are set out in the Audit and Risk Committee Report on page 80.

Three lines of defence

1 Business divisions

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

2 Group functions

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

3 Internal audit

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

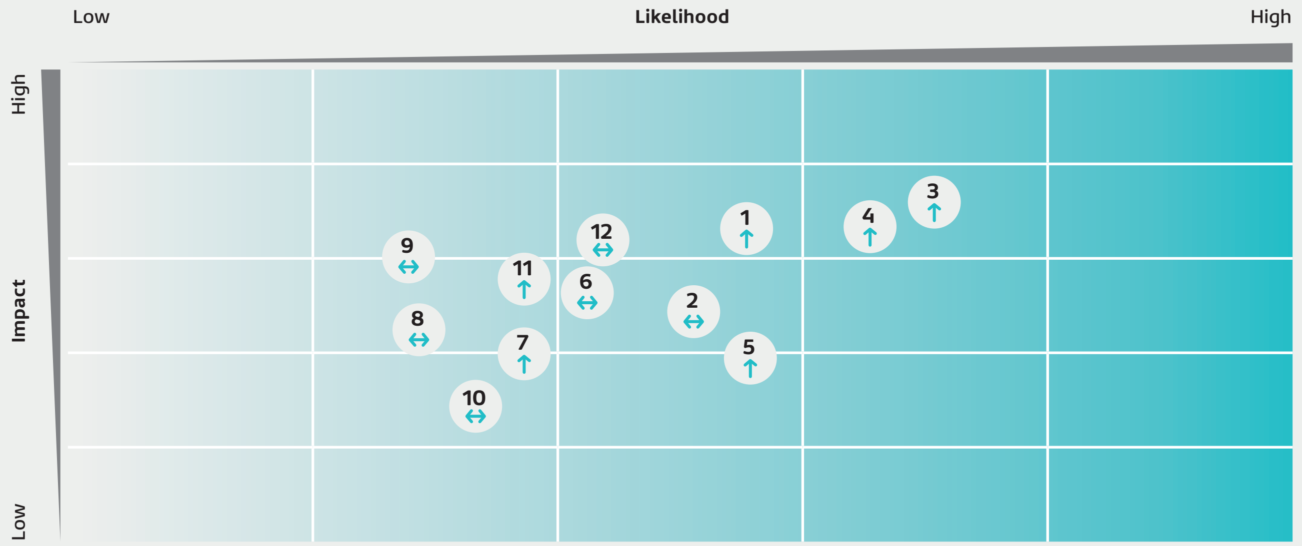
Risks and Uncertainties
continued

Principal risks

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

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

Risk heat map



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

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

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

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

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

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

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

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

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

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

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

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

Risks are evaluated taking into account management activity that is currently in place but not planned activity. Many of our principal risks have increased since 2017. Our strategy reflects the changing nature of our risk landscape and planned activity to deliver the strategy will provide significant mitigation against many of these risks.

More than TV	
1	**Strengthen** Integrated producer broadcaster
2	**Grow** UK and global production
3	**Create** Direct to Consumer

Risk direction (after current mitigations)	
↑	Increased risk
↔	Risk stayed the same
↓	Reduced risk

Regulation and legislation

Risk ownership: Management Board

Link to strategy 1 2 3

Description	Context	How we currently and further plan to manage the risk	Direction
1. A significant or unexpected change in legislation or regulation could lead to reduced income or operational impact.	• We could be affected if there is a change in UK media regulation or legislation; for example, if there is a change in advertising restrictions in key categories. • We could be affected if there is a significant change in regulation or legislation in any of our key territories that impacts the way in which we are able to operate. • The outcome of Brexit could lead to changes in regulation or legislation which would impact how we interact with our businesses based in other EU countries.	• We regularly communicate with appropriate groups, our legal panel and Ofcom to monitor potential policy, legal and regulatory developments. • We put forward alternative actions to regulation where such regulation may have adverse impact on ITV. • We have regular dialogue with government ministers in relevant departments. • We are monitoring closely the Brexit process and have plans in place to mitigate the risks in the event of a no deal Brexit.	↑

Economic

Risk ownership: Management Board

Link to strategy 1 2 3

Description	Context	How we currently and further plan to manage the risk	Direction
2. A financial crisis or macroeconomic change could impact the value of pension scheme investments and increase the deficit.	• Macroeconomic changes could result in material movements in the Group's defined benefit pension scheme. • A major change in investment values or in the discount rate affecting the value of liabilities could have a material impact on the net pension liability. • ITV may need to cover an increase in the deficit in such an event and update the schedule of contributions .	• We have regular communication with the pension trustees. • The pension scheme's assets are invested in a diversified portfolio, with a significant amount of the fund held in bonds. • We have worked with the pension trustees to limit the potential deficit by a series of asset-backed arrangements. This includes removing some mortality risk from the scheme with a longevity swap and hedging a portion of inflation and interest rate variability. • We have reduced some of our exposure through the 'Buy In' of two sections of the scheme.	↔

Risks and Uncertainties
continued

Advertising market

Risk ownership: Integrated Broadcast Board		Link to strategy 1	
Description	**Context**	**How we currently and further plan to manage the risk**	**Direction**
3. A faster than expected shift towards non-linear viewing could lead to a sustained loss of viewing and/or significant reduced demand for television advertising.	• Content is now available across many different devices and platforms which is impacting consumer habits with viewers shifting from linear television and watching more content online.	• Our strategy focuses on ITV being the pre-eminent integrated producer broadcaster for viewers and brands in the UK. • We continue to develop both VOD and SVOD propositions as a key part of our strategy. • By developing and managing the rights to content we will be able to maximise the value of our programme brands across a range of revenue streams. • We continue to invest £1 billion annually in our programming budget to attract viewers, continuing to deliver share of viewing that attracts advertisers. • Owning and producing content enables us to deliver unique advertising propositions and create innovative solutions.	↑

Risk ownership: Integrated Broadcast Board		Link to strategy 1	
4. Advertisers could be impacted by general or sector economic uncertainty and/or voluntary advertiser category restrictions that could lead to a significant reduced demand for advertising.	• The current overall economic environment is uncertain which may impact demand for advertising. • The current position with Brexit is uncertain and could have an impact on the overall economic environment and impact demand for advertising. • There is significant economic uncertainty within some of our key advertiser sectors which could have a disproportionate effect on advertising. • Key sectors have opted to voluntarily restrict advertising.	• Our strategy focuses on creating value for advertisers through delivering unique scale and breadth of demographics as well as more targeted opportunities and new innovative ways of engaging with consumers around quality brands. • We are developing our data strategy to support value creation for advertisers. • We work closely with advertisers to articulate the benefits of advertising on our media. • We regularly communicate with appropriate groups, our legal panel and Ofcom to monitor and influence potential policy, legal and regulatory developments.	↑

Content rights

Risk ownership: Integrated Broadcast Board		Link to strategy 1 2	
Description	**Context**	**How we currently and further plan to manage the risk**	**Direction**
5. A rapidly changing marketplace for content rights could result in us failing to identify or obtain optimal rights packages.	• The landscape for rights is increasingly complex due to the multiple ways in which content is broadcast. • Our own rights requirements are diversifying and changing to support the delivery of the strategy. • The increasing risk of global piracy of content could lead us to lose programme rights.	• We are developing the rights packages and content management processes to meet strategic requirements. • By investing in creating and owning quality content we can ensure we have optimal rights packages and efficiently manage exploitation. • Our rights packages and content management processes are focused on both protecting and exploiting existing rights and ensuring that future rights generated accrue to us.	↑

Generating hit programmes and formats

Risk ownership: Studios Board		Link to strategy 2	
Description	**Context**	**How we currently and further plan to manage the risk**	**Direction**
6. A failure to create, own and protect the rights to a sufficient number of hit programmes/formats across our portfolio of content companies. For management of rights see risk 5.	• ITV Studios has 50+ labels producing over 8,900 hours of original content. • The competition for creative talent is increasing due to the demand for content across all platforms. • ITV Studios creates for over 200 channels or platforms globally that have varying rights ownership requirements.	• We maximise opportunities for ITV Studios to create successful shows by investing in the creative pipeline and focusing on programmes and genres that can return and travel internationally. • Our management approach is creatively led and commercially driven to promote an environment where creative ideas can be nurtured and developed. • We are focused on hiring and retaining key creative talent. • We manage a proportion of the associated financial risk for high-end drama through deficit financing. • ITV Studios has built significant scale in key creative markets around the world creating and producing programmes and formats that return and travel.	↔

People and culture

Risk ownership: Management Board		Link to strategy 1 2 3	
Description	**Context**	**How we currently and further plan to manage the risk**	**Direction**
7. A failure to continue to evolve our organisational structure and culture could prevent us attracting or retaining key creative, commercial and management talent to deliver our strategy.	• Employing and retaining the best creative, commercial and management talent is key to our success. • The market for talent is competitive especially for those with experience in key strategic areas. • We need to ensure engagement across the business with our More than TV strategy. • We need to ensure a culture of creative autonomy within ITV Studios.	• We are strengthening specific teams to deliver our strategy through key talent, building expertise and market knowledge. • We foster both a commercial and entrepreneurial culture that is creatively led and commercially driven to attract and retain key creative talent. • We have a developed network of employee Ambassadors to ensure communication across the business. • We have succession plans in place which include nominated deputies. • Employee engagement is critical and we will undertake a survey in 2019.	↑

Risk ownership: Management Board		Link to strategy 1 2 3	
8. A major health and safety incident on an ITV or ITV Studios production could result in a loss of human life or major injury. For more information on health and safety managements see page 115.	• As ITV Studios expands there is an increase in the number of production hours and increased potential to produce certain types of programming that have higher inherent risks. • ITV is closely associated with all content we broadcast including that produced by independent production companies.	• We have a central health and safety risk management team to support the business, developing and implementing our health and safety management system. • The central health and safety risk management team work with ITV Broadcast to ensure there is a process for vetting content suppliers to ensure they have appropriate health and safety management in place.	↔

Risks and Uncertainties
continued

Brand

Risk ownership: Management Board

Link to strategy 1 2 3

Description	Context	How we currently and further plan to manage the risk	Direction
9. A failure to meet legal or publicly expected standards could result in severe reputational and brand impact.	• We operate in a public environment and are exposed to a high degree of media interest.	• Our in house programme compliance department advises all producers and reviews all pre-recorded editorial content before broadcast. • We proactively manage our broadcast chain partners and suppliers to minimise the risk of incidents and regulatory breaches. • Our risk management framework supports a culture of encouraging everyone to raise concerns. • We have a crisis management policy and process in place and are continuing to increase the emphasis on its development and application.	↔

Broadcast infrastructure

Risk ownership: Management Board

Link to strategy 1

Description	Context	How we currently and further plan to manage the risk	Direction
10. A major failure in complex broadcast system chains could result in us being unable to continue broadcasting for a sustained period of time.	• Our broadcast technology chain is complex because it operates in multiple regions and links to many platforms. • As we broadcast content across an increasing number of platforms the infrastructure to deliver and broadcast this content becomes increasingly complex.	• We continually review and monitor the broadcast operations risks through our management and reporting processes. • We have detailed business continuity and recovery plans in place to deliver a rapid and flexible response to an incident. • We conduct major incident scenario testing at least annually and ahead of major live events. • We proactively manage our broadcast chain partners and suppliers to ensure the risk of incidents is minimised.	↔

Cyber security and data protection

Risk ownership: Management Board		Link to strategy 1 2 3	
Description	**Context**	**How we currently and further plan to manage the risk**	**Direction**
11. A sustained cyber incident could result in system denial or loss of data.	• We consider cyber security an increasing risk as our business develops new revenue streams and direct to consumer propositions. • With increasingly sophisticated technology and proliferation of cyber hacking tools, along with increased amounts of company data, the risk of a cyber attack has increased across the world. • We are a higher risk organisation as a result of being a media company and operating in a public environment. • There is a growing volume of software and hardware vulnerabilities being identified by technology providers in their own products.	• We work with specialist security organisations to implement 24/7 monitoring of our network traffic. • We conduct regular cyber simulation exercises (including with the Management Board) and phishing exercises. Key learnings are reflected in our response plans. • We have enhanced our risk assessment process for third party security as our cyber risk extends to our supply chain. • We have disaster recovery and incident management plans in place for high risk areas of the business.	↑

Technology resilience

Risk ownership: Management Board		Link to strategy 1 2 3	
Description	**Context**	**How we currently and further plan to manage the risk**	**Direction**
12. Legacy technology systems could restrict our ability to respond to business changes and maintain system security.	• Our system requirements change as we continue to rebalance the business, grow new revenue streams and become increasingly international. • The pace of technological change outstrips our capacity to respond and migrate off legacy systems. • Maintaining the security and performance of legacy systems requires ongoing resources and investment.	• Our system requirements are kept under review with business growth and system modernisation projects implemented as appropriate. • We have a modernisation plan in place for legacy systems, which remains under constant review and development to ensure technology systems meet the needs of the business.	↔

Risks and Uncertainties
continued

Viability Statement

What is the process ITV follows?
At the annual strategy meeting the Board assesses ITV's prospects and risks. Amongst other topics, the Board reviews the five year financial plan, which is based on our strategic priorities. In 2018, we undertook a strategy refresh to highlight the opportunities for ITV and also the challenges we need to address. Pages 24 to 27 of the Annual Report provide detail of ITV's prospects in the Strategy and Business Model sections.

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

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

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

Scenario modelled	Link to Principal risks (pages 57 to 61)
Scenario 1: The Broadcast division experiencing a significant downturn, based on the 2008/09 financial crisis, with advertising revenues declining sharply for two years followed by a year of flat revenue.	**Advertising Market:** 4) Advertisers could be impacted by general or sector economic uncertainty and/or voluntary advertiser category restrictions that could lead to a significant reduced demand for advertising. **Regulation & Legislation:** 1) A significant or unexpected change in legislation or regulation could lead to reduced income or operational impact.
Scenario 2: A number of key programme brands within the Studios division are not recommissioned. The scheduling decisions of commissioners are made in advance, so we have clear sight on 2019, however key shows could come to an end at the same time in 2020 impacting a quarter of the division's profits.	**Generating hit programmes and formats:** 6) A failure to create, own and protect the rights to a sufficient number of hit programmes/formats across our portfolio of content companies.
Scenario 3: A significant change in ITV's pension funding obligations, following the triennial valuation in 2020 resulting in doubling of the current deficit funding payments.	**Economic:** 2) A financial crisis or macroeconomic change could impact the value of pension scheme investments and increase the deficit. **Regulation & Legislation:** 1) A significant or unexpected change in legislation or regulation could lead to reduced income or operational impact.

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

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

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

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

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

Carolyn McCall
Chief Executive
27 February 2019

Chairman's Governance Statement

In the Governance section
This section of the Annual Report contains a statement from our Chairman and information about the Directors and Management Board. It explains our governance structure, approach to corporate governance and the work of the Nomination Committee. It includes reports from the Audit and Risk, and Remuneration Committees, and the Directors' Report.

Sir Peter Bazalgette
Chairman

> During 2019 we will be focusing on how the Board engages with and assesses stakeholder engagement and the culture at all levels across the Group.

Dear Shareholder

I am pleased to present our Corporate Governance Report for 2018. The report provides you with an insight into how the Board operates and evaluates its effectiveness. In addition, it summarises our activities during the year and provides information on how we comply with the principles of the 2016 UK Corporate Governance Code (the Code).

Board effectiveness

Following the publication of the 2018 UK Corporate Governance Code (the 2018 Code) we have reviewed compliance and will ensure that appropriate refinements to our processes are made. The Board is fully engaged with these matters and committed to ensuring we remain an effective and entrepreneurial group and continue to meet our obligations under Section 172 of the Companies Act 2006 to ensure we promote the success of the Company for the benefit of shareholders but also with regard to the interests of all our stakeholders.

We believe that a comprehensive induction programme is important for all of our new Board members as well as a process for evaluation for the Board to assess its effectiveness. Full details of our evaluation and induction processes in the year and a summary of the evaluation outcomes and actions are set out on page 76.

Board succession

This year has seen a change in Board membership, which builds on our already diverse Board and brings additional experience, ensuring there is an appropriate balance of skills and knowledge as the business evolves. The current Board consists of a strong team with a wide range of experience across various industries and territories.

Following the departure of Adam Crozier, Carolyn McCall joined us as Chief Executive in January 2018. Following the decision by Ian Griffiths to step down from the Board at the end of 2018, Chris Kennedy joined us as Group CFO in February this year.

> Our stakeholders, particularly our employees, are very important to us and we remain committed to maintaining regular open dialogue and effective communication with them.

John Ormerod and Andy Haste stepped down from the Board in May 2018 at which point Margaret Ewing became Chair of the Audit and Risk Committee having served as a member of the Committee from October 2017. During the year we undertook a process to replace John and Andy and were pleased that Duncan Painter and Edward Bonham Carter agreed to join as Non-executive Directors in May and October 2018 respectively. Edward is also our Senior Independent Director.

Directors' other commitments are kept under review to ensure that they have sufficient time to dedicate to our business. Details of appointment dates and length of tenure for each director can be found on page 71 and details of other commitments can be found on pages 66 and 67.

Stakeholder engagement

Our stakeholders, particularly our colleagues, are very important to us and we remain committed to maintaining regular open dialogue and effective communication with them. Continued engagement is highly beneficial to all parties as it helps to build a greater understanding of their views, opinions and concerns and enables ITV to respond accordingly. We have a group of Ambassadors in place across the business to assist with colleague engagement and our Senior Independent Director, Edward Bonham Carter, will act as a conduit for the Board by regularly attending meetings and engaging with this group. Further information on how we engage with all of our stakeholders can be found on page 78.

During 2019, we will be focusing on how the Board engages with and assesses stakeholder engagement and responds to stakeholder feedback and assesses the culture at all levels across the Group.

Compliance with the Code

ITV is required to report on how it has complied with the principles of governance set out in the Code. The Board considers that during 2018 the Company has complied with the provisions of the Code but notes the following:

- Provision B.7.1 – Independence –John Ormerod had served on the Board for more than nine years before he stepped down in May 2018.
- Provision A.2.1 – Separation of Chairman and CEO – Following Adam Crozier's departure, I was Executive Chairman for a six-month period until Carolyn McCall joined the business in January 2018.

Further information on corporate governance can be found on our website.

www.itvplc.com/investors/governance

A copy of the Code and the 2018 Code are available on the FRC website.

www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance

Looking ahead

Throughout 2018, we have been developing our strategy which we presented to the market in July with further information at our Capital Markets Day in September 2018. 2018 was a challenging year economically and politically and this is expected to continue into 2019 but we are in a strong position, supported by an effective Board, to face the challenges ahead particularly in a competitive and rapidly changing industry.

I look forward to working with the Board and the senior executive team in 2019 as we continue to develop and implement our More than TV strategy. More information on our Board programme for 2019 is set out on page 73.

Sir Peter Bazalgette
Chairman
27 February 2019

Board of Directors

Carolyn McCall
Chief Executive
G
Appointed: January 2018
Key areas of prior experience: Strategy and change management, media, retail and airline industries.
Current external appointments: Non-executive Director and member of the Audit and Nominations committees, Burberry Group plc; Non-executive director, Department of Business, Energy and Industrial Strategy; Trustee of the Development Board of the Royal Academy of Arts.
Previous experience: Chief Executive easyJet plc, Guardian Media Group plc and Guardian News and Media; Non-executive Director of Lloyds TSB Limited, Tesco plc, New Look plc; Director of French Chamber of Commerce; Chair, Opportunity Now.

Committee membership
G General Purpose
A Audit and Risk
N Nomination
R Remuneration

Full biographies can be found on our website:
www.itvplc.com/about/board-of-directors

Terms of engagement for the Non-executive Directors and job descriptions for the Chairman, Chief Executive and Senior Independent Director are available on our website:
www.itvplc.com/investors/governance

Sir Peter Bazalgette
Chairman
N R
Appointed: June 2013
Key areas of prior experience: Media consultant, digital media investor and former television producer.
Current external appointments: Chairman, Lovecraft Collective Ltd and Non-executive Director of UK Research and Innovation; Member of Advisory Board for YouGov plc and Bartle Bogle Hegarty.
Previous experience: President, the Royal Television Society; Chairman, the Arts Council of England, ENo and Endemol UK Ltd; Non-executive Director of Nutopia, Rightster, DCMS, Critical Information Group plc and Channel Four Television Corp; Senior Non-executive Director and Chairman of the Remuneration Committee and member of the Audit and Risk Committee of YouGov plc; Non-executive Director and Chairman of Mirriad Ltd; Trustee of DebateMate; Deputy Chairman and Director of the National Film and Television School; Adviser to Sony Music's television division; Chairman of the UK production business of Sony Pictures Television Inc.; Chief Creative Officer at Endemol Group BV and Endemol Entertainment UK Limited; Non-executive Director and adviser, Base 79 Ltd.

Chris Kennedy
Group CFO
G
Appointed: February 2019
Key areas of prior experience: Corporate finance and financial restructuring, media.
Current external appointments: Non-executive Director, Whitbread plc; Director of Great Ormond Street Hospital for Children NHS Foundation Trust.
Previous experience: Chief Financial Officer, Micro Focus International plc, Arm Holdings and easyJet plc. Various senior management roles at EMI Music including UK Chief Financial Officer, Chief Operating Officer International, Group CFO and Chief Investment Officer.

Margaret Ewing
Non-executive Director, Chair of the Audit and Risk Committee
N A
Appointed: October 2017
Key areas of prior experience: Financial accounting, corporate finance, strategic and capital planning.
Current external appointments: Non-executive Director and member of the Audit and Risk Committee and Corporate Responsibility Committee of ConvaTec Group plc; Trustee of the Board, Great Ormond Street Hospital Children's Charity.
Previous experience: External member of the Audit and Risk Committees, The Lawn Tennis Association and John Lewis Partnership; Non-executive Director and member of Audit Committees of Standard Chartered plc, Whitbread plc and CBI; Managing Partner and Vice Chairman, Deloitte LLP; Chief Financial Officer, BAA plc and Trinity Mirror plc; Head of Corporate Finance Transaction Services and Senior Manager and Partner in corporate finance, Deloitte LLP.

Carolyn McCall **Sir Peter Bazalgette** **Chris Kennedy** **Margaret Ewing** **Edward Bonham Carter**

Edward Bonham Carter
Senior Independent Director
N A
Appointed: October 2018
Key areas of prior experience: Fund management, stock markets and investor relations.
Current external appointments: Vice Chairman, Jupiter Fund Management plc; Senior Independent Director, Land Securities Group plc; Board member, The Investor Forum; Trustee, The Orchestra of Age Enlightenment Trust and The Esmee Fairbairn Foundation; Member of the Strategic Advisory Board, Livingbridge; Non-executive Director, Netwealth Investments Ltd.
Previous experience: Group Chief Executive, Jupiter Fund Management plc; Chief Investment Officer, Jupiter Fund Management plc; Fund Manager, Jupiter Fund Management and Electra Investment Trust; Investment Analyst, Schroders.

Salman Amin
Non-executive Director
N R
Appointed: January 2017
Key areas of prior experience: General management, marketing, advertising and media planning.
Current external appointments: Chief Executive Officer, Pladis Global.
Previous experience: Strategic Advisor, 4C Insights; Chief Operating Officer, Global Commercial Division and Chief Operating Officer, North America SC Johnson and Son Inc; various positions at Pepsico including: Chief Marketing Officer, Purchase; President, PepsiCo UK and Ireland; Senior VP Marketing, Purchase and Snacks and GM, Quaker; VP Marketing, International Snacks; VP Marketing, International Beverages; other marketing and various positions within brand management, personal care, paper products and food in the US, Saudi Arabia, Germany and Switzerland at Procter & Gamble.

Duncan Painter
Non-executive Director
N R
Appointed: May 2018
Key areas of prior experience: Digital media, consumer intelligence.
Current external appointments: Chief Executive Officer, Ascential plc; Non-executive Director, Investis Limited.
Previous experience: Executive at BskyB plc, Global Product Leader, Experian plc; Founder and Chief Executive Officer, Clarityblue, European Systems Integration Director, Hitachi Data Systems.

Mary Harris
Non-executive Director, Chair of the Remuneration Committee
N A R
Appointed: July 2014
Key areas of prior experience: Business management consulting, sales and marketing, mergers and acquisitions, media, television and interactive media investments and digital rights management.
Current external appointments: Non-executive Director and Chairman of the Remuneration Committee, Reckitt Benckiser Group PLC; Member of the supervisory board of Unibail Rodamco SE; Member of Remuneration Committee, St Hilda's College, Oxford University.
Previous experience: Non-executive Director and Chair of the Remuneration Committee of J. Sainsbury plc; Member of the supervisory board, TNT Express NV, TNT NV, Scotch and Soda NV and Irdeto BV; Partner, McKinsey & Company, Amsterdam; various positions worldwide with McKinsey & Company, Maxwell Entertainment Group, Pepsi Cola Beverages and Goldman Sachs & Co.

Anna Manz
Non-executive Director
N A R
Appointed: February 2016
Key areas of prior experience: Strategy and finance and financial planning.
Current external appointments: Group Finance Director, Johnson Matthey plc.
Previous experience: Various appointments at Diageo plc including: Group Strategy Director, Regional Finance Director Asia Pacific, Group Treasurer, Finance Director Global Marketing, Sales and Innovation; other finance roles at Quest International, Unilever and ICI.

Roger Faxon
Non-executive Director
N R
Appointed: October 2012
Key areas of prior experience: Broad commercial, digital and media rights experience, development of business strategy and finance.
Current external appointments: Chairman, Mirriad Advertising Ltd; Director, The John Hopkins University.
Previous experience: Non-executive Director, Pandora Media Inc; Director, EMI Group Global Limited and EMI Group plc; Chief Executive Officer of EMI Group Limited; Chairman and CEO of EMI Music Publishing; Director, the Songwriters Hall of Fame; other appointments at the American Society of Composers and Authors and Lancit Media Entertainment Ltd in the US; Chairman of VIVA Television in Germany and Channel V Networks in Asia.

Salman Amin | Duncan Painter | Mary Harris | Anna Manz | Roger Faxon

Management Board

Julian Bellamy
Managing Director, ITV Studios
Appointed: February 2016
Experience: Julian joined ITV in 2014 as Managing Director of ITV Studios in the UK and was promoted to Managing Director of ITV Studios in February 2016. Julian's previous roles included Creative Director and Head of Commissioning at Discovery Networks International, Head of Programming at Channel 4 and prior to that he ran BBC3 and E4. He also spent time as Channel 4's Head of Factual Entertainment and was a commissioning editor of Channel 4 News and Current Affairs.

David Osborn
Group HR Director
Appointed: October 2014
Experience: David joined ITV as the HR Director for ITV Studios in 2011 and was promoted to Group HR Director and appointed to the Management Board in 2014. David has gained previous experience in both the UK and internationally whilst working in a variety of businesses including EMI Music, Vodafone, Visa Europe and Marks and Spencer.

Carolyn McCall
Chief Executive
Appointed: January 2018
Experience: Biography on page 66.

Kevin Lygo
Director of Television
Appointed: August 2010
Experience: Kevin joined ITV as Managing Director of ITV Studios in 2010 and became Director of Television in February 2016. Kevin's previous roles included Director of Television and Content at Channel 4, Director of Programmes at Channel 5 and a number of positions at the BBC, including Head of Independent Commissioning for Entertainment.

Rufus Radcliffe
Group Marketing and Research Director
Appointed: April 2017
Experience: Rufus joined ITV in 2011 and was promoted to the Management Board in 2017. He also sits on the Freeview Board and is a Fellow of the Marketing Society. Before joining ITV, Rufus spent ten years at Channel 4, and prior to that held various positions at McCann Erickson and JWT.

Chris Kennedy
Group CFO
Appointed: February 2019
Experience: Biography on page 66.

Kelly Williams
Managing Director, Commercial
Appointed: December 2014
Experience: Kelly joined ITV in 2011 as Group Commercial Director and joined the Management Board in December 2014. He is also Chairman of Thinkbox, sits on the BARB Strategy board and is Vice Chairman of the Advertising Association. Before joining ITV, Kelly was the Sales Director at Channel 5 and prior to that held various positions at UKTV, Sky and Thames Television.

Julian Ashworth
Director of Strategy and Direct to Consumer
Appointed: February 2018
Experience: Julian joined ITV in 2018 to lead the strategy review and development of the Direct to Consumer business. Before joining ITV, Julian was Global Director of Policy Strategy at BT and prior to that held various strategy and business development and commercial roles at RELX plc, Centrica plc and Bain & Company. He has also served as a member of the UK Government's Digital Economy Council, a board member of TECHUK, the British Screen Advisory Council, the Royal Taskforce against cyberbullying and as a member of the UK Council for Child Internet Safety.

Mark Smith
Group Chief Technology Officer
Appointed: September 2018
Experience: Mark joined ITV in 2011 as a member of the technology management team and was promoted to Chief Technology Officer in 2015, before taking on the Group Chief Technology Officer role in 2018. Prior to joining ITV Mark held senior technology positions at the BBC, BBC Worldwide and Sky. Over the past 15 years Mark has specialised in digital transformation and has led the design, build and delivery of industry leading VOD platforms. Mark started his career as a software engineer at BT.

Kyla Mullins
General Counsel and Company Secretary
Appointed: January 2019
Experience: Kyla joined ITV in January 2019 as General Counsel and Company Secretary. Before joining ITV, Kyla held senior legal positions in the media, entertainment and strategic outsourcing sectors. Kyla was General Counsel and Company Secretary at easyJet plc and Mitie Group plc; Global General Counsel of EMI Music; and Group Legal Director at ITV plc and Granada Media.

Paul Moore
Group Communications and Corporate Affairs Director
Appointed: June 2018
Experience: Paul joined ITV in 2018 as Group Communications and Corporate Affairs Director. Before joining ITV, Paul was the Communications and Public Affairs Director at easyJet plc from 2010 and prior to this worked for FirstGroup and also Virgin Atlantic Airways for ten years as Director of Corporate Affairs. Paul first started his career as a civil servant and worked for the Department of Transport.

Kelly Williams | Julian Ashworth | Mark Smith | Kyla Mullins | Paul Moore

Corporate Governance

Our Governance structure

Board

Audit and Risk Committee
See the Audit and Risk Committee Report on page 80.

Remuneration Committee
See the Remuneration Report on page 92.

General Purpose Committee
Executive Directors
Meets as required to conduct business within clearly defined limits set by the Board.

Disclosure Committee
Group CFO and other senior managers
Meets to ensure compliance with the continuing obligations under the Market Abuse Regulation (MAR) and Disclosure Guidance and Transparency Rules (DTRs).

Tax and Treasury Committee
Group CFO and other senior managers
Meets to consider and approve tax and treasury related matters in respect of corporate transactions or other activities. Monitors compliance with tax and treasury related policies and procedures.

Nomination Committee
Chairman and Non-executive Directors
Meets to review the structure, size, and composition of the Board, including skills, knowledge and experience. Identifies and nominates for Board approval candidates to fill Board vacancies, and considers succession planning for Directors and other Senior Executives. Considers and reviews any conflicts of interest that may be reported by the Directors.

Matters reserved for the Board and Committee terms of reference are available on our website:

www.itvplc.com/investors/governance

Management Board
Meets to consider, approve and implement strategy, operational plans, policies, procedures and budgets; monitors operating and financial performance; assesses and manages risk; prioritises and allocates resources; monitors competitive forces and HR issues.

Studios Board
Meets to consider and approve operational matters. Assesses and manages risk as well as aspects mentioned above for the Management Board but in relation to the Studios business.

Integrated Broadcast Board
Meets to consider and approve operational matters. Assesses and manages risk as well as aspects mentioned above for the Management Board but in relation to the Integrated Broadcast business.

Business Resilience Response Team
The tactical response team in the event of an incident, supporting the Management Board in dealing with a crisis. Develops business area response plans, testing programmes and incident reporting.

Corporate Responsibility Board
Manages the direction and delivery of ITV's Corporate Responsibility Strategy including in relation to diversity and inclusion, environment, communities and social causes (see page 16).

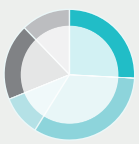
Programme Compliance Advisory Group
Manages and considers issues and risks in relation to programme compliance and regulation.

Direct to Consumer Operational Committee
Assists in assuring the successful expansion of ITV's Direct to Consumer business.

Board experience

Sector experience

- Media 26%
- Retail 33%
- Investment 10%
- Finance 19%
- Digital 12%

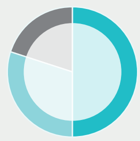


International experience

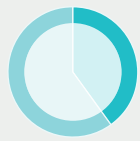
United Kingdom
United States
Netherlands
Saudi Arabia
Germany
Ireland
Switzerland
Southeast Asia
China

Board tenure (as at date of publication)

- 0–2 years
- 2–5 years
- 5–9 years



Board gender diversity (as at date of publication)



Board and Committee membership and attendance

Board and Committee membership and attendance at scheduled meetings in 2018 is set out below.

	Status	Notes	Date of appointment to the Board	Date elected by shareholders	Attendance at meetings: Board	Nomination Committee	Remuneration Committee	Audit and Risk Committee
Current								
Peter Bazalgette	Chairman	1	1 June 2013	14 May 2014	10/10	1/1	7/7	–
Salman Amin	Independent	2	9 January 2017	10 May 2017	10/10	1/1	4/4	–
Edward Bonham Carter	Independent SID		11 October 2018	–	2/2	1/1	–	–
Margaret Ewing	Independent		31 October 2017	10 May 2018	10/10	1/1	–	5/5
Roger Faxon	Independent	3	31 October 2012	15 May 2013	10/10	1/1	6/7	–
Mary Harris	Independent	4	28 July 2014	14 May 2015	10/10	1/1	7/7	5/5
Anna Manz	Independent		1 February 2016	12 May 2016	10/10	1/1	7/7	5/5
Carolyn McCall	Executive		8 January 2018	10 May 2018	10/10	–	–	–
Duncan Painter	Independent		1 May 2018	–	6/6	1/1	–	–

1. Peter Bazalgette acted as Executive Chairman from 1 July 2017 until 8 January 2018.
2. Salman Amin was appointed to the Remuneration Committee on 1 June 2018.
3. Roger Faxon was unable to attend the Remuneration Committee in July due to a prior commitment.
4. Mary Harris was appointed Interim Senior Independent Director on 10 May 2018 until Edward Bonham Carter's appointment on 11 October 2018.

	Status	Date of appointment to the Board	Date left the Board	Attendance at meetings: Board	Nomination Committee	Remuneration Committee	Audit and Risk Committee
Past							
Ian Griffiths	Executive	9 September 2008	31 December2018	10/10	–	–	–
Andy Haste	Independent	11 August 2008	10 May 2018	4/4	–	–	2/2
John Ormerod	Independent	18 January 2008	10 May 2018	4/4	–	3/3	2/2

Board and Committee meetings

The number of meetings held during the year and attendance of Directors is set out in the table above. 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 or one of the regional or international offices.

Board meetings are structured around the following areas:

- Operational and functional updates
- Financial updates
- Strategy and strategy implementation
- Progress against strategy
- Business plan and performance against plan
- Risk management framework, key risk areas and risk appetite
- Other reporting and items for approval

Senior executives 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
- Individual Non-executive Directors and members of senior management
- Senior Independent Director and Non-executive Directors (without the Chairman present)

Corporate Governance
continued

Key matters considered in 2018

	2018 activity	Link to principal risks
Strategy refresh	Strategy day – considered and set refreshed strategy as announced to the market in July 2018 and at the Capital Markets Day in September 2018.	Principal risks are set out on pages 56 to 61
	Succession planning and organisational design – reviewed proposals to reorganise resource more efficiently and effectively to enable delivery of the strategy.	
Strengthen Integrated Producer Broadcaster	360 recommissioning process – reviewed the process to provide visibility over the total valuation of each production to ensure appropriate investment decisions.	Principal risks 5 and 6
	Branding and Hub investment – reviewed and approved investment for enhanced and improved branding and marketing.	Principal risk 3
	Commercial – reviewed reorganisation of the Commercial team to ensure resource was focused on creativity and building relationships.	Principal risk 7
Grow UK and global production	Reviewed priorities and future improvement plans including leveraging the producer/broadcaster model to create joint initiatives.	Principal risks 5 and 6
	Reviewed proposals to improve structure, direction and integration of acquired businesses.	Principal risk 6
Create Direct to Consumer	Team – reviewed proposals for the creation of the Direct to Consumer team.	Principal risk 3
	Business plan – reviewed and approved business plan.	
	SVOD proposition business plan – reviewed progress on developing SVOD strategy and research and considered risks and challenges.	Principal risk 3
	Data and analytics – reviewed plans for enhancing data analytics. A more in-depth data strategy will be considered in 2019.	Principal risk 4
Other	Brexit and regulation – reviewed key policy and regulatory issues, including Brexit, Digital Services Tax and advertising restrictions. This will be kept under review together with other issues that could have potential long-term impact on the business.	Principal risk 1
	Pensions – reviewed and approved 'Buy In' of sections B and C to mitigate future risk.	Principal risk 2
	Property portfolio – reviewed the strategy for the London properties. The Board concluded that it was not in the best interests of the Company to continue with the proposed development plan and a decision to sell the Southbank site was made.	

For further information on risks please see pages 56 to 61 of the Strategic Report and the Audit and Risk Committee Report pages 80 to 91.

Focus for 2019

Strategy and operations	Governance
Strategy implementation progress	2018 UK Corporate Governance Code compliance
Deep dives on strategic initiatives	Culture
Data strategy	Stakeholders
Brexit and Regulation	
Total viewing and Direct to Consumer	
Total advertising	

Succession planning

The Board recognises that effective succession planning is key to the Company's ability to achieve its strategic objectives and is also integral to maintaining an effective Board. The Board has in place a framework which the Nomination Committee keeps under review to ensure that:

- The Board is refreshed appropriately in order to encourage new ideas;
- There is a diverse Board with a wide range of skills and experience; and
- Board tenure is appropriate and Board members remain independent.

During the year the Board has undergone some changes as set out below.

Group CFO: In June 2018 it was announced that Ian Griffiths would be leaving ITV. The Board commenced the recruitment process for a successor. As part of its succession planning process, the Nomination Committee and the Board had already discussed the key skills, experience and other requirements of the role. They established a sub-committee comprised of Peter Bazalgette, Margaret Ewing, Anna Manz and Roger Faxon to finalise the process and Spencer Stuart were engaged to assist. Face-to-face interviews were held and a strong shortlist was agreed. The Board agreed that Chris Kennedy should be asked to join ITV as Group CFO, which was announced on 5 November 2018. Ian Griffiths stepped down from the Board on 31 December 2018, and Chris joined the business on 21 February 2019.

Non-executive Directors: During the year, we welcomed two new Non-executive Directors: Duncan Painter with effect from 1 May 2018 and Edward Bonham Carter with effect from 11 October 2018. The Nomination Committee engaged Founders Keepers and Spencer Stuart respectively to assist with the recruitment following a similar process as that set out above for the Group CFO.

Duncan Painter has a broad range of experience in digital media, consumer intelligence and targeted advertising, all of which the Board considered to complement the More than TV strategy.

When considering the recruitment of Edward Bonham Carter, the Nomination Committee was mindful of the need to secure a Senior Independent Director. The Board considered Edward's broad range of experience, particularly in the understanding of stock markets and investor expectations, as well as his position as Senior Independent Director of Land Securities plc, would provide valuable insight for the Board.

Both John Ormerod and Andy Haste stepped down from the Board following the AGM in May 2018.

Committees: The Board also reviewed Committee membership and during 2018 Margaret Ewing succeeded John Ormerod as Chair of the Audit and Risk Committee. In addition, Salman Amin and Duncan Painter joined the Remuneration Committee and Edward Bonham Carter joined the Audit and Risk Committee.

The Nomination Committee reviews succession planning for the senior executives annually. More information on succession planning at ITV can be found in the Directors' Report on page 110.

Corporate Governance
continued

Diversity
The Board has a diversity policy to retain a talented and diverse Board with a mix of expertise, experience, skills and backgrounds reflecting the business environment in which we operate. Amongst other things the policy aims to:

- Maintain at least 30% female Directors on the Board over the short to medium term;
- Ensure Non-executive Director shortlists include at least 50% female candidates;
- Ensure the Non-executive Director search pool is sufficiently wide and covers candidates from BAME backgrounds and candidates with a wide range of expertise, skills and backgrounds; and
- Only use search firms who have signed up to the voluntary code of conduct on gender diversity.

A copy of the policy can be found on our website

www.itvplc.com/investors/governance

We believe that the ITV Board is a diverse group in terms of experience, age, gender and educational and professional background. We consider diversity as part of our succession planning process but recognise it is important to ensure that the most appropriate person is chosen for the relevant position.

More information on diversity at ITV can be found in the Directors' Report on page 109.

Induction
All Directors who join ITV receive a comprehensive induction providing an overview of the industry and important key themes for the Company. It is also used to familiarise each Director with the different areas and allow them to meet colleagues from across the business.

General board induction

All Directors
- Operational overview
- Financial review
- Strategic overview
- Budget and five year plan
- Director's duties and responsibilities
- Risk management
- Governance structure
- Previous minutes and meeting papers
- Meetings with other Board members

Executive
- Build relationship with Chairman, Management Board, Executive Leadership Team and Senior Leadership Team
- Visits to main hub sites, studios and regional news teams

Inductions in the year:
- Carolyn McCall
- Chris Kennedy

Non-executive
- Meetings with internal and external advisers (as appropriate)
- Visits to main hub sites and studios
- Meetings with Management and Divisional Board members
- Succession planning
- Banking and investment
- Investor relations
- Business development

Inductions in the year:
- Duncan Painter
- Edward Bonham Carter

Training and development

During a director's period of appointment, they are continually updated on the Group's different business areas and the competitive and regulatory environment in which they operate. This is done through:

- Updates and papers which cover changes affecting the Group and the market in which it operates and 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.

Executive Directors may accept external appointments as Non-executive Directors of other companies and retain any fees paid to them. Further details of external positions held by Executive Directors can be found on page 107.

Board evaluation

External

The Board undertakes an external evaluation every three years to review its effectiveness and consider development. As the last external Board evaluation took place in 2016 the process will be undertaken again in 2019.

Internal

The work of the Board and its Committees is reviewed annually. The evaluation takes the form of a detailed questionnaire and interviews with the Board and Committee members eliciting feedback on a wide range of topics. In addition, input is sought from the Executive Directors, other relevant senior executives and external advisers. Results are then passed to the relevant Chairman and a report of proposed actions is submitted and agreed as appropriate.

Our three year Board evaluation cycle

2017

Internal evaluation
Questionnaire circulated to the Board, senior executives and external advisers enabling an evaluation of performance in 2017. Conclusions presented which were discussed and actions for the forthcoming year agreed (see below).

2018

Internal evaluation
Questionnaire circulated to the Board, senior executives and external advisers enabling an evaluation of performance in 2018 and progress against actions agreed following the 2017 evaluation. Conclusions presented which were discussed and actions for the forthcoming year agreed (see page 76).

2019

External evaluation
To engage an independent party to facilitate a formal evaluation. Further details will be provided in next year's report.

Corporate Governance
continued

Actions in 2018

Composition	Effectiveness	Stakeholder engagement
Action: Ensure there is a broad range of experience and perspective on the Board. In particular, media, technology and digital experience. **Outcome:** Duncan Painter was appointed in May 2018 due to his experience in the media and digital sectors. His biography can be found on page 67. **Action:** Consider the successor for the Senior Independent Director. **Outcome:** Edward Bonham Carter was appointed in October 2018 due to his investor experience and his position as Senior Independent Director of Land Securities Group plc. His biography can be found on page 66.	**Action:** Review meeting structure to enhance productivity and efficiency and allow for greater in-depth discussions. **Outcome:** The meeting timetable was altered to be more efficient, particularly for those Directors travelling from overseas. More time was allocated to deep dive on strategic matters and risks. The annual programme and agenda are kept under constant review to ensure sufficient time is available for robust discussion and challenge.	**Action:** Engage more regularly on wider stakeholder engagement. Spend more time understanding and visiting UK and international acquisitions. **Outcome:** The Board is kept up-to- date on the progress of acquisition integration. Board members undertook visits to Cattleya in Italy, Talpa in the Netherlands as well to businesses in the US. For more information on stakeholder engagement see page 78.

Actions for 2019

Action: Nomination Committee structure and process to be reviewed to enable more time to consider succession planning and skills gaps for the Board and succession planning for the senior executives and put appropriate action plans in place.	**Action:** Review terms of reference of the Committees and review the job descriptions of the Chairman, Senior Independent Director and Chief Executive to ensure alignment with the 2018 UK Corporate Governance Code.	**Action:** Review and consider approach and programme for continuing professional development, as part of the external evaluation exercise.

Culture

ITV has an open, inclusive and collaborative culture across all areas of the business. At its core, ITV puts trust and an open and honest working environment for all as its most important values.

Board engagement

The Board places a high importance on the value of corporate culture within ITV and the role it provides in the development and retention of fully engaged colleagues as well as for ITV's external reputation. When we talk about culture we mean values, behaviours and environments that shape a colleague's experience. We want ITV to be a great place to work and a fundamental part of this is fostering an inclusive culture that attracts, develops and retains the best talent possible, where everyone is valued and empowered. As part of the More than TV strategy we have undertaken a review of the behaviours expected from our leaders, managers and colleagues to execute the strategy as well as working with them to define and shape culture.

We also aim for our senior executives and Board members to be as visible as possible by using open-plan office space across the Group to encourage openness and collaboration. Our London property strategy is a big step to achieve a more coherent and joined-up business.

Openness and communication are key and as such it is imperative that the Board is visible and approachable throughout the organisation. The Board participates in site visits to our different locations and is in regular communication with senior executives and other colleagues.

The Board recognises that this helps ensure they have a greater insight and understanding of the business to enhance decision-making and debate, and to enable consideration of the longer-term impact of its decisions on our colleagues and other stakeholders.

Embedding corporate culture

We seek to instill an inclusive 'One ITV' way of working through our global network of eighty Ambassadors who represent all parts of the business. The role of an Ambassador is to represent colleague interests, share information and help shape our culture by giving colleagues a voice. During 2018 Ambassadors were instrumental in providing support to those affected by the organisational redesign as part of the strategy refresh process and office moves.

Our Senior Independent Director, Edward Bonham Carter, has been appointed as our workforce engagement director acting as a conduit between our Ambassador network and the Board, and will attend Ambassador meetings on a regular basis to discuss current issues and listen to concerns. Carolyn McCall also regularly attends Ambassador meetings as well as delivering regular Vod and Podcasts to update colleagues on developments and encouraging direct contact through her Ask Carolyn email address.

ITV has four colleague networks – ITV Pride (for LGBT employees), The Women's Network, ITV Balance (to discuss work-life balance) and ITV Embrace (for BAME employees). These networks are open to all colleagues and run a number of inspirational talks, events, development workshops and also support ITV programme makers to ensure we reach the wider community. Only by representing our audiences within our workforce will we be able to authentically reflect and appeal to the breadth of viewers that characterise modern society. Not only do we want to attract the most talented people to work for us, but we want to enable our colleagues to achieve their best and to develop their career at ITV. Making sure our culture and working environment is inclusive and accessible is key.

All colleagues are required to complete mandatory training aligned with the Code of Conduct. Systems are in place to enable employees to identify and raise issues, including suspected wrongdoing, fraud or malpractice in the workplace. This helps us ensure that the highest standards of safety are maintained and good ethics and judgement are applied when making decisions.

Assessment

The Board considers and acts upon feedback from colleague engagement surveys to assess and monitor the perception of our culture against our values and beliefs. The last global survey was undertaken in 2016 and indicated that colleagues are broadly aligned with ITV's cultural vision. A full survey will be undertaken in 2019 enabling us to more formally assess and measure our culture and the impact of our More than TV strategy.

We believe that an inclusive, effective and well embedded corporate culture helps create a successful business. We will continue to focus on building a strong corporate culture and will keep this under consideration as part of our More than TV strategy.

Corporate Governance
continued

Stakeholder engagement

The Board has a responsibility to create value for all its stakeholders and we believe it is vital to engage and listen to their views. ITV has a wide range of stakeholders. More on how we engage with some of these different groups is detailed below.

	Material issues	Engagement
Shareholders	Strategy refresh; long-term financial performance; capital allocation; succession planning; Board composition; policy and regulation; Brexit; Directors' remuneration; share price; challenges of the digital media landscape.	The Board attaches a high priority to effective communication with investors and has regular open dialogue with them. During the year meetings were routinely held with institutional investors to keep them updated and the Board is kept informed of any feedback from these meetings. In September the management team held a Capital Markets Day to bring investors up-to-date on the More than TV strategy process. Our investor calendar for 2018 can be found on page 79. Our AGM provides a forum for private shareholders to raise questions with the Board directly should they wish. They have ample opportunity to ask questions during the meeting and before and after the event. The Chairman and Senior Independent Director are always available to all shareholders.
Customers	**Viewers:** access to a varied, high-quality programming schedule that reflects a modern society; ability to view on a variety of channels; on-screen diversity.	ITV reaches a vast audience across the UK and the Board recognises the important role it plays for viewers. Viewers are able to tell us their thoughts directly via email or telephone with contact details provided on our website. They are also able to use our regulator Ofcom, to raise any concerns they may have. The Integrated Broadcast Board receive a monthly compliance report detailing viewer or regulator concerns. Our dedicated Viewer Services team is on hand to resolve any technical issues or other questions our viewers may have. We also provide bespoke support for all of our live daytime shows, ITV Box Office events, and the ITV Hub to enhance our viewer experience.
	Advertisers, broadcasters and platform owners: deliver unrivalled commercial audiences, scale and reach across key demographics on our main channel; targeted audiences on the ITV Family and ITV Hub.	We work closely with both media agencies and advertisers to develop and nurture bespoke, integrated commercial and brand partnerships that extend beyond pure spot advertising and programme sponsorship. Working with them we create innovate ways to engage consumers around brand marketing strategies. Using the full breadth of our global production network we are able to work directly with broadcasters and content platform providers to deliver quality original programming. We develop key relationships with them to licence Global Entertainment's extensive programme catalogue.
Citizens	Harness the power of our programmes to have a positive impact on communities and causes; minimise the environmental impact of our operations.	See our Corporate Responsibility Strategy on page 16 and our Corporate Responsibility website **www.itvplc.com/responsibility**
Legislators and Regulators	Maintain the highest standards of governance; ensure regulatory requirements are met at the highest level and robust standards reached.	We actively engage with politicians, policymakers and regulators on a continual basis to ensure we deliver on our legal and regulatory obligations and help inform new regulatory and legislative initiatives. This ensures our regulatory framework remains fit for purpose.
Colleagues	Engagement and culture; investment in training and development; diversity and inclusion; remuneration.	For information on Culture see page 77. For more information on other issues see the Directors' Report on page 109.

Further information on our stakeholders can be found in the Chairman's Statement on page 6.

Strategic Report
Governance
Financial Statements
Additional information

Our 2018 investor calendar

February/March
- Full year results published and roadshow in London
- Citi Annual Media conference in London

April
- Full year results roadshow in London

May
- Q1 Trading Update published
- AGM

June
- Barclays conference in US

July
- Interim results published and roadshow in London

August
- Interim results roadshow in London

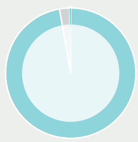
September
- Interim results roadshow in London
- Capital Markets Day in London

October
- Capital Markets Day – follow up meetings

November
- Q3 Trading Update published
- Morgan Stanley TMT conference in Barcelona
- US roadshow

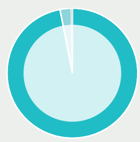
Investor profile
The types of holder by percentage is as follows:

Institutional shareholders	0.16%
Private shareholders	92.64%
Other	7.20%



Investor profile
The percentage of issued capital by type of holder is as follows:

Institutional shareholders	97.27%
Private shareholders	2.55%
Other	0.18%



Audit and Risk Committee Report

In this report
The purpose of this report is to highlight areas that the Committee has reviewed during the year. We report to shareholders on the significant financial reporting issues and judgements made in connection with the preparation of the Company's financial statements. Also highlighted is how the Committee has assisted the Board in reviewing the Company's internal control and risk environment. We explain what the Committee has done to review the effectiveness of our internal and external auditors.

Margaret Ewing
Chair, Audit and Risk Committee

"The Committee continues to provide independent and robust challenge to management and our auditors to ensure there are effective and high-quality controls in place and appropriate judgements taken.

Dear Shareholder

On the following pages we set out the Audit and Risk Committee's Report for 2018, which provides an overview of the role of the Committee and the matters considered during the year.

John Ormerod, your previous Audit and Risk Committee Chairman, retired from the Board in May 2018. I was delighted to take over the Chairmanship from John, who was a valuable member of the Board and an exceptional Audit and Risk Committee Chairman. He ensured my transition to the role was seamless and I am hugely indebted to him. Andy Haste also stepped down from the Board and the Committee in May 2018. At the end of December 2018 Ian Griffiths stepped down from the Board. As CFO and COO he worked tirelessly over the past ten years for ITV and, with John, helped to transform the Committee into the robust and challenging committee that it is today. On behalf of the Board and the Committee I would like to thank them all for the enormous contribution they have made to ITV.

In order to strengthen the Committee membership we welcomed Edward Bonham Carter as a member with effect from 1 January 2019. Edward brings significant financial acumen and the important investor perspective to the Committee's deliberations. I look forward to working with him and with Chris Kennedy, our new Group CFO, during 2019.

This is my first report and I would like to assure shareholders that the Committee is working really well, which I hope this report will highlight. The Committee continues to provide independent and robust challenge to management and our auditors to ensure there are effective and high-quality controls in place and appropriate judgements taken.

We have the right mix of skills and experience on the Committee to provide constructive challenge and support to management. The Committee continues to play a key role in ensuring implementation of and compliance with new accounting standards and associated guidance. We consider relevant corporate governance requirements and give considerable focus to the Group's evolving risk management framework and processes.

During 2019, we will be considering the requirements of the 2018 UK Corporate Governance Code and the impact of various regulatory reviews (Kingman, CMA and Brydon) into the audit sector. We seek to respond to shareholders expectations in our reporting and, as always, welcome any feedback from shareholders.

Margaret Ewing
Chair, Audit and Risk Committee
27 February 2019

Who is on the Committee

The Committee is composed entirely of independent Non-executive Directors.

The current members are:

- Margaret Ewing (Chair from 10 May 2018)
- Edward Bonham Carter (from 1 January 2019)
- Mary Harris
- Anna Manz

John Ormerod and Andy Haste stepped down from the Board and the Committee on 10 May 2018.

The Committee members have between them a wide range of business and financial experience. The Committee considers that Margaret Ewing and Anna Manz have recent and relevant financial experience for the purposes of the Code.

Full details of attendance at Committee meetings can be found on the table on page 71.

Detailed biographies can be found on pages 66 and 67.

Our role

Following each meeting, the Committee communicates its main discussion points and findings to the Board.

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

www.itvplc.com/investors/governance

The main role of the Committee is to:

- Monitor the integrity of published financial information and review significant financial reporting issues and judgements.
- Provide advice to the Board on whether the Annual Report and Accounts are fair, balanced and understandable and the appropriateness of the going concern statement and the longer-term viability statement.
- Assist the Board to establish and articulate overall risk appetite and oversee and advise the Board on specific strategic risk exposures and mitigations.
- Review the risk identification and assessment processes and undertake deep dives of high-risk business areas or processes.
- Review the effectiveness of the internal control and risk management processes.
- Monitor and review the effectiveness and independence of the internal audit function.
- Provide advice to the Remuneration Committee on financial reporting matters and related judgements as they affect executive remuneration performance objectives.
- Review the quality and effectiveness of the external audit and the procedures and controls designed to ensure auditor independence.

Meetings in 2018

In addition to Committee members, the Chairman of the Board, Executive Directors, Director of Group Finance, Company Secretary, Head of Internal Audit, Director of Treasury, Director of Tax and external audit partners regularly attend meetings. The Committee members meet regularly with the external audit partners and Head of Internal Audit without executives present.

At each meeting the Committee receives a report from the Head of Internal Audit on the progress of the internal audit work plan, issues and recommendations arising from the audit work and management's progress on implementation of internal audit findings. In addition to the September 'risk focused' meeting, the Committee also considers specific risk topics at meetings throughout the year.

February

- Year end financial reporting issues, estimates and judgements
- Fair, balanced and understandable review of the Annual Report and Accounts
- Viability Statement and going concern statement verification
- KPMG audit conclusions and findings
- APMs and exceptional items
- New regulation and guidelines compliance checklist
- Draft Annual Report and Accounts
- Audit opinion
- Internal Audit independence
- Bonus and share plan outcomes

May

- Known half year financial reporting issues and judgements
- External audit strategy

July

- Half year report
- KPMG review conclusions and findings

September

- Emerging and business specific risk reviews

November

- Year end planning
- Known full year financial reporting issues and judgements
- Distributable reserves planning
- KPMG interim controls review findings
- Effectiveness of internal audit and the following year's internal audit plan
- Annual tax and treasury review

For other matters see page 82.

For external audit quality and effectiveness see page 91.

Annual review

An annual review of the performance of the Committee is conducted each year.

For 2018, in addition to feedback from members of the Committee, input was sought from the Executive Directors, Director of Group Finance, other senior executives, members of the external and internal audit teams 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. Priorities for 2019 include completing the assessment of the appropriate model for internal audit; undertaking a tender process for the appointment of external and internal auditors effective for the year commencing 1 January 2021, and supporting the enhancement of the risk framework, processes and reporting. The Committee will also amend, where necessary, its terms of reference to reflect the 2018 UK Corporate Governance Code and seek to improve its engagement with relevant stakeholders. The Committee will continue to review its membership to ensure the skills and experience align with the business as it develops.

Audit and Risk Committee Report
continued

Our focus in 2018
In planning its own agenda, and reviewing the audit plans of the internal and external auditors, the Committee takes account of significant issues and risks, both operational and financial, that may have an impact on the Company's financial statements and/or the Company's execution and delivery of its strategy. The Committee also addresses specific queries referred to it by the Board or Remuneration Committee.

During 2018, after robust challenge and debate, there were no topics where there was significant disagreement between management, the external auditor and the Committee, or unresolved issues that needed to be referred to the Board. Set out in the tables below is information on the key matters considered during the year.

Regular reviews and recurring transactions
The following table summarises the regular reviews and activities undertaken by the Committee. Some of these areas may require the application of judgement by management or have underlying complexity.

Financial disclosure and judgements

- Financial results announcements
- Annual Report and Accounts
- Accounting judgements and estimates
- Developments in financial reporting:
  – revenue recognition (IFRS 15) (page 133)
  – lease accounting (IFRS 16) (page 133)
- Fair, balanced and understandable assessment
- Viability Statement – underlying assumptions (page 62)
- Going concern (page 131)
- Goodwill impairment (note 3.3, page 155)
- Tax (note 2.3, page 143)
- Deal debt (see page 83)
- Pension accounting (note 3.7, page 163)
- Deficit financing (see page 83)
- Acquisition earnout liabilities (see page 83)
- Appropriateness of Alternative Performance Measures
- Litigation provisions
- Property (page 84)

External audit

- Auditor performance, quality and effectiveness
- Plan for and scope of audit resource applied
- Auditor engagement and fees
- Auditor independence and objectivity
- Auditor Independence policy (including non-audit fees)
- Auditor progress and review reports
- Key areas of judgement
- Auditor management reports
- Audit report

Internal control

- Internal Audit independence and effectiveness
- Internal Audit plan
- Internal Audit findings and outcomes
- Effectiveness of internal controls
- Monitoring acquisition earnouts and related accounting
- Whistleblowing process
- Material litigation
- Insurance programme
- Fraud controls
- Anti-bribery and corruption controls
- Technology controls
- Tax policy and controls
- Treasury policy and reports
- Tax and Treasury Committee review

Risk

- Principal risks and uncertainties and risk mitigations
- Effectiveness of the risk management process
- Cyber security (page 86)
- Business resilience
- Information security and GDPR (page 86)
- Technology modernisation (page 86)
- Health and safety
- Regulatory and programme compliance
- Litigation
- Progress, risks and governance of the airtime sales project (page 86)
- World Cup risk mitigation plans (page 88)

Further information on our risk management framework can be found on pages 54 and 55.

Most of the topics mentioned on page 82 are relevant to all businesses. However, matters specific to ITV include:

- **Deal debt:** management estimates the over and under delivery of advertising value to agencies. The Committee reviews management's approach and method of determining the provisions required for net under delivery of advertising value.
- **Deficit financing:** as part of our strategy to expand our content portfolio, significant investment in high-end drama is made. The Committee reviews the accounting implications, including revenue recognition and recoverability of the amounts invested. The structure of content deals is becoming increasingly complex and the accounting implications increasingly material.
- **Acquisition earnout liabilities:** management estimates the future expected payout for acquisition related liabilities.

Judgement on complex discrete transactions

The Group completed certain significant transactions during the period that were in line with the More than TV strategy, as set out below. The Committee carefully reviewed these transactions to ensure that the judgements applied by management were reasonable and any complex accounting guidance followed correctly.

Revenue and cost recognition

Financial reporting and judgement	Action taken by management	Action taken by the Committee and outcome
ITV signed a multi-year agreement for the digital distribution of key scripted titles including Snowpiercer and Bodyguard. As the agreement covered multiple titles and was across current and future years, the financial reporting and judgement focused on revenue and cost recognition. Also see note 2.1 on page 135.	Management undertook an exercise to consider the appropriate accounting for revenue and cost recognition under IFRS. Management focused on the fulfilment of performance obligations under IFRS 15 and the allocation of costs under IAS 38R. As delivery of the scripted series and the performance obligations are to be fulfilled over the term of the licence, it was concluded that revenue should be recognised over time. With regards to cost recognition, management proposed that costs should be recognised in line with our accounting policy for high-value drama.	The Committee assessed management's actions and agreed with the proposed accounting treatment. KPMG also presented their view on the matter to the Committee, noting consistent conclusions on the appropriate accounting treatment and disclosure.

Audit and Risk Committee Report
continued

Revenue recognition

Financial reporting and judgement	Action taken by management	Action taken by the Committee and outcome
Talpa Media, a wholly owned subsidiary of ITV, signed a multi-year licence deal for The Voice of Spain and other current and future unscripted Talpa Media formats in June 2018. While this is a typical deal structure for Talpa Media, the financial reporting and judgement involved: • Ensuring the availability of the rights for exploitation. • Ensuring that separate components of the licence contract were accounted for correctly. Also see note 2.1 on page 135.	At the time of approving the interim financial statements and trading announcement, confirmation of the availability of the rights for exploitation had not been received. Subsequently, management received the in-house legal team's review of the rights position; this was also supported by external counsel. No significant issues were identified and management concluded that the rights were available for exploitation. The intellectual property and production know-how for The Voice already exists with no further obligations. It was concluded that, in line with IFRS 15, because the performance considerations were met, the multi-year The Voice of Spain component of the contract be fully recognised in 2018. The future related components, such as new formats or intellectual property rights of the contract, will be recognised over time.	The Committee accepted management's view that the revenue from this contract should not be recognised at 30 June 2018. Subsequent confirmation of the rights allowed revenue recognition during the second half of 2018. KPMG also presented their view on the matter to the Committee, noting consistent conclusions on the appropriate accounting treatment and disclosure. The Committee asked management to ensure that going forward there was better clarity on the availability of rights where programmes moved between broadcasters.

London properties

Financial reporting and judgement	Action taken by management	Action taken by the Committee and outcome
In 2017, the Group announced its intention to redevelop its South Bank site and build a new London office. As a result, management proposed that incremental costs incurred across the project over the medium term in respect of temporary leases and related costs, both capital and income statement related, should be removed from the underlying results in the future. However, in 2018, the Board reversed its prior decision and agreed not to redevelop the Group's HQ at the London Television Centre, South Bank, and the site is now for sale. Consequently there were no longer any temporary leases, and the accounting treatment was reviewed.	Management reviewed the prior treatment, as outlined in the 2017 Audit and Risk Committee Report, and concluded that: • All lease costs relating to our current London offices should, following the move date, be treated as business as usual costs; • The short-term temporary dual running costs as a result of the vacant South Bank property should be treated as exceptional; and • The costs associated with the physical move, closure and disposal costs should continue to be treated as exceptional.	The Committee noted and agreed with the revised accounting treatment and impact.

Pensions

Financial reporting and judgement	Action taken by management	Action taken by the Committee and outcome
In November 2018, the Trustee entered in to a bulk annuity insurance contract (a 'Buy In') in respect of the benefits of two sections of the ITV Pension Scheme. A 'Buy In' is where the Trustee purchases an insurance policy which is effectively a scheme asset that pays the members benefits. The ultimate obligation to pay the members benefits still remains with the scheme.	Management undertook an exercise to consider the appropriate accounting for this 'Buy In' under IAS 19. As the acquisition of an insurance contract is an investment decision this has been accounted for through the Statement of Other Comprehensive Income. For IAS 19 purposes, the fair value of this insurance contract is set equal to the valuation of the insured member benefits using the IAS 19 assumptions. As these two sections of the ITV Pension Scheme were in a surplus position under IAS 19, this has resulted in a loss within the Group's Statement of Other Comprehensive Income. There are elements of the 'Buy In' transaction which have been accounted for through the Group's Statement of Profit or Losses. Management's view is that these items are not in relation to the underlying business and have been highlighted in our alternative performance measures.	The Committee was provided with a briefing on the terms of the 'Buy In' transaction from the Director of Reward and Pensions and considered the various accounting complexities and considered management's approach to be correct.

Audit and Risk Committee Report
continued

Other matters
In addition the following topics were reviewed:

Cyber security, privacy and GDPR

Issue	Action taken by the Committee	Outcome
Cyber security is an increasing risk as our business develops new revenue streams and direct to consumer propositions. Cyber security is a dynamic area due to converging threats and technology advancement. Data privacy and GDPR are high profile areas of business risk for all companies.	The Committee reviewed progress against agreed plans for cyber security and data privacy. This included: • Results from cyber incident simulation exercises; • Continued programmes to educate employees; • Actions taken to further embed IT controls; and • Improving our detection and response capability with assistance from third party specialists. The Committee requested and received a frank view of the threats and mitigations from BAE Systems (independent cyber and wider technology security advisers to the Company). The Committee also reviewed the status of the GDPR readiness programme, which has also laid the foundations for ongoing business process change.	The Committee acknowledged the continued good progress that had been achieved in implementation of the cyber security strategy and the positive comments of BAE Systems. Risk ratings were approved and the Committee requested an update on the revised cyber security strategy and risk appetite during 2019. The GDPR readiness programme will transition to business as usual during 2019 and this will be kept under review. The Committee recommended appropriate budget and focus across the Group be given to further mitigations for both cyber security and GDPR. These topics continue to feature on Internal Audit's programme of work.

Technology modernisation

Issue	Action taken by the Committee	Outcome
The programme of work to modernise our legacy business systems to reduce a number of key business risks continues. The work undertaken to date is delivering significant business benefits and reduced risks.	The Committee reviewed and challenged the programme of work, including: • Migration of the majority of our modernised applications to the cloud, and a programme of work focusing on the remaining legacy applications to migrate to cloud technology by 2022; • Development of our end to end content supply chain process, from the management of the processing of content from commissioning or acquisition through to distribution; • Development and migration to a bespoke artiste payment system in the UK; and • Progress in the replacement of our airtime sales system.	The Committee acknowledged the significant progress in modernising the Group's applications and supported the plans for the legacy applications migration. The Committee considered contingencies and actions in the event of delay in implementing the airtime sales project to ensure adequate resource. Significant progress has been made and completed and planned mitigations were reviewed and assessed. The Committee will continue to keep this under review. Internal Audit's programme of work seeks to incorporate key business change programmes.

Broadcast transmission resilience

Issue	Action taken by the Committee	Outcome
Our broadcast transmission chain is growing ever more complex as viewers access content in many different ways. It relies on the management of the key partners who provide the components of that chain.	The Committee reviewed the governance processes in place, the risks and mitigations and disaster recovery arrangements around our broadcasting transmission processes.	The Committee was impressed with the mitigations and planning in place to avoid major risks but recognised risks will remain. The Committee recommended that adequate budget be provided to allow certain additional mitigations to be implemented. The Committee will continue to keep this under review.

Tax – employment status

Issue	Action taken by the Committee	Outcome
Employment status for tax purposes continues to be a focus area for businesses whose operating models rely on engaging individuals on a freelance basis. This model is particularly prevalent in television production where freelancers are used both behind and in front of camera.	Behind camera: the Committee continued to receive regular updates to ensure ITV continues to follow best practice. Front of camera: ITV are engaged with other producers and broadcasters to develop best practice in this area, and the Company continues to discuss these issues with HMRC. The Committee received updates from management on developments within ITV and the wider media sector.	Behind camera: the Committee noted that improved processes were now fully embedded in the business. Management will update the Committee on the status of proposed new HMRC guidance during 2019. Front of camera: the Committee will keep the position under review.

Tax – IR35

Issue	Action taken by Committee	Outcome
From April 2020 the responsibility for undertaking IR35 employment status assessments, and where necessary withholding PAYE and paying NICs, will pass to the engager, rather than remain with individuals and their personal service companies.	The Committee considered updates from management on the implications for ITV.	The Committee will continue to keep this under review as the Company prepares for the introduction of the new rules. Internal Audit will attend the programme board.

Speak up

At the heart of our approach to risk management is ensuring that everyone has a voice.

Through strong leadership we successfully manage risk and aim to create a culture where everyone can feel they are able to speak up. During 2018, we launched a new reporting tool to employees and freelancers of ITV Studios, which will be rolled out across the rest of the business around the world during 2019.

This can be used for reporting incidents as well as sharing observations, ideas and examples of best practice across the business. We hope that this will help to break down barriers and start conversations, leading to better risk management across the business.

Audit and Risk Committee Report
continued

Anti-bribery and corruption

Issue	Action taken by the Committee	Outcome
Following an internal audit review on the implementation of our anti-bribery and corruption policies in 2017, actions to strengthen implementation of the Group programme were recommended by Internal Audit.	The Committee continued to review management's progress against agreed Internal Audit recommendations. They noted that an external legal review had confirmed sufficient processes were in place.	The Committee will continue to keep this under review in 2019 with further work needed to fully embed the processes in the business, particularly our overseas businesses. Internal Audit will look at the awareness of the overseas businesses during any overseas reviews.

Whistleblowing

Issue	Action taken by the Committee	Outcome
Work was undertaken with Protect to benchmark our policy and processes. Protect (formerly Public Concern at Work) provide ITV with independent advice on our Whistleblowing process and confidential helplines for our colleagues across the Group.	The Committee considered the outcomes and management's proposed actions.	Protect will undertake a further review at the end of 2019 and Internal Audit will include awareness of the Protect helpline in the internal audit process for international businesses and smaller acquisitions.

Football World Cup

Issue	Action taken by the Committee	Outcome
ITV broadcast the Football World Cup in Russia in July 2018.	The Committee reviewed the consolidated risk register for the World Cup, which included risks and mitigations relating to broadcast transmission, cyber risk, anti-bribery and corruption, health and safety and business resilience. Internal Audit also undertook a review of the risks identified and the mitigation plans developed by management.	The Committee acknowledged that there had been significant effort in identifying and mitigating the many risks associated with the broadcast of this tournament. The Committee was impressed with the comprehensive assessment of all potential key risks and the cooperation across the Group and with other broadcasters to mitigate the risks as far as possible.

Brexit

Issue	Action taken by the Committee	Outcome
The implications for ITV on accounting, tax and treasury matters of the UK leaving the EU.	The Committee reviewed management's view of the impacts on accounting, tax and treasury matters as part of regular updates to the Committee.	The overall risks of the Group in respect of the potential impact and risks of Brexit have been reviewed in detail by the Board and the Committee has focused on the accounting, tax and treasury risks only. The Committee will continue to keep this under review.

Risk management and internal controls

Risk management

The Committee continued to consider the process for managing risk within the business and assisted the Board in relation to compliance with the 2016 UK Corporate Governance Code. Further information on our risk management processes and details of our principal risks are set out on pages 56 to 61.

We continue to develop our cultural people-driven approach to risk management, which we believe encourages a focus on prevention rather than reaction to failure.

In 2018, the Committee reviewed a number of risk topics. The Group's key risks reflect those inherent within the annual budget and five year plan.

Internal controls

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

The Committee reviews the internal controls framework and management's approach to reviewing the effectiveness of the Group's internal controls. During 2018, the Committee reviewed the findings and conclusions and noted critical improvements in relation to risk management and completion of risk actions. The Committee also reviewed the governance for key projects, simplification of approval levels, use of the core international controls framework and assessment of effectiveness through the Group Finance Assurance Plan. The Committee noted the continuing improvement of the underlying processes, procedures and controls at the Business Service Centre, including the forthcoming implementation of a new consolidation system in 2019. The Committee also reviewed the Fraud Prevention Framework and interaction with external and internal audit.

The Committee satisfies itself that internal controls are operating throughout the year principally based on a programme of internal audit reviews, reviews of the effectiveness of internal controls, including fraud and anti-bribery, reviews of balance sheet checklists certified by local management, 'deep dive' sessions with relevant management on the management of certain key risks and controls and through a suite of automated analytics that monitor financial transactions in our systems. In addition to the internal audit programme, there are a number of exception reports that cover transaction processing. For those subsidiaries not covered by exception reporting software, a monthly self-assessment takes place, which is subject to independent internal review.

As part of our internal control process an annual strategy review and a rolling five year financial planning exercise is undertaken, which are reviewed and approved by the Board. 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 to the Board, along with an update of the Group's performance against strategic KPIs and cash targets. Actual results are compared with budget and forecasts, and key trends and variances are explained and analysed and actions taken to address performance variances or emerging issues agreed.

During the year, the Committee Chair met with internal and external litigation advisers on key litigation matters for the Group, such as Boxclever, Gurney and the Voice of China.

The Tax and Treasury Committee is in place to consider and approve tax and treasury related matters in respect of corporate transactions or other activities and monitors compliance with tax and treasury related policies. This committee is an important part of the governance framework of ITV, minutes of meetings are shared with the Committee and its operation is reviewed annually by the Committee. During the year the Committee Chair attended one of the committee meetings.

Audit and Risk 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 continues to believe that outsourcing offers access to the wide range of skills and resources in the various geographies required. However, during 2019 it will again consider if this model for internal audit remains optimum for the Group's strategy. The Committee keeps under review the internal audit relationship with Deloitte and the procedures to ensure that appropriate independence of the internal audit function is maintained. The effectiveness of internal audit is assessed over the year using a number of measures that 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.

Prior to 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, including the airtime sales project, World Cup resilience and finance consolidation systems implementation. During the year, the Committee reviewed findings from the 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. During the year, Internal Audit visited a number of our international subsidiaries as well as reviewing our controls in a number of areas including ITV Hub+, Treasury and non-employee contracting.

External auditor

The Group's external auditor is KPMG. The table below summarises the process followed to manage the relationship and audit process.

Engagement	Audit tendering and rotation	Independence and objectivity	Reappointment
The Committee considers carefully the scope of planned work and the assessment of risk and materiality on which it is based. The Committee's aim is to support a robust and effective audit with strong reporting lines to the Committee. The Committee discusses the senior resource employed in the audit and the background, relevant sector and other experience of new members of the team and considers implications for the audit of new reporting, accounting and governance guidelines and standards. The Committee agrees the terms of engagement, audit and non-audit fees and reviews progress and results throughout the year. The Committee requested that KPMG visit our US subsidiaries prior to developing the audit strategy to assess the audit approach required in the US.	KPMG were appointed as auditor of ITV plc in December 2003 prior to the Company becoming the parent company of the ITV Group on 2 February 2004. In 2012 we undertook a competitive tender applying the BIS guidance on the EU Audit rules. The Committee intends to undertake a tender process during 2019 for the appointment of external auditors effective from 1 January 2021. The Committee continues to monitor audit quality to ensure a robust and effective audit. We comply with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender and Audit Processes and Audit and Risk Committee Responsibilities) Order 2014.	The Committee seeks to ensure the objectivity and independence of our auditor through: • Focus on the assignment and rotation of key personnel • The adequacy of audit resource • Policies in relation to non-audit work As a result of these strict guidelines the Committee believes that non-audit services do not have a direct or material effect on the audited financial statements. A copy of our Auditor Independence policy is available on our website at www.itvplc.com. We monitor relationships with other audit firms to ensure we have sufficient choice for any future appointment.	During the year, the Committee considered the performance and audit fees of our auditor, and the level of non-audit work undertaken, and recommended to the Board that a resolution for the reappointment of KPMG for a further year as the Company's auditor be proposed to shareholders at the AGM in May 2018. The resolution was passed and KPMG was reappointed. The Committee has recommended the reappointment of KPMG at the AGM on 8 May 2019.

External audit effectiveness and quality

The Committee follows the review programme below to satisfy itself of external audit effectiveness and quality.

February	May	July	November
• Audit scope and materiality • Confirmation of work performed and identification of other significant risks • Reappointment • Independence and objectivity	• Audit plan and strategy • Engagement • Independence and objectivity	• Fees • FRC Audit Quality Review focus areas • Independence and objectivity	• Auditor Independence policy (reviewed every two years) • Audit fees – final approval • Independence and objectivity

Audit quality is reviewed throughout the year and the Committee continues to use the Financial Reporting Council's (FRC) Audit Quality Practice Aid to structure its review of audit quality. When making its assessment of audit quality, the factors the Committee focused on included:

External audit quality reports	The audit strategy for the year addressed thematic concerns that the FRC had highlighted.
Auditor interaction with management	Reviewing the auditor's understanding of business progress against the strategy and emerging industry themes, as well as the auditor's discussion with and challenge of management on key corporate transactions, key judgements and estimates and accounting treatments and disclosures with clear indications of scepticism being applied when appropriate.
Auditor's own view of effectiveness	Enquired with regards to: • Audit methodology and its effective application to ITV; • Robustness of challenges and findings on areas that require management judgement; • Whether there had been an internal peer review of the ITV audit and what the findings were; and • The experience of the senior members of the audit team.

In its assessment of audit quality, the Committee also took into account:

- The detailed audit scope and strategy for the year, including the coverage of emerging risks and recent acquisitions and partnerships in all geographies;
- Group materiality and component materiality;
- How the auditor communicated any key accounting judgements and conclusions, and
- Feedback from management of the performance of the auditor.

There were no significant findings from the evaluation this year and the Committee considers the external audit to have been robust and effective.

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 2018. The report also aims to demonstrate how our Remuneration Policy aligns with our strategy, supports the retention of the Executive Directors and rewards them for strong performance.

Mary Harris
Chair, Remuneration Committee

Dear Shareholder

I am pleased to present the 2018 Annual Report on Remuneration. This report will be subject to an advisory vote by our shareholders at the AGM on 8 May 2019.

During the year John Ormerod stepped down from the Committee and I thank John for his hard work. We also welcomed Salman Amin and Duncan Painter to the Committee. The composition and activities of the Committee are summarised on page 95.

More than TV – a clear vision for ITV

At the start of 2018 we were delighted to see Carolyn McCall join the business as Chief Executive. During the year, Carolyn and the wider management team completed a strategic refresh of the business. This process resulted in the articulation of a future vision for ITV, which seeks to build upon our unique and winning combination of creativity and commercial strength.

The management team is focused on executing this strategy to create a stronger, structurally sound business, building on our strong operating performance. The Committee has been mindful of the strategic priorities when considering remuneration for our Senior Executive Group, and we have looked to highlight the alignment between the strategy and future pay arrangements.

During 2018, ITV made good initial progress towards implementation of the More than TV strategy, with investment and cost-saving programmes on-track. In addition, we have recently announced an exciting vision for a new SVOD service.

While challenging market conditions and political uncertainty persist, during 2018 ITV largely performed in line with expectations with outperformance in certain areas. Viewing across ITV platforms increased by 7% supported by a strong schedule and ITV Studios delivered growth of 6%.

In 2018 ITV demonstrated its resilience in what was a testing year for the UK economy. During 2018, there was a further contraction in the spot advertising market due to the continued economic and political uncertainty impacting business confidence. Given this backdrop, the EBITA result represents a robust outcome. This outcome was underpinned by another year of strong cash conversion, a record outcome for share of viewing of 23.2% (2017: 21.7%) and a 5% growth in total non-advertising revenue. Overall ITV has delivered another year of strong operating performance as well as

> ITV demonstrated its resilience in what was a testing year for the UK economy. Overall ITV has delivered another year of strong operating performance as well as making a number of essential investments and strategic progress towards future success.

making a number of essential investments towards future success. This underlying strength and confidence is reflected in the full year dividend for 2018 which is up 3%.

Aligning incentives with the strategy
In last year's report, we noted that following consultation with our largest shareholders we had decided to defer the target setting process for 2018 LTIP awards until the completion of the strategy refresh. This was to ensure that the performance conditions for the 2018 LTIP awards were closely linked to the future strategy.

Following a detailed review, the Committee determined that the 2018 LTIP awards should focus on three clear and simple performance areas. The metrics selected directly align with the More than TV strategy and capture performance in each of the following three areas:

(1) Strengthen – integrated producer broadcaster;

(2) Grow – UK and global production; and

(3) Create – Direct to Consumer business.

We consulted with our largest shareholders regarding the proposed targets for 2018 LTIP awards. During this consultation, it was apparent that many of our shareholders appreciated the alignment with the strategy and were sympathetic to the challenges faced by the industry given the uncertain macroeconomic environment. Overall, there was strong support for the proposals.

Despite this support, we note that there are a diverse range of views from our investors regarding the choice of performance measures. In light of these differing opinions, we have gone forward with an approach which the Committee believes will motivate management towards the successful execution of the strategy over the longer term and also has the support of the majority of our largest shareholders.

We continue to value the views of all of our shareholders, including those who put forward alternative viewpoints during consultation. All feedback was debated at length by the Committee and we believe that this resulted in a more robust decision-making process. Further details of measures and targets for LTIP awards are set out on page 101.

I would like to thank all investors who engaged with us for their time and I look forward to maintaining this dialogue as we review our policy going forward.

For 2019 LTIP awards we intend to maintain a similar balance of performance measures. However, we will await finalisation of our strategic investment plans before publishing targets for 2019.

Incentive outcomes for 2018
The bonus outcomes for 2018 reflect the strong performance delivered against the targets set at the start of the year.

In 2018, ITV demonstrated its resilience in what was a testing year for the UK economy. Overall ITV has delivered another year of strong operating performance as well as making essential investments and strategic progress towards future success.

Notwithstanding the above, the Committee was mindful of how current macroeconomic uncertainty has recently impacted many UK exposed stocks, including ITV. In this context, the Committee exercised discretion and determined that while the Executive Directors had performed well against the targets set at the start of the year, bonus awards should be scaled back by a 10 percentage point reduction to the overall payment.

The LTIP award made in 2016 lapsed in full, largely reflecting the fact that the performance targets were set in a more positive economic environment. While this outcome is clearly disappointing, it does demonstrate our commitment to pay-for-performance.

Shareholders will note that the 2018 single figure (page 98) for Carolyn McCall includes certain buyout awards agreed on her appointment, and disclosed in full in last year's report. These awards directly replace awards forfeited from her previous employer, and largely relate to legacy easyJet incentive plans. They do not form part of ITV's ongoing pay structure.

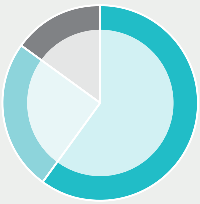
Remuneration Report
continued

Strategic alignment of remuneration with KPIs for 2018 (pages 28 to 31)

LTIP

	Performance weighting
Cumulative adjusted EPS Financial KPI	40%
Total non-advertising revenues Financial KPI	40%
Viewing health – ITV Family SOV Strategic KPI	10%
Viewing health – Online viewing Strategic KPI	10%

Annual Bonus



	Performance weighting
ITV adjusted EBITA Financial KPI	60%
Profit to cash conversion Financial KPI	15%
Individual targets	25%

Board changes

On 31 December 2018 Ian Griffiths stepped down from the Board after ten years. During his tenure, ITV underwent a significant transformation and the Board would like to thank Ian for his sustained contribution to the business.

On departure, Ian's remuneration arrangements were determined in accordance with his contractual terms and the limits set out in the Remuneration Policy approved by shareholders at the 2017 AGM. All variable incentives continue to be performance based and will be prorated for time served. Full details of the departure terms are set out on page 103.

In November 2018, we announced that Chris Kennedy would join the Board as Group CFO during 2019. As announced on appointment, the terms of his remuneration package will be consistent with the Remuneration Policy. One major change agreed was a reduced cash allowance for income in retirement of 9% of salary (below the policy maximum of 25%) which aligns with retirement benefits offered in the wider organisation. Full details of his remuneration arrangements are set out on pages 102 and 103.

Looking ahead

The current Remuneration Policy was approved by shareholders at the 2017 AGM. Under the normal three year renewal cycle, a new Remuneration Policy will be presented at the 2020 AGM. As part of this renewal process, the Committee intends to undertake a review of current pay arrangements to ensure that they remain fit-for-purpose. We will once again consult with our largest shareholders regarding any significant changes in approach.

In this year's report we have provided additional detail as to how we currently comply with the remuneration provisions within the 2018 Corporate Governance Code (2018 Code) which takes effect for 2019. Whilst ITV is well placed against the majority of provisions, we will use the policy vote as a further opportunity to review how our approach compares with evolving market practice at that time.

In line with the 2018 Code, the Committee already dedicates considerable time to understanding pay in the wider organisation. While the review of matters relating to, for example, all-colleague pay or gender and BAME pay provide important context for the Board, these are also matters which the Committee considers.

We hope that you find this report to be clear and transparent. We remain committed to taking a measured approach to pay and continue to value the support of our shareholders in this approach.

Mary Harris
Chair, Remuneration Committee
27 February 2019

Who is on the Committee

The Committee is composed entirely of Non-executive Directors.

The current members are:

- Mary Harris (Chair)
- Salman Amin (from 1 June 2018)
- Sir Peter Bazalgette
- Roger Faxon
- Anna Manz
- Duncan Painter (from 1 February 2019)

John Ormerod stepped down from the Board and the Committee on 10 May 2018.

Full details of attendance at Committee meetings can be found on the table on page 71.

Detailed biographies can be found on page 66 and 67.

Our role

Following each meeting, the Committee communicates its main discussion points and findings to the Board.

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

www.itvplc.com/investors/governance

The main role of the Committee is to:

- Review the ongoing appropriateness, relevance and effectiveness of the Remuneration Policy including in relation to retention and development.
- Propose to shareholders changes to the Remuneration Policy as appropriate.
- Approve the implementation of remuneration arrangements for the Executive Directors, Management Board and other senior executives (together the Senior Executive Group) taking into account arrangements for the wider employee group. Details on employee remuneration can be found on page 109.
- 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.
- Determine the award levels for the Senior Executive Group based on performance against annual bonus targets and long-term incentive conditions.

Meetings in 2018

In addition to Committee members, the Executive Directors, Group HR Director, Company Secretary, Director of Reward & Pensions and independent adviser Deloitte regularly attended meetings.

January

- Financial performance update
- Indicative bonus outcomes and payout levels
- Indicative LTIP performance and vesting levels
- Pay review outcomes and changes to Senior Executive Group
- Remuneration Report
- Adviser independence

February

- Bonus targets considered for current year
- LTIP awards and targets considered for current year in conjunction with strategic review
- Remuneration Report
- Compliance with Remuneration Policy
- Compliance with shareholding guidelines

April

- Market update
- Financial performance update
- UK Corporate Governance Code

September

- Reward framework and current trends
- LTIP performance targets and strategic review.
- Consideration of remuneration in the wider employee group

October

- Bonus payout forecasts
- Consider operation of current incentives
- LTIP performance targets and shareholder consultation

November

- Bonus framework and targets
- LTIP performance targets and shareholder consultation
- Review of remuneration consultants
- Gender and BAME pay gap reporting
- Annual pay review
- CEO pay ratio reporting

Annual review

An annual review of the performance of the Committee is conducted each year.

For 2018, in addition to feedback from members of the Committee, input was also sought from the Executive Directors and Deloitte, the independent adviser to the Committee.

Overall, the review concluded that the Committee is responding appropriately to its terms of reference and will continue to develop its role.

During 2019 the Committee will review its role in considering remuneration for the wider workforce to ensure compliance with the 2018 Code.

In addition they will review the terms of reference of the Committee and consider any further actions required to ensure full compliance.

Remuneration Report
continued

Remuneration Policy Summary

The Company's Remuneration Policy was approved by shareholders at the AGM on 10 May 2017. This Policy will continue to apply for 2019. Under the normal three year renewal cycle, the Remuneration Policy will next be submitted for approval by shareholders at the 2020 AGM.

The Policy aims 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 Policy seeks to balance these factors, while taking into account prevailing best practice and fair outcomes for investors.

A significant proportion of the package is tied to the achievement of stretching performance conditions that align remuneration with our strategy to deliver strong business performance and create shareholder value.

A summary of the Policy is provided below. The full Policy can be found on our website.

www.itvplc.com/investors/governance

Element	Summary of Policy	2019 Approach
Fixed pay		
Base salary	**Purpose:** To reflect the skills, responsibility and experience and support the recruitment and retention of Executive Directors of the calibre required to deliver the business strategy. **Operation:** Reviewed annually with consideration given to personal and company performance, pay levels in relevant market and the wider employee pay review.	**Carolyn McCall:** £922,500 (+2.5%) **Chris Kennedy:** £660,000 (on appointment)
Provision for an income in retirement	**Purpose:** To provide competitive post-retirement benefits or cash allowance as a framework to save for retirement. **Operation:** The maximum contributions or cash allowances for the Executive Directors are 25% of base salary.	**Carolyn McCall:** 15% of salary **Chris Kennedy:** 9% of salary
Benefits	**Purpose:** Ensures that the package is competitive. **Operation:** Set at a level which the Committee considers to be appropriately positioned taking into account typical market levels, individual circumstances and the overall cost to the business.	In line with policy
Variable performance-related pay		
Annual Bonus: Cash and Deferred Share Award (DSA)	**Purpose:** To incentivise achievement of key financial measures and objectives to deliver the business strategy. Compulsory deferral provides alignment with the shareholder experience and supports retention of executives. **Operation:** Maximum opportunity will not exceed 200% of salary. The majority of the opportunity is based on corporate and financial measures, the remainder on performance against individual and/or strategic objectives. Targets and measures are set annually based on business plans at the start of the year. Not more than two-thirds delivered in cash with the balance deferred into shares under the DSA, normally for a period of three years. Subject to malus and clawback.	Maximum bonus opportunity **Carolyn McCall:** 180% of salary **Chris Kennedy:** 165% of salary Performance measures (see page 102)
Long-Term Incentive Plan (LTIP)	**Purpose:** To incentivise delivery of performance aligned with the business strategy over the longer term and the creation of shareholder value. **Operation:** The maximum award that may be granted in any financial year is 350%. Performance measures are closely linked to financial and strategic priorities. Performance period is not less than three years, with awards to be held for an additional two year holding period after the end of the performance period. Subject to malus and clawback.	2019 LTIP grant levels **Carolyn McCall:** 265% of salary **Chris Kennedy:** 225% of salary Performance measures (see page 102)

Remuneration Policy in action 2018

Time horizons

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Fixed pay	Paid over financial year					
Annual Bonus	Paid in March 2019	Deferral (one-third)				
LTIP	Performance period – three years			Holding period – two years		
Shareholding	CEO: 400% of salary CFO: 200% of salary					
Safeguards – LTIP	Malus and Clawback apply					
Safeguards – Annual Bonus	Malus and Clawback apply					

How our incentive pay links to our strategy

Our incentive pay structure is designed to align with our strategy. Below we set out how each performance element under our incentive pay links to our three strategic areas.

KPI's are set out on pages 28 to 31	1 **Strengthen** Integrated producer broadcaster	2 **Grow** UK and global production	3 **Create** Direct to Consumer
Annual bonus			
ITV adjusted EBITA Key measure of profitability that reflects the underlying performance of the business.	●	●	●
Profit to cash conversion Our measure of effective cash generation used for working capital management.	●	●	●
Cost savings Permanent savings to the business. Managing our cost base is key as we aim to run our business as efficiently as possible and fund investments in line with our strategic priorities.	●	●	●
Individual strategic Specific targets for each Executive Director to deliver on strategic priorities. These are adjusted annually to reflect strategic need.	●	●	●
LTIP			
Adjusted EPS Key measure of overall Group performance, capturing performance across all revenue streams.	●	●	●
Total non-advertising revenues Strategic objective to deliver a growing and stable production business and a new scaled and profitable Direct to Consumer business.	●	●	●
Viewing health ITV Family SOV – keeping our free-to-air proposition strong and our audience figures healthy. Online Viewing – growing ITV VOD viewing via catchup and other devices.	●		●

Remuneration Report
continued

Annual Report on Remuneration

The sections of the Annual Report on Remuneration that have been audited by KPMG are pages 98 to 100, page 103 to 104 (limited to Non-executive Directors and payments to past Directors for loss of office sections) and pages 105 to 106.

Remuneration Policy application in 2018

The following section provides details of how the current Remuneration Policy was implemented in 2018.

Executive Directors

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

		Carolyn McCall[1]		Ian Griffiths	
	Notes	**2018 £000**	2017 £000	**2018 £000**	2017 £000
Salary		**887**	–	**642**	608
Taxable benefits		**17**	–	**15**	15
Pension		**133**	–	**161**	152
Bonus (cash and shares)		**1,175**	–	**779**	979
Share awards	2, 3	**–**	–	**–**	450
Transitional arrangements					
Buy-out awards	4	**1,483**			
Interim arrangements	5	**–**	–	**158**	459
Total		**3,695**	–	**1,755**	2,663
Total (excluding transitional arrangements)		**2,212**	–	**1,597**	2,204

1. Carolyn McCall was appointed to the Board on 8 January 2018 and remuneration is prorated from that date.
2. The 2016 LTIP awards were subject to performance conditions measured to 31 December 2018. As the performance conditions were not achieved, this award will lapse.
3. In the 2017 Annual Remuneration Report, the amount shown for Ian Griffiths was the indicative vesting value of the 2015 LTIP award that was subject to performance conditions measured to 31 December 2017. The figure shown in the table above represents the subsequent value received on the vesting date of 27 March 2018 using the share price on that date (145.18 pence).
4. The figure shown represents awards made to Carolyn McCall in March 2018 to replace awards forfeited on joining ITV. Further details are shown on page 103.
5. As disclosed in May 2017, interim arrangements were implemented following Adam Crozier's departure from the Board. The 2018 remuneration for Ian Griffiths includes a temporary supplement that consisted of £54k salary, £13k pension and £90k bonus.

The aggregate emoluments for all Directors as required under Schedule 5 (SI 2008/410), is the total remuneration shown in the table above less share awards but including gains on exercise of options and amounts receivable under LTIPs, plus the total emolument figures for Non-executive Directors shown on page 100.
Sir Peter Bazalgette was Executive Chairman for the period 30 June 2017 to 8 January 2018. Details of his remuneration arrangements are set out on page 100.

Further information in relation to each of the elements of remuneration for 2018 set out in the table above is detailed below. An explanation for 2017 is set out in detail in our 2017 Annual Report and Accounts, which can be found on our website.

www.itvplc.com/investors

Salary

Carolyn McCall's annual salary for the year was £900,000. She was appointed to the Board on 8 January 2018 and the prorated salary received in the year was £887,308.

As disclosed in last year's report, Ian Griffiths received a 2.75% salary increase from 1 January 2018 in line with the wider employee group. For 2018, his salary was £642,213.

Taxable benefits and pension

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

The Executive Directors were not part of an ITV pension scheme but received a cash allowance in lieu of pension. Carolyn McCall received 15% and Ian Griffiths received 25% of base salary respectively. The cash allowance does not form part of the base salary for the purpose of determining incentives.

Bonus (cash and shares)

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

The majority of the bonus (75%) was based upon the achievement of corporate and financial targets, with payout determined in accordance with pre-set target ranges subject only to the usual adjustments to exclude the impact of acquisitions and currency movements. As indicated in the letter from the Chair, the financial targets were set to reflect expected trends in the advertising market and planned essential investments in core technologies and capabilities as well as the network programme budget agreed by the Board. The targets were considered to be stretching in this context.

The corporate and financial targets used for 2018, together with performance against those targets and the resulting level of payout are set out below.

		Performance required			
Performance measure	Weighting	20%	100%	Performance achieved	Payout level (% of maximum)
ITV adjusted EBITA	60%	£754.3m	£834.3m	£810m	75.7%
Profit to cash conversion	15%	80%	88%	88%	100%

The remainder of the bonus (25%) was based upon the Committee's assessment of the contribution each Executive Director made to the overall strategy through the delivery of specific targets. The Committee applies suitable judgement when assessing performance in this regard. The Executive Directors shared common objectives; completion of the strategy refresh, implementation of the organisational re-design, and ensuring communication and engagement with the new strategic priorities. They delivered well against these objectives – the More than TV strategy was announced in July 2018, a Direct to Consumer business was created, and the organisation redesign process commenced and will be completed in 2019. The Committee therefore agreed that this element should deliver an outcome of 92.5% of maximum for both Directors.

In 2018, ITV demonstrated its resilience in what was a testing year for the UK economy. During 2018, there was a further contraction in the spot advertising market due to continued economic and political uncertainty impacting business confidence. Given this backdrop, the EBITA result for 2018 represents a robust outcome. This outcome was underpinned by another year of strong cash conversion, a record outcome for share of viewing of 23.2% (2017: 21.7%) and a 5% growth in total non-advertising revenue. Overall ITV has delivered another year of strong operating performance as well as making a number of essential investments towards future success. This underlying strength and confidence is reflected in the full year dividend for 2018 which is up 3%.

Notwithstanding the above, the Committee was mindful of how current macroeconomic uncertainty has recently impacted many UK exposed stocks, including ITV. In this context, the Committee determined that while the executive team had performed well against the targets set at the start of the year, the Committee would exercise its discretion and trust. The outcome from the corporate and financial elements of the bonus should therefore be scaled back by an amount equivalent to 10 percentage points of the overall award.

Payments and deferrals in respect of the financial year are set out below.

	% of maximum bonus opportunity earned	Total value	% of bonus earned after discretion applied	**Total value**	Value delivered in shares under the DSA	Value paid in cash
Carolyn McCall	83.6%	£1,334,423	73.6%	**£1,174,707**	£391,569	£783,138
Ian Griffiths	83.6%	£988,002	73.6%	**£869,792**	£289,931	£579,861

Of the total bonus shown for Ian Griffiths, £779k relates to his ongoing bonus arrangements while £90k relates to the interim arrangements, see note 5 on page 98. The maximum bonus opportunity for Ian Griffiths was increased from 165% to 180% for the period he was in receipt of a temporary salary supplement.

Remuneration Report
continued

Share awards
We are required to show share awards in the single figure table on page 98 according to the year in which the performance period for each performance measure ended.

The awards made in 2016 under the LTIP were subject to performance measured to 31 December 2018. The performance conditions were not met and in accordance with the terms of the awards these will now lapse. Further details on the awards and performance measures can be found on page 106 and in the 2016 Remuneration Report.

Transitional arrangements
As a result of joining ITV, Carolyn McCall forfeited various interests under legacy incentive arrangements operated by her previous employer, easyJet plc. As explained in last year's Remuneration Report, the Committee agreed to buyout these arrangements on a comparable basis.

The single figure table for 2018 includes payments relating to: (i) 2015 easyJet deferred bonus (£209k), (ii) 2016 easyJet deferred bonus (£92k), (iii) 2016/17 easyJet bonus (£910k); and (iv) 2014 easyJet long-term incentive awards (£271k). In all cases, the level of payout reflected the value of awards forfeited. No buyout was made in respect of the 2015 easyJet long-term incentive awards, as the equivalent easyJet award lapsed in full. Further details of the outstanding buyout arrangements are set out on page 103.

As noted in last year's Remuneration Report, following Adam Crozier's decision to step down from the Board, Ian Griffiths was asked to lead the executive team on an interim basis and take on additional responsibilities until a new Chief Executive joined the business. To reflect these additional responsibilities, it was agreed in May 2017 that he would receive a temporary salary supplement of £200,000 per annum and an increased maximum bonus opportunity of 180% of salary. In order to facilitate a suitable transition, this supplement remained payable until 7 April 2018.

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

		Fees		Taxable benefits[1]		Total	
	Notes	**2018 £000**	2017 £000	**2018 £000**	2017 £000	**2018 £000**	2017 £000
Peter Bazalgette (Chairman)		**450**	450	**3**	2	**453**	452
Salman Amin	2	**68**	64	**8**	4	**76**	68
Edward Bonham Carter	3	**20**	–	**–**	–	**20**	–
Margaret Ewing	4	**80**	12	**1**	–	**81**	12
Roger Faxon		**70**	69	**6**	9	**76**	78
Mary Harris	5	**101**	86	**4**	4	**105**	90
Andy Haste	6, 7	**35**	103	**–**	–	**35**	103
Anna Manz		**76**	74	**–**	–	**76**	74
John Ormerod	6	**33**	90	**–**	–	**33**	90
Duncan Painter	8	**43**	–	**–**	–	**43**	–
		976	948	**22**	19	**998**	967

1. The amounts disclosed in the table above relate to the reimbursement of taxable relevant travel and accommodation expenses (and associated taxes) for attending Board meetings and related business. In addition, Peter Bazalgette receives private healthcare.
2. Salman Amin joined the Remuneration Committee on 1 June 2018.
3. Edward Bonham Carter was appointed to the Board as Senior Independent Director on 11 October 2018.
4. Margaret Ewing became Chair of the Audit and Risk Committee on 10 May 2018.
5. Mary Harris was appointed interim Senior Independent Director from 10 May 2018 to 11 October 2018.
6. Andy Haste and John Ormerod both stepped down from the Board and Committees on 10 May 2018.
7. Andy Haste stepped down from the Remuneration Committee on 10 May 2017.
8. Duncan Painter was appointed to the Board on 1 May 2018.

LTIP awards made in 2018

On 28 March 2018, an award was made under the LTIP to Carolyn McCall and Ian Griffiths, subject to performance over the period to 31 December 2020 as set out below.

	% salary awarded	Number of share options (nil-cost)	Value at award date	Performance period ends	Holding period	Vesting date	Release date
Carolyn McCall	265	1,641,997	£2,385,000	31 December 2020	2 years	28 March 2021	28 March 2023
Ian Griffiths	225	995,134	£1,445,432	31 December 2020	2 years	28 March 2021	28 March 2023

As noted in the letter from the Chair, the performance measures and targets for the 2018 awards were determined following consultation with our largest shareholders. For the 2018-2020 performance cycle the performance measures selected are intended to be directly aligned to the three pillars of the More than TV strategy communicated to the market during 2018 and as set out on page 24.
The alignment between the strategy and the performance measures is summarised in the table on page 97.

When setting the performance measures and targets the Committee took into account the More than TV strategy, the planned essential investments over the period and current internal and external forecasts for future performance. The targets are reflective of current legislative and regulatory frameworks. The Committee views these targets as stretching given the uncertain economic environment. Delivery of performance at the top of the range would represent significant outperformance.

The performance measures and targets for 2018 are:

	KPI	Weightings	Threshold (20% vesting)	Maximum (100% vesting)
Adjusted EPS	see page 28	40%	13p	17p
Total non-advertising revenues	see page 28	40%	3% growth pa	6.5% growth pa
Viewing health:				
- ITV Family SOV	see page 29	10%	21.2%	23.1%
- Online viewing	see page 30	10%	+200m hours growth	+400m hours growth

There will be scaled vesting between the threshold and maximum level. The interim vesting points are closely linked to the strategy and are therefore currently commercially sensitive. However, full disclosure of the scale will be provided following the end of the performance period.

The Remuneration Committee will retain the ability to adjust the targets and definitions for exceptional, one-off events or new business opportunities, which may arise over the course of the performance period, in order to ensure that the plan continues to operate in line with the Committee's original intentions.

As a further safeguard, and in line with the 2018 Corporate Governance Code, the Remuneration Committee will continue to have 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. When making this judgement the Committee may consider any such factors it deems relevant. The Committee believes that this discretion is an important feature of the plan and mitigates the risk of unwarranted vesting outcomes. This provision will apply to all LTIP awards granted from 2018 onwards.

Remuneration Report
continued

Remuneration Policy in 2019

Executive Directors

The following section provides details of how the Remuneration Policy will be implemented in 2019. The details below include Chris Kennedy who joined the Board in February 2019.

Salary

Salaries are paid in line with the Remuneration Policy. On 1 January 2019, Carolyn McCall received an increase of 2.5% in line with the wider employee group.

	2019 Salary
Carolyn McCall	£922,500
Chris Kennedy	£660,000

Taxable benefits and pension

These are provided in line with the Remuneration Policy. Both Executive Directors receive private medical cover, car-related benefits, and a cash allowance in lieu of participation in any ITV pension scheme. Carolyn McCall's pension benefits for 2019 will remain unchanged (15% of salary). In accordance with the 2018 UK Corporate Governance Code the Committee has determined that Directors who join from 1 January 2019 will receive pension contributions in line with the wider employee group, therefore Chris Kennedy will receive a cash allowance in lieu of pension of 9% of salary.

Bonus (cash and shares)

The maximum bonus opportunity for 2019 remains unchanged: Carolyn McCall – 180% of salary; Chris Kennedy – 165% of salary. Awards made to Executive Directors through the bonus will be paid two-thirds in cash and one-third deferred into shares under the DSA.

The performance measures and weightings for 2019 bonuses will be broadly similar to previous years. The target ranges for financial measures have been set to reflect planned essential investments and current expectations regarding advertising market performance for 2019. Overall the Committee is satisfied that the target ranges are realistic but highly stretching in this context. The Board considers the actual targets for 2019 to be commercially sensitive at this time, however, we envisage providing retrospective disclosure of these targets in next year's report. Details of the financial performance measures are set out in the table on page 97.

The Committee may adjust bonus targets or outcomes to reflect significant one-off events (e.g. major transactions), foreign exchange movements or material changes to assumed plan conditions to ensure that the plan continues to reward performance fairly.
The Committee may amend the bonus pay-out should any formulaic assessment of performance not reflect the overall business performance of the year.

Share awards

The Committee's intention is for 2019 LTIP awards to be subject to the same performance measures and weightings as those applicable to 2018 awards. As noted above, these metrics have been discussed at length with our largest shareholders.

For 2019 LTIP awards we intend to maintain the same balance of performance measures as for 2018. However, we will await finalisation of our strategic investment plans before publishing targets for 2019. Once the targets are finalised, the Committee intends to publish them on the Company's website.

Malus and Clawback: malus and clawback provisions may be operated at the discretion of the Committee in respect of any cash and deferred share elements of the bonus and awards made under the LTIP. Under malus, unvested share awards (including any LTIP shares subject to a post-vesting holding period) can be reduced (down to zero if considered appropriate) or be made subject to additional conditions. Clawback allows for repayment of bonuses previously paid and/or shares previously received following vesting. Malus/clawback can be operated up to four years following the start of the relevant bonus year for bonuses, and up to six years from the relevant date of grant for LTIP awards. The circumstances in which the operation of these provisions would be applied may be considered from time to time but currently include material misstatement of results, gross misconduct or fraud. The plan rules have been reviewed and the Committee is happy that they provide sufficient scope to exercise discretion and judgement in line with the spirit of the 2018 Corporate Governance Code. The Committee is also happy that there is no need to instigate either malus or clawback for any vested or outstanding awards at this time.

Buyout arrangements

Carolyn McCall: In addition to the awards set out in the table on page 100, Carolyn McCall is also entitled to a buyout in respect of an easyJet long-term incentive granted in 2016 based on performance to 30 September 2019. The replacement award will be subject to ITV performance to 31 December 2019 based on the same performance measures as the 2018 LTIP. The outcome for this award will be disclosed in next year's Remuneration Report. Following the assessment of performance any vested shares will be subject to a two year holding period.

Chris Kennedy: In line with the Remuneration Policy, it was agreed that ITV would buyout certain bonus and share awards that Chris forfeited by leaving his previous employer, Micro Focus International plc, and joining ITV. Details of forfeited arrangements are set out in the Micro Focus International plc Annual Report and Accounts for 2017/18.

In determining the buyout, the Committee has taken into account relevant factors including performance conditions attaching to the forfeited awards, the likelihood of the awards vesting and the form and timing of the awards. The awards will be bought out on a comparable basis.

All elements of the buyout package are subject to continued employment. If Chris gives notice to leave the Company within 12 months of commencing employment, all awards paid or that vested during this period will be repayable by him.

The buyout arrangements comprise the following:

- **Annual bonus** – bonus award forfeited in respect of 2018 will be replaced with an award of equivalent value. This will include a cash payment of £372,000 payable in March 2019 and a deferred share award equivalent to £186,000 which will vest in September 2021.
- **Long-term incentives** – the forfeited 2018 long-term incentive award will be replaced with ITV share awards made in March 2019. An award with an equivalent value of £210,000 will vest in March 2021 and an award with an equivalent value of £31,000 will vest in September 2021. Given the value of the awards, the Committee determined that, for simplicity, the awards would be granted at an equivalent value, discounted to reflect performance and vesting subject to continued employment. Full details regarding the buyouts denominated in shares will be set out in the relevant stock exchange announcement at the time of grant, and shareholders will also be provided with additional detail in next year's Remuneration Report.

Non-executive Directors

There has not been an increase to Non-executive Director fees since 2016. Current fees are as set out below.

	1 January 2019 £	1 January 2018 £	% Change
Chairman	**450,000**	450,000	–
Board fee	**65,064**	65,064	–
Additional fees for:			
Senior Independent Director	**25,000**	25,000	–
Audit and Risk Committee Chairman	**20,000**	20,000	–
Audit and Risk Committee member	**5,371**	5,371	–
Remuneration Committee Chairman	**20,000**	20,000	–
Remuneration Committee member	**5,371**	5,371	–

Sir Peter Bazalgette acted as Executive Chairman from June 2017, with no additional fees paid, and resumed his non-executive role from 8 January 2018. In addition to his fee, he received private medical insurance and this is disclosed on page 100.

Details of Committee memberships can be found on page 71.

Other disclosures

Payments to past directors

Ian Griffiths stepped down from the Board on 31 December 2018. As announced on the Company's website on 2 January 2019, salary, pension allowance and other contractual benefits will continue to be paid until 31 March 2019 when his employment will cease. In line with his contractual arrangements he will also receive a payment in lieu of the remainder of his 12-month notice period totalling £408,014. Other benefits will continue until the end of the notice period, 30 September 2019. In addition, Ian received an allowance for legal advice and outplacement services totalling £55,000.

Remuneration Report
continued

The Committee agreed to treat share awards as follows:

- DSA – for bonus already earned, all outstanding awards will be released on the usual vesting dates.
- LTIP – any unvested nil-cost options will be prorated to 31 March 2019 and vest as follows: the 2017 award will vest in March 2020 and become exercisable in March 2022 and the 2018 award will vest in March 2021 and become exercisable in March 2023. The 2015 award that vested in March 2018 is due to release in two tranches, the first tranche in March 2019 and the second tranche in March 2020. It has been agreed however that both tranches will release in March 2019.

In line with contractual arrangements, a bonus payment will be made in March 2019 for the 2018 bonus year. One-third of this will be payable in shares in the normal way but the Committee has agreed that these will not be subject to a deferral period. The value of these shares is included in the single figure table on page 98 with further details on page 99.

Chief Executive remuneration
The table below provides a summary of the total remuneration received by the Chief Executive over the last ten years, including details of the annual bonus payout and long-term incentive award vesting level in each year.

		Total remuneration £000	Bonus % of maximum	Long-term incentive award vesting % of maximum
2018	Carolyn McCall	3,695	73.6	–
2017	Peter Bazalgette (for the six month period served as Executive Chairman)	225	–	–
	Adam Crozier (for the six month period served)	2,050	97.9	63
2016	Adam Crozier	3,632	40	80
2015	Adam Crozier	3,881	96	75
2014	Adam Crozier	4,842	94	75
2013	Adam Crozier	8,399	93	87
2012	Adam Crozier	2,915	91	12
2011	Adam Crozier	2,158	88	–
2010	Adam Crozier (for the eight month period served)	1,350	95	–
	John Cresswell (for the four month period served) – interim Chief Executive	661	83	–
2009	Michael Grade – Executive Chairman	2,583	94	–

The long-term incentive award vesting percentage relates to the proportion of the award that met performance conditions in the relevant financial year.

Comparison of Chief Executive to wider employees
The table below provides details of the percentage change in the base salary, benefits and bonus of the Chief Executive between 31 December 2017 and 31 December 2018 compared with the average percentage change for other employees.

	Notes	% change in base salary	% change in benefits	% change in bonus payments
Chief Executive	1, 2	(4.35)	(0.74)	(29.2%)
All employees	3, 4	4.76	15.66	(28.28%)

1. These figures are the annualised amounts received by Adam Crozier for 2017 and Carolyn McCall for 2018.
2. Benefits include the cost of medical insurance and car-related benefits.
3. As the majority of employees are based in the UK and share the same benefits as the Chief Executive, overseas employees have not been included.
4. The percentage change in benefits is the average change for all UK employees (excluding the Chief Executive) with any of the same benefits as the Chief Executive.

The Committee is mindful of pay practices across the Group and during the course of the year regular updates are provided regarding remuneration trends for the wider employee population. The Committee considers pay in the wider group from a number of perspectives. The Remuneration Committee is also mindful of the new requirements to disclose the ratio between CEO's remuneration and other employees in the organisation. These new disclosure requirements will come into effect for the 2019 Directors' Remuneration Report. During the course of 2019, the Committee will be dedicating time to understanding how the ratio varies across the Group and in different performance scenarios.

Overall, the Committee is keen to ensure pay practices across the Senior Executive Group are fair, reflect the nature of the role and align with performance.

Directors' share interests

Shareholding guidelines

The Committee continues to recognise the importance of 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. Normally, 50% of the requirement must be obtained within three years of appointment and the remainder within five years.

Where the value of shares required to be held increases as a result of a salary increase (or an increase in the relevant percentage), the Executive Directors will have three years from such increase to achieve compliance. The Committee may change the guidelines so long as they are not, overall, in the view of the Committee, less onerous.

Interests in share awards following departure enable departing Directors to remain aligned with the interest of shareholders for an extended period after leaving the company. Deferred Share Awards and LTIP awards subject to a holding period will normally vest (and be released from their holding periods) at the normal time. This means that Directors may retain a significant interest in shares for up to five years following departure from the Company. The Remuneration Committee intends to further review the Company's arrangements for alignment with shareholders post-cessation of employment as part of the review of the Remuneration Policy that will take place prior to the 2020 AGM.

Non-executive Directors are required to build and then maintain a holding of 100% of their base fee over the six years from the date of appointment to the Board (unless for some reason they are unable to retain their fees).

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 2018.

		Interests in shares			
	Notes	**31 December 2018**	2 January 2018	31 December 2017	% required under shareholding guidelines
Executive Directors					
Carolyn McCall	1	**181,598**	–	–	400
Ian Griffiths		**1,456,982**	1,254,554	1,254,554	200
Non-executive Directors					
Salman Amin		**14,795**	–	–	100
Peter Bazalgette		**313,497**	249,095	236,070	100
Edward Bonham Carter	2	**–**	–	–	100
Margaret Ewing		**22,700**	6,700	6,700	100
Roger Faxon		**40,935**	28,910	28,910	100
Mary Harris		**31,078**	19,883	17,870	100
Anna Manz		**33,268**	32,993	32,993	100
Duncan Painter	3	**–**	–	–	100

1. Carolyn McCall was appointed to the Board on 8 January 2018.
2. Edward Bonham Carter was appointed to the Board on 11 October 2018.
3. Duncan Painter was appointed to the Board on 1 May 2018.

The value of shares has been calculated using the share price on 31 December 2018 of 125.7 pence.
At 31 December 2018 Ian Griffiths had exceeded his shareholding requirement under the shareholding guidelines. Carolyn McCall purchased a significant number of shares in the year, and is required to hold 50% of her requirement by 8 January 2021.
Peter Bazalgette and Roger Faxon would have met their requirements under the NED guidelines based on the average share price in 2018.

Remuneration Report
continued

Outstanding interests under share schemes

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

	Notes	At 1 January 2018	Awarded in year	Vested in year	Exercised in year	Lapsed in year	**At 31 December 2018**	Share price used for award (pence)	Share price at date of vesting (pence)	Date of release/ exercise in year
Carolyn McCall										
Buy out Awards										
28 March 2018	1, 2	–	160,406	160,406	160,406	–	**–**	145.25	130.00	17 Dec 2018
28 March 2018	1, 2	–	54,294	–	–	–	**54,294**	145.25	–	–
28 March 2018	1, 2	–	209,049	–	–	–	**209,049**	145.25	–	–
LTIP										
28 March 2018	3	–	1,641,997	–	–	–	**1,641,997**	145.25	–	–
Ian Griffiths										
DSA										
28 March 2018	4, 2	–	291,882	–	–	–	**291,882**	145.25	–	–
28 March 2017	4	60,472	–	–	–	–	**60,472**	209.2	–	–
29 March 2016	4	121,628	–	–	–	–	**121,628**	241.0	–	–
27 March 2015	4	112,186	–	112,186	112,186	–	–	256.7	145.18	27 March 2018
LTIP										
28 March 2018	5	–	995,134	–	–	–	**995,134**	145.25	–	–
11 May 2017		705,730	–	–	–	–	**705,730**	199.3	–	–
29 March 2016	6	536,850	–	–	–	–	**536,850**	241.0	–	–
27 March 2015	7	491,722	–	–	–	181,392	**309,784**	256.7	–	–

1. The buyout awards shown in the table relate to: (i) 2015 easyJet deferred bonus (160,406 ITV shares); (ii) 2016 easyJet deferred bonus (54,294 ITV shares), which will be eligible for release in December 2019; and (iii) 2016/17 easyJet bonus – one-third deferred into shares for three years (209,049 shares). In all cases, the values reflect awards forfeited under previous easyJet incentive arrangements and will vest and be released over the same time horizons as awards forfeited. The values are included in the single figure table on page 98.
2. DSA awards made in 2018 for 2017 performance and Buy out awards are included in the single figure table on page 98.
3. The face value of awards granted in the financial year to Carolyn McCall under the LTIP was £2,920,389.
4. There are no performance conditions attaching to the DSA.
5. The face value of awards granted in the financial year to Ian Griffiths under the LTIP was £1,869,390.
6. 2016 LTIP performance conditions were not met in December 2018 and accordingly these awards will lapse.
7. 2015 LTIP performance conditions were met in December 2017 (63%).

Performance conditions that apply to the unvested awards under the LTIP are summarised in the table below. Full details were provided in previous Remuneration Reports. For awards made in 2018 see page 101.

			2016		2017	
	Weighting	Threshold vesting	Threshold	Maximum	Threshold	Maximum
Cumulative adjusted EPS	50%	20%	54.6p	62.4p	56.3p	64.2p
ITV Family SOV	20%	20%	20.2%	21.6%	20.2%	21.6%
Annual non-NAR growth	10%	20%	5%	10%	5%	10%
International production revenue growth	10%	20%	5%	15%	5%	15%
Online, Pay & Interactive revenue growth	10%	20%	5%	18%	5%	18%

External directorships

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

During the year, the Executive Directors retained fees for the directorships set out below.

	Company	2018 £000
Carolyn McCall	Burberry Group plc	**80**
Ian Griffiths (stepped down from the board of DS Smith plc on 28 June 2018)	DS Smith plc	**28**

Service contracts

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

	Date of appointment	Nature of contract	Notice period from Company	Notice period from Director	Compensation for early termination
Carolyn McCall	8 January 2018	Rolling	12 months	12 months	None
Chris Kennedy	21 February 2019	Rolling	12 months	12 months	None

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 Director with immediate effect, or without notice; or
- termination is agreed by mutual consent.

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.

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 then 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). After the initial three year term, reappointment is on an annual basis.

All Non-executive Directors are subject to election or re-election at the AGM in 2019. Details of tenure are set out in the table on page 71.

Committee membership and advisers

The Directors who were members of the Committee when matters relating to the Executive Directors' remuneration for the year were considered are set out on page 95.

The Committee obtains advice from various sources in order to ensure it makes informed decisions. The Executive Directors 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 acted as the independent adviser on remuneration policy and the external remuneration environment during 2018. Total fees for advice provided to the Committee during the year amounted to £146,350 (exclusive of VAT and expenses).

The Committee has formally reviewed the work undertaken by Deloitte and is satisfied that the advice it has received has been objective and independent. Deloitte are members of the Remuneration Consultants Group and abide by its Code of Conduct.

Remuneration Report
continued

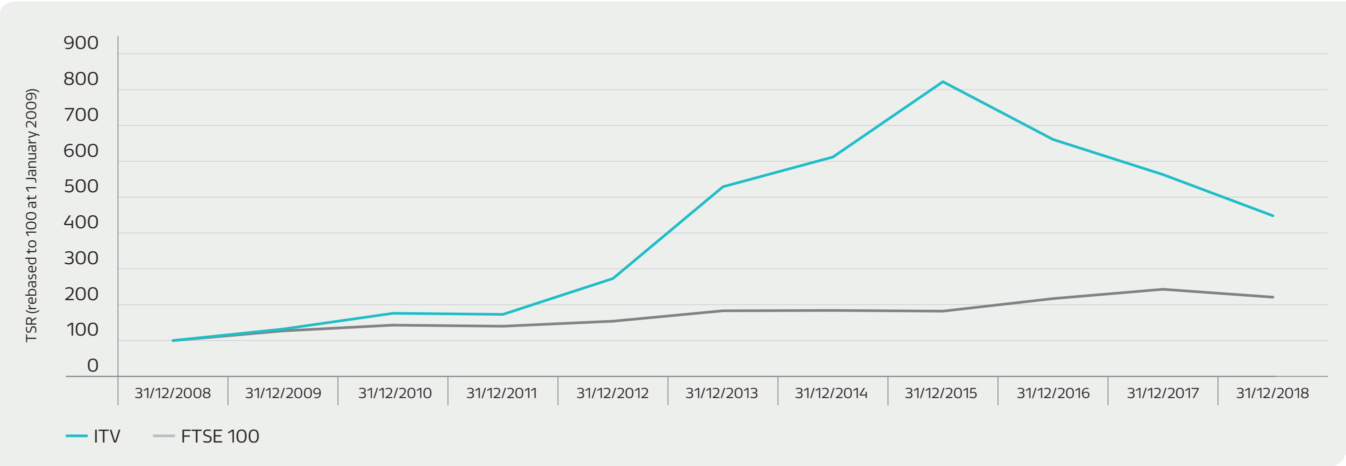
Spend on pay
The table below shows pay for all employees compared with other key financial indicators.

	2018 £m	2017 £m	% Change
Employee pay[1]	**473**	449	5.3
Ordinary dividend	**315**	294	7.1
Special dividend	**–**	200	–
Employee headcount[2]	**6,281**	6,055	3.7

1. Employee pay is the total remuneration paid to all employees across ITV on a full-time equivalent basis. More detail is set out on page 139.
2. Employee headcount is the monthly average number of employees across ITV on a full-time equivalent basis. More detail is set out on page 139.

There were no share buybacks during either year.

Historic performance
The graph below shows the TSR performance of the Company against the FTSE 100 index over the ten year period to 31 December 2018.



Shareholder voting
Votes cast by proxy and at the meeting in respect of the Executive Directors' remuneration were as follows:

Resolution	Number of shares	Voting for %	Number of shares	Voting against %	Total votes cast	Votes withheld
Annual Report on Remuneration (2018 AGM)	**2,983,205,782**	98.27	**55,118,246**	1.81	**3,038,324,028**	5,058,263
Remuneration Policy (2017 AGM)	**2,945,550,900**	98.75	**37,188,567**	1.25	**2,987,579,168**	4,839,701

Directors' Report

The Directors present their Annual Report and the audited consolidated and parent company financial statements for the year ended 31 December 2018, which they approved on 27 February 2019. The Directors' Report comprises this report and the entire Governance section including the Chairman's Governance Statement.

Colleagues

ITV has a Code of Conduct which sets out the behaviours we expect from all our colleagues and forms part of their terms of employment (a copy is available on our website at www.itvplc.com). Our employment and recruitment policies are based on equal opportunities and non-discrimination. We have an Equal Opportunities Policy which covers all protected groups of the Equality Act 2010. We have a diversity and inclusion strategy with a clear three year plan to amplify inclusion and diverse representation at all levels across the organisation.

Disability: ITV has been certified a Disability Confident Employer by the Department for Work and Pensions and as part of this commitment guarantees an interview to any candidate with a disability who meets the minimum requirement for a role. The Company gives full and fair consideration to the employment of people with a disability or long-term health condition. ITV works with a variety of partners across its apprentice, early careers, permanent and fixed-term contract recruitment process (including Mencap, MIND, Remploy, Scope and Vercida). We provide all colleagues with appropriate measures to ensure they are fully supported and that reasonable adjustments are made. We are committed to ensuring that all training, career development and promotion opportunities are accessible and inclusive to all colleagues with a disability and that they have the same career opportunities for growth and progression. We continue to run a focused programme of activity to raise awareness and dispel myths through a series of lunch and learns and management development on mental health.

Diversity: Through our programmes, channels, workforce and services, and by working in partnership with the production community, we aim to ensure we are relevant and accessible and reflect modern society. ITV has four network groups open to all colleagues (see page 16) that run a number of inspirational talks and events and development workshops. We are a founding member of the Social Mobility Business Partnership set up to promote social mobility in business, especially in the legal and accountancy professions.

We are also pleased to be singled out by the most recent Hampton Alexander report as the sixth best performer in the FTSE100 for gender diversity in our combined Executive Committee and Direct Reports team and the fourteenth best performer at Board level.

Engagement: ITV has in place an Ambassador network who represent all parts of our business globally and are elected by their colleagues. The role of the Ambassador is to represent colleagues' interests, share information and shape our culture by giving a voice to all colleagues. During 2018, the Ambassadors were instrumental in providing consultation support to colleagues affected by organisation design changes, proposed office moves and more generally providing feedback on the experience of working at ITV.

As a result of the More than TV strategy we have undertaken a review of the behaviours expected from our leaders, managers and colleagues to execute the strategy. We have also redefined the role of our Senior Leadership and Executive Leadership teams, giving them a clear purpose and remit.

Carolyn McCall has introduced a regular podcast/vodcast enabling employees globally to hear directly from her providing business updates and an insight in to what is happening both internally and externally in the wider media environment. Alongside this is an Ask Carolyn email address which allows all colleagues to ask questions and to provide feedback directly to her.

Remuneration: When the Company reviews pay it takes a number of factors into consideration, including the need to stay competitive. Our focus on cash and costs remains incredibly important for the future health of our business. We need to balance our business and financial commitments with our continuing investment in programming and people. The Company continues to be committed to ensuring colleagues earn at least the Living Wage or greater. Where appropriate we have agreed additional increases. On 1 January 2019, all eligible UK colleagues received a pay increase of 2.5% (2018: 2.75%).

In addition, a bonus arrangement extends to all our UK colleagues, providing a comprehensive incentive framework that rewards everybody when the Company is successful. The all-colleague bonus award for 2018 was paid at £1,325 (75.7% of maximum) (2017: £1,750). The Company also operates a successful and popular all-colleague Save As You Earn scheme that encourages voluntary investment in ITV shares and a package of voluntary benefits which provide valuable cost savings for both colleagues and the Company. Information about remuneration for the Directors is included in the Remuneration Report on page 92.

Speaking up and Whistleblowing: ITV encourages a culture of open communication and recognises that by encouraging colleagues to raise suspected wrongdoing, fraud or malpractice in the workplace we can ensure that the highest standards of safety are maintained and good ethics and judgement are applied when making decisions. Systems are in place to enable colleagues to speak up and these are reviewed annually by the Audit and Risk Committee. In 2019, we launched a new reporting tool that enables colleagues and freelancers to report incidents and share observations and this will be rolled out across the Group during 2019. Our Whistleblowing Policy ensures that concerns are investigated properly. Any form of reprisal or victimisation against anyone who raises a genuine concern will not be tolerated.

Directors' Report
continued

Further information can be found in the Audit and Risk Committee Report on page 87. A copy of the Whistleblowing Policy is available on our website.

www.itvplc.com/investors/governance

Succession planning, training and development: When planning succession, consideration is given to emergency cover together with medium and long-term succession and this is reviewed annually by the Nomination Committee. The aim of this programme is to build breadth in our internal pipeline and accelerate the development of our new high potential leaders, preparing them to move into senior positions and building a strong continuation of diverse talent for the future.

2018 saw continued investment in development for our colleagues. We introduced a refreshed New Manager Induction programme, a series of Aspiring Manager masterclasses, and a new High Potential Leadership programme. We also continued with our series of Leadership Labs to strengthen our leadership capability, Team Development workshops and also rolled out on-line globally accessible training. The majority of our face-to-face leadership and all colleague development was UK focused. However, we have also run leadership development sessions in Norway and with the Britbox US management team, focused on developing high performing teams.

99% of fixed term and permanent colleagues completed our updated suite of mandatory training modules. This covered our Code of Conduct, anti-bribery and corruption, cyber security and data protection in light of the updated GDPR regulations. Our freelancers also completed the training modules as part of their onboarding experience.

We continue to fund the development of new talent through our apprenticeship programme with the majority of the classroom training funded through the apprenticeship levy. Additionally, some colleagues have undertaken qualifications, utilising apprenticeship levy funding.

In 2018, 31% of vacancies were filled by internal candidates and 10% of our colleagues were promoted into larger/different roles demonstrating our continued focus on career development.

Corporate

Articles of Association: Unless expressly specified to the contrary, the Articles of Association may only be amended by special resolution of the shareholders. The Articles are available on our website.

www.itvplc.com/investors/governance

Auditor: The Audit and Risk Committee considered the performance and audit fees of the external auditor, and the level of non-audit work undertaken. It recommended to the Board that a resolution for the reappointment of KPMG LLP for a further year as the Company's auditor be proposed to shareholders at the AGM on 8 May 2019.

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 and proration for time where appropriate.

Certain of the Group's debt and derivative instruments have change of control clauses whereby the counterparty can require ITV to repay or redeem the instruments in the event of a change of control although in some cases only if it is accompanied by a credit rating downgrade. The Company is not aware of any other significant agreements to which it is a party that take effect, alter or terminate upon a change of control of the Company

Dividends: The Board has proposed a final dividend for the year ended 31 December 2018. Details of this and other dividends paid for the year are as follows:

	2018	2017
Interim dividend	**2.6p**	2.52p
Final dividend	**5.4p**	5.28p
Total ordinary dividend payment	**8.0p**	7.80p

The final dividend for 2018 will be paid on 23 May 2019 to shareholders on the register on 12 April 2019. The ex-dividend date is 11 April 2019.

Political contributions: It is the Company's policy not to make cash contributions to any political party. However, within the normal activities of the Company'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 2018 AGM. During 2018 the Group made no payments falling within this definition (2017: nil).

Directors

Appointments: A table showing Directors who served in the year can be found on page 71. Biographies for Directors currently in office can be found on pages 66 and 67 and on our website.

www.itvplc.com/about/board-of-directors

Directors are appointed for an initial three year period and annually thereafter. Each Director will retire and submit themselves for election or re-election at the AGM on 8 May 2019.

Detail on compensation for loss of office can be found in the Remuneration Report on page 103.

Conflicts of interest: The Board has delegated the authorisation of any 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 that 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.

Contracts of significance: No Director had any interest in any contract with the Company or its subsidiary undertakings.

Powers: The powers of the Directors are set out in the Articles of Association. The Articles and a schedule of Matters Reserved for the Board can be found on our website (below).

Insurance and indemnities: The Company maintains liability insurance for its Directors and officers that is renewed on an annual basis. The Company has also entered into deeds of indemnity with its Directors and other senior executives. A copy of the indemnity can be found on our website.

www.itvplc.com/investors/governance

Disclosures

Listing rule 9.8.4 disclosures: There are no disclosures to be made other than that the trustee of the Employees' Benefit Trust (EBT) waived its rights to receive dividends on shares it holds which do not relate to restricted shares held under the ITV Deferred Share Award Plan.

Financial risk management: The Directors have carried out a robust assessment of the principal risks facing the Company, including in relation to its business model, future performance, solvency and liquidity. Details of our risks and associated mitigations, together with details of our approach to risk management, are set out on pages 54 to 61.

Note 4.3 to the accounts on page 176 gives details of the Group's financial risk management policies and related exposures. This note is incorporated by reference and deemed to form part of this report.

Future developments: Our strategy is set out in the Strategic Report.

Going concern: The going concern statement is set out on page 131. This note is incorporated by reference and deemed to form part of this report.

Subsequent events: There are no post balance sheet events to report.

Research and development: Relevant information is set out in the Strategic Report.

Directors' Report
continued

Pensions

The Company operates a number of pension arrangements which provide retirement and death benefits for colleagues.

The Company pensions arrangements are overseen by a Pensions Steering Committee comprised of senior executives. The Committee meets monthly and is supported by a range of specialist advisers.

ITV Pension Scheme (the 'Scheme'): The Scheme is predominantly a defined benefit (DB) scheme which is closed to future accrual, but also includes a defined contribution (DC) section closed to future contributions. Until the end of November 2018, the Scheme comprised three sections: A, B and C. On 30 November 2018, as part of effecting a 'Buy-In' transaction with an insurance company, Section B's assets and liabilities were merged into Section C.

ITV Pension Scheme Limited (a wholly owned subsidiary of ITV plc) is a corporate trustee and manages the Scheme under a trust which is separate from the Company. 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. The trustee has four committees: Investment, Audit and Operations, DC, and Corporate Affairs. The Corporate Affairs Committee is convened as and when appropriate for dealing with any corporate activities that may arise.

The trustee board and each committee hold regular meetings throughout the year at which key issues and more routine business matters are dealt with and a budget is agreed each year. The trustee board has a risk register, a conflicts of interest policy and a register of interests policy, which are reviewed regularly.

It is the responsibility of the trustee to have in place appropriate training for its directors and effective committee structures. The trustee directors receive regular training throughout the year and also have the support of various professional advisers. The Group pensions department helps 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. The trustee board completes regular assessments of its advisers.

The chairman confirms in an annual statement that the trustee meets its legal duties in relation to the DC section as required under the Pensions Regulator's Code of Practice 13.

Full valuations are carried out every three years. The latest completed actuarial valuation of all three sections of the main DB scheme was carried out as at 1 January 2017.

ITV Defined Contribution Plan (the 'Plan'): This trust based Plan was established to accept contributions from 1 March 2017 for ex-DB members and DC members who transferred from the Scheme. Eligible colleagues are invited to join the Plan after completing the required time in the Company's auto-enrolment (AE) arrangement – The People's Pension. These individuals are given the opportunity to transfer funds from the AE plan and make backdated contributions within permitted levels.

ITV DC Trustee Limited (a wholly owned subsidiary of ITV plc) is a corporate trustee and manages the DC assets, which are held under trust separately from the Company. Members of the trustee board are formally appointed as directors of ITV DC Trustee Limited. There are five directors including the chairman — three appointed by the Company and two nominated by the members. It is the responsibility of the trustee to have in place appropriate training for its directors.

The governance framework for managing the Plan and developing the board is in line with that in place for the Scheme.

The chairman confirms in an annual statement that the trustee meets its legal duties in relation to the DC Plan as required under the Pensions Regulator's Code of Practice 13.

Ulster Television Pension and Assurance Scheme (the 'Ulster Scheme'): The Ulster Scheme provides DB benefits. It closed to new members in 2002 but is still open to future accrual. However, a comprehensive 60-day consultation exercise was started on 28 January 2019 with active members on a proposal to close to future accrual with effect from 31 March 2019. The outcome of the consultation will be confirmed in next year's report.

UTV Pension Scheme Limited (a wholly owned subsidiary of ITV plc) is a corporate trustee and manages the DB assets, which are held under trust separately from the Company. Members of the trustee board are formally appointed as directors of UTV Pension Scheme Limited. There are five directors including the chairman — three appointed by the Company (including a professional trustee as chairman) and two nominated by the members. It is the responsibility of the trustee to have in place appropriate training for its directors.

The governance framework for managing the Ulster Scheme and developing the board is in line with that in place for the Scheme.

Full valuations are carried out every three years. The latest completed actuarial valuation was carried out as at 1 July 2017. The trustee board has adopted the Pensions Regulator's integrated risk management framework — taking a holistic approach and looking at how risks around the employer covenant, funding and investment strategy are all linked and inter-dependent. A cashflow driven investment strategy was introduced from March 2018.

The People's Pension: Since 2013, employers within the Group have been required to enrol all eligible individuals into a pension scheme automatically. This applies to all eligible individuals who are contracted to work for us, regardless of their contract type or tax status. Following a provider review, the plan is now provided by a company called The People's Pension under a master trust which is run by an independent board of trustee directors and eligible individuals are enrolled into this arrangement.

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 2018 and remain in force for the benefit of each of the directors of ITV Pension Scheme Limited, ITV DC Trustee Limited and UTV Pension Scheme Limited. These indemnity provisions cover, to the extent permitted by law, certain losses or liabilities that may be incurred as a result of being a director or officer of these companies.

Shares

Issued share capital: 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.

Purchase of own shares: The Directors have the authority to purchase up to 402.5 million of the Company's ordinary shares. The authority remains valid until the AGM in 2019 or 8 August 2019, if earlier.

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 Guidance and Transparency Rules (DTRs), Persons Discharging Managerial Responsibility 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 transfer of securities and/or voting rights.

Rights: The rights attaching to the Company's ordinary shares are set out in the Articles of Association.

Directors' Report
continued

Share schemes: Details of employee share schemes are set out in note 4.7 on page 184. The Company has an EBT funded by loans to acquire shares for the potential benefit of colleagues. Details of shares held by the EBT at 31 December 2018 are set out on page 186. During the year shares have been released from the EBT in respect of share schemes for colleagues. The trustee of the EBT has the power to exercise all voting rights in relation to any investment (including ordinary shares) held within the EBT.

Substantial shareholders: Information regarding interests in voting rights provided to the Company pursuant to the DTRs is published on a Regulatory Information Service and on the Company's website.

As at 26 February 2019, the information in the table below had been received, in accordance with DTR5, from holders of notifiable interests (voting rights) in the Company's issued share capital. It should be noted that these holdings are likely to have changed since notified to the Company. However, notification of any change is not required until the next applicable threshold is crossed.

	% of interest in shares	Nature of interest in shares	% interest in financial instruments	Nature of interests in financial instruments	Total number of shares or interests in shares
The Capital Group Companies Inc.	10.99%	Indirect	–	–	442,468,836
Liberty Global Incorporated Limited	–	Indirect	9.90%	Loaned shares	398,515,510
BlackRock Inc.	5.11%	Indirect	0.39% 0.26%	Securities lending Contract for difference	232,006,146
Amerprise Financial, Inc and its group	5.08%	Indirect	0.045%	Equities swap	206,179,898
The Goldman Sachs Group	0.03%	Indirect	0.17% 20.41%	Securities Lending Swap (cash), Contract for difference (cash), over the counter option (physical or cash)	829,368,692

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

Regulations

Anti-bribery and corruption: ITV is committed to conducting business in an open and ethical way. We take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate, as well as implementing and enforcing effective systems to counter bribery and corruption. Our Anti-Bribery and Corruption Policy sets out our responsibilities and how we expect those working for or with us to observe and uphold the policy and provides information and guidance on how to deal with bribery and corruption issues. The effectiveness and implementation of the policy is regularly reviewed and compliance by colleagues is closely monitored. ITV retains the right to ask associated parties to confirm compliance on an annual basis. Further information can be found in the Audit and Risk Committee Report on page 88.

We have in place a Sanctions Policy to ensure the business complies with all relevant international and financial sanctions in force at the time by the UN, EU or UK Government. Compliance with the policy is kept under review by the Tax and Treasury Committee.

Data: As a part of our business activity ITV processes large amounts of personal data. In doing this ITV respects the privacy of our viewers, customers, contractors, talent and colleagues and seeks to protect personal data by complying with the applicable laws and regulations and fully cooperating with the relevant regulatory authorities. ITV has a Privacy and Data Protection Policy and an Information Security Policy that govern the processing of data. Compliance with these policies is mandatory and forms part of the Code of Conduct. All colleagues undergo regular training to remind them of their responsibilities under these policies. Privacy and data protection is kept under review by the Audit and Risk Committee (see page 86).

Environment: ITV recognises that it has a responsibility to understand and minimise our impact on the environment and an opportunity to influence positively our industry and audiences. Further information can be found on our Corporate Responsibility website.

www.itvplc.com/responsibility

ITV is required to report annually on the quantity of carbon dioxide equivalent emissions in tonnes emitted as a result of activities for which it is responsible. All data for the financial year ended 31 December 2018 is disclosed overleaf for direct (gas, vehicle fuel, fuel oils and refrigerants consumption) and indirect (electricity consumption) emissions.

Indicator	2018	2017
Total gross CO_2e emissions	**20,066**	22,321 (tCO_2e)
Scope 1: Direct emissions	**6,770**	6,684 (tCO_2e)
Scope 2: Indirect emissions	**13,293**	15,637 (tCO_2e)
Total Revenue (1)	**£3,766m**	£3,665m
Emissions per unit/£m revenue	**5.3 (tCO_2e)**	6.1 (tCO_2e)

The total revenue for 2017 was restated as a result of IFRS 15 Revenue from contracts with customers. This did not result in a change to the emissions calculation.

Source: Mitie Energy analysis of ITV data. The emissions data covers our global operations for which we have operational control. We use the GHG Protocol Corporate Accounting and Reporting Standard and the latest conversion factors from the Department for Business, Energy & Industrial Strategy to calculate emissions in tonnes of carbon dioxide equivalents. 37% of our data set is based on estimated data. Estimates are calculated from previous consumption trends and published benchmarks.

In 2018, the Company's greenhouse gas emissions reduced by 10% compared to the previous year. As 85% of our greenhouse gas emissions are generated within our UK operations, this is where we focus our efforts. We continued to replace ageing infrastructure with more efficient plant, optimise our building management software systems and replace lighting systems with more efficient LED technology.

Health and safety: The health and safety of our employees, contractors and those participating in our productions is always a high priority. The significant loss of human life as the result of a major incident on production has been identified as a principal risk to the organisation. ITV has in place a Group Health and Safety policy statement supported by a health and safety management system. In line with our overall risk management approach we operate a three lines of defence model with the Company's professional Health and Safety team occupying the second line establishing a safety management system and providing expertise to support the business owner in the first line of defence.

The Health and Safety team continue to refine the management system to ensure it meets the specific risk profile of the business. In 2018 we developed our risk toolkit for productions:

- Processes were launched to review, manage and escalate risks within production from initial risk analysis to engagement of creatives in risk evaluation;
- Our education programme was strengthened with the development and roll-out of two new courses that are accredited by the International Institute of Risk and Safety Management; and
- A new reporting tool was developed to support ongoing risk management including health and safety (see page 87).

A key element of the risk toolkit is a set of core statements that act as our global risk language, these have been developed with the London School of Economics and reflect what we expect to see from our people, our teams, and our leaders, in a positive risk climate. They are focused on how we ensure everyone has a voice and how we listen to that voice.

Within all our health and safety activity we are using new methodology to engage with the business, building our understanding of the effectiveness of safety management, enabling us to continually improve and refine our approach. We continue to underpin our health and safety management system with three key principles:

- People are the solution
- Safety is about positive outcomes
- Safety is a moral responsibility

The Audit and Risk Committee reviews health and safety annually.

Modern Slavery: ITV is fully committed to ensure that we do not participate in the violation of human rights and expect the same of our suppliers. We are a founding member of the television industry Human Rights Working Group set up to proactively address human rights issues in the television industry and raise awareness beyond it. ITV's Modern Slavery Statement sets out the steps taken by ITV to identify, address and prevent modern slavery and human trafficking in our business and supply chain and is reviewed by the Board on an annual basis. A copy can be found on our website.

www.itvplc.com

Directors' Report
continued

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and the Group's position and performance, business model and strategy. Each of the Directors, whose names and functions are listed on pages 66 and 67, confirm that, to the best of their knowledge:

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

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

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

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

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

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

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

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

By order of the Board

Carolyn McCall
Chief Executive
27 February 2019
ITV plc
Registered Number: 4967001

Financial Statements

In this section

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

Keeping it simple

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

Contents

Independent Auditor's Report to the members of ITV plc

1. Our opinion is unmodified

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

In our opinion:

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

Basis for opinion

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

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

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

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

The risk	Our response
Total Advertising Revenue: £1,795 million (2017: £1,781 million) Risk vs 2017: ◄►, Refer to page 83 (Audit and Risk Committee report), page 135 (accounting policy) and pages 136 to 138 (financial disclosures)	
Calculation complexity The majority of ITV's advertising revenue is subject to regulation under Ofcom's Contract Rights Renewal system ('CRR'). CRR works by ensuring that the annual share of TV advertising that will be placed with ITV by each advertising agency can change in relation to the viewing figures for commercial television that it delivers. The CRR system, the pricing of the annual contractual arrangements with advertising agencies and the details of each advertising campaign, together with the related processes and controls, are complex and involve estimation. Our risk relates to the largest component of total advertising – spot advertising. In particular, the complexity of the pricing mechanism means it is possible for a difference to arise between the price received by ITV for an advertising campaign and the value it delivered, mainly as a result of the actual viewing figures differing from the expected level for the campaign. Where the Group has over-delivered viewers this is referred to as a 'deal credit', or a 'deal debt' where delivery has fallen short. Rather than the price paid for that campaign being adjusted at the end of the campaign, these differences are noted for each agency and then taken into account when agreeing either future campaigns or the annual contract. A net deal debt position with an agency is recorded in ITV's accounts, as a liability. Net deal credit positions are not recognised. Spot advertising as the main component of total advertising is therefore considered a significant risk due to: • The number and complexity of contractual agreements with advertising agencies • The complexity of the systems and processes of control used to record revenue and • The complexity involved in determining any deal debt liability at the period end	Our procedures included: • **Control operation:** testing of controls, assisted by our own IT specialists, including those over: segregation of duties, input of annual deal terms with agencies, input of individual campaigns' terms and pricing, comparison of those terms and pricing data against the related contracts with advertising agencies; link to transmission/viewer data; and the system generated calculation of deal debt for each campaign. • **Test of detail:** challenging the year-end deal debt positions based on comparison with customers' correspondence and agreed terms of business. • **Test of detail:** checking that the revenue is recognised post transmission. Agreeing revenue recognised by matching the transmissions to the corresponding spots and by agreeing invoices to subsequent cash receipts on sample basis. • **Assessing disclosures:** we also assessed the adequacy of the Group's disclosures in respect of the accounting policies on revenue recognition. Our results: • From the evidence we obtained we found the resulting amount of recorded spot advertising to be acceptable (2017: acceptable).

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

The risk	Our response
Non-advertising revenue £1,971 million (2017: £1,874 million) Risk vs 2017: ◄► Refer to page 83 (Audit and Risk Committee report), pages 135 to 136 (accounting policy) and pages 135 to 138 (financial disclosures)	
Complex contract accounting Non-advertising revenue includes revenue from: programme production and the sale of programme rights within the Studios segment; transmission supply arrangements and the pay and interactive revenue within the Broadcast segment. Our risk relates to the non-advertising revenue within the Studios segment due to contractual nature of revenue recognition. Recognition of revenue is driven by the specific terms of the related contracts and is considered to be a significant risk as the terms of the contracts are varied and can be complex, with the result that accounting for the revenue generated in any given period can require judgement. Specifically judgement has been involved with regards to determining separate performance obligations and the timing of the revenue recognition of each. Due to the contractual nature of these revenue streams, the focus of our work is on the risks associated with significant one-off contracts.	Our procedures included: • **Accounting analysis:** we considered the Group's revenue recognition policies against the relevant accounting standards. • **Test of detail:** on a sample basis we assessed revenue contracts entered into during the year, and considered whether revenue had been recognised in accordance with the contractual terms in the correct accounting period, given the requirements of the relevant accounting policy. • **Assessing disclosures**: we assessed the adequacy of the Group's disclosures in respect of the accounting policy on revenue recognition. Our findings: • From the evidence we obtained we found the resulting amount of recorded non advertising revenue to be acceptable (2017: acceptable).
Gross defined benefit pension scheme obligations £3,719 million (2017: £3,987 million) Risk vs 2017: ◄► Refer to page 85 (Audit and Risk Committee report), pages 163 to 164 (accounting policy) and pages 164 to 171 (financial disclosures)	
Subjective valuation Significant estimates are made in determining the key assumptions used in valuing the Group's post-retirement defined benefit obligations. When making these assumptions the directors take independent actuarial advice relating to their appropriateness. The valuation of the gross defined benefit obligations is considered a significant risk given the quantum of the gross pension obligation and that a small change in assumptions can have a material financial impact on the Group.	Our procedures included: • **Benchmarking assumptions:** challenging the key financial assumptions applied in determining the Group's gross pension obligations, being the discount rate, inflation rate and mortality/life expectancy, with the support of our own actuarial specialists. This included a comparison of these key assumptions against externally derived data. • **Assessing disclosures:** considering the adequacy of the Group's disclosures in respect of the sensitivity of the gross defined benefit obligations to the assumptions. Our findings: • From the evidence we obtained we found the resulting valuation of the gross pension obligations to be acceptable (2017: acceptable).
Recoverability of parent company's investment in subsidiaries £2,286 million (2017: £2,191 million) Risk vs 2017: ◄► Refer to page 191 (accounting policy) and page 193 (financial disclosures)	
Low risk, high value The carrying amount of the parent company's investments in subsidiaries represents 35% (2017: 34%) of the company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: • **Test of detail:** comparing the carrying amount of 100% of the investments balance (2017: 100%) with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. Our results: • We found the Group's assessment of the recoverability of the investment in subsidiaries to be acceptable (2017: acceptable).

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

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

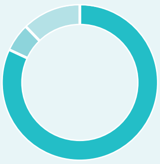
Materiality for the parent company financial statements as a whole was set as £27 million (2017: £27 million) determined with reference to the benchmark of the company's total assets, of which it represents 0.4% (2017: 0.4%).

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

Scoping and coverage

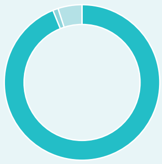
Revenue

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



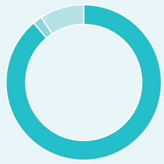
Profit before tax

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



Total assets

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



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

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

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

4. We have nothing to report on going concern

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

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

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

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

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

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

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

- we have anything material to add or draw attention to in relation to the directors' statement in Section 1 on page 131 of the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements or
- the related statement under the Listing Rules set out on page 116 is materially inconsistent with our audit knowledge

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

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

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

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

Strategic Report and Directors' Report
Based solely on our work on the other information:

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

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

Disclosures of principal risks and longer-term viability
Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement on page 62 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity
- the risks and uncertainties on pages 54 to 61 describing these risks and explaining how they are being managed and mitigated and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions

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

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

Corporate governance disclosures
We are required to report to you if:

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

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

We have nothing to report in these respects.

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

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 116, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

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

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

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

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

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

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

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

Consolidated Income Statement

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

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

Consolidated Statement of Comprehensive Income

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

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

Consolidated Statement of Financial Position

As at 31 December	Note	2018 £m	Restated* 2017 £m
Non-current assets			
Property, plant and equipment	3.2	**191**	256
Intangible assets	3.3	**1,614**	1,645
Investments in joint ventures, associates and equity investments	3.5	**51**	74
Derivative financial instruments	4.3	**26**	10
Distribution rights	3.1.2	**29**	19
Defined benefit pension surplus	3.7	**19**	16
Other pension asset	3.7	**49**	38
Deferred tax asset	2.3	**38**	31
		2,017	2,089
Current assets			
Programme rights	3.1.1	**298**	321
Trade and other receivables due within one year	3.1.3	**355**	413
Trade and other receivables due after more than one year	3.1.3	**71**	27
Trade and other receivables		**426**	440
Contract assets	3.1.6	**470**	352
Current tax receivable		**15**	19
Derivative financial instruments	4.3	**2**	6
Cash and cash equivalents	4.1	**95**	126
Asset held for sale	3.2	**85**	–
		1,391	1,264
Current liabilities			
Borrowings	4.1, 4.2	**(54)**	(76)
Derivative financial instruments	4.3	**(4)**	(2)
Trade and other payables due within one year	3.1.4	**(768)**	(810)
Trade payables due after more than one year	3.1.5	**(49)**	(68)
Trade and other payables		**(817)**	(878)
Contract liabilities	3.1.6	**(255)**	(219)
Current tax liabilities		**(115)**	(86)
Provisions	3.6	**(16)**	(16)
		(1,261)	(1,277)
Net current assets/(liabilities)		**130**	(13)
Non-current liabilities			
Borrowings	4.1, 4.2	**(993)**	(982)
Derivative financial instruments	4.3	**(1)**	(1)
Defined benefit pension deficit	3.7	**(106)**	(137)
Deferred tax liabilities	2.3	**(64)**	(111)
Other payables	3.1.5	**(130)**	(106)
Provisions	3.6	**(4)**	(7)
		(1,298)	(1,344)
Net assets		**849**	732
Attributable to equity shareholders of the parent company			
Share capital	4.6.1	**403**	403
Share premium	4.6.1	**174**	174
Merger and other reserves	4.6.2	**206**	199
Translation reserve	4.6.3	**60**	41
Fair value reserve	4.6.4	**5**	6
Retained earnings	4.6.5	**(33)**	(136)
Total equity attributable to equity shareholders of the parent company		**815**	687
Non-controlling interests		**34**	45
Total equity		**849**	732

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

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

Chris Kennedy
Group CFO

Carolyn McCall
Chief Executive

Consolidated Statement of Changes in Equity

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

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

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

Consolidated Statement of Changes in Equity continued

	Note	Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Available-for-sale reserve £m	Retained earnings £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
		Attributable to equity shareholders of the parent company								
Balance at 1 January 2017		403	174	221	79	7	(162)	722	33	755
Adjustment on application of IFRS 15 *		–	–	–	–	–	2	2	–	2
Restated balance at 1 January 2017		403	174	221	79	7	(160)	724	–	757
Total comprehensive income / (loss) for the year										
Restated profit for the year *		–	–	–	–	–	409	409	4	413
Other comprehensive income / (loss)										
Revaluation of available-for-sale financial assets		–	–	–	–	(1)	–	(1)	–	(1)
Net loss on cash flow hedges and costs of hedging		–	–	–	(3)	–	–	(3)	–	(3)
Exchange differences on translation of foreign operations (net of hedging)		–	–	–	(32)	–	–	(32)	–	(32)
Remeasurement loss on defined benefit pension schemes	3.7	–	–	–	–	–	172	172	–	172
Income tax charge on other comprehensive income	2.3	–	–	–	–	–	(39)	(39)	–	(39)
Total other comprehensive income/(loss)		–	–	–	(35)	(1)	133	97	–	97
Total comprehensive income/(loss) for the year		–	–	–	(35)	(1)	542	506	4	510
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Equity dividends		–	–	–	–	–	(494)	(494)	(4)	(498)
Movements due to share-based compensation	4.7	–	–	–	–	–	12	12	–	12
Purchase of own shares via employees' benefit trust	4.7	–	–	–	–	–	(36)	(36)	–	(36)
Total transactions with owners		–	–	–	–	–	(518)	(518)	(4)	(522)
Changes in non-controlling interests [(a)]	3.4	–	–	(22)	(3)	–	–	(25)	12	(13)
Balance at 31 December 2017	4.6	403	174	199	41	6	(136)	687	45	732

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

Consolidated Statement of Cash Flows

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

Notes to the Financial Statements
Section 1: Basis of Preparation

In this section

This section sets out the Group's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates. This section also shows new EU endorsed accounting standards, amendments and interpretations, and whether they are effective in 2018 or later years. We explain how these changes are expected to impact the financial position and performance of the Group.

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

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

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

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

Going concern

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

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

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

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

Subsidiaries, joint ventures, associates and investments

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

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

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

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

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

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

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

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

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

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

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

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

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

Where Group companies based in the UK transact in foreign currencies, these transactions are translated into pounds sterling at the exchange rate on the transaction date. Foreign currency monetary assets and liabilities are translated into pounds sterling at the year end exchange rate. Non-monetary assets and liabilities measured at historical cost are translated into pounds sterling at the exchange rate on the date of the transaction. Where there is a movement in the exchange rate between the date of the transaction and the year end, a foreign exchange gain or loss is recognised in the income statement.

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

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

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

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

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

Accounting judgements and estimates

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

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

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

- Revenue recognition (note 2.1)

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

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

New or amended EU endorsed accounting standards

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

IFRS 9 'Financial Instruments'

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

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

IFRS 16 'Leases'

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

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

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

IFRS 15 'Revenue from Contracts with Customers'

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

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

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

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

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

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

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

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

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

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

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

Other new or amended accounting standards

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

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

EU endorsed accounting standards effective in future periods

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

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

Strategic Report
Governance
Financial Statements
Additional information

In this section

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

2.1 Profit before tax

Keeping it simple

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

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

Accounting policies

Revenue recognition

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

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

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

Revenue is stated exclusive of VAT and equivalent sales taxes.

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

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

Segment	Major classes of revenue	Payment terms
Broadcast & Online		
Total advertising revenue	• Advertising (NAR) is generated from selling spot airtime and is recognised at the point of transmission • Video on demand (VOD) is generated from selling advertising on the ITV Hub and is recognised at the point of delivery • Revenue from the sponsorship of programmes across ITV linear channels and online is recognised over the period of transmission	• Received in the month after transmission • Received in the month after campaign is delivered • Received prior to transmission
Direct to Consumer	• Revenue from 'pay' is generated from the provision of HD channels, catch up content and licences to ready-made programmes in the form of box sets and is recognised either over the term of the contract or per subscriber or download • Revenue from 'interactive' is from entries to competitions and is recognised as the event occurs	Payment term for 'pay' and 'interactive' is over the term of the contracts
SDN	• Revenue is generated from the carriage fee or capacity of the digital multiplex and is recognised over the term of the contract	Payment term is over the term of the contract

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

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

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

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

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

Segmental information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITV Studios
ITV Studios is the Group's international content business, creating and producing programmes and formats that return and travel, namely drama, entertainment and factual entertainment.

ITV Studios UK is the largest commercial producer in the UK and produces programming for the Group's own channels, accounting for 67% of ITV main channel spend on commissioned programming (2017: 66%). Programming is also sold to other UK broadcasters such as the BBC, Channel 4 and Sky.

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

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

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

Adjusted EBITA

The Directors assess the performance of the reportable segments based on a measure of adjusted EBITA. The Directors use this measurement basis as it excludes the effect of transactions that could distort the understanding of the Group's performance for the year and comparability between periods. See the Operating and Performance Review on pages 32 to 43 for the detailed explanation of the Group's use of adjusted performance measures. A reconciliation from adjusted EBITA to profit before tax is provided as follows:

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

Cash generated from operations

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

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

Operating costs

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

Staff costs

Staff costs before exceptional items can be analysed as follows:

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

Exceptional staff costs are disclosed separately in note 2.2.

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

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

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

The increase in full-time equivalent employees is primarily driven by the full year impact of acquisitions completed in 2017. Details of Directors' emoluments, share options, pension entitlements and long-term incentive scheme interests are set out in the Remuneration Report. Listed Directors' gains on share options for 2018 are set out in the ITV plc Company financial statements.

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

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

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

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

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

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

Audit fees

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

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

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

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

2.2 Exceptional items

Keeping it simple

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

Accounting policies

Exceptional items as described above are highlighted on the face of the income statement. See the Operating and Performance Review on pages 32 to 43 for the detailed explanation of the Group's use of adjusted performance measures. Gains or losses on disposal of non-core assets are also considered exceptional due to their nature and impact on the Group's underlying quality of earnings.

Exceptional items

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

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

A – Acquisition-related expenses

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

B – Restructuring and property-related costs

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

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

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

C – Insured trade receivable provision

Refer to section 5.2 for further details.

D – Pension related costs

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

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

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

F – Gain/(loss) on sale of non-current assets
The gain on sale of non-current assets arose primarily as a result of the sale of freehold land and buildings in Manchester and Belfast.

2.3 Taxation

Keeping it simple

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

Accounting policies

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

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

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

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

The following temporary differences are not provided for:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Taxation – Other comprehensive income and equity

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

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

Taxation – Statement of financial position

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

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

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

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

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

The deferred tax balances relate to:

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

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

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

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

2.4 Earnings per share

Keeping it simple

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

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

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

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

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

Basic earnings per share

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

Diluted earnings per share

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

Adjusted earnings per share

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

Diluted adjusted earnings per share

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

Details of the adjustments to earnings are as follows:

A. Exceptional items (net of tax) £74 million (2017: £142 million)
- Exceptional items of £83 million (2017: £154 million), net of related tax credit of £9 million (2017: £12 million). See note 2.2 for the detailed composition of exceptional items

B. Amortisation and impairment of acquired intangible assets of £71 million (2017: £78 million)
- Amortisation and impairment of assets acquired through business combinations and investments of £92 million (2017: £102 million), excluding amortisation of software licences and development of £7 million (2017: £5 million), net of related tax credit of £14 million (2017: £19 million)

C. Adjustments to net financing costs £6 million (2017: £13 million)
- Mark-to-market movements on derivative instruments, foreign exchange and imputed pension interest charges of £7 million (2017: £17 million), net of related tax credit of £1 million (2017: £4 million)

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

In this section

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

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

3.1 Working capital

Keeping it simple

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

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

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

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

3.1.1 Programme rights and commitments

Accounting policies

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

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

Broadcast programme rights

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

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

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

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

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

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

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

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

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

2018	**Transmission £m**	**Programme £m**	**Total £m**
Within one year	**34**	**471**	**505**
Later than one year and not more than five years	**135**	**610**	**745**
More than five years	**5**	**50**	**55**
	174	**1,131**	**1,305**

2017	Transmission £m	Programme £m	Total £m
Within one year	32	455	487
Later than one year and not more than five years	132	709	841
More than five years	58	47	105
	222	1,211	1,433

3.1.2 Distribution rights

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

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

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

	2018 £m	2017 £m
Distribution rights	**29**	19

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

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

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

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

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

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

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

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

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

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

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

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

3.1.4 Trade and other payables due within one year

Accounting policies

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

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

3.1.5 Trade and other payables due after more than one year

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

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

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

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

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

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

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

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

3.1.7 Working capital management
Cash and working capital management continues to be a key focus. During the year, the cash outflow from working capital was £93 million (2017: outflow of £58 million) derived as follows:

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

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

3.2 Property, plant and equipment

Keeping it simple

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

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

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

Accounting policies

Property, plant and equipment

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

Assets held for sale

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

Depreciation

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

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

* Equipment includes studio production and technology assets.

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

Impairment of assets

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

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

Property, plant and equipment
Property, plant and equipment can be analysed as follows:

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

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

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

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

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

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

3.3 Intangible assets

Keeping it simple

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

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

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

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

Accounting policies

Goodwill

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Intangible assets
Intangible assets can be analysed as follows:

	Goodwill £m	Formats and brands £m	Customer contracts and relationships £m	Contractual arrangements £m	Licences £m	Libraries and other £m	Software licences and development £m	**Total £m**
Cost								
At 1 January 2017	3,835	535	420	11	176	103	117	5,197
Additions	–	–	–	–	–	–	23	23
Acquisitions	85	–	21	–	–	–	–	106
Foreign exchange	(21)	9	(4)	–	–	(2)	–	(18)
Disposals, retirements and impairment	(10)	–	(1)	–	–	–	(5)	(16)
At 31 December 2017	3,889	544	436	11	176	101	135	5,292
Additions	–	–	–	–	–	–	27	27
Acquisitions	–	–	–	–	–	–	–	–
Foreign exchange	15	7	2	–	–	2	2	28
Disposals, retirements and impairment	–	–	–	–	–	–	–	–
At 31 December 2018	**3,904**	**551**	**438**	**11**	**176**	**103**	**164**	**5,347**
Amortisation and impairment								
At 1 January 2017	2,654	254	387	10	100	76	92	3,573
Charge for the year	–	46	17	1	6	7	5	82
Foreign exchange	–	3	(4)	–	–	(1)	–	(2)
Disposals, retirements and impairment	–	–	(1)	–	–	–	(5)	(6)
At 31 December 2017	2,654	303	399	11	106	82	92	3,647
Charge for the year	–	43	16	–	6	4	7	76
Foreign exchange	–	3	3	–	–	3	1	10
Disposals, retirements and impairment	–	–	–	–	–	–	–	–
At 31 December 2018	**2,654**	**349**	**418**	**11**	**112**	**89**	**100**	**3,733**
Net book value								
At 31 December 2018	**1,250**	**202**	**20**	**–**	**64**	**14**	**64**	**1,614**
At 31 December 2017	1,235	241	37	–	70	19	43	1,645

Gurney Productions LLC has been treated as if it would have been wound down, with no further results to be recognised in the accounts. A provision of £13 million was recognised in 2017 against onerous contracts and various assets and liabilities relating to Gurney Productions LLC, which included £3 million write-off of goodwill.

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

	2018 £m	2017 £m
Broadcast & Online	**386**	386
SDN	**76**	76
ITV Studios	**788**	773
	1,250	1,235

There has been no impairment charge for any CGU during the year (2017: £nil).

When assessing impairment, the recoverable amount of each CGU is based on value in use calculations. These calculations require the use of estimates, specifically: pre-tax cash flow projections; long-term growth rates; and a pre-tax market discount rate. Cash flow projections are based on the Group's current five year plan. Beyond the five year plan, these projections are extrapolated using an estimated nominal long-term growth rate of 1.5% (2017: 1.5%). The growth rate used is consistent with the long-term average growth rates for both the industry and the countries in which the CGUs are located and is appropriate because these are long-term businesses.

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

Broadcast & Online

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

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

The key assumption in assessing the recoverable amount of Broadcast & Online goodwill is the size of the television advertising market. In forming its assumptions about the television advertising market, the Group has used a combination of long-term trends, industry forecasts and in-house estimates, which place greater emphasis on recent experience. No impairment was identified. Also as part of the impairment review, a sensitivity of up to -10% of growth was applied to 2020 and -3% to 2021 with no subsequent recovery, with no impairment identified. The Directors believe that currently no reasonably possible change in these assumptions would reduce the headroom in this CGU to zero.

An impairment charge of £2,309 million was recognised in the Broadcast & Online CGU in 2008, as a result of the downturn in the short-term outlook for the advertising market. The current year impairment review, set out above, results in significant headroom in excess of the 2008 impairment amount. Even though the advertising market has improved since then and the impaired assets are still owned and operated by the Group, due to accounting rules the impairment cannot be reversed.

A pre-tax market discount rate of 8.5% (2017: 9.5%) has been used in discounting the projected cash flows.

SDN

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

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

As part of the impairment review, sensitivity was applied to the main assumptions with no impairment identified (2020: -10% growth, 2021: 0% growth). The Directors believe that currently no reasonably possible change in the cash flow and availability assumptions would reduce the headroom in this CGU to zero.

A pre-tax market discount rate of 10.2% (2017: 11.4%) has been used in discounting the projected cash flows.

ITV Studios

The goodwill for ITV Studios has arisen as a result of the acquisition of production businesses since 1999. Significant balances were created from the acquisition by Granada of United News and Media's production businesses in 2000 and the merger of Granada and Carlton in 2004 to form ITV plc. ITV Studios goodwill also includes the goodwill arising from recent acquisitions since 2012, with the largest acquisitions being Leftfield in 2014, followed by Talpa in 2015.

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

As part of the impairment review, sensitivity was applied to the main assumptions with no impairment identified (2020: -10% growth, 2021: 0% growth). The Directors believe that currently no reasonably possible change in the cash flow assumptions would reduce the headroom in this CGU to zero.

A pre-tax market discount rate of 9.5% (2017: 10.8%) has been used in discounting the projected cash flows.

Following the acquisitions made by ITV Studios in 2017, the Directors considered how assets and resources are shared across the ITV Studios division and the level of integration within the management structure for the purposes of reporting and strategic decision-making. They concluded that a single ITV Studios CGU continues to remain appropriate.

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

3.4 Acquisitions

Keeping it simple

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

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

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

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

Acquisitions in the current year – 2018
The Group did not make any acquisitions in the current year.

Acquisitions in the prior year – 2017
In 2017, the Group made payments totalling £54 million for five acquisitions within the ITV Studios operating segment. The businesses fit with the strategy of strengthening the Group's existing position as a producer for major television networks in the UK, Europe, US and OTT platforms.

Tetra Media Studio SAS
On 28 February 2017, the Group purchased 65.04% of the share capital of Tetra Media Studio SAS, a French television production group which specialises in drama, including flagship crime series Profilage, and political crime thriller Les Hommes de l'Ombre.

Tomorrow ITV Studios LLC
On 1 April 2017, the Group gained control of Tomorrow ITV Studios LLC due to the conversion of its 75% preference share capital into 75% ordinary share capital. The company produced Aquarius, a US period crime series, which aired on NBC, and is producing Snowpiercer, an action sci-fi drama series, expected to be released in the US in 2019.

World Productions Limited
On 30 April 2017, the Group purchased 92% of the share capital of World Productions Limited, a company which specialises in producing drama series with titles including Line of Duty, an award-winning British police crime drama, and Born to Kill, a British thriller television mini-series.

Elk Production AB
On 21 June 2017, the Group acquired 96% of the share capital of Elk Production AB. Elk is one of the leading independent production companies in Sweden. Key titles produced by the company include Ninja Warrior, an obstacle course competition series, Dessertmästarna, a dessert cooking competition, and award-winning TV series Wahlgrens and Parneviks.

Cattleya S.r.l.
On 11 October 2017, the Group purchased 51% of the share capital of Cattleya Srl, an Italian scripted production company behind international hit TV dramas Gomorrah, Romanzo Criminale and Suburra, Netflix's first Italian original TV series.

Acquisition accounting:
Put and call options have been granted over the non-controlling interest of all five acquisitions, exercisable over the next two to seven years. The total maximum consideration for the acquisitions is capped at £418 million (undiscounted). All future payments are dependent on future performance of the business and linked to ongoing employment.

The Group paid total consideration of £35 million with the fair value of previously held preference shares of £29 million, non-controlling interests of £25 million and acquired net assets with a fair value of £4 million resulting in goodwill of £85 million. The present value of the expected liability on put options was £23 million and the present value of the expected earnout payment at acquisition was £11 million. As disclosed in 2017, the contribution to the Group's performance from the date of acquisition to the end of 2017 was Revenue of £59 million and EBITA before exceptionals £nil. The proforma contribution to the Group's performance from January to December 2017 was Revenue £131 million and EBITA before exceptionals £nil.

3.5 Investments

Keeping it simple

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

A joint arrangement is an investment where the Group has joint control, with one or more third parties. An associate is an entity over which the Group has significant influence (i.e. power to participate in the investee's financial and operating decisions). Any other investment is an equity investment.

Accounting policies

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

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

	2018 £m	2017 £m
Joint ventures	**1**	2
Associates	**41**	68
Equity investments	**9**	4
	51	74

Equity investments have increased during the year due to an investment in Quibi, a US venture aimed at delivering high-quality content to mobile devices. Further smaller investments have been made in line with Group's strategy to grow the international content business.

In the current year, the carrying amount of certain short-form content investments was written down following an impairment review.

Please refer to page 198 for the list of principal investments held at 31 December 2018.

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

3.6 Provisions

Keeping it simple

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

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

Accounting policies

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

Provisions

The movements in provisions during the year are as follows:

	Contract provisions £m	Property provisions £m	Legal and Other provisions £m	**Total £m**
At 1 January 2018	3	4	16	23
Additions	–	1	–	1
Utilised	(1)	–	–	(1)
Released	–	(3)	–	(3)
At 31 December 2018	**2**	**2**	**16**	**20**

Provisions of £16 million are classified as current liabilities (2017: £16 million). Unwind of the discount is £nil in 2018 and 2017.

Contract provisions comprise onerous commitments on playout and related services that are not expected to be utilised over the remaining contract period.

Property provisions primarily relate to expected dilapidation costs at rental properties.

Legal and Other provisions totalling £16 million (31 December 2017: £16 million) primarily relate to potential liabilities that may arise as a result of Boxclever having been placed into administrative receivership, most of which relate to pension arrangements. In 2011, the Determinations Panel of the Pensions Regulator determined that Financial Support Directions (FSD) should be issued against certain Group companies, which would require those companies to put in place financial support for the Boxclever Pension Scheme. An FSD does not set out what form any financial support should take, nor its amount. The Group challenged the Regulator's decision in the Upper Tribunal. However, in May 2018, the Upper Tribunal reached a decision to allow the Pension Regulator to issue an FSD. Subsequently the Upper Tribunal gave ITV permission to appeal its decision to the Court of Appeal. Such appeal was made in July 2018 and the appeal has been fixed for May 2019. During the period of the appeal, an FSD cannot be issued.

The Directors, having taken advice, believe that they continue to have a strong case. There are significant points of legal principle at issue and consequently any potential liability may take a considerable period to resolve. While any potential liability might be significant, the Directors continue to believe that the provision held is appropriate

3.7 Pensions

Keeping it simple

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

What are the Group's pension schemes?
There are two types of pension schemes. A 'Defined Contribution' scheme that is open to ITV employees, and a number of 'Defined Benefit' schemes that have been closed to new members since 2006 and closed to future accrual in 2017. In 2016, on acquisition of UTV Limited, the Group took over the UTV Defined Benefit Scheme, which remains open to future accrual.

What is a Defined Contribution scheme?
The Defined Contribution scheme is where the Group makes fixed payments into a separate fund on behalf of those employees participating in saving for their retirement. ITV has no further obligation to the participating employee and the risks and rewards associated with this type of scheme are assumed by the members rather than the Group. Although the Trustee of the scheme makes available a range of investment options, it is the members' responsibility to make investment decisions relating to their retirement benefits.

What is a Defined Benefit scheme?
In a Defined Benefit scheme, members receive payments during retirement, the value of which is dependent on factors such as salary and length of service. The Group makes contributions to the scheme, a separate trustee-administered fund that is not consolidated in these financial statements, but is reflected on the defined benefit pension deficit line on the consolidated statement of financial position.

It is the responsibility of the Trustee to manage and invest the assets of the Scheme and its funding position. The Trustee, appointed according to the terms of the scheme's documentation, is required to act in the best interest of the members and is responsible for managing and investing the assets of the scheme and its funding position.

The Group has a Pension Steering Committee, which liaises with the Trustee and has oversight of the management of the pension schemes and underlying risks.

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

The accounting defined benefit pension deficit (IAS 19) is different from the actuarial valuation deficit as they are calculated on the basis of different assumptions, such as discount rate. The accounting defined benefit pension deficit (IAS 19) figure is calculated as at the balance sheet date, and the actuarial deficit was calculated for the last triennial valuation as of 1 January 2017 for the ITV Pension Scheme and 30 June 2017 for the UTV Pension Scheme.

Accounting policies

Defined contribution scheme
Obligations under the Group's defined contribution schemes are recognised as an operating cost in the income statement as incurred. For 2018, total contributions expensed were £21 million (2017: £18 million).

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

Defined benefit scheme
The Group's obligation in respect of the Defined Benefit Scheme (the 'Scheme') is calculated by estimating the amount of future retirement benefit that eligible employees ('members') have earned during their services. That benefit payable in the future is discounted to today's value and then the fair value of scheme assets is deducted to measure the defined benefit pension position.

The liabilities of the Scheme are measured by discounting the best estimate of future cash flows to be paid using the 'projected unit' method. These calculations are complex and are performed by a qualified actuary. There are many judgements and estimates necessary to calculate the Group's estimated liabilities, the main assumptions are set out later in this section. Movements in assumptions during the year are called 'actuarial gains and losses' and these are recognised in the period in which they arise through the statement of comprehensive income.

The latest triennial valuation of the ITV Pension Scheme was undertaken as at 1 January 2017 by an independent actuary appointed by the Trustee of the Scheme and agreed in early 2018. The combined funding deficits of the ITV Pension Scheme as at 1 January 2017 amounted to £470 million. The deficit funding contributions for the ITV main scheme will be £60 million per annum. The next triennial valuation will be as at 1 January 2020. This will drive subsequent contribution rates.

An unfunded scheme in relation to four former Granada executives is accounted for under IAS 19 and the Group is responsible for meeting the pension obligations as they fall due. The unfunded scheme has additional security compared with the ITV main scheme, in the form of a charge over gilts held by the Group. Therefore, the £49 million securitised gilts have been classified as other pension assets to reflect the Group's net pension deficit.

Due to the size of the UTV Pension Scheme, the Directors present the results and position of the UTV Scheme within this note combined with the existing ITV Schemes. The latest triennial valuation was undertaken as at 30 June 2017 and was agreed during the second half of 2018. The next triennial valuation will be as at 30 June 2020.

Unless otherwise stated, references to 'the Schemes' within this note refer to the ITV Pension Scheme, the unfunded scheme and the UTV Scheme combined. The sponsoring company of the ITV Pension Scheme is ITV Services Limited, the unfunded scheme is Granada Group Limited and the UTV Scheme is sponsored by UTV Limited.

The defined benefit pension deficit
Net pension deficit of £38 million at 31 December 2018 (2017: £83 million) is stated after including the unfunded scheme security asset of £49 million (2017: £38 million).

The totals recognised in the current and previous years are:

	2018 £m	2017 £m
Total defined benefit scheme obligations	**(3,719)**	(3,987)
Total defined benefit scheme assets	**3,632**	3,866
Defined benefit pension deficit (IAS 19)	**(87)**	(121)
Presented as:		
Defined benefit pension surplus*	**19**	16
Defined benefit pension deficit	**(106)**	(137)
Defined benefit pension deficit (IAS 19)	**(87)**	(121)
Other pension asset	**49**	38
Net pension deficit	**(38)**	(83)

* The defined benefit pension surplus relates solely to the UTV Scheme. The defined benefit scheme assets in the UTV Scheme were £126 million as at 31 December 2018 (2017: £130 million) and the defined benefit scheme obligations were £107 million (2017: £114 million).

The remaining sections provide further detail of the value of the Scheme's assets and liabilities, how these are accounted for and the impact on the financial statements.

Defined benefit scheme obligations

Keeping it simple

What causes movements in the defined benefit pension obligations?
The areas that impact the defined benefit obligation (the pension scheme liabilities) position at the year end are as follows:

- **Current service cost** – the cost to the Group of the future benefits earned by members that relates to the members' service in the current year. This is charged to operating costs in the income statement
- **Past service cost** – is a change in present value of the benefits built up by the members in the prior periods; can be positive or negative resulting from changes to the existing plan as a result of an agreement between ITV and employees or legislative change (including legal rulings) or as a result of significant reduction by ITV in the number of employees covered by the plan (curtailment)
- **Interest cost** – the pension obligations payable in the future are discounted to the present value at year end. A discount factor is used to determine the current value today of the future cost. The interest cost is the unwinding of one year's movement in the present value of the obligation. It is broadly determined by multiplying the discount rate at the beginning of the period by the updated present value of the obligation during the period. The discount rate is a key assumption explained later in this section. This interest cost is recognised through net financing costs in the income statement (see note 4.4)
- **Actuarial gains or losses** – there are broadly two causes of actuarial movements: 'experience' adjustments, which arise when comparing assumptions made when estimating the liabilities and what has actually occurred, and adjustments resulting from changes in actuarial assumptions e.g. movements in corporate bond yields or change in mortality. Key assumptions are explained in detail later in this section. Actuarial gains or losses are recognised through other comprehensive income
- **Benefits paid** – any cash benefits paid out by the Scheme will reduce the obligation
- **One-off events** – for example, the acquisition of UTV Limited

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

	2018 £m	2017 £m
Defined benefit obligation at 1 January	**3,987**	4,200
Current service cost	**–**	2
Past service cost		
– GMP equalisation	**6**	–
– Changes in relation to pension increases	**(15)**	–
– Pension increase exchange option	**5**	–
Interest cost	**97**	107
Actuarial gain	**(166)**	(121)
Benefits paid	**(195)**	(201)
Defined benefit obligation at 31 December	**3,719**	3,987

Of the above total defined benefit obligation at 31 December 2018, £56 million relates to unfunded schemes (2017: £58 million), including the scheme in relation to the four former Granada executives.

On 26 October 2018, a High Court ruling ('the Lloyds Case') determined that pension schemes need to address inequalities between men and women in Guaranteed Minimum Pension (GMP) earned between 17 May 1990 and 5 April 1997. This is to comply with sex discrimination legislation known as 'GMP equalisation'. In previous years, given the legal uncertainty on the treatment of GMP equality, no allowance had been made in the IAS 19 defined benefit obligation. The court ruling has now clarified how GMPs should be equalised and as a result, a past service cost of £6 million has been recognised in the current period.

In November 2018, the Pension Trustee entered into a bulk annuity insurance contract in respect of the benefits of two sections of the ITV Pension Scheme. This type of deal is also known as a 'Buy-in'. As a result of the buy-in, a past service cost of £5 million has been included in the measurement of the pension scheme liabilities. This is due to the pension increase exchange ('PIE') option no longer being available to members of these schemes. PIE is an option to give up future increases on your pension, in exchange for a higher immediate pension with lower (or no) further increases. Certain members of the sections also had a change of rate of pension increases. This change resulted in a credit of £15 million which has also been recognised as an exceptional past service cost.

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

Assumptions used to estimate the Scheme obligations

Keeping it simple

What are the main assumptions used to estimate the Scheme obligations?
The main assumptions are:
- An estimate of increases in pension payments
- The life expectancy of members
- The effect of inflation on all these factors
- The discount rate used to estimate the present day fair value of these obligations
- Future salary levels for the UTV Scheme and
- Future pensionable salary levels for the UTV Scheme

How do we determine the appropriate assumptions?
The Group takes independent actuarial advice relating to the appropriateness of the assumptions used.

IFRS requires that we estimate a discount rate by reference to high-quality fixed income investments in the UK that match the estimated term of the pension obligations.

The inflation assumption has been set by looking at the difference between the yields on fixed and index-linked Government bonds. The inflation assumption is used as a basis for the remaining financial assumptions, except where caps have been implemented.

The discount rate has therefore been obtained using the yields available on AA rated corporate bonds, which match projected cash flows. The Group's estimate of the weighted average term of the liabilities is 15 years (2017: 15 years).

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

	2018	2017
Discount rate for:		
Past service liabilities	**2.85%**	2.50%
Future service liabilities	**2.85%**	2.50%
Inflation assumption for:		
Past service liabilities	**3.20%**	3.15%
Future service liabilities	**3.20%**	3.15%
Rate of pensionable salary increases		
UTV Pension Scheme	**3.70%**	3.65%
Rate of increase in pension payment (LPI[1] 5% pension increases)	**3.05%**	2.95%
Rate of increase to deferred pensions (CPI)	**2.20%**	2.15%

1. Limited Price Index.

The table below reflects published mortality investigation data in conjunction with the results of investigations into the mortality experience of Scheme members. The assumed life expectations on retirement are:

	2018	**2018**	2017	2017
Retiring today at age	**60**	**65**	60	65
Males	**27.2**	**22.5**	27.1	22.5
Females	**29.3**	**24.5**	29.2	24.4
Retiring in 20 years at age	**60**	**65**	60	65
Males	**28.8**	**24.0**	28.7	23.9
Females	**30.9**	**26.0**	30.8	25.9

The net pension deficit is sensitive to changes in assumptions. Those are disclosed further in this section.

Total defined benefit scheme assets

Keeping it simple

The Scheme holds assets across a number of different classes, which are managed by the Trustee, who consults with the Group on changes to its investment policy.

What are the pension Scheme assets?
At 31 December 2018, the Scheme's assets were invested in a diversified portfolio that consisted primarily of equity and debt securities and insurance policies matching the pensions due to certain members. The tables below set out the major categories of assets.

Financial instruments are in place in order to provide protection against changes in market factors (interest rates and inflation), which could act to increase the net pension deficit.

One such instrument is the longevity swap, which the Scheme transacted in 2011 to obtain protection against the effect of increases in the life expectation of the majority of pensioner members at that date. Under the swap, the Trustee agreed to make pre-determined payments in return for payments to meet the specified pension obligations as they fall due, irrespective of how long the members and their dependants live. The difference in the present values of these two streams of payments is reflected in the Scheme assets. The swap had a nil valuation at inception and, using market-based assumptions, is subsequently adjusted for changes in the market life expectancy and market discount rates, in line with its fair value.

How do we measure the pension Scheme assets?
Defined benefit scheme assets are measured at their fair value and can change due to the following:

- Interest income on scheme assets – this is determined by multiplying the fair value of the Scheme assets by the discount rate, both taken as of the beginning of the year. This is recognised through net financing costs in the income statement
- Return on assets arise from differences between the actual return and interest income on Scheme assets and are recognised through other comprehensive income
- Employer's contributions are paid into the Scheme to be managed and invested and
- Benefits and administrative expenses paid out by the Schemes will lower the fair value of the Scheme's assets

The movement in the fair value of the defined benefit scheme's assets is analysed below:

	2018 £m	2017 £m
Fair value of Scheme assets at 1 January	**3,866**	3,833
Interest income on Scheme assets	**95**	98
Return on assets, excluding interest income	**(218)**	51
Employer contributions	**90**	90
Benefits paid	**(195)**	(201)
Administrative expenses paid	**(6)**	(5)
Fair value of Scheme assets at 31 December	**3,632**	3,866

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

How are the Scheme's assets invested?
At 31 December 2018, the Scheme's assets were invested in a diversified portfolio that consisted primarily of equity and debt securities and insurance policies matching pensions due to certain members. The Trustee is responsible for deciding the investment strategy for the scheme's assets, although changes in investment policies require consultation with the Group. The assets are invested in different classes to hedge against unfavourable movements in the funding obligation. When selecting the mix of assets to hold, and considering their related risks and returns, the Trustee will weigh up the variability of returns against the target long-term rate of return on the overall portfolio.

The fair value of the Scheme's assets is shown in the following table by major category:

	Market value 2018 £m		Market value 2017 £m	
Liability hedging assets				
Fixed interest gilts	**475**		633	
Index-linked interest gilts	**1,067**		1,456	
Interest rate and inflation hedging derivatives (swaps and repos)	**230**		279	
	1,772	**49%**	2,368	61%
Other bonds	**834**	**23%**	865	22%
Return seeking investments				
Quoted equities	**169**		260	
Infrastructure	**171**		88	
Property	**106**		109	
Hedge funds/alternatives	**172**		193	
	618	**17%**	650	17%
Other investments				
Cash and cash equivalents	**183**		240	
Insurance policies	**530**		41	
Longevity swap fair value	**(305)**		(298)	
	408	**11%**	(17)	–
Total Scheme assets	**3,632**	**100%**	3,866	100%

Included in the above are overseas assets of £725 million (2017: £978 million), comprised of quoted equities of £68 million (2017: £244 million) and bonds of £657 million (2017: £734 million).

In November 2018, the Pension Trustee entered into a bulk annuity insurance contract in respect of the benefits of two sections of the ITV Pension Scheme. This type of deal is also known as a 'Buy-in'. A buy-in is where the Trustee purchases an insurance policy which is effectively a scheme asset which pays the members benefits. The ultimate obligation to pay the members benefits still remains with the scheme.

As the acquisition of the insurance contract is an investment decision and this has been accounted for through the Statement of Other Comprehensive Income. For IAS 19 purposes, the fair value of this insurance contract is set equal to the valuation of the insured member benefits using the IAS 19 assumptions. As these two sections of the ITV Pension Scheme were in a surplus position under IAS 19, this has resulted in an investment loss of £94 million within the Group's Statement of Other Comprehensive Income.

The Trustee entered a longevity swap in 2011, which provides cash flow certainty by hedging the risk of increasing life expectancy over the next 70 years for 11,700 of current pensioners at inception covering £1.7 billion of the pension obligation. The fair value of the longevity swap equals the discounted value of the projected net cash flows resulting from the contract and has reduced in value in 2018.

Defined pension deficit sensitivities

Keeping it simple

Which assumptions have the biggest impact on the Scheme?

It is important to note that comparatively small changes in the assumptions used may have a significant effect on the consolidated income statement and statement of financial position. This 'sensitivity' to change is analysed below to demonstrate how small changes in assumptions can have a large impact on the estimation of the defined benefit pension deficit. The Trustee manages the investment, mortality and inflation risks to ensure the pension obligations are met as they fall due.

The investment strategy is aimed at the valuation obligation rather than IAS 19 defined pension deficit value. As such, the effectiveness of the risk hedging strategies on a valuation basis will not be the same as on an accounting basis. Those hedging strategies have significant impact on the movement in the net pension deficit as assumptions change, offsetting the impacts on the obligation disclosed below.

In practice, changes in one assumption may be accompanied by offsetting changes in another assumption (although this is not always the case). Changes in the assumptions may occur at the same time as changes in the market value of Scheme assets, which may or may not offset the changes in assumptions.

Changes in assumptions have a different level of impact as the value of the net pension deficit fluctuates, because the relationship between them is not linear.

The analysis below considers the impact of a single change in principal assumptions on the defined benefit obligation while keeping the other assumptions unchanged and does not take into account any risk hedging strategies:

Assumption	Change in assumption	Impact on defined benefit obligation
Discount rate	Increase by 0.1%	Decrease by £60 million
	Decrease by 0.1%	Increase by £60 million
Rate of inflation (Retail Price Index)	Increase by 0.1%	Increase by £30 million
	Decrease by 0.1%	Decrease by £30 million
Rate of inflation (Consumer Price Index)	Increase by 0.1%	Increase by £10 million
	Decrease by 0.1%	Decrease by £10 million
Life expectations	Increase by one year	Increase by £100 million

The sensitivity analysis has been determined by extrapolating the impact on the defined benefit obligation at the year end with changes in key assumptions that might reasonably occur.

While the Scheme's risk hedging strategy is aimed at a valuation basis, the Directors estimate that on an accounting basis it would significantly reduce the above impact on the defined benefit obligation.

In particular, an increase in assumption of life expectations by one year would benefit from an estimated increase of the value of the longevity swap by £100 million and the value of the bulk annuity insurance contracts by £15 million, resulting in a net reduction in the defined pension deficit of £15 million.

Further, the ITV Pension Scheme invests in UK Government bonds and interest rate and inflation swap contracts and therefore movements in the defined benefit obligation are typically offset, to an extent, by asset movements.

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

Keeping it simple

What was the impact of movements on the Scheme's assets and liabilities?
The sections above describe how the Scheme obligations and assets are comprised and measured. The following section sets out the impact of various movements and expenses on the Scheme on the Group's financial statements.

Amounts recognised through the income statement
Amounts recognised through the income statement are as follows:

	2018 £m	2017 £m
Amount charged to operating costs:		
Current service cost	**–**	(2)
Scheme administration expenses	**(6)**	(5)
	(6)	(7)
Amount charged to exceptional costs:		
Past service credit	**4**	–
Amount charged to net financing costs:		
Net interest on defined benefit obligation	**(2)**	(9)
Total charged in the consolidated income statement	**(4)**	(16)

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

	2018 £m	2017 £m
Remeasurement gains/(losses):		
Return on scheme assets excluding interest income	**(218)**	51
Actuarial gains/(losses) on liabilities arising from change in:		
– experience adjustments	**(6)**	138
– financial assumptions	**172**	12
– demographic assumptions	**–**	(29)
	166	121
Total recognised in the consolidated statement of comprehensive income	**(52)**	172

The £166 million actuarial gain on the Scheme's liabilities was principally due to changes in bond yields. The £218 million loss on the Scheme's assets primarily results from increase bond yields and the purchase of the bulk annuity insurance contracts which have led to assets underperforming expectations.

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Addressing the defined benefit pension deficit

Keeping it simple

The Group works closely with the Trustee to agree appropriate levels of funding for the Scheme. This involves agreeing a Schedule of Contributions at each triennial valuation, which specifies the contribution rates for the employer and, where relevant, scheme members and the date these contributions are due. A recovery plan setting out the steps that will be taken to address a funding shortfall is also agreed.

In the event that the Group's defined benefit scheme is in a net liability position, the Directors must take steps to manage the size of the deficit. Apart from the funding agreements mentioned above, this could involve pledging additional assets to the Scheme, as was the case in the SDN and London Television Centre pension funding partnerships.

The levels of ongoing contributions to the Scheme are based on the current service costs (as assessed by the Scheme Trustee) and the expected future cash flows of the Scheme. Normal employer contributions in 2019 for UTV Scheme current service and administration expenses are expected to be in the region of £6 million (2018: £6 million) and deficit funding contributions for the main ITV scheme in 2019 are expected to be £60 million (2018: £66 million), assuming current contribution rates continue as agreed with the Trustee.

The Group has two asset-backed pension funding agreements with the Trustee and makes annual payments of £11 million for 12 years from 2011, and also £3 million, increasing by 5% per annum until 2038. In 2019, a payment of £14 million is expected as a result of those agreements.

With the London Television Centre held for sale, we will be reviewing the asset-backed structures.

IFRIC 14 clarifies how the asset ceiling rules should be applied if the Schemes are expected to be in surplus, for example as a result of deficit funding agreements. The Group has determined that it has an unconditional right to a refund of any surplus assets if the Schemes are run off until the last member dies. On this basis, IFRIC 14 rules do not cause any change in the pension deficit accounting or disclosures.

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

In this section

This section outlines how the Group manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets.

The Directors determine the appropriate capital structure of ITV; specifically how much is raised from shareholders (equity) and how much is borrowed from financial institutions (debt) in order to finance the Group's activities both now and in the future. Maintaining capital discipline and balance sheet efficiency remains important to the Group. Any potential courses of action will take into account the Group's liquidity needs, flexibility to invest in the business, pension deficit initiatives and impact on credit ratings.

The Directors consider the Group's capital structure and dividend policy at least twice a year ahead of announcing results and do so in the context of its ability to continue as a going concern, to execute the strategy and to invest in opportunities to grow the business and enhance shareholder value.

A Tax and Treasury Committee, which oversees governance, recommends policies for approval by the Board and exercises delegated authority to approve certain other tax and treasury related policies and procedures within the business

4.1 Net debt

Keeping it simple

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

Adjusted net debt is also monitored by the Group and more closely reflects how credit agencies see the Group's gearing. To arrive at the adjusted net debt amount, we add our total undiscounted expected contingent payments on acquisitions, our net pension deficit and our undiscounted operating lease commitments. A full analysis and discussion of adjusted net debt is included in the Operating and Performance Review.

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

	1 January 2018 £m	Net cash flow £m	Currency and non-cash movements £m	**31 December 2018 £m**
Cash	121	(37)	1	**85**
Cash equivalents	5	5	–	**10**
Total cash and cash equivalents	126	(32)	1	**95**
Loans and facilities due within one year	(76)	22	–	**(54)**
Finance leases due within one year	–	–	–	**–**
Loans and facilities due after one year	(982)	1	(12)	**(993)**
Total debt	(1,058)	23	(12)	**(1,047)**
Currency component of swaps held against euro denominated bonds	20	–	5	**25**
Net debt	(912)	(9)	(6)	**(927)**

	1 January 2017 £m	Net cash flow £m	Acquisitions* £m	Currency and non-cash movements £m	31 December 2017 £m
Cash	549	(438)	19	(9)	121
Cash equivalents	12	(7)	–	–	5
Total cash and cash equivalents	561	(445)	19	(9)	126
Loans and facilities due within one year	(161)	115	(26)	(4)	(76)
Finance leases due within one year	(4)	4	–	–	–
Loans and facilities due after one year	(1,035)	100	(9)	(38)	(982)
Total debt	(1,200)	219	(35)	(42)	(1,058)
Currency component of swaps held against euro denominated bonds	2	–	–	18	20
Net debt	(637)	(226)	(16)	(33)	(912)

* Balances as at acquisition date.

Loans and facilities due within one year

At various periods during the year, the Group drew down on the £630 million Revolving Credit Facility ('RCF') to meet short-term funding requirements. At 31 December 2018, the Group had drawings of £50 million under the RCF (2017: £60 million), leaving £580 million available to draw down at year end. The maximum draw down of the RCF during the year was £400 million (2017: £390 million).

Loans and loan notes due after one year

The Group has issued the following Eurobonds:

- A seven year €600 million Eurobond at a fixed coupon of 2.125%, which matures in September 2022; and
- A seven year €500 million Eurobond at a fixed coupon of 2.0%, which will mature in December 2023. The bond issued in December 2016 has been swapped back to sterling using a cross-currency interest rate swap. The resulting fixed rate payable in sterling is c. 3.5%

In June 2017, the Group repaid in full a £100 million bilateral loan facility.

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

4.2 Borrowings and finance leases

Keeping it simple

The Group borrows money from financial institutions in the form of bonds, bank facilities and other financial instruments. The interest payable on these instruments is shown in the net financing costs note in note 4.4.

There are Board-approved policies in place to manage the Group's financial risks. Macroeconomic market risks, which impact currency transactions and interest rates, are discussed in note 4.3. Credit and liquidity risks are discussed below.

- Credit risk: the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations and
- Liquidity risk: the risk that the Group will not be able to meet its financial obligations as they fall due

The Group is required to disclose the fair value of its debt instruments. The fair value is the amount the Group would pay a third party to transfer the liability. It is sourced in the capital markets. This estimation of fair value is consistent with instruments valued under level 1 in note 4.5.

Accounting policies

Borrowings

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

Managing credit and liquidity risk

Credit risk

The Group's maximum exposure to credit risk is represented by the carrying amount of derivative financial assets (see note 4.3), trade receivables (see note 3.1.3), and cash and cash equivalents (see note 4.1).

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The majority of trade receivables relate to airtime sales contracts with advertising agencies and advertisers. Credit insurance has been taken out against these companies to minimise the impact on the Group in the event of a possible default. The Group also reviews other significant receivables and will seek to take out credit insurance on an individual basis where appropriate.

In 2016, the Group signed a £100 million non-recourse receivables purchase agreement. As at 31 December 2018, this was fully utilised with £nil remaining available under the agreement (2017: £10 million).

The receivables in relation to the invoices sold were derecognised and the Group collects cash on behalf of the counterparty as payments fall due.

Cash

The Group operates investment guidelines with respect to surplus cash that emphasise preservation of capital. The guidelines set out procedures and limits on counterparty risk and maturity profile of cash placed. Counterparty limits for cash deposits are largely based upon long-term ratings published by the major credit rating agencies. Deposits longer than 12 months require the approval of the Board.

Borrowings

ITV is rated as investment grade by Moody's and S&P. ITV's credit ratings, the cost of credit default swap hedging and the absolute level of interest rates are key determinants in the cost of new borrowings for ITV.

Liquidity risk

The Group's financing policy is to fund itself for the medium to long-term by using debt instruments with a range of maturities and to ensure access to appropriate short-term borrowing facilities with a minimum of £250 million of undrawn facilities available at all times.

Long-term funding comes from the UK and European capital markets, while any short to medium-term debt requirements are provided through bank credit facilities totalling £930 million (see below). Management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn bank facilities and cash and cash equivalents) on the basis of expected cash flows. This monitoring includes financial ratios to assess any possible future impact on credit ratings and headroom and takes into account the accessibility of cash and cash equivalents.

The Group has a £630 million Revolving Credit Facility with a group of relationship banks. This facility, which was extended in October 2018, matures in 2023 and is committed with leverage and interest cover financial covenants. In addition, the Group has £300 million of financial covenant free financing, which runs to 2021.

Fair value versus book value

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

		Book value		Fair value	
	Maturity	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Loans due within one year					
£630 million Revolving Credit Facility	Various	**50**	60	**50**	60
Other short-term loans	Various	**4**	16	**4**	16
		54	76	**54**	76
Loans due in more than one year					
€600 million Eurobond	Sept 2022	**536**	529	**555**	560
€500 million Eurobond	Dec 2023	**449**	444	**456**	461
Other long-term loans	Various	**8**	9	**8**	9
		993	982	**1,019**	1,030
		1,047	1,058	**1,073**	1,106

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

4.3 Managing market risks: derivative financial instruments

Keeping it simple

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

The Group is exposed to certain market risks. In accordance with Board-approved policies, which are set out in this note, the Group manages these risks by using derivative financial instruments to hedge the underlying exposures.

Why do we need them?
The key market risks facing the Group are:

- Currency risk arising from:
  i. Translation risk, that is the risk in the period of adverse currency fluctuations in the translation of foreign currency profits, assets and liabilities ('balance sheet risk') and non-functional currency monetary assets and liabilities ('income statement risk') and
  ii. Transaction risk, that is the risk that currency fluctuations will have a negative effect on the value of the Group's non-functional currency trading cash flows. A non-functional currency transaction is a transaction in any currency other than the reporting currency of the subsidiary
- Interest rate risk to the Group arises from significant changes in interest rates on borrowings issued at or swapped to floating rates

How do we use them?
The Group mainly employs three types of derivative financial instruments when managing its currency and interest rate risk:

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

Analysis of the derivatives used by the Group to hedge its exposure and the various methods used to calculate their respective fair values are detailed in this section.

Accounting policies
Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value with the movement recorded in the income statement, except where derivatives qualify for cash flow hedge accounting. In this case, the effective portion of a cash flow hedge is recognised in other comprehensive income and presented in the hedging reserve within equity. The cumulative gain or loss is later reclassified to the income statement in the same period as the relevant hedged transaction is realised. Derivatives with positive fair values are recorded as assets and negative fair values as liabilities.

Determining fair value

The fair value of forward foreign exchange contracts is determined by using the difference between the contract exchange rate and the quoted forward exchange rate at the reporting date from third parties. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and our current creditworthiness, as well as that of our swap counterparties.

Third-party valuations are used to fair value the Group's interest rate derivatives. The valuation techniques use inputs such as interest rate yield curves and currency prices/yields, volatilities of underlying instruments and correlations between inputs.

How do we manage our currency and interest rate risk?

Currency risk

As the Group expands its international operations, the performance of the business becomes increasingly sensitive to movements in foreign exchange rates, primarily with respect to the US dollar and the euro.

The Group's foreign exchange policy is to use forward foreign exchange contracts to hedge material non-functional currency denominated costs or revenue for up to five years forward.

The Group ensures that its net exposure to foreign currency denominated cash balances is kept to a minimal level by using foreign currency swaps to exchange balances back into sterling or by buying or selling foreign currencies at spot rates when necessary.

The Group also utilises foreign exchange swaps and cross-currency interest rate swaps both to manage foreign currency cash flow timing differences and to hedge foreign currency denominated monetary items.

The Group's net investments in overseas subsidiaries may be hedged where the currency exposure is considered to be material. The Group designated a portion of its euro borrowings into a net investment hedge against its euro denominated assets following the acquisition of Talpa Media.

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

	2018 – post-tax profit	**2018 – equity**	2017 – post-tax profit	2017 – equity
US dollar	**£nil million**	**£25 million**	£1 million	£23 million
Euro	**£2 million**	**£16 million**	£3 million	£17 million

The Group's sensitivity to translation risk for revenue and adjusted EBITA is disclosed in the Finance Review on page 51. The key difference between the foreign currency sensitivity for adjusted EBITA and profit after tax is the impact on the US dollar and euro denominated exceptional costs, including acquisition-related costs, acquired intangible amortisation and net financing cost.

Interest rate risk

The Group's interest rate policy is to allow fixed rate gross debt to vary between 20% and 100% of total gross debt to accommodate floating rate borrowings under the Revolving Credit Facility.

At 31 December 2018, the Group's fixed rate debt represented 99% of total gross debt (2017: 98%). Consequently, a 1% movement in interest rates on floating rate debt would impact the 2018 post-tax profit for the year by less than £1 million (2017: £1 million).

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

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

What is the value of our derivative financial instruments?
The following table shows the fair value of derivative financial instruments analysed by type of contract. Interest rate swap fair values exclude accrued interest.

At 31 December 2018	Assets £m	Liabilities £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	**1**	(2)
Foreign exchange forward contracts and swaps – fair value through profit or loss	**1**	(2)
Non-current		
Cross-currency interest swaps – cash flow hedges	**26**	–
Foreign exchange forward contracts and swaps – cash flow hedges	**–**	(1)
Foreign exchange forward contracts and swaps – fair value through profit or loss	**–**	–
	28	(5)

At 31 December 2017	Assets £m	Liabilities £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	4	(1)
Foreign exchange forward contracts and swaps – fair value through profit or loss	2	(1)
Non-current		
Cross-currency interest swaps – cash flow hedges	10	–
Foreign exchange forward contracts and swaps – cash flow hedges	–	(1)
	16	(3)

Cash flow hedges
The Group applies hedge accounting for certain foreign currency firm commitments and highly probably cash flows where the underlying cash flows are payable within the next seven years. In order to fix the sterling cash outflows associated with the commitments and interest payments – which are mainly denominated in AUD or euros – the Group has taken out forward foreign exchange contracts and cross-currency interest rate swaps for the same foreign currency amount and maturity date as the expected foreign currency outflow.

The amount recognised in other comprehensive income during the period all relates to the effective portion of the revaluation loss associated with these contracts. There was less than £1 million (2017: £1 million) ineffectiveness taken to the income statement and £6 million cumulative gain (2017: £20 million gain) recycled to the income statement in the year.

In 2016, on issuing the 2023 Eurobond, the Group entered into a portfolio of cross-currency interest rate swaps, which swapped the euro principal and fixed euro interest rate coupons into fixed sterling interest rate. As a result, the Group makes sterling interest payments at a fixed rate.

Under IFRS 9, the Group has adopted the 'cost of hedging' approach which allows the recognition of the value of the currency basis at inception of the hedge to be recorded on the Consolidated Statement of Financial Position and amortised through net financing costs in the Consolidated Income Statement over the life of the bond. Any mark-to-market change in fair value of the currency basis is recognised in 'cost of hedging' in the Consolidated Statement of Comprehensive Income.

Net investment hedges
The Group uses euro denominated debt to partially hedge against the change in the sterling value of its euro denominated net assets due to movements in foreign exchange rates. The fair value of debt in a net investment hedge was £176 million (2017: £177 million). A foreign exchange loss of £2 million (2017: £6 million) relating to the net investment hedges has been netted off within exchange differences on translation of foreign operations as presented on the consolidated statement of comprehensive income.

Undiscounted financial liabilities

Keeping it simple

The Group is required to disclose the expected timings of cash outflows for each of its financial liabilities (including derivatives). The amounts disclosed in the table are the contractual undiscounted cash flows (including interest), so will not always reconcile with the amounts disclosed on the Statement of Financial Position.

At 31 December 2018	Carrying value £m	Total contractual cash flows £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Non-derivative financial liabilities						
Borrowings	**(1,047)**	**(1,170)**	(76)	(20)	(1,069)	(5)
Trade and other payables	**(762)**	**(762)**	(713)	(43)	(6)	–
Contract liabilities	**(255)**	**(255)**	(255)	–	–	–
Other payables – non-current	**(9)**	**(9)**	–	(7)	(2)	–
Other payables – commitments on acquisitions	**(176)**	**(252)***	(55)	(148)	(46)	(3)
Derivative financial instruments						
Foreign exchange forward contracts and swaps – cash flow hedges						
Inflow	**1**	**220**	121	54	45	–
Outflow	**(3)**	**(222)**	(122)	(55)	(45)	–
Cross-currency swaps – cash flow hedges						
Inflow	**26**	**524**	10	8	506	–
Outflow	**–**	**(502)**	(15)	(16)	(471)	–
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	**1**	**238**	225	11	2	–
Outflow	**(2)**	**(239)**	(225)	(11)	(3)	–
	(2,226)	**(2,429)**	(1,105)	(227)	(1,089)	(8)

At 31 December 2017	Carrying value £m	Total contractual cash flows £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Non-derivative financial liabilities						
Borrowings	(1,058)	(1,171)	(97)	(21)	(595)	(458)
Trade and other payables	(802)	(802)	(734)	(47)	(16)	(5)
Contract liabilities	(219)	(219)	(219)	–	–	–
Other payables – non-current	(21)	(21)	–	(19)	(1)	(1)
Other payables – commitments on acquisitions	(161)	(292)*	(78)	(19)	(190)	(5)
Derivative financial instruments						
Foreign exchange forward contracts and swaps – cash flow hedges						
Inflow	4	206	148	58	–	–
Outflow	(2)	(204)	(146)	(58)	–	–
Cross-currency swaps – cash flow hedges						
Inflow	10	557	11	11	32	503
Outflow	–	(513)	(15)	(15)	(44)	(439)
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	2	136	124	7	5	–
Outflow	(1)	(135)	(123)	(7)	(5)	–
	(2,248)	(2,458)	(1,129)	(110)	(814)	(405)

* Undiscounted expected future payments depending on performance of acquisitions; the total maximum consideration is discussed in the Finance Review.

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

4.4 Net financing costs

Keeping it simple

This section details the interest income generated on the Group's cash and other financial assets and the interest expense incurred on borrowings and other financial liabilities.

In reporting 'adjusted profit', the Group adjusts net financing costs to exclude unrealised mark-to-market movements on interest rate and foreign exchange derivatives, gains/losses on bond buybacks, net pension interest, interest and fair value movements in acquisition-related liabilities and other financing costs.

Our rationale for adjustments made to financing costs is set out in the Finance Review.

Accounting policies

Net financing costs comprise interest income on funds invested, gains / losses on the disposal of financial instruments, changes in the fair value of financial instruments, interest expense on borrowings and finance leases, unwinding of the discount on provisions, unwinding of the discount on liabilities to non-controlling interest, foreign exchange gain/losses, and imputed interest on pension assets and liabilities. Interest income and expense is recognised as it accrues in profit or loss, using the effective interest method.

Net financing costs

Net financing costs can be analysed as follows:

	2018 £m	2017 £m
Financing income		
Interest income	**3**	4
Financing costs		
Interest expense on financial liabilities measured at amortised cost	**(30)**	(30)
Net pension interest (see note 3.7)	**(2)**	(9)
Change in fair value of instruments classified at fair value through profit or loss	**–**	–
Foreign exchange loss	**(2)**	(3)
Other finance expense	**(12)**	(12)
	(46)	(54)
Net financing costs	**(43)**	(50)

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

Other finance expense includes the amortisation of facility commitment and upfront fees as well as movements in the estimated value of acquisition-related contingent liabilities. This is where estimates of the future performance against stretch targets is reassessed, resulting in adjustments to the related put option liabilities.

4.5 Fair value hierarchy

Keeping it simple

The financial instruments included on the ITV statement of financial position are measured at either fair value or amortised cost. The measurement of this fair value can in some cases be subjective, and can depend on the inputs used in the calculations. ITV generally uses external valuations using market inputs or market values (e.g. external share prices). The different valuation methods are called 'hierarchies' and are described below.

Level 1
Fair values are measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2
Fair values are measured using inputs, other than quoted prices included within Level 1, which are observable for the asset or liability either directly or indirectly.

Interest rate swaps and options are accounted for at their fair value based upon termination prices. Forward foreign exchange contracts are accounted for at the difference between the contract exchange rate and the quoted forward exchange rate at the reporting date.

Level 3
Fair values are measured using inputs for the asset or liability that are not based on observable market data.

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

	Fair value 31 December 2018 £m	Level 1 31 December 2018 £m	Level 2 31 December 2018 £m	Level 3 31 December 2018 £m
Assets measured at fair value				
Financial instruments				
Other pension assets – gilts (see note 3.7)	49	49	–	–
Equity investments (see note 3.5)	9	–	–	9
Financial assets at fair value through profit or loss				
Foreign exchange forward contracts and swaps	1	–	1	–
Financial assets at fair value through reserves				
Cash flow hedges	27	–	27	–

	Fair value 31 December 2018 £m	Level 1 31 December 2018 £m	Level 2 31 December 2018 £m	Level 3 31 December 2018 £m
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Foreign exchange forward contracts and swaps	(2)		(2)	–
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	(69)	–	–	(69)
Financial liabilities at fair value through reserves				
Cash flow hedges	(3)	–	(3)	–

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

	Fair value 31 December 2017 £m	Level 1 31 December 2017 £m	Level 2 31 December 2017 £m	Level 3 31 December 2017 £m
Assets measured at fair value				
Financial instruments				
Other pension assets – gilts (see note 3.7)	38	38	–	–
Equity investments (see note 3.5)	4	–	–	4
Financial assets at fair value through profit or loss				
Foreign exchange forward contracts and swaps	2	–	2	–
Financial assets at fair value through reserves				
Cash flow hedges	14	–	14	–
	58	38	16	4

	Fair value 31 December 2017 £m	Level 1 31 December 2017 £m	Level 2 31 December 2017 £m	Level 3 31 December 2017 £m
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Foreign exchange forward contracts and swaps	(1)	–	(1)	–
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	(73)	–	–	(73)
Financial liabilities at fair value through reserves				
Cash flow hedges	(2)	–	(2)	–
	(76)	–	(3)	(73)

Refer to note 4.3 for how we value interest rate swaps and forward foreign currency contracts. The equity investments are valued at cost and assessed for impairment.

4.6 Equity

Keeping it simple

This section explains material movements recorded in shareholders' equity, presented in the Consolidated Statement in Changes in Equity, which are not explained elsewhere in the financial statements.

Accounting policies

Fair value reserve
Financial assets are stated at fair value, with any gain or loss recognised directly in the fair value reserve in equity, unless the loss is a permanent impairment, when it is then recorded in the income statement.

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

4.6.1 Share capital and share premium

The Group's share capital at 31 December 2018 of £403 million (2017: £403 million) and share premium of £174 million (2017: £174 million) is the same as that of ITV plc. Details of this are given in the ITV plc Company financial statements section of this Annual Report.

4.6.2 Merger and other reserves

Merger and other reserves at 31 December include the following reserves:

	2018 £m	2017 £m
Merger reserves	**98**	98
Capital reserves	**112**	112
Capital redemption reserves	**36**	36
Revaluation reserves	**2**	2
Put option liabilities arising on acquisition of subsidiaries	**(42)**	(49)
Total	**206**	199

4.6.3 Translation reserve

The translation reserve comprises:

- All foreign exchange differences arising on the translation of the accounts of, and investments in, foreign operations
- The gains or losses on the portion of cash flow hedges that have been deemed effective and costs of hedging under IFRS 9 (see note 4.3).

4.6.4 Fair value reserve

The fair value reserve comprises all movements arising on the revaluation of gilts accounted for fair value through OCI financial instruments (see note 3.7).

4.6.5 Retained earnings

The retained earnings reserve comprises profit for the year attributable to owners of the Company of £466 million (2017: £409 million) and other items recognised directly through equity as presented in the consolidated statement of changes in equity. Other items include the credit for the Group's share-based compensation schemes and the charge for the purchase of ITV shares via the ITV Employees' Benefit Trust, which are described in note 4.7.

The distributable reserves of ITV plc are disclosed in note viii to the ITV plc Company financial statements. See details on distributable reserves on page 196.

The Directors of ITV plc propose a final dividend of 5.4 pence per share, which equates to a full year dividend of 8 pence per share. In 2018, £315 million of dividend payments were made (2017: £494 million).

4.6.6 Non-controlling interests

Non-controlling interest (NCI) represents the share of non-wholly owned subsidiaries' net assets that are not directly attributable to the shareholders of the ITV Group. The movement for the year comprises:

- The share of profits attributable to NCI of £4 million (2017: £4 million)
- The distributions made to NCI of £8 million (2017: £4 million)
- The share of net assets attributable to NCI relating to subsidiaries acquired or disposed of in the year of £nil (2017: £25 million)

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

4.7 Share-based compensation

Keeping it simple

The Group utilises share award schemes as part of its employee remuneration packages, and therefore operates a number of share-based compensation schemes, namely the Deferred Share Award (DSA), Performance Share Plan (PSP), Long Term Incentive Plan (LTIP) and Save As You Earn (SAYE) schemes. The share-based compensation is not pensionable.

A transaction will be classed as share-based compensation where the Group receives services from employees and pays for these in shares or similar equity instruments. If the Group incurs a liability linked to the price or value of the Group's shares, this will also fall under a share-based transaction.

A description of each type of share-based payment arrangement that existed at any time during the period is set out in the Annual Remuneration Report.

Accounting policies

For each of the Group's share-based compensation schemes, the fair value of the equity instrument granted is measured at grant date and spread over the vesting period via a charge to the income statement with a corresponding increase in equity.

The fair value of the share options and awards is measured using either market price at grant date or, for the SAYE scheme, a Black–Scholes model, taking into account the terms and conditions of the individual scheme.

Vesting conditions are limited to service conditions and performance conditions. For performance-based schemes, the relevant Group performance measures are projected to the end of the performance period in order to determine the number of options expected to vest. The estimate is then used to determine the option fair value, discounted to present value. The Group revises its estimates of the number of options that are expected to vest, including an estimate of forfeitures at each reporting date. The impact of the revision to original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity.

Exercises of share options granted to employees can be satisfied by market purchase or issue of new shares. No new shares may be issued to satisfy exercises under the terms of the DSA. During the year, all exercises were satisfied by using shares purchased in the market and held in the ITV Employees' Benefit Trust.

Share-based compensation charges totalled £10 million in 2018 (2017: £12 million).

Share options outstanding

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

	2018 Number of options ('000)	2018 Weighted average exercise price (pence)	2017 Number of options ('000)	2017 Weighted average exercise price (pence)
Outstanding at 1 January	**36,155**	**69.17**	36,533	67.86
Granted during the year – nil priced	**14,450**	**–**	7,996	–
Granted during the year – other	**8,561**	**126.23**	7,911	145.66
Forfeited during the year	**(8,452)**	**156.99**	(5,614)	121.37
Exercised during the year	**(4,510)**	**18.39**	(9,883)	44.87
Expired during the year	**(2,182)**	**–**	(788)	–
Outstanding at 31 December	**44,022**	**49.33**	36,155	69.17
Exercisable at 31 December	**1,736**	**54.32**	2,808	110.17

The average share price during 2018 was 158.29 pence (2017: 185.15 pence).

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

Range of exercise prices (pence)	2018 Weighted average exercise price (pence)	2018 Number of options ('000)	2018 Weighted average remaining contractual life (years)	2017 Weighted average exercise price (pence)	2017 Number of options ('000)	2017 Weighted average remaining contractual life (years)
Nil	**–**	**28,619**	**1.62**	–	20,417	1.65
20.00 – 49.99	**–**	**–**	**–**	–	–	–
50.00 – 69.99	**–**	**–**	**–**	66.60	34	–
70.00 – 99.99	**–**	**–**	**–**	–	–	–
100.00 – 109.99	**–**	**–**	**–**	–	–	–
110.00 – 119.99	**–**	**–**	**–**	–	–	–
120.00 – 149.99	**129.51**	**10,966**	**3.08**	138.99	5,672	3.06
150.00 – 199.99	**165.20**	**3,993**	**0.89**	168.21	9,447	1.39
200.00 – 249.99	**206.83**	**444**	**0.14**	206.83	585	0.39

Assumptions

DSA, LTIP and PSP options are valued directly by reference to the share price at date of grant.

The options granted in the year for the SAYE scheme, an HMRC approved SAYE scheme, are valued using the Black–Scholes model, using the assumptions below:

Scheme name	Date of grant	Share price at grant (pence)	Exercise price (pence)	Expected volatility %	Expected life (years)	Gross dividend yield %	Risk-free rate %	Fair value (pence)
3 Year	29 March 2017	218.90	164.22	30.02	3.25	3.00	0.58	58.50
5 Year	29 March 2017	218.90	164.22	28.61	5.25	3.00	1.28	60.36
3 Year	16 Sept 2017	156.20	138.99	29.35	3.25	3.00	0.51	30.80
5 Year	16 Sept 2017	156.20	138.99	28.55	5.25	3.00	1.12	33.88
3 Year	29 March 2018	144.15	123.82	29.54	3.25	5.55	1.54	26.4
5 Year	29 March 2018	144.15	123.82	27.87	5.25	5.55	1.68	25.06
3 Year	6 Sept 2018	158.75	135.20	29.65	3.25	5.04	1.54	31.02
5 Year	6 Sept 2018	158.75	135.20	27.89	5.25	5.04	1.68	29.94

Notes to the Financial Statements
Section 5: Other Notes

Employees' Benefit Trust

The Group has investments in its own shares as a result of shares purchased by the ITV Employees' Benefit Trust ('EBT'). Transactions with the Group-sponsored EBT are included in these financial statements and primarily consist of the EBT's purchases of shares in ITV plc, which is accounted for as a reduction to retained earnings.

The table below shows the number of ITV plc shares held in the EBT at 31 December 2018 and the purchases/(releases) from the EBT made in the year to satisfy awards under the Group's share schemes:

Scheme	Shares held at	Number of shares (released) / purchased	Nominal value £
	1 January 2018	26,989,521	2,698,952
LTIP releases		(623,191)	
DSA releases		(715,817)	
PSP releases		(729,742)	
SAYE releases		(561,128)	
Shares purchased		2,571,890	
	31 December 2018	**26,931,533**	**2,693,153**

The total number of shares held by the EBT at 31 December 2018 represents 0.67% (2017: 0.67%) of ITV's issued share capital. The market value of own shares held at 31 December 2018 is £34 million (2017: £45 million).

The shares will be held in the EBT until such time as they may be transferred to participants of the various Group share schemes. Rights to dividends have been waived by the EBT in respect of shares held that do not relate to restricted shares under the DSA. In accordance with the Trust Deed, the Trustees of the EBT have the power to exercise all voting rights in relation to any investment (including shares) held within that trust.

5.1 Related party transactions

Keeping it simple

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

To enable users of our financial statements to form a view about the effects of related party relationships on the Group, we disclose the Group's transactions with those related parties during the year and any associated year end trading balances.

Transactions with joint ventures and associated undertakings

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

	2018 £m	2017 £m
Sales to joint ventures	**12**	15
Sales to associated undertakings	**13**	10
Purchases from joint ventures	**29**	28
Purchases from associated undertakings	**67**	70

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

Sales to associated undertakings include airtime sales to DTV Services Limited. Purchases from associated undertakings primarily relate to the purchase of news services from ITN Limited.

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

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

	2018 £m	2017 £m
Amounts owed by joint ventures	**6**	6
Amounts owed by associated undertakings	**7**	6
Amounts owed to joint ventures	**3**	–
Amounts owed to associated undertakings	**5**	4

Amounts owed by joint ventures primarily relate to trading with BritBox LLC. Balances owed by associated undertakings largely relate to loan notes and trading balances with Monumental TV Limited. Balances owed to associated undertakings primarily relate to trading with ITN Limited.

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

Transactions with key management personnel

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

	2018 £m	2017 £m
Short-term employee benefits	**12**	10
Share-based compensation	**3**	1
	15	11

5.2 Contingent assets and liabilities

Keeping it simple

A contingent asset or liability is a liability that is not sufficiently certain to qualify for recognition as an asset or provision where uncertainty may exist regarding the outcome of future events.

Contingent assets

In 2017 Talpa Media took back the licence for The Voice of China due a breach of the agreement by the customer, Talent, for not fulfilling their payment obligations. The Group is pursuing Talent vigorously for the £26 million still due under the agreement, which was recognised as an exceptional cost in 2017. Further, the Group has credit insurance in place and a claim is in progress.

Whilst the Directors are confident of recovering the remaining amounts due, accounting standards set very specific requirements for the recognition of contingent assets, which is how the recovery of the amount due has been accounted for. As discussions with the insurers and the claim against Talent are still in progress, the Group is not able to demonstrate sufficient certainty to be able to recognise a cash receivable at the year end.

Contingent liabilities

In late 2016, the Group initiated legal proceedings against the minority owners of Gurney Productions LLC for alleged breaches of contracts and their fiduciary duties, as well as self-dealing and fraudulent concealment. The minority owners dispute the allegations and they have counter-claimed for damages of at least $150 million. The action is ongoing and, having taken legal advice, the Directors believe this counter-claim is completely without merit.

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

Notes to the Financial Statements
Section 5: Other Notes continued

5.3 Subsidiaries exempt from audit

Keeping it simple

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

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

Company number	Company name	Company number	Company name
10058419	Back Productions Limited	00603471	ITV Pension Scheme Limited
10404493	Big Talk Bliss Limited	03799828	ITV Play Limited
10496857	Big Talk Cold Feet Limited	01565625	ITV Properties (Developments) Limited
10528766	Big Talk Diana Limited	08554937	ITV Shetland Limited
11081338	Big Talk Guilty Limited	11723826	ITV Studios NEWCO 14 Limited
10528952	Big Talk Living the Dream Limited	11723842	ITV Studios NEWCO 15 Limited
11109753	Big Talk Mum Limited	11723851	ITV Studios NEWCO 16 Limited
11109596	Big Talk Goes Wrong Limited	11723881	ITV Studios NEWCO 17 Limited
11723899	Big Talk NEWCO 5 Limited	08516153	ITV Text Santa Limited
11109572	Big Talk Peacock Limited	11107934	ITV The Bay Limited
11109865	Big Talk Time Limited	10602705	ITV The Man Limited
01891539	Broad Street Films Limited	08586211	ITV Thunderbirds Limited
02285229	Campania Limited	09498177	ITV Top Class Limited
05078683	Carbon Media Limited	11107431	ITV Vera Limited
04159249	Carlton Content Holdings Limited	11108813	ITV Wild Bill Limited
00301188	Carlton Film Distributors Limited	05518785	Juice Music UK Limited
01692483	Carlton Finance Limited	00920028	Link Electronics Limited
03984490	Carlton Food Network Limited	11108285	Mammoth Screen (ABC) Limited
03053908	Carlton Programmes Development Ltd	10528851	Mammoth Screen (City) Limited
03210452	Carlton Screen Advertising (Holdings) Ltd	10528827	Mammoth Screen (END5) Limited
03307790	Carltonco 103	11109917	Mammoth Screen (END6) Limited
02625225	Carltonco Forty Investments	11062257	Mammoth Screen (NC) Limited
03210363	Carltonco Ninety-Six	10491117	Mammoth Screen (NOK) Limited
02280048	Castlefield Properties Limited	10062923	Mammoth Screen (NW) Limited
04257248	Channel Television Holdings Limited	10646873	Mammoth Screen (OBI) Limited
02852812	Cosgrove Hall Films Limited	09660486	Mammoth Screen (Pol2) Limited
11723731	COTR (NEWCO 1) Limited	10031005	Mammoth Screen (Pol3) Limited
10500295	Denipurna Limited	10528763	Mammoth Screen (Pol4) Limited
03209058	DTV Limited	11108289	Mammoth Screen (Pol5) Limited
00290076	Granada Group Limited	09646520	Mammoth Screen (QV) Limited
03962410	Granada Limited	11108327	Mammoth Screen (Serpent) Limited
03106798	Granada Media Limited	11204836	Mammoth Screen (SG) Limited
05344772	Granada Screen (2005) Limited	10528702	Mammoth Screen (VF) Limited
00733063	Granada Television Overseas Limited	11108322	Mammoth Screen (VIC3) Limited
06914987	ITV (HC) Limited	10043079	Mammoth Screen (WFTP) Limited
11423826	ITV (Victor) Limited	11108320	Mammoth Screen (WOF) Limited
11423730	ITV Bancroft 2 Limited	10973979	Mammoth Screen (WOTW) Limited
11667230	ITV Barking Limited	04201477	Morning TV Limited
11107990	ITV Confession Limited	10789616	The Garden Production (Films) Limited
10058008	ITV Dark Heart Limited	06469484	VOD Member (ITVA) Limited
10494684	ITV Enterprises Limited	06469482	VOD Member (ITVB) Limited
11723800	ITV F&B Limited	10796122	WP BodyGuard Limited
10671435	ITV HG Limited	11109437	WP (NEWCO 3) Limited
04159210	ITV Holdings Limited	11109929	WP (NEWCO 4) Limited
04207680	ITV Home Fires Limited	11109744	WP Anne Limited
04206925	ITV Investments Limited	11109287	WP LOD5 Limited
11107681	ITV Leila Limited	04145307	12 Yard Productions Limited
04033106	ITV Mr Selfridge Limited		

ITV plc Company Financial Statements

Company Balance Sheet

As at 31 December	Note	2018 £m	2018 £m	2017 £m	2017 £m
Non-current assets					
Investments in subsidiary undertakings	iii		**2,286**		2,191
Derivative financial instruments	vi		**26**		11
Deferred tax asset			**1**		1
			2,313		2,203
Current assets					
Amounts owed by subsidiary undertakings	iv	**4,167**		4,230	
Derivative financial instruments	vi	**4**		7	
Other receivables		**5**		5	
Cash and cash equivalents		**4**		17	
		4,180		4,259	
Current liabilities					
Bank overdrafts		**(5)**		–	
Borrowings	v	**(50)**		(60)	
Amounts owed to subsidiary undertakings	iv	**(3,209)**		(3,237)	
Accruals and deferred income		**(13)**		(8)	
Current tax liabilities		**(1)**		(2)	
Derivative financial instruments	vi	**(4)**		(7)	
		(3,282)		(3,314)	
Net current assets			**898**		945
Total assets less current liabilities			**3,211**		3,148
Non-current liabilities					
Borrowings	v	**(985)**		(973)	
Derivative financial instruments	vi	**–**		(1)	
		(985)		(974)	
Net assets			**2,226**		2,174
Capital and reserves					
Share capital	vii		**403**		403
Share premium	viii		**174**		174
Other reserves	viii		**37**		26
Retained earnings	viii		**1,612**		1,571
Total equity			**2,226**		2,174

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

Chris Kennedy
Director

Carolyn McCall
Director

ITV plc Company Financial Statements continued

Company Statement of Changes in Equity

	Note	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	**Total £m**
Balance at 1 January 2018		403	174	26	1,571	2,174
Total comprehensive income for the year						
Profit		–	–	–	344	344
Net loss on cash flow hedges and cost of hedging		–	–	11	–	11
Total comprehensive income for the year		**–**	**–**	**11**	**344**	**355**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Equity dividends		–	–	–	(315)	(315)
Movements due to share-based compensation		–	–	–	10	10
Tax on items taken directly to equity		–	–	–	2	2
Total transactions with owners		–	–	–	(303)	(303)
Balance at 31 December 2018	vii/viii	**403**	**174**	**37**	**1,612**	**2,226**

	Note	Share Capital £m	Share Premium £m	Other Reserves £m	Retained Earnings £m	Total £m
Balance at 1 January 2017		403	174	28	1,702	2,307
Total comprehensive income for the year						
Profit		–	–	–	351	351
Net loss on cash flow hedges and cost of hedging		–	–	(2)	–	(2)
Total comprehensive income for the year		–	–	(2)	351	349
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Equity dividends		–	–	–	(494)	(494)
Movements due to share-based compensation		–	–	–	12	12
Total transactions with owners		–	–	–	(482)	(482)
Balance at 31 December 2017	vii/viii	403	174	26	1,571	2,174

Notes to the ITV plc Company Financial Statements

Note i Accounting policies

In this section

This section sets out the notes to the ITV plc Company only financial statements. Those statements form the basis of the dividend decisions made by the Directors, as explained in detail in note viii below. The notes form part of the financial statements.

Basis of preparation

The Company is a qualifying entity as it is a member of the ITV plc Group where ITV plc, the ultimate parent prepares publicly available consolidated financial statements. These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101') as adopted by the EU. The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and FRS 101 (2015/16) issued in July 2016 have been applied.

Exemptions applied

The Company is taking advantage of the following disclosure exemptions under FRS 101:

- Presentation of a Statement of Cash Flows and related notes
- Disclosure in respect of capital management
- Disclosure of related party transactions between wholly-owned subsidiaries and parents within a group
- Disclosures required under IFRS 2 'Share Based Payments' in respect of group settled share based payments
- Disclosures required by IFRS 7 'Financial Instrument: Disclosure'
- Certain disclosures required under IFRS 13 'Fair Value Measurement'
- Disclosure of information in relation to new standards not yet applied

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

Subsidiaries

Subsidiaries are entities that are directly or indirectly controlled by the Company. Control exists where the Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The investment in the Company's subsidiaries is recorded at cost.

Foreign currency transactions

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

Borrowings

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

Derivatives and other financial instruments

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

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value with the movement recorded in the profit and loss account within net financing costs, except where derivatives qualify for cash flow hedge accounting. In this case, the effective portion of cash flow hedge is recognised in retained profits within equity. The cumulative gain or loss is later reclassified to the profit and loss account in the same period as the relevant hedged transaction is realised. Derivatives with positive fair values are recorded as assets and negative fair values as liabilities.

The fair value of foreign currency forward contracts is determined by using the difference between the contract exchange rate and the quoted forward exchange rate at the balance sheet date.

Notes to the ITV plc Company Financial Statements continued

The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of swap counterparties.

Third-party valuations are used to fair value the Company's derivatives. The valuation techniques use inputs such as interest rate yield curves and currency prices/yields, volatilities of underlying instruments and correlations between inputs. For financial assets and liabilities classified at fair value through profit or loss, the fair value change and interest income/expense are not separated.

Current tax

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

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

Deferred tax

The tax charge for the period is recognised in the income statement or directly in equity according to the accounting treatment of the related transaction.

Deferred tax arises due to certain temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and those for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. A deferred tax asset is recognised only to the extent that it is probable that sufficient taxable profit will be available to utilise the temporary difference. Recognition of deferred tax assets therefore involves judgement regarding timing and level of future taxable income.

Share-based compensation

The Company utilises share award schemes as part of its employee remuneration packages, and therefore operates a number of share-based compensation schemes, namely the Deferred Share Award (DSA), Performance Share Plan (PSP), Long Term Incentive Plan (LTIP) and Save As You Earn (SAYE) schemes.

A transaction will be classed as share-based compensation where the Company receives services from employees and pays for these in shares or similar equity instruments. If the Company incurs a liability based on the price or value of the shares, this will also fall under a share-based transaction. The Company recognises the retained earnings impact of the share-based compensation for the Group as awards are settled in ITV plc shares. The cost of providing those awards is recognised as a cost of investment to the subsidiaries that receive the service from employees.

The fair value of the equity instrument granted is measured at grant date and spread over the vesting period via a charge to the income statement with a corresponding increase in equity. The fair value of the share options and awards is measured using either market price at grant date or, for the SAYE scheme, a Black–Scholes model, taking into account the terms and conditions of the individual scheme.

Vesting conditions are limited to service conditions and performance conditions. For performance-based schemes, the relevant performance measures are projected to the end of the performance period in order to determine the number of options expected to vest. The estimate is then used to determine the option fair value, discounted to present value. The Company revises its estimates of the number of options that are expected to vest, including an estimate of forfeitures at each reporting date. The impact of the revision to original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity.

Exercises of share options granted to employees can be satisfied by market purchase or issue of new shares. No new shares may be issued to satisfy exercises under the terms of the DSA. During the year, all exercises were satisfied by using shares purchased in the market and held in the ITV Employees' Benefit Trust. The Trust is accounted for as a separate entity and therefore is only accounted for in the consolidated financial statements.

Dividends

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

Note ii Employees and share-based payments

Two (2017: two) Directors of ITV plc were employees of the Company during the year, one of whom remains employed at the year end. The costs relating to these Directors are disclosed in the Remuneration Report.

Share-based payments
The weighted average share price of share options exercised during the year was 18.39 pence (2017: 44.87 pence). The options outstanding at the year end have an exercise price in the range of nil to 206.83 pence (2017: nil to 206.83 pence) and a weighted average contractual life of one year (2017: two years) for all the schemes in place for the Group.

Note iii Investments in subsidiary undertakings

The principal subsidiary undertakings are listed on page 198. The carrying value at 31 December 2018 was £2,286 million (2017: £2,191 million).

In 2018, the Company increased investment in subsidiaries by £95 million mainly due to a subscription of one ordinary share in Carlton Communications Limited for £76 million and a capital contribution of £19 million (€22 million) to ITV (Europe) Holdings BV.

Note iv Amounts owed (to)/from subsidiary undertakings

The Company operates an intra-group cash pool policy with certain 100% owned UK subsidiaries. The pool applies to bank accounts where there is an unconditional right of set off and involves the daily closing cash position for participating subsidiaries whether positive or negative, being cleared to £nil via daily bank transfers to/from ITV plc. These daily transactions create a corresponding intercompany creditor or debtor, which can result in significant movements in amounts owed to and from subsidiary undertakings in the Company balance sheet.

Note v Borrowings

Keeping it simple

The Directors manage the Group's capital structure as disclosed in section 4 to the consolidated financial statements. Borrowings, cash and derivative financial instruments are mainly held by ITV plc and disclosed in these Company financial statements.

Loans and facilities due within one year
At various periods during the year, the Group drew down on the £630 million Revolving Credit Facility ('RCF') to meet short-term funding requirements. At 31 December 2018, the Group had drawings of £50 million under the RCF (2017: £60 million), leaving £580 million available to draw down at year end. The maximum draw down of the RCF during the year was £400 million (2017: £390 million).

Loans and loan notes due after one year
The Company has issued the following Eurobonds:

- A seven year €600 million Eurobond at a fixed coupon of 2.125%, which matures in September 2022 and
- A seven year €500 million Eurobond at a fixed coupon of 2.0%, which will mature in December 2023. The bond issued in December 2016 has been swapped back to sterling using a cross-currency interest rate swap. The resulting fixed rate payable in sterling is c. 3.5%

In June 2017, the Company repaid in full a £100 million bilateral loan facility.

Notes to the ITV plc Company Financial Statements continued

Note vi Managing market risks: derivative financial instruments

What is the value of our derivative financial instruments?

	Assets 2018 £m	Liabilities 2018 £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	**3**	**(3)**
Foreign exchange forward contracts and swaps – fair value through profit or loss	**1**	**(1)**
Non-current		
Cross-currency interest swaps – cash flow hedges	**26**	**–**
Foreign exchange forward contracts and swaps – fair value through profit or loss	**–**	**–**
Foreign exchange forward contracts and swaps – cash flow hedges	**–**	**–**
	30	**(4)**

	Assets 2017 £m	Liabilities 2017 £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	5	(5)
Foreign exchange forward contracts and swaps – fair value through profit or loss	2	(2)
Non-current		
Cross-currency interest swaps – cash flow hedges	10	–
Foreign exchange forward contracts and swaps – cash flow hedges	1	(1)
	18	(8)

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

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

Currency risk

The Company's foreign exchange policy is to use forward foreign exchange contracts to hedge material non-functional currency denominated costs or revenue for up to five years forward. The Company also utilises foreign exchange swaps and cross-currency interest rate swaps both to manage foreign currency cash flow timing differences and to hedge foreign currency denominated monetary items.

Cash flow hedges

The Company applies hedge accounting for certain foreign currency firm commitments and highly probably cash flows where the underlying cash flows are payable within the next seven years. In order to fix the sterling cash outflows associated with the commitments and interest payments – which are mainly denominated in AUD or euros – the Company has taken out forward foreign exchange contracts and cross-currency interest rate swaps for the same foreign currency amount and maturity date as the expected foreign currency outflow.

The amount recognised in other comprehensive income during the period all relates to the effective portion of the revaluation loss associated with these contracts. There was less than £1 million (2017: £1 million) ineffectiveness taken to the income statement and £5 million cumulative gain (2017: £17 million gain) recycled to the income statement in the year.

In 2016, on issuing the 2023 Eurobond, the Company entered into a portfolio of cross-currency interest rate swaps, which swapped the euro principal and fixed euro interest rate coupons into fixed sterling interest rate. As a result, the Company makes sterling interest payments at a fixed rate.

Under IFRS 9, the Company has adopted the 'cost of hedging' approach which allows the recognition of the value of the currency basis at inception of the hedge to be recorded on the Consolidated Statement of Financial Position and amortised through net financing costs in the Consolidated Income Statement over the life of the bond. Any mark-to-market change in fair value of the currency basis is recognised in 'cost of hedging' in the Consolidated Statement of Comprehensive Income.

Undiscounted financial liabilities

The Company is required to disclose the expected timings of cash outflows for each of its derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest), so will not always reconcile with the amounts disclosed on the statement of financial position.

At 31 December 2018	Carrying value £m	Total contractual cash flows £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Non-current and current						
Foreign exchange forward contracts and swaps – cash flow hedges						
Inflow	**3**	**441**	243	109	89	–
Outflow	**(3)**	**(441)**	(243)	(109)	(89)	–
Cross-currency swaps – cash flow hedges						
Inflow	**26**	**524**	10	8	506	–
Outflow	**–**	**(502)**	(15)	(16)	(471)	–
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	**1**	**386**	362	19	5	–
Outflow	**(1)**	**(386)**	(362)	(19)	(5)	–
	26	**22**	(5)	(8)	35	–

Restated * At 31 December 2017	Carrying value £m	Total contractual cash flows £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Non-current and current						
Foreign exchange forward contracts and swaps – cash flow hedges						
Inflow	6	399	283	116	–	–
Outflow	(6)	(399)	(283)	(116)	–	–
Cross-currency swaps – cash flow hedges						
Inflow	10	501	10	10	30	451
Outflow	–	(513)	(15)	(15)	(44)	(439)
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	2	193	168	15	10	–
Outflow	(2)	(193)	(168)	(15)	(10)	–
	10	12	(5)	(5)	(14)	12

* The company re-analysed contractual cash-flows to present them in the correct categories of derivate instruments. There has been no impact on the carrying value of the financial liabilities

Notes to the ITV plc Company Financial Statements continued

Note vii Share capital

		Authorised 2018 & 2017 £m	Allotted, issued and fully paid 2018 & 2017 £m
Authorised ordinary shares of 10 pence each	8,000,000,000	800	
Allotted, issued and fully paid ordinary shares of 10 pence each	4,025,409,194		403
Total			

The Company's ordinary shares give shareholders equal rights to vote, receive dividends and to the repayment of capital.

Note viii Equity and dividends

Keeping it simple

ITV plc is a non-trading investment holding company and derives its profits from dividends paid by subsidiary companies.

The Directors consider the Company's capital structure and dividend policy at least twice a year ahead of announcing results and do so in the context of its ability to continue as a going concern, to execute the strategy and to invest in opportunities to grow the business and enhance shareholder value.

The dividend policy is influenced by a number of the principal risks as identified on pages 56 to 61 that could have a negative impact on the performance of the Company.

In determining the level of dividend in any year, the Directors follow the dividend policy and also consider a number of other factors that influence the proposed dividend, including:

- The level of retained distributable reserves in ITV plc the Company
- Availability of cash resources (as disclosed in note 4.1 to the consolidated financial statements) and
- Future cash commitments and investment plans, in line with Company's strategic plan

Equity

The retained earnings reserve includes profit after tax for the year of £344 million (2017: £351 million), which includes dividends of £400 million from subsidiaries in 2018 (2017: £426 million). Other reserves of £37 million (2017: £26 million) relate to share buybacks in prior periods and foreign currency translation net of cash flow hedging.

Dividends

The Directors of the Company propose a final dividend of 5.4 pence per share, which equates to a full year dividend of 8 pence per share.

Distributable reserves

The distributable reserves of ITV plc approximate to the balance of the retained earnings reserve of £1,612 million (2017: £1,571 million) as at 31 December 2018.

Note ix Contingent liabilities

Keeping it simple

A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision where uncertainty may exist regarding the outcome of future events.

Under a Group registration, the Company is jointly and severally liable for VAT at 31 December 2018 of £39 million (31 December 2017: £45 million). The Company has guaranteed certain finance and operating lease obligations of subsidiary undertakings.

Note x Capital and other commitments

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

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

There are no capital commitments at 31 December 2018 (2017: none).

Note xi Related party transactions

Keeping it simple

The related parties identified by the Directors include solely key management, as ITV plc is a holding company with no commercial activity.

To enable the users of the financial statements to form a view about the effects of related party relationships on the Company, we disclose the Company's transactions with those during the year.

Transactions with key management personnel

Key management consists of ITV plc Executive Directors.

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

	2018 £m	2017 £m
Short-term employee benefits	**5**	4
Share-based compensation	**1**	–
	6	4

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

	2018 £m	2017 £m
Emoluments	**4**	2
Gains on exercise of share options	**–**	1
Gains on release of restricted share awards	**1**	2
	5	5

Notes to the Financial Statements
continued

Subsidiary undertakings and investments

Principal subsidiary undertakings

The principal subsidiary undertakings of the Company at 27 February 2019, all of which are wholly owned (directly or indirectly) and incorporated and registered where stated.

Company Name	Country	Principal Business Activity	% Holding
Carlton Communications Limited (1)(a)(d)	UK	Holding company	100
ITV Broadcasting Limited (1)(a)	UK	Broadcast of television programmes	100
ITV Consumer Limited (1)(a)	UK	Development of platforms, broadband, transactional and mobile services	100
ITV Digital Channels Limited (1)(a)	UK	Operation of digital television channels	100
ITV Global Entertainment Limited (1)(a)	UK	Rights ownership and distribution of television programmes and films	100
ITV Network Limited (1)(i)	UK	Scheduling and commissioning of television programmes	100
ITV Rights Limited (1)(a)	UK	Rights ownership	100
ITV Services Limited (1)(a)(e)	UK	Provision of services for other companies within the Group	100
ITV Studios Limited (1)(a)	UK	Production of television programmes	100
ITV2 Limited (1)(a)	UK	Operation of digital television channels	100
SDN Limited (1)(a)	UK	Operation of Freeview Multiplex A	100
Talpa Media B.V. (52)(a)	Netherlands	Production of television programmes	100
ITV America Inc. (63)(j)	USA	Production of television programmes	100
ITV Global Entertainment, Inc. (63)(j)	USA	Rights ownership and distribution of television programmes and films	100
Southbank Studios Inc. (63)(j)	USA	Production of television programmes	100

Subsidiary undertakings

Company Name	Country	% Holding
12 Yard (North) Productions Limited (1)(a)	UK	100
12 Yard Limited (1)(a)	UK	100
12 Yard Productions (Investments) Limited (1)(a)	UK	100
12 Yard Productions Limited (1)(a)	UK	100
A.C.E. (1988) Limited (1)(a)	UK	100
Back Productions Limited (7)(a)	UK	100
BGSS Limited (1)(a)	UK	100
Big Talk Bliss Limited (1)(a)	UK	100
Big Talk Cold Feet Limited (1)(a)	UK	100
Big Talk Diana Limited (1)(a)	UK	100
Big Talk Investments Limited (1)(a)	UK	100
Big Talk JL Limited (1)(a)	UK	100
Big Talk Living the Dream Limited (1)(a)	UK	100
Big Talk Mum Limited (1)(a)	UK	100
Big Talk NEWCO 4 Limited (1)(a)	UK	100
Big Talk NEWCO 5 Limited (1)(a)	UK	100
Big Talk Peacock Limited (1)(a)	UK	100
Big Talk Pictures Limited (1)(a)	UK	100
Big Talk Productions Limited (1)(a)	UK	100
Big Talk Time Limited (1)(a)	UK	100
Boom Cymru TV Ltd (5)(a)	UK	100
Broad Street Films Limited (1)(a)	UK	100
Campania Limited (1)(a)(k)	UK	100
Carbon Media Limited (1)(a)	UK	100
Carlton Active Limited (1)(a)	UK	100
Carlton Cinema Limited (1)(a)	UK	100
Carlton Content Holdings Limited (1)(a)	UK	100
Carlton Entertainment (1)(a)	UK	100
Carlton Film Distributors Limited (1)(a)	UK	100
Carlton Films Limited (1)(a)	UK	100
Carlton Finance Limited (1)(a)	UK	100
Carlton Food Network Limited (1)(a)	UK	100
Carlton Productions Limited (1)(a)	UK	100
Carlton Programmes Development Limited (1)(a)	UK	100
Carlton Screen Advertising (Holdings) Limited (1)(a)	UK	100
Carltonco 103 (1)(a)	UK	100
Carltonco 99 Limited (1)(a)	UK	100
Carltonco Eighty-One Limited (1)(a)(b)	UK	100
Carltonco Fifty Limited (1)(a)(k)	UK	100
Carltonco Forty Investments (1)(a)	UK	100
Carltonco Forty-Five Limited (1)(a)	UK	100
Carltonco Ninety-Six (1)(a)(f)	UK	100
Carltonco Seventeen Limited (1)(a)	UK	100
Castlefield Properties Limited (1)(a)	UK	100
Cat's on the Roof Media Limited (1)(a)	UK	100
Central Television Limited (1)(a)	UK	100
Channel Television Holdings Limited (1)(a)	UK	100
Cosgrove Hall Films Limited (1)(a)	UK	100
COTR (NEWCO) Limited (1)(a)	UK	100
Cynhyrchiadau Boomerang Cyf (2)(a)	UK	100
Denipurna Limited (1)(a)	UK	100
DTV Limited (1)(a)	UK	100
Electronic Rentals Group (1)(a)	UK	100
EQ Pictures Limited (1)(a)	UK	100
GIL Limited (1)(a)	UK	100
Gorilla TV Group Limited (5)(a)	UK	100
Gorilla TV Limited (5)(a)	UK	100
Granada AV Solutions Limited (1)(a)	UK	100
Granada Film (1)(a)	UK	100
Granada Film Productions Limited (1)(a)	UK	100
Granada Group Limited (1)(a)	UK	100
Granada Limited (1)(a)	UK	100
Granada Media Limited (1)(a)(l)	UK	100
Granada Productions Limited (1)(a)	UK	100

Company Name	Country	% Holding
Granada Properties (1)(a)	UK	100
Granada Screen (2005) Limited (1)(a)	UK	100
Granada Television International (1)(a)	UK	100
Granada Television Limited (1)(a)	UK	100
Granada Television Overseas Limited (1)(a)	UK	100
Granada Television Productions Limited (1)(a)	UK	100
Granada UK Rental and Retail Limited (1)(a)(e)	UK	100
Indus Films Limited (2)(a)	UK	100
Interactive Telephony Limited (1)(a)	UK	100
International Television Enterprises London Limited (1)(a)(d)	UK	100
ITC Distribution (1)(a)	UK	100
ITC Entertainment Group Limited (1)(a)	UK	100
ITC Entertainment Holdings Limited (1)(a)	UK	100
ITV 112 Limited (9)(a)	UK	100
ITV (HC) Limited* (1)(a)	UK	100
ITV (Scotland) Limited (30)(a)	UK	100
ITV Bancroft Limited (1)(a)	UK	100
ITV Bancroft 2 Limited (1)(a)	UK	100
ITV Barking Limited (1)(a)	UK	100
ITV Border Limited (1)(a)	UK	100
ITV Breakfast Broadcasting Limited (1)(a)	UK	100
ITV Breakfast Limited (1)(a)	UK	100
ITV Central Limited (1)(a)	UK	100
ITV Channels Limited (1)(a)	UK	100
ITV Confession Limited (1)(a)	UK	100
ITV Dark Heart Limited (1)(a)	UK	100
ITV DC Trustee Limited (1)(a)	UK	100
ITV Digital Holdings Limited (1)(a)	UK	100
ITV Enterprises Limited (1)(a)	UK	100
ITV Global Content Limited (1)(a)	UK	100
ITV HG Limited (1)(a)	UK	100
ITV Holdings Limited (1)(a)	UK	100
ITV Home Fires Limited (1)(a)	UK	100
ITV International Channels (Asia) Limited (1)(a)	UK	100
ITV Investments Limited* (1)(a)	UK	100
ITV Leila Limited (1)(a)	UK	100
ITV Little Boy Blue Limited (1)(a)	UK	100
ITV Loch Ness Limited (1)(a)	UK	100
ITV LTVC (Scotland) Limited (30)(a)	UK	100
ITV Meridian Limited (1)(a)	UK	100
ITV Moorside Limited (1)(a)	UK	100
ITV Mr Selfridge Limited (1)(a)	UK	100
ITV News Channel Limited (1)(a)(k)	UK	100
ITV Pension Scheme Limited (1)(a)(b)	UK	100
ITV Play Limited (1)(a)	UK	100
ITV Productions Limited (1)(a)	UK	100
ITV Properties (Developments) Limited (1)(a)	UK	100
ITV Shetland Limited (1)(a)	UK	100
ITV Sport Channel Limited (1)(a)	UK	100
ITV Studios (Israel) Limited (1)(a)	UK	100
ITV Studios NEWCO 13 Limited	UK	100
ITV Studios NEWCO 14 Limited	UK	100
ITV Studios NEWCO 15 Limited	UK	100
ITV Studios NEWCO 16 Limited	UK	100
ITV Studios NEWCO 17 Limited	UK	100
ITV Supplementary Pension Scheme Limited (1)(a)	UK	100

Company Name	Country	% Holding
ITV T&B Limited (1)(a)	UK	100
ITV Tennison Limited (1)(a)	UK	100
ITV Text Santa Limited (1)(a)	UK	100
ITV The Bay Limited (1)(a)	UK	100
ITV The Man Limited (1)(a)	UK	100
ITV Thunderbirds Limited (1)(a)	UK	100
ITV Top Class Limited (1)(a)	UK	100
ITV Trauma Limited (1)(a)	UK	100
ITV Ventures Limited (1)(a)	UK	100
ITV Vera Limited (1)(a)	UK	100
ITV (Victor) Limited (1)(a)	UK	100
ITV Wales & West Group Limited (1)(a)	UK	100
ITV Wales & West Limited (1)(a)	UK	100
ITV Wild Bill Limited (1)(a)	UK	100
ITV3 Limited (1)(a)	UK	100
ITV4 Limited (1)(a)	UK	100
Juice Music UK Limited (1)(a)	UK	100
London News Network (1)(a)	UK	100
London Weekend Television Limited (1)(a)	UK	100
LWT (Holdings) Limited (1)(a)(c)	UK	100
LWT Productions Limited (1)(a)	UK	100
Mammoth Screen (ABC) Limited (1)(a)	UK	100
Mammoth Screen (AR) Limited (1)(a)	UK	100
Mammoth Screen (ATTWN) Limited (1)(a)	UK	100
Mammoth Screen (Bouquet) Limited (1)(a)	UK	100
Mammoth Screen (BW) Limited (26)(a)	UK	100
Mammoth Screen (City) Limited (1)(a)	UK	100
Mammoth Screen (End) Ltd (1)(a)	UK	100
Mammoth Screen (End2) Limited (1)(a)	UK	100
Mammoth Screen (End5) Limited (1)(a)	UK	100
Mammoth Screen (End6) Limited (1)(a)	UK	100
Mammoth Screen (Falcon) Limited (1)(a)	UK	100
Mammoth Screen (Fearless) Limited (1)(a)	UK	100
Mammoth Screen Ltd (1)(a)	UK	100
Mammoth Screen (Monroe) Limited (1)(a)	UK	100
Mammoth Screen (NC) Limited (1)(a)	UK	100
Mammoth Screen (NE) Limited (1)(a)	UK	100
Mammoth Screen (NI) Limited (35)(a)	UK	100
Mammoth Screen (NOK) Limited (1)(a)	UK	100
Mammoth Screen (NW) Limited (1)(a)	UK	100
Mammoth Screen (OBI) Limited (1)(a)	UK	100
Mammoth Screen (PE) Limited (1)(a)	UK	100
Mammoth Screen (Pol2) Limited (1)(a)	UK	100
Mammoth Screen (Pol3) Limited (1)(a)	UK	100
Mammoth Screen (Pol4) Limited (1)(a)	UK	100
Mammoth Screen (Pol5) Limited (1)(a)	UK	100
Mammoth Screen (Poldark) Limited (1)(a)	UK	100
Mammoth Screen (QV) Limited (1)(a)	UK	100
Mammoth Screen (RM) Limited (1)(a)	UK	100
Mammoth Screen (Serpent) Limited (1)(a)	UK	100
Mammoth Screen (SG) Limited (1)(a)	UK	100
Mammoth Screen (VF) Ltd (1)(a)	UK	100
Mammoth Screen (Vic3) Limited (1)(a)	UK	100
Mammoth Screen (WFTP) Limited (1)(a)	UK	100
Mammoth Screen (WH) Limited (1)(a)	UK	100
Mammoth Screen (WOF) Limited (1)(a)	UK	100

Notes to the Financial Statements
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Company Name	Country	% Holding
Mammoth Screen (WOTW) Limited (1)(a)	UK	100
Millbank Studios (1)(a)	UK	100
Morning TV Limited (1)(a)	UK	100
Moving Picture Company Films Limited (1)(a)	UK	100
New Providence Productions Limited (1)(a)	UK	100
Pickwick Packaging Limited (1)(a)	UK	100
Sightseers Film Limited (1)(a)	UK	100
So Television Developments Limited (1)(a)	UK	100
So Television Limited (1)(a)	UK	100
Television Music Limited (1)(a)	UK	100
The CITV Channel Limited (1)(a)	UK	100
The Garden Productions (Film) Limited (1)(a)	UK	100
The Garden Productions Limited (1)(a)	UK	100
The London Studios Limited (1)(a)	UK	100
UTV Limited (34)(a)	UK	100
UTV Pension Scheme Limited (100)(a)	UK	100
VOD Member (ITVA) Limited (1)(a)	UK	100
VOD Member (ITVB) Limited (1)(a)	UK	100
World of Sport Wrestling Limited (1)(a)	UK	100
Westcountry Television Limited (1)(a)	UK	100
Yorkshire Television Limited (1)(a)	UK	100
Yorkshire-Tyne Tees Productions Limited (1)(a)	UK	100
Yorkshire-Tyne Tees Television Enterprises Limited (1)(a)	UK	100
Zebedee Productions Limited (1)(a)	UK	100
Artist Services Cable Pty Ltd (36)(a)	Australia	100
Artist Services Investments Pty Limited (36)(a)	Australia	100
Artist Services Productions Pty Ltd (36)(a)	Australia	100
Granada Media International (Australia) Pty Ltd (36)(a)	Australia	100
Granada Media Investments (Australia) Pty Ltd (36)(a)	Australia	100
Granada Productions Pty Ltd (36)(a)	Australia	100
ITV Global Entertainment Pty Limited (36)(a)	Australia	100
ITV Services Pty Ltd (36)(a)	Australia	100
ITV Studios Australia Pty Limited (36)(a)	Australia	100
Talpa Cabo Verde SA (a) (113)	Cape Verde	100
Totally Full Frontal Productions Pty Limited (36)(a)	Australia	100
Granada December Eight Limited (38)(a)	Cayman Islands	100
Granada December Nine Limited (38)(a)	Cayman Islands	100
ITV Holdings (Cayman) Limited (38)(a)	Cayman Islands	100
Talpa Chile SpA (94)(a)	Chile	100
ITV Studios Denmark Holdings Aps (104)(a)	Denmark	100
United Productions ApS (42)(a)	Denmark	100
ITV Studios Finland Oy (43)(a)	Finland	100
Beaubourg Audiovisuel (50)(a)	France	100
ITV Studios France Holdings SAS (95)(a)	France	100
ITV Studios France SAS (95)(a)	France	100
ITV Studios Talpa France	France	100
Phara Prod International (105)(a)	France	100
Tetra Media Studio SAS (105)(a)	France	100
ITV Studios Germany GmbH (46)(a)	Germany	100
ITV Studios Germany Holdings GmbH (46)(a)	Germany	100
Talpa Germany Fiction GmbH (96)(a)	Germany	100
Talpa Germany Gmbh & Co KG (47)(a)	Germany	100
Talpa Germany Verwaltungs GmbH (47)(a)	Germany	100
Elecrent Insurance Limited (31)(a)	Guernsey	100
ITV Global Entertainment (Hong Kong) Limited (49)(a)	Hong Kong	100
Talpa China Limited (48)(a)	Hong Kong	100

Company Name	Country	% Holding
North America Studios Investments DAC (110)(a)	Ireland	100
Channel Television Limited (32)(a)	Jersey	100
ITV London Properties Limited (33)(a)	Jersey	100
ITV Properties (Jersey) Limited (33)(a)	Jersey	100
April, May en June BV (57)(a)	Netherlands	100
Global Music & Talent Agency B.V. (90)(a)	Netherlands	100
ITV (Europe) Holdings B.V.* (55)(a)	Netherlands	100
ITV Studios Netherlands B.V. (52)(a)	Netherlands	100
MasMedia B.V. (56)(a)	Netherlands	100
Stitchting 'Derdengelden' TV Producties (52)(a)	Netherlands	100
Talpa Content B.V. (52)(a)	Netherlands	100
Talpa Fictie B.V. (53)(a)	Netherlands	100
Talpa Germany Holding B.V. (90)(a)	Netherlands	100
Talpa Global B.V. (90)(a)	Netherlands	100
Talpa Non-Spot B.V. (52)(a)	Netherlands	100
Talpa Producties B.V. (52)(a)	Netherlands	100
Utopia B.V. (57)(a)	Netherlands	100
Vorst Media B.V. (99)(a)	Netherlands	100
Wardour Street Films B.V. (59)(a)	Netherlands	100
ITV Studios Norway AS (73)(a)	Norway	100
ITV Studios Nordic AB (74)(a)	Sweden	100
ITV Studios Scandinavia Holdings AB (74)(a)	Sweden	100
Talpa Asia Pte. Ltd. (93)(a)	Singapore	100
ITV Studios Germany GmbH, Köln, Zweigniederlassung Zürich (75)(m)	Switzerland	100
ALB1819 Productions Inc. (63)(j)	USA	100
Anglia Television, Inc. (68)(j)	USA	100
Cardinal Productions of Ohio, Inc. (63)(j)	USA	100
Carlton Media Company, Inc. (63)(j)	USA	100
Chad Alan Productions, LLC (63)(j)	USA	100
Critical Productions Inc (63)(j)	USA	100
DGK 5, LLC (63)(h)	USA	100
Double Down Films, LLC (63)(h)	USA	100
Electric Farm Entertainment Holdings Inc. (63)(j)	USA	100
Film Productions Rentals, LLC (68)(h)	USA	100
Fourth State Productions Inc (108) (j)	USA	100
Gear Shop Inc. (63)(j)	USA	100
Granada Cracker US Productions (68)(j)	USA	100
Granada Television International, Inc. (63)(j)	USA	100
Gritty Productions, LLC (63)(h)	USA	100
GWC Enterprises Inc. (63)(j)	USA	100
Hamdon Entertainment, Inc. (63)(j)	USA	100
Highball Music Group, LLC (63)(h)	USA	100
ITC Distribution, LLC (63)(j)	USA	100
ITC Entertainment Group, Inc (63)(j)	USA	100
ITC Films, LLC (63)(j)	USA	100
ITC Productions, LLC (63)(j)	USA	100
ITV Believe Holding, Inc. (63)(j)	USA	100
ITV Blumhouse Holding Inc (63)(j)	USA	100
ITV Diga Holding, Inc (63)(j)	USA	100
ITV Entertainment Services Inc.(63)(j)	USA	100
ITV Gritty Holding Inc. (63)(j)	USA	100
ITV Gurney Holding Inc. (63)(j)	USA	100
ITV HN Holding Inc. (63)(j)	USA	100
ITV International Corporation (63)(j)	USA	100
ITV Leftfield Holding Inc. (63)(j)	USA	100

Company Name	Country	% Holding
ITV New Form Holding Inc. (63)(j)	USA	100
ITV NewTV Holding Inc. (63)(j)	USA	100
ITV Popco Holding Inc. (63)(j)	USA	100
ITV Southpoint Holding Inc (63)(j)	USA	100
ITV Studios America Inc. (63)(j)	USA	100
ITV Studios, Inc. (68)(j)	USA	100
ITV SVOD Holding Inc. (63)(j)	USA	100
ITV Thinkfactory Holding Inc. (63)(j)	USA	100
ITV Tomorrow Holding, Inc. (63)(j)	USA	100
ITV US Holdings, Inc. (63)(j)	USA	100
ITV Videology Inc. (63)(j)	USA	100
JB Entertainment Holding Company, Inc. (63)(j)	USA	100
Kirkstall Road Enterprises, Inc. (63)(j)	USA	100
Krewed Inc (63)(j)	USA	100
Leftfield Entertainment, LLC (63)(h)	USA	100
Leftfield Pictures of NY Holdings, LLC (63)(j)	USA	100
Leftfield Pictures of NY, LLC (63)(j)	USA	100
Leftfield Ventures, LLC (63)(j)	USA	100
LWT Enterprises Inc. (63)(j)	USA	100
Marriage Boot Camp Reality Stars, LLC (63)(h)	USA	100
Moving Pictures Services Inc. (63)(j)	USA	100
Over the Pond Productions, Inc. (63)(j)	USA	100
Post 460 Inc (63)(j)	USA	100
Quay Street Enterprises, Inc. (63)(j)	USA	100
Signal Post Facilities, LLC (63)(h)	USA	100
Sirens Media, LLC (63)(h)	USA	100
Solowe Productions Inc (63)(j)	USA	100
Sound and Stage Studios, LLC (63)(h)	USA	100
Southsquare Productions Inc. (63)(j)	USA	100
Talpa Media USA, Inc. (68)(j)	USA	100
Talpa North America Inc. (63)(j)	USA	100
Thinkfactory Group, LLC (63)(h)	USA	100
Thinkfactory Media, LLC (63)(h)	USA	100
Trailer Park Productions, Inc (63)(j)	USA	100
Upper Ground Enterprises, Inc. (63))(j)	USA	100
Web Legal, LLC (63)(h)	USA	100
Westside Film Partners, LLC (63)(h)	USA	100

Joint ventures and Investments

Company Name	Country	% Holding
Absolutely Rights Limited (6)(f)	UK	20
DTV Services Limited (17)(a)	UK	20
That Mitchell and Webb Company Limited (7)(a)	UK	20
Route 24 Limited (24)(a)	UK	24.9
Monumental Television Limited (76)(a)	UK	24.92
Clearcast Limited (14)(a)	UK	25
Genial Productions Limited(a)(111)	UK	25
Koska Limited (105)(a)	UK	25
Cirkus International Limited (13)(a)	UK	28
Thinkbox TV Limited (23)(a)	UK	28.58
Age Before Beauty Limited (4)(a)	UK	38.25
Gold Digger Productions Limited (4)(a)	UK	38.25
Mainstreet Pictures Limited (4)(a)	UK	38.25
Unforgotten 3 Limited (4)(a)	UK	38.25
Independent Television News Limited (20)(a)	UK	40
Cloth Cat Animation Limited (5)(a)	UK	41.25

Company Name	Country	% Holding
Cloth Cat LBB Limited (5)(a)	UK	41.25
Thud Media Limited (5) (a)	UK	41.25
Malacara Limited (2)(a)	UK	49
Box Clever Technology Limited (8)(a)	UK	50
British Film-Makers Limited (1)(a)	UK	50
Digital 3 and 4 Limited (16)(a)	UK	50
Freesat (UK) Limited (18)(a)	UK	50
Harlequin Agency Limited (5)(a)	UK	50
Noho Film and Television Limited (28)(a)	UK	50
Pink Rose Bud Limited (2)(a)	UK	50
Possessed Limited (1)(a)	UK	51
Standard Music Limited (29)(a)	UK	50
Second Act Productions Limited (1)(a)	UK	50.001
Gameface Productions Limited (1)(a)	UK	50.01
Crook Productions Limited (1)(a)	UK	50.01
Bait Studio Limited (5)(a)	UK	55
Cirkus Limited (13)(a)	UK	55.67
Boom Pictures Limited (1)(a)	UK	75
Double Double Limited (1)(a)	UK	75
ITV TFG Holdings Limited (1)(a)	UK	75
TwoFour Broadcast Limited (3)(a)	UK	75
Twofour Group Holdings Limited (1)(a)	UK	75
TwoFour Group Limited (3)(a)	UK	75
3sixtymedia Limited (1)(a)	UK	80
OSF (Wales) Limited (5)(a)	UK	85
Oxford Scientific Films Limited (5)(a)	UK	85
WP Anne Limited (1)(a)	UK	92
WP Bodyguard Limited (1)(a)	UK	92
WP LOD5 Limited (1)(a)	UK	92
WP (NEWCO 3) Limited (1)(a)	UK	92
WP (NEWCO 4) Limited (1)(a)	UK	92
World Productions Limited (1)(a)	UK	92
World Productions (BTK) Limited (1)(a)	UK	92
World Productions (Dark Angel) Limited (1)(a)	UK	92
World Productions (Gone) Limited (1)(a)	UK	92
World Productions (Northern Ireland) Limited (1)(a)	UK	92
GC Films Pty Limited (36)(a)	Australia	49
Think Factory Productions Canada Ltd (77)(j)	Canada	65
LTP Productions Inc. (109)(h)	Canada	75
Apple Tree Productions ApS (101)(a)	Denmark	25
Talpa Nordic ApS (41)(a)	Denmark	51
15.15 Productions (59)(a)	France	32.52
Beaubourg Audiovisuel (50)(a)	France	32.52
Beaubourg Fiction (50)(a)	France	32.52
Beaubourg Stories (50)(a)	France	32.52
SCI MD 60 (105)(a)	France	32.52
Gedesel (107)(a)	France	33.17
Funny Corp (105)(a)	France	33.17
Macondo Productions Audiovisueles (105)(a)	France	33.17
Tangaro (105)(a)	France	42.28
Tetra Media Fiction (105)(a)	France	50.7
Shoot Again Productions (105)(a)	France	61.79
Phara Prod International (105)(a)	France	65.04
Imago TV Film und Fernsehproduktion GmbH (45)(a)	Germany	80
The Lab Television 2013 Limited Partnership (78)(a)	Israel	50
Cattleya Srl (103)(a)	Italy	51

Notes to the Financial Statements
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Company Name	Country	% Holding
Radio Cattleya Srl (103)(a)	Italy	51
Talpa Italia Srl (79)(a)	Italy	50
Think Cattleya Srl (103)(a)	Italy	25.5
Pomper & Linders B.V. (98)(a)	Netherlands	20
Identity Mansion B.V. (92)(a)	Netherlands	25
Appletree Productions AB (74)(a)	Sweden	25
ITV Studios Sweden AB (74)(a)	Sweden	95
Maximum Media Production FZ-LLC (81)(a)	UAE	90
Talpa Arabia Holding Ltd (81)(a)	UAE	90
Talpa Middle East FZ-LLC (81)(a)	UAE	90
Talpa Middle East Lebanon S.A.R.L (81)(a)	Lebanon	90
Electric Farm Entertainment LLC (63)(h)	USA	10
Blumhouse TV Holdings LLC (63)(h)	USA	45
Circle of Confusion Television Studios LLC (63)(h)	USA	49
South Circle Productions LLC (63)(a)	USA	49
BB Rights, LLC (63)(h)	USA	50
Britbox, LLC (89)(h)	USA	50
Jaffe/Braunstein Entertainment, LLC (67)(h)	USA	51
High Noon Group, LLC (69)(h)	USA	60
High Noon Productions, LLC (69)(h)	USA	60
Feeding Time Productions, LLC (86)(h)	USA	61.5
FT Productions, LLC (63)(h)	USA	61.5
Gurney Productions, LLC (68)(h)	USA	61.5
Hollywood Camera and Lighting, LLC (68)(h)	USA	61.5
RICMA, LLC (68)(h)	USA	61.5
Yukon RAFT Productions, LLC (88)(h)	USA	61.5
East Olive Productions LLC (68)(h)	USA	75
Twofour America, LLC (68)(h)	USA	75
Loud Television, LLC (63)(h)	USA	75
Next Steps Productions, LLC (63)(h)	USA	75
Tomorrow Studios LLC (63)(h)	USA	75
Outpost Entertainment, LLC (63)(h)	USA	80

Memberships, Partnerships and Companies Limited by Guarantee

Company Name	Country	% Holding
ITV LTVC Scottish Limited Partnership (30)(h)	UK	100
ITV Scottish Limited Partnership (30)(h)	UK	100
Digital Production Partnership Limited (1)(i)	UK	50
Producers Rights Agency Limited (25)(i)	UK	50
DTT Multiplex Operators Limited (17)(i)	UK	25
Digital UK Limited (17)(i)	UK	25

Address key

(1) 2 Waterhouse Square, 140 Holborn, London, EC1N 2AE, United Kingdom
(2) 218 Penarth Road, Cardiff, CF11 8NN, United Kingdom
(3) Twofour Studios, Estover, Plymouth, Devon, PL6 7RG, United Kingdom
(4) Kingsbourne House, 229–231 High Holborn, London, WC1V 7DA, United Kingdom
(5) Gloworks, Porth Teigr Way, Cardiff, Wales, CF10 4GA, United Kingdom
(6) 18 The Glasshouse Studios, Fryern Court Road, Fordingbridge, Hampshire, SP6 1NG, United Kingdom
(7) 26 Nassau Street, London, W1W 7AQ, United Kingdom
(8) 5 New Street Square, London, EC4A 3TW, United Kingdom
(9) 20 Cathedral Road, Cardiff, CF11 9LJ, United Kingdom
(10) 9 Mansfield Street, London, W1M 9FH, United Kingdom
(11) 20 Orange Street, 3rd Floor, London, WC2H 7EF, United Kingdom
(12) 21 Hatton Gardens (Room 9), London, EC1N 9BA, United Kingdom
(13) The Met Building, 22 Percy Street, London, W1T 2BU, United Kingdom
(14) 4 Roger Street, 2nd Floor, London, WC1X 2JX, United Kingdom
(15) c/o Creative Skillset, 1-3 Grosvenor Place, Fifth floor (Suite 5B), London, SW1X 7HJ, United Kingdom
(16) 124 Horseferry Road, London, SW1P 2TX, United Kingdom
(17) 27 Mortimer Street, London, W1T 3JF, United Kingdom
(18) 23-24 Newman Street, London, W1T 1PJ, United Kingdom
(19) Unit 8 Acorn Production Centre, R/O 105 Blundell Street, London, N7 9BN, United Kingdom
(20) 200 Gray's Inn Road, London, WC1X 8HF, United Kingdom
(21) Clay Barn, Ipsley Court, Berrington Close, Redditch, Worcestershire, B98 0TD, United Kingdom
(22) 10 Lower Thames Street, (Third Floor), London, EC3R 6YT, United Kingdom
(23) Manning House, 22 Carlisle Place, London, SW1P 1JA, United Kingdom
(24) York House, Empire Way, Wembley, Middlesex, HA9 0FQ, United Kingdom
(25) Fitzrovia House, (3rd Floor), 153-157 Cleveland Street, London, W1T 6QW, United Kingdom
(26) Round Foundry Media Centre, Foundry Street, Leeds, LS11 5QP, United Kingdom
(27) c/o Archery Pictures, 3 Archery Close, London, W2 2BE, United Kingdom
(28) 59 Charlotte Street, (Third Floor), London, W1T 4PE, United Kingdom
(29) Roundhouse, 212 Regent's Park Road, London, NW1 8AW, United Kingdom
(30) Quartermile One, 15 Lauriston Place, Edinburgh, Scotland, EH3 9EP, United Kingdom
(31) P.O. Box 308, St. Peter Port House, Union Street, St. Peter Port, GY1 3TA, Guernsey
(32) Le Capelain House, Castle Quay, St. Helier, JE2 3EH, Jersey
(33) Ogier House, The Esplanade, St. Helier, JE4 9WG, Jersey
(34) City Quays 2, 8th Floor, 2 Clarendon Road, Belfast, BT1 3YD, United Kingdom
(35) 5 Cromac Avenue, The Gasworks, Belfast, Northern Ireland, BT7 2JA, United Kingdom
(36) Level 5, Building 61, Fox Studios Australia, 38 Driver Avenue, Moore Park NSW 2021, Australia
(37) c/o Addisons, Level 12, 60 Carrington Street, Sydney NSW 2000, Australia
(38) c/o Estera Trust (Caymen) Limited, Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108
(41) Mosedalvej 14, 2500, Valby, Copenhagen, Denmark
(42) Finsensvej 6E, 2000, Frederiksberg, Denmark
(43) Elimaenkatu 9 A, Helsinki, 00510, Finland
(44) 23 rue Montorgueil, 75001, Paris, France
(45) Keplerstrasse 4-6, 10589, Berlin, Germany
(46) Agrippastraße, 87-93, 50676, Köln, Germany
(47) Jenfelder Allee 80, 22039, Hamburg, Germany
(48) 11/F, Unit B, Winbase Centre, 208 Queen's Road Central, Sheung Wan, Hong Kong
(49) Rooms 517–520, 5th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, Hong Kong
(50) 5–7 rueSaint-Augustin, 75002, Paris, France
(51) Mayor Street Upper, Dublin , DUBLIN 1, Ireland
(52) Familie de Mollaan 1, 1217 ZB, Hilversum, Netherlands
(53) Haarlemmer Houttuinen, 21 1013 GL, Amsterdam, Netherlands
(54) Heemraadssingel 180, 3021 DL, Rotterdam, Netherlands
(55) Hoogoorddreef 15, 1101 BA, Amsterdam, Netherlands
(56) Noorderweg 8, 1221 AA, Hilversum, Netherlands
(57) Zevenend 45, 1251 RL, Laren, North Holland, Netherlands
(58) Voorstraat 61, 4797 BE, Willemstad, Netherlands
(59) 10 rue Maître Jacques, 92100 Boulogne, Billancourt, France
(60) 121 West Lexington Drive, Suite 401, Glendale CA 91203, USA
(61) 1633 Bayshore Highway, Suite 320, Burlingame CA 94010, USA
(62) 3867 Plaza Tower, 1st Floor, Baton Rouge, Los Angeles CA 70816, USA
(63) The Corporation Trust Company, Corporate Trust Center, 1209 Orange Street, Wilmington, Newcastle, DE 19801, USA
(64) Corporation Service Company, 2711 Centreville Road (Suite 400), Wilmington, Newcastle DE 19808, USA
(65) The Corporation Trust Company, 311 South Division Street, Carston City NV 89703, USA
(66) United Corporate Services, Inc., 874 Walker Road (Suite C), Dover, Kent DE 19904, USA
(67) 321 Southern Beverly Drive, Suite M, Beverly Hills, CA 90212, USA
(68) CT Corporation System, 818 West Seventh Street, Suite 930, Los Angeles, CA 90017, USA
(69) The Hodson Law Firm, 1129, East 17th Avenue, Denver, CO 80014, USA
(70) CT Corporation System, 28 Liberty Street, New York, NY 10005, USA
(71) 21 Holborn Viaduct, London, EC1A 2DY, United Kingdom
(72) 120 West 3rd Avenue #201, Vancouver, BC VSY 1EG, Canada
(73) Lars Hilles Gate 30, 5008, Bergan, Norway
(74) Soder Malarstrand 65, 11825, Stockholm, Sweden
(75) Scharenmoosstrasse 105, 8052, Zurich, Switzerland
(76) 9 St. Peters Street, London, N1 8JD, United Kingdom
(77) Bucchil Goldstein LLP, 662 King Street West, Suite 304, Toronto ON M5V 1M7, Canada
(78) 23 Habarzel Street, Tel Aviv, 69710, Israel
(79) Via Enrico, Tazzoli 6, Rome, Italy
(80) Gonzales Carillo, SC Abogados, Montes Urales no 632, Piso 3, Lomas de Chapaltpec, DF 11000, Mexico
(81) Building 2, Dubai Media City, Dubai, UAE
(82) 3035 South Parker Road, Suite 500, Denver, CO 80014, USA
(83) eResident Acent Inc. 12121 Wilshire Boulevard ~1201, Los Angeles, CA 90025, USA
(84) 1640 South Sepulveda Boulevard, Suite 300, Los Angeles, CA 90025, USA
(85) CT Corporation System, 306 Main Street, Suite 512, Frankfort, KY 40601, USA
(86) CT Corporation System, 3867 Plaza Tower Drive East Baton Rouge Parish, Baton Rouge, LA 70816, USA
(87) 24955 Pacific Coast Highway, Suite C302, Malibu, CA 90265, USA
(88) Incorp Services Inc, 101 E. 9th Avenue, Suite 12-B, Anchorage, AK99501-3651, USA
(89) 1120 Avenue of Americas, 5th Floor, New York, NY10036, USA
(90) Family de Mollaan 1, 1217 ZB Hilversum, Netherlands
(91) 15000 Ventura Blvd, Suite 202, Sherman Oaks, CA 91403, USA
(92) Westersingel 108, 3015 LD Rotterdam, Netherlands
(93) 198A Telok Ayer Street, Singapore 068637, Singapore
(94) calle Cerro El Plomo 5855, oficina 1605, comuna de Las Condes, Region Metropolitana, Chile
(95) 38 quai du Point du Jour, 92100 Boulogne-Billancourt, France
(96) Gethiner Strasse 5, 10785, Berlin, Germany
(97) August-Bebel Strasse 58, 15711, Konigs Wusterhausen, Germany
(98) Keizersgracht 149a, 1015CL, Amsterdam, Netherlands
(99) Hollandse Kade 34, 1391JM, Abcoude, Netherlands
(101) Aumento Advokatfirma, Ny Osteragde 3,4, 1101, Kobenhavn, Denmark
(103) Piazzale Valerio Massimo, 7, 00162, Roma, Italy
(104) DLA Piper Denmark, Radhuspladsen 4, 1550 Kobenhavn V, Denmark
(105) 60 rue Marcel Dassault, 92100, Boulogne-Billancourt, France
(106) Jessop House, Jessop Avenue, Cheltenham, Gloucestershire GL50 3WG, United Kingdom
(107) 4 rue de Commaille, 75007, Paris, France
(108) CT Corporation System, 289 S. Culver Street, Lawrenceville, GA, 30046-4805, USA
(109) Orange Tower, Media City UK, Salford M50 2HF
(110) 4th Floor, 76 Lower Baggot Street, Dublin, Dublin 2, Republic of Ireland
(111) 39 Long Acre, London, WC2E 9LG, United Kingdom
(112) Chandler Fogden Aldous Law Corporation, #201-120 West 3rd Ave. Vancouver, BC V5Y 1E9 Canada
(113) Avenida Cidade de Lisboa, Frente Sucupira, 2° andar, Cidade de Praia, Cape Verde

Interest key

(a) Ordinary
(b) Deferred
(c) Special deferred
(d) Redeemable preference
(e) Cumulative preference
(f) Cumulative redeemable preference
(g) Convertible preference
(h) Membership/Partnership
(i) Guarantee
(j) Common
(k) preference
(l) Part preference
(m) Branch
* Direct subsidiary

Glossary

Advertiser funded platform – platforms that include advertising as part of the user experience e.g. itv.com, iOS, and Android

AVOD – ad-funded service where subscribers have access to a wide range of content whenever they request it without charge

Broadcasters' Audience Research Board (BARB) – organisation owned by broadcasters and advertisers providing data on linear and online television viewing statistics by 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 the ITV Hub, BBC iPlayer, All 4 or My5

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 two of the regional licences which are owned by STV

Contract Rights Renewal (CRR) – the remedy agreed by Carlton and Granada in 2003 as a pre-condition of the merger, which governs the way in which ITV airtime is sold by ITV to its advertising customers

Free-to-Air (FTA) television – viewing of television through devices not requiring a subscription such as the Freeview or Freesat services

High Definition (HD) – channels or services broadcast in substantially higher resolution than standard, providing improved picture quality

Intellectual Property – intangible property that is the result of creativity

Inventory – Advertising inventory is the number of advertisements, or amount of advertising space, we have available to sell to advertisers

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, ITVBe, ITV Encore, CITV, ITV Breakfast, CITV Breakfast and all associated +1 and HD equivalents.

Key demographics – ITV monitors viewing performance across a group of audiences that constitute the majority of our targeted advertising revenue. In addition to individuals and adults, we also consider 16-34 year-olds, social grades ABC1 and house-persons with children

Linear television – television service where the viewer has to watch a scheduled TV programme at the particular time it's offered, and on the particular channel it's presented on

Long-form video requests – measured across all platforms, based on data from comScore Digital Analytix, Crocus, Virgin, BT, iTunes, Netflix, Amazon Video and Sky and include simulcast (in November 2017 we moved from comScore Digital Analytix to Crocus, an in-house analytics system). 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

Long-form online viewing (consumption) – total number of hours ITV VOD content is viewed on ad funded platforms (such as on mobile, tablet and PC), based on data from ComScore Digital Analytix and Crocus

Media sales commission – commission earned by ITV plc on sales of airtime on behalf of the non-consolidated licensees

Net Advertising Revenue (NAR) – the amount of money received by a broadcaster as payment for television spot advertising net of any commission paid to agencies

Total Schedule Costs/Total Network Programme Budget (NPB) – the budget spent on programming broadcast on the ITV family of channels, including spend on regional programming and ITV Breakfast

Non-consolidated licensees – the two regional channel 3 licences which ITV does not own. These licences are owned by STV and revenues received from these licences for ITV programming content are referred to as minority revenues

Ofcom – communications regulator in the UK who regulate the TV, radio and video-on-demand sectors, fixed-line telecoms (phones), mobiles and postal services, plus the airwaves over which wireless devices operate

Over-the-top (OTT) – delivery of audio, video, and other media over the internet, this includes content from providers such as Netflix, Amazon and Hulu and also our own on demand service, the ITV Hub

SDN – multiplex operator owned by ITV, which operates one of the eight national multiplex licences in the UK on Freeview

Share of Broadcast (SOB) – ITV's share of UK television advertising revenue (NAR), a measure of market share

Share of Commercial Impacts (SOCI) – the term used to define the share of total UK television commercial impacts 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

Simulcast – streaming live TV channels via a broadcaster's on demand service, at the same time as broadcast on linear TV

Spot advertising – linear television advertising occupying a short break during or between programmes

Subscription Video on Demand (SVOD) – a paid for service where subscribers have access to a wide range of content whenever they request it

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, BT, TalkTalk, and Arqiva) to operate and promote a hybrid television platform combining Freeview channels with catch up and on demand services

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