ITV delivers strong operational performance in an uncertain economic environment

ITV plc Annual Report and Accounts
for the year ended 31 December 2017

We are an integrated producer broadcaster, creating, owning and distributing high-quality content on multiple platforms.

Contents

Strategic Report
Provides a comprehensive review of ITV's business and strategy.

2017 Highlights	2
ITV at a Glance	4
Chairman's Statement	6
Investor Proposition	8
Market Review	10
Chief Executive's Report	14
Our Strategy and Business Model	18
Corporate Responsibility	20
Operating and Performance Review	22
Alternative Performance Measures	34
Key Performance Indicators	36
Finance Review	40
Risks and Uncertainties	50

Governance
Presents a clear view of ITV's governance.

Chairman's Governance Statement	60
Board of Directors	62
Management Board	64
Corporate Governance	66
Audit and Risk Committee Report	72
Remuneration Report	82
Directors' Report	98

Financial Statements
ITV's audited financial statements for the year ended 31 December 2017.

Financial Statements	107
Independent Auditor's Report	108
Primary Statements	114
ITV plc Company Financial Statements	179

Additional Information

Glossary	194

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.

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.

▲ **Contents page:** Liar
◀ **Front cover**: The Voice UK

Chairman's Statement

See page 6

Business model

See page 18

Finance Review

See page 40

Chief Executive's Report

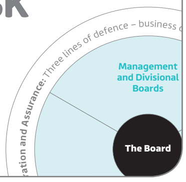
See page 14

Our performance in 2017

See page 22

How we manage risk

See page 50



Key

Read more content within this report

Read more content online

Key financial highlights

Group external revenue[1]
£3,132m (+2%)
(2016: £3,064m)

Non-NAR revenue[2]
£2,066m (+11%)
(2016: £1,855m)

Adjusted EBITA[3]
£842m (-5%)
(2016: £885m)

Adjusted EPS
16.0p (-6%)
(2016: 17.0p)

Statutory EPS
10.2p (-9%)
(2016: 11.2p)

Dividend per share p (ordinary)
7.8p (+8%)
(2016: 7.2p)

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 definitions on pages 34 and 35. Our KPIs are set out on pages 36 to 39.

1. The Strategic Report also refers to total revenue, which includes all ITV revenue, both internal and external.
2. Non-Net Advertising Revenue (Non-NAR) includes all ITV revenue, both internal and external, except Net Advertising Revenue (NAR).
3. EBITA before exceptional items has been adjusted to reflect the inclusion of production tax credits ('adjusted EBITA'). Statutory EBITA is £810 million (2016: £857 million) and statutory profit before tax is £500 million (2016: £553 million).

2017 Highlights

ITV delivered another strong performance in 2017 as we continued to strengthen, rebalance and grow the business.

62
ITV formats sold in 2017

66%
of ITV original commissions supplied by ITV Studios

239
new commissions

& 240
recommissions

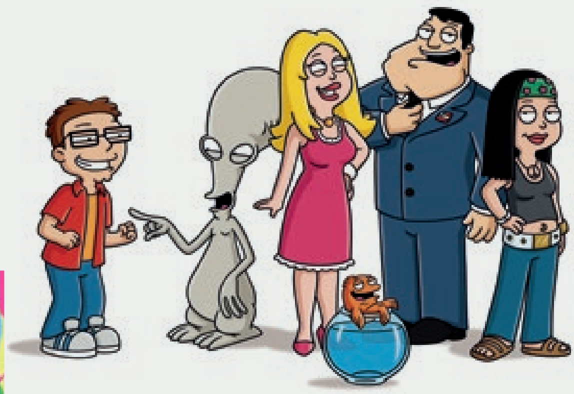
I'm A Celebrity... Get Me Out Of Here! The 17th series averaged 10 million viewers and a 38% share. It was the most watched series for 16–34s on any channel in 2017, with 2.5 million viewers and a 54% share.

Cold Feet returned for a second series, averaging 5.1 million viewers and a 21% share. It has been recommissioned for a third series.

The Chase goes from strength to strength with an average 3.2 million viewers and a 25% share in 2017. The format was sold to four countries in 2017.

Good Morning Britain achieved a 19% share of viewing in 2017, which was its highest ever share since it launched in 2010.

Broadchurch was the most watched drama in 2017. It averaged 10.7 million viewers and a 36% share, over a million more viewers than the previous two series.



▲ **American Dad, Family Guy and The Cleveland Show** continue to perform well on ITV2, attracting a combined average share of 11% of 16–34s in 2017.

◀ **Love Island** averaged 2.5 million viewers, with a 34% share of 16–34s and 43% of 16–24s. It had the biggest 16-24 audience of all digital channels in 2017.

▲ **Coronation Street** remains the most watched soap in the UK. It averaged 7.6 million viewers in 2017 and a 35% share, which was up one share point year-on-year.

21.7%
share of viewing for the ITV Family, up from 21.3% in 2016

+17%
increase in ITV2's 16–34s share of commercial impacts

▲ **The Voice** launched on ITV in 2017 and averaged 5.6 million viewers and a 24% share, with a 29% share for 16–34s. The Voice format has been sold to 65 counties.

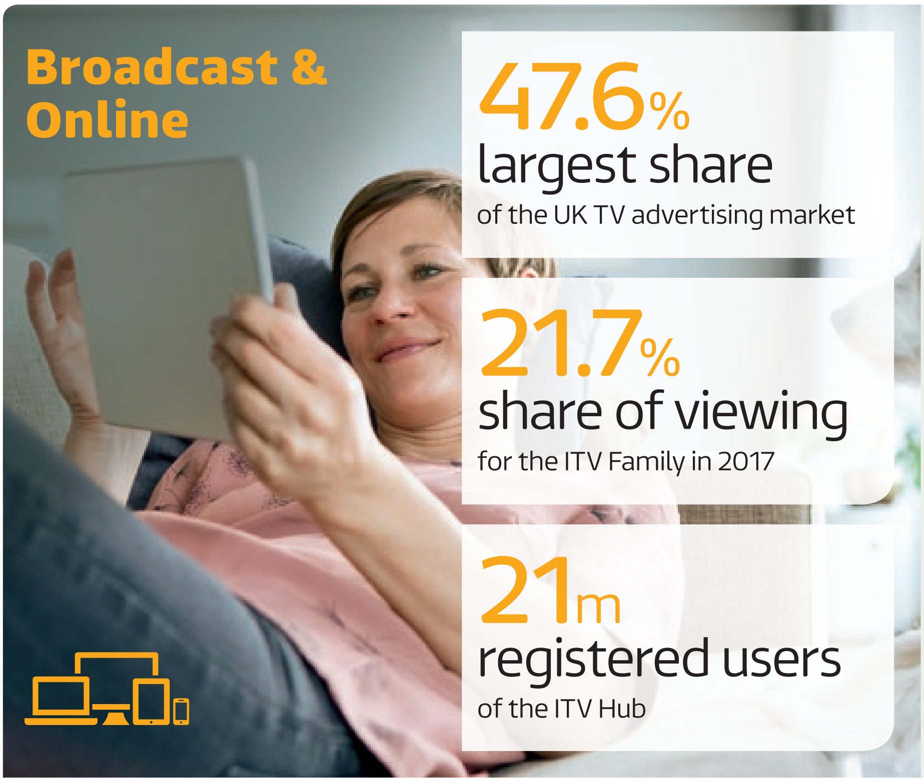
+34%
increase in long-form video requests

In 2017 **99%** of all commercial audiences over 5 million were on ITV

ITV at a glance

ITV, as an integrated producer broadcaster, creates, owns and distributes high-quality content on multiple platforms globally.

Broadcast & Online



47.6% largest share
of the UK TV advertising market

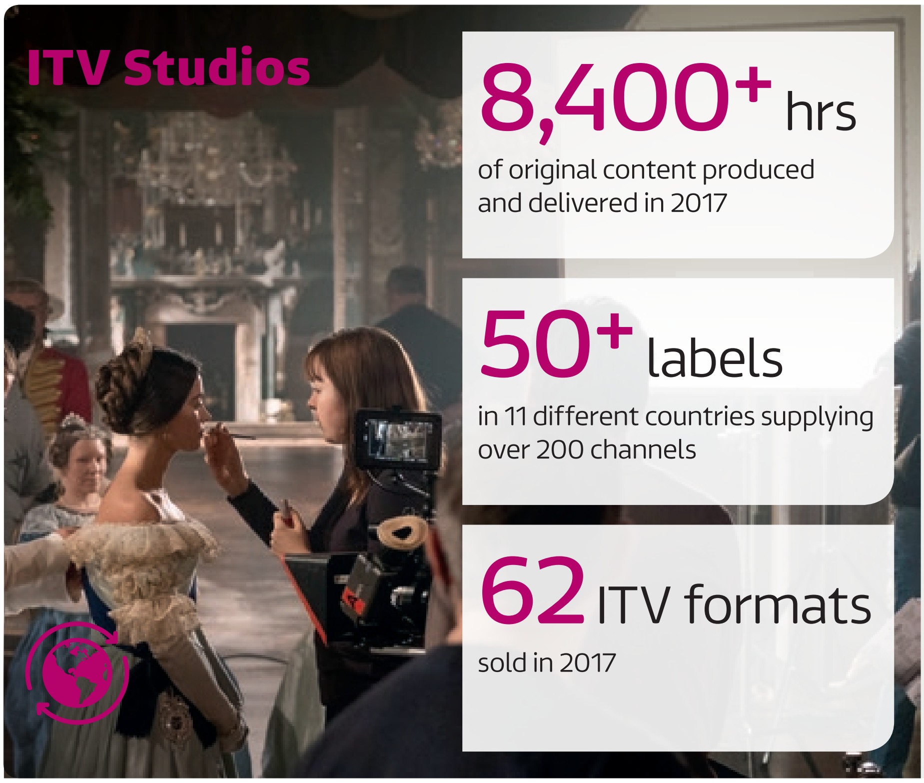
21.7% share of viewing
for the ITV Family in 2017

21m registered users
of the ITV Hub

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

ITV broadcasts a wide variety of content on its family of free-to-air channels. Our investment in programming is primarily funded by television advertising revenue. ITV has the largest share of the UK television advertising market, with a share of broadcast (SOB) of 47.6% in 2017. We sell all of our key demographics across 13 regional licences.

ITV Studios



8,400+ hrs
of original content produced and delivered in 2017

50+ labels
in 11 different countries supplying over 200 channels

62 ITV formats
sold in 2017

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 entertainment.

ITV Studios creates and produces content in the UK and internationally, while our distribution business, Global Entertainment, sells finished programmes and formats worldwide.

ITV total revenue
(inc. internal revenue)

- Broadcast & Online **£2,075m**
- ITV Studios **£1,582m**

ITV adjusted EBITA

- Broadcast & Online **£599m**
- ITV Studios **£243m**

The family of channels attracted a total share of viewing (SOV) of 21.7% in 2017, the largest audience of any UK commercial broadcaster. Our main channel is the largest commercial channel in the UK, delivering 99% 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 Housewives with Children, and consist of ITV2 and ITV3, the two largest digital channels in the UK, ITV4, CITV and ITVBe. We also have high definition 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 29 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.

ITV has the ITV Hub+ which is a Subscription Video on Demand (SVOD) service where subscribers have access to advertising free content and the ability to download catch up content.

We have partnered with the BBC to launch a new SVOD service, 'BritBox', in the US and Canada. The streaming service allows subscribers to access the best of British television.

We also own a best of British SVOD service, Cirkus, in the Nordics and Germany, and an online service, ITV Choice, an entertainment channel for emerging markets available in 100 countries.

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 the largest independent producer of unscripted content in the US. We are also growing our presence in scripted content, using our strong cash flows to produce high-profile dramas with the potential to travel and build international appeal.

ITV Studios Rest of World

ITV Studios also operates in the Netherlands (through Talpa Media), Germany, France, Italy, Australia and the Nordics. Talpa produces and distributes entertainment formats while the other businesses produce scripted and unscripted content for local broadcasters in these regions. 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.

Chairman's Statement

We're reporting on a challenging year, but one in which ITV has made significant progress.

ITV delivered a strong operating performance with great on-screen and online viewing. Against this, net advertising revenue (NAR) reacted to political and economic uncertainty, contracting by just under 5% (though, as we report, this trend improved towards the end of the period).

Our rebalanced company saw continued growth in non-NAR revenues – from sponsorship, from digital and from production, both at home and abroad. We thank our former Chief Executive, Adam Crozier, along with the executive team for these important advances. And I'm very grateful to Ian Griffiths, who added the role of Chief Operating Officer to Group Finance Director.

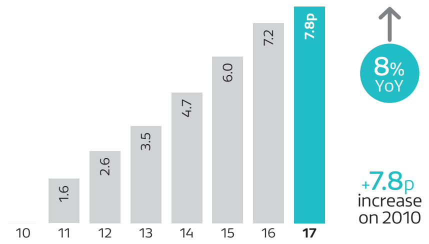
ITV's mass commercial audience is at the heart of our offer to viewers and advertisers. We own the only such mass audience in the UK. We've now grown our share of television viewing for two years in a row. And our broadcast schedule offers the most trusted medium of brand advertising: where an 'impact' is watching an entire, full screen, advertisement with the sound up; where no impacts are fake; where a brand is guaranteed adjacency to trusted content; and where there's no ad-blocking. Meanwhile, ITV Studios now produces for over 200 channels in 11 countries around the world.

This underlines the enduring strengths on which we'll build our new revenue streams in the future. So with our strong balance sheet we're able to deliver good returns to shareholders while also investing in that future. In line with our dividend policy and reflecting the Board's confidence in the business and the outlook for 2018, the Board is proposing a final dividend of 5.28p, which equates to a full year dividend of 7.8p, up 8%.

Sir Peter Bazalgette
Chairman

Dividend

Dividend per share p (ordinary)
7.8p



As we work hard on ITV's next chapter of growth, we are thinking about our digital competitors. And we see just as many opportunities to seize as threats to ward off. Netflix and Amazon may compete with us for viewers, but they also buy our programmes and co-produce major new series.

Talking of that future, we were delighted to welcome Carolyn McCall as our new Chief Executive at the beginning of 2018. Investors will be familiar with her background in media, her experience of direct to consumer relationships and use of consumer data, her ability to design and implement astute strategy and her understanding of what it is to run an international company. In short, she's someone with a track record of delivering value to shareholders. As she explains, she's already started her strategy refresh.

Today, there's quite rightly a growing emphasis on company culture and social purpose. These are qualities ITV, as a Public Service Broadcaster, has always kept front of mind – hand in hand with entertainment. But now they're in even sharper focus. As a producer of trusted, sourced national news, regional news and current affairs in an age of fake news, we take our contribution to a functioning democracy very seriously.

Our award-winning daytime shows, thriving soaps and major dramas are a vital part of Britain's national conversation, exploring topical social issues that define our culture. And as a major employer of creative talent in Manchester, Leeds and London, our role in the nation's growing creative economy is very important to us.

I'd like to thank my Board colleagues for their valuable support and input during 2017. We welcome Margaret Ewing as our vastly experienced new Chair of the Audit and Risk Committee. And we shortly bid farewell to Andy Haste and John Ormerod, each of them having committed ten fruitful years to the Company. We have a clear plan to continue to improve the diversity of the Board. At the time of writing, our gender balance is now 40% female and 60% male. And we intend in the medium term also to widen our ethnic diversity beyond our current one BAME member.

Finally, on behalf of the Board, I want to thank all ITV colleagues for their excellent contribution in 2017. With that quality of commitment, we'll prosper in the future.

Sir Peter Bazalgette
Chairman

Joanna Lumley's India was a three-part documentary broadcast on ITV in 2017.

Investor Proposition

ITV continues to make significant progress in growing and strengthening the business creatively, commercially and financially.

A strong platform for delivery

As an integrated producer broadcaster, 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.

ITV is an increasingly global and diversified organisation, with significant non-advertising revenue streams reducing its dependency on UK advertising.

ITV has delivered a strong operational and financial performance over many years and is in a good position to continue to do this, underpinned by its strategic assets and competitive advantage. ITV is currently undertaking a strategic refresh to ensure it has a clear strategy and priorities which reflect what ITV needs to be in three, five and ten years' time.

Strong market position

The Broadcast & Online business is robust. Our on-screen and online viewing performance is strong and we continue to deliver unrivalled audience scale and reach for advertisers as well as more targeted demographics on our digital channels and on the ITV Hub.

Online, Pay & Interactive is a material, fast-growing and profitable part of the business and we are building our digital business through our direct to consumer SVOD services BritBox, Cirkus and the ITV Hub+.

ITV Studios, our international content business, is now a global player of scale, creating, owning and managing rights and we will continue to grow in key creative markets, driving value from the strong demand for quality content.

99%

of all commercial audiences over 5 million were on ITV

54%

of total ITV Studios revenue was from outside the UK in 2017

Highly cash generative

We are a highly cash generative business and our disciplined approach to cash, costs and capital gives us a strong balance sheet and enables us to continue to invest across the business.

Investment opportunities

In line with our strategic refresh and key priorities, we will explore investment opportunities to develop and grow the business and enhance shareholder value while maintaining capital discipline.

Compelling shareholder returns

The Board is committed to a long-term sustainable dividend policy. Ordinary dividends will grow broadly in line with earnings, targeting dividend cover of around 2x adjusted earnings per share over the medium term.

8%

growth in the ordinary dividend year-on-year

Clockwise from top left: Tokio Myers, winner of Britain's Got Talent in 2017; England versus Slovakia in the World Cup Qualifiers; new ITV Studios drama, Bancroft.

Market Review

The market environment in which we operate is rapidly changing and becoming increasingly competitive. Consolidation of media and telecoms companies, the increasing influence of technology and the evolution in the way viewers consume media, what they watch, when they watch it and how they watch it, bring both challenges and opportunities.

Key market trends

Over recent years, there has been a significant change in the availability and delivery of content with a substantial increase in the number of ways to watch television, with viewers able to choose 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 online viewing. However, linear television viewing remains resilient and is still the most popular way to consume content for all demographics.

The proliferation of channels, platforms and new entrants has caused a significant increase in the global demand for content, with spend growing on high-quality programming. We estimate that the global content market is growing at around 5% per annum, with some genres such as drama rising faster than others.

This growth can be attributed to a number of factors, including: a larger international pay television market; the consolidation of pay providers with content companies and distributors coupled with the 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 content; and online advertising driven platforms such as Google and Facebook creating a new market for short form and digital content.

Global content

The US is by far the largest content market in the world, dominating the global production sector, with the UK the second largest market. This represents a significant opportunity for ITV Studios, which has a strong presence in both regions.

Demand for drama, particularly US drama, has increased significantly in the last few years. Original scripted content is brand defining for broadcasters and OTT players in an increasingly competitive global environment. US studios continue to dominate the market for drama in the US and internationally. However, the rise of Netflix and Amazon, which are investing heavily in creating high-quality original scripted content, has significantly increased competition in the market.

▶ **Suburra** is the first original Italian Netflix crime drama produced by Cattleya, which was acquired by ITV Studios in 2017.

Good Witch is a scripted format produced by ITV America for the Hallmark channel in the US. It will go into its fourth season in 2018.

Hell's Kitchen has been a huge international success with 38 format sales worldwide over the last ten years.

This increased competition, coupled with the fact that viewers are now expecting higher quality content, has driven up the cost of production. Deficit financing and co-productions or partnerships have therefore become increasingly important in financing productions, where distributors are often funding the difference between what the content buyer is paying for the original broadcast and the cost of production. This deficit is covered through global sales, our windowing strategy of making content available in different territories, on different broadcast platforms and at different times, either exclusively or non-exclusively along with sales to OTT platforms. 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.

Leveraging our network relationships and international distribution network, we have expanded our global scripted business and developed a strong portfolio of international and returning drama. We are taking advantage of the increased demand from OTT platforms and other viewing windows around the world, with our UK and US studios having a number of original commissions confirmed or in the pipeline for international distribution in 2018 and beyond. Confirmed commissions for international rights outside of the UK include Harlots (S2) for Hulu, Vanity Fair and War of the Worlds for Amazon and Robozuna for Netflix. In the UK, these programmes will be broadcast on either ITV or the BBC. The OTT deals for international distribution will make Netflix the biggest customer for our Global Entertainment business in 2018.

ITV America has developed several scripted programmes over the last few years and has a healthy pipeline of content in development. Our 2017 scripted deliveries included Good Witch, Sun Records, Somewhere Between and a pilot of Snowpiercer. 2018 deliveries and beyond are expected to include a fourth series of Good Witch and a ten-part series of Snowpiercer.

In the UK, there is stronger demand and higher viewing figures for UK content over imported series. We are a major producer of scripted content and have further reinforced this position through our acquisition of World Productions in 2017. Our 2017 scripted deliveries in the UK included Victoria, Cold Feet, Poldark, Unforgotten, The Loch and Fearless. Scripted deliveries in 2018 include Vanity Fair, Next of Kin, Trauma, The City And The City, Poldark (S4), Unforgotten (S3) and The Bodyguard, all of which have international appeal.

In Europe, we have seen a resurgence in demand for local scripted content because acquired US content is not performing as well as it has historically on broadcast channels. There is now also global demand for high-quality, foreign language scripted content. As such, we have strengthened our position in this area through our acquisitions of Tetra Media Studio in France and Cattleya in Italy along with our investment in Apple Tree Productions, a Danish scripted production company. These acquisitions produce long-running, critically acclaimed foreign-language dramas for free-to-air, pay and OTT platforms locally and internationally. Titles include Profilage for TF1, Gomorrah for Sky Italia and Suburra for Netflix and Rai.

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 of unique unscripted formats.

Along with the established entertainment and factual entertainment genres, unscripted reality programming, where we have focused our US acquisitions, has grown quickly with formats such as Real Housewives, Four Weddings, The First 48 and Alone. OTT platforms have also started to supplement their catalogue with unscripted titles, which provides a lower cost alternative to expensive scripted titles. In 2018, we will have multiple original unscripted commissions in production or development including; Queer Eye for the Straight Guy, and Girl Incarcerated with Netflix and several shows in development with Facebook.

ITV is now a genuine global player in unscripted content, being a leading unscripted independent producer in the US and Europe as well as the largest commercial production company in the UK. The large independent production companies, such as Endemol Shine Group and Fremantle Media, continue to be ITV Studios' main competitors in non-scripted content.

Market Review
continued

Broadcast television and digital

Changes in viewing habits

The multiple ways in which viewers are now able to watch content has impacted viewing habits globally and we have seen a significant increase in OTT viewing as a result. This varies by demographic with younger viewers spending proportionately more time consuming video content on non-TV devices (such as smartphones, games consoles and tablets) compared with older demographics who spend more time on linear television.

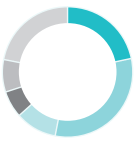
Digital viewing, while currently only a small proportion of total viewing, is growing fast, particularly via OTT services such as Netflix and Amazon, which have seen exponential growth over the last few years. We continue to invest in ITV's online offering, the ITV Hub, along with rolling out our SVOD services, BritBox in the US and Canada, and Cirkus in the Nordics and Germany, to enable us to compete in this market.

Linear television viewing

In the UK, linear television viewing still remains the most popular form of media entertainment. UK average linear television viewing in 2017 was 203 minutes per day, down from 212 minutes in 2016. The decline is partly driven by the absence of a major sporting event in 2017 and is similar to 2013 (a no sporting year), which also saw a nine minute decline in average viewing year-on-year. The average for 16–34s was 123 minutes per day which declined by 11% (2016: 138 minutes). The corresponding decline for 16–34s across the ITV family of channels was 5% and as such ITV saw share growth for this demographic year-on-year (Source: BARB). Younger viewers are more skewed to watching content outside of the seven-day BARB measurement window and often on non-TV devices and as such this viewing is not currently captured by BARB (further detail below). 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 2017, with an average of 1.4 million 16–34s viewers across the series and 0.9 million 16–34s catch up requests online per day.

Linear Television viewing
SOV by broadcaster

ITV Family	**21.7%**
BBC Family	**31.4%**
Channel 4 Family	**10.5%**
Five Family	**6.5%**
Sky Family	**8.0%**
Other	**21.9%**



Source: BARB

ITV competes for linear viewers with the BBC and commercial broadcasters including Channel 4, Sky and Channel 5. ITV and BBC1 continue to be the only channels consistently able to deliver mass audiences as well as targeted demographics, and in 2017, ITV again delivered 99% of all commercial audiences over five million viewers and 96% over three million.

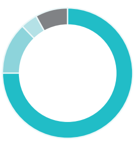
In 2017, the ITV family of channels increased their SOV to 21.7% (2016: 21.3%) and is second only to the BBC's Family of channels at 31.4% which lost share during the year (2016: 31.9%) due to the move of key entertainment shows from BBC1 to commercial broadcasters.

Digital viewing

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

Non-linear viewing
Long-form content viewing

Live (including simulcast)	**75%**
Timeshifted (PVR) up to 28 days	**13%**
VOD: Broadcaster catch up	**4%**
VOD: Other	**8%**



Source: 2017 BARB/Thinkbox data

While digital viewing has grown fast, it still accounts for a small proportion of total viewing time. In the UK, we estimate 75% of all viewing of legal long-form content is live (excluding online simulcast viewing) (2016: 79%), with a further 13% timeshifted via a Personal Video Recorder (PVR) and watched within 28 days of the original broadcast date (2016: 12%). Of the estimated 12% of content viewed on demand (2016: 9%), 4% is catch up viewing of broadcaster content via the television set or to other devices such as tablets and mobiles (2016: 4%). The remaining 8% of content is other VOD viewing, where viewing of box sets via services such as Sky, Netflix and Amazon are replacing viewing of DVDs (2016: 5%). This is growing quickly, driven by accessibility of these services on smartphones, tablets and connected televisions, which allows viewers to watch content whenever and wherever they want.

Pay television

The platform mix in the UK is roughly 50% free-to-air and 50% linear pay TV

There is currently no industry measure for online viewing in the UK. BARB is developing a joint-industry, audited measure of online viewing across all devices used to watch content, which will include viewing across PCs, tablets and smartphones. Initial findings from this project are expected to be published during 2018.

Pay television

Free-to-air television in the UK 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 platform mix between free-to-air and linear pay television has remained constant for a number of years at around 50:50. The market dynamics of the pay market are changing as established pay television providers such as Sky and Virgin face increasing competition from BT and OTT providers Netflix and Amazon.

Increasingly homes are supplementing their free and pay television with other forms of paid content including SVOD services such as Netflix, or by purchasing additional channels through 'no-contract' providers such as Now TV or TalkTalk TV Store. Around 30% of homes in the UK have an SVOD service and this is weighted towards those homes that have linear pay TV (Source: BARB). Including SVOD pay services, the platform mix in the UK is roughly 40% free-to-air and 60% paid viewing, which is unchanged from 2016.

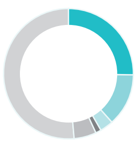
ITV earns revenue from various third parties, including Sky and Virgin, through the licensing of channels and content, including our HD digital channels (ITV2 HD, ITV3 HD and ITV4 HD) and catch up VOD.

ITV has also launched BritBox, a SVOD service in the US and Canada, which is a joint venture with the BBC. The service offers a significant amount of content from both broadcasters and gives ITV access to the fast-growing SVOD market in the US.

Advertising revenue

Television's share of the advertising market

Television	25.5%
Press	13.1%
Radio	3.3%
Cinema	1.4%
Outdoor	5.5%
Internet	51.2%



Source: Advertising Association January 2018

Advertising revenue

As an integrated producer broadcaster, ITV generates revenues from advertising through linear television, sponsorship and online, and competes with commercial broadcasters and other advertising media for its advertising revenues. Cash from these revenue streams is then used to fund the creation of content in the UK and internationally.

In the UK, television advertising (including VOD, sponsorship and other television revenues) continues to hold a significant share of the overall advertising market with a 25.5% share in 2017 (2016: 27.5%). The decrease year-on-year can be attributed to the ongoing political and economic uncertainty in the UK with advertisers reducing spend on television as they try to manage margins. Historically, we have seen that television advertising loses share in an economic downturn, however it recovers quickly when the cycle reverses. Internet advertising (search, classified and display) has grown its share to 51.2% in 2017 (2016: 46.6%), making the UK one of the most developed markets for online advertising. Internet advertising has benefited in the current climate from the way it is sold when compared with television. Online advertising is normally sold as annual volume deals rather than share deals for television, which enables advertisers to reduce their television spend quickly. Print advertising continues to decline at 13.1% in 2017 (2016: 15.6%).

While online advertising has grown rapidly, there are concerns about what some online advertising delivers, especially when compared with television, that online has no trusted measurement system, the adverts may not be seen by a human in full or at all and the content around the advertising may not be appropriate for that brand. The ITV Hub delivers the key demographics and a high-quality, trusted and measured environment for online advertisers.

The UK television advertising market is extremely difficult to measure as all broadcasters have different definitions. We estimate ITV's SOB (which is based on pure linear television advertising excluding VOD, sponsorship and self-promotion) to be 47.6% in 2017, up from 47.4% in 2016. This increase is because of ITV's unique ability to deliver mass audiences across multiple regions and in key demographics.

Chief Executive's Report

I was very pleased to join ITV in January as Chief Executive. It is still early days, but I have already visited many parts of the business and met many very talented ITV people. I have visited our offices in London, Manchester and Leeds, a number of our newsrooms, production companies as well as two cornerstones of our schedule, Coronation Street and Emmerdale. I have been struck by the pride and passion ITV people have for what they do and the critical role ITV plays in society and the media ecology.

ITV's operational performance was strong in 2017 in what clearly was a challenging year with continued economic and political uncertainty impacting the demand for television advertising. Share of viewing was up for the second year running – a first ever for ITV; there was a significant increase in online viewing, up over 30% and with good revenue growth; and the Studios business also delivered good revenue growth both in total, and excluding acquisitions.

Carolyn McCall
Chief Executive

Six Nations Rugby Championships was successfully broadcast on ITV main channel for the second year in 2018.

The Board is proposing a full year dividend of 7.8p, up 8% which reflects confidence in the business and the outlook for 2018. This is in line with ITV's ordinary dividend policy. The business remains highly cash generative but given that there is now a more normal ordinary dividend, five consecutive special dividends, leverage around 1x and a strategic refresh underway, the Board has decided not to pay a special dividend for 2017.

ITV is in good shape but we recognise that the media landscape continues to change rapidly, with more content to watch and more ways to watch it. The economics are also changing. We are operating in an increasingly competitive market – traditional broadcasters are no longer our only competitors for viewers, for advertising and for quality content. These relatively 'new' competitors are also customers. We have kicked off a strategy refresh to address all of these areas and we have identified three major areas in this refresh – content, advertising and direct to consumer. We will have a clear strategy, together with well-defined priorities, to establish what ITV needs to be in three and five years' time and what we need to do to face the challenges and exploit the opportunities ahead.

ITV has a strong consumer proposition and fantastic content which drives mass audiences and key demographics which are so valuable to advertisers. It also has the potential to do more targeted advertising. Live television remains the preferred way of watching content, even for younger audiences. And it gives immediate scale, reach and fame for advertisers that just 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. Recent research by Ebiquity, found that for every pound spent, TV generates over £4 of profit compared to just over £2 for online video and less than £1 for online display.

While online advertising continues to grow, advertisers are challenging its effectiveness and what it actually delivers – we are now starting to see many more questions being asked about unacceptable content, measurability and trust in online media.

Trauma was a three-part drama broadcast on ITV main channel in February 2018 and produced by Tall Story Pictures, part of ITV Studios UK.

Chief Executive's Report continued

The ITV Hub delivers a high quality, trusted and measured environment for advertisers. It also allows us to build direct to consumer relationships around our great content and programme brands – something we are just at the start of – but already we have 75% of all 16 to 34 year olds registered. And through voting and competitions within our programmes, we had over 100 million interactions last year.

Creating and owning quality content is a real advantage. The integrated producer broadcaster model is also a benefit – we have a great opportunity to make content famous on our channels in the UK before selling it round the world. Not only does our success on-screen and online depend on having fantastic content, but the global demand for high quality programming remains strong as broadcasters and platform owners look for brand defining content.

Netflix and Amazon are important buyers of our content – this year, Netflix will become the biggest customer of Global Entertainment, our distribution business. And the focus isn't just on drama, they also want unscripted content in the US.

And ITV Studios is an international production business of scale, with total revenues of over £1.5bn – 54% of which was generated outside the UK – and is active in 11 countries with a library of over 45,000 hours. We have strong relationships through our global production and distribution network and sell content to over 200 channels globally.

▼ **Emmerdale** performed strongly in 2017, with an average of 6.5 million viewers and a 33% share, this was its highest share in four years.

Dancing on Ice returned to ITV in January 2018 after a four-year break for its tenth series. It has been recommissioned for an 11th series.

An Hour to Catch a Killer Trevor McDonald presented this one-off documentary as part of ITV's Crime and Punishment season broadcast on the main channel in 2017.

We have had a great start to 2018. Viewing has been very strong with a schedule including the return of Dancing On Ice, The Voice, Vera, Endeavour, Trauma, Six Nations rugby, record viewing for our key daytime shows and the sixth episode of Coronation Street. Our family share of viewing, so far, is up 7% and total viewing volumes are actually up too by 3% with online viewing up 22%. And we have a great schedule to come for the rest of the year including the FIFA World Cup in June, Vanity Fair, Clean Break, White Dragon, Britain's Got Talent and Little Big Shots.

ITV Studios' has a great pipeline of new and returning shows including Unforgotten, Vanity Fair, Survival of the Fittest and I'm A Celebrity...Get Me Out Of Here! for ITV, Poldark, Bodyguard and Shetland for BBC, Living the Dream for Sky and internationally Love Island, The Voice, The Chase, Big Star's Little Star, Snowpiercer and Good Witch. We have already secured over 60% of our expected revenue for 2018, about £100 million more than this time last year and expect to deliver good organic revenue growth in ITV Studios over the full year.

While the economic outlook remains uncertain, we expect ITV Family NAR to be positive in the first half with Q1 up 1% – a continuation of the improvement we saw towards the end of 2017. In 2018 we expect online to show double digit revenue growth.

We have kicked off our strategic refresh and when we report to you at the interims we will be able to give you an update and some of the key headlines. In the meantime, we remain very focused on the business. There is a lot to do and the energy and commitment of ITV people both creatively and commercially will help us deliver all of this.

We have a solid foundation to build on and a strong balance sheet and healthy cash flows gives ITV the flexibility to make the right strategic decisions for the long term future of ITV in an increasingly competitive environment whilst still delivering sustainable returns to shareholders.

Carolyn McCall
Chief Executive

Our Strategy and Business Model

We are focused on being an owner, producer, distributor and broadcaster of content. We are currently undertaking a strategic refresh to ensure that ITV has a clear strategy and well-defined priorities to establish what ITV needs to be in three and five years' time.

Our strategy has been to diversify and grow the business, reducing our reliance on UK advertising:

Broadcast & Online
Building our free-to-air, online and pay business

ITV Studios
Growing an international content and distribution business

Our sources of 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.

>60%
Our channels reach over 60% of the UK population each week

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 and selective acquisitions.

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

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.

45,000+
hours of television and film content

Our strategic assets

Our strategic assets underpin ITV's competitive advantage

- Creating and owning the rights to quality content
- Our strong, trusted brand 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 commercial partnerships and sponsorship opportunities that extend beyond pure spot advertising.

Pay & interactive
We earn pay revenues from platforms in the UK primarily by licensing our HD channels and our online VOD services. In March 2017, we launched a joint venture with the BBC, BritBox US, a SVOD service offering the best of British television. The service launched in Canada in February 2018. We also monetise our consumer interaction with our biggest shows through competitions and voting. Going forward we need to ensure we are paid the appropriate value for our content on all platforms.

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 and the Nordics.

Distribution revenues
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.

11%
growth in total revenue derived from sources other than spot television advertising

Creating value for...

Advertisers
Through delivering unique scale and breadth of demographics 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

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

Corporate Responsibility

Building a responsible business that benefits all stakeholders.

Diversity at ITV

Gender split – at 31 December 2017[1]

Board of Directors[2]

Male	Female
6 66.7%	**3** 33.3%

Senior management[3]

Male	Female
89 57.1%	**67** 42.9%

All employees

Male	Female
3,024 47.3%	**3,366** 52.7%

ITV will be publishing its first gender pay gap report in line with new reporting requirements. The report will be published separately and available online.

1. Employee gender split is based on total headcount at 31 December 2017.
2. With the arrival of Carolyn McCall in January 2018, the Board of Directors gender split is now 60% male, 40% female.
3. An employee who is a director of a subsidiary of the Company or who has responsibility for planning, directing or controlling the activities of the entity or a strategically significant part of it.

We want to continue to build a successful, creative, commercial and global organisation. We believe that conducting our business in a responsible way has a fundamental role in achieving this goal.

As the largest commercial broadcaster in the UK and a growing international business, we reach millions of people on a daily basis through our programmes and channels. We are woven into the fabric of society, both mirroring and shaping popular culture. As well as complying with our legislative and regulatory requirements, we believe in using the power of our content to make a difference in society for our viewers, our people and our communities. To help shape our corporate responsibility (CR) strategy, we engage with our stakeholders to identify the issues most important to them and our business.

Our approach

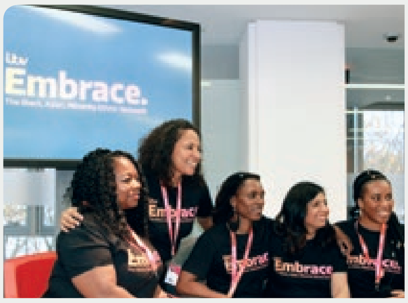
Our strategy focuses on three priorities: people, planet and partnerships. Each of our priorities highlights the risks and opportunities that are most relevant to us, and we have made four commitments under each, that incorporate our main assets and business operations. These three pillars are underpinned by core responsible business practices such as good governance, business ethics, data protection, responsibility of content and performance management.

Priority	Leveraging our reach	Leveraging our people	Responsible business day-to-day	How we work with others
People	**Inclusive programming** To ensure our programmes portray the diversity of modern society by the people on-screen and the editorial content.	**Inclusive workforce** To ensure our workforce reflects the diverse make-up of modern society.	**Inclusive culture** To build awareness and capacity and create a culture that attracts, develops and retains the best talent possible and enables everyone to be their best.	**Inclusive access to programmes and services** To work with our supply chain to encourage inclusivity standards and to make sure our services are accessible.
Planet	**Greener programming** To ensure our programmes communicate responsible environmental messaging through the editorial content, directly or indirectly.	**Greener workforce** To build the awareness and capacity of our workforce to have a positive impact on the environment.	**Greener footprint** To minimise our direct environmental footprint of energy, water and waste in our operations.	**Greener partners** To work with our value chain to encourage environmentally responsible standards and behaviours.
Partnerships	**Empowering charities and causes** To use our mass audience reach and influence to raise awareness or donations for national and international causes.	**Empowering our workforce** To empower our workforce to give back, through time and skills, to support local communities and causes.	**Empowering our viewers** To use our programmes at the heart of popular culture to raise awareness of pressing social topics and inspire change.	**Empowering communities** To inspire and engage our local communities to make a positive difference.

Responsible business
To embed responsible business practices at the heart of everything we do, including good governance, business ethics and stakeholder engagement, and to strive for continual improvements.

People

We strive to ensure diversity in our on-screen programming and in our workforce, ensuring that we're relevant and accessible to all. 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 backgrounds to work at and with ITV, enabling everyone to be their best at work.



ITV's Employee Network Groups

Active networks like ITV Ambassadors, ITV Pride and The Women's Network help connect colleagues and help identify ways to make ITV an even more inclusive place to work. In 2017 we launched two new networks; ITV Balance for working parents, grandparents and carers, and ITV Embrace, the Black, Asian and Minority Ethnic network.

Planet

Our aim is to increase awareness of environmental sustainability through our programmes while minimising the environmental impact of our operations. Through our reach and value chain, we have the chance to create long-term change by bringing environmental awareness and sustainable behaviour into the heart of popular culture.

Low emission vehicles

Improving the environmental impact of our operations is an important focus at ITV. In 2017, our ITV Daytime team, who look after Good Morning Britain, Lorraine, This Morning and Loose Women, bought a range of Plug-in Hybrid Electric vehicles to replace older diesel models. These vehicles each drive about 40,000 miles a year to broadcast footage from outside the studio. Not only do the new vehicles save fuel and money, they are technically more advanced, and so transmit better quality footage.

Partnerships

We believe partnerships mean collaborating with others to make a positive contribution to society. Every week, our programmes reach over 60% of the UK population. As a producer broadcaster, our biggest impact is the influence our content has on the thoughts and actions of our viewers. We recognise the opportunity this presents to reflect modern society, shape conversations and encourage action on the things that matter. Our on-screen social cause strategy is focused on health and wellbeing, to inspire, engage and empower people to make a difference to their own and other people's health.

1 million minutes

In the UK more than one million older people are chronically lonely, and Christmas is one of the loneliest times. That's why, in December 2017, Good Morning Britain repeated it's award-winning campaign, 1 Million Minutes, asking viewers to pledge just 30 minutes of their time to support an older person. Partnering with a number of charities, the campaign was promoted on-air in the UK and abroad, including Austria, Australia, Canada and South Africa. The response from viewers was amazing, with over 22.7 million minutes pledged during the month of the campaign, which makes a real difference to so many lives.

Further information

More information on our responsibility initiatives can be found online.

itvplc.com/responsibility

Operating and Performance Review

ITV has delivered a good performance in 2017 as we continue to rebalance and strengthen the business creatively and commercially.

Victoria averaged 6.4 million viewers and a 25% share for its second series. It has been recommissioned for a third series in the UK and has been sold to over 150 countries.

Key highlights

NAR revenue
£1,591m
(2016: £1,672m)

Total non-NAR revenue
£2,066m
(2016: £1,855m)

Group external revenue
£3,132m
(2016: £3,064m)

Adjusted EBITA
£842m
(2016: £885m)

Adjusted EPS
16.0p
(2016: 17.0p)

Statutory EPS
10.2p
(2016: 11.2p)

Net debt
£912m
(2016: £637m)

Dividend per share (ordinary)
7.8p
(2016: 7.2p)

ITV has delivered a strong operational performance in a challenging year with ongoing economic and political uncertainty in the UK. ITV took action early to reduce overhead costs but the uncertainty has undoubtedly had an impact on the demand for television advertising and therefore as expected ITV's financial performance.

We set ourselves challenging objectives to grow our on-screen and online viewing and deliver good growth in non-NAR. And ITV has delivered on these as we have continued to rebalance and strengthen the business creatively and commercially. On-screen, our share of viewing was up for the second year, up 2%, the ITV Hub continues to deliver strong viewing, up 39%, Online, Pay & Interactive revenue grew 7% and total ITV Studios revenue grew 13% including currency benefit. 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 our statutory results, all of which are set out later in the report.

External revenue was up 2% to £3,132 million (2016: £3,064 million), with 11% growth in non-NAR more than offsetting the decline in NAR, a clear indication that our strategy of rebalancing the business is working. 56% of total revenues came from sources other than spot television advertising (non-NAR).

Adjusted EBITA declined 5% to £842 million (2016: £885 million) and adjusted EPS declined 6% to 16.0p (2016: 17.0p) impacted by a 5% decline in NAR and the ongoing investment across the business and the fact that the prior year includes the full £37 million revenue and profit benefit of the four year licence deal for The Voice of China. We did however benefit from the delivery of £29 million of overhead cost savings and £25 million lower schedule costs. Broadcast & Online adjusted EBITA declined 7% and ITV Studios adjusted EBITA was flat.

The Voice Kids launched in the UK in 2017. It has been recommissioned for a second series. The format has been sold to 35 countries.

Statutory profit before tax declined by 10% to £500 million (2016: £553 million) and statutory EPS declined by 9% to 10.2p primarily due to the decline in earnings and higher amortisation and impairment of acquired assets, which is explained in more detail in the Finance Review.

We have a strong balance sheet and the business continues to be highly cash generative. Our profit to cash conversion remains high at 91% and we ended the year with net debt of £912 million (2016: £637 million) after the effect of acquisitions and investments of £95 million, dividend payments of £494 million and pension contributions of £80 million.

The Board has proposed an ordinary dividend of 7.8p, an increase of 8%, reflecting our confidence in the underlying strength of the business and the outlook for 2018. This is in line with the Board's commitment to a long-term sustainable dividend policy and for ordinary dividends to grow broadly in line with earnings, targeting dividend cover of around 2x adjusted earnings per share over the medium term.

We remain focused on being a creator, owner, distributor and broadcaster of content and in 2017 we continued to deliver on our strategy to diversify the business and grow new revenue streams, further reducing our reliance on UK spot advertising and making ITV a stronger and more resilient business. We continue to build our free-to-air, online and pay businesses through Broadcast & Online and are further growing our international content and distribution business, ITV Studios. We are currently undertaking a strategic refresh to ensure we have a clear strategy and well-defined priorities which reflect what ITV needs to be in three and five years' time.

Operating and Performance Review continued

Broadcast & Online

The media environment in which we operate is constantly changing. Our Broadcast & Online business is robust and evolving to take advantage of the significant opportunities for growth.

ITV through its free-to-air channels offers unique audience scale and reach as well as the key demographics demanded by advertisers. The ITV Hub, the digital home for all our channels and content, is growing rapidly, driven by viewers' appetite for catch up and VOD and the quality of our content. We continue to explore and trial new ways, both free and pay, to distribute content to broadcasters and platform owners as well as directly to consumers.

Financial performance

Broadcast & Online total revenue was down 3% in the year at £2,075 million (2016: £2,132 million). We delivered 7% growth in Online, Pay & Interactive, driven by double-digit growth in online advertising, but this was offset by the 5% decline in NAR. Including sponsorship, VOD and self-promotion, ITV total advertising was down 3%.

Advertising categories such as Retail, Finance and Food continued to see declines due to the uncertain economic outlook, along with the weaker pound causing inflationary pressures, leading advertisers to reduce spend in order to maintain margins. Within Retail, spending has been mixed: the high street was weak while supermarkets increased their spend and some of the FMCGs returned to spend in the second half of 2017. Entertainment & Leisure was down, impacted by tough comparatives from the European Football Championship in 2016. Cars and Telecommunications increased their spend around product launches and digital brands continue to spend heavily on television to build brand awareness.

Total costs were down as the cost savings and lower schedule costs offset the increased investment on the ITV Hub, ITV Hub+ and ITV Box Office (our pay-per-view channel used to show boxing matches).

Overall Broadcast & Online adjusted EBITA declined 7% to £599 million (2016: £642 million) which has led to a one percentage point reduction in the adjusted EBITA margin to 29% (2016: 30%).

Viewing

On-screen we performed strongly with viewing up for the second consecutive year. We increased our spend on entertainment but sports costs were lower as a result of there being no major sports tournament in 2017.

ITV Family SOV grew 2% with a strong performance across the schedule. This level of growth is the second biggest in ITV's recent history and never before has ITV delivered two years of consecutive growth. Daytime shows including Good Morning Britain, This Morning and The Chase grew their audiences and Coronation Street and Emmerdale continue to perform well and are now the UK's two largest soaps. We launched the sixth weekly episode of Coronation Street in September, which has further strengthened its performance. We successfully aired a range of new dramas

Twelve months to 31 December – on a continuing basis	**2017 £m**	2016 £m	Change £m	Change %
NAR	**1,591**	1,672	(81)	(5)
Online, Pay & Interactive revenue	**248**	231	17	7
SDN external revenue	**70**	67	3	4
Other commercial income	**166**	162	4	2
Broadcast & Online non-NAR revenue	**484**	460	24	5
Total Broadcast & Online revenue	**2,075**	2,132	(57)	(3)
Total schedule costs	**(1,025)**	(1,050)	25	(2)
Other costs	**(451)**	(440)	(11)	3
Total Broadcast & Online adjusted EBITA	**599**	642	(43)	(7)
Adjusted EBITA margin	**29%**	30%		

Good Karma Hospital was the third most watched drama on ITV in 2017, averaging 6.9 million viewers and a 26% share. It has been recommissioned for a second series in 2018.

Diana, Our Mother: Her Life & Legacy was ITV's highest rated factual in over 14 years. It had 9.4 million viewers and a 36% share.

Unforgotten returned to ITV for its second series. It is produced by Mainstreet Pictures, part of ITV Studios UK. It averaged 6.1 million viewers and has been recommissioned for a third series in 2018.

including Liar, Good Karma Hospital, Fearless, Bancroft and Little Boy Blue and new entertainment shows, The Voice, The Voice Kids, The Keith and Paddy Picture Show and Five Gold Rings, as well as new sitcom Bad Move. We continued to drive significant audiences with our returning brands such as Broadchurch – which was the most watched drama in the year – Vera, Unforgotten, Victoria, Cold Feet, Ant & Dec's Saturday Night Takeaway, I'm A Celebrity... Get Me Out Of Here! and Britain's Got Talent. Our news programming continues to perform well with highlights including our General Election coverage, as does our sporting schedule with the Six Nations Rugby Championships and the launch of horse racing on ITV. Some of our schedule did not perform as well as we had hoped, for example The Nightly Show, Fearless and Bigheads, so will not return in 2018.

We continue to target the hard to reach demographics demanded by advertisers – particularly young and male audiences – through our digital channels and online, and have seen a significant increase in our target demographics on ITV2 and ITV4. Our 16–34s share of commercial impacts (SOCI) on ITV2 was up 17% helped by the phenomenal success of Love Island as well as Celebrity Juice, Family Guy and American Dad. Male SOCI on ITV4 was up 12% helped by ITV's horse racing coverage, The French Open and the Isle of Man TT Races. ITV3's viewing performance improved in the year due to the strong performance of dramas such as Midsomer Murders, Lewis and Endeavour. ABC1 adults SOCI on ITV3 was up 1% making it the most popular digital channel for this demographic.

ITV Hub

The ITV Hub, which is now available on 29 platforms, continues to grow rapidly, driven by viewing on mobile and connected televisions. The ITV Hub is now pre-installed on around 90% of all connected televisions sold in the UK and launched on Apple TV, Apple's new TV app and Microsoft XBox in 2018.

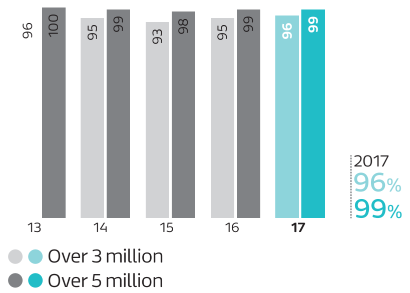
Long-form video requests were up 34% and online viewing consumption, which measures how long viewers are spending online, was up 39%. The ITV Hub has now been the fastest-growing public service broadcaster online service for the last three years driven by the good user experience and great content and now has 21 million registered users.

The ITV Hub helps ITV reach valuable younger audiences – 75% of the UK's 16–24 year olds are registered together with 65% of the UK's 16–34 year olds. Younger viewers increasingly use the ITV Hub for simulcast viewing, as well as catch up, with programmes such as Love Island delivering record viewing with 1.3 million simulcast requests for the final.

We are using the insight we gain from our registered users to develop more targeted advertising solutions and to increasingly drive viewing through personalisation. In the year, we launched personalised ITV Hub home pages for our audiences and have introduced data-driven recommendations and mobile notifications to registered users.

Operating and Performance Review continued

ITV commercial audiences



Horse Racing moved to ITV from Channel 4 in 2017 with races broadcast across ITV main channel and ITV4 during the year.

Strong advertising proposition

While political and economic uncertainty has led advertisers to reduce their current spend, 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 of advertising that television, and particularly ITV, delivers becomes increasingly valuable.

ITV's unique ability to deliver mass audiences, as well as more targeted demographics across the family of channels, has enabled us to again increase our share of the television advertising market (SOB) to 47.6% from 47.4%. ITV delivered 99% of all commercial audiences over five million and 96% of all commercial audiences over three million. SOV provides an overall measure of viewing performance, but because advertisers are buying scale and breadth of audience, SOV is not necessarily a direct indicator of advertising performance.

ITV aims to maximise further the value of its airtime and drive new revenue streams through sponsorship, interactivity and branded extensions. ITV utilises the core assets of its strong brand and reputation, unique commercial relationships and quality production capability to deliver a wide variety of marketing solutions.

As a result, ITV's 'Other commercial income' increased by 2%, with new sponsorship around ITV horse racing and The Voice, offset by a reduction in third-party airtime sales commission and revenue primarily from UTV following ITV's acquisition in February 2016 and successful integration of the business.

Digital advertising is growing rapidly and we have seen double-digit growth in our VOD advertising revenues on the ITV Hub, which delivers more targeted demographics and a high-quality, trusted and measured environment for online advertisers.

In 2017, ITV announced a trial for addressable advertising with Sorenson on connected Smart televisions. We have also launched a trial of a self-service portal so that any business, however small, can easily access advertising on ITV.

Remain responsive to a changing media environment

Linear television viewing remains resilient despite significant changes in the availability and delivery of content. On average viewers watched 203 minutes of television a day in 2017. This is lower than 212 minutes in 2016 and partly is due to there being no major sports tournament in 2017. The majority of viewing remains live at over 75% 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 Voice, Britain's Got Talent, Saturday Night Takeaway and Love Island, television reaches around 90% of young people each week and remains their dominant choice of media.

Developing ITV's digital broadcast assets

We are further developing our social media assets across our international portfolio of programmes as live television continues to demonstrate a growing relevance as viewers increasingly connect and engage through social media. We now have over 160 YouTube branded channels and had around 20 owned and operated programme apps across the year which, together with our quality content, is driving significant growth in viewer engagement. Our programmes generated over 100 million interactions in 2017.

▲ **Saturday Night Takeaway** returned for its 14th series in 2017 and averaged 7.9 million viewers and a 37% share across the series returns for a 15th series in 2018.

Building our pay offering in the UK and internationally

As a creator, owner and distributor of sought after content, ITV is well positioned to take advantage of the opportunities that arise from the changes we are seeing in digital media and consumer behaviour. We must ensure that however our content is viewed and on whatever platform it is viewed on, we are paid the appropriate value for it.

As we look to build our pay offerings, we are developing SVOD services to target direct to consumer pay revenues. In March 2017, we launched our US joint venture with the BBC, BritBox, (with AMC Networks taking a minority share), an ad-free SVOD service offering the most comprehensive collection of British content in the US. A version of the service also launched in Canada in February 2018 and we now have over 250,000 subscribers in total. In 2018, we will explore opportunities for BritBox on other platforms, include original commissions, and look to roll it out further internationally.

We are continuing to develop the ITV Hub+, our ad-free subscription version of the ITV Hub, which while relatively small, tripled its subscribers in the year. We have extended the service across all platforms so subscribers can now watch on mobile, PC and connected televisions and launched it on Amazon.

Over the last few years we have also established a number of smaller pay propositions. We own a majority stake in Cirkus, a best of British SVOD service in the Nordics and Germany. We also have a general entertainment channel, ITV Choice, for emerging markets available in over 100 countries.

We are trialling ITV Box Office, a direct to consumer pay per view offering which currently focuses on boxing and we have a number of live events based around our key brands, which build relationships directly with our viewers. For example, we have the Emmerdale Studios Experience, which showcases the process of creating an episode of the soap, and This Morning Live, a shopping and lifestyle festival.

ITV also 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. We announced that ITV Encore will close as an exclusive Sky channel in 2018 which allows ITV to distribute box sets more widely across multiple platforms. The closure of Encore will impact ITV's pay revenues in 2018.

SDN

SDN generates revenue by licensing capacity to broadcast channels, radio stations and data providers on digital terrestrial television or Freeview. It holds a licence with capacity for 16 broadcast channels, including ITV services and third-party channels. SDN external revenue grew 4% driven by the full year impact of the 16th stream, which was launched in 2016.

Our pay offerings

britbox
POWERED BY BBC & itv

itv BOX OFFICE

CIRKUS

itv CHOICE

Operating and Performance Review continued

ITV Studios

Growing an international content business has been central to ITV's strategy as an integrated producer broadcaster. 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.

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 5% per annum, with some genres, such as drama, growing more rapidly. 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.

Financial performance

ITV Studios is now a global producer of scale and total revenues grew 13% to £1,582 million (2016: £1,395 million) including currency benefit, with growth across the business as we continue to build our capability in key creative markets.

Twelve months to 31 December	**2017 £m**	2016 £m	Change £m	Change %
Studios UK	**692**	626	66	11
ITV America	**313**	235	78	33
Studios RoW	**390**	355	35	10
Global Entertainment	**187**	179	8	4
Total Studios revenue	**1,582**	1,395	187	13
Total Studios costs	**(1,339)**	(1,152)	(187)	16
Total Studios adjusted EBITA*	**243**	243	–	–
Studios adjusted EBITA margin	**15%**	17%		

* Includes the benefit of production tax credits.

Twelve months to 31 December	**2017 £m**	2016 £m	Change £m	Change %
Sales from ITV Studios to Broadcast & Online	**523**	463	60	13
External revenue	**1,059**	932	127	14
Total Studios revenue	**1,582**	1,395	187	13

Total organic revenue, which excludes our current year acquisitions and foreign exchange, was up 7% and acquisitions continue to deliver with a 13% return on investment in 2017.

Reflecting our growth in key production markets in Europe and the US, 54% of ITV total revenue was generated outside the UK (2016: 50%). 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 have an increasing impact on our results.

In 2017, the foreign currency benefit was £43 million on revenue and £7 million on adjusted EBITA.

Adjusted EBITA was flat year-on year at £243 million. There was good underlying profit growth but adjusted EBITA was impacted by our ongoing investment in US drama and the fact that the prior year includes the full £37 million benefit of the four year licence deal for The Voice of China. Adjusted EBITA margin declined by two percentage points to 15%, impacted by revenue mix on new and returning shows.

Profilage is a French crime drama produced by Tetra Media Studio, which was acquired by ITV Studios in 2017. Profilage is in its eighth season and is broadcast on TF1.

Big Star's Little Star is a UK primetime entertainment format produced by ITV Studios. The format has been sold to 14 countries.

Building scale in key creative markets
ITV Studios has three production divisions – Studios UK, ITV America and Studios Rest of World (RoW). Across these divisions, ITV produced over 8,400 hours of programming, compared to 7,800 in 2016 and secured 240 recommissions and 239 new commissions in the year.

The US and the UK are the dominant creative markets, with the US the largest exporter of scripted content 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 that travel.

The UK performed well with total revenue up 11% at £692 million (2016: £626 million). We continue to grow our sales to ITV, which were up 13% with deliveries including The Voice, The Voice Kids, Love Island, Next of Kin, Bancroft, Fearless, Unforgotten, Little Boy Blue and an extra episode of Coronation Street. We have again grown ITV Studios UK share of original content on ITV main channel from 63% to 66%. Our off-ITV revenues grew 10% with deliveries including The City And The City, Shetland, Moorside and Motherland for BBC, Back for Channel 4, Blind Date for Channel 5 and Living the Dream for Sky. We strengthened our UK drama business with the acquisition in April of a majority stake in World Productions, the producer of Line of Duty, and our entertainment business with an investment in start-up Koska in October.

ITV America total revenue grew 33% to £313 million (2016: £235 million) including foreign exchange. We delivered five drama commissions – the third series of the Good Witch for Hallmark which has been commissioned for a fourth series, Sun Records for CMT, Somewhere Between for ABC and two pilots for TNT, Highland and Snowpiecer, which has been commissioned for a ten-part series. We have also delivered a high volume of programmes from our entertainment portfolio including two series of Hell's Kitchen, Pawn Stars, Alone, Forged in Fire and First 48 and new commissions including Sideserf, World Hip Hop Star and Big Star's Little Star.

Studios RoW has production bases in Australia, Germany, France, the Netherlands, the Nordics and Italy where we produce original content as well as local versions of ITV Studios UK and Talpa formats. Revenue grew 10% to £390 million (2016: £355 million) including foreign exchange, driven particularly by good growth in Australia, France and the Nordics. Across the territories, our entertainment and format deliveries included The Voice in Australia and Germany, The Chase in Australia and Germany, and Love Island in Germany.

Key new and returning scripted programmes

VICTORIA
Cold Feet
POLDARK
VERA
SNOWPIERCER
Good Witch
THERE'S A LITTLE MAGIC IN EVERYONE
SUBURRA
LA SERIE
PROFILAGE

Operating and Performance Review continued

▲ **Marriage Boot Camp** is a US reality entertainment format produced by ThinkFactory Media which is part of ITV America, and is now in its 11th season.

Talpa continues to develop its formats including The Voice Senior, A Year To Remember, I Love My Country, A Whole New Beginning and Around The World With 80 Year Olds. Our international scale now enables ITV to make The Voice and these other formats in all our international production territories and therefore earn the production revenue as well as the format fee.

Some of our content will not be recommissioned in 2018 as they have not performed as expected, for example The Loch and Sun Records.

We are making real progress in building a European scripted business. In February 2017, ITV acquired a majority stake in Tetra Media Studio, a French scripted production company, and in October ITV acquired a majority stake in Cattleya, the Italian scripted production company behind Gomorrah and Suburra. We also took a stake in a Danish scripted producer Apple Tree Productions in December. These, along with our existing European drama businesses, will enable us to benefit from the increasing demand for locally produced content with global appeal.

We have further strengthened our international business with a number of other small investments. In April, we acquired a 45% stake in Blumhouse Television, established by Jason Blum, the renowned film and television producer, which finances and produces original scripted and unscripted 'dark' genre programming for global audiences including The Jinx and Cold Case Files. In May we entered into a joint venture with the US talent agent and production company, Circle of Confusion, and in June we acquired Elk Production, a Swedish entertainment production company.

Investing in content with international appeal

We have continued to expand our portfolio of successful formats and series that return and can be distributed internationally.

With the acquisition of Talpa Media in 2015, we have significantly strengthened our global capability in entertainment formats. Across the business, we have grown a solid portfolio of high volume and high margin formats that travel internationally and that we produce locally. For example, during 2017 we produced The Voice in five countries and The Voice Kids and Four Weddings in four countries.

Demand for drama is growing strongly as standout original content becomes brand defining for both broadcasters and OTT players. To capitalise on this, we are investing in our global scripted business, particularly in the US, to build on the success of our UK drama business. We are strengthening our development and creative capabilities internally and have invested in a number of development relationships. In 2017, we increased our investment in drama across the business, investing £243 million (2016: £160 million).

We finance our large-scale scripted 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 (the difference between the cost and what the broadcaster pays), is recovered through distribution revenue from selling the finished product globally to other broadcasters and platforms.

▼ **Poldark** is produced by Mammoth Screen (part of ITV Studios UK) for the BBC. It has been recommissioned for a fourth season in 2018 and has been sold to over 150 countries.

▲ **5 Gold Rings** is a new entertainment format co-produced by Talpa Media and Possessed (part of ITV Studios UK). It was broadcast in the UK in 2017 and will return for a second series in 2018. The format was sold to four countries in 2017.

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.

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, we are also producing and jointly commissioning a number of scripted and unscripted programmes with OTT platforms including Vanity Fair with Amazon, Robozuna, and Queer Eye for the Straight Guy for Netflix, Harlots for Hulu and we are in development with a number of shows for Facebook.

Expanding our global distribution business

Global Entertainment, the distribution arm within ITV Studios, delivered revenue growth of 4% to £187 million (2016: £179 million) as we continue to drive value from our investment in creating and owning the rights to quality content with international appeal. 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's pipeline of new projects is strengthening with projects such as Vanity Fair, The City And The City and World On Fire expected for 2018.

Our content continues to sell well internationally to broadcasters and OTT platforms and in particular, our scripted programmes with titles including Victoria, Poldark, Vera, Good Witch, The Murdoch Mysteries, Schitts Creek, The Loch, Fearless and Harlots. 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 Chase, Big Star's Little Star, This Time Next Year, Five Gold Rings, Come Dine With Me and Four Weddings. In 2017, we sold 62 different formats internationally, 17 of which are being produced by ourselves or other producers in three or more countries including Love Island, Keeping the Nation Alive and Hell's Kitchen. We currently have over 250 programme supply agreements in place with online platforms including Netflix, Amazon and Hulu.

◀ **Love Island** is a UK reality entertainment format, the third series of which was broadcast on ITV2 in 2017. The format has been sold to six countries including Australia and Germany.

Operating and Performance Review continued

Productivity

▶ **Pictured: Behind the scenes on Coronation Street**

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 the rights we own and improve our viewer experience.

People

During the year, we continued to invest in our people, rolling out a new conversation based performance management process and continuing to provide general and more specific training for staff across the business.

We use employee engagement scores as a key measure. We will undertake our next engagement survey in 2018. Our 2016 survey showed that ITV continues to have high levels of engagement (90%), (see the KPIs section on pages 36 to 39 for details on how this is measured). We always seek to recruit and promote internally where possible with 34% of vacancies in 2017 filled from within ITV.

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. We have sought to reduce the time taken from live transmission to content being available for catch up on the ITV Hub. We are in the process of upgrading our advertising sales system and during the year we began investigating how robotic process automation may benefit ITV in the future.

Production facilities

September 2017 saw the launch of a sixth weekly episode of Coronation Street, which required a significant step up in productivity and investment in expanding the production site with new streets, as well as new equipment, sound stages and a state of the art production control room. We refresh our regional news production facilities on a continuous rotation basis and this year we built new facilities for our UTV licence in Northern Ireland. During 2018, we are relocating our Daytime studios to a new state of the art facility as part of our London property move.

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 have recently implemented a new process and technology for script editing and management. We commenced roll-out of a bespoke artist payment system, which has reduced duplication across the business and uses less paper. Our regional news teams are taking advantage of new production technologies and increasingly use mobile kits that enable reporters to shoot more efficiently and transmit high-quality live reports.

Pictured: Broadchurch

Alternative Performance Measures

The Annual Report includes both statutory and adjusted measures, 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 to 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 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. Ireland, Hungary, Canada and South Africa) within cost of sales, whereas in the UK and Italy 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 below.

Exceptional items

These include acquisition-related costs, reorganisation and restructuring costs, property costs and non-routine legal 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 includes further detail on exceptional items.

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 and are 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 2018, ITV will relocate to various properties on a temporary basis while its headquarters are redeveloped. The fit-out costs will be capitalised but the incremental one-off property project costs, including move costs, rental payments for these properties and accelerated depreciation for assets made redundant due to the move, will be ring-fenced as they relate to a one-off property project and are therefore excluded from our adjusted measures. As a ring-fenced cost, rental payments will continue to be excluded from our adjusted measures until we move back, which is expected in 2023.

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 and they do not reflect the underlying trading performance of the Group. Amortisation of software licences and development is included within our adjusted results as management consider these assets to be core to supporting the operations of the business.

Net financing costs

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

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

Reconciliation between statutory and adjusted results

Twelve months to 31 December – on a continuing basis	2017 Statutory £m	2017 Adjustments £m	2017 Adjusted £m	2016 Statutory £m	2016 Adjustments £m	2016 Adjusted £m
EBITA[1]	810	32	842	857	28	885
Exceptional items (operating)[2]	(153)	153	–	(164)	164	–
Amortisation and impairment[3]	(102)	97	(5)	(89)	77	(12)
Operating profit	**555**	**282**	**837**	604	269	873
Net financing costs[4]	(50)	17	(33)	(51)	25	(26)
Share of losses on JVs and Associates	(4)	–	(4)	–	–	–
Gain on sale of non-current assets and subsidiaries (non-operating exceptional items)	(1)	1	–	–	–	–
Profit before tax	**500**	**300**	**800**	553	294	847
Tax[5]	(87)	(67)	(154)	(100)	(60)	(160)
Profit after tax	**413**	**233**	**646**	453	234	687
Non-controlling interests	(4)	–	(4)	(4)	–	(4)
Loss from discontinuing operations (net of tax)	–	–	–	(1)	1	–
Earnings	**409**	**233**	**642**	448	235	683
Shares (million), weighted average	4,006	–	4,006	4,010	–	4,010
EPS (p)	10.2p		16.0p	11.2p		17.0p
Diluted EPS (p)	10.2p		16.0p	11.1p		17.0p

1. £32 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 and an insured trade receivable provision in relation to The Voice of China. Further detail is included on page 42.
3. £97 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 PBT.
4. £17 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 PBT and adjusted PBT. A full reconciliation is included on page 43.

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 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	2017 £m	2016 £m
External revenue (Reported)	**3,132**	3,064
Internal supply	**525**	463
Total revenue (Adjusted)	**3,657**	3,527

Adjusted net debt

Net debt (as defined in note 4.1) 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	2017 £m	2016 £m
Net debt	**(912)**	(637)
Expected contingent payments on acquisitions	**(292)**	(328)
Net pension deficit	**(83)**	(328)
Operating leases*	**(143)**	(344)
Adjusted net debt	**(1,430)**	(1,637)
Adjusted net debt to adjusted EBITDA	**1.6x**	1.8x
Reported net debt to adjusted EBITDA	**1.0x**	0.7x

* 2017 excludes transponder costs, which are now treated as service contracts. See page 128 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, over which the pension scheme holds a charge, which are held by the Group as security for future unfunded pension payments of four former Granada executives. 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 before exceptional items, net of capex on property, plant and equipment (excluding capex relating to the redevelopment of our London headquarters) 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 on pages 45 and 46.

Key Performance Indicators

We have defined our KPIs to align our performance and accountability to our business segments and strategy.

Financial

Adjusted EBITA

Definition
This is the key profitability measure used across the whole business. Adjusted earnings before interest, tax and amortisation (EBITA) is calculated by adding back exceptional items and 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.

Further detail on this measure is included within the Alternative Performance Measures section, page 34.

Adjusted EPS

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 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.

Further detail on this measure is included within the Alternative Performance Measures section, page 34.

Profit to cash conversion

Definition
Profit to cash conversion represents the proportion of adjusted EBITA converted into a measure of adjusted cash flow, after capex on property, plant and machinery (excluding capex relating to the redevelopment of our London headquarters). Further detail on this measure is included within the Alternative Performance Measures section, page 34.

This measures the effectiveness of our working capital management and capital expenditure control.

Non-NAR revenue

Definition
Non-NAR reflects all ITV revenue, both internal and external, except NAR (spot advertising revenues). Online, Pay, Interactive, Sponsorship, SDN and ITV Studios revenues are all included within Non-NAR, with the key drivers of growth being Online and ITV Studios.

Growing non-NAR is key to the strategy as we aim to rebalance the business away from our reliance on television advertising revenue.

Non-financial

Employee engagement

Definition
Continuing to develop a creative, commercial and global organisation requires high-quality employees who are engaged in and motivated by the work that they do.

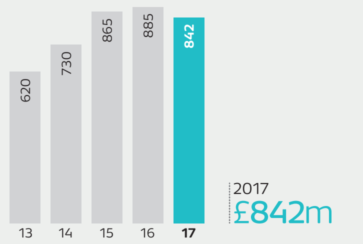
Employee engagement measures pride in the work we do, pride in working for ITV and also what we say about our programmes and services.

Broadcast & Online – building our free-to-air, online and pay business

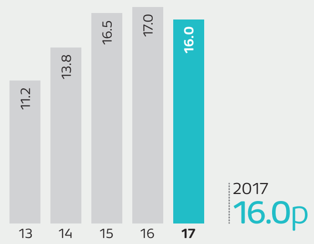
ITV Studios – growing an international content and distribution business

Performance
In 2017, adjusted EBITA decreased by £43 million or 5%, predominantly due to a £81 million or 5% decline in NAR. This was partially offset by growth from high margin Online, Pay & Interactive, £25 million lower programming budget due to the absence of a major sports tournament, delivery of £29 million of overhead savings, and foreign exchange benefit.

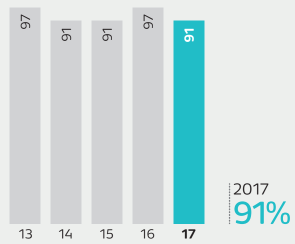
Group adjusted EBITA margin decreased by two percentage points to 27% driven by the decline in NAR and revenue mix within ITV Studios.



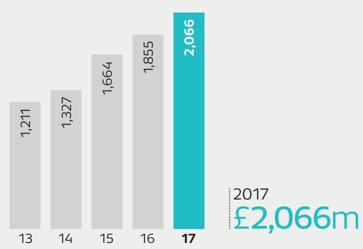
Performance
Adjusted EPS decreased by 6% from 17.0p to 16.0p. This is higher than the corresponding decrease in adjusted EBITA of 5% due to higher adjusted financing costs in the year of £33 million (2016: £26 million).



Performance
Profit to cash remains high at 91% (2016: 97%). In the year we saw an increase in working capital. This was due to the payment schedule for sports rights for future years and the timing difference between the production and the final delivery and payment of scripted and entertainment titles such as Snowpiercer, Good Witch, Vanity Fair, Poldark, Dancing on Ice and Survival of the Fittest.

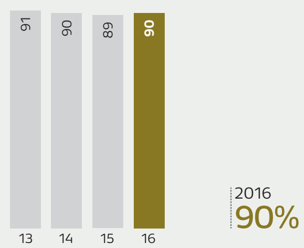


Performance
Non-NAR revenue increased by 11% in 2017 as we continue to rebalance the business away from a reliance on NAR. We delivered strong growth in ITV Studios total revenue and double-digit growth in Online. Non-NAR revenues were 56% of total revenue which has increased from 53% in 2016.



Performance
There was no employee engagement survey in 2017. Employee engagement for the last survey performed in 2016 was 90% with an 80% participation rate.

A full employee engagement survey is expected in 2018.



Key Performance Indicators continued

Broadcast & Online

ITV Family share of viewing

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.

ITV Family share of commercial impacts

Definition
To maintain our position as a leading commercial broadcaster, we need to have strong ITV Family SOCI. SOCI is the trading currency in the television advertising market, and since it only covers commercial television it does not include the BBC. This is the share of total UK television commercial impacts which is delivered by ITV's family of channels. An impact is one viewer watching one 30-second commercial. SOCI provides an overall measure of viewing performance. However, because advertisers are buying scale and breadth of audience, SOCI is not necessarily a direct indicator of advertising performance.

ITV Family share of broadcast

Definition
ITV's share of UK television spot advertising revenue is known as its share of broadcast (SOB).

Our SOB has always been based on our estimate of the pure spot advertising market, excluding sponsorship, VOD and all broadcasters' self-promotion revenues on their own channels, which this year has seen a significant increase and therefore further distorts the external spot market.

It is increasingly difficult to measure the total television advertising market as all broadcasters have different definitions and include other sources of revenue, such as sponsorship and VOD, in their estimates of television advertising.

Total long-form video requests

Definition
We remain focused on growing our audience share from our free-to-air broadcast and increasingly from our VOD business as well.

Long-form video requests is a measure of the total number of our videos requested across all platforms on which the ITV Hub is available and therefore provides a key measure of how much of our content is being viewed online. A long-form video is a programme that has been broadcast on television and is available to watch online and on demand in its entirety.

ITV Studios

Number of new commissions for ITV Studios

Definition
As we grow our international content business, tracking the performance of the creative renewal pipeline and the number of new commissions won is a key indicator. This figure includes programmes shown both on ITV and on other broadcasters, and both in the UK and internationally.

Percentage of ITV* output from ITV Studios

Definition
As an integrated producer broadcaster, part of our strategy is to use our broadcast channels as a platform for ITV Studios content where we aim to make them famous and then sell them around the world.

The proportion of the total spend on original commissions on ITV transmitted in the year, delivered by ITV Studios, demonstrates this and our current aim is to increase ITV Studios supply of programmes to ITV.

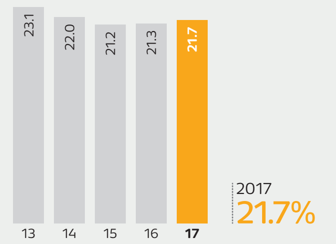
* ITV main channel only.

Broadcast & Online

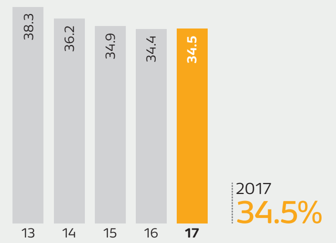
ITV Studios

Performance
ITV Family SOV grew 2% in 2017 to 21.7%. Within this, the ITV main channel was up 1% with strong performances from daytime, the soaps, drama and entertainment. The digital channels were up 3% in the year mainly across ITV2 and ITV4. ITV2 viewing amongst 16–34s continues to grow, with 16–34s SOV up 18% in the year. It remains the most popular digital channel in the UK based on SOV and is the largest digital channel for 16–34s.

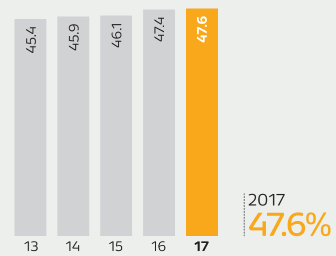
ITV also continues to deliver mass audiences and in 2017 delivered 99% of all commercial audiences over five million and 96% over three million, which is unchanged from 2016.



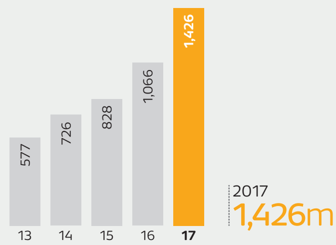
Performance
ITV Family SOCI was broadly flat year-on-year, with ITV main channel flat and the digital channels up 1%. ITV2 is now more targeted towards younger viewers with SOCI amongst 16–34s up 17% in the year. ITV4 is more targeted towards male viewers with Men SOCI up 12% in the year. ITV3 is targeted to ABC1 adults with SOCI up 1% in the year for this demographic. The move of The Great British Bake Off from BBC1 to C4 affected ITV main channel's SOCI performance in the year.



Performance
We again gained share in 2017 as a result of our unique ability to deliver mass audiences across the key demographics to our advertisers and more targeted demographics on our digital channels. This was helped by ITV's coverage of the horse racing, which targets the male demographic and is highly demanded by advertisers. Our SOB increased to 47.6% in the year.

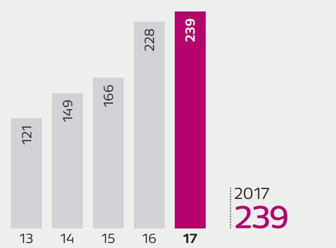


Performance
Long-form video requests were up 34% in 2017 to 1,426 million views supported by our continued investment and focus on the ITV Hub, mobile apps and simulcast offering. Online consumption, which is the measure of how long viewers are spending online, is an important indicator of online performance and this increased by 39% in 2017.

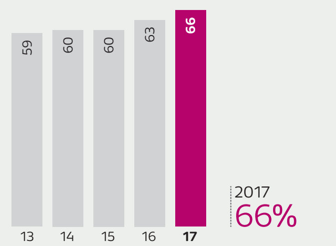


Performance
There was strong growth in the number of new commissions for ITV Studios in 2017, up 5% to 239. Eighty three of these new commissions came from the UK business, with the remaining 156 coming from our international businesses. In addition, there were 240 recommissions in the year (2016: 188) with 106 from ITV Studios UK and 134 from the international businesses.

We continue to invest in our creative pipeline, building on our existing portfolio of programmes and formats. We are particularly focused on the genres that can return and travel, namely drama, entertainment and factual entertainment.



Performance
The percentage of ITV output from ITV Studios increased to 66% in 2017 driven by new entertainment programmes in the year such as The Voice, The Voice Kids and Cannonball as well as an extra episode of Coronation Street during 2017. Many of the ITV Studios programmes broadcast in 2017 have now been distributed around the world including Victoria, Cold Feet, The Chase, The Voice and I'm A Celebrity... Get Me Out Of Here!



Finance Review

ITV's strong operational performance in a challenging year reflects the continued benefit of rebalancing the business.

Ian Griffiths
Chief Operating Officer
and Group Finance Director

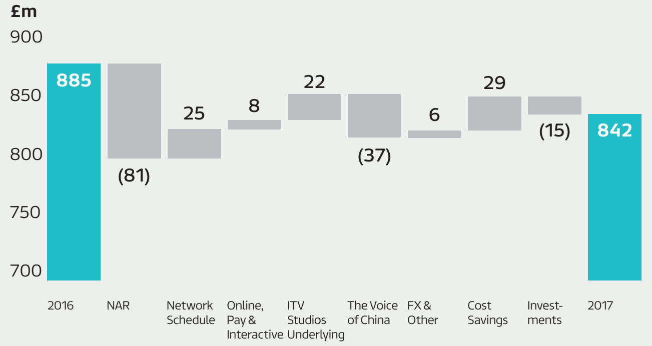
ITV delivered a strong operational performance in a challenging year with ongoing economic and political uncertainty in the UK. ITV took action early to reduce overhead costs but the continued uncertainty has undoubtedly had an impact on the demand for television advertising and therefore as expected, on ITV's financial performance.

We set ourselves challenging objectives to grow our on-screen and online viewing and deliver good growth in non-NAR, and we have delivered on these. On-screen, our share of viewing grew for the second consecutive year, up 2%, online viewing was up 39%, Online, Pay & Interactive revenues grew 7% and ITV Studios total revenues grew 13%, including currency. In total, ITV delivered 2% external revenue growth to £3,132 million, with the 11% increase in non-NAR to £2,066 million more than offsetting the 5% decline in spot advertising revenue.

Twelve months to 31 December – on a continuing basis	**2017 £m**	2016 £m	Change £m	Change %
NAR	**1,591**	1,672	(81)	(5)
Total non-NAR	**2,066**	1,855	211	11
Total revenue	**3,657**	3,527	130	4
Internal supply	**(525)**	(463)	(62)	13
Group external revenue	**3,132**	3,064	68	2
Group adjusted EBITA	**842**	885	(43)	(5)
Group adjusted EBITA margin	**27%**	29%		
Adjusted EPS	**16.0p**	17.0p	(1.0)p	(6)
Statutory EPS	**10.2p**	11.2p	(1.0)p	(9)
Dividend per share	**7.8p**	7.2p	0.6p	8
Net debt as at 31 December	**(912)**	(637)	(275)	

Adjusted EBITA declined 5% to £842 million, with the £81 million decline in NAR partly offset by £29 million overhead savings, £25 million lower programme budget due to no major sports tournament, growth from high margin Online, Pay & Interactive and foreign exchange benefit. ITV Studios showed good underlying profit growth but the comparator included £37 million benefit of the four year licence deal for The Voice of China which was recognised in full in accordance with accounting standards. ITV Studios adjusted EBITA was flat at £243 million. Group adjusted EBITA was also impacted by £15 million of investment including in the ITV Hub, ITV Box Office and ITV Studios creative capability, particularly in America.

Adjusted EBITA tracker



Adjusted financing costs were higher year-on-year due to the bond issue. We made a number of investments in associates, including Blumhouse Television and Circle of Confusion and our joint venture BritBox US, and our adjusted tax rate was the same year-on-year. The net of these movements and the decline in NAR resulted in a 6% decline in adjusted EPS to 16.0p. Statutory EPS was down 9% to 10.2p due to the decline in EBITA and higher amortisation and impairment, which is explained over the following pages.

Our key strengths include our high margins and healthy cash flows, which, together with our ongoing focus on costs, places 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.

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 on pages 22 to 32.

Our Alternative Performance Measures, which are detailed on pages 34 and 35 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.

Finance Review
continued

Exceptional items

Twelve months to 31 December	2017 £m	2016 £m
Operating exceptional items:		
Acquisition-related expenses	(96)	(131)
Restructuring and property-related costs	(30)	(14)
Insured trade receivable provision	(27)	–
Pension curtailment	–	(19)
Total operating exceptional items	**(153)**	(164)
Non-operating exceptional items	(1)	–
Total exceptional items	**(154)**	(164)

Total exceptional items in the year were £154 million (2016: £164 million). Operating exceptional items principally relate to acquisition-related expenses, which are mainly performance based employment-linked consideration. Restructuring and property-related costs of £30 million include £24 million of incremental one-off property project costs associated with our planned London property move in 2018, primarily related to temporary rent and accelerated depreciation on fixtures and fittings. We will continue to incur exceptional rental costs over the next four or five years until we return to our headquarters at The London Television Centre. Further details can be found later in the section. Restructuring and property-related costs also include £6 million of redundancy costs in relation to the closure of the London Studios business.

The insured trade receivable provision of £27 million relates to the unpaid portion of revenue from the four year licence deal for The Voice of China with Talent Television and Film Co. Ltd (Talent), the revenue for which was fully recognised in 2016 in accordance with accounting standards as ITV had no further obligations under the terms of the agreement. Following a breach of the agreement by Talent as they had not fulfilled their payment obligations, we have taken back the licence for The Voice of China. ITV is pursuing Talent vigorously for the £30 million still due under the agreement. Further, ITV has credit insurance in place and a claim has been submitted. ITV will continue to pursue the amounts due and believes there will ultimately be no material impact. Whilst ITV is confident that it will recover the amount due, accounting standards set very specific requirements for the recognition of contingent assets, which is how the recovery of the amount due will be accounted for. As discussions with the insurers and the claim against Talent are in progress, at this early stage of pursuing recovery ITV is not able to demonstrate sufficient certainty for accounting purposes, to be able to recognise a cash receivable at the year end. Accordingly, ITV has made a provision amounting to £27 million (£30 million net of £3 million insurance excess) against the Talent receivable recorded in our accounts in the year ended 31 December 2017. The cash received in future will also be treated as an exceptional item.

The cash cost of exceptionals in 2017 was £126 million.

The pension curtailment in 2016 related to the closure of the defined benefit pension sections of the ITV pension scheme to future benefit accrual.

Net financing costs

Twelve months to 31 December	2017 £m	2016 £m
Financing costs directly attributable to loans and bonds	(30)	(22)
Cash-related net financing costs	(2)	(3)
Amortisation of bonds	(1)	(1)
Adjusted financing costs	**(33)**	(26)
Mark-to-market on swaps and foreign exchange	–	(3)
Imputed pension interest	(9)	(5)
Unrealised foreign exchange and other net financial losses	(8)	(17)
Net financing costs	**(50)**	(51)

Adjusted financing costs increased to £33 million (2016: £26 million) primarily due to the full year impact of the new €500 million Eurobond issued in December 2016.

Net financing costs were £50 million in 2017 which was broadly flat year-on-year (2016: £51 million). The increase in adjusted financing costs was offset by lower unrealised foreign exchange and other net financial losses. These costs largely relate to the movement in the value of put and call options for unowned equity on acquisitions we have made when it is not dependent on the seller remaining within the business. The put and call options normally run for three to five years. The value in the put and call option will fluctuate with currency and the expected performance of the business.

JVs and associates

The share of losses from JVs and associates has increased to £4 million (2016: nil) and is in relation to losses arising on our investments in BritBox US (a US based SVOD service launched as a joint venture with the BBC in the US in 2017) along with Blumhouse Television and Circle of Confusion, both of which are scripted talent investments within ITV Studios.

Profit before tax

Adjusted profit before tax, after amortisation and impairment of assets and financing costs, was down 6% at £800 million (2016: £847 million). Statutory profit before tax decreased by 10% to £500 million (2016: £553 million), due to the decline in EBITA as explained earlier, along with higher costs associated with amortisation and impairment of acquired assets in the year.

Profit before tax (PBT)

Twelve months to 31 December – on a continuing basis	2017 £m	2016 £m
Profit before tax	500	553
Production tax credits	32	28
Exceptional items	154	164
Amortisation and impairment*	97	77
Adjustments to net financing costs	17	25
Adjusted profit before tax	**800**	847

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

Strategic Report
Governance
Financial Statements
Additional information

Tax

Adjusted tax charge

The total adjusted tax charge for 2017 was £154 million (2016: £160 million), corresponding to an effective tax rate on adjusted profit before tax (PBT) of 19% (2016: 19%), which is broadly in line with the standard UK corporation tax rate of 19.25% (2016: 20%). We expect this effective tax rate to be sustainable over the medium term. 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	2017 £m	2016 £m
Tax charge	(87)	(100)
Production tax credits	(32)	(28)
Charge for exceptional items	(12)	(15)
Charge in respect of amortisation and impairment*	(19)	(11)
Charge in respect of adjustments to net financing costs	(4)	(6)
Adjusted tax charge	(154)	(160)
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.

Implications of US tax reforms

As a result of the recent enactment of the Tax Cuts and Jobs Act in the US, ITV has recognised a non-cash tax charge of £9 million, resulting from the revaluation of our US deferred tax assets to reflect the reduction in the US federal corporate tax rate to 21% from 1 January 2018.

We are working through the new legislative provisions in order to assess the full impact on our tax profile going forward, however we do not expect them to have a material impact on the Group's effective tax rate.

Cash tax

Cash tax paid in the year was £95 million (2016: £90 million), the majority of which was paid in the UK. The 2017 cash tax figure is net of £23 million of production tax credits received in the year (2016: £36 million). The cash tax paid is higher than the full year tax charge for 2017 of £87 million largely due to the timing of receipt of production tax credits in the UK and Italy and the tax treatment of allowable pension contributions. 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	2017 £m	2016 £m
Tax charge	(87)	(100)
Temporary differences recognised through deferred tax	(17)	(13)
Prior year adjustments to current tax	2	(10)
Current tax, current year	(102)	(123)
Phasing of tax payments – UK	12	5
Phasing of tax payments – overseas	(11)	5
Production tax credits – timing of receipt	(9)	7
Cash tax impact of allowable UK pension payments	15	16
Cash tax paid	(95)	(90)

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. 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 & Treasury Committee. Further details of the Committee can be found on page 66. The ITV Global Tax Strategy as published on the ITV plc website is compliant with the UK tax strategy publication requirement set out in Part 2 Schedule 19 of the Finance Act 2016.

Finance Review
continued

EPS – adjusted and statutory
Overall, adjusted profit after tax was down 6% at £646 million (2016: £687 million). After non-controlling interests of £4 million (2016: £4 million), adjusted basic earnings per share was 16.0p (2016: 17.0p), down 6%, which is marginally higher than the decrease in adjusted EBITA of 5% due to an increase in adjusted financing costs to £33 million (2016: £26 million) and our investment in associates in the year. The weighted average number of shares declined marginally to 4,006 million (2016: 4,010 million) because ITV bought shares during the year on behalf of the Employee Benefit Trust and, in line with accounting standards, shares held by the Trust are not included in the total share count. Diluted adjusted EPS in 2017 was 16.0p (2016: 17.0p) reflecting a weighted average diluted number of shares of 4,017 million (2016: 4,029 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 declined by 9% to 10.2p (2016: 11.2p) due to the decline in statutory EBITA as explained earlier, along with higher costs associated with amortisation and impairment of acquired assets in the year.

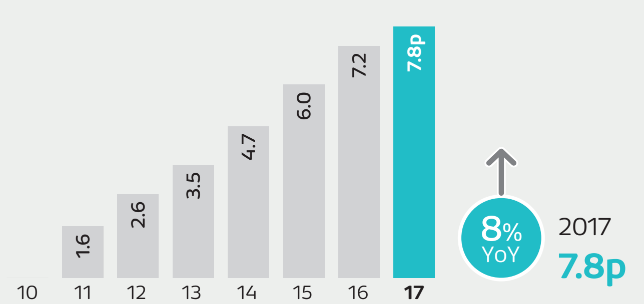
A full reconciliation between statutory and adjusted EPS is included within the Alternative Performance Measures section.

Dividend per share
The Board has declared a final dividend of 5.28p, an increase of 10% (2016: 4.8p). This equates to a full year dividend of 7.8p (an increase of 8% year-on-year), which gives a cover of 2.1x and reflects our confidence in the underlying strength of the business and the outlook for 2018.

This is in line with the Board's commitment to a long-term sustainable dividend policy and for ordinary dividends to grow broadly in line with earnings, targeting dividend cover of around 2x adjusted earnings per share over the medium term. ITV plc had £1.6 billion of distributable reserves at 31 December 2017 available immediately to support the dividend policy.

Given that there is now a more normal ordinary dividend, five consecutive special dividends, leverage of 1x net debt to adjusted EBITDA and the strategic refresh under way, the Board has decided not to pay a special dividend in respect of 2017.

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.

During the year, we have strengthened our UK business with the acquisition in April of a majority stake in World Productions, the drama production company behind the critically acclaimed and multi-award-winning Line of Duty. In October, we acquired a 25% stake in Koska Limited, a UK factual-entertainment production start-up, founded by Nick Emmerson, co-creator of Supernanny.

We are also making real progress in building a European scripted business. In February, we acquired a majority stake in Tetra Media Studios, the French television production group behind leading dramas including crime series Profilage, now in its seventh series, and Les Hommes de l'Ombre, the critically acclaimed political thriller. In October, we acquired a majority stake in Cattleya, the leading Italian independent producer behind international hit TV dramas Gomorrah, Suburra and Romanzo Criminale, and in December we acquired a 25% stake in Apple Tree Productions, a Danish scripted production company headed up by the award-winning producers of The Killing and The Bridge.

We have further strengthened our international business with a number of other small investments and acquisitions. In April, we acquired a 45% stake in Blumhouse Television, established by Jason Blum, the renowned film and television producer, which finances and produces original scripted and unscripted 'dark' genre programming for global audiences, including The Jinx and Cold Case Files. In May, we acquired a 49% stake in Circle of Confusion, a premier talent management and production company in the US, to launch Circle of Confusion Television Studios. The new television studio label will source, develop and produce premium scripted programming. Additionally, in June we acquired a majority stake in Elk Production, one of the leading independent production companies in Sweden. The company produces original formats such as the award-winning reality TV series Parneviks, along with acquired formats including Ninja Warrior and Dessertmästarna.

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. We have a corporate cost of capital (WACC), which we flex when assessing investment opportunities reflecting the size, risk profile, geography and type of investment. We also use our WACC to assess the performance of our investments and in the year we had a 13% return on capital employed from our acquisitions, well in excess of our WACC. 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 entertainment, as well as succession planning for key individuals in the business.

Acquisitions – 2012 to 2017 (undiscounted)

Company	Geography	Genre	Initial consideration £m	Additional consideration paid in 2017 £m	Expected future payments* £m	Total expected consideration** £m	Expected payment period	Total maximum consideration** £m
2017								
Various	Various	Content	81	–	44	125	2020–2024	418
Total for 2017			**81**	**–**	**44**	**125**		**418**
Total for 2012–2016	Various	Content & Broadcast TV	860	91	248	1,199	2018–2021	1,923
Total			**941**	**91**	**292**	**1,324**		**2,341**

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

We 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, the most significant of which is for Talpa Media whereby the total maximum consideration, including the payment made to date, is up to €1.1 billion, which is contingent on Talpa Media continuing to deliver significant profit growth to 2022 as well as John de Mol's continued commitment to the business during this time. To date, we have paid €600 million to John de Mol including €100 million for the first tranche of the earnout which was paid out in full in May 2017. Under the deal structure, because all future payments are directly related to John de Mol 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. This is consistent with our treatment of all costs of this type.

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 £292 million have decreased by £36 million since 31 December 2016, which is the net of the additional future payments relating to our 2017 acquisitions, the €100 million payment made to John de Mol for the first tranche of his earnout and foreign exchange on future payments denominated in foreign currency. At 31 December 2017, £161 million of expected future payments had been recorded on the balance sheet.

In 2018, around £78 million will be payable on our acquisitions, primarily to those based in the US.

Cash generation

Profit to cash conversion

Twelve months to 31 December	2017 £m	2016 £m
Adjusted EBITA	**842**	885
Working capital movement	**(58)**	(28)
Adjustment for high end production tax credits	**(9)**	8
Depreciation	**30**	31
Share-based compensation and pension service costs	**13**	10
Acquisition of property, plant and equipment and intangible assets	**(71)**	(44)
Adjustment for capex relating to redevelopment of London headquarters	**16**	–
Adjusted cash flow	**763**	862
Profit to cash ratio	**91%**	97%

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.

Finance Review
continued

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 and deliver sustainable returns to our shareholders.

In the year, we generated £763 million (2016: £862 million) of operational cash from £842 million (2016: £885 million) of adjusted EBITA, which equates to a strong profit to cash ratio of 91% after capex (2016: 97%). In the year, we saw an increase in working capital. This was due to the payment schedule for sports rights for future years, and the timing difference between the production and the final delivery and payment of scripted and entertainment titles such as Snowpiercer, Good Witch, Vanity Fair, Poldark, Dancing on Ice and Survival of the Fittest.

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 the 31 December, £90 million of receivables were sold under the purchase agreement (2016: £35 million).

Free cash flow

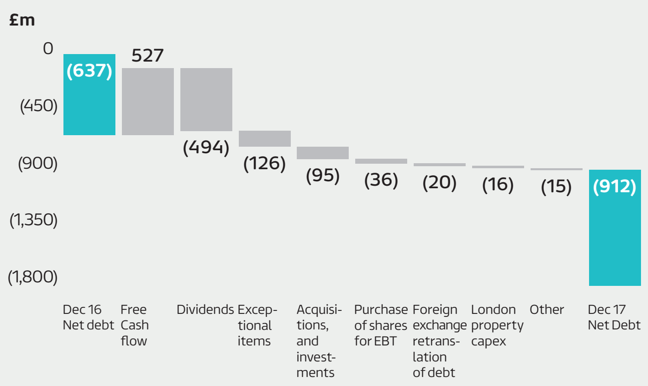
Twelve months to 31 December	**2017 £m**	2016 £m
Adjusted cash flow	**763**	862
Net interest paid	**(38)**	(20)
Adjusted cash tax*	**(118)**	(126)
Pension funding	**(80)**	(80)
Free cash flow	**527**	636

*Adjusted cash tax of £118 million is total cash tax paid of £95 million excluding receipt of production tax credits, which are included within adjusted cash flow from operations, as these production tax credits relate directly to the production of programmes.

While our free cash flow after payments for interest, cash tax and pension funding remained healthy in the period, it was down 17% to £527 million (2016: £636 million). This was primarily due to the year-on-year decline in adjusted EBITA along with the increase in working capital, as explained earlier.

Overall, after dividends (ordinary and special), acquisitions and acquisition-related costs, pension and tax payments, we ended the year with net debt of £912 million, compared with net debt of £1,074 million at 30 June 2017 and net debt of £637 million at 31 December 2016. Our net cash generation was weighted towards the second half of 2017 due to the payment in the first half of the special dividend, the Talpa earnout and content acquisitions.

Net debt tracker



Funding and liquidity

Debt structure and liquidity

Our balance sheet strength, together with our healthy free cash flow, enables us to continue to invest in opportunities to grow the business 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 2022 (with the option to extend to 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, £60 million was drawn down at 31 December 2017. Our policy is to maintain at least £250 million of available liquidity at any point.

In January 2017, we repaid the £161 million Eurobond as it matured.

Net debt

At 31 December	**2017 £m**	2016 £m
Gross cash	**(126)**	(561)
Gross debt	**1,038**	1,198
Net debt	**912**	637

Financing – gross debt
We are financed using debt instruments and facilities with a range of maturities. Borrowings at 31 December 2017 were repayable as follows:

Amount repayable as at 31 December 2017	£m	Maturity
£630 million Revolving Credit Facility*	60	2022
€600 million Eurobond	529	Sep 2022
€500 million Eurobond**	424	Dec 2023
Other loans	25	Various
Total debt repayable on maturity**	1,038	

* Option to extend to 2023.
** Net of £20 million cross-currency swaps.

At 31 December 2017, £570 million of the £630 million RCF was undrawn.

Capital allocation and leverage
Our objective is to run an efficient balance sheet. We have always believed that maintaining leverage below 1.5x net debt to adjusted EBITDA (2017 Adjusted EBITDA was £872 million) will optimise our cost of capital and maintain our investment grade credit. At 31 December 2017, reported net debt to adjusted EBITDA was 1.0x (2016: 0.7x). Our priority has been to invest to drive organic growth and we have made acquisitions where we have found the right opportunities. We balanced 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 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, net of gilts held as security against a proportion of those liabilities, 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 our investment grade rating is a key criteria when considering our overall capital allocation. At 31 December 2017, adjusted net debt was £1,430 million (31 December 2016: £1,637 million) and adjusted net debt to adjusted EBITDA was 1.6x (31 December 2016: 1.8x). A reconciliation of net debt to adjusted net debt is provided in the Alternative Performance Measures section on page 35.

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 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 and approval of tax and treasury related policies and procedures within the business. During 2017, we reviewed our foreign exchange risk management policies and made some amendments. There were no significant changes to the previous policy.

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	±50-60	±6-8
Euro	±40-50	±4-5

Finance Review
continued

Pensions

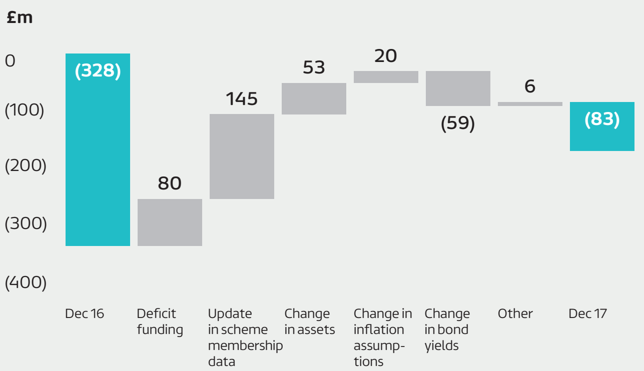
The net pension deficit for the defined benefit schemes at 31 December 2017 was £83 million (31 December 2016: £328 million). The year-on-year reduction in the deficit reflects gains from asset values in the year, more accurate data on scheme members based on the preliminary results of 1 January 2017 actuarial valuation and our deficit funding contributions of £80 million. The net pension deficit includes £38 million of gilts, which are held by the Group as security for future unfunded pension payments of four former Granada executives, the liabilities of which are included in our pension obligations. A full reconciliation is included within note 3.7.

Actuarial valuation

The last actuarial valuation was undertaken in 2014. On the basis agreed with the Trustee, the combined deficits as at 1 January 2014 amounted to £540 million and are estimated to be at a broadly similar level today.

The Trustee is in the process of undertaking a full actuarial valuation of all sections of the Scheme as at 1 January 2017, which we expect to agree during H1 2018.

Net pension deficit tracker



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 acccounting deficit does not drive the deficit funding contribution.

The total deficit funding contribution for 2017 was £80 million, which is consistent with the contributions payable in 2016. We do not expect a material change in the deficit funding contribution for 2018. Further details are included within note 3.7.

New accounting standards

IFRS 9 Financial Instruments, is effective from 1 January 2018. From our assessment, there is no material impact on the Group's results.

IFRS 15 Revenue from Contracts with Customers, is effective from 1 January 2018. An assessment of the impact on all of the Group's material revenue streams has been completed. The new standard requires the Group to reclassify various costs attributable to revenue in the income statement. For the year ending 2017, there will be no material impact on the Group's revenue and no impact on the Group's profit or the Group's adjusted EBITA as detailed below:

	Impact in 2017 £m
Revenue line	
NAR	(11)
Other commercial income	(1)
Online, Pay & Interactive	10
Total Broadcast revenue	**(2)**
Operating costs	**(2)**
Adjusted EBITA	**–**

IFRS 16 Leases, is effective from 1 January 2019. The detailed assessment of the impact on the Group's performance is ongoing. During the early impact assessment, the Group has reviewed the current accounting for the existing key service agreements, including satellite, transponder and playout agreements and concluded that those do not meet definition of a lease and therefore should be classified as service agreements under the regulations of IFRS 16 and current accounting standards. Outside of the transmission infrastructure agreements, the adoption is likely to have a material impact on the presentation of the Group's assets and liabilities, mainly due to property leases.

See pages 122 and 123 for further detail on these new accounting standards.

London property

In 2017, the Board made the decision to redevelop our headquarters at The London Television Centre for which we own the freehold. This requires relocating staff and studios for four to five years to alternative accommodation before moving back into a new freehold building. Therefore, ITV has taken rented office and studios space in the interim while the new headquarters are constructed.

During the course of the project, ITV will ring-fence all incremental costs in relation to the redevelopment. Move costs, dual rates and rent will be treated as exceptional costs in the P&L as they relate to the one-off property project that runs over several years but we will no longer incur them once we return to The London Television Centre. Capital items will be capitalised as investment capex. Investment capex is excluded from capex for our adjusted cash measurements.

In 2017, ITV incurred £24 million of costs in relation to accelerated depreciation for assets made redundant as a result of the move, move costs, dual rates and rent. These were exceptionalised as explained above. ITV also incurred £16 million of costs for the fit out of the interim offices and studios and in relation to planning for the redevelopment of The London Television Centre which were capitalised.

In 2018, ITV will incur move costs, dual running costs, dual rates and rent which will be exceptionalised as explained above. ITV will incur around £40 million of cash costs for further fit-out of the interim offices and studios space and further costs associated with the redevelopment of The London Television Centre, which will be capitalised. Depreciation associated with the fit-out of the interim offices and studios space will not be exceptionalised.

In February 2018, Lambeth Council planning committee passed a resolution to grant planning permission for the new headquarters. The application now goes forward to the Greater London Authority for endorsement. Once all approvals have been granted, we expect to commence demolition of the current building in 2018. All build costs will be capitalised until we move back, which is expected in 2023, with the most significant investment capex to be incurred in 2021 and 2022.

Following the step up in London property operating costs in 2018, we do not expect future costs to be materially different from 2018 when we move back in 2023.

2018 full year planning assumptions

Profit and Loss impact:

- Total schedule costs are expected to be £1,055 million to £1,060 million, an increase of around £30 million and weighted to H1 due to the Football World Cup
- Total investments of around £15-£20 million in on-going new property, online and initial data investments
- Adjusted interest is expected to be around £35 million, which is broadly unchanged from 2017
- 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, could have a £35 million negative impact on revenue and £5 million negative impact on profit
- Exceptional items are expected to be around £85 million, mainly due to acquisition accounting and the London Property redevelopment project.

Cash impact

- Total capex is expected to be around £100 million, comprising of £60 million of regular capex to support the business and £40 million relating to the redevelopment of our London site
- The cash cost of exceptionals will be around £85 million, largely relating to accrued earnouts
- Profit to cash is expected to be around 85%, reflecting our continued strong cash generation and investment in Studios working capital
- Total pension deficit funding is expected to be £80 million, unchanged subject to agreeing the triennial valuation

Ian Griffiths
Chief Operating Officer and Group Finance Director

Risks and Uncertainties

As a producer and 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

The risk management framework sets out our processes for identifying, reviewing and managing our risks and is regularly assessed and adapted as the Company, industry and macro environment evolves.

Risks are primarily controlled through the risk management process. The Board has carried out a robust assessment of the principal risks facing the Company and details of these are set on out on the following pages.

Our ongoing process for risk identification, review and management is set out below and is consistent with last year.

Board

Risk appetite and culture

Management and Divisional Boards

Have responsibility for:

- The development and operation of the risk management framework and for the operation of our systems of internal control. This includes:
  - 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 weakness (if any) is reported to the Board and action taken as appropriate
- Routinely reviewing and challenging risks and mitigations.

Operation and Assurance – three lines of defence

- We are continuing to develop our three lines of defence model to better manage our risks. We are moving our approach to risk away from a rules and process driven system to a cultural people driven solution, which we believe encourages a focus on prevention rather than reaction to failure. The Leading Risk training programme in place for ITV Studios production management continues to be developed

- 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

The Board is responsible for setting the level of risk the Company is willing to take in line with our strategy. There are clear approval frameworks in place and we continue to develop our approach to ensure that the business understands the Board's risk appetite and the tolerance levels and track the key risk indicators to help manage each risk.

Throughout the year, we have continued to focus on and strengthen our risk culture. We have an open communication culture where information is shared and issues are escalated as appropriate.

Operational Risk Steering Group

Has responsibility for:

- Considering and setting actions for improving controls and mitigations for pan ITV risks and for ongoing monitoring of those actions
- Reviewing incident reports and other statistics
- Reviewing policies and processes to ensure they remain fit for purpose
- Identifying and reporting emerging risks
- Identifying and resolving issues

Risk areas in scope of the group and sub-committees that deal with specific risk areas are set out in the governance framework on page 66.

The Chairman of the Audit and Risk Committee attends meetings of the Operational Risk Steering Group periodically.

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 72.

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

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

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

For each principal risk, mitigating actions have been identified and the risk has been mapped to its relevant business segment and, where possible, assigned key risk indicators. Risk direction has also been given to each risk which is after mitigation. Where appropriate, the key risk indicators are aligned to our key performance indicators (KPIs) on pages 36 to 39. All principal risks are owned by at least one member of the Management Board.

The Management and Divisional Boards have reviewed ITV's principal risks and uncertainties and these potential risks are predominantly unchanged.

	Potential Risk	Key Drivers	Mitigating Factors and Risk Direction	Link to business	Risk direction
The Market	**There is a major decline in advertising revenue due to economic uncertainty and ITV does not build sufficient non-NAR revenue streams to mitigate the financial impact of this decline.**	• The current economic environment is uncertain, which may impact demand for advertising	• ITV has made significant progress in rebalancing the business and 56% of our total revenue comes from sources other than television spot advertising • Growing non-NAR in areas such as ITV Studios and Online, Pay & Interactive, remains a key priority of the business • The Company has adequate financial liquidity and balance sheet flexibility to continue to invest as ITV maintains its focus on cash and costs		↔
	A faster than expected shift to VOD or other new technologies, such as internet enabled televisions or online only services, causes a sustained loss of viewing and advertising revenue.	• Television is now available on many different devices and platforms, which is changing the way people are consuming television and viewers are now spending more time watching content online • This structural shift is impacting the advertising market in the UK as digital advertising continues to grow strongly • While growing rapidly, online viewing remains a small percentage of total viewing at around 12% (2016: 9%, source: BARB/Thinkbox data) and television advertising represents 25.5% of total advertising in the UK, which is slightly down on 2016 (2016: 27.5%)	• The business continues to develop the ITV Hub VOD services, maximise the distribution of the ITV Hub and grow its VOD advertising business • ITV monitors the market for new technology and where appropriate explores how ITV can participate • ITV continues to invest around £1 billion in its programme budget annually • ITV is focused on ensuring that television provides a trusted and safe environment for advertisers and delivers the highest return on investment of any advertising media. • ITV has launched its SVOD proposition, Britbox, in the US and Canada • Cirkus, our SVOD proposition, has been rolled out further and is now in the Nordics and Germany **This risk has increased since last year as online viewing is growing particularly amongst younger viewers.**		↑

Broadcast & Online – building our free-to-air, online and pay business

ITV Studios – growing an international content and distribution business

Risk direction (after mitigation) since 2016

↑ Increased risk

↔ Risk stayed the same

↓ Reduced risk

	Potential Risk	Key Drivers	Mitigating Factors and Risk Direction	Link to business	Risk direction
Talent and People	**A significant event removes a number of the key management team from the business on a long-term or permanent basis.**	• In the ordinary course of business activities, there will be times when the Management Board is in one location or travel together as a group	• There is a business resilience plan in place, which includes succession plans or nominated replacements for all key positions within the Company		↔
	ITV fails to evolve its organisational structure and culture and therefore fails to attract, develop and retain key creative, commercial and management talent.	• Employing the best creative, commercial and management talent is key to our success • Failing to create the right culture to attract and retain this talent increases this risk	• Employee engagement is critical and we continue to monitor it through our employee surveys, which take place every two years (90% engagement in 2016 employee survey) • ITV constantly reassesses the business to create a fit-for-purpose organisation • ITV is focused on working across the business to embed and strengthen the culture of 'One ITV' way of working • ITV invests in training and development programmes • Succession plans are in place for all key positions within the Company		↔
Operational	**There is significant loss of programme rights or ITV fails to identify and obtain the optimal rights packages.**	• There is increased competition for high-quality programme rights as broadcasters and platform owners demand brand defining content • The significant budgets of the new platforms, such as Netflix and Amazon, have changed the market for on-screen and off-screen talent, which has impacted the cost of content	• ITV is focused on both protecting and exploiting existing rights and ensuring that future rights generated accrue to ITV • As an integrated producer broadcaster, ITV produces a significant proportion of the broadcast schedule. In 2017, this increased to 66% of the main channel's original commissions • ITV invests in creating and owning quality content through ITV Studios • ITV maintains good relationships with independent producers to ensure it has opportunities to acquire quality content • ITV has a detailed model to evaluate the value of third-party rights to ensure it only buys rights that make economic sense **This risk and opportunity has increased since last year as OTT platforms are increasing their programme spend. This presents an opportunity for ITV Studios to supply content to them.**		↑
	ITV fails to create, own and protect the rights to a sufficient number of hit programmes/formats across its international portfolio of content companies.	• Our ability to create and own hit programmes depends on the quality of our content business • ITV is the largest UK commercial producer and a leading independent non-scripted producer in the US and Europe	• ITV maximises opportunities for ITV Studios to create successful shows by investing in the creative pipeline and focusing on programmes and genres that can return and travel internationally, i.e. drama, entertainment and factual entertainment, as evidenced by our increased investment in producing scripted content • ITV is focused on hiring and retaining the right key creative talent		↔

Strategic Report
Governance
Financial Statements
Additional information

Risks and Uncertainties continued

	Potential Risk	Key Drivers	Mitigating Factors and Risk Direction	Link to business	Risk direction
Operational	**ITV does not react quickly enough to changes in the broader market and fails to properly resource, financially, creatively and operationally, the new growth businesses, in particular online and international content.**	• In a fast-changing media environment, there is an increased risk that sub-optimal investment decisions are made	• Investment opportunities and decisions are made by the relevant board based on their strategic fit and return on investment profile • Talent management plans have been developed and reviewed to ensure adequate succession planning across ITV • ITV continues to embed and strengthen the culture of 'One ITV' way of working • Lessons from recent investments are captured through post-acquisition reviews		↔
Technology	**A major incident results in ITV being unable to continue with scheduled broadcasting for a sustained period of time.**	• ITV's broadcast technology chain is complex because it operates in multiple regions and links to many platforms • Risk can therefore materialise within ITV or with third parties responsible for servicing the broadcast supply chain • With the move out of Southbank, ITV will be using third-party managed studio facilities for some of its daytime shows	• A risk register of broadcast operations, including key outsourced functions, is in place and reviewed on a regular basis • There are business continuity and disaster recovery plans in place in high risk areas to help deliver a rapid and flexible response • Major incident scenario testing takes place bi-annually • ITV has ongoing modernisation projects to ensure transmission and distribution technologies are fit-for-purpose • ITV continues to proactively manage its broadcast chain partners and suppliers to ensure the risk of incidents and regulatory breaches is minimised		↔
	ITV remains heavily reliant on legacy systems, which could potentially restrict the ability to grow the business. These systems and processes may not be appropriate for new non-advertising revenue or rapid international growth.	• Our system requirements change as we continue to rebalance the business, grow new revenue streams and become increasingly international	• System requirements are kept under review with business growth and system modernisation projects implemented as appropriate • A modernisation plan is in place for the legacy systems, which remains under constant review and development to ensure technology systems meet the needs of the business • Cyber risk mitigations in relation to all of our systems are set out on page 55.		↔

Broadcast & Online – building our free-to-air, online and pay business

ITV Studios – growing an international content and distribution business

Risk direction (after mitigation) since 2016

↑ Increased risk

↔ Risk stayed the same

↓ Reduced risk

	Potential Risk	Key Drivers	Mitigating Factors and Risk Direction	Link to business	Risk direction
Technology	**Impact of cyber attack on ITV** **There is a sustained cyber attack causing prolonged system denial or major reputational damage, for example:** • **The ability to broadcast our channels** • **The availability of ITV Hub** • **ITV loses a significant volume of personal or sensitive data** • **Corporate systems are compromised**	• Cyber security is 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 • There are a growing volume of software and hardware vulnerabilities being identified by technology providers in their own products • Further, we are higher risk as a result of being a media company and operating in a public environment	• By establishing further internal cyber controls across our devices, apps, networks and servers, we have improved our ability to monitor, detect and respond to cyber threats • We continue to educate our colleagues in order to improve our ability to spot, avoid and report cyber attacks • We have worked with specialist security organisations to implement 24x7 monitoring of our network traffic and during the year they conducted cyber simulation and phishing exercises • We have enhanced our process for the risk assessment of third-party security as our cyber risk extends to our supply chain • There are disaster recovery and incident management plans in place for high-risk areas of the business **This risk has increased since last year as our technology becomes more sophisticated.**		↑
Reputation	**An event with public interest causes significant reputational and brand damage.**	• WIth our Broadcasting and Studios businesses, the Company operates in a public environment and is exposed to the risk of a high-profile incident, for example through our association with the actions of our talent	• ITV has a crisis management policy and process in place and is increasing emphasis on its development and application • ITV proactively manages its broadcast chain partners and suppliers to ensure the risk of incidents and regulatory breaches is minimised		↔
	There is a major health and safety incident that results in a significant loss of human life on a production.	• As ITV Studios expands, there is a continued increase in the number of production hours, and an increased potential to produce certain types of programming that have higher inherent risks	• ITV has a central health and safety team and health and safety policies and procedures in place, with appropriate training for employees where required • We have developed our safety management approach to align with our studios label model to ensure ownership of risk in the appropriate business areas. To reflect this, we are developing our training programme initially through Leading Risk (see case study on page 79) • We are continually reviewing our processes and overall approach to production safety (see case study on page 78) and have built a comprehensive online resource to provide easily accessible production focused health and safety advice and support • We are developing our reporting tools to provide increased oversight of risks across the Studios division **This risk has increased since last year as ITV undertakes more complex productions.**		↑

Risks and Uncertainties continued

	Potential Risk	Key Drivers	Mitigating Factors and Risk Direction	Link to business	Risk direction
Regulation	**There is a significant or unexpected change in UK regulation or legislation.**	• ITV 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	• ITV regularly communicates with appropriate groups and its legal panel and Ofcom to monitor potential policy, legal and regulatory developments		↑
	Impact of exiting the European Union **The political and economic uncertainty arising from the UK's referendum vote to leave the EU could result in continued macro uncertainty. This may impact the overall health of the UK television advertising market, with corporate and consumer confidence both weakening since the outcome.** **Further, there is considerable uncertainty regarding the likely terms of the post Brexit trading arrangement between the UK and the EU, which is expected to continue for the foreseeable future.**	While the potential changes and the impact of any such changes will remain unknown for a while, ITV could, for example, be affected by: • Changes to EU broadcasting legislation and/or rules around EU market access, for example if the UK does not retain classification of UK content as European. This could potentially reduce the scale of the market opportunity for UK content in the EU • Restrictions to the free movement of our staff impacting our operating model and ability to attract and retain the best talent • New non-EU worldwide trade deals that could, for example, see pressure to weaken requirements for UK broadcasters to purchase original content made in the UK/EU or for the UK to broaden exceptions from intellectual property protection. This could potentially reduce the scale of the market opportunity for our content in the UK. • Changes in taxation, free movement of capital and transfer pricing regulation	The likelihood or extent of any impact is currently unknown, however, we continue to work closely with industry bodies and discuss key issues with key UK Government departments We will closely monitor negotiations with the EU, as well as emerging non-EU worldwide trade deals, and will evaluate any potential areas of risk		↔

Broadcast & Online – building our free-to-air, online and pay business

ITV Studios – growing an international content and distribution business

Risk direction (after mitigation) since 2016

↑ Increased risk

↔ Risk stayed the same

↓ Reduced risk

	Potential Risk	Key Drivers	Mitigating Factors and Risk Direction	Link to business	Risk direction
Financial	**ITV loses its credit status or lines of funding with existing lenders or there is an event that impacts financial arrangements/ availability of credit.**	• There is a repeat of the 2008/09 financial crisis as a result of a major bank collapse or there is a similar financial outcome as a result of an unexpected world event	• The business is cash generative and working capital management remains a key focus • ITV has a balance sheet policy to maintain adjusted net debt below 1.5x adjusted EBITDA and have available liquidity headroom of at least £250 million • ITV has a £630 million Revolving Credit Facility with a number of core relationship banks and £300 million of financial covenant free facilities • The relatively low levels of ITV debt and our two investment grade ratings mean ITV continues to have good access to both bank and bond financing	Broadcast & Online; ITV Studios	↔
	There is a major collapse in investment values or a material change in liabilities leading to an impact on the pension scheme deficit.	• As a result of macroeconomic changes, there can be material movements in the Group's defined benefit pension scheme • For example, the Bank of England's monetary policy may impact gilt yields and corporate bonds rates, increasing the scheme's liabilities • Or if there is an unexpected world event that impacts property values and/or impacts share prices	• There is regular communication between ITV and the pension trustees • The pension scheme's assets are invested in a diversified portfolio, with a significant amount of the fund held in bonds • ITV has worked with the pension trustees to limit the potential deficit by a series of asset-backed arrangements. Further, it has taken some mortality risk out of the scheme with a longevity swap and hedged a portion of inflation and interest rate variability	Broadcast & Online; ITV Studios	↔

Viability Statement

What is the process ITV follows?
At an 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. Pages 18 to 19 of the Annual Report provide detail of ITV's prospects in the Strategy and Business Model section.

What is the assessment period for viability?
In its assessment of viability, the Board reviewed the planning horizon and is of the view that a three year period to 31 December 2020 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 reviewed each of ITV's principal risks and, taking into account current operational and financial performance, has in particular analysed the impact of:

Scenario modelled	Link to principal risks (pages 52 to 57)
Scenario 1: The Broadcast division experiencing a significant and sharp downturn, similar to the 2008/09 financial crisis, with advertising revenues declining for two years followed by a year of flat revenue. This scenario could be regarded as cautious as recessions in the advertising market have historically not exceeded a two-year period and showed growth following that period.	There is a major decline in advertising revenues and ITV does not build sufficient non-NAR revenue streams to mitigate the financial impact of this decline.
Scenario 2: A number of key programme brands within the Studios division are not recommissioned. While the scheduling decisions of commissioners are made in advance, a number of key shows could come to an end at the same time.	ITV fails to create and own a sufficient number of hit programmes/formats across its international portfolio of content companies.

In line with prior years, the Board has considered a scenario involving changes in pension funding obligations. However, while the final actuarial valuation as at 1 January 2017 has not been agreed, the Board does not anticipate any material changes in funding obligations in the three year period under assessment. The Board will continue to monitor the risk, as the next valuation as at 1 January 2020 could have an impact on the periods assessed in future viability statements.

Further, the impact of the London Property project on the Group's viability was considered. Due to the medium-term nature of the project, it is not currently anticipated to have a significant impact on liquidity in the period reviewed in this statement. 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, current bank facilities are secured for more than three years and there are no major bond repayments due in this period); and the Group maintains the stated dividend policy.

The scenarios used are hypothetical but 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 2020. 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:

Ian Griffiths
Chief Operating Officer and Group Finance Director
28 February 2018

Chairman's Governance Statement

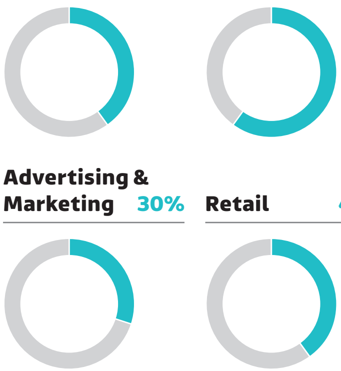
In the Governance section
This section of the Annual Report contains a statement from our Chairman and information about the Directors and Management Board. It explains our governance structure and corporate governance compliance and includes reports from the Audit and Risk and Remuneration Committees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

Board experience

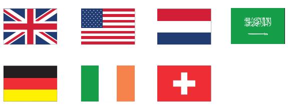
Sector experience

Media 40% **Finance** 60%

Advertising & Marketing 30% **Retail** 40%



International experience



I am pleased to present our Corporate Governance Report for 2017. We believe that corporate governance is essential to our success and as such the Board is committed to upholding the highest standards of governance and works closely with the executive team in order to do so. We are engaged in considering the proposals for the revised UK Corporate Governance Code (the "Code") and will seek to ensure compliance with that Code in due course. This year has seen an increase in Board membership, which builds on our already diverse Board and brings additional experience, ensuring there is an appropriate balance of skills and knowledge. This current Board consists of a strong team with a wide range of experience across various industries and territories.

Information on what we focused on in the year can be found on page 67.

Board composition
Following the departure of Adam Crozier, we announced in July of last year the appointment of Dame Carolyn McCall as Chief Executive. I am very pleased to welcome Carolyn, who with her track record in media, experience of international operations, clear strategic acumen and strong record of delivering value to shareholders will help to continue to build on the success of ITV. The decision to appoint Carolyn was taken after a rigorous selection process. More detail can be found on page 68.

The Board is mindful of the need to refresh its membership at appropriate intervals and after more than nine years on the board Andy Haste and John Ormerod will step down following the AGM in May. The Board agreed last year that Margaret Ewing would be the best candidate to succeed John as Chair of the Audit and Risk Committee. Salman Amin was also appointed during the year and has been a great addition to the Board. More details on our approach to Board diversity can be found on page 69.

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 68. All Directors are required by the Company's Articles of Association to be elected by shareholders at the first AGM following their appointment by the Board. Subsequently, all Directors are subject to annual re-election by shareholders as recommended by the Code.

"The Board is mindful of the need to refresh its membership at appropriate intervals."

Culture

Q&A

Q What is ITV's culture?
A ITV believes in an open 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.

Q How does the Board engage with the corporate culture?
A 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 employees as well as ITV's external reputation. As mentioned, openness and communication are key at ITV and as such it is imperative that the Board is visible throughout the organisation. The Board participates in site visits to our different locations and is in regular communication with senior executives and other employees.

Q How is the corporate culture embedded across the organisation?
A We seek to instill the 'One ITV' way of working our global network of Ambassadors to enhance communication and information sharing across all levels of the business. The Board considers and acts upon feedback from employee engagement surveys. We also aim for our senior executives and our Board members to be as visible as possible and use open plan office space to encourage openness and collaboration. Our London property strategy is a big step to achieve a more coherent and joined-up business.

Q What is next for ITV?
A We believe that an 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 strategy refresh.

Board induction and evaluation

We believe that a comprehensive induction programme is important for all of our new Board members as well as a programme of continuing evaluation for the Board to assess its effectiveness. Full details of our evaluation and induction processes in the year are set out on page 69.

Stakeholder engagement

Our stakeholders are very important to us and we remain committed to maintaining regular open dialogue and effective communication with them. We believe that continued engagement is highly beneficial to all parties as it helps to build a greater understanding of their views, opinions and concerns. Further information on how we engage with our stakeholders can be found on page 71.

Compliance with the UK Corporate Governance 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 2017 the Company has complied with the provisions of the Code but notes the following:

- Provision B.7.1 – Independence

  John Ormerod has served on the Board for more than nine years. The Board believes he remains independent and as explained last year, the Board agreed that he should remain as a Director until a successor as Chair of the Audit and Risk Committee could be found. Margaret Ewing was appointed in October 2017 to fill this position.

- Provision A.2.1 – Separation of Chairman and CEO

  Following Adam Crozier's departure, the Board agreed that I would step up as Executive Chairman from July 2017 until a new Chief Executive joined the business. Dame Carolyn McCall was appointed to the Board in January 2018 to fill this position. The Board notes that this was not compliant with the Code.

Further information on corporate governance and a schedule setting out how we comply with the Code can be found on our website.

www.itvplc.com/investors/governance

A copy of the Code is available on the FRC website.

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

Looking ahead

It has been a year of change for ITV and we enter 2018 with a new Chief Executive who the Board strongly believes will put ITV in the best position to face the challenges of a competitive and rapidly changing industry.

Sir Peter Bazalgette
Chairman
28 February 2018

Board of Directors

1 Ian Griffiths
Chief Operating Officer and Group Finance Director
G
Appointed: September 2008
Key areas of prior experience: Corporate finance and financial restructuring.
Current external appointments: Non-executive Director of DS Smith Plc.
Previous experience: Group Finance Director and other senior finance roles within Emap plc; Manager in audit and corporate finance at Ernst & Young.

2 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, Burberry Group plc and Department of Business, Energy and Industrial Strategy. Director, Corporate Board of Royal Academy of Arts.
Previous experience: Chief Executive of easyJet plc, Guardian Media Group plc, Guardian News and Media plc; Non-executive Director of Lloyds TSB Limited, Tesco plc, New Look plc; Director of French Chamber of Commerce; Chair, Opportunity Now; President, Women in Advertising and Communications London.

3 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: Member of Advisory Board for YouGov plc and Bartle Bogle Hegarty.
Previous experience: President, the Royal Television Society; Chairman, the Arts Council of England; Non-executive Director of Nutopia; Non-executive Director and Chairman of the Remuneration Committee and member of the Audit Committee of YouGov plc; Non-executive Director of Mirriad Ltd, DCMS, Rightster, Critical Information Group plc and Channel Four Television Corp; Trustee of DebateMate; Chairman of the ENO and Endemol UK; 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.

4 Margaret Ewing
Non-executive Director
N A
Appointed: October 2017
Key areas of prior experience: Financial accounting, corporate finance, mergers and integration, strategic and corporate planning.
Current external appointments: Non-executive Director and member of the Audit and Risk Committee of ConvaTec Group plc; Trustee, the Board of Great Ormond Street Hospital Children's Charity; External member of the Audit Committee, The Lawn Tennis Association.
Previous experience: Executive member of the Board, Executive Committee member, Managing Partner, Vice Chairman and Partner of Deloitte LLP. External member of the Audit and Risk Committee John Lewis Partnership. Non-executive Director, Standard Chartered plc; Member of the Financial Reporting Review Panel; Chairman of the Audit Committee, Confederation of British Industry; Non-executive Director and Chair of the Audit Committee, Whitbread plc; Group Chief Financial Officer, BAA plc; Group Finance Director, Trinity Mirror.

5 John Ormerod
Non-executive Director, Chairman of the Audit and Risk Committee
N A R
Appointed: January 2008
Key areas of prior experience: Finance, developing strategy and growth.
Current external appointments: Non-executive Director, Constellium NV, Gemalto NV.
Previous experience: Non-executive Chairman, First Names Group Limited, Tribal Group plc, Merlin Claims Service Holdings Limited; Senior Independent Director, Misys plc; Trustee, The Design Museum, The Roundhouse Trust; Non-executive Director and Chairman of Audit Committee of Computacenter plc; Non-executive Director, Negative Equity Protection Holdings Limited, Millen Group Limited, BMS Associated Limited; Member of Audit and Retail Risk Control Committees of HBOS plc; Chairman, Wallbrook Group; Chairman of the Audit Committee for Transport for London; Practice Senior Partner, Deloitte & Touche; Regional Managing Partner, Arthur Andersen.

6 Salman Amin
Non-executive Director
N
Appointed: January 2017
Key areas of prior experience: General management, marketing, advertising and media planning.
Current external appointments: None.
Previous experience: Chief Operating Officer, Global Commercial Division and Chief Operating Officer, North America of SC Johnson and Son Inc; various positions at Pepsico including: Chief Operating Officer, Purchase; President, PepsiCo UK and Ireland; 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.

7 Andy Haste
Senior Independent Director
N A
Appointed: August 2008
Key areas of prior experience: International and emerging markets, change management, restructuring and business turnaround.
Current external appointments: Chairman, Wonga Group Limited; Senior Independent Deputy Chairman of the Council of Lloyd's.
Previous experience: Group Chief Executive, RSA Insurance Group plc; Chief Executive, AXA Sun Life plc; Director, AXA UK plc (life and pensions); President and Chief Executive Officer of GE Capital Global Consumer Finance UK, Western Europe and Eastern Europe; President, the US Consumer Credit Business and Senior Vice President and Head of the US Consumer Loan Products Division of National Westminster Bank.

8 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 Chair of the Remuneration Committee, Reckitt Benckiser Group PLC; Member of the supervisory board of Unibail Rodamco SE.
Previous experience: Non-executive Director, 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.

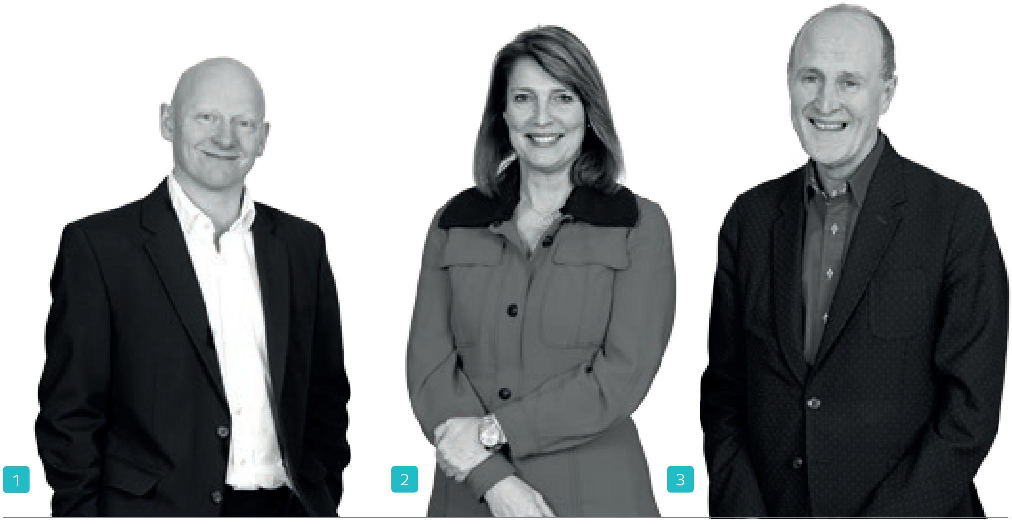
Committee membership
G General Purpose
A Audit and Risk
N Nomination
R Remuneration

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

Strategic Report
Governance
Financial Statements
Additional information

9 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: Chief Financial Officer, 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.

10 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; Non-executive Director, Pandora Media Inc; Director, The John Hopkins University.
Previous experience: 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.



Management Board

1 Julian Bellamy
Managing Director, ITV Studios
Appointed: February 2016
Experience: Julian joined ITV in 2014 as Managing Director of the Studios business 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.

2 David Osborn
Group HR Director
Appointed: October 2014
Experience: David joined ITV as the HR Director for ITV Studios in May 2011, and was appointed to the Management Board in October 2014 as Group HR Director, responsible for delivering the Group's People Strategy. David gained previous experience in both the UK and internationally while working in a variety of businesses including EMI Music, Vodafone, Visa Europe and Marks & Spencer.

3 Carolyn McCall
Chief Executive
Appointed: January 2018
Experience: Full biography on page 62.

4 Kevin Lygo
Director of Television
Appointed: August 2010
Experience: Kevin joined ITV as Managing Director, 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.

5 Rufus Radcliffe
Group Marketing and Research Director
Appointed: April 2017
Experience: Rufus joined ITV in August 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 10 years at Channel 4, and prior to that held various positions at McCann Erickson and JWT.

6 Ian Griffiths
Chief Operating Officer and Group Finance Director
Appointed: September 2008
Experience: Full biography on page 62.

7 Kelly Williams
Managing Director, Commercial
Appointed: December 2014
Experience: Kelly joined ITV in August 2011 as Group Commercial Director and joined the Management Board as Managing Director, Commercial 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.

8 Julian Ashworth
Director of Strategy and Direct to Consumer
Appointed: February 2018
Experience: Julian recently joined ITV to lead the strategy review and development of the ITV 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 a member of the UK Council for Child Internet Safety.

9 Andrew Garard
Group Legal Director and Company Secretary
Appointed: November 2007
Experience: Andrew joined ITV as Group Legal Director in 2007 and took on the additional role of Company Secretary in 2009. He is also on the board of ITN, is responsible for content management and the ITV archive, Group Secretariat and corporate responsibility. Previously, Andrew was a partner in the corporate department of LeBoeuf Lamb's London office. Prior to this, Andrew was Group General Counsel and Company Secretary at Cable & Wireless plc where he was a member of the Group Executive responsible for Group Legal. Prior to that, he was Global Head of Legal and Deputy General Counsel for Reuters Group plc in the UK, and before that General Counsel, Asia.

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

1 2 3

4 5 6

7 8 9

Corporate Governance

Our Governance structure

Board

Audit and Risk Committee
See the Audit and Risk Committee Report on page 72.

Remuneration Committee
See the Remuneration Report on page 82.

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

Disclosure Committee
COO & CFO and other senior managers
Meets to ensure compliance with the continuing obligations under the Disclosure Guidance and Transparency Rules (DTRs).

Tax and Treasury Committee
COO & 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 and operational plans, monitors operating and financial performance, and assesses and manages risk.

ITV Studios Board
Executive directors and senior executives of divisional business. Meets to consider and approve operational matters, and assesses and manages risk in relation to the Studios business.

ITV Broadcast Board
Executive Directors and senior executives of divisional business. Meets to consider and approve operational matters, and assesses and manages risk in relation to the Broadcast business.

Operational Risk Steering Group
Manages and considers a number of existing and emerging operational risks and ensures that the business addresses the controls and mitigations appropriately including in relation to: health & safety, child protection, business resilience, data protection, insider dealing, whistleblowing, anti-bribery & corruption, information security, fraud, technology and cyber risk.

Business Resilience Response Team
Acts as 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.

Programme Compliance Advisory Group
Manages and considers issues and risks in relation to the programme compliance framework, the interactive business and regulation.

Corporate Responsibility Board
Manages the direction and delivery of ITV's responsibility strategy including in relation to diversity and inclusion, environment, communities and social causes. See page 20.

Board and Committee meetings

The number of meetings held during the year and attendance of Directors is set out in the table on page 68. 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
- 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 meeting with members of senior managers management
- Senior Independent Director and Non-executive Directors (without the Chairman present)

Key matters discussed in 2017 and focus for 2018:

Operational matters
- Plans for redevelopment of London site
- Cost savings
- Mergers and acquisitions
- Budget

Developments
- The ITV Hub and ITV Hub+
- Targeted advertising
- Airtime sales modernisation
- International production

ITV brand
- Changing viewers' perception of ITV
- Marketing for lighter viewers
- 16–34 year old viewing

Risk
- Cyber security
- Data protection and GDPR
- Technology resilience
- Daytime studio migration

Other important matters
- Britbox US launch
- Succession planning
- Integrated producer broadcaster
- Acquisition integration
- Gender pay gap reporting
- Drama development

Areas of focus for 2018
- Strategic refresh
- Consumer data
- Future of advertising
- Impact of the EU referendum vote
- SVOD

Corporate Governance continued

Board and Committee membership and attendance

Board and Committee membership and attendance at scheduled meetings in 2017 are set out below.

					Attendance at meetings			
	Status	Notes	Date of appointment to the Board	Date elected by shareholders	Board	Nomination Committee	Remuneration Committee	Audit and Risk Committee
Peter Bazalgette	Chairman	1	1 June 2013	14 May 2014	9/9	1/1	6/6	–
Salman Amin	Independent	2	9 January 2017	10 May 2017	9/9	1/1	–	–
Adam Crozier	Executive	3,6	26 April 2010	7 May 2010	3/9	–	–	–
Margaret Ewing	Independent	4	31 October 2017	10 May 2018	2/9	1/1	–	1/6
Roger Faxon	Independent	5	31 October 2012	15 May 2013	9/9	1/1	4/6	–
Ian Griffiths	Executive	6	9 September 2008	14 May 2009	9/9	–	–	–
Mary Harris	Independent		28 July 2014	14 May 2015	9/9	1/1	6/6	6/6
Andy Haste	Independent SID	7	11 August 2008	14 May 2009	9/9	1/1	2/6	6/6
Anna Manz	Independent	5	1 February 2016	12 May 2016	9/9	1/1	4/6	6/6
John Ormerod	Independent	8	18 January 2008	15 May 2008	8/9	1/1	6/6	6/6

1. Peter Bazalgette was appointed as Executive Chairman with effect from 1 July 2017 until 8 January 2018.
2. Salman Amin was appointed to the Board and Nomination Committee on 9 January 2017.
3. Adam Crozier stepped down as Chief Executive on 3 May 2017.
4. Margaret Ewing was appointed to the Board, Audit and Risk Committee and Nomination Committee with effect from 31 October 2017.
5. Roger Faxon and Anna Manz were appointed to the Remuneration Committee with effect from 1 May 2017.
6. Executive Directors have rolling service contracts that provide for 12 months' notice by either party.
7. Andy Haste stepped down as a member of the Remuneration Committee with effect from 10 May 2017.
8. John Ormerod was unable to attend the Board meeting in September due to a prior commitment.

Succession planning and diversity

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 it reviews regularly 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
- Board tenure is appropriate and Board members remain independent

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

Chief Executive: In May 2017 we announced that Adam Crozier would leave ITV in June 2017. Following this, we commenced the recruitment process for a successor. As part of its succession planning process, the Board had already discussed the key skills, experience and other requirements of the role. They established a small committee comprised of Peter Bazalgette, Andy Haste, Roger Faxon and Mary Harris to manage the process. The Board engaged Spencer Stuart to assist and provided them with a clear brief. Throughout the process, the Committee met regularly and gave careful consideration to the candidates proposed. Face to face interviews were held and after much debate a strong shortlist was agreed who were asked to meet with all members of the Board. The Board unanimously agreed that Carolyn McCall should be asked to join ITV as Chief Executive, which we announced in July 2017. Carolyn joined the business on 8 January 2018 and in the interim period the Board agreed that Sir Peter Bazalgette should take the role of Executive Chairman and Ian Griffiths was promoted to COO & CFO.

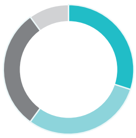
Non-executive Directors: During the year, we welcomed two new Non-executive Directors: Salman Amin with effect from 9 January 2017 and Margaret Ewing with effect from 31 October 2017. Details of the recruitment process for Salman Amin are set out in the Annual Report and Accounts for 2016. When considering the recruitment of Margaret Ewing, the Board was mindful of the need to ensure succession planning for the Chairman of the Audit and Risk Committee as John Ormerod, the current Chairman of that Committee, is stepping down from the Board in May 2018, and wanted to ensure an appropriate handover period. The Board engaged Zygos to assist with the recruitment of Margaret Ewing following a similar process as that set out above for the Chief Executive.

Both John Ormerod and Andy Haste will step down from the Board following the AGM in May 2018 and the Board is considering the current diversity of the Board with a view to considering further appointments if appropriate.

Committees: The Board also reviewed Committee membership and during 2017 Mary Harris succeeded Andy Haste as Chair of the Remuneration Committee. In addition, Anna Manz and Roger Faxon joined the Remuneration Committee.

Board tenure
(as at date of publication)

0–2 years	3
2–5 years	3
5–9 years	3
More than 9 years	1



Board gender diversity
(as at date of publication)

40% 60%

Diversity
It is our policy to retain a talented and diverse but relatively small board bringing a balance of in-depth commercial and creative experience. The Board does not have a separate diversity policy but instead relies on the ITV Equal Opportunities policy. ITV encourages diversity throughout the business and recognises a range of characteristics. More information on this can be found on pages 20 and 99. 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.

Induction, training and development
All Directors who join ITV receive a comprehensive induction. It is intended to provide the Director with an overview of the industry and important key themes for the Company. It is also used to familiarise each Director with the different areas of the business and employees within the Company. During the year, Margaret Ewing and Salman Amin were appointed as Non-executive Directors and Carolyn McCall as Chief Executive. Margaret joined as a successor to the Audit and Risk Committee Chair and as such her induction was tailored accordingly. More details can be found below.

During a Directors' 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
- Presentations given at Board and Committee meetings on business matters and technical update sessions from external advisors 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 Directors can be found on page 96.

General Board Induction

All Directors
- Operational overview
- Financial review
- Strategic overview
- Director's duties and responsibilities
- Governance structure
- Review of previous minutes and meeting papers
- Other key documents including strategy and budget
- Meetings with other Board members

Executive
- Visits to key sites
- Build relationship with Chairman and Management Board members including the Senior Leadership Team
- Meetings with senior executives
- Meetings with shareholders

Non-executive
- Meetings with shareholders (as appropriate)
- Meetings with internal and external advisers (as appropriate)

Customised Executive Director induction

Carolyn McCall
- Visits to main hub sites, studios sets and regional news teams.
- Meetings with shareholders
- Meetings with Management Board members and divisional board members
- Site visit to the new London office

Customised Non-executive Director induction

Margaret Ewing
- Health and safety
- Tax and Treasury Committee and Operational Risk Steering Group
- Data Protection and GDPR's impact on ITV
- Visit to the shared service centre
- London property strategy update

Corporate Governance continued

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

Board evaluation

External

The Board undertakes an external evaluation every three years to review its effectiveness. The last external Board evaluation took place in 2016.

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 Committee Chairman and a report of actions is submitted to the Board and Committees and actioned as appropriate. The table below indicates the important themes that were identified for the Board from the exercise for 2017. Committee actions are set out on pages 73 and 85.

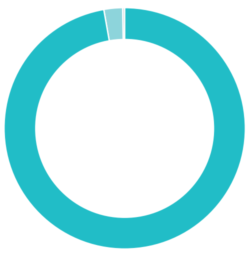
Actions for 2018

Composition	• Ensure there is a broad range of experience and perspective on the Board, in particular recent media, technology and digital experience • Consider the successor for the Senior Independent Director when Andy Haste steps down from the Board.
Effectiveness	• Review meeting structure to enhance productivity and efficiency and allow for greater in depth discussions
Stakeholder engagement	• Engage more regularly on wider stakeholder engagement • Spend more time understanding and visiting UK and international acquisitions

Board visit
During 2017 a Board meeting was held in Manchester which included a visit to the Coronation Street set and a lunch with employees.

Investor profile

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



Institutional shareholders	97.26%
Private shareholders	2.72%
Other	0.02%

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. As one of the biggest national broadcasters in the UK, ITV has a wide range of stakeholders and more on how we engage with some of these different groups is detailed below:

Investors: 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 on the Company's performance against our strategy. The Board is kept informed of any feedback from these meetings. Further details can be found in our 'investor calendar' below. 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.

Employees: Engagement with employees is facilitated in a number of ways. We have engagement surveys and Carolyn McCall has introduced weekly podcasts to keep employees up to date with what she has been doing and to communicate important issues for ITV in an effective and engaging way. In addition, a separate email has been set up for employees to ask Carolyn any questions they may have. Further details of what else we do around employee engagement can be found on page 100, including information on our annual roadshows.

Viewers: 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 Board has delegated the review of such issues to the Broadcast Board where a compliance report is received monthly detailing viewer or regulator concerns. Our dedicated viewer services team was awarded the Best Customer Services in Telecoms & Media for the seventh year running in 2017 and is on hand to resolve any technical issues or other questions our viewers may have. We now also provide bespoke support for all of our live Daytime shows, ITV Box Office events, and the ITV Hub to enhance our viewer experience.

Our investor calendar

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

April
- Full year results roadshow in London and US

May
- Q1 Trading Update published
- JP Morgan conference
- Roadshow in the US

June
- Bank of America Merrill Lynch conference in London

July
- Interim results published and roadshow in London

August
- Interim results roadshow in London

September
- Interim results roadshow in London
- Barclays conference in London
- European roadshows in Frankfurt and Milan

October
- US roadshow

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

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.

Dear Shareholder,

On the following pages we set out the Audit and Risk Committee's report for 2017, which provides an overview of the areas considered by the Committee during the year.

As expected, 2017 was more challenging than recent years for ITV. Economic uncertainty in particular associated with Brexit has resulted in lower UK advertising revenues and profits. However, the Committee has continued to ensure that judgements remain balanced.

During the year, ITV's 2016 Annual Report and Accounts were included as part of a sample within the FRC thematic review of reporting on Alternative Performance Measures (APMs), with the object of improving the quality of disclosures and identifying good practices. As a result of the review, our definitions of APMs on page 34 have been clarified to aid shareholders' understanding.

Our risk management process continues to develop. We have included some case studies on page 78 and 79 to highlight some initiatives that we have developed to consider the approach of our leadership teams in relation to risk on production and development of our three lines of defence model for the approach to health and safety in production.

During the year, we were delighted to welcome Margaret Ewing as a Non-executive Director and successor to me as Chair of the Audit and Risk Committee. I will be stepping down as a Director of the Company following the AGM in May 2018. Margaret brings very broad experience to the Committee, having been a senior partner at Deloitte, Group Finance Director of listed companies and is an experienced Non-executive Director.

Further information on corporate governance and a schedule setting out how we comply with the Code can be found on our website www.itvplc.com.

As mentioned in previous years, we seek to respond to shareholders' expectations in our reporting. We reiterate that we welcome feedback from shareholders.

John Ormerod
Chairman, Audit and Risk Committee
28 February 2018

“We have engaged with the HSE, our insurers and unions on a new approach to health and safety risk on production, which ensures local ownership of risks.”

Who is on the Committee

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

Full details of attendance at Committee meetings can be found on the table on page 68.

The current members are:

- John Ormerod (Chairman)
- Margaret Ewing (appointed 31 October 2017)
- Mary Harris
- Andy Haste
- Anna Manz

The Committee members have between them a wide range of business and financial experience. The Committee considers that John Ormerod, Anna Manz and Margaret Ewing have recent and relevant financial experience for the purposes of the Code. Detailed biographies can be found on page 62 and 63.

Our role

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

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 and risk management as they affect executive remuneration performance objectives, and
- Review the quality and effectiveness of the external audit and the procedures and controls designed to ensure auditor independence.

Meetings

February

- Year end financial reporting issues and judgements
- Fair, balanced and understandable review of the Annual Report and Accounts
- Viability Statement verification
- KPMG audit conclusions and findings
- APMs and exceptional items
- Compliance checklist
- Draft Annual Report and Accounts
- Audit opinion

May

- Half year financial reporting issues and judgements
- External audit strategy
- Internal audit independence and evaluation

July

- Half year report
- KPMG review conclusions and findings

September

- Emerging and business specific risk reviews

November

- Year end planning
- Full year financial reporting issues and judgements
- Distributable reserves planning
- KPMG interim controls review findings
- Review effectiveness of internal audit and the following year's internal audit plan

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

In addition to Committee members the Chairman of the Board, Chief Executive, COO & CFO, Director of Group Finance, Group Legal Director, Head of Internal Audit, Director of Treasury, Director of Tax and the external audit partner regularly attend meetings. The Committee members meet regularly with the external auditor partner and Head of Internal Audit without executives present.

Annual review

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

www.itvplc.com/investors/governance

An annual review of the performance of the Committee was conducted for the year. In addition to feedback from members of the Committee, input was sought from the Chief Executive, COO & CFO, Director of Group Finance, 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 the year will include revisiting the internal audit model after the strategic refresh, and reviewing how the Committee engages with the risk functions to ensure they continue to meet the needs of the business. 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 2017

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, likely to 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 2017, 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
- Fair, balanced and understandable
- Viability Statement (page 58)
- Going concern (page 120)
- Goodwill impairment (note 3.3, page 143)
- Tax (note 2.3, page 131)
- Deal debt (see page 75)
- Pension accounting (note 3.7, page 153)
- Deficit financing (see below)
- Revenue recognition (IFRS 15) (page 75)
- Appropriateness of Alternative Performance Measures (page 78)
- Litigation provisions (page 76)

External audit

- Auditor engagement and fees
- Auditor independence and objectivity
- Auditor Independence policy (including non-audit fees)
- Audit plans
- Auditor performance and effectiveness
- Key areas of judgement
- Auditor management reports
- Audit report

Internal control

- Internal Audit independence and effectiveness
- Internal Audit plan
- Internal Audit report findings and outcomes
- Effectiveness of internal controls
- Post-acquisition reviews
- Monitoring acquisition earnouts and related accounting
- Whistleblowing process
- Material litigation
- Insurance programme
- Fraud controls
- Anti-bribery 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 77)
- Business continuity
- Information security and GDPR
- Technology modernisation (page 77)
- Health and safety
- Regulatory and programme compliance
- Bonus and share plan outcomes

Further information on our risk management framework can be found on pages 50 to 57

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

- **Deal debt:** this is where 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.
- **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.

Complex discrete transactions
The Group completed certain transactions during the period that were in line with strategy but could have been considered outside the normal course of business, 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. During 2018, the Committee will also undertake post-acquisition reviews of significant investments in subsidiaries and associates over the past five years.

Area of focus	Financial reporting and judgement	Action taken by management	Action taken by the Committee and outcome
Revenue recognition	Talpa signed a four year deal to license The Voice of China in January 2016 and credit insurance was arranged. The format revenue for all four years was recognised in full in 2016 in line with our policy and accounting standards. In 2017, Talpa took back the licence for The Voice of China due to a breach of agreement by the customer resulting from non-payment of outstanding invoices. ITV is pursuing talent for the amounts due and has submitted a claim under its credit insurance policy for the amounts due from the customer. While management is confident in the Group's position that the credit insurance policy remains effective, IFRS only permits an asset relating to the credit insurance to be recognised when the receipt of monies is virtually certain. The judgement focused on: • Whether the £30 million of unpaid receivables held on the balance sheet are recoverable • Whether an asset should be recognised for the credit insurance Also see note 2.1 on page 124.	The following points were noted: • A review of key documentation between the insurers, ITV or the customer had been performed by management • Management had sought legal counsel and opinion As a result of the above actions, management considered it appropriate that: • The outstanding receivables are fully impaired • While management consider the credit insurance policy remains effective, under IFRS no asset should be recognised at present • Due to the timing difference between the impairment of the receivables in 2017 and the potential recognition of the credit insurance policy recovery in a later period, this should be highlighted within the financial statements as an exceptional item.	The Committee assessed management's proposed accounting treatment for the outstanding receivables and credit insurance, considered management's report on the accounting treatment, had direct conversations with the legal advisers and agreed with the assessment that: • The receivables should be fully provided against • No asset should be recognised in relation to the credit insurance in 2017 • The disclosure, as proposed, is appropriate 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

Area of focus	Financial reporting and judgement	Action taken by management	Action taken by the Committee and outcome
London properties	The Group has announced its intention to redevelop its South Bank site and build a new London office. The teams currently located in the South Bank site will be relocated to various sites on a temporary basis while the South Bank site is redeveloped. Over the course of the project incremental costs, both capital and income statement related, will be incurred. The judgement focused on the presentation of these incremental costs, as exceptional, which arise solely as a result of the project, within the Annual Report and Accounts.	Management proposed that incremental costs incurred across the project over the medium term, both capital and income statement related, should be ring-fenced and removed from the underlying results i.e. any one-off, dual running or dual temporary rent costs and capital expenditure on planning/new build of HQ.	The Committee assessed management's proposed treatment for the incremental costs, discussed the proposed presentation with management, and agreed that: • The new London office project is a significant one-off and not in the normal course of business • It will require separate disclosure of the accounting implications within the financial statements and in the Finance Review The Committee also agreed with management that all other costs that were expected to be incurred regardless of the property decision, such as depreciation on studios or office fit costs or service charges, will continue to be recognised as an operating expense within the underlying results.
Accounting for Gurney litigation	In 2016, due to evidence of alleged breaches of contract and other fraudulent issues, the Group, having taken legal advice, initiated legal proceedings against the minority owners, who continue to hold a 38.5% membership interest in Gurney Productions LLC (Gurney). These minority owners dispute the allegations and have counter-claimed for damages of at least $150 million. The action is ongoing. Financial reporting and judgement involved: • The accounting for the ongoing operations of Gurney • The measurement of liabilities held for settlement of a counter-claim, if any, and for the cost of ongoing legal proceedings	Based on the current status of the business, and taking into account the legal proceedings, management proposed that for accounting purposes: • Gurney should be treated as if it had been wound down with no further results recognised in the accounts, a provision recognised against the goodwill and against assets within Gurney • An acquisition-related liability should continue to be maintained for potential ongoing contractual obligations • No provision should be held for the counter-claim against ITV as the Directors believe this counter-claim is completely without merit, and • A provision for legal costs, accounted as an exceptional cost, should be held for ongoing legal proceedings	The Committee's actions included: • A review of the nature of the dispute and developments to date • Discussions with ITV's general counsel and US legal advisers, and • A review of management's proposed accounting treatment, including provisions held The Committee agreed with management's proposed accounting and presentation.

Other matters

In addition to financial reporting matters, the following topics were reviewed:

Area of focus	Issue	Action taken by Committee	Outcome
Cyber security and simulation exercise	Cyber security is an increasing risk as our business develops new revenue streams and direct to consumer propositions.	The Committee undertook a detailed review of the cyber security risks and strategy, including ongoing actions taken by management around: • Embedding IT controls • Educating our colleagues • Detection and response • Ownership across organisation and third parties The Committee also reviewed findings from a cyber incident and phishing exercise conducted during the year.	Completed and planned mitigations were reviewed and assessed. The Committee noted the progress that had been made and will continue to monitor and review mitigations.
Technology modernisation	Legacy business systems continue to be modernised to reduce a number of key business risks.	The Committee reviewed the programme of work to modernise legacy business systems, including: • Implementation of a cloud-based financial and payroll system in the US • Development of a bespoke artiste payment system in the UK • Progress in the replacement of our airtime sales system	Completed and planned mitigations were reviewed and assessed and the Committee will continue to keep this under review.
Tax	The Criminal Finances Act 2017 introduced new Corporate Offences of Failure to Prevent the Facilitation of Tax Evasion.	The Committee monitored the actions taken by management to implement reasonable prevention procedures in line with published HMRC guidance.	Prevention procedures were reviewed and assessed and the Committee considered these to be adequate. The Committee will continue to receive updates.
Employment status – ITV Studios production	The issue of employment and worker status in the modern economy has come under increasing scrutiny, particularly in the UK where employment and tax law and practice are developing as a result. Employment status can be especially complex in television production, where freelancers are often used both behind and in front of camera.	The Committee received regular updates from management in order to assess whether ITV is following best practice in how it engages people, and adapting to change where appropriate.	The Committee noted the progress and will continue to monitor and review this area.

Audit and Risk Committee Report continued

Area of focus	Issue	Action taken by Committee	Outcome
Alternative Performance Measures	During 2017, ITV's 2016 Annual Report and Accounts were selected within a sample of companies for the Financial Reporting Council's (FRC) thematic review of reporting relating to Alternative Performance Measures. The FRC has asked that we point out that its review only covered the specific disclosures relating to the thematic review and provided no assurance that the report and accounts were correct in all material respects. Matters discussed with the FRC focused on: • Why restructuring and reorganisation costs were determined to be non-recurring • How the company determined that acquisition-related expenses should be treated as operational exceptional costs	The Committee discussed the FRC review points with management and agreed with management's recommendation to provide: • Further explanations of exceptional restructuring and reorganisation costs in future Annual Reports and Accounts, and to cease referring to these costs as non-recurring • Disclosure noting that the acquisition-related costs are not considered to be part of the core operations of the business and hence require highlighting in the accounts, rather than referring to them as being non-recurring or one-off in nature	The FRC welcomed the planned changes and these have been reflected in the Annual Report and Accounts; refer to page 34.
Treasury policy	In 2016, after reviewing the annual Treasury report, the Committee had requested further analysis not just on what foreign exchange (FX) exposures were being hedged, but also on what was being left unhedged.	This analysis was prepared and discussed at the Tax and Treasury Committee. A recommendation for some amendments to the treasury policy on FX risk managed was reviewed by the Committee as part of the 2017 annual treasury report.	The Committee agreed with the proposal to amend the treasury policy on FX risk management and recommended that the Board approve the revised policy.
Anti-bribery and corruption	Following an internal audit review on the implementation of our anti-bribery and corruption policies, actions to strengthen implementation of the Group's programme were recommended by Internal Audit.	The Committee reviewed the result of the internal audit, the recommendations and management's response.	The Committee agreed to keep the agreed actions under review. Management has put in place a cross-business steering group to help ensure that the agreed actions, such as risk assessments and enhanced local language guidance and training, are implemented consistently across the business.

Case study: new approach to health and safety – Emmerdale project

We have been working on a project with Emmerdale trialling a refreshed approach to considering the effectiveness of health and safety on production. The project was in three stages – Discovery, Collaborative Analysis and Improvement – and required all aspects of the production team to focus on the day-to-day constraints and opportunities that they face identifying risks and potential mitigations. A team, nominated from the production, is in place, supported by the health and safety team, to deliver improvements.

We have engaged with the HSE, our insurers and unions on this new approach, which supports risk management in a more efficient and effective way while ensuring local ownership of risks and accountability for the implementation of solutions.

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 Code. Further information on our risk management processes and details of our principal risks is included in the Strategic Report on pages 50 to 57.

Following on from earlier reviews by the Committee on health and safety processes in the business, we have developed some innovative programmes to develop our approach to risk, moving away from a rules and process driven system to a cultural people driven solution, which we believe encourages a focus on prevention rather than reaction to failure. Further information is set out in the case studies below and on page 78.

In 2017, the Committee reviewed the management of pension risks in ITV's defined benefit schemes, focusing on how management and pension trustees were managing risks relating to longevity, interest rates, inflation rates and investment strategy.

The Committee also reviewed the General Data Protection Regulation readiness plan for the business. This included detail of the governance model and the results of a detailed personal data audit. The Committee reviewed the workstream activities and plans and will keep this under review in 2018.

Internal controls

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

As part of our internal control process, the Group's strategy is reviewed and approved by the Board. The Group performs an annual strategy review and a rolling five year financial planning exercise, 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. Actual results are compared with budget and forecasts, and key trends and variances are explained and analysed.

Leading Risk

During the year, we introduced a Leading Risk programme to support our leadership team in ITV Studios to consider risk effectively within its business area. The programme was developed with a focus on behaviour rather than process controls and to help build a consistent language around risk. We partnered with the London School of Economics (LSE) on a research project based on this programme, which will provide us with a better understanding of risk decision- making to help us enhance a positive risk management culture.

The programme uses case studies to provide effective group conversations about how risk management works in reality, the impact of risks that are realised, the impact of leadership behaviours on risk management and the importance of culture and voice to actively manage risk. Building on this, the programme seeks to provide an understanding of risk drivers and risks that are accepted in the pursuit of goals. Output includes a risk appetite model that reflects the views of the leadership team, which can be articulated throughout the business.

To date, nearly 200 of our leaders in the UK and US have gone through the programme with further roll-out during 2018 internationally.

Dr Soane, LSE, explains:

"Risk is clearly a significant consideration for ITV. We are examining how risk managers think and feel about risk. We are also assessing risk managers' views on how their teams make decisions about risk, and on the organisational climate. For example, do people feel empowered and enabled to speak up if they see something they're worried about? Do teams that have a strong shared understanding about decision processes."

"Risk is clearly a significant consideration for ITV. We are examining how risk managers think and feel about risk."

200

of our leaders in the UK and US have gone through the programme with further roll-out during 2018 internationally.

Audit and Risk Committee Report continued

Assurance

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.

Our auditors

Internal auditor

The Group's internal audit activity is outsourced to Deloitte which reports 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 and endorses its continuing use. The Committee keeps under review the internal audit relationship with Deloitte and the procedures to ensure appropriate independence of the internal audit function is maintained. 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. During the year, the Committee reviewed findings from these internal audit reports, the actions taken to implement the recommendations made in the reports and the status of progress against previously agreed actions. All internal audit reports are available to the Committee.

External auditor

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

Engagement

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

The Committee agrees the terms of engagement, audit and non-audit fees and reviews progress and results throughout the year.

Audit tendering and rotation

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 and, applying the BIS guidance on the EU Audit rules. The next mandatory tender would be for the 2023 financial year and the next mandatory rotation would be for the 2024 financial year.

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 Committee Responsibilities) Order 2014.

Independence, objectivity and fees

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.

Fees paid to KPMG for 2017 are set out in note 2.1 on page 128.

We monitor relationships with other audit firms to ensure we have sufficient choice for any future appointment.

Reappointment

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 2017. The resolution was passed and KPMG was reappointed.

The Committee has recommended the reappointment of KPMG at the AGM on 10 May 2018.

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 • Independence and objectivity • Confirmation of work performed and other significant risks • Reappointment	• Audit plan and strategy • Engagement	• Fees and independence • Audit Quality Review focus areas	• Auditor Independence policy (reviewed every two years) • Audit fees – final approval

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 management on key corporate transactions.
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 strategy for the year, including the coverage of emerging risks
- 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 2017. The report also aims to demonstrate how our Remuneration Policy aligns to our strategy, supports the retention of the Executive Directors and rewards them for strong performance.

- Committee governance page 85
- Remuneration Policy summary page 86
- Remuneration Policy application 2017 page 87
- Remuneration Policy application 2018 page 91
- Other disclosures page 92

Dear Shareholder,

I am writing to update you on the work of the Committee during the year. Included within the Remuneration Report is our Annual Report on Remuneration, which will be subject to an advisory vote at our Annual General Meeting (AGM) on 10 May 2018.

From the Committee's perspective, 2017 was an extremely busy year. As you are aware, after seven years, Adam Crozier stepped down from the Board. In this context, it was a priority for the Board and our shareholders that ITV continued to perform strongly over the period of transition and that Carolyn McCall, our new Chief Executive, inherited a business with positive momentum.

As described earlier in the Annual Report, the business has continued to make significant progress despite external challenges. This has been achieved under the leadership of Ian Griffiths, in his expanded role as COO & CFO, and Peter Bazalgette, who stepped into the role of Executive Chairman.

The Committee made a number of key decisions during the year, which were made in close consultation with both the Nomination Committee and the wider Board as a whole. By the end of the year, we are pleased to report that ITV had not only robustly navigated a challenging trading environment, but we now also have in place a highly talented and experienced executive team for the future.

The changes described above inevitably required the Committee to consider a number of 'one-off' matters outside of the normal course of business. During the year, we have consulted extensively with our major shareholders and kept all our shareholders informed regarding key decisions, all of which were fully disclosed to the market at the time.

Further information on the work of the Committee can also be found on page 85. This included consideration of the remuneration framework for the wider employee group when considering remuneration for the Executive Directors and other senior executives and gender pay gap reporting. In addition, the Committee has reviewed the malus and clawback provisions in the rules of the bonus and share award plans to ensure they remain appropriate.

"The business has continued to make significant progress despite external challenges. This has been achieved under the leadership of Ian Griffiths and Peter Bazalgette."

2017 performance
At the start of 2017, we expected a challenging year ahead for advertising with continued economic and political uncertainty impacting business confidence. Our internal forecast of a c.5% contraction in the advertising market over the year, which set the context for the 2017 target setting, has subsequently proved to be accurate. Despite these challenges, ITV has continued to perform strongly. Real progress has been made against operational KPIs and tight control maintained over costs and cash.

The 2017 adjusted EBITA target was set at £785 million versus the 2016 adjusted EBITA outcome of £885 million. This lower, but still stretching, 2017 target reflected the decline in the external advertising environment mentioned above. In addition, it should be noted that the 2016 profit out-turn benefited from a format sale in a new geography, which would not repeat in 2017. Given these downward pressures, the 2017 actual target being £100 million below the 2016 out-turn was considered by the Board and the Committee to be stretching at the time the target was set.

However, strong performance against a number of metrics ensured that adjusted EBITA for 2017 was £842 million which represented a significant outperformance of expectations at the start of the year. Linear viewing is up for the second year and continues to deliver the mass audiences and key demographics advertisers demand. Video on Demand (VOD) viewing is up nearly 40% with The ITV Hub now having over 21 million registered users, with good growth in online advertising. ITV Studios delivered good organic revenue growth and we have a strong pipeline of programmes for 2018.

Overall, and as discussed in the Strategic Report, ITV continues to make significant progress growing, strengthening and rebalancing the business.

Performance-related pay
Performance measures for our Annual Bonus Awards (Bonus) and Long-Term Incentive Plan (LTIP) are closely aligned to our KPIs. These are drawn from our strategy and cover all parts of the business.

Stretching bonus targets were set for 2017, taking into account the challenging external backdrop and the non-recurring item in 2016 described above. The Committee has considered 2017 performance, and the subsequent remuneration outcomes, in this context. The Committee noted that the adjusted EBITA, cost savings and cash conversion targets set at the start of the year were all exceeded. Management has delivered exceptional performance in a very difficult trading environment. In addition, the operational performance of the business and performance against personal targets have been strong.

Over the past few years, we have included a cost-saving target in our Bonus awards to ensure that management continues to focus on streamlining the business. Once again, this target has been exceeded with a further £29 million of savings being delivered.

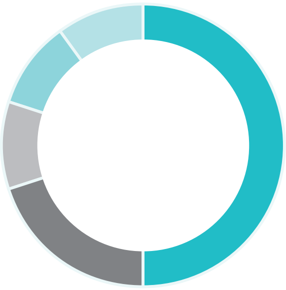
The Bonus payout level for 2017 is around 97% of maximum. The 2017 all-employee bonus will be paid out in full, reflecting the outstanding contribution of ITV employees in a critical year of transition. Further information and details of the Bonus targets for 2017 are set out on page 88.

The performance period for awards made under the LTIP in 2015 ended on 31 December 2017. Based on performance over the last three years, a vesting outcome of 63% was achieved. Full vesting was not achieved mainly due to outcomes relative to the stretching EPS and share of viewing (SOV) targets originally set. In line with our phased approach to the introduction of holding periods, 50% of the vested amount will become exercisable in March 2020. Details are set out on page 89.

Remuneration Report
continued

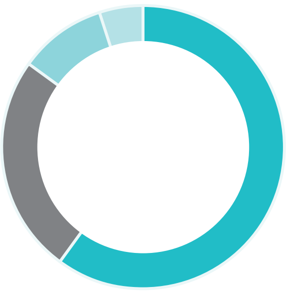
Strategic alignment of remuneration with KPIs for 2017 (pages 36 to 39)

LTIP



	Strategic targets	Performance weighting
Cumulative adjusted EPS Financial KPI		50%
Family SOV Strategic KPI		20%
Online, pay & interactive growth		10%
International production revenue		10%
Total non-NAR growth Financial KPI		10%

Annual Bonus



	Strategic targets	Performance weighting
Adjusted ITV plc EBITA Financial KPI		60%
Individual targets (see page 89)		25%
Profit to cash conversion Financial KPI		10%
Cost savings		5%

As Adam Crozier was only in post as Chief Executive for six months of the year (see below), his total remuneration for 2017 is significantly lower than last year. Ian Griffiths' reported total remuneration for 2017 is £2.720 million, as detailed on page 87. However, this 2017 total remuneration includes the interim arrangements pertaining to his expanded role for part of the year (see below), all of which were fully disclosed at the time of announcement in May 2017. When considered on a more like-for-like basis, Ian's total remuneration for 2017 is similar to last year's.

The Committee considers the total pay for the Executive Directors to be a fair reflection of both ITV's performance and their respective contribution over the period.

Board changes
On 30 June 2017, Adam Crozier stepped down as Chief Executive and on departure his 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 prorated for time served. In light of Adam's departure, Ian Griffiths took on an expanded role in addition to his previous responsibilities, until a new Chief Executive was appointed and had joined. The Board agreed an interim package to reflect this expanded role.

Full details of the payments made in respect of these changes were disclosed at the time of announcement in May 2017, and are also set out in the Annual Report on Remuneration.

Carolyn McCall joined ITV as Chief Executive on 8 January 2018. Her remuneration arrangements and buy-out arrangements are consistent with the terms of the Remuneration Policy approved by shareholders at the AGM in May 2017. Carolyn's total remuneration opportunity is broadly in line with that of the previous Chief Executive and includes a cash allowance for income on retirement of 15% (25% for previous Chief Executive). Details of Carolyn's package were published at the time of announcement in July 2017, and are replicated on page 92.

Remuneration Policy implementation in 2018
The policy approved by shareholders in 2017 will continue to apply in 2018. Details of how the Committee proposes to implement the policy in 2018 are set out on page 91.

Following Carolyn's appointment, the Company has commenced a strategic refresh which will set the priorities for the business over the medium to long term. Following consultation with major shareholders, the Committee has decided to defer the setting of performance metrics and targets for the 2018 LTIP awards until this refresh has been completed to ensure that the metrics and targets are fully aligned with the strategic plan.

Once the metrics and targets have been agreed, the Committee expects to publish details on the Company's website and in the 2018 Remuneration Report. While the metrics and targets are yet to be determined, the Committee would expect to engage with major shareholders regarding any material changes to the current approach.

Shareholder views
Over the course of the past year, we consulted with major shareholders on a number of matters and we will seek to maintain this dialogue in future years. We would like to take the opportunity to thank the investors and proxy voting agencies who took part in this process. In this Remuneration Report, we have sought to adopt a transparent approach and we would welcome feedback from our shareholders regarding the key decisions made.

Mary Harris
Chair, Remuneration Committee
28 February 2018

Who is on the Committee

Full details of attendance at Committee meetings can be found on the table on page 68

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

- Mary Harris (Chair)
- Sir Peter Bazalgette
- Roger Faxon
- Anna Manz
- John Ormerod

Our role

Following each meeting, the Committee communicates its main discussion points and findings to the Board. Regular discussion topics are set out below.

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 100
- 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 2017

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
- Advisor independence

February
- Bonus targets agreed for current year
- LTIP awards and targets agreed for current year
- Remuneration Report
- Compliance with Remuneration Policy
- Compliance with shareholding guidelines

May
- Market update
- Financial performance update

September
- Reward framework and current trends
- Consideration of remuneration in the wider employee group

October
- Bonus payout forecasts
- Consider operation of current incentives

November
- Bonus framework and targets
- Terms of reference review
- Review of remuneration consultants
- Gender pay gap
- Annual pay review

In addition to Committee members, the Chief Executive, COO & CFO, Group HR Director, Director of Pensions and Reward and independent adviser Deloitte regularly attend meetings.

Annual review

An annual review of the performance of the Committee was conducted for the year.

In addition to feedback from members of the Committee, input was also sought from the Chief Executive, COO & CFO, Group HR Director 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. Priorities for this year will include a review of the terms of reference in light of the new UK Corporate Governance Code and the strategy refresh.

The Committee's terms of reference can be accessed on our website.
www.itvplc.com/investors/governance

Remuneration Report
continued

Remuneration Policy

The Company's Remuneration Policy was approved by shareholders at the AGM on 10 May 2017 for a three year period. This Policy will continue to apply for 2018.

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 balances 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 below. The full Policy can be found on our website:

www.itvplc.com/investors/governance

	Key features	How we implement policy	Link to strategy
Base salary and provision for an income in retirement	Reflect skills, responsibility and experience. Competitive post-retirement benefits or cash allowance.	Reviewed annually with consideration given to personal and company performance; pay levels in relevant market; the wider employee pay review. **2018 salaries:** Carolyn McCall – £900,000 Ian Griffiths – £642,213 **2018 cash allowance for income in retirement:** Carolyn McCall – 15% (25% for previous Chief Executive) Ian Griffiths – 25%	Supports recruitment and retention of Executive Directors of the calibre required to deliver the strategy.
Annual Bonus – cash and Deferred Share Award	Targets and measures set annually based on business plans at the start of each year with payout determined following the year end based on performance against objectives. Not more than two-thirds delivered in cash with the balance deferred into shares under the DSA, normally for a period of three years.	Majority of the opportunity based on corporate and financial measures, the remainder on performance against individual and/or strategic objectives. Up to 20% of the maximum opportunity will be received for threshold performance. Maximum opportunity will not exceed 200% of salary. **Current ongoing maximum:** Carolyn McCall – 180% of salary Ian Griffiths – 165% of salary	To incentivise achievement of key financial measures and objectives to deliver the business strategy. Compulsory deferral element provides alignment with shareholder experience and supports retention of executives.
LTIP	Performance measures 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.	The maximum award that may be granted in any financial year is 350%. **2018 grant levels:** Carolyn McCall – 265% of salary Ian Griffiths – 225% of salary	To incentivise delivery of performance aligned to the business strategy over the longer term and the creation of shareholder value.

Annual Report on Remuneration

The sections of the Annual Report on Remuneration that have been audited by KPMG are pages 87 to 90, page 92 to 93 (limited to Non-executive Directors and payments to past directors for loss of office sections) and pages 94 to 95.

Remuneration Policy application in 2017

The following section provides details of how the current Remuneration Policy was implemented in 2017.

Executive Directors

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

	Adam Crozier [1]		Ian Griffiths	
	2017 £000	2016 £000	**2017 £000**	2016 £000
Salary	**470**	941	**608**	575
Taxable benefits	**10**	19	**15**	14
Pension	**118**	235	**152**	144
Bonus (cash and shares)	**829**	677	**979**	380
Share awards [2, 3]	**623**	1,760	**507**	1,076
Interim arrangements [4]	**–**	–	**459**	–
Total	**2,050**	3,632	**2,720**	2,188
Less interim arrangements [4]	**–**	–	**(459)**	–
Total: excluding interim arrangements	**2,050**	3,632	**2,261**	2,188

1. Adam Crozier stepped down from the Board on 30 June 2017 and the amounts shown have been prorated for time served.
2. The amount shown for 2017 is the indicative value of the 2015 LTIP awards that were subject to performance conditions measured to 31 December 2017.
3. In the 2016 Annual Remuneration Report, the amount shown was the indicative vesting value of the 2014 LTIP awards that were subject to performance conditions measured to 31 December 2016. The figures shown in the table above for 2016 represent the subsequent value received on the vesting date of 30 May 2017 using the share price on that date (199.4 pence).
4. The 2017 remuneration for Ian Griffiths includes a temporary salary supplement that consisted of £133k salary, £33k pension and £293k bonus.
5. 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 90.
6. Details of remuneration arrangements for Sir Peter Bazalgette are set out on page 90.

Further information in relation to each of the elements of remuneration for 2017 set out in the table above is detailed below. An explanation for 2016 is set out in detail in our 2016 Annual Report and Accounts, which can be found on our website.

www.itvplc.com/investors

Salary

Executive Directors did not receive a salary increase from 1 January 2017 as part of the normal salary review process.

Adam Crozier's annual salary for the year was £941,000. During the year, Ian Griffiths was appointed to an expanded role as COO & CFO. In order to reflect the increased operational responsibilities associated with the new role, his salary was increased by £50,000 to £625,025 per annum with effect from 3 May 2017.

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, he received a temporary salary supplement of £200,000 per annum. In order to facilitate a suitable transition, this supplement will remain payable until 7 April 2018. Full disclosure of the above changes to salary were set out on the Company's website on 3 May 2017.

Peter Bazalgette took the role of Executive Chairman from 30 June 2017 to 8 January 2018. He received no additional remuneration for this.

Remuneration Report
continued

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

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. Payments and deferrals in respect of the financial year are set out below.

The maximum bonus opportunity of 180% of salary for Adam Crozier was prorated for the period he was employed up to 30 June 2017. 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.

	% of maximum bonus opportunity earned	Value delivered in shares under the DSA	Value paid in cash	Total value
Adam Crozier	97.92%	£276,404	£552,808	**£829,212**
Ian Griffiths	97.50%	£423,958	£847,916	**£1,271,874**

Of the total bonus shown for Ian Griffiths, £978,521 relates to his ongoing bonus arrangements while £293,353 relates to the interim arrangements implemented on Adam Crozier's departure from the Board. The percentage of maximum bonus opportunity earned for 2016 was 40% for both Adam Crozier and Ian Griffiths.

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 material in-year acquisitions and currency movements. The corporate and financial targets used for 2017, together with performance against those targets and the resulting level of payout are set out below.

			Performance required				
Performance measure	Strategic targets	Weighting	Threshold	Target	Maximum	Performance achieved	Payout level (% of maximum)
Adjusted ITV plc EBITA		60%	£745m	£785m	£825m	£842m	100%
Profit to cash conversion		10%	81%	85%	89%	91%	100%
Cost savings		5%	£23m	£25m	£27m	£29m	100%

Up to 20% is payable for threshold and up to 60% for target performance.

At the start of 2017, we expected a challenging year ahead for advertising with continued economic and political uncertainty impacting business confidence. Our internal forecast of a c.5% contraction in the advertising market over the year, which set the context for the 2017 target setting, has subsequently proved to be accurate. Despite these challenges, ITV has continued to perform strongly. Real progress has been made against operational KPIs and tight control maintained over costs and cash.

The 2017 adjusted EBITA target was set at £785 million versus the 2016 adjusted EBITA outcome of £885 million. This lower, but still stretching, 2017 target reflected the decline in the external advertising environment mentioned above. In addition, it should be noted that the 2016 profit out-turn benefited from a format sale in a new geography, which would not repeat in 2017. Given these downward pressures, the 2017 actual target being £100 million below the 2016 out-turn was considered by the Board and the Committee to be stretching at the time the target was set.

However, strong performance against a number of metrics ensured that actual adjusted EBITA for 2017 was £842 million which represented a significant outperformance of expectations at the start of the year. Linear viewing is up for the second year and continues to deliver the mass audiences and key demographics advertisers demand. Video on Demand (VOD) viewing is up nearly 40% with The ITV Hub now having over 21 million registered users, with good growth in online advertising. ITV Studios delivered good organic revenue growth and we have a strong pipeline of programmes for 2018.

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. Both Executive Directors had a number of common objectives aligned to our strategic priorities and delivered well against these objectives. The factors taken into account are summarised overleaf.

Individual performance factors		Payout level (% of maximum)
Adam Crozier	• Leadership and support of development of a creative, collaborative culture • Facilitating a strong pipeline of programmes for 2018 • Overseeing conditions leading to the rebalancing of revenue streams • Consistent and sustained strong performance in these areas	91.67% (prorated)
Ian Griffiths	• Effective leadership of M&A activity • Supporting the leadership team to deliver international creative performance • Development of the London property development plans • Supporting the Executive Chairman in delivery of key strategic priorities and embracing an expanded executive portfolio following Adam's departure from the Board	90%

Share awards

We are required to show share awards in the single figure table on page 87 according to the year in which the performance period for each performance condition ended. The awards made in 2015 under the LTIP were subject to performance conditions measured to 31 December 2017. 63% of the total awards met performance conditions on 31 December 2017 and the indicative value of these awards is set out below.

	Number of shares awarded	Value at award date £	Number of shares due to lapse	Number of shares due to vest	Value at 31 December 2017 £
Adam Crozier[1]	804,436	2,065,500	**424,244**	**380,192**	**£622,754**
Ian Griffiths[2]	491,722	1,262,250	**181,937**	**309,785**	**£507,428**

1. For Adam Crozier, the number of shares that vest has been prorated for time served from the date of award to the vesting date in line with the rules of the LTIP. 50% of the shares that vest will become exercisable on 27 March 2018 and 50% will become exercisable after a two year holding period on 27 March 2020.
2. For Ian Griffiths, 50% of the shares that vest will become exercisable following a one year holding period on 27 March 2019, and the remaining 50% will become exercisable after a two year holding period on 27 March 2020.
3. For the purpose of the single figure table, the share price used to value the shares at 31 December 2017 was the average share price for the final quarter of 2017 (163.8 pence).
4. The share price used to calculate the number of shares under award was 256.7 pence (the average of the share price on each of 24, 25 and 26 March 2015).

When considering performance outcomes, the Committee looks beyond formulaic results to ensure the outcomes align with overall business performance. For these awards, the formulae were applied without adjustment. Dividends accrue on vested shares during the holding period.

Details of the performance achieved for the 2015 LTIP awards are below. A gateway condition of minimum cumulative adjusted EPS (45.7 pence) was met before any portion of the award could vest.

Performance measure	Strategic targets	Weighting	Threshold	Maximum	Performance achieved	Payout level (% of maximum)
Cumulative adjusted EPS		50%	45.7p	52.2p	49.5p	66.77%
Family SOV		20%	22.0%	22.44%	21.73%	0%
Total non-NAR growth		10%	5% growth pa	10% growth pa	15.90%	100%
International Production Revenue		10%	5% growth pa	15% growth pa	28.71%	100%
Online, Pay & Interactive Revenue		10%	5% growth pa	18% growth pa	17.47%	96.36%

Vesting is on a straight-line basis between the threshold and maximum values shown in the table above.

Remuneration Report
continued

Pension
The Executive Directors were not part of an ITV pension scheme but received a cash allowance in lieu of pension with a value of 25% of base salary. The cash allowance does not form part of the base salary for the purpose of determining incentives.

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	**2017 £000**	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000
Peter Bazalgette (Chairman)		**450**	312	**2**	2	**452**	314
Salman Amin	2	**64**	–	**4**	–	**68**	–
Margaret Ewing	3	**12**	–	**–**	–	**12**	–
Roger Faxon	4	**69**	65	**9**	8	**78**	73
Mary Harris	5	**86**	74	**4**	8	**90**	82
Andy Haste	6	**103**	115	**–**	1	**103**	115
Anna Manz	7	**74**	63	**–**	1	**74**	63
Archie Norman	8	**–**	184	**–**	–	**–**	184
John Ormerod		**90**	90	**–**	2	**90**	92
		948	903	**19**	22	**967**	923

1. The amounts disclosed in the table above relate to the reimbursement of taxable relevant travel and accommodation expenses for attending Board meetings and related business. The value disclosed is inclusive of tax arising on the expense, which is settled by the Company.
2. Salman Amin was appointed to the Board on 9 January 2017.
3. Margaret Ewing was appointed to the Board and the Audit and Risk Committee on 31 October 2017.
4. Roger Faxon was appointed to the Remuneration Committee on 1 May 2017.
5. Mary Harris succeeded Andy Haste as Chair of the Remuneration Committee on 10 May 2017.
6. Andy Haste retired from the Remuneration Committee on 10 May 2017.
7. Anna Manz was appointed to the Remuneration Committee on 1 May 2017.
8. Archie Norman retired from the Board on 12 May 2016.

LTIP awards made in 2017
On 11 May 2017, an award was made under the LTIP to Ian Griffiths in the form of nil-cost options, subject to performance over the period to 31 December 2019.

% salary awarded	Number of options	Value at award date	Performance period ends	Holding period	Vesting date	Release date
225	705,730	£1,406,306	31 December 2019	2 years	11 May 2020	11 May 2022

The Committee sets targets for the LTIP taking into account external forecasts, internal budgets, business priorities, risks and uncertainties. Targets are set to be appropriately stretching in this context, with maximum performance set at a level that is considered to be the delivery of exceptional performance. The award made in 2017 is subject to performance measures and targets as set out below. The award will be subject to an initial cumulative adjusted EPS performance gateway equal to that required for threshold performance (56.3 pence) before any portion of the award can vest.

Performance measure	Strategic targets	Weightings	Threshold (20% vesting)	Maximum (100% vesting)
Cumulative adjusted EPS		50%	56.3p	64.2p
Family SOV		20%	20.2%	21.6%
Total non-NAR growth		10%	5% growth pa	10% growth pa
International production revenue		10%	5% growth pa	15% growth pa
Online, Pay & Interactive revenue		10%	5% growth pa	18% growth pa

Vesting between threshold and maximum is on a straight-line basis.
Family SOV has an additional vesting step of 75% for performance of 21.36%. When assessing performance against this target, the Committee will also have regard to the health of the main ITV channel.

Remuneration Policy in 2018

The following section provides details of how the Remuneration Policy will be implemented in 2018.

Salary

Salaries are paid in line with the Remuneration Policy. On 1 January 2018, Ian Griffiths received an increase of 2.75% in line with the wider employee group.

	2018 Salary
Carolyn McCall	£900,000
Ian Griffiths	£642,213

Taxable benefits and pension

These are provided in line with the Remuneration Policy.

Both Carolyn McCall and Ian Griffiths receive private medical cover, car-related benefits, and a cash allowance in lieu of participation in any ITV pension scheme.

Bonus (cash and shares)

The targets for the annual bonus are generally set at the start of the financial year. The targets are based on assumed market conditions and take into account both the budget for the year as well as longer-term strategic priorities.

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 metrics and weightings for 2018 bonuses will be similar to previous years. The Board considers the actual targets for 2018 to be commercially sensitive at this time and we envisage including equivalent disclosures to those included for the 2017 bonus in next year's report. 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 performance measures for LTIP awards are reviewed annually to ensure that they remain aligned with the Company's strategic priorities over the course of the three year performance period.

For 2018, Carolyn McCall will be granted an award over 265% of salary and Ian Griffiths an award over 225% of salary.

Following Carolyn's appointment as Chief Executive in January 2018, the Company is currently in the process of completing a strategic refresh. The Committee has decided to defer the setting of performance measures for the 2018 awards until the strategic refresh has been completed. This is to ensure that the targets are fully aligned with the future strategic plan. Major shareholders were consulted regarding this approach and the feedback was supportive.

Once the targets for the 2018 awards have been set, the Committee expects to disclose these to shareholders on the Company's website and in the Remuneration Report for 2018. The Committee will engage appropriately with major shareholders regarding any material changes.

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 Committee has carried out a review of these arrangements and is happy that there is no need to instigate either malus or clawback for any vested or outstanding awards at this time.

Remuneration Report
continued

Non-executive Directors

There was no increase to Non-executive Director fees from 1 January 2018, which are as set out below.

	1 January 2018 £	1 January 2017 £	% 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, Peter will receive private medical insurance and this will be disclosed in full in 2018.

Details of Committee memberships can be found on pages 62 and 63.

Carolyn McCall – buyout arrangements

In line with the Remuneration Policy, it was agreed that ITV would buy out certain bonus and share awards that Carolyn forfeited by leaving her previous employer, easyJet plc, and joining ITV. Details of forfeited arrangements are set out in the easyJet plc Annual Report and Accounts for 2016/17.

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 where possible, particularly where the performance period has completed. Part of the buyout will be dependent on the extent to which legacy incentives at her previous employer vest in due course.

All elements of the buyout package are subject to continued employment. If Carolyn 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 her.

The buyout arrangements comprise the following:

- **Annual bonus** – easyJet bonus award forfeited in respect of 2016/17 will be replaced with an award of equivalent value. This will include a cash payment of £607,287 and a deferred share award equivalent to £303,643, which will vest after three years.
- **Legacy deferred bonus shares** – shares relating to easyJet bonuses paid in prior years, and not subject to additional performance conditions, will be replaced with equivalent awards over ITV shares that will vest over the same time horizon as awards forfeited.
- **Long-term incentives** – various long-term incentive awards that were forfeited on joining ITV will be replaced with equivalent ITV share awards. The value of the buyout in respect of the 2014 and 2015 awards will be based on the final vesting outcome for the corresponding easyJet awards. To the extent that the 2015 award lapses, no buyout will be made. In respect of the 2016 award, a replacement award will be granted in due course, subject to ITV performance criteria. Consistent with the approach taken in respect of the 2018 ITV LTIP award, the exact performance criteria will be determined following the completion of the strategic refresh. In all cases, the awards will vest and be released over the same time horizons as awards forfeited, which includes the continued application of relevant holding periods.

The share elements of the buyout will be formally granted during the course of 2018. 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.

Other Disclosures

Payments to past Directors or for loss of office

Adam Crozier stepped down as Chief Executive on 30 June 2017. His 12 month notice period commenced on 3 May 2017, the date his decision was advised to the Board. As announced on the Company's website on 3 May 2017, on cessation of employment and in line with his contractual arrangements he received a payment in lieu of his remaining notice period and in respect of accrued but untaken holiday totalling £1,052,866. He continues to receive private healthcare, a fuel card and life cover until 2 May 2018 when his notice period ends. In addition Adam Crozier received an allowance for legal advice and outplacement services with a cap of £50,000.

The Committee agreed to treat share awards as follows:

- **DSA** – for bonus already earned, all outstanding awards were released in full on 30 June 2017.
- **LTIP** – any unvested nil-cost options vest on their normal vesting dates, are subject to the same performance conditions as other participants and were prorated to 30 June 2017. In respect of the 2014 award (which had already vested) the first tranche was exercised on 30 May 2017 and the second tranche on 30 June 2017. In respect of the 2015 award, the award vests in March 2018 with the first tranche exercisable in March 2018 and the second tranche in March 2020. In respect of the 2016 award, this will vest in March 2019 and become exercisable in March 2021.

In line with contractual arrangements, a bonus payment will be made in March 2018 for the six months served as a director in 2017. 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 87 with further details on page 88.

Chief Executive remuneration

The table below provides a summary of the total remuneration received by the Chief Executive over the last nine 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
2017	Peter Bazalgette (for the six month period served) – Executive Chairman	225	–	–
2017	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	–
2010	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 2016 and 31 December 2017 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	–	5.11	144.79
All employees	3, 4	4.58	7.84	31.99

1. As Adam Crozier stepped down as Chief Executive during the year, the values received by him up to 30 June 2017 have been annualised to enable a comparison.
2. Benefits include the cost of medical insurance and car-related benefits.
3. As the majority of employees are based in the UK, overseas employees have not been included.
4. The percentage change in benefits is the average change for all employees (excluding the Chief Executive) with any of the same benefits as the Chief Executive.

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. 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.

Remuneration Report
continued

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. 50% of the requirement must normally be obtained within three years of appointment and the remainder normally within five years.

	% of salary required under shareholding guidelines	% of salary held at 31 December 2017
Adam Crozier[1]	400	439
Ian Griffiths[2]	200	366

1. The value of shares held by Adam Crozier is based on his holding at 30 June 2017 when he stepped down from the Board. The share price used to value the shares on 30 June 2017 was 181.4 pence.
2. The value of shares held by Ian Griffiths is based on his holding at 29 December 2017 using a share price of 163.8 pence.

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.

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). The current position against the guidelines for each Non-executive Director is set out in the table below.

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 2017.

	Interests in shares			Shareholding guidelines	
	2 January 2018	**31 December 2017**	31 December 2016	% of salary/base fees required under the shareholding guidelines	**% of salary/base fees held at 31 December 2017**
Salman Amin[1]	–	**–**	–	100	**–**
Peter Bazalgette[3,4]	249,095	**236,070**	197,108	100	**91**
Margaret Ewing[2]	6,700	**6,700**	–	100	**17**
Roger Faxon	28,910	**28,910**	21,910	100	**73**
Ian Griffiths	1,254,554	**1,254,554**	1,254,554	200	**366**
Mary Harris[3,4]	19,883	**17,870**	12,028	100	**50**
Andy Haste[3,4]	141,032	**139,200**	125,446	100	**355**
Anna Manz	32,993	**32,993**	31,588	100	**83**
John Ormerod	175,510	**175,510**	168,407	100	**442**

1. Salman Amin was appointed to the Board on 9 January 2017.
2. Margaret Ewing was appointed to the Board and Audit and Risk Committee on 31 October 2017.
3. Shares were acquired on 2 January 2018 under a trading plan using 25% of their fees, after statutory deductions, for the quarter to 31 December 2017.
4. The value of shares has been calculated using the share price on 29 December 2017 of 163.8 pence.

Outstanding interests under share schemes

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

	Notes	At 1 January 2017	Awarded in year	Vested in year	Exercised in year	Lapsed in year	**At 31 December 2017**	Share price used for award (pence)	Share price at date of vesting (pence)	Date of release/ exercise in year
Adam Crozier										
DSA	1									
28 March 2017	2, 5	–	107,949	107,949	107,949	–	**–**	209.2	181.40	30 June 2017
29 March 2016		219,406	–	219,406	219,406	–	**–**	241.0	181.40	30 June 2017
27 March 2015		197,741	–	197,741	197,741	–	**–**	256.7	181.40	30 June 2017
28 March 2014		240,534	–	240,534	240,534	–	**–**	194.5	209.88	28 March 2017
LTIP										
29 March 2016		878,481	–	–	–	512,447	**366,034**	241.0		
27 March 2015	3	804,636	–	–	–	201,159	**603,477**	256.7		
30 May 2014	4	1,103,543	–	441,418	441,418	110,354	**–**	183.5	199.40	30 May 2017
				441,417	441,417	110,354	**–**	183.5	180.55	3 July 2017
Ian Griffiths										
DSA	1									
28 March 2017	2, 5	–	60,472	–	–	–	**60,472**	209.2		
29 March 2016		121,628	–	–	–	–	**121,628**	241.0		
27 March 2015		112,186	–	–	–	–	**112,186**	256.7		
28 March 2014		122,269	–	122,269	122,269	–	**–**	194.5	209.88	28 March 2017
LTIP										
11 May 2017	5	–	705,730	–	–	–	**705,730**	199.3		
29 March 2016		536,850	–	–	–	–	**536,850**	241.0		
27 March 2015	3	491,722	–	–	–	–	**491,722**	256.7		
30 May 2014	4	674,387	–	539,510	269,755	134,877	**269,755**	183.5	199.40	30 May 2017

1. There are no performance conditions attaching to the DSA.
2. DSA awards made in 2017 for 2016 performance are included in the single figure table on page 87.
3. LTIP performance conditions were met in 2017 (63%). For Ian Griffiths, 50% will become exercisable on 27 March 2019, the remainder on 27 March 2020. For Adam Crozier, the Committee has exercised its discretion so that 50% will become exercisable on 27 March 2018 and the remainder on 27 March 2020. The indicative values at 31 December 2017 are included in the single figure table on page 87.
4. LTIP performance conditions were met in 2016 (80%) and the value is included in the single figure table on page 87. 50% became exercisable on 30 May 2017 with the remainder on 30 May 2018. For Adam Crozier the Committee exercised its discretion so that the remainder subject to the one year holding period became exercisable on 3 July 2017.
5. The face value of awards granted in the financial year to Ian Griffiths under the LTIP was £1,406,306. Adam Crozier did not receive an award. The face values of awards granted in the financial year under the DSA were £225,828 and £126,506 to Adam Crozier and Ian Griffiths respectively.
6. Performance conditions that apply to the outstanding awards under the LTIP are set out in the table below.

				2015		2016		**2017**	
Strategic target	Strategic targets	Weighting	Threshold vesting	Threshold	Maximum	Threshold	Maximum	**Threshold**	**Maximum**
EPS Gateway				45.7p		54.6p		**56.3p**	
Cumulative adjusted EPS		50%	20%	45.7p	52.2p	54.6p	62.4p	**56.3p**	**64.2p**
Family SOV		20%	20%	22%	22.44%	20.2%	21.6%	**20.2%**	**21.6%**
Annual non-NAR growth		10%	20%	5%	10%	5%	10%	**5%**	**10%**
International production revenue growth		10%	20%	5%	15%	5%	15%	**5%**	**15%**
Online, Pay & Interactive revenue growth		10%	20%	5%	18%	5%	18%	**5%**	**18%**
				Cumulative adjusted EPS years 2015 to 2017		Cumulative adjusted EPS years 2016 to 2018		Cumulative adjusted EPS years 2017 to 2019	

Vesting between threshold and maximum (100%) is on a straight-line basis for all targets except SOV, which vests at 75% with a straight-line vesting between threshold and maximum.

Remuneration Report
continued

Executive Directors' non-executive directorships

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

During the year, the Executive Directors retained fees for the directorships set out below.

	Company	2017 £000
Adam Crozier	Whitbread plc	**15**
Ian Griffiths	DS Smith plc	**56**

Fees shown for Adam Crozier are those paid up until 30 June 2017 when he stepped down from the Board of ITV plc.

Service contracts

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
Ian Griffiths	9 September 2008	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 2018. Details of unexpired terms are set out in the table on page 68.

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

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 85.

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. FIT Remuneration Consultants acted as the independent adviser on remuneration policy and the external remuneration environment up until September 2017. Total fees for advice provided to the Committee during the year amounted to £55,598 (exclusive of VAT and expenses). Deloitte LLP took over as adviser from September 2017. Total fees for advice provided to the Committee during the year amounts to £125,450 (exclusive of VAT and expenses).

The Committee has formally reviewed the work undertaken by both FIT and Deloitte and is satisfied that the advice they have received has been objective and independent. Both FIT and Deloitte are members of the Remuneration Consultants Group and abide by its Code of Conduct.

Spend on pay

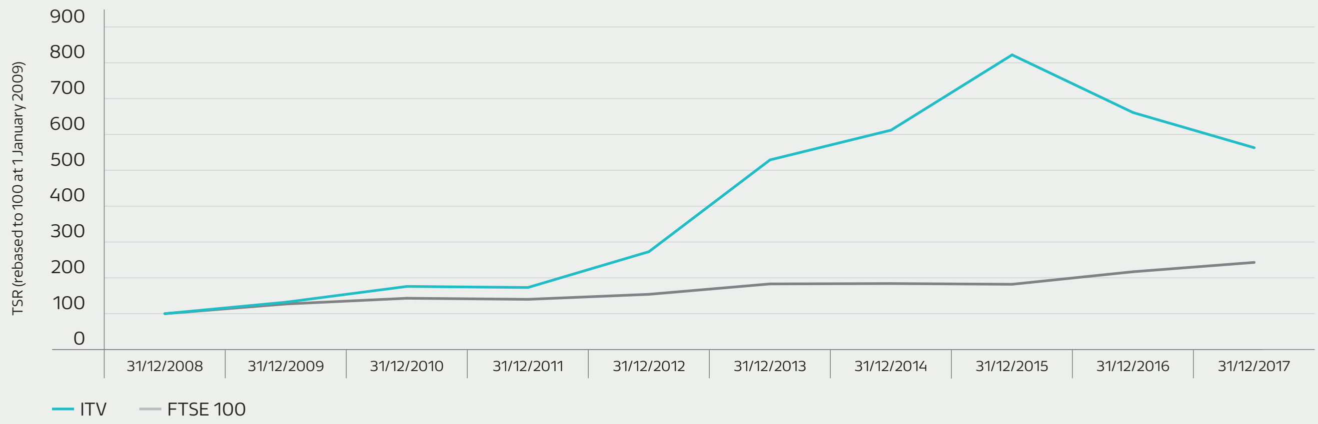
The table below shows pay for all employees compared with other key financial indicators.

	2017 £m	2016 £m	% Change
Employee pay	449	419	7.2
Ordinary dividend	294	261	12.6
Special dividend	200	402	(50.0)
Employee headcount	6,055	6,121	(1.1)

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 127.
Employee headcount is the monthly average number of employees across ITV on a full-time equivalent basis. More detail is set out on page 127.
There were no share buy-backs during either year.

Historic performance

The graph below shows the TSR performance of the Company against the FTSE 100 index over the nine year period to 31 December 2017.



Shareholder voting

At the AGM held on 10 May 2017, 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	2,827,532,129	94.72	157,593,427	5.28	2,987,579,168	2,453,612

The Remuneration Policy was approved at the AGM for a three year period. Votes cast by proxy and at the meeting were as follows:

Resolution	Number of shares	Voting for %	Number of shares	Voting against %	Total votes cast	Votes withheld
Remuneration Policy	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 2017, which they approved on 28 February 2018. The Directors' Report comprises this report and the entire Governance section including the Chairman's Governance Statement.

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

During the year, 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 10 May 2018.

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 bonds/borrowing facilities have change of control clauses whereby the issuer can require ITV to repay/redeem bonds in the event of a change of control. The Company is not aware of any other significant agreements to which it is party that take effect, alter or terminate upon a change of control of the Company.

Directors

Appointments: A table showing Directors who served in the year can be found on page 68. Biographies for Directors currently in office can be found on pages 62 and 63 and on our website.

www.itvplc.com/about/board-of-directors

Directors are appointed for an initial three year period and annually thereafter. In accordance with the UK Corporate Governance Code, each Director, other than those due to step down post the meeting, will retire and submit themselves for election or re-election at the AGM on 10 May 2018.

Detail on compensation for loss of office can be found in the Remuneration Report on page 92.

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. The Board is confident that these procedures operate effectively.

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.

www.itvplc.com/investors/governance

Dividends

The Board has proposed a final dividend for the year ended 31 December 2017. Details of this and other dividends paid for the year are as follows:

	2017	2016
Interim dividend	**2.52p**	2.4p
Final dividend	**5.28p**	4.8p
Total ordinary dividend	**7.80p**	7.2p
Special dividend	**–**	5.0p
Total dividend payment	**7.80p**	12.2p

The final dividend for 2017 will be paid on 24 May 2018 to shareholders on the register on 13 April 2018. The ex-dividend date is 12 April 2018.

Employees

Disability: ITV has been certified a Disability Confident Employer by the Department for Work and Pensions. The Company gives full and fair consideration to the employment of people with a disability or long-term health condition in accordance with the Equality Act 2010. Our employment and recruitment policies are based on equal opportunities and non-discrimination. ITV works with a variety of diversity partners across its apprentice, early careers and permanent and fixed-term contract recruitment (including Creative Access, Mencap, Remploy, Scope and Vercida). The Company provides tailored measures to ensure colleagues are fully supported and that reasonable adjustments are made. We are committed to ensuring that all training, career development and promotional opportunities are accessible and inclusive to all and colleagues with a disability have the same career opportunities for growth and progression.

ITV's commitment around the disability agenda extends beyond it legal obligations and partners with a variety of internal and external specialists to drive best practice.

Further information can be found on our Corporate Responsibility website.

www.itvplc.com/responsibility

Diversity: ITV's goal is to reflect modern society through our programmes, channels, workforce and services, ensuring we are relevant and accessible to all. It's integral to our business aims to reflect, represent and appeal to the breadth of communities that characterise modern society. Working in partnership with the production community, we aim for our programmes to portray accurately the diverse makeup of modern society by the people on-screen and the editorial content. The Company has a number of policies to support an inclusive workforce and culture, for example the Code of Conduct, Equal Opportunities Policy, Flexible Working Policy and Transitioning at Work Policy. We also have four network groups: ITV Pride (for LGBT+ employees), The Women's Network, ITV Balance (for working parents, grandparents and carers), and ITV Embrace (for BAME employees), which are open to all. ITV is also a founding member of the Social Mobility Business Partnership to promote social mobility in business, especially in the legal and accountancy professions.

Further information can be found on our Corporate Responsibility website.

www.itvplc.com/responsibility

Directors' Report
continued

Engagement: It is critical for our ongoing success that we attract, develop, recognise and retain the very best talent across the whole of ITV. To achieve this we continuously engage with our colleagues to ensure they understand our business priorities, how they help to deliver business success and the opportunities available for them to thrive and develop. We regularly survey our employees to hear their feedback. The last survey was completed in 2016, and the overall completion rate was 80%. The overall engagement index is 90%. Throughout 2017 we have been taking action on the results and plan to conduct our next engagement survey in 2018.

This year we launched our first on-air employee roadshow, which was broadcast globally to all our ITV sites. All employees from around the world were able to watch live interviews with our Chairman and members of the Management Board. Employees from the UK were also invited to attend in person and were able to ask questions directly. Other employees were able to email their questions separately. The roadshow received great feedback and we would look to do this again in future years.

To further promote employee engagement, the Company has a network of Ambassadors who are nominated and elected by employees to represent each part of the business. These Ambassadors share the views of the employees they represent enabling us to understand ways to make ITV a better place to work. The Ambassadors also keep employees up to date with what is going on across the business.

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 our programming and people.

The Company continues to be committed to ensuring employees earn at least the Living Wage or greater. Where appropriate we have agreed additional increases. On 1 January 2018, all eligible employees received a pay increase of 2.75% (2017: 1.5% paid to eligible employees earning less than £100,000).

In addition, a bonus arrangement extends to all our employees, providing a comprehensive incentive framework THAT rewards everybody when the Company is successful. For 2017 the maximum bonus amount was increased from £1,500 to £1,750. The all-employee bonus award for 2017 was paid in full at £1,750 (2016: £1,300).

The Company also operates a successful and popular all-employee Save As You Earn scheme that encourages voluntary investment in ITV shares and a package of voluntary benefits, which provides valuable cost savings for both employees and the Company.

Information about remuneration for the Directors is included in the Remuneration Report on page 82.

Succession planning, training and development: When planning succession within the Company, consideration is given to emergency cover together with medium and long-term succession and this is reviewed annually by the Nomination Committee. There is particular emphasis on growing the internal leadership pipeline through the launch of the following key programmes:

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

There is also a comprehensive portfolio of development courses and workshops in place for all employees that address common development needs. International training for last year was limited. The Company ran workshops in Germany and Hong Kong and this year workshops, on line webinars will be put in place for our international employees. An online training portal called My Academy will also be launched to the international markets.

Spend and investment on training in 2017 can be categorised as follows: Leaders and Managers development spend was £150,000, all employees development spend was £230,000 and the high potential development programme spend was £90,000.

The annual turnover for employees for 2017 was 10.46% (UK only). 4.59 % was planned and 5.86% regrettable.

Pensions

The Company pensions arrangements are overseen by the Pensions Steering Committee comprised of the COO & CFO (Chairman), Director of Group Finance, Group HR Director, Director of Treasury and Director of Reward and Pensions. The Committee meets monthly and is supported by a range of specialist advisers.

The Company operates a number of pension arrangements which provide retirement and death benefits for employees.

ITV Pension Scheme (the "Scheme"): The Scheme comprises three sections: A, B and C. Section A includes a defined contribution (DC) section. The defined benefit (DB) sections have been closed since 2002 to new members and, following a comprehensive consultation exercise, were closed to future accrual with effect from 28 February 2017. Contributions to the DC section also ended with effect from that date.

ITV Pension Scheme Limited (a wholly owned subsidiary of ITV plc) is the corporate trustee and manages the DB and DC assets, which are held under trust separately 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 current chairman's tenure came to an end at the end of December and a replacement is currently being recruited. There is also a vacancy for another Company appointed director. The trustee board 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. 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 2014. The trustee of the Scheme is undertaking actuarial valuations as at 1 January 2017 and the outcome is expected before the end of March 2018.

ITV Defined Contribution Plan (the "Plan'): The new trust based Plan was established to accept contributions from 1 March 2017 for ex-DB members and DC members who transferred from the ITV Pension Scheme. In addition, pure DC assets previously built up in the ITV Pension Scheme were transferred to the Plan during March 2017.

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. There is currently a selection exercise taking place for the two member-nominated vacancies. 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 ITV Pension Scheme.

Work is in progress to enable the chair to be in a position to confirm 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.

Directors' Report
continued

Ulster Television Pension and Assurance Scheme (the "Scheme"): The Scheme provides DB benefits. It closed to new members in 2002 but is still open to future accrual.

Following the UTV acquisition in 2016, responsibility for managing the Scheme has moved to the Group pensions department and it was decided to strengthen the governance of the Scheme by replacing the existing individual trustee structure with a corporate trustee – UTV Pension Scheme Limited (a wholly owned subsidiary of ITV plc). The trustee 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 Scheme and developing the board is being enhanced to be in line with that in place for the ITV Pension Scheme. Full valuations are carried out every three years. The latest completed actuarial valuation was carried out as at 1 July 2014. The trustee of the Scheme is undertaking an actuarial valuation as at 1 July 2017 and the preliminary results were agreed in principle at the end of 2017 and the valuation is expected to be finalised before the end of March 2018. 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 interdependent.

ITV Auto-enrolment Pension Plan (the "Plan"): 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 (i.e. it applies to workers and not simply employees). Eligible individuals are enrolled into the ITV Auto-enrolment Pension Plan. The plan is currently provided using a master trust arrangement run by NOW:Pensions with an independent board of trustee directors. This plan is currently under review.

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 2017 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 incurred as a director or officer of ITV Pension Scheme Limited, ITV DC Trustee Limited and UTV Pension Scheme Limited.

Greenhouse gas emissions

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 2017 is disclosed below for direct (gas, vehicle fuel, fuel oils and refrigerants consumption) and indirect (electricity consumption) emissions.

Indicator	**2017**	2016
Total gross CO_2e emissions	**22,321 (tCO_2e)**	26,984 (tCO_2e)
Scope 1: Direct emissions	**6,684 (tCO_2e)**	7,793 (tCO_2e)
Scope 2: Indirect emissions	**15,637 (tCO_2e)**	19,191 (tCO_2e)
Total Revenue	**£3,657m**	£3,527m
Emissions per unit/£m revenue	**6.1 (tCO_2e)**	7.7 (tCO_2e)

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. 33% of our data set is based on estimated data. Estimates are calculated from previous consumption trends and published benchmarks.

In 2017, the Company's greenhouse gas emissions reduced by 17% compared to the previous year. As 90% 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. The amount of diesel purchased for fleet vehicles also decreased, which was due in part to the purchase of some Plug-in Hybrid Electric Vehicles for our fleet.

Further information can be found on our Corporate Responsibility website.

www.itvplc.com/responsibility

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. The Company's professional Health and Safety team continues to develop and refine our management system to ensure it meets the specific risk profile of the business and embeds the ownership of risk with business owners.

The key elements of our safety management system are: Process, Compass (our online presence), Education, Expertise, Monitoring and Assurance.

In 2017, we continued to build our education programme rolling out Leading Risk sessions with the leadership teams in ITV Studios UK and America, supported by a research project being undertaken in collaboration with the London School of Economics to give us a greater understanding of risk-taking beliefs and behaviours within our production business. This is the first step in aligning our training programme to the Studios Label model to ensure ownership of risk in appropriate areas. See page 79 for more information.

We have developed and launched an online resource, Compass, to provide easily accessible production focused health and safety advice on the most common health and safety risks managed by our productions.

To enable us to review the effectiveness of our processes and overall approach to production safety, 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 will build on this in 2018 across our business and will 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

Performance Indicators – UK	**2017**			2016		
	Staff	**Non Staff**	**Total**	Staff	Non Staff	**Total**
Lost time accidents reported under RIDDOR*	1	1	2	4	1	5
Specified injuries reported under RIDDOR	2	7	9	2	2	4

Performance indicators – international

		Australia	France	Germany	Talpa	USA	Finland	Norway	Sweden	Denmark	Italy
Serious Injuries sustained at work by employees or people directly involved in our activities	2017	0	0	1	0	1	1	0	1	0	0
	2016	0	0	0	0	3	0	0	0	0	n/a

* Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013

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

Directors' Report
continued

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.

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 2017 AGM. However, during 2017 the Group made no payments falling within this definition (2016: nil).

Report and accounts disclosures
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 50 to 57.

Note 4.3 to the accounts on page 166 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 120. 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.

Share capital
Issued: At the date of this report, there were 4,025,409,194 ordinary shares of 10 pence each in issue, all of which are fully paid up and quoted on the London Stock Exchange.

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 2018 or 10 August 2018, 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.

Share schemes: Details of employee share schemes are set out in note 4.7 on page 174. The Company has an EBT funded by loans to acquire shares for the potential benefit of employees. Details of shares held by the EBT at 31 December 2017 are set out on page 176. During the year shares have been released from the EBT in respect of share schemes for employees. 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 28 February 2018, 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.	10.05%	Indirect	–	–	404,675,342
Liberty Global Incorporated Limited	–	Indirect	9.90%	Loaned shares	398,515,510
BlackRock Inc.	6.82%	Indirect	0.05% 0.72%	Securities lending Contract for difference	306,303,502
Amerprise Financial, Inc and its group	5.08%	Indirect	0.045%	Equities swap	206,179,898
The Goldman Sachs Group	0.04%	Indirect	0.82% 20.11%	Securities Lending Swap (cash), Contract for difference (cash), over the counter option (physical or cash)	843,943,939

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

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 62 and 63, 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 2017. 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 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 prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

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

Ian Griffiths
Chief Operating Officer and Group Finance Director
28 February 2018
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 only	**108**
Primary Statements	**114**
Consolidated Income Statement	114
Consolidated Statement of Comprehensive Income	115
Consolidated Statement of Financial Position	116
Consolidated Statement of Changes in Equity	117
Consolidated Statement of Cash Flows	119
Section 1: Basis of Preparation	**120**
Section 2: Results for the Year	**124**
2.1 Profit before tax	124
2.2 Exceptional items	129
2.3 Taxation	131
2.4 Earnings per share	134
2.5 Discontinued operations	136
Section 3: Operating Assets and Liabilities	**137**
3.1 Working capital	137
3.2 Property, plant and equipment	141
3.3 Intangible assets	143
3.4 Acquisitions	148
3.5 Investments	151
3.6 Provisions	152
3.7 Pensions	153
Section 4: Capital Structure and Financing Costs	**162**
4.1 Net debt	162
4.2 Borrowings and finance leases	164
4.3 Managing market risks: derivative financial instruments	166
4.4 Net financing costs	170
4.5 Fair value hierarchy	171
4.6 Equity	173
4.7 Share-based compensation	174
Section 5: Other Notes	**176**
5.1 Related party transactions	176
5.2 Contingent assets and liabilities	177
5.3 Subsidiaries exempt from audit	178
ITV plc Company Financial Statements	**179**
Notes to the ITV plc Company Financial Statements	**181**

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 2017, 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, which include 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 2017 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 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 for the listed ITV Group is 14 financial years ended 31 December 2017. 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, 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
Net Advertising Revenue ('NAR') £1,591 million (2016: £1,672 million) Risk vs 2016: ◄► Refer to page 75 (Audit and Risk Committee report), page 124 (accounting policy) and pages 125 and 126 (financial disclosures)	
Subjective estimate The majority of ITV's advertising revenue ('NAR') is subject to regulation under Ofcom's Contract Rights Renewal system ('CRR'). CRR works by ensuring that the annual share of TV advertising that will be placed with ITV by each advertising agency can change in relation to the viewing figures for commercial television that it delivers. The CRR system, the pricing of the annual contractual arrangements with advertising agencies and the details of each advertising campaign, together with the related processes and controls, are complex and involve estimation. In particular, the 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. NAR 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 level of estimation 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. • **Assessing estimate:** challenging the year end deal debt positions based on comparison with customers' correspondence and agreed terms of business. • **Test of detail:** confirming that the transmissions occurred prior to invoices being raised and revenue recognised by agreeing the transmissions to the corresponding spots. • **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 NAR and the estimated level of deal debt position liabilities to be acceptable (2016: acceptable).

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

The risk	Our response
Other revenue streams ('Non-NAR revenue') £2,066 million (2016: £1,855 million) Risk vs 2016: ◄► Refer to page 75 (Audit and Risk Committee report), page 124 (accounting policy) and pages 125 and 126 (financial disclosures)	
Complex contract accounting Non-NAR revenue includes revenue from: programme production and the sale of programme rights within the Studios segment; transmission supply arrangements and the Online, Pay & Interactive division within the Broadcast segment. 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 individual consideration and judgement. 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: • **Assessing principles:** 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 standard. • **Assessing disclosures:** we also 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-NAR to be acceptable (2016: acceptable).
Gross defined benefit pension scheme obligations £3,987 million (2016: £4,200 million) Risk vs 2016: ◄► Refer to page 74 (Audit and Risk Committee report), page 153 (accounting policy) and pages 153 to 161 (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. In addition, the Group has a longevity swap, the valuation of which is complex being dependent mortality and longevity experience. The valuation of the gross defined benefit obligations and longevity swap are considered a significant risk given the quantum of the gross pension obligation, the impact of the longevity swap on the net obligation position, 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 application:** assessing methodology applied to the longevity swap valuation and challenging underlying mortality assumptions against externally derived data, with the support of our own actuarial specialists. • **Assessing disclosures:** considering the adequacy of the Group's disclosures in respect of the sensitivity of the gross defined benefit obligations to these assumptions. Our findings: • The results of our testing were satisfactory and we considered the valuation of the gross pension obligations and the longevity swap to be acceptable (2016: acceptable).
Recoverability of parent company's investment in subsidiaries £2,191 million (2016: £1,861 million) Risk vs 2016: ◄► Refer to page 181 (accounting policy) and pages 183 (financial disclosures)	
Low risk, high value The carrying amount of the parent company's investments in subsidiaries represents 34% (2016: 29%) of the parent 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 (2016: 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 (2016: 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 (2016: £35 million), determined with reference to a benchmark of normalised Group profit before tax of £568 million (2016: £623 million) which excludes the pre-paid employment-linked remuneration charge, the exceptional bad debt provision in relation to the contract receivables and the non-recurring element of the property project costs disclosed in note 2.2, of which materiality represents 5% (2016: 5.5%).

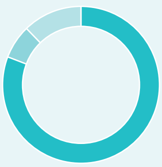
Materiality for the parent company financial statements as a whole was set as £27 million (2016: £34 million) determined with reference to the benchmark of the Company's total assets, of which it represents 0.4% (2016: 0.5%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.4 million (2016: £1.7 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Scoping and coverage

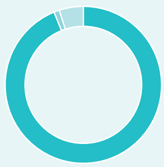
Revenue

- Group audited **81%**
- Specified risk-based audit procedures **7%**
- Out of scope **12%**



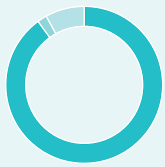
Profit before tax

- Group audited **94%**
- Specified risk-based audit procedures **1%**
- Out of scope **5%**



Total assets

- Group audited **90%**
- Specified risk-based audit procedures **2%**
- Out of scope **8%**



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 £20 million (2016: £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 two 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 (2016: £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. At this visit 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% (2016: 90%) of Group revenue, 95% (2016: 89%) of Group profit before taxation; and 92% (2016: 90%) of total Group assets.

4. We have nothing to report on going concern

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 note 1 on page 120 to 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 106 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

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

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 pages 58 and 59 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 52 to 57 disclosures 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.

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 Committee does not appropriately address matters communicated by us to the Audit 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 106, 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 sector experience, through discussion with the Directors and other management (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

In addition, we considered the impact of laws and regulations in the specific areas of broadcasting regulations recognising the nature of the Group's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the Directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statements items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

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.

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
28 February 2018

Consolidated Income Statement

For the year ended 31 December	Note	2017 £m	2016 £m
Revenue	2.1	**3,132**	3,064
Operating costs		**(2,577)**	(2,460)
Operating profit		**555**	604
Presented as:			
Earnings before interest, tax and amortisation (EBITA) before exceptional items	2.1	**810**	857
Operating exceptional items	2.2	**(153)**	(164)
Amortisation and impairment	3.3	**(102)**	(89)
Operating profit		**555**	604
Financing income	4.4	**4**	2
Financing costs	4.4	**(54)**	(53)
Net financing costs	4.4	**(50)**	(51)
Share of losses of joint ventures and associated undertakings	3.5	**(4)**	–
Loss on sale of non-current assets (exceptional items)	2.2	**(1)**	–
Profit before tax		**500**	553
Taxation	2.3	**(87)**	(100)
Profit from continuing operations		**413**	453
Loss after tax for the period from discontinued operation	2.5	**–**	(1)
Profit for the year		**413**	452
Profit attributable to:			
Owners of the Company		**409**	448
Non-controlling interests	4.6.6	**4**	4
Profit for the year		**413**	452
Earnings per share			
Basic earnings per share	2.4	**10.2p**	11.2p
Diluted earnings per share	2.4	**10.2p**	11.1p
Earnings per share from continuing operations			
Basic earnings per share	2.4	**10.2p**	11.2p
Diluted earnings per share	2.4	**10.2p**	11.1p

Consolidated Statement of Comprehensive Income

For the year ended 31 December	Note	2017 £m	2016 £m
Profit for the year		**413**	452
Other comprehensive income:			
Items that are or may be reclassified to profit or loss			
(Loss)/gain on revaluation of available-for-sale financial assets	4.6.4	**(1)**	1
Net loss on cash flow hedges	4.6.3	**(3)**	(2)
Exchange (loss)/gain on translation of foreign operations (net of hedging)	4.6.3	**(32)**	46
Items that will never be reclassified to profit or loss			
Remeasurement gains/(losses) on defined benefit pension schemes	3.7	**172**	(248)
Income tax (charge)/credit on items that will never be reclassified	2.3	**(39)**	40
Other comprehensive income/(loss) for the year, net of income tax		**97**	(163)
Total comprehensive income for the year		**510**	289
Total comprehensive income attributable to:			
Owners of the Company		**506**	285
Non-controlling interests	4.6.6	**4**	4
Total comprehensive income for the year		**510**	289

Consolidated Statement of Financial Position

As at 31 December	Note	2017 £m	2016 £m
Non-current assets			
Property, plant and equipment	3.2	**256**	244
Intangible assets	3.3	**1,645**	1,624
Investments in joint ventures, associates and equity investments	3.5	**74**	76
Derivative financial instruments	4.3	**10**	1
Distribution rights	3.1.2	**19**	31
Defined benefit pension surplus	3.7	**16**	–
Other pension asset	3.7	**38**	39
Deferred tax asset	2.3	**31**	17
		2,089	2,032
Current assets			
Programme rights and other inventory	3.1.1	**570**	406
Trade and other receivables due within one year	3.1.3	**514**	526
Trade and other receivables due after more than one year	3.1.3	**27**	39
Trade and other receivables		**541**	565
Current tax receivable		**19**	11
Derivative financial instruments	4.3	**6**	8
Cash and cash equivalents	4.1	**126**	561
		1,262	1,551
Current liabilities			
Borrowings	4.2	**(76)**	(165)
Derivative financial instruments	4.3	**(2)**	(3)
Trade and other payables due within one year	3.1.4	**(1,029)**	(960)
Trade payables due after more than one year	3.1.5	**(68)**	(57)
Trade and other payables		**(1,097)**	(1,017)
Current tax liabilities		**(86)**	(76)
Provisions	3.6	**(16)**	(19)
		(1,277)	(1,280)
Net current (liabilities)/assets		**(15)**	271
Non-current liabilities			
Borrowings	4.2	**(982)**	(1,035)
Derivative financial instruments	4.3	**(1)**	(9)
Defined benefit pension deficit	3.7	**(137)**	(367)
Deferred tax liabilities	2.3	**(111)**	(70)
Other payables	3.1.5	**(106)**	(63)
Provisions	3.6	**(7)**	(4)
		(1,344)	(1,548)
Net assets		**730**	755
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	**199**	221
Translation reserve	4.6.3	**41**	79
Available-for-sale reserve	4.6.4	**6**	7
Retained earnings	4.6.5	**(138)**	(162)
Total equity attributable to equity shareholders of the parent company		**685**	722
Non-controlling interests		**45**	33
Total equity		**730**	755

The accounts were approved by the Board of Directors on 28 February 2018 and were signed on its behalf by:

Ian Griffiths
Chief Operating Officer and Group Finance Director

Consolidated Statement of Changes in Equity

	Note	Attributable to equity shareholders of the parent company								
		Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Available-for-sale reserve £m	Retained earnings £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
Balance at 1 January 2017		**403**	**174**	**221**	**79**	**7**	**(162)**	**722**	**33**	**755**
Total comprehensive income/(loss) for the year										
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		–	–	–	(3)	–	–	(3)	–	**(3)**
Exchange differences on translation of foreign operations (net of hedging)		–	–	–	(32)	–	–	(32)	–	**(32)**
Remeasurement gain 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 (loss)/income		–	–	–	(35)	(1)	133	97	–	**97**
Total comprehensive (loss)/income 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**	**(138)**	**685**	**45**	**730**

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

Consolidated Statement of Changes in Equity continued

		Attributable to equity shareholders of the parent company								
	Note	Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Available-for-sale reserve £m	Retained earnings £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
Balance at 1 January 2016		403	174	221	35	6	275	1,114	33	1,147
Total comprehensive income/(loss) for the year										
Profit for the year		–	–	–	–	–	448	448	4	452
Other comprehensive income/(loss)										
Revaluation of available-for-sale financial assets		–	–	–	–	1	–	1	–	1
Net loss on cash flow hedges		–	–	–	(2)	–	–	(2)	–	(2)
Exchange differences on translation of foreign operations (net of hedging)		–	–	–	46	–	–	46	–	46
Remeasurement loss on defined benefit pension schemes	3.7	–	–	–	–	–	(248)	(248)	–	(248)
Income tax charge on other comprehensive income	2.3	–	–	–	–	–	40	40	–	40
Total other comprehensive income/(loss)		–	–	–	44	1	(208)	(163)	–	(163)
Total comprehensive income/(loss) for the year		–	–	–	44	1	240	285	4	289
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Equity dividends		–	–	–	–	–	(663)	(663)	(4)	(667)
Movements due to share-based compensation	4.7	–	–	–	–	–	10	10	–	10
Tax on items taken directly to equity	2.3	–	–	–	–	–	(4)	(4)	–	(4)
Purchase of own shares via employees' benefit trust	4.7	–	–	–	–	–	(20)	(20)	–	(20)
Total transactions with owners		–	–	–	–	–	(677)	(677)	(4)	(681)
Balance at 31 December 2016	4.6	403	174	221	79	7	(162)	722	33	755

Consolidated Statement of Cash Flows

For the year ended 31 December	Note	£m	2017 £m	£m	2016 £m
Cash flows from operating activities					
Cash generated from operations before exceptional items	2.1		**795**		870
Cash flow relating to operating exceptional items:					
Operating exceptional items	2.2	**(153)**		(164)	
Increase in exceptional payables		**(18)**		71	
Decrease in exceptional prepayments and other receivables		**45**		66	
Cash outflow from exceptional items			**(126)**		(27)
Operating cash flow from discontinued operation	2.5		**–**		(6)
Cash generated from operations			**669**		837
Defined benefit pension deficit funding		**(80)**		(80)	
Interest received		**21**		38	
Interest paid on bank and other loans		**(59)**		(58)	
Net taxation paid		**(95)**		(90)	
			(213)		(190)
Net cash inflow from operating activities			**456**		647
Cash flows from investing activities					
Acquisition of subsidiary undertaking, net of cash acquired	3.4	**(35)**		(97)	
Acquisition of property, plant and equipment		**(46)**		(29)	
Acquisition of intangible assets		**(25)**		(15)	
Acquisition of investments		**(19)**		(41)	
Loans granted to associates and joint ventures		**(4)**		(2)	
Net proceeds from sale of assets held for sale	2.5	**–**		10	
Net cash outflow from investing activities			**(129)**		(174)
Cash flows from financing activities					
Bank and other loans – amounts repaid		**(680)**		(655)	
Bank and other loans – amounts raised		**465**		1,177	
Capital element of finance lease payments		**(4)**		(6)	
Equity dividends paid		**(494)**		(663)	
Dividends paid to minority interest		**(4)**		(4)	
Purchase of own shares via employees' benefit trust		**(36)**		(20)	
Net cash outflow from financing activities			**(753)**		(171)
Net (decrease)/increase in cash and cash equivalents			**(426)**		302
Cash and cash equivalents at 1 January	4.1		**561**		294
Reclassification of gilts to other pension assets	3.7		**–**		(39)
Effects of exchange rate changes and fair value movements			**(9)**		4
Cash and cash equivalents at 31 December	4.1		**126**		561

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 2017 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 2017, the Group was in a financial net debt position with a positive gross cash balance. Even though the Group is in a net current liability position, its strong balance sheet and continued generation of significant free cash flows enables the Group to meet its obligations and has enabled further investment.

As a part of the going concern test, the Group reviews forecasts of the television advertising market to determine the impact on ITV's liquidity position. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group will be able to operate within the level of its current 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 available-for-sale 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 are deemed 'available-for-sale'. These investments are held at fair value unless the investment is a start-up business, in which case it is valued at cost and assessed for impairment.

Current/non-current distinction

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

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

Classification of financial instruments

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

- Loans and receivables – separately disclosed as cash and cash equivalents and trade and other receivables;
- Available-for-sale financial assets – 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. Where there is a movement in the exchange rate between the date of the transaction and the year end, a foreign exchange gain or loss is recognised in the income statement.

Hedge accounting is implemented on certain foreign currency firm commitments, 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.

Non-monetary assets and liabilities measured at historical cost are translated into pounds sterling at the exchange rate on the date of the transaction.

The assets and liabilities of Group companies outside of the UK are translated into pounds sterling at the year end exchange rate. The revenue and expenses of these companies are translated into pounds sterling at the average monthly exchange rate during the year. Where differences arise between these rates, they are recognised in the translation reserve within other comprehensive income.

Notes to the Financial Statements
Section 1: Basis of Preparation continued

Exchange differences arising on the translation of the Group's interests in joint ventures and associates are recognised in the translation reserve within 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 areas involving a higher degree of estimation, judgement or complexity are set out below and in more detail in the related notes:

- Revenue recognition (note 2.1)
- Business combinations (note 3.3 and note 3.4)

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)

New or amended EU endorsed accounting standards

The table below represents new or amended EU endorsed accounting standards relevant to the Group's results that are effective in 2017:

Accounting Standard	Requirement
Amendments to IAS 7 'Statement of Cash Flows' on Disclosure Initiative	The amendments introduce an additional disclosure that will enable users of the financial statements to evaluate changes in liabilities arising from financing activities.
Amendments to IAS 12 'Income Taxes' on recognition of deferred tax assets for unrealised losses	The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.
Annual Improvements to IFRS 2014 – 2016 cycle	Amendments to a number of IFRSs, one of which is effective in 2017; this amendment clarified the scope of IFRS 12, specifically the disclosure requirements for interests in subsidiaries, associates or joint ventures that are classified as held-for-sale.

Based on the Directors' analysis, the amendments outlined above do not have a material impact on the Group's financial position or performance for the year ended 31 December 2017.

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 15 and IFRS 9 are both effective for the period beginning 1 January 2018 and, while the Directors do not expect these standards to have a significant impact on the Group's results, they highlight the conclusions from the impact assessment below.

IFRS 16 is effective for the period beginning 1 January 2019. The Directors have detailed the status of the impact assessment below.

IFRS 15 'Revenue from Contracts with Customers' is effective 1 January 2018. IFRS 15 requires the Group to identify distinct promises in contracts with customers that qualify as 'performance obligations'. The consideration receivable from customers must then be allocated between the performance obligations identified.

An assessment of the impact on all of the Group's material revenue streams has been completed. The impact on the Group's revenues and results is not material for either the Group or for the individual divisions, Broadcasting & Online and ITV Studios.

The changes to the current accounting policies on adoption of IFRS 15 require the Group to reclassify various costs which are now deemed to be attributable to revenue within the income statement. The impact on the results for the year ending 2017, which is not considered material to the Group, either individually or collectively, will be:

Income statement account	Impact
NAR revenue	Reduction of £11 million
Other commercial income	Reduction of £1 million
Online, pay & interactive revenue	Increase of £10 million
Operating costs	Reduction of £2 million

There is no impact on either profit or adjusted EBITA for the year for the Group or for an individual division.

The Directors adopted IFRS 15 on 1 January 2018 on a fully retrospective basis and will present, within the 2018 financial statements, a restatement of the comparative periods.

IFRS 9 'Financial Instruments' is also effective 1 January 2018. 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 analysis of the impact focused on the following items:

- Classification and measurement of financial assets and liabilities;
- Trade receivables impairment; and
- Recognition of hedging instruments and on the type of hedging relationships.

No material impacts were identified compared with the existing accounting treatment.

IFRS 16 'Leases' is effective 1 January 2019. IFRS 16 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 detailed assessment of impact on the Group's performance is ongoing, with the current focus on the completeness of the lease data. During the early impact assessment, the Group has reviewed the current accounting for existing key agreements, including satellite, transponder and playout agreements, and concluded that those do not meet lease definition under the regulations of IFRS 16, and therefore should continue to be classified as service agreements as presented within these financial statements.

The adoption is likely to have a material impact on the presentation of the Group's assets and liabilities, mainly due to property leases. Due to the quantity of leases under review, the Group has not substantially completed the assessment of lease contracts under the new accounting standard. Therefore, a quantification of the impact on the Group's results cannot currently be estimated.

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

In this section

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

2.1 Profit before tax

Keeping it simple

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

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

Accounting policies

Revenue recognition

Revenue is stated exclusive of VAT and equivalent sales taxes, and comprises the sale of products and services to third parties. Judgement is required when determining the appropriate timing and amount of revenue that can be recognised, specifically around whether there is a firm contract and whether the service has been provided and if so, whether there is a fixed or reasonably determinable price that is reasonably certain to be collected. Complexity in advertising revenue recognition is driven by intricate automated and manual processes involved in measuring the value delivered to the customer.

Revenue is recognised when the Group has transferred both the significant risks and rewards of ownership and control, and the amount of revenue can be measured reliably. Revenue recognition criteria for the Group's key classes of revenue are as follows:

Applicable segment	Class of revenue	Recognition criteria
Broadcast & Online	Advertising (NAR)	on transmission
	Video on Demand (VOD)	as audience targets are met
	Sponsorship	across the period of transmission of the sponsored programme or series
	Pay	over the term of the contract or per subscriber or download
	Participation (Interactive and Brand Extensions)	as the service is provided or the event occurs
Studios	Programme production	on delivery of episode and acceptance by the customer
	Programme distribution rights	when the contract is signed and content is available for exploitation
	Format and licences	at the point in time when the licence is transferred and the customer is able to use and benefit from the licence or over the licence period if continued involvement of the Group is required
	Digital: archive	on delivery of content (one-off) or over the contract period in a manner that reflects the flow of content delivered (top-up)

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

	2017 £m	**2017 % of total**	2016 £m	2016 % of total
NAR				
Broadcast & Online	**1,591**	**44%**	1,672	47%
Non-NAR				
Broadcast & Online	**484**		460	
ITV Studios: Productions	**1,307**		1,089	
ITV Studios: Distribution	**275**		306	
Total Non-NAR	**2,066**	**56%**	1,855	53%
Total revenue from continuing operations	**3,657**	**100%**	3,527	100%

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 2017 and 31 December 2016 are therefore Broadcast & Online and ITV Studios, the results of which are outlined in the following tables:

	Broadcast & Online 2017 £m	**ITV Studios* 2017 £m**	**Consolidated 2017 £m**
Total segment revenue	**2,075**	**1,582**	**3,657**
Intersegment revenue	**(2)**	**(523)**	**(525)**
Revenue from external customers	**2,073**	**1,059**	**3,132**
Adjusted EBITA**	**599**	**243**	**842**

	Broadcast & Online 2016 £m	ITV Studios* 2016 £m	Consolidated 2016 £m
Total segment revenue	2,143	1,395	3,538
Intersegment revenue	–	(463)	(463)
Revenue from external customers including discontinued operations	2,143	932	3,075
Less: Discontinued operations (note 2.5)	(11)	–	(11)
Revenue from external customers	2,132	932	3,064
Adjusted EBITA including discontinued operations**	636	243	879
Less: Operating loss from discontinued operations (note 2.5)	(6)	–	(6)
Adjusted EBITA**	642	243	885

* Revenue of £397 million (2016: £320 million) was generated in the US during the year; the US represented £330 million (2016: £346 million) of non-current assets at year end.

** 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. This measure represents the continuing operations.

The Group's principal operations are in the United Kingdom. Revenue from external customers in the United Kingdom is £2,272 million (2016: £2,370 million), and revenue from external customers in other countries is £860 million (2016: £694 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.

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

There is one media buying agency (2016: 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 £561 million (2016: £552 million) was derived from this customer. This revenue is attributable to the Broadcast & Online segment.

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 television advertising, where revenue is generated from the sale of audiences for advertising airtime and sponsorship.

Other sources of revenue are from: online advertising; HD digital channels on pay platforms (e.g. Sky and Virgin); SDN revenue (which generates licence sales for DTT Multiplex A); and participation revenue (which includes interactive sales from competitions) 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 66% of ITV main channel spend on commissioned programming (2016: 63%). 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 six other international locations, being Australia, Germany, France, Italy, the Netherlands (primarily Talpa) and the Nordics, where content is produced for local broadcasters. This content is either locally created IP or formats that have been created elsewhere by ITV, primarily 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 34 to 35 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:

	2017 £m	2016 £m
Adjusted EBITA	**842**	885
Production tax credits	**(32)**	(28)
EBITA before exceptional items from continuing operations	**810**	857
Operating exceptional items	**(153)**	(164)
Amortisation and impairment	**(102)**	(89)
Net financing costs	**(50)**	(51)
Share of losses of joint ventures and associated undertakings	**(4)**	–
Loss on sale of non-current assets (exceptional items)	**(1)**	–
Profit before tax from continuing operations	**500**	553

Cash generated from operations

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

	2017 £m	2016 £m
Cash flows from operating activities		
Profit before tax	**500**	553
Loss on sale of non-current assets (exceptional items)	**1**	–
Share of losses of joint ventures and associated undertakings	**4**	–
Net financing costs	**50**	51
Operating exceptional items	**153**	164
Depreciation of property, plant and equipment	**30**	31
Amortisation and impairment	**102**	89
Share-based compensation and pension service costs	**13**	10
Increase in programme rights and other inventory, and distribution rights	**(94)**	(35)
Decrease/(increase) in receivables	**13**	(56)
Increase in payables	**23**	63
Movement in working capital	**(58)**	(28)
Cash generated from operations before exceptional items	**795**	870

Operating costs

Staff costs

Staff costs before exceptional items can be analysed as follows:

	2017 £m	2016 £m
Wages and salaries	**358**	336
Social security and other costs	**55**	46
Share-based compensation (see note 4.7)	**12**	10
Pension costs	**24**	27
Total staff costs	**449**	419
Less: staff costs allocated to productions	**(166)**	(147)
FTEE staff costs (non-production)	**283**	272

Exceptional staff costs are disclosed separately in note 2.2.

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

	2017	2016
Broadcast & Online	**2,053**	2,087
ITV Studios	**4,002**	4,034
	6,055	6,121

The decrease in full-time equivalent employees is primarily driven by redundancies in the organic business as a result of restructuring offset by the weighted average 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 2017 are set out in the ITV plc Company financial statements.

Depreciation

Depreciation in the year was £30 million (2016: £31 million), of which £11 million (2016: £13 million) relates to Broadcast & Online and £19 million (2016: £18 million) to ITV Studios. A further £11 million of accelerated depreciation relating to assets made redundant as a result of the property project has been recorded as an exceptional item in 2017. See notes 2.2 and 3.3 for further details.

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

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

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**

			Re-presented*
2016	Property £m	Other £m	Total £m
Within one year	19	–	19
Later than one year and not later than five years	59	–	59
Later than five years	17	–	17
	95	–	95

* The Group holds 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. The Group has assessed the contracts under the new accounting standard IFRS 16, and consequently has reassessed the transponder assets under the current accounting standard, IAS 17. As a result, the Group has re-presented the transmission supply agreements as service agreements as opposed to operating leases. The impact of this is to remove the transponder assets from the operating lease disclosures in this note and disclose them instead as a commitment within note 3.1. There is no impact on the income statement, financial position or cash flow of the Group for this presentational change.

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 above. None of the lease agreements include contingent rentals.

The total operating lease expenditure recognised during the year was £21 million (2016: £19 million) and total sublease payments received were £1 million (2016: £1 million).

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:

	2017 £m	2016 £m
For the audit of the Group's annual accounts	**0.6**	0.6
For the audit of subsidiaries of the Group	**0.6**	0.6
Audit-related assurance services	**0.2**	0.2
Total audit and audit-related assurance services	**1.4**	1.4
Taxation advisory services	**–**	0.2
Other assurance services	**–**	0.1
Total non-audit services	**–**	0.3
Total fees paid to KPMG	**1.4**	1.7

There were no fees payable in 2017 or 2016 to KPMG and associates for the auditing of accounts of any associate or pension scheme of the Group, internal audit services, services relating to corporate finance transactions entered into or proposed to be entered into, by or on behalf of the Group or any of its associates.

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

2.2 Exceptional items

Keeping it simple

Exceptional items are 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 34 to 35 for the detailed explanation of the Group's use of adjusted performance measures.

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

Exceptional items

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

(Charge)/credit	Ref.	**2017 £m**	2016 £m
Operating exceptional items:			
Acquisition-related expenses	A	**(96)**	(131)
Restructuring and property project costs	B	**(30)**	(14)
Insured trade receivable provision	C	**(27)**	–
Pension curtailment cost	D	**–**	(19)
Total operating exceptional items		**(153)**	(164)
Non-operating exceptional items:			
Loss on sale of non-current assets		**(1)**	–
Total non-operating exceptional items		**(1)**	–
Total exceptional items before tax		**(154)**	(164)
Tax on exceptional items		**12**	15
Total exceptional items net of tax		**(142)**	(149)

A – Acquisition-related expenses

Acquisition-related expenses of £96 million includes £86 million (2016: £110 million) relating to performance-based, employment-linked costs to former owners mainly in relation to Talpa Media. The remaining £10 million (2016: £21 million) is primarily comprised of integration costs and professional fees (mainly financial due diligence and legal costs). See note 3.4 for further details on acquisitions.

B – Restructuring and property project costs

In 2017, the Directors made the decision to redevelop the Group's headquarters at The London Television Centre for which the Group owns the freehold. This requires relocating staff and studios for 4 to 5 years to alternative accommodation before moving back into a new freehold building. Therefore, the Group has taken rented office and studios space in the interim while the new headquarters are constructed.

During the course of the construction the Group will ring fence all incremental costs in relation to the redevelopment. Move costs, dual rates and rent will be treated as exceptional costs in the financial statements as they relate to the one-off property project that runs over several years but the Group will no longer incur them after the return to The London Television Centre.

In 2017, the Group incurred £24 million of costs being:

- Dual running costs of £7 million while the properties were vacant during refurbishment;
- £11 million of accelerated depreciation relating to assets made redundant as a result of the property project;
- £3 million of dilapidation provisions relating to these new property leases; and
- Other incremental one-off project costs of £3 million.

As a result of the review of the Group's London property needs, the Directors have decided to close The London Studios business incurring £6 million of redundancy costs in 2017.

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

In 2016, £14 million of costs were incurred as a result of a one-off project stemming from the Group-wide commitment to reduce the overhead cost base by £25 million. This cost was primarily comprised of redundancies across the Broadcasting, ITV Studios and Shared Services divisions as well as professional support to successfully plan and implement the project.

C – Insured trade receivable provision
The insured trade receivable provision of £27 million relates to the unpaid portion of revenue from the four-year licence deal for The Voice of China with Talent Television and Film Co. Ltd (Talent), the revenue for which was fully recognised in 2016 in accordance with accounting standards as the Group had no further obligations under the terms of the agreement.

Following a breach of the agreement by Talent as they had not fulfilled their payment obligations, the Group have taken back the licence for The Voice of China. The Group is pursuing Talent vigorously for the £30 million still due under the agreement.

Further, the Group has credit insurance in place and a claim has been submitted. Whilst the Directors continue to pursue the amounts due and believe there is ultimately no material financial impact, the Group will need to reflect a provision against this unpaid amount in its 2017 results. Whilst the Directors are confident in recovering the amount due, the accounting standards set very specific requirements for the recognition of contingent assets, which is how the recovery of the amount due will be accounted for. As discussions with the insurers and the claim against Talent are in progress, at this early stage of pursuing recovery the Group is not able to demonstrate sufficient certainty for accounting purposes to be able to recognise a cash receivable at the year end. Accordingly, The Group has made a provision amounting to £27 million (£30 million net of £3 million insurance excess) against the Talent receivable recorded in the accounts in the year ended 31 December 2017. The cash received in the future will also be treated as an exceptional item.

D – Pension curtailment cost
In 2016, following a member consultation, the Group decided to close the ITV Pension Scheme to future benefit accrual, resulting in a one-off non-cash curtailment cost of £19 million.

Strategic Report
Governance
Financial Statements
Additional information

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:

	2017 £m	2016 £m
Current tax:		
Current tax charge on profit before exceptional items	**(110)**	(134)
Current tax credit on exceptional items	**8**	11
	(102)	(123)
Adjustments to prior periods	**(2)**	10
	(104)	(113)
Deferred tax:		
Origination and reversal of temporary differences	**13**	18
Deferred tax credit on exceptional items	**4**	4
Impact of change in the statutory tax rate	**(6)**	1
	11	23
Adjustments to prior periods	**6**	(10)
	17	13
Total taxation charge in the income statement	**(87)**	(100)

In order to understand how, in the income statement, a tax charge of £87 million (2016: £100 million) arises on a profit before tax of £500 million (2016: £553 million), the taxation charge that would arise at the standard rate of UK corporation tax is reconciled to the actual tax charge as follows:

	2017 £m	2016 £m
Profit before tax	**500**	553
Notional taxation charge at UK corporation tax rate of 19.25% (2016: 20%) on profit before tax	**(96)**	(111)
Non-taxable income/non-deductible expenses	**(35)**	(25)
Prior year adjustments	**4**	–
Other taxes	**–**	(1)
Previously unrecognised deferred tax asset	**11**	–
Current year losses not recognised	**(4)**	(2)
Impact of overseas tax rates	**7**	10
Impact of changes in tax rates	**(6)**	1
Production tax credits	**32**	28
Total taxation charge in the income statement	**(87)**	(100)

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 £2 million charge relating to prior years, and the deferred tax credit includes a £6 million credit relating to prior years.

Previously unrecognised deferred tax assets are in relation to deferred tax assets arising on consolidation in relation to intangible assets which are now being brought on to the balance sheet in the current period.

Current year losses not recognised primarily relate to a capital loss arising on the write-down of an investment, as it is uncertain whether this loss can be utilised in future periods.

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 £6 million (2016: charge of £5 million) of which £2 million is recognised as a credit in the income statement and £4 million as a credit in other comprehensive income. In addition, as a result of the recent enactment of the Tax Cuts and Jobs Act in the US, the Group has recognised a tax charge of £9 million through the income statement, resulting from the revaluation of our US deferred tax assets to reflect the reduction in the US federal corporate tax rate to 21% from 1 January 2018. Changes to enacted rates in other countries have given rise to a further credit of £1 million reported in the income statement. The total impact of changes in tax rates is therefore a charge of £6 million in the income statement and a credit of £4 million in other comprehensive income.

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, and also Italian production tax credits. 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 17.4% (2016: 18.1%), and is the tax charge on the face of the income statement expressed as a percentage of the profit before tax. In the years ended 31 December 2017 and 31 December 2016, the effective tax rate is comparable to the standard rate of UK corporation tax of 19.25% in 2017 and 20% in 2016. 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 £13 million, compared with a credit of £18 million in 2016.

Taxation – Other comprehensive income and equity

As analysed in the table below, a deferred tax charge of £39 million on actuarial movements on pensions has been recognised in other comprehensive income (2016: £40 million credit). A deferred tax charge of £1 million has been recognised in equity in respect of share-based payments (2016: £6 million).

A current tax credit of £1 million has also been recognised in equity in relation to share-based payments (2016: £2 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 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 1 January 2016 £m	Reclassification £m	Recognised in the income statement £m	Recognised in OCI and equity £m	Business acquisitions £m	Foreign exchange £m	At 31 December 2016 £m
Intangible assets	(101)	14	15	–	(10)	(12)	(94)
Programme rights	1	–	–	–	–	–	1
Pension scheme deficits	1	1	(8)	40	–	–	34
Tax losses	4	–	23	–	–	3	30
Share-based compensation	11	(5)	(4)	(6)	–	–	(4)
Other temporary differences	5	(10)	(13)	–	–	(2)	(20)
	(79)	–	13	34	(10)	(11)	(53)

At 31 December 2017, total deferred tax assets are £23 million (2016: £65 million) and total deferred tax liabilities are £103 million (2016: £118 million). After netting off balances within countries, there is a deferred tax liability of £111 million and a deferred tax asset of £31 million (2016: deferred tax liability of £70 million and deferred tax asset of £17 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 £80 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 gain recognised in the period.

A deferred tax asset of £377 million (2016: £377 million) in respect of capital losses of £2,217 million (2016: £2,215 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 £13 million (2016: £19 million) in respect of overseas losses that time expire between 2018 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. In 2016, we presented EPS for the continuing business and the discontinued operation, UTV Ireland Limited (see note 2.5 for further details).

Basic EPS is calculated on the Group profit for the year attributable to equity shareholders of £409 million (2016: £448 million) divided by 4,006 million (2016: 4,010 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

	2017 £m	2016 £m
Profit for the year attributable to equity shareholders of ITV plc	**409**	448
Less: Loss for the year from discontinued operations	**–**	(1)
Profit for the year attributable to equity shareholders of ITV plc from continuing operations	**409**	449
Weighted average number of ordinary shares in issue – million	**4,006**	4,010
Basic earnings per ordinary share and from continuing operations	**10.2p**	11.2p
Basic loss per ordinary share from discontinued operations	**–**	–

Diluted earnings per share

	2017 £m	2016 £m
Profit for the year attributable to equity shareholders of ITV plc from continuing operations	**409**	449
Weighted average number of ordinary shares in issue – million	**4,006**	4,010
Dilution due to share options	**11**	19
Total weighted average number of ordinary shares in issue – million	**4,017**	4,029
Diluted earnings per ordinary share and from continuing operations	**10.2p**	11.1p
Diluted loss per ordinary share from discontinued operations	**–**	–

Adjusted earnings per share

	Ref.	2017 £m	2016 £m
Profit for the year attributable to equity shareholders of ITV plc		**409**	448
Exceptional items (net of tax)	A	**142**	149
Less: Loss after tax for the period from discontinued operations		**–**	(1)
Profit for the year before exceptional items from continuing operations		**551**	598
Amortisation and impairment of acquired intangible assets	B	**78**	66
Adjustments to net financing costs	C	**13**	19
Adjusted profit from continuing operations		**642**	683
Total weighted average number of ordinary shares in issue – million		**4,006**	4,010
Adjusted earnings per ordinary share and from continuing operations		**16.0p**	17.0p
Adjusted loss per ordinary share from discontinued operations		**–**	–

Diluted adjusted earnings per share

	2017 £m	2016 £m
Adjusted profit from continuing operations	**642**	683
Weighted average number of ordinary shares in issue – million	**4,006**	4,010
Dilution due to share options	**11**	19
Total weighted average number of ordinary shares in issue – million	**4,017**	4,029
Diluted adjusted earnings per ordinary share and from continuing operations	**16.0p**	17.0p
Diluted adjusted loss per ordinary share from discontinued operations	**–**	–

Details of the adjustments to earnings are as follows:

A. Exceptional items (net of tax) £142 million (2016: £149 million), calculated as total of:
- exceptional items of £154 million (2016: £164 million), see note 2.2 for the detailed composition,
- net of related tax credit of £12 million (2016: £15 million).

B. Amortisation and impairment of acquired intangible assets of £78 million (2016: £66 million), calculated as total of:
- amortisation and impairment of assets acquired through business combinations and investments of £102 million (2016: £89 million), excluding amortisation of software licences and development of £5 million (2016: £12 million),
- net of related tax credit of £19 million (2016: £11 million).

C. Adjustments to net financing costs £13 million (2016: £19 million). Net financing costs of £50 million (2016: £51 million) are adjusted for:
- mark-to-market movements on derivative instruments, foreign exchange and imputed pension interest charges of £33 million (2016: £26 million),
- net of related tax credit of £4 million (2016: £6 million).

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

2.5 Discontinued operations

Keeping it simple

A discontinued operation is a distinct component of the business that has been or is in the process of being disposed of. Accounting standards dictate that the loss from discontinued operations is recognised outside of the Group's operating results.

The Group's 2017 results were all derived from continuing operations.

During 2016, management agreed to sell UTV Ireland Limited to Virgin Media for €10 million. The sale completed on 30 November 2016 and the assets and liabilities classified as a disposal group held-for-sale have been disposed of.

Results of discontinued operations

	2017 £m	2016 £m
Revenue	–	11
Expenses	–	(17)
Operating loss	–	(6)
Taxation	–	–
Loss after tax	–	(6)
Gain on sale of discontinued operations	–	5
Tax on gain on sale of discontinued operations	–	–
Loss for the period	–	(1)
Earnings per share		
Basic loss per share	–	–
Diluted loss per share	–	–

Cash flows from (used in) discontinued operations

	2017 £m	2016 £m
Net cash used in operating activities	–	(6)
Net cash from investing activities	–	10
Net cash flow for the period	–	4

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 and production costs, trade and other receivables and trade and other payables.

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

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

Accounting policies

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

Programme rights and production costs not yet 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:

	2017 £m	2016 £m
Acquired programme rights	**179**	157
Commissions	**86**	69
Sports rights	**58**	27
	323	253

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

Broadcast programme and transmission commitments
Transmission commitments are the contracted future payments under transmission supply agreements that require the use of transponder assets for a period of up to ten years with payments increasing over time, limited by specific RPI caps. These have been re-presented as a commitment in 2017 (see operating leases section in note 2.1 for details).

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:

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**

2016	Transmission £m	Programme £m	Re-presented Total £m
Within one year	28	454	482
Later than one year and not more than five years	129	789	918
More than five years	92	112	204
	249	1,355	1,604

Studios production costs
Production inventory comprises the costs incurred by ITV Studios in producing a programme, where the programme is part way through the production process and not yet available for delivery to a broadcaster. Inventory is recognised within current assets at the value of the production cost incurred, and is expensed in operating costs on delivery of episodes.

Also included here are dramas where production costs are partly funded by the commissioning network licence fee and tax credits, if available. The remaining deficit is funded by the Group and is recovered by future distribution sales. Once the production is complete, the deficit is classified as a distribution right.

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

	2017 £m	2016 £m
Production costs	**247**	153

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:

	2017 £m	2016 £m
Distribution rights	**19**	31

During the year, £35 million was charged to the income statement (2016: £38 million).

3.1.3 Trade and other receivables

Accounting policies

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

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

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

	2017 £m	2016 £m
Due within one year:		
Trade receivables	**311**	315
Other receivables	**51**	39
Prepaid employment-linked consideration	**–**	21
Prepayments and accrued income	**152**	151
	514	526
Due after more than one year:		
Trade receivables	**19**	12
Accrued income and other receivables	**8**	27
	27	39
Total trade and other receivables	**541**	565

In 2016, prepaid employment-linked consideration of £21 million related to the acquisition of Talpa Media in 2015. This represented the portion of the initial consideration of €150 million that was recoverable from the seller in the event he left within the initial two years following acquisition. This amount was amortised over the two years to 31 March 2017 and recognised as exceptional expense (see note 2.2).

£330 million (2016: £327 million) of total trade receivables, stated net of provisions for impairment, are aged as follows.

	2017 £m	2016 £m
Current	**275**	299
Up to 30 days overdue	**28**	19
Between 30 and 90 days overdue	**16**	6
Over 90 days overdue	**11**	3
	330	327

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

	2017 £m	2016 £m
At 1 January	**4**	5
Charged during the year – insured trade receivable provision (note 2.2)	**30**	–
Charged during the year – other receivables	**5**	3
Unused amounts reversed	**(4)**	(4)
At 31 December	**35**	4

Of the provision total, £4 million relates to balances overdue by more than 90 days (2016: £3 million) and less than £1 million relates to current balances (2016: £1 million). £30 million of the provision relates to the overdue Talent receivable, which is impairing £14 million of trade receivables and £16 million of accrued income. The provision for these insured receivables, net of insurance excess, has been recognised as an exceptional expense (see note 2.2).

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

3.1.4 Trade and other payables due within one year

Accounting policies

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

	2017 £m	2016 £m
Trade payables	**63**	71
VAT and social security	**67**	61
Other payables	**234**	186
Acquisition-related liabilities – employment-linked contingent consideration	**34**	72
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	**42**	33
Accruals	**371**	332
Deferred income	**218**	205
	1,029	960

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:

	2017 £m	2016 £m
Trade payables	**68**	57
Other payables	**21**	10
Acquisition-related liabilities – employment-linked contingent consideration	**54**	38
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	**31**	15
	174	120

Trade payables primarily relate to film creditors for which payment is due after more than one year.

3.1.6 Working capital management

Cash and working capital management continues to be a key focus. During the year, the cash outflow from working capital was £58 million (2016: outflow of £28 million) derived as follows:

	2017 £m	2016 £m
Increase in programme rights and other inventory and distribution rights	**(94)**	(35)
Decrease/(increase) in receivables	**13**	(56)
Increase in payables	**23**	63
Working capital outflow	**(58)**	(28)

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.

Leases
Finance leases are those that transfer substantially all the risks and rewards of ownership to the lessee.

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

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

All other leases are operating leases, the rentals on which are charged to the income statement on a straight-line basis over the lease term (see note 2.1 for further details of operating lease commitments).

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

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

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

Impairment of assets

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

Property, plant and equipment

Property, plant and equipment can be analysed as follows:

	Freehold land and buildings	Improvements to leasehold land and buildings		Vehicles, equipment and fittings		Total
	£m	Long £m	Short £m	Owned £m	Finance leases £m	£m
Cost						
At 1 January 2016	89	66	18	264	16	453
Additions	–	–	2	27	–	29
Acquisitions	3	–	–	1	–	4
Foreign exchange	–	–	–	6	–	6
Reclassifications	–	–	–	3	(3)	–
Disposals and retirements	–	–	–	(29)	(13)	(42)
At 31 December 2016	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**
Depreciation						
At 1 January 2016	6	14	15	165	14	214
Charge for the year	1	2	1	27	–	31
Foreign exchange	–	–	–	3	–	3
Reclassifications	–	–	–	1	(1)	–
Disposals and retirements	–	–	–	(29)	(13)	(42)
At 31 December 2016	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**
Net book value						
At 31 December 2017	**84**	**54**	**4**	**114**	**–**	**256**
At 31 December 2016	85	50	4	105	–	244

Included within property, plant and equipment are assets in the course of construction of £41 million (2016: £19 million), £16 million of which relates to the London property project (refer to note 2.2 for further details).

Included within the depreciation charge for the year of £41 million is £11 million of accelerated depreciation relating to assets made redundant as a result of the property project. This accelerated depreciation has been recorded as an exceptional item in 2017. Refer to note 2.2 for further details.

In 2013, the Group acquired the freehold for the London Television Centre 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 £15 million of capital commitments at 31 December 2017 (2016: £4 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 5 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 2016	3,744	481	411	10	121	99	104	4,970
Additions	–	–	–	–	–	–	13	13
Acquisitions	44	3	–	–	55	–	–	102
Foreign exchange	47	51	9	1	–	4	–	112
At 31 December 2016	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**
Amortisation and impairment								
At 1 January 2016	2,654	205	365	7	94	65	80	3,470
Charge for the year	–	44	16	2	6	9	12	89
Foreign exchange	–	5	6	1	–	2	–	14
At 31 December 2016	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**
Net book value								
At 31 December 2017	**1,235**	**241**	**37**	**–**	**70**	**19**	**43**	**1,645**
At 31 December 2016	1,181	281	33	1	76	27	25	1,624

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 has been recognised against onerous contracts and various assets and liabilities relating to Gurney Productions LLC, which includes £3 million write-off of goodwill. The net effect of these provisions and the derecognition of non-controlling interest is less than £1 million (see note 4.6.6).

Goodwill impairment tests

The carrying amount of goodwill for each CGU is represented as follows:

	2017 £m	2016 £m
Broadcast & Online	**386**	386
SDN	**76**	76
ITV Studios	**773**	719
	1,235	1,181

£3 million of goodwill was written off in the ITV Studios CGU in relation to Gurney Productions LLC. There has been no impairment charge for any CGU during the year (2016: £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% (2016: 2%). 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 2018 and -8% to 2019 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 substantially 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 9.5% (2016: 10.4%) 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 (2018: -10% growth, 2019: 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 11.4% (2016: 11.7%) 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 (2018: -10% growth, 2019: 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 10.8% (2016: 11.6%) 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

During the year, the Group made payments totalling £54 million for five acquisitions.

All acquisitions have been included in the results of 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 Studios SAS

On 28 February 2017, the Group purchased 65.04% of the share capital of Tetra Media Studios SAS, a French television production group which specialises in drama, including flagship crime series Profilage, now in its seventh series, 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 2018.

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.

Goodwill totalling £85 million arising on these acquisitions is not expected to be deductible for tax purposes and represents the value placed on the opportunity to grow the content produced by the Group.

Acquisitions in 2016

In 2016, the Group completed the acquisition of UTV Limited, which has been included in the results of the Broadcast & Online operating segment. The business fits with the strategy of strengthening the Group's free-to-air business and enables it to run a more efficient network. The following section provides a summary of the acquisition.

UTV Limited

On 29 February 2016, the Group acquired a 100% controlling interest in UTV Limited which, together with its 100% subsidiary UTV Ireland Limited, owned the television assets of UTV Media plc, for cash consideration of £100 million. UTV is the market-leading commercial broadcaster in Northern Ireland, broadcasting ITV content alongside high-quality local programming. The strategic rationale for the acquisition was to purchase the Northern Irish Channel 3 licence.

Before ITV's acquisition, UTV Limited launched a new dedicated channel for the Republic of Ireland in 2015 via its subsidiary, UTV Ireland Limited. Management concluded that the best prospect of delivering a strong and sustainable Irish broadcaster was to bring UTV Ireland under common ownership with TV3. ITV therefore sold the company to Virgin Media, owner of TV3, on 30 November 2016, for consideration of €10 million.

Acquisition accounting:
Intangibles, being the value placed on brands and licences, of £58 million were identified and goodwill was valued at £44 million. Goodwill represents the value placed on the opportunity to diversify and grow the business by the Group. The goodwill arising on acquisition is not expected to be deductible for tax purposes. Other fair value adjustments have been made to the opening balance sheet, though none of them are individually significant.

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

Effect of acquisition

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

£m	2017 Total*	2016 Total
Consideration transferred:		
Initial consideration (net of cash acquired) (Note A)	**35**	97
Total consideration	**35**	97
Fair value of previously held preference shares (Note B)	**29**	–
Fair value of net assets acquired:		
Property, plant and equipment	**11**	4
Intangible assets	**21**	58
Deferred tax liabilities	**(8)**	(11)
Deferred tax assets	**6**	–
Inventory	**60**	–
Trade and other receivables	**49**	5
Trade and other payables	**(100)**	(7)
Borrowings	**(35)**	–
Net assets held for sale	**–**	4
Fair value of net assets	**4**	53
Non-controlling interest measured at fair value (Note C)	**25**	–
Goodwill	**85**	44
Other information		
Present value of the expected liability on put options	**23**	–
Present value of the expected earnout payment at acquisition	**11**	–
Contributions to the Group's performance:		
From date of acquisition		
Revenue	**59**	27
EBITA before exceptionals	**–**	8
Proforma – January to December		
Revenue	**131**	33
EBITA before exceptionals	**–**	9

* Provisional values as the acquisition accounting is finalised in the 12 month period following acquisition.

Note A: Consideration for all acquisitions is net of cash acquired and estimated debt and working capital settlements. Cash acquired during the period is £19 million (2016: £3 million).

Note B: The acquisition of Tomorrow Studios was effected by the right to convert of the Group's non-controlling preference shares into a controlling stake of ordinary shares. On change of control, the IFRS accounting standards require the Group to fair value the previously held preference shares and include within the calculation of goodwill.

Note C: Non-controlling interest arises where the Group acquires less than 100% of the equity interest in a business, but obtains control.

3.5 Investments

Keeping it simple

The Group holds 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 available-for-sale 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 available-for-sale 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. Available-for-sale 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:

	2017 £m	2016 £m
Joint ventures	**2**	4
Associates	**68**	60
Available-for-sale investments	**4**	12
	74	76

The carrying amount of associates has increased in the year due to investments made in Blumhouse and Circle of Confusion, two independent studios focusing on original premium scripted and unscripted programming. This was offset by the acquisition of a controlling stake in ITV Tomorrow Studios, in which the Group previously held an investment (see note 3.4). Further smaller investments have been made in line with Group's strategy to grow the international content business.

Please refer to page 188 for the list of principal investments held at 31 December 2017.

Strategic Report
Governance
Financial Statements
Additional information

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 2017	–	2	21	23
Additions	3	3	–	6
Utilised	–	–	(5)	(5)
Released	–	(1)	–	(1)
At 31 December 2017	**3**	**4**	**16**	**23**

Provisions of £16 million are classified as current liabilities (2016: £19 million). Unwind of the discount is £nil in 2017 and 2016.

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 temporary rental properties.

Legal and Other provisions totalling £16 million (2016: £21 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 should be issued against certain Group companies, which would require the Group to put in place financial support for the Boxclever Scheme. The Group is challenging this in the Upper Tribunal. The timing of the Upper Tribunal's decision is not yet clear. The Directors, having taken advice, believe that they have a strong case. There are significant points of legal principle at issue and consequently any potential liability may take a significant period to resolve. The Directors continue to believe that the provision held is appropriate.

The utilisation of provisions during the year was due to settlement of various other legal matters.

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 2014, with the 1 January 2017 valuation expected to be agreed in early 2018.

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 2017, total contributions expensed were £18 million (2016: £16 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 2014 by an independent actuary appointed by the Trustee of the Scheme and agreed in early 2016. The next triennial valuation will be as at 1 January 2017 and is expected to be agreed during H1 2018. 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 £38 million securitised gilts have been classified as other pension assets to reflect the Group's net pension deficit.

In December 2016, following a member consultation, the Group decided to close the ITV Pension Scheme to future benefit accrual with effect from 28 February 2017. Members' benefits are no longer subject to a capped pensionable salary; the benefits are now linked to statutory revaluation until retirement. This decision gave rise to a one-off, non-cash £19 million curtailment charge recognised in 2016.

On 29 February 2016, the Group acquired 100% of the assets and liabilities of UTV Limited, including responsibility for a defined benefit pension scheme. Due to the size of the scheme, within this note the Directors present the results and position of the UTV Scheme combined with the existing ITV Schemes. The next triennial valuation will be as at 30 June 2017 and is expected to be agreed during H1 2018.

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 £83 million at 31 December 2017 (2016: £328 million) is stated after including the unfunded scheme security asset of £38 million (2016: £39 million).

The totals recognised in the current and previous years are:

	2017 £m	2016 £m
Total defined benefit scheme obligations	**(3,987)**	(4,200)
Total defined benefit scheme assets	**3,866**	3,833
Defined benefit pension deficit (IAS 19)	**(121)**	(367)
Presented as:		
Defined benefit pension surplus *	**16**	–
Defined benefit pension deficit	**(137)**	(367)
Defined benefit pension deficit (IAS 19)	**(121)**	(367)
Other pension asset	**38**	39
Net pension deficit	**(83)**	(328)

* The defined benefit pension surplus relates solely to the UTV Scheme. The defined benefit scheme assets in the UTV Scheme were £130 million as at 31 December 2017 (2016: £117 million) and the defined benefit scheme obligations were £114 million (2016: £117 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.

Strategic Report
Governance
Financial Statements
Additional information

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 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 set out above.

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

	2017 £m	2016 £m
Defined benefit obligation at 1 January	**4,200**	3,446
Current service cost	**2**	7
Curtailment charge	**–**	19
Interest cost	**107**	131
Actuarial (gain)/loss	**(121)**	664
UTV acquisition	**–**	98
Benefits paid	**(201)**	(165)
Defined benefit obligation at 31 December	**3,987**	4,200

Of the above total defined benefit obligation at 31 December 2017, £58 million relates to unfunded schemes (2016: £51 million), including the scheme in relation to the four former Granada executives.

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 (2016: 17 years).

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

	2017	2016
Discount rate for:		
Past service liabilities	**2.50%**	2.60%
Future service liabilities	**2.50%**	2.70%
Inflation assumption for:		
Past service liabilities	**3.15%**	3.25%
Future service liabilities	**3.15%**	3.20%
Rate of pensionable salary increases		
UTV Pension Scheme	**3.65%**	3.75%
Rate of increase in pension payment (LPI[1] 5% pension increases)	**2.95%**	3.15%
Rate of increase to deferred pensions (CPI)	**2.15%**	2.25%

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:

	2017	2017	2016	2016
Retiring today at age	**60**	**65**	60	65
Males	**27.1**	**22.5**	27.1	22.4
Females	**29.2**	**24.4**	29.3	24.5
Retiring in 20 years at age	**60**	**65**	60	65
Males	**28.7**	**23.9**	28.8	23.9
Females	**30.8**	**25.9**	31.0	26.1

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 2017, the Scheme's assets were invested in a diversified portfolio that consisted primarily of equity and debt securities. 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:

	2017 £m	2016 £m
Fair value of Scheme assets at 1 January	**3,833**	3,270
Interest income on Scheme assets	**98**	126
Return on assets, excluding interest income	**51**	416
Employer contributions	**90**	93
UTV acquisition	**–**	98
Benefits paid	**(201)**	(165)
Administrative expenses paid	**(5)**	(5)
Fair value of Scheme assets at 31 December	**3,866**	3,833

The actual return on the Scheme's assets, being the sum of the interest income on Scheme assets and return on Scheme assets, for the year ended 31 December 2017 was £149 million (2016: £542 million).

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

How are the Scheme's assets invested?
At 31 December 2017, the Scheme's assets were invested in a diversified portfolio that consisted primarily of equity and debt securities. 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 2017 £m		Market value 2016 £m	
Liability hedging assets				
Fixed interest gilts	**633**		678	
Index-linked interest gilts	**1,456**		1,135	
Interest rate and inflation hedging derivatives (swaps and repos)	**279**		270	
	2,368	**61%**	2,083	54%
Other bonds	**865**	**22%**	784	20%
Return seeking investments				
Quoted equities	**260**		633	
Infrastructure	**88**		95	
Property	**109**		62	
Hedge funds/alternatives	**193**		222	
	650	**17%**	1,012	27%
Other investments				
Cash and cash equivalents	**240**		183	
Insurance policies	**41**		42	
Longevity swap fair value	**(298)**		(271)	
	(17)	**–**	(46)	(1%)
Total Scheme assets	**3,866**	**100%**	3,833	100%

Included in the above are overseas assets of £978 million (2016: £1,304 million), comprised of quoted equities of £244 million (2016: £565 million) and bonds of £734 million (2016: £739 million).

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 2017, mainly due to a decrease in gilts yields over the year.

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 £15 million
	Decrease by 0.1%	Decrease by £25 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 £110 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, reducing the net impact on the defined pension deficit to £10 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:

	2017 £m	2016 £m
Amount charged to operating costs:		
Current service cost	**(2)**	(7)
Scheme administration expenses	**(5)**	(5)
	(7)	(12)
Amount charged to net financing costs:		
Net interest on defined benefit obligation	**(9)**	(5)
Amount charged to exceptional costs:		
Curtailment cost	**–**	(19)
Total charged in the consolidated income statement	**(16)**	(36)

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

	2017 £m	2016 £m
Remeasurement gains/(losses):		
Return on scheme assets excluding interest income	**51**	416
Actuarial gains/(losses) on liabilities arising from change in:		
– experience adjustments	**138**	31
– financial assumptions	**12**	(868)
– demographic assumptions	**(29)**	173
	121	(664)
Total recognised in the consolidated statement of comprehensive income	**172**	(248)

The £121 million actuarial gain on the Scheme's liabilities was principally due to an experience gain of £138 million based on the use of updated membership data underlying the Trustee's triennial valuation as at 1 January 2017. The true-up of the membership data has resulted in a decrease in the liabilities. The £51 million gain on the Scheme's assets primarily results from increases in the market values of return-seeking investments, which has led to assets outperforming expectations.

Strategic Report
Governance
Financial Statements
Additional information

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 2018 for UTV Scheme current service and administration expenses are expected to be in the region of £5 million (2017: £6 million) and deficit funding contributions for the main ITV scheme in 2018 are expected to be £66 million (2017: £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 £2.5 million, increasing by 5% per annum until 2038. In 2018, a payment of £14 million is expected as a result of those agreements.

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 acting under delegated authority from the Board, approves certain financial transactions and monitors compliance with the Group's tax and treasury policies.

4.1 Net debt

Keeping it simple

Net cash/(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 cash during the year:

	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.

	1 January 2016 £m	Net cash flow £m	Acquisitions* £m	Reclassifications £m	Currency and non-cash movements £m	31 December 2016 £m
Cash	238	301	3	–	7	549
Cash equivalents	56	(6)	–	(39)	1	12
Total cash and cash equivalents	294	295	3	(39)	8	561
Loans and facilities due within one year	(5)	5	–	–	(161)	(161)
Finance leases due within one year	(6)	6	–	–	(4)	(4)
Loans and facilities due after one year	(598)	(525)	–	–	88	(1,035)
Finance leases due after one year	(4)	–	–	–	4	–
Total debt	(613)	(514)	–	–	(73)	(1,200)
Currency component of swaps held against euro denominated bonds	–	–	–	–	2	2
Net debt	(319)	(219)	3	(39)	(63)	(637)

* Balances as at acquisition date.

Cash and cash equivalents

Included within cash equivalents is £nil (2016: £4 million), the use of which is restricted to meeting finance lease commitments under programme sale and leasebacks (see note 4.2).

Loans and facilities due within one year

At various periods during the year, the Group drew down on the Revolving Credit Facility ('RCF') to meet short-term funding requirements. At 31 December 2017, the Group had drawings of £60 million under the RCF (2016: £nil). The maximum draw down of the RCF during the year was £390 million (2016: £500 million).

The Group also had an unsecured £161 million Eurobond that matured in January 2017 and had a coupon of 6.125%.

Loans and loan notes due after one year

In 2016, the Group had a £100 million bilateral loan facility, which was repaid in full in June 2017.

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 swap. The resulting fixed rate payable is c. 3.5%.

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.

Finance leases

Historically, ITV has entered into sale and leaseback agreements in relation to certain programme titles. Related outstanding sale and leaseback obligations, which comprise the principal and accrued interest, are included within borrowings. The finance-related element of the agreement is charged to the income statement over the term of the lease on an effective interest basis. Sale and leaseback obligations are secured against an equivalent cash balance held within cash and cash equivalents.

Managing credit and liquidity risk

Credit risk

The Group's maximum exposure to credit risk is represented by the carrying amount of derivative financial assets (see note 4.3), trade receivables (see note 3.1.3), 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 2017, £10 million was available under the agreement (2016: £65 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 amended and extended in December 2016, matures in 2022 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	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Loans due within one year					
£630 million Revolving Credit Facility	Various	**60**	–	**60**	–
Other short-term loans	Various	**16**	–	**16**	–
£161 million Eurobond	Jan 2017	**–**	161	**–**	162
Loans due in more than one year					
Bilateral loan facility	Jun 2018	**–**	100	**–**	100
€600 million Eurobond	Sept 2022	**529**	508	**560**	529
€500 million Eurobond	Dec 2023	**444**	427	**461**	431
Other long-term loans	Various	**9**	–	**9**	–
		1,058	1,196	**1,106**	1,222

Finance leases
At 31 December 2017, the Group had no finance lease liabilities (2016: £4 million due in one year or less).

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. 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:

	2017 – post-tax profit	**2017 – equity**	2016 – post-tax profit	2016 – equity
US dollar	**£1 million**	**£23 million**	£3 million	£32 million
Euro	**£3 million**	**£17 million**	£10 million	£11 million

The Group's sensitivity to translation risk for revenue and adjusted EBITA is disclosed in the Finance Review on page 47. 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 2017, the Group's fixed rate debt represented 92% of total gross debt (2016: 92%). Consequently, a 1% movement in interest rates on floating rate debt would impact the 2017 post-tax profit for the year by less than £1 million (2016: £2 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 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)**

At 31 December 2016	Assets £m	Liabilities £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	6	(1)
Foreign exchange forward contracts and swaps – fair value through profit or loss	2	(2)
Non-current		
Cross-currency interest swaps – cash flow hedges	–	(6)
Foreign exchange forward contracts and swaps – cash flow hedges	1	(3)
	9	(12)

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 (2016: £1 million) ineffectiveness taken to the income statement and £20 million cumulative gain (2016: £5 million gain) recycled to the income statement in the year.

On issuing the 2023 Eurobond, the Group entered into a portfolio of cross-currency interest rate swaps, which swapped the euro principal and fixed rate coupons into sterling. As a result, the Group makes sterling interest payments at a fixed rate.

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 £177 million (2016: £168 million). A foreign exchange loss of £6 million (2016: £21 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 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	**(1,021)**	**(1,021)**	(953)	(47)	(16)	(5)
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)

At 31 December 2016	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	(1,196)	(1,338)	(194)	(119)	(58)	(967)
Trade and other payables	(912)	(912)	(855)	(48)	(8)	(1)
Other payables – non-current	(11)	(11)	–	(6)	(4)	(1)
Other payables – commitments on acquisitions	(158)	(328) *	(122)	(56)	(150)	–
Derivative financial instruments						
Foreign exchange forward contracts and swaps – cash flow hedges						
Inflow	7	213	127	86	–	–
Outflow	(4)	(210)	(123)	(87)	–	–
Cross-currency swaps – cash flow hedges						
Inflow	–	497	10	10	30	447
Outflow	(6)	(542)	(17)	(17)	(51)	(457)
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	263	263	258	5	–	–
Outflow	(263)	(263)	(258)	(5)	–	–
Interest rate swaps – fair value through profit or loss						
Inflow	–	13	13	–	–	–
Outflow	–	(6)	(6)	–	–	–
	(2,280)	(2,624)	(1,167)	(237)	(241)	(979)

* 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 buy-backs, 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 gains/losses, and imputed interest on pension assets and liabilities. Interest income and expense is recognised as it accrues in profit or loss, using the effective interest method.

Net financing costs

Net financing costs can be analysed as follows:

	2017 £m	2016 £m
Financing income:		
Interest income	**4**	2
	4	2
Financing costs:		
Interest expense on financial liabilities measured at amortised cost	**(30)**	(25)
Net pension interest (see note 3.7)	**(9)**	(5)
Change in fair value of instruments classified at fair value through profit or loss	**–**	(1)
Foreign exchange loss	**(3)**	(8)
Other finance expense	**(12)**	(14)
	(54)	(53)
Net financing costs	**(50)**	(51)

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, which contributed to most of the 2017 expense. This is where estimates of the future performance against stretch targets is reassessed, resulting in adjustments to the related put option liabilities.

Strategic Report
Governance
Financial Statements
Additional information

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, that are observable for the asset or liability either directly or indirectly.

Interest rate swaps and options are accounted for at their fair value based upon termination prices. Forward foreign exchange contracts are accounted for at the difference between the contract exchange rate and the quoted forward exchange rate at the reporting date.

Level 3
Fair values are measured using inputs for the asset or liability that are not based on observable market data.

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

	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				
Available-for-sale financial instruments				
Other pension assets – gilts (see note 3.7)	38	38	–	–
Available-for-sale 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)

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

	Fair value 31 December 2016 £m	Level 1 31 December 2016 £m	Level 2 31 December 2016 £m	Level 3 31 December 2016 £m
Assets measured at fair value				
Available-for-sale financial instruments				
Other pension assets – gilts (see note 3.7)	39	39	–	–
Available-for-sale investments (see note 3.5)	12	–	–	12
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	7	–	7	–
	60	39	9	12

	Fair value 31 December 2016 £m	Level 1 31 December 2016 £m	Level 2 31 December 2016 £m	Level 3 31 December 2016 £m
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Contingent consideration	(1)	–	–	(1)
Foreign exchange forward contracts and swaps	(3)	–	(3)	–
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	(48)	–	–	(48)
Financial liabilities at fair value through reserves				
Cash flow hedges	(9)	–	(9)	–
	(61)	–	(12)	(49)

Refer to note 4.3 for how we value interest rate swaps and forward foreign currency contracts. The available-for-sale investments are valued at cost and assessed for impairment.

Acquisition-related liabilities are valued based on the forecast performance of each acquisition and where there has been a change in expectations, the Group adjusts the value of future commitments.

4.6 Equity

Keeping it simple

This section explains material movements recorded in shareholders' equity, presented in the Consolidated Statement in Changes in Equity, that are not explained elsewhere in the financial statements.

Accounting policies

Available-for-sale reserve

Available-for-sale assets are stated at fair value, with any gain or loss recognised directly in the available-for-sale reserve in equity, unless the loss is a permanent impairment, when it is then recorded in the income statement.

Dividends

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

4.6.1 Share capital and share premium

The Group's share capital at 31 December 2017 of £403 million (2016: £403 million) and share premium of £174 million (2016: £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:

	2017 £m	2016 £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	**(49)**	(27)
Total	**199**	221

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; and
- The gains or losses on the portion of cash flow hedges that have been deemed effective (see note 4.3).

4.6.4 Available-for-sale reserve

The available-for-sale reserve comprises all movements arising on the revaluation of gilts accounted for as available-for-sale 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 £409 million (2016: £448 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 186.

The Directors of ITV plc propose a final dividend of 5.28p per share, which equates to a full year dividend of 7.8p per share. In 2017, £494 million of dividend payments were made (2016: £663 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 (2016: £4 million);
- The distributions made to NCI of £4 million (2016: £4 million);
- The share of net assets attributable to NCI relating to subsidiaries acquired or disposed of in the year of £25 million (2016: nil); and
- A £13 million write-down of the NCI held in Gurney Productions LLC, as a result of the treatment of the subsidiary as if it would have been wound down. See note 3.3 for further information.

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 £12 million in 2017 (2016: £10 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:

	2017 Number of options ('000)	2017 Weighted average exercise price (pence)	2016 Number of options ('000)	2016 Weighted average exercise price (pence)
Outstanding at 1 January	**36,533**	**67.86**	40,167	55.63
Granted during the year – nil priced	**7,996**	**144.10**	7,351	–
Granted during the year – other	**7,911**	**–**	8,002	167.62
Forfeited during the year	**(5,614)**	**121.37**	(255)	151.17
Exercised during the year	**(9,883)**	**44.87**	(12,293)	28.81
Expired during the year	**(788)**	**–**	(6,439)	109.25
Outstanding at 31 December	**36,155**	**69.17**	36,533	67.86
Exercisable at 31 December	**2,808**	**–**	83	–

The average share price during 2017 was 185.15 pence (2016: 209.91 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)	2017 Weighted average exercise price (pence)	2017 Number of options ('000)	2017 Weighted average remaining contractual life (years)	2016 Weighted average exercise price (pence)	2016 Number of options ('000)	2016 Weighted average remaining contractual life (years)
Nil	**–**	**20,417**	**1.65**	–	21,531	1.89
20.00 – 49.99	**–**	**–**	**–**	–	–	–
50.00 – 69.99	**66.60**	**34**	**–**	67.71	505	0.91
70.00 – 99.99	**–**	**–**	**–**	–	–	–
100.00 – 109.99	**–**	**–**	**–**	102.59	185	1.92
110.00 – 119.99	**–**	**–**	**–**	–	–	–
120.00 – 149.99	**138.99**	**5,672**	**3.06**	131.44	193	2.16
150.00 – 199.99	**168.21**	**9,447**	**1.39**	167.37	13,251	1.87
200.00 – 249.99	**206.83**	**585**	**0.39**	206.83	891	1.41

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 2016	243.30	187.79	25.00	3.25	3.00	0.41	56.64
5 Year	29 March 2016	243.30	187.79	29.00	5.25	3.00	0.73	65.94
3 Year	16 Sept 2016	195.40	157.46	30.00	3.25	3.00	0.41	46.97
5 Year	16 Sept 2016	195.40	157.46	31.00	5.25	3.00	0.73	52.15
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

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 are 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 2017 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 2017	14,410,124	1,438,557
LTIP releases		(1,727,421)	
DSA releases		(1,942,485)	
PSP releases		(2,399,709)	
SAYE releases		(2,415,665)	
Shares purchased		21,064,677	
	31 December 2017	**26,989,521**	**2,698,952**

The total number of shares held by the EBT at 31 December 2017 represents 0.67% (2016: 0.36%) of ITV's issued share capital. The market value of own shares held at 31 December 2017 is £45 million (2016: £30 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:

	2017 £m	2016 £m
Sales to joint ventures	**15**	8
Sales to associated undertakings	**10**	10
Purchases from joint ventures	**28**	26
Purchases from associated undertakings	**70**	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:

	2017 £m	2016 £m
Amounts owed by joint ventures	**6**	–
Amounts owed by associated undertakings	**6**	57
Amounts owed to joint ventures	**–**	–
Amounts owed to associated undertakings	**4**	–

Amounts owed by joint ventures primarily relate to trading with BritBox LLC. Balances owed by associated under takings 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:

	2017 £m	2016 £m
Short-term employee benefits	**10**	8
Share-based compensation	**1**	2
	11	10

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 £30 million still due under the agreement. Further, the Group has credit insurance in place and a claim has been submitted.

Whilst the Directors are confident of recovering the amount 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, at this early stage of pursuing recovery the Group is not able to demonstrate sufficient certainty to be able to recognise a cash receivable at the year end. See note 2.2 for further details.

Contingent liabilities

The Group has 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	10171346	BGSS Limited
10404493	Big Talk Bliss Limited	10496857	Big Talk Cold Feet Limited
10528766	Big Talk Diana Limited	11081338	Big Talk Guilty Limited
10528952	Big Talk Living the Dream Limited	11109753	Big Talk NEWCO 1 Limited
11109865	Big Talk NEWCO 2 Limited	11109572	Big Talk NEWCO 3 Limited
11109596	Big Talk NEWCO 4 Limited	01891539	Broad Street Films Limited
02285229	Campania Limited	05078683	Carbon Media Limited
04159249	Carlton Content Holdings Limited	00301188	Carlton Film Distributors Limited
01692483	Carlton Finance Limited	03984490	Carlton Food Network Limited
03053908	Carlton Programmes Development Limited	03210452	Carlton Screen Advertising (Holdings) Limited
03307790	Carltonco 103	02625225	Carltonco Forty Investments
03210363	Carltonco Ninety-Six	02280048	Castlefield Properties Limited
04257248	Channel Television Holdings Limited	02852812	Cosgrove Hall Films Limited
03209058	DTV Limited	00913659	Granada Film Limited
00290076	Granada Group Limited	03962410	Granada Limited
03106798	Granada Media Limited	05344772	Granada Screen (2005) Limited
00733063	Granada Television Overseas Limited	06914987	ITV (HC) Limited
10384774	ITV Bancroft Limited	04206924	ITV Beowulf Limited
01127149	ITV Breathless Limited	04209918	ITV Cilla Limited
04206900	ITV Cradle Limited	10602705	ITV CS Limited
10058008	ITV Dark Heart Limited	10494684	ITV Enterprises Limited
10671435	ITV HG Limited	04159210	ITV Holdings Limited
04207680	ITV Home Fires Limited	04206925	ITV Investments Limited
04206912	ITV J&H Limited	04206871	ITV Jericho Limited
04206927	ITV JR Limited	11107681	ITV Leila Limited
08723446	ITV Lewis Limited	10031419	ITV Little Boy Blue Limited
10058180	ITV Loch Ness Limited	08534385	ITV Lucan Limited
04206935	ITV Moorside Limited	04033106	ITV Mr Selfridge Limited
03799828	ITV Play Limited	01565625	ITV Properties (Developments) Limited
08554937	ITV Shetland Limited	04206897	ITV Spirit Limited
11107990	ITV Studios NEWCO 11	11108813	ITV Studios NEWCO 12
10031818	ITV T&B Limited	09499040	ITV Tennison Limited
08516153	ITV Text Santa Limited	11107934	ITV The Bay Limited
08586211	ITV Thunderbirds Limited	09498177	ITV Top Class Limited
10384819	ITV Trauma Limited	09499012	ITV Tut Limited
11107431	ITV Vera Limited	05518785	Juice Music UK Limited
00920028	Link Electronics Limited	11108285	Mammoth Screen (ABC) Limited
10528851	Mammoth Screen (City) Limited	10528827	Mammoth Screen (END5) Limited
11109917	Mammoth Screen (END6) Limited	11062257	Mammoth Screen (NC) Limited
11108327	Mammoth Screen (DESIRE) Limited	10491117	Mammoth Screen (NOK) Limited
10062923	Mammoth Screen (NW) Limited	10646873	Mammoth Screen (OBI) Limited
09660486	Mammoth Screen (POL2) Limited	10031005	Mammoth Screen (POL3) Limited
10528763	Mammoth Screen (POL4) Limited	11108289	Mammoth Screen (POL5) Limited
09646520	Mammoth Screen (QV) Limited	10528702	Mammoth Screen (VF) Limited
11108322	Mammoth Screen (VIC3) Limited	10043079	Mammoth Screen (WFTP) Limited
11108320	Mammoth Screen (WOF) Limited	10973979	Mammoth Screen (WOTW) Limited
04201477	Morning TV Limited	04206913	SOM (ITV) Limited
06469484	VOD Member (ITV A) Limited	06469482	VOD Member (ITV B) Limited
10796122	WP (BodyGuard) Limited	11109287	WP (NEWCO 1) Limited
11109744	WP (NEWCO 2) Limited	11109437	WP (NEWCO 3) Limited
11109929	WP (NEWCO 4) Limited		

ITV plc Company Financial Statements

Company Balance Sheet

As at 31 December	Note	2017 £m	2017 £m	2016 £m	2016 £m
Non-current assets					
Investments in subsidiary undertakings	iii		**2,191**		1,861
Derivative financial instruments	vi		**11**		4
Deferred tax asset			**1**		2
			2,203		1,867
Current assets					
Amounts owed by subsidiary undertakings	iv	**4,230**		4,066	
Derivative financial instruments	vi	**7**		10	
Other receivables		**5**		19	
Cash and cash equivalents		**17**		438	
		4,259		4,533	
Current liabilities					
Borrowings	v	**(60)**		(161)	
Amounts owed to subsidiary undertakings	iv	**(3,237)**		(2,856)	
Accruals and deferred income		**(8)**		(22)	
Current tax liabilities		**(2)**		–	
Derivative financial instruments	vi	**(7)**		(10)	
		(3,314)		(3,049)	
Net current assets			**945**		1,484
Total assets less current liabilities			**3,148**		3,351
Non-current liabilities					
Borrowings	v	**(973)**		(1,035)	
Derivative financial instruments	vi	**(1)**		(9)	
		(974)		(1,044)	
Net assets			**2,174**		2,307
Capital and reserves					
Share capital	vii		**403**		403
Share premium	viii		**174**		174
Other reserves	viii		**26**		28
Retained earnings	viii		**1,571**		1,702
Total equity			**2,174**		2,307

The accounts were approved by the Board of Directors on 28 February 2018 and were signed on its behalf by:

Ian Griffiths
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 2017		403	174	28	1,702	2,307
Total comprehensive income for the year						
Profit		–	–	–	351	351
Net loss on cash flow hedges		–	–	(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**

	Note	Share Capital £m	Share Premium £m	Other Reserves £m	Retained Earnings £m	Total £m
Balance at 1 January 2016		403	174	36	880	1,493
Total comprehensive income for the year						
Profit		–	–	–	1,475	1,475
Net loss on cash flow hedges		–	–	(8)	–	(8)
Total comprehensive income for the year		–	–	(8)	1,475	1,467
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Equity dividends		–	–	–	(663)	(663)
Movements due to share-based compensation		–	–	–	10	10
Total transactions with owners		–	–	–	(653)	(653)
Balance at 31 December 2016	vii/viii	403	174	28	1,702	2,307

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. These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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.

Exemptions applied
The Company is taking advantage of the following disclosure exemptions under FRS 101:

- Presentation of a Statement of Cash Flows;
- Disclosure of key management personnel compensation;
- 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'; and
- 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 recharged to 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 (2016: 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 44.87p (2016: 55.33p). The options outstanding at the year end have an exercise price in the range of nil to 206.83p (2016: nil to 206.83p) and a weighted average contractual life of two years (2016: one year) for all the schemes in place for the Group.

Note iii Investments in subsidiary undertakings

The principal subsidiary undertakings are listed on page 188. The carrying value at 31 December 2017 was £2,191 million (2016: £1,861 million).

In 2017, the Company increased investment in subsidiaries by £330 million mainly due to subscribing to preference shares in a newly formed subsidiary in Ireland, North America Studio Investments Designated Activity Company.

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 Revolving Credit Facility ('RCF') to meet short-term funding requirements. At 31 December 2017, the Group had drawings of £60 million under the RCF (2016: £nil). The maximum draw down of the RCF during the year was £390 million (2016: £500 million).

The Group also had an unsecured £161 million Eurobond that matured in January 2017 and had a coupon of 6.125%.

Loans and loan notes due after one year
The Group had a £100 million bilateral loan facility, which was repaid in full in June 2017.

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 swap. The resulting fixed rate payable is c. 3.5%.

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 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)**

	Assets 2016 £m	Liabilities 2016 £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	7	(7)
Foreign exchange forward contracts and swaps – fair value through profit or loss	3	(3)
Non-current		
Cross-currency interest swaps – cash flow hedges	–	(6)
Foreign exchange forward contracts and swaps – cash flow hedges	4	(3)
	14	(19)

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.

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 two to seven years. In order to fix the sterling cash inflows and 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 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 no (2016: less than £1 million) ineffectiveness taken to the income statement and £17 million cumulative gain (2016: £2 million) recycled to the income statement in the year.

Cross-currency interest rate swaps
On issuing the 2023 Eurobond, the Group entered into a portfolio of cross-currency interest rate swaps, which swapped the euro principal and fixed rate coupons into sterling. As a result, the Group makes sterling interest payments at a fixed rate.

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 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**	**206**	148	58	–	–
Outflow	**(6)**	**(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**	**119**	107	7	5	–
Outflow	**(2)**	**(118)**	(106)	(7)	(5)	–
	10	**47**	(1)	(4)	(12)	64

At 31 December 2016	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	11	393	237	156	–	–
Outflow	(10)	(392)	(237)	(155)	–	–
Cross-currency swaps – cash flow hedges						
Inflow	–	497	10	10	30	447
Outflow	(6)	(542)	(17)	(17)	(51)	(457)
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	412	412	402	10	–	–
Outflow	(412)	(412)	(402)	(10)	–	–
Interest rate swaps – fair value through profit or loss						
Inflow	–	13	13	–	–	–
Outflow	–	(6)	(6)	–	–	–
	(5)	(37)	–	(6)	(21)	(10)

Notes to the ITV plc Company Financial Statements
continued

Note vii
Share capital

		Authorised 2017 & 2016 £m	Allotted, issued and fully paid 2017 & 2016 £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		**800**	**403**

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 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.

The dividend policy is influenced by a number of the principal risks as identified on pages 50 to 57 that could have a negative impact on the performance of the Group.

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 Group's strategic plan.

Equity
The retained earnings reserve includes profit after tax for the year of £351 million (2016: £1,475 million), which includes dividends of £426 million from subsidiaries in 2017 (2016: £1,500 million). Other reserves of £26 million (2016: £28 million) relate to share buy-backs in prior periods and foreign currency translation net of cash flow hedging.

Dividends
The Directors of the Company propose a final dividend of 5.28p per share, which equates to a full year dividend of 7.8p per share.

Distributable reserves
The distributable reserves of ITV plc approximate to the balance of the retained earnings reserve of £1,571 million (2016: £1,702 million) as at 31 December 2017.

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 2017 of £45 million (31 December 2016: £47 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 2017 (2016: 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:

	2017 £m	2016 £m
Short-term employee benefits	4	3
Share-based compensation	–	2
	4	5

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

	2017 £m	2016 £m
Emoluments	2	3
Gains on exercise of share options	1	2
Gains on release of restricted share awards	2	2
	5	7

Notes to the ITV plc Company Financial Statements continued

Subsidiary undertakings and investments

Principal subsidiary undertakings

The principal subsidiary undertakings of the Company at 28 February 2018, 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 NEWCO 1 Limited (1)(a)	UK	100
Big Talk NEWCO 2 Limited (1)(a)	UK	100
Big Talk NEWCO 3 Limited (1)(a)	UK	100
Big Talk NEWCO 4 Limited (1)(a)	UK	100
Big Talk Pictures Limited (1)(a)	UK	100
Big Talk Productions Limited (1)(a)	UK	100
Broad Street Films Limited (1)(a)	UK	100
Campania Limited (1)(a)(f)	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
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
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
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

Company Name	Country	% Holding
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
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 (HC) Limited* (1)(a)	UK	100
ITV (Scotland) Limited (30)(a)	UK	100
ITV Bancroft Limited (1)(a)	UK	100
ITV Beowulf 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 Breathless Limited (1)(a)	UK	100
ITV Central Limited (1)(a)	UK	100
ITV Channels Limited (1)(a)	UK	100
ITV Cilla Limited (1)(a)	UK	100
ITV Cradle Limited (1)(a)	UK	100
ITV CS 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 J&H Limited (1)(a)	UK	100
ITV Jericho Limited (1)(a)	UK	100
ITV JR Limited (1)(a)	UK	100
ITV Leila Limited (1)(a)	UK	100
ITV Lewis 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 Lucan Limited (1)(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 Spirit Limited (1)(a)	UK	100
ITV Sport Channel Limited (1)(a)	UK	100
ITV Studios (Israel) Limited (1)(a)	UK	100
ITV Studios Newco 11 Limited (1)(a)	UK	100
ITV Studios Newco 12 Limited (1)(a)	UK	100
ITV Supplementary Pension Scheme Limited (1)(a)	UK	100
ITV T&B Limited (1)(a)	UK	100

Company Name	Country	% Holding
ITV Tennison Limited (1)(a)	UK	100
ITV Text Santa Limited (1)(a)	UK	100
ITV The Bay 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 Tut Limited (1)(a)	UK	100
ITV Ventures Limited (1)(a)	UK	100
ITV Wales & West Group Limited (1)(a)	UK	100
ITV Wales & West Limited (1)(a)	UK	100
ITV3 Limited (1)(a)	UK	100
ITV4 Limited (1)(a)	UK	100
ITV Vera 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 (NEWCO 6) 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 (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
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

Notes to the ITV plc Company Financial Statements continued

Company Name	Country	% Holding
New Providence Productions Limited (1)(a)	UK	100
Pickwick Packaging Limited (1)(a)	UK	100
Sightseers Film Limited (1)(a)	UK	100
SOM (ITV) Limited (1)(a)	UK	100
So Television Developments Limited (1)(a)	UK	100
So Television Limited (1)(a)	UK	100
Talpa Media UK Ltd (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
Unforgotten 3 Ltd (4)(a)	UK	100
UTV Limited (34)(a)	UK	100
VOD Member (ITVA) Limited (1)(a)	UK	100
VOD Member (ITVB) Limited (1)(a)	UK	100
WP (NEWCO 1) Limited (1)(a)	UK	100
WP (NEWCO 2) Limited (1)(a)	UK	100
WP (NEWCO 3) Limited (1)(a)	UK	100
WP (NEWCO 4) Limited (1)(a)	UK	100
World of Sport Wrestling Limited (1)(a)	UK	100
World Productions Limited (1)(a)	UK	100
WP Bodyguard Limited (1)(a)	UK	100
Westcountry Television Limited (1)(a)	UK	100
Yorkshire Television Limited (1)(a)	UK	100
Yorkshire-Tyne Tees Television Enterprises Limited (1)(a)	UK	100
Yorkshire-Tyne Tees Productions 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
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 (39)(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
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

Company Name	Country	% Holding
ITV Global Entertainment (Hong Kong) Limited (49)(a)	Hong Kong	100
Talpa China Limited (48)(a)	Hong Kong	100
UTV Pension Scheme Limited (100) (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
Global Music & Talent Agency B.V. (90)(a)	Netherlands	100
ITV (Europe) Holdings B.V.* (55)(a)	Netherlands	100
ITV Enterprises B.V. (55)(a)	Netherlands	100
ITV Finance (Europe) B.V. (55)(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
12 Yard Holdings, Inc. (68)(j)	USA	100
Anglia Television, Inc. (68)(j)	USA	100
Astrum Productions, LLC (68)(j)	USA	100
ITV Blumhouse Holding Inc (63)(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
Double Down Films, LLC (63)(h)	USA	100
Electric Farm Entertainment Holdings Inc. (63)(j)	USA	100
Fourth State Productions Inc (108) (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
Hamdon Entertainment, Inc. (63)(j)	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 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
ITV New Form Holding Inc. (63)(j)	USA	100
ITV Popco Holding Inc. (63)(j)	USA	100

Company Name	Country	% Holding
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
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
Moving Pictures Services Inc. (63)(h)	USA	100
Oaklawn Pacific Properties, LLC (65)(h)	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
Red Orange Productions, LLC (68)(j)	USA	100
Sirens Media, LLC (63)(h)	USA	100
Sirens Project 1203, LLC (63)(h)	USA	100
Sirens Project 1223, LLC (63)(h)	USA	100
Sirens Project 1226, LLC (63)(h)	USA	100
Sirens Project 1227, LLC (63)(h)	USA	100
Sirens Project 1301, LLC (63)(h)	USA	100
Sirens Project 1303, LLC (63)(h)	USA	100
Sirens Project 1309, LLC (63)(h)	USA	100
Sirens Project 1316, LLC (63)(h)	USA	100
Sirens Project 1326, LLC (63)(h)	USA	100
Sirens Project 1408, LLC (63)(h)	USA	100
Sirens Project 1410, LLC (63)(h)	USA	100
Sirens Television Development, LLC (63)(h)	USA	100
So Television US, Inc. (68)(j)	USA	100
Solowe Productions Inc (63)(j)	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
Trailer Park Productions, Inc (63)(j)	USA	100
Upper Ground Enterprises, Inc. (63)(j)	USA	100
Work Shop of NY, LLC (63)(h)	USA	100
Zinna Productions (68))(j)	USA	100

Joint ventures and Investments

Company Name	Country	% Holding
Absolutely Rights Limited (6)(a)	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
Koska Limited (105)(a)	UK	25
Cirkus International Limited (13)(a)	UK	28
Thinkbox TV Limited (23)(a)	UK	28.58
Malacara Limited (2)(a)	UK	36.75
Harlequin Agency Limited (5)(a)	UK	37.5
Pink Rose Bud Limited (2)(a)	UK	37.5
Mainstreet Pictures Limited (4)(a)	UK	38.25
Unforgotten2 Limited (4) (a)	UK	38.25
Independent Television News Limited (20)(a)	UK	40
Cloth Cat Animation Limited (5)(a)	UK	41.25
Cloth Cat LBB Limited (5)(a)	UK	41.25
Thud Media Limited (5) (a)	UK	41.25
OSF (Wales) Limited (5)(a)	UK	46.27
Oxford Scientific Films Limited (5)(a)	UK	46.27
Box Clever Technology Limited (8)(a)	UK	50
Bone Kickers Limited (1)(a)	UK	50
British Film-Makers Limited (1)(a)	UK	50
Crook Productions Limited (1)(a)	UK	50
Digital 3 and 4 Limited (16)(a)	UK	50
Freesat (UK) Limited (18)(a)	UK	50
Gameface Productions Limited (1)(a)	UK	50
Noho Film and Television Limited (28)(a)	UK	50
Standard Music Limited (29)(a)	UK	50
Cirkus Limited (13)(a)	UK	51
Possessed Limited (1)(a)	UK	51
Bait Studio Limited (5)(a)	UK	55
Second Act Productions Limited (1)(a)	UK	74.07
Age Before Beauty Limited (4)(a)	UK	75
Aim Films Limited (3)(a)	UK	75
Boom Cymru TV Ltd (5)(a)	UK	75
Boom Pictures Limited (1)(a)	UK	75
Cynhyrchiadau Boomerang Cyf (2)(a)	UK	75
Double Double Limited (1)(a)	UK	75
Gorilla TV Group Limited (5)(a)	UK	75
Gorilla TV Limited (5)(a)	UK	75
Indus Films Limited (2)(a)	UK	75
ITV TFG Holdings Limited (1)(a)	UK	75
Him Productions Limited (4)(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
GC Films Pty Limited (36)(a)	Australia	49
Think Factory Productions Canada Ltd (77)(j)	Canada	65
LTP Productions Inc. (63)(h)	Canada	75
Apple Tree Productions ApS (101)(a)	Denmark	25
Talpa Nordic ApS (41)(a)	Denmark	51
15.15 Productions (59)(a)	France	49
100% Distribution (105)(a)	France	50
Beaubourg Fiction (50)(a)	France	50
Beaubourg Audiovisuel (50)(a)	France	50
Gedesel (107)(a)	France	50
Funny Corp (105)(a)	France	51
Macondo Productions Audiovisueles (105)(a)	France	51
MD 60 (105)(a)	France	60
Tangaro (105)(a)	France	65
Tetra Media Fiction (105)(a)	France	78
Shoot Again Productions (105)(a)	France	95
Imago TV Film und Fernsehproduktion GmbH (45)(a)	Germany	80

Notes to the ITV plc Company Financial Statements
continued

Company Name	Country	% Holding
The Lab Television 2013 Limited Partnership (78)(a)	Israel	50
Cattleya Srl (103)(a)	Italy	51
Radio Cattleya Srl (103)(a)	Italy	51
Talpa Italia Srl (79)(a)	Italy	50
Think Cattleya Srl (103)(a)	Italy	25.5
Rangers Productions SRL (80)(a)	Mexico	65
Identity Mansion B.V. (92)(a)	Netherlands	25
Pomper & Linders B.V. (98)(a)	Netherlands	20
ITV Studios Sweden AB (74)(a)	Sweden	96
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)	UAE	90
Electric Farm Entertainment LLC (63)(h)	USA	10
Britbox, LLC (89)(h)	USA	40.5
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
Jaffe/Braunstein Entertainment, LLC (67)(h)	USA	51
Eight Bells Productions, LLC (63)(h)	USA	60
High Noon East, LLC (69)(h)	USA	60
High Noon Group, LLC (69)(h)	USA	60
High Noon Productions, LLC (69)(h)	USA	60
High Noon West, 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
Crew Ready Everywhere, LLC (63)(h)	USA	65
DGK 5, LLC (63)(h)	USA	65
Film Productions Rentals, LLC (68)(h)	USA	65
Hatfield and McCoy Productions, LLC (63)(h)	USA	65
Highball Music Group, LLC (63)(h)	USA	65
LG Films, LLC (63)(h)	USA	65
Marriage Boot Camp Reality Stars, LLC (63)(h)	USA	65
MDQuartet LLC (63)(h)	USA	65
Roasters LLC (63)(h)	USA	65
Signal Post Facilities, LLC (63)(h)	USA	65
Sound and Stage Studios, LLC (63)(h)	USA	65
Texas Rangers, LLC (63)(h)	USA	65
Thinkfactory Group, LLC (63)(h)	USA	65
Thinkfactory Media, LLC (84)(h)	USA	65
Web Legal, LLC (63)(h)	USA	65
Westside Film Partners, LLC (63)(h)	USA	65
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 ITV Studios LLC (63)(k)	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
ITV Netherlands Co-operatief W.A (55)(h)	Netherlands	100

Address key

(1) The London Television Centre, Upper Ground, London, SE1 9LT, 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) Ormeau Road, Belfast, Northern Ireland, BT7 1EB, 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) Appleby Corporate Services (Cayman) Limited, Clifton House, 75 Fort Street, P.O. Box 190 GT, Georgetown, Grand Cayman, KY1-1108, Cayman Islands
(39) c/o Appleby Trust (Cayman) Limited, Clifton House, 75 Fort Street, P.O. Box 1350, Georgetown, Grand Cayman, KY1-1108, Cayman Islands
(40) Ugland House, P.O. Box 309, South Church Street, Georgetown, Grand Cayman, Cayman Islands
(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 Rue, Saint-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 Maitre 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, 111 Eighth Avenue, 13th Floor, New York, NY 10011, USA
(71) 21 Holborn Viaduct, London, EC1A 2DY, United Kingdom
(72) 120 West 3rd Avenue #201, Vancouver, BC VSY 1EG, Canada
(73) Starvhusgaten 2A, Bergen, 5014 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
(100) Ormeau Road, Belfast, Northern Ireland, BT7 1EB, United Kingdom
(101) Aumento Advokatfirma, Ny Osteragde 3,4, 1101, Kobenhavn, Denmark
(102) 101 avenue Victor Huge, 921010, Bologne-sur-Mer, France
(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

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

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

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.

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

Non-NAR revenue – includes all ITV revenue, both internal and external, except net advertising revenue (NAR). This includes inter-segment revenue from the sale of ITV Studios shows to the ITV network

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

MIX
Paper from responsible sources
FSC® C022913
www.fsc.org

Printed in the UK by Pureprint using vegetable inks and their and Pureprint environmental printing technology.

Pureprint is a CarbonNeutral® company. Both manufacturing mill and the printer are registered to the Environmental Management System ISO14001 and are Forest Stewardship Council® (FSC) chain-of-custody certified.

Designed and produced by
CONRAN DESIGN GROUP

ITV plc
The London Television Centre
Upper Ground
London
SE1 9LT

www.itv.com

Investors:
www.itvplc.com Stock code: ITV