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films Limited



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## Rebalanced ITV delivers continued growth

**ITV plc Annual Report and Accounts**  
for the year ended 31 December 2016

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

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### Key



Read more content within this report



Read more content online

### Corporate website

We maintain a corporate website at [www.itvplc.com](http://www.itvplc.com) containing our financial results and a wide range of information of interest to institutional and private investors.

# maximising

**We invest over £1 billion annually in our programming, significantly more than our commercial competitors, and have an unrivalled ability to deliver mass audiences across all demographics for our advertisers.**

See page 20 for more

Series 16 of I'm a Celebrity...Get Me Out of Here! launched in the UK with 12.7 million viewers making it ITV's most watched entertainment programme in 2016. The series averaged 10.4 million viewers and had a 50% share for the 16-34s demographic.

# growing

**As an integrated producer broadcaster we create value from world-class content that we develop, own and distribute around the world.**

See page 24 for more

Poldark is produced by Mammoth Screen (part of ITV Studios UK) for the BBC and has been recommissioned for a third series to be delivered in 2017.

# building

**As we grow our investment in content, we are creating more windows to extend the reach of that content and monetise it across more markets and platforms, both free and pay.**

See page 28 for more

Vera is a British based detective drama. The sixth series was broadcast on ITV in 2016 and was the most watched to date, averaging 7.2 million across the series. It has had huge international success, selling to over 150 countries.

## 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.

## Front Cover

Victoria, produced by ITV Studios UK.

# 2016 Highlights

ITV delivered another strong performance in 2016 as we continued to strengthen, rebalance and grow the business.

Group external revenue<sup>1</sup> £m  
**£3,064m**

Non-NAR revenue<sup>2</sup> £m  
**£1,855m**

Adjusted EBITA<sup>3</sup> £m  
**£885m**

Adjusted EPS p  
**17.0p**

Statutory EPS<sup>4</sup> p  
**11.2p**

Dividend per share p (ordinary)  
**7.2p**

Adjusted EBITA growth of

**338%**  
since 2009

Proposed an increase of

**20%** in the  
ordinary  
dividend

Online, Pay  
& Interactive  
revenue up  
**23%**

## 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 page 34. 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').
4. Statutory profit before tax is £553 million (2015: £641 million)

**Unforgotten** is a detective drama produced by Mainstreet Pictures (part of ITV Studios UK) and has been recommissioned for a **second series** to be broadcast on ITV in 2017.

**Good Morning Britain** is broadcast on ITV five mornings a week and reaches **5 million** viewers across this period. Its biggest audience was **1.2 million** following the EU referendum result.

In 2016 we grew our share of the UK television ad market to

**47.4%**

**21.4%**  
share of viewing  
for ITV Family,  
up 1% since 2015

**24%**  
increase in long-form video  
requests in 2016 to  
over 1bn

**90%**  
increase  
in total ITV Studios hours  
produced since 2010

**80** ITV  
formats sold  
in 2016

**Britain's Got Talent** averaged **9.9 million** viewers across the series with two episodes achieving **over 12 million** viewers. 50% of the audience was the 16-34s demographic.

**Marcella** was one of the top ten new dramas in 2016, launching with **8.0 million** viewers. It averaged **6.8 million** viewers across the series and has been recommissioned.

**Coronation Street** was the most watched soap in 2016 averaging **7.6 million** viewers across the year. It reached **over 60%** of the viewing population which is around **36 million**.

The **England vs Iceland** Euros football match in June 2016 was watched by **15.2 million** viewers and was the **most watched** sporting event of 2016.

# Investor Proposition

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

Pictured top to bottom:  
ITV on-screen Ident;  
Multiscreening of a football  
match broadcast on ITV.

## A strong track record for delivery

Since 2009 we have grown adjusted earnings per share by 844%. Even in 2016 when NAR declined by 3% we delivered revenue and adjusted EBITA growth as a result of the significant progress we have made in rebalancing the business. We are reducing our dependence on UK advertising and driving new revenue streams to build a more global and diversified organisation

**+844%**

increase in adjusted  
EPS since 2009

**53%**

of total revenue is from  
sources other than spot  
advertising

Pictured left to right: Joanna Lumley presented a three-part documentary on Japan for ITV; ITV hosted the Six Nations Rugby Championships for the first time in 2016. England vs Ireland was the most watched match on ITV with an average of 6.6 million viewers.

## Strong market position

The Broadcast business remains 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 continuing to build our digital business with the announced launch of our Subscription Video on Demand (SVOD) service BritBox US

Our international content business is now a global player of scale, creating, owning and managing rights and we will continue to grow both organically and through acquisitions in key creative markets

# 99%

of all commercial audiences over 5 million are on ITV

# 50%

of total Studios revenue is from outside the UK

Pictured: The Tour de France has been broadcast on ITV and ITV4 for nine years.

## Highly cash generative

We are a highly cash generative business and our disciplined approach to cash, costs and capital has strengthened our balance sheet and allowed us to continue to invest across the business

## Investment opportunities

As we continue to deliver our strategy we see good investment opportunities to grow the business and enhance shareholder value whilst 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

# 42%

growth in online viewing on the ITV Hub

# £1.8bn

returned to shareholders since 2011 when the dividend was restored

# ITV at a Glance

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

## ITV total revenue (inc. internal revenue)

- Broadcast & Online **£2,132m**
- ITV Studios **£1,395m**

## ITV adjusted EBITA

- Broadcast & Online **£642m**
- ITV Studios **£243m**

## Broadcast & Online

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

**47.4%**

largest share

of the UK TV advertising market

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, and we estimate that this share of broadcast (SOB) is 47.4% in 2016.

The family of channels attracted a total share of viewing (SOV) of 21.4% in 2016, 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.

**21.4%**

share of viewing

for the ITV Family in 2016

Our free-to-air digital channels provide more targeted demographics for advertisers such as 16-34's, ABC1 Men and Housewives with Children, and consist of ITV2 and ITV3, the two largest digital channels in the UK, and ITV4, CITV and ITVB.

We also have high definition versions of our digital channels available on pay platforms along with ITV Encore, our pay only channel available exclusively on Sky.

**17m**

registered users of the ITV Hub

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 27 platforms including ITV's website (itv.com), pay providers such as Virgin and Sky, or through direct content deals with services such as Amazon, Apple iTunes and Netflix.

We are partnering with the BBC to launch a new SVOD service in the US during 2017. The streaming service will allow subscribers to access the best of British television.



Pictured left to right: Emmerdale was the second biggest soap in 2016 with an average SOV of 32%. It reached 60% of the UK population, which is more than 35 million viewers; Assault course game show Ninja Warrior UK produced by ITV Studios UK returned for a second series in 2016, with a third recommission for 2017.

## ITV Studios

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

# 7,800

hours

of original content  
produced and  
delivered in 2016

# 60

 labels  
in 10 different  
countries

supplying over  
234 channels

# 80

formats sold  
in 2016

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

### ITV Studios UK

ITV Studios UK is the largest commercial producer in the UK. We produce programming across a diverse range of genres such as drama, entertainment and factual 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 unscripted independent producer of content in the US. We have acquired a number of unscripted and reality producers and have grown 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, Australia and the Nordics. Talpa produces and distributes entertainment formats while the other bases produce 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 and distributes this to other broadcasters and platforms internationally. Within this business we also finance productions both on and off-ITV to acquire global distribution rights.

# Market Review

The market environment in which we operate is dynamic and constantly changing. Consolidation of media and telecoms companies and the increasing influence of technology brings both challenges and opportunities.

## Global Content

### Key market trends

Global demand for content continues to grow, with more channels, more platforms and new entrants increasing spend on high-quality programming. We estimate that the global content market is growing at around 5% per annum, with some genres such as drama growing 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 telecom 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 archive; and online advertising driven platforms like YouTube and Facebook creating a new market for short form and digital 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 becomes 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, who are investing heavily in creating high-quality original scripted content, has significantly increased competition in the market.

This increased competition for high-quality content has driven up the cost of production. Deficit financing has 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, which is then covered by global sales, second-run windows and sales to OTT providers. ITV as a distributor as well as a producer is in a strong position to deficit finance its own productions and therefore produce high-quality content and retain the rights to it.

Leveraging our network relationships and international distribution network, we are looking to expand our global scripted business and develop a strong portfolio of international and returning drama.

ITV America has developed several scripted programmes over the last few years and has a healthy pipeline of content in development. Our 2016 scripted deliveries included *The Good Witch* and *Aquarius* and scripted deliveries for 2017 are expected to include *Sun Records*, *Somewhere Between*, a pilot of *Snowpiercer* and the third series of *The Good Witch*.

Picture: The Good Witch is a scripted format produced by ITV America for the Hallmark channel in the US and will go into its third season in 2017.

Pictured: Come Dine With Me continues to sell well internationally with 13 format sales in 2016, four of which were produced by ITV Studios.

#### **Hell's Kitchen**

Hell's Kitchen has been a huge international success with 34 format sales worldwide over the last ten years.

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 acquisitions of Mammoth Screen and Twofour Group in 2015. Our 2016 scripted deliveries in the UK included Victoria, Cold Feet, Poldark and Witness for the Prosecution. Scripted deliveries expected in 2017 include Prime Suspect 1973, Fearless, the second series of Victoria and the second series of Cold Feet, all of which have international appeal.

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

ITV significantly strengthened its capability in this area with the acquisition of Talpa Media in 2015. Along with the established entertainment and factual entertainment genres, scripted reality programming, where we have focused our US acquisitions, has grown quickly with formats such as Pawn Stars, Real Housewives and Fixer Upper.

ITV is now a genuine global player in non-scripted 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.

“

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

Pictured: Behind-the-scenes on Victoria. The eight-part series has been a huge success for ITV Studios UK, selling to around 190 countries. It has been recommissioned for a second series.

# Market review continued

## Broadcast & Online

Over recent years the number of ways to watch TV has greatly increased with viewers able to choose a variety of platforms, both free and pay. Traditional linear television viewing remains resilient despite significant changes in the market and in the availability and delivery of content. Viewing habits also vary by demographic with younger viewers watching more non-linear content than older demographics.

In the UK linear television viewing remains the most popular form of media entertainment despite year-on-year fluctuations. UK average television viewing in 2016 was 212 minutes per day which is similar to 2015 (216 minutes) and a similar level to ten years ago (Source: BARB).

### Television viewing

#### SOV by broadcaster

○ ITV Family	<b>21.4%</b>
○ BBC Family	<b>31.9%</b>
○ Channel 4 Family	<b>10.5%</b>
○ Five Family	<b>6.2%</b>
○ Sky Family	<b>8.3%</b>
○ Other	<b>21.7%</b>

Source: BARB\*

Non-linear viewing, while currently only a small proportion of total viewing, is growing fast, particularly via SVOD 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 service, BritBox in the US to enable us to compete in this market.

ITV competes for viewers with the BBC and commercial broadcasters including Channel 4, Sky and Channel 5. Over the last few years, the number of available channels has grown which has impacted the SOV of the traditional broadcasters. SOV for the other channels increased to 21.7% in 2016 from 21.1% in 2015. Despite an increase in the number of channels, ITV and BBC1 continue to be the only channels consistently able to deliver mass audiences as well as targeted demographics, and in 2016 ITV delivered 99% of all commercial audiences over five million viewers and 95% over three million. In 2016 the ITV family of channels increased their SOV to 21.4% (2015: 21.2%), second only to the BBC's family of channels at 31.9% which lost share during the year (2015: 32.7%) as a result of BBC3 moving online.

\* Viewing data is based on Weeks 1-52 for 2016 compared to Weeks 2-53 for 2015.

*Pictured top to bottom: Family watching VOD via their television set; The ITV Hub logo.*

Pictured: This Morning continues as one of the longest running daytime programmes in the UK. Its audience grew by 2% in 2016 reaching 5.2 million viewers a week.

## Pay television

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

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 Talk Talk. The platform mix between free-to-air and traditional linear pay television has remained constant for a number of years at around 50:50. Linear pay television revenues continue to grow but the market dynamics are changing rapidly as established pay television providers such as Sky and Virgin face increasing competition from relatively new entrants to the market such as BT, Netflix and Amazon.

Increasingly homes are supplementing their free 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 Talk Talk 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.

ITV participates in the pay television market, earning revenue from various third parties, including Sky and Virgin, through the licensing of channels and content. ITV also has its pay only television channel, ITV Encore, on the Sky platform along with our other pay channels, ITV2 HD, ITV3 HD and ITV4 HD.

ITV also recently announced the creation of a joint venture with the BBC to launch BritBox, a new SVOD service in the US. The service offers a significant amount of content from both broadcasters and gives ITV access to the fast growing SVOD market in the US.

## Non-linear viewing

### Long-form content viewing

○ Live (including simulcast)	<b>81%</b>
○ Timeshifted (PVR) up to 28 days	<b>12%</b>
○ VOD Broadcaster catch-up	<b>3%</b>
○ VOD- Other	<b>4%</b>

Source: 2015 Internal estimates

Non-linear viewing of long-form content includes recorded, or timeshifted viewing (up to 28 days) and catch-up of live television (linear television – up to 7 days), and also encompasses Video on Demand (VOD) and OTT delivery of other long-form content such as box sets and movies.

While non-linear viewing has grown fast it still accounts for a small proportion of total viewing time. In the UK we estimate 81% of all viewing of legal long-form content is live (including simulcast), with a further 12% timeshifted via a Personal Video Recorder (PVR) and watched within 28 days of the original broadcast date. Of the estimated 7% of content viewed on demand, 3% is catch-up viewing of broadcaster content via the television set or to other devices such as tablets and mobiles. The remaining 4% of content is other VOD viewing, where viewing of box sets via services such as Netflix is replacing viewing of DVDs. This is growing quickly driven by increased availability of devices such as smartphones, tablets and connected televisions.

There is currently no industry measure for online viewing. BARB are in the process of developing a joint-industry, audited measure of viewing online television.

## Advertising revenue

### Television's share of the advertising market

○ Television	<b>27.5%</b>
○ Press	<b>15.6%</b>
○ Radio	<b>3.3%</b>
○ Cinema	<b>1.3%</b>
○ Outdoor	<b>5.7%</b>
○ Internet	<b>46.6%</b>

Source: Advertising Association January 2017

ITV generates revenues from advertising through traditional broadcast, sponsorship and online, and competes with commercial broadcasters and other advertising media, for its advertising revenues. 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 share of 27.5% in 2016, (2015: 28.7%). Internet advertising (search, classified and display) has grown its share to 46.6% in 2016 (2015: 42.7%), making the UK one of the most developed markets for online advertising. This growth is at the expense of print advertising, which declined to 15.6% in 2016 (2015: 18.2%).

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 47.4% in 2016 (including UTV), up from 44.7% in 2009. This increase is because of ITV's unique ability to deliver mass audiences across multiple regions and in key demographics.

“

Non-linear viewing, while currently only a small proportion of total viewing, is growing fast and we continue to invest in ITV's VOD and SVOD services

# Our Strategy and Business Model

We remain focused on our original vision for ITV as an owner, producer and broadcaster of content. We are confident that our strategy to maximise our value as an integrated producer broadcaster, creating, owning and distributing content around the world, is the right long-term path for ITV.

## Our strategy

**Our strategy is focused on three key priorities:**

**maximising**  
maximise audience and revenue share from free-to-air broadcast and VOD business

■ See page 20 for more

**growing**  
grow an international content business

■ See page 24 for more

**building**  
build a global pay and distribution business

■ See page 28 for more

## Our sources of competitive advantage

**The UK's biggest marketing platform delivering unrivalled commercial audiences**

The scale of our channels and the significant investment we make in quality content gives ITV unique scale and reach on our main channel and more targeted audiences on our family of channels and the ITV Hub.

**80%**

Our channels reach around 80% of the television owning population each week

**World-class content**

At the core of ITV is our focus on creativity and content, whether selling 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.

**40,000+**

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 brand

Our talented, creative people

Pictured left to right: This Time Next Year is a reality programme presented by Davina McCall in the UK and produced by TwoFour Group, part of ITV Studios UK. The format has been sold to six countries in 2016; Family Guy launched on ITV2 in 2016. The Seth McFarlane collection reached 25 million viewers on ITV2 during 2016, 59% of which were 16-34s.

## Our diversified revenue streams Creating value

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 mass audiences and more targeted demographics it delivers, which 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 primarily from licensing our HD channels, our pay channel ITV Encore and our online VOD services. In the first half of 2017 we are launching a joint venture (JV) with the BBC, BritBox US, a SVOD service offering the best of British television.

We also monetise our consumer interaction with our biggest shows through competitions and voting.

**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, 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 traditional spot television advertising

### For advertisers

Through delivering unique scale and breadth of demographics and new innovative ways of engaging with consumers around quality programme brands

### For audiences

Through a varied, high-quality programming schedule

### For broadcasters and platform owners

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

### For shareholders

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

### For our people

Investing in and developing our creative, on-screen, commercial and operational talent

# Chairman's Statement

To be able to announce record results, even after a year in which television advertising saw a small decline, is eloquent testimony to the health of ITV's business.

“  
We have a clear strategy in place which the management team remains very focused on delivering

This is my first annual report as Chair, and it's a pleasure to observe how different ITV is compared to seven years ago or indeed since I first joined the Board in 2013. To be able to announce record results, even after a year in which television advertising saw a small decline, is eloquent testimony to the health of ITV's business. It reflects the fruits of the continued rebalancing of the Company, with revenues other than spot advertising representing more than half of the total.

In the business of television, it of course all starts with superb programmes and they are made by a plethora of great talent: performers, writers, directors, producers and journalists. Both ITV's main channel and our family of channels improved their SOV in 2016, a huge achievement in a multi-channel, multi-platform era. This underlines the value of one of our greatest assets: the ability to deliver the only commercial, genuinely mass audience in the UK and one which also offers the key demographics to advertisers.

Pivotal to our success is offering choice and flexibility to our viewers, and within that the ITV Hub which we launched just over a year ago continues to be highly demanded as we further develop and enhance its service. Significantly we have recently announced the beginning of our SVOD service, BritBox, jointly with the BBC. BritBox will offer the best of British content in the US and it is our intention to roll out our SVOD services further into other international markets under the BritBox umbrella.

Key to rebalancing ITV has been the significant growth of ITV Studios in the UK and internationally. Worldwide demand for quality content continues to grow – from broadcasters, from traditional platforms and from the new VOD services. ITV, as an increasingly scaled international producer and distributor of high-quality content, is well placed to take advantage of that. We'll continue to seek opportunities to add scale and value in the future, both organically and through acquisitions, as we grow our global content business and further diversify our revenues away from our reliance on the UK television advertising market.

Adam Crozier and Ian Griffiths lead a strong management team, who took swift action after last June's referendum to deliver additional cost savings to ensure ITV is well placed to face the opportunities and challenges that lie ahead. We have a clear strategy which the team remains very focused on delivering.

Our strong balance sheet and significant cash flows will support this and enable us to continue to invest in the business as well as deliver sustainable returns to our shareholders.

In 2014, the Board made a commitment to grow the full year ordinary dividend by at least 20% per annum to 2016 to achieve a more normal dividend cover of between 2.0 and 2.5x adjusted earnings per share. In line with this policy, and reflecting ITV's good performance in 2016, the Board is proposing a final dividend of 4.8p which equates to a full year dividend of 7.2p.

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Sir Peter Bazalgette  
Chairman



Pictured Loose Women has been broadcast as part of the ITV daytime schedule for 17 years. It grew its audience by 8% in 2016 and reached 3.9 million viewers a week.

Reflecting ITV's strong cash generation and the Board's confidence in the business, the Board is also proposing a special dividend of 5.0p per share, worth just over £200 million.

I am proud to be leading a focused Board of non-executives to which I am pleased to welcome a new member, Salman Amin, the Chief Operating Officer of SC Johnson, who brings extensive experience of advertising and marketing and who works in one of our key territories, the US.

On behalf of the Board, I'd like to take this opportunity to thank all colleagues for the creative and commercial achievements of 2016 as we look forward to 2017 with enthusiasm.

**Sir Peter Bazalgette**  
Chairman

#### Dividend

Dividend per share p (ordinary)  
**7.2p**

5p Special dividend, worth just over

**£200<sub>m</sub>**

Pictured left to right: Fixer Upper is produced by High Noon in the US and was the highest rated programme on the network HGTV in 2016; The Durrells was commissioned for ITV and was the most watched new drama launch of 2016.

# Chief Executive's Review

In more uncertain markets, ITV has delivered a good performance in 2016 as we continue to rebalance and strengthen the business creatively, commercially and financially.

“

The continued growth in revenue and adjusted profit despite a decline in the advertising market is clear evidence that our strategy is working

**ITV delivered a good performance in 2016 as we continue to rebalance and strengthen the business creatively, commercially and financially. External revenues grew 3% and adjusted earnings per share (EPS) increased 3% despite a 3% decline in net advertising revenues (NAR), which was clearly impacted by the wider political and economic uncertainty.**

We measure performance through a range of metrics, most particularly through our alternative performance measures and KPI's, as well as our statutory results, all of which are set out in more detail later in the report.

Our good performance in 2016 is a result of ITV continuing to deliver on our strategy to diversify the business and grow new revenue streams, thereby reducing our reliance on UK spot advertising and making ITV a stronger and more resilient business. Total revenues from sources other than traditional spot advertising (non-NAR) were up 11% in the year and 53% of total revenues came from sources other than traditional spot advertising.

Our global production business, ITV Studios, continues to grow in the UK and internationally, delivering around 7,800 hours of content in 2016. ITV is now a global player of scale, with 50% of total revenues coming from outside the UK. We have a strong creative pipeline and continue to perform well across the key genres that return and travel.

Our Broadcast & Online business is robust. We performed strongly on-screen with share of viewing (SOV) up 3% on our main channel and again delivered unrivalled audience reach for advertisers. Online, Pay & Interactive revenues grew significantly up 23% as we continued to grow our audiences and demand from advertisers online.

We remain committed to our original vision of ITV as an owner and producer of world-class content that travels. Our strategy of maximising our value as an integrated producer broadcaster, making our content famous on multiple platforms, both free and pay and distributing it globally, is clearly the right one for ITV.

As we continue to execute our strategy we remain focused on delivering against our three strategic priorities:

**maximising**  
maximise audience and revenue share from free-to-air broadcast and VOD business

● See page 20 for more

**growing**  
grow an international content business

● See page 24 for more

**building**  
build a global pay and distribution business

● See page 28 for more

We will continue to strengthen the business and grow new revenue streams both organically and through acquisitions, and we see further investment opportunities across ITV. There will be an increasing emphasis on building our digital assets throughout the business as we seek opportunities to drive further value from the content we own by exploiting and managing it online.

## Rebalanced ITV delivers continued revenue and profit growth

In 2016 we grew external revenues by 3% to £3,064 million (2015: £2,972 million) driven by £191 million growth in non-NAR to £1,855 million (2015: £1,664 million) including the benefit of acquisitions, while ITV Family NAR was down 3%. With our continued focus on cash and costs we delivered 2% growth in our adjusted EBITA to £885 million (2015: £865 million), which corresponded to a 29% margin, in line with 2015. Adjusted EPS grew 3% to 17.0p (2015: 16.5p). Reported profit before tax declined by 14% to £553 million (2015: £641 million) and reported EPS declined 10% to 11.2p (2015: 12.4p) primarily due to higher operational exceptional items and amortisation of acquired intangibles which is explained in more detail in the Financial and Performance Review.

**Adam Crozier**  
Chief Executive

Pictured right: The 13th series of Saturday Night Takeaway launched with its biggest audience in over a decade. The series averaged 7.7 million viewers, with a quarter of the audience being 16-34s.

## Group external revenue growth £m £3,064m

## Adjusted EPS p 17.0p

We have a strong balance sheet and the business continues to be highly cash generative. Profit to cash conversion (as reconciled in the Finance and Performance Review) was 97% and we ended the year with net debt of £637 million after acquisitions of £97 million, dividend payments of £663 million and pension deficit contributions of £80 million.

In 2014, the Board made a commitment to grow the full year ordinary dividend by at least 20% per annum to 2016 to achieve a more normal dividend cover of between 2.0 and 2.5x adjusted earnings per share. In line with this policy and reflecting ITV's good performance in 2016, the Board is proposing a final dividend of 4.8p which equates to a full year dividend of 7.2p. This is a dividend cover of 2.4x and delivers on the commitment the Board made three years ago.

Reflecting ITV's strong cash generation and the Board's confidence in the business, the Board is proposing a special dividend of 5.0p per share, worth just over £200 million.

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

### Maximise audience and revenue share from free-to-air business

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

While the current economic uncertainty is impacting the demand for advertising, the traditional broadcast market is robust with overall commercial viewing up in the year and with television advertising continuing to be in high demand. ITV has maintained its strong position within this market with its unique reach and scale. ITV's SOV was up 3% on the main channel, up 1% across the ITV family. We delivered 99% of all audiences over five million, which enabled ITV to again grow its share of broadcast (SOB) which is our share of television advertising spend to 47.4%.

We are also performing strongly online through the ITV Hub, the digital home for all our channels and services, which helps ITV reach younger audiences. Online consumption (viewing), which measures how long viewers are spending online, was up 42% and long-form video requests were up 24% driving a 33% increase in online revenue. We also delivered significant growth in our pay revenues as we increase the reach of our broadcast content digitally.

In 2016, Broadcast & Online revenues were down 1% at £2,132 million (2015: £2,146 million) with adjusted EBITA down 3% at £642 million (2015: £659 million) which reflects 3% decline in highly geared NAR and 23% growth in Online, Pay & Interactive.

### Grow an international content business

Growing a scaled international content business in the key genres that travel is central to our strategy as an integrated producer broadcaster. As ITV creates, owns and

manages more content, our channels and digital services provide a platform to showcase our programmes before distributing them across multiple platforms in the UK and internationally.

Global demand for high-quality content from both broadcasters and platform owners remains strong. Capitalising on this demand, we continue to strengthen our position as the UK's largest commercial production company, as well as creating an increasingly international business with production bases in America, the Netherlands, France, Germany, the Nordics and Australia. Half of our revenues are generated outside the UK and we have become a top independent producer in the US and Europe.

Overall, ITV Studios performed strongly, although ITV America was impacted by the phasing of deliveries. We continue to build a large portfolio of successful series and formats across the key genres that return and travel internationally, namely drama, entertainment and factual entertainment. ITV delivered around 7,800 hours of content in 2016 including many new and returning scripted programmes, such as Victoria, Poldark, Vera and The Good Witch selling to over 100 countries. ITV also had 80 formats sold internationally including The Voice, Hell's Kitchen and The Chase. We are also making a number of selective investments in digital content creation as we look to develop our expertise in 'digital first' content.

ITV Studios delivered 13% growth in total revenues to £1,395 million (2015: £1,237 million) and 18% growth in adjusted EBITA to £243 million (2015: £206 million) driven by acquisitions. Organic revenues (excluding prior year acquisitions and foreign exchange movements) were down 7% driven predominantly by ITV America which was impacted by the lumpy nature of programme deliveries. However, we have a strong creative pipeline of new and returning programmes with 228 new commissions and 188 recommissions, which will help drive a return to good organic revenue growth in 2017.

# Chief Executive's Review continued

## Building a global pay and distribution business

As a creator, owner and distributor of high-value sought after programmes, ITV is well positioned to exploit the opportunities that arise from the changes in digital media and consumer behaviour. With over 40,000 hours of content, ITV is continually exploring and experimenting with new ways to distribute our content to broadcasters and platform owners, both free and pay, while also seeking new opportunities to extend the reach of our content directly to the consumer.

We have recently announced the creation of a joint venture with the BBC to create BritBox US, an ad-free subscription service offering the very best content from both broadcasters. BritBox US will launch in the first half of 2017 and will feature recent series and classics. BritBox gives ITV access to the fast growing Subscription Video on Demand (SVOD) market in the US. In time we will look to roll it out further internationally.

We are also increasingly distributing near-to-broadcast or first broadcast rights to over-the-top (OTT) platforms across territories and currently have around 200 programme supply agreements with Netflix, Amazon and Hulu.

Global Entertainment, the distribution arm of ITV Studios, delivered 14% revenue growth to £179 million (2015: £157 million) as we continue to drive value from the investment we have made in creating and owning the rights to quality content with international appeal. We are building a strong and balanced portfolio of scripted and unscripted programmes and formats in the key genres that travel internationally and we are using our strong cash flows not only to create and fund new content but also to acquire third-party rights.

## Outlook for 2017 and beyond

While the economic outlook remains uncertain, ITV is now a much more balanced and resilient business and we expect to see good growth in non-NAR in 2017 with our Online, Pay & Interactive and ITV Studios businesses performing well. ITV Family NAR is expected to be down 6% in the four months to the end of April, impacted by the ongoing economic uncertainty, however over the full year we expect to outperform our estimate of the television advertising market.

We continue our tight control on costs to ensure we are operating as efficiently as possible and maximising investment in our high-quality programming. We are on track to deliver £25 million of overhead cost savings in 2017, and due to the absence of any major

**5 Gold Rings** is a new entertainment programme produced by Talpa Media. The format is selling well internationally and will be broadcast on ITV in 2017.

sporting event, the network programme budget (NPB) will be £25 million lower in 2017 whilst maintaining the strength and depth of our schedule.

We remain committed to our strategy of rebalancing and strengthening ITV and building a global content business of scale and we see clear opportunities to invest for further growth across the business both organically and through acquisitions. We will continue to invest behind our core Broadcast & Online business, further developing the ITV Hub, and the launch of Britbox US will be a significant step forward in growing our digital distribution assets. We will increase our investment in ITV Studios, particularly our US scripted business, to strengthen further and grow our creative capabilities.

Our robust balance sheet and strong underlying cash flows allows us to do so while at the same time delivering sustainable returns to our shareholders.

Pictured: Behind-the-scenes on returning drama *Cold Feet*, produced by ITV Studios UK.

Pictured left to right: The Jeremy Kyle Show is a daily talk show and has been on ITV for over ten years, it reaches 5.5 million viewers a week; Coronation Street is in its 57th year on ITV and is Britain's longest running soap driving huge audiences weekly.

## Our responsibility

### Building a responsible business that benefits all stakeholders

The success of our strategy depends not just on our operational efficiency, but also on the way we interact with our stakeholders, the environment and the wider community. ITV's social purpose is to grow our business in a responsible way, using the reach of our channels to create change for good. As well as complying with our legislative and regulatory requirements we recognise that our actions can have an impact and our reach can positively influence society. We therefore work to identify issues that are material to ITV and matter to our stakeholders.

#### Our responsibility priorities

Our responsibility 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.


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

#### People

Reflecting the diversity of modern society is the right thing to do, it helps give our programmes mass appeal by attracting the largest possible audiences which is essential to our success as an integrated producer broadcaster. We strive to ensure diversity in our on-screen programming and in our workforce, ensuring that we're relevant and accessible to all.


#### Gender split


Board of Directors

 6  
75%


 2  
25%

Senior management<sup>1</sup>

 83  
56.8%

 63  
43.2%

All employees<sup>2</sup>

 48.1%  
3,141

 51.9%  
3,390

#### Planet

We have a responsibility to understand and minimise our own impact on the environment and an opportunity to influence positively our industry and audiences. 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. See page 101 for our greenhouse gas disclosures.

#### Partnerships

We believe partnerships mean collaborating with others to make a positive contribution to society. Through a combination of our on-air appeals and campaigns, along with local community engagement, we're committed to inspiring, engaging and empowering our stakeholders to make a difference.

#### Further information

We aim for continuous improvement in our Responsibility strategy, actions and performance. More information on our responsibility initiatives can be found online.

 [itvresponsibility.com](http://itvresponsibility.com)

1. 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.  
2. Employee gender split is based on total headcount at 31 December 2016

Pictured: Cold Feet returned to ITV after a 13 year hiatus and was the most watched drama on ITV in 2016 with an average of 8.2 million viewers across the series.

## Strategic Priority 1:

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

The media environment in which we operate is constantly changing and our Broadcast business remains strong, adaptable and ready to take advantage of the opportunities that arise. ITV, through its commercial channels, offers unique scale and breadth reaching around 80% of the television owning population every week. At the same time, the ITV Hub, the digital home for all our channels and services, is growing rapidly helped by the significant growth in audience appetite for Video on Demand (VOD).

● See page 22 for more

## Strategic Priority 1 continued

As a result there continues to be significant demand for advertising on our family of broadcast channels and on the ITV Hub, which generates substantial profit and cash to reinvest across ITV. Additionally, as an integrated producer broadcaster, our channels provide an important platform to showcase ITV Studios content, providing it with a proven track record before exploiting it internationally.

### Remaining responsive to a changing media environment

Traditional linear television viewing remains resilient despite significant changes in the market and in the availability and delivery of content. On average viewers watch 212 minutes of television a day, which is a similar level to 216 minutes in 2015. The majority of television viewing is live at an estimated 81% as television continues to have the power to bring audiences together. VOD is growing rapidly although it still only accounts for 7% of total viewing. Meanwhile, PVR viewing, at 12%, has remained relatively constant over the last few years.

Three key attributes lie at the heart of ITV's successful Broadcast proposition: its first class distribution and reach across broadcast and OTT platforms; owning the rights to high-quality, must have content,

for all key audiences; and providing advertisers with creative access to the biggest and most effective marketing platform in the UK.

### Strong viewing and online performance

ITV performed strongly on-screen in 2016 with main channel SOV up 3% and ITV family SOV up 1% with programmes supplied by both ITV Studios and independent producers. We aired seven out of the top ten new dramas; the most watched soap in Coronation Street; the most watched sporting event in England vs. Iceland, during the 2016 European Football Championships and the most watched current affairs programme with our coverage of the EU Referendum Debate. On-screen successes included a range of new dramas, such as Victoria, The Durrells, Marcella and the return of Cold Feet. Our sporting schedule has performed strongly, particularly the Six Nations Rugby Championships and the European Football Championships, as has our daytime schedule including Good Morning Britain, This Morning and Loose Women. We also continue to drive significant audiences with Coronation Street and Emmerdale, which are the two largest soaps, and with our returning brands such as Vera, Endeavour, Britain's Got Talent, I'm a Celebrity... Get Me Out Of Here!, Saturday Night Take Away, The Chase and Tipping Point.

We continue to target key demographics through our digital channels and the ITV Hub and have seen a very significant increase in our younger audiences, with 16-34 SOV up 25% on ITV2 helped by the successful launch of American Dad and Family Guy as well as the return of Love Island.

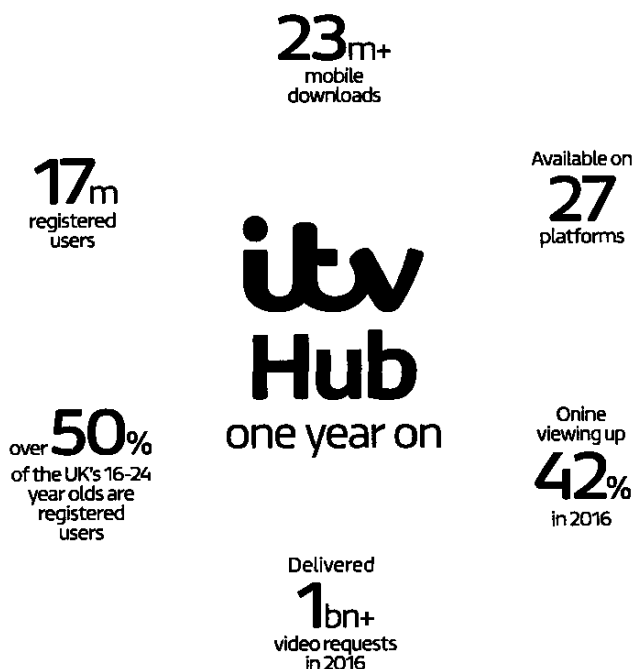
ITV3 and ITV4 have not performed as well as we had hoped. ITV3 was impacted by the launch of new free digital drama channels and the allocation of some of our programming exclusively to ITV Encore, and ITV4 was affected by the loss of the Europa League and the Champions League. Improving their performance is a focus for 2017.

Looking ahead we believe that around £1 billion is the appropriate programme budget for ITV's family of channels to ensure we continue to deliver standout content that drives the scale and breadth of the audiences that advertisers demand.

The programme budget will be £25 million lower in 2017 than 2016 at around £1,025 million due to the absence of a major sports tournament. We have a strong slate across key genres including new programmes The Halcyon, Good Karma Hospital, Prime Suspect 1973, Lethal Weapon, Little Big Shots, The Voice, The Voice Kids, Dance Dance Dance, 5 Gold Rings, The Nightly Show and horse racing, and returning programmes including Victoria, Cold Feet, Broadchurch, Unforgotten, Safe House, I'm A Celebrity... Get Me Out Of Here!, Britain's Got Talent, Saturday Night Takeaway, The Chase and the Six Nations Rugby Championships.

### The ITV Hub one year on

ITV's online business has grown rapidly over the last few years and is contributing meaningful revenue to the Group, growing the overall ITV audience and advertising revenues. The ITV Hub, which was launched last year, was a major step forward in the quality, innovation and ease of use of ITV's online services. It is now available on 27 platforms, the app has been downloaded over 23 million times and it has 17 million registered users. It drives very significant volumes of viewers both for simulcast viewing and catch up and is growing faster than the BBC iPlayer. Long-form video requests continue to grow strongly up 24% with over 1 billion requests made in 2016. Online viewing consumption, which measures how long viewers are spending online, increased 42%.





Pictured left to right: Celebrity Juice is a celebrity comedy programme in its 16th series on ITV2; When Ant & Dec Met the Prince was watched by 7.7 million viewers and had a 28% SOV.

The ITV Hub also helps ITV reach valuable younger audiences. Over 50% of the UK's 16-24 year old population are registered users of the ITV Hub as younger audiences increasingly use it for simulcast viewing as well as catch up. Programmes such as ITV2's very successful Love Island, delivered record VOD viewing via the ITV Hub.

The ITV Hub is more than a catch up TV service. In 2016, it featured previews and premieres, such as Marcella and The Secret, as well as original commissions around the European Football Championships. Looking to 2017, there will be more short and long-form original content, including The V Room, The Voice's switchover show as well as content from AwesomenessTV, the global youth brand we have formed a partnership with for exclusive UK television and VOD rights.

We will also be using the insight we gain from our 17 million registered users to develop more targeted advertising on the ITV Hub and to increasingly drive viewing through personalisation.

#### **ITV's strong advertising proposition driven by our unique offering**

While political and economic uncertainty has led to more cautious behaviour by advertisers, ITV's unique ability to deliver mass audiences, as well as more targeted demographics across the family of channels and the ITV Hub, has enabled us to again increase our SOB to 47.4%. In 2016 ITV delivered 99% of all commercial audiences over five million and 95% of all 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 Commercial Audiences**

Television remains the most efficient and effective advertising medium for advertisers to achieve mass simultaneous reach and, as viewing and advertising becomes more fragmented, the scale of advertising that television, and particularly ITV, delivers becomes increasingly valuable. The cost of advertising is similar to 2004 levels and, compared to many other advertising media, it remains good value, especially given the reach and scale it delivers.

#### **Maximising the value of our airtime and our brands**

ITV is also focused on maximising the value of its airtime and driving new revenue streams through sponsorship, interactivity and branded content. 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. We have developed many innovative sponsorship and licensing deals including: Aunt Bessies for I'm A Celebrity... Get Me Out Of Here!; Domino's Pizza for The Voice and William Hill for ITV Racing. We have also produced branded content solutions with our new service ITV AdVentures for a number of customers, including Suzuki in Saturday Night Takeaway, Matalan and I Am TeamGB.

#### **Developing ITV's digital broadcast assets**

Live television continues to demonstrate a growing relevance as viewers increasingly connect through social media. To drive viewing and enhance engagement with our content, we are further developing our social media assets across our international portfolio of programmes. We have 147 YouTube branded channels delivering over 14 billion views, 32 million Facebook followers, 22 million Twitter followers and 28 programme apps including Love Island, Dance, Dance, Dance, I'm A Celebrity... Get Me Out Of Here!, horse racing and The Voice. Our digital engagement has grown significantly and in 2016 we received around 100 million votes across our entertainment shows primarily via our programme apps.

#### **2017 and beyond**

We remain committed to our integrated producer broadcast model, and key to that is maintaining the strength and scale of our Broadcast & Online business. We have started the year well with main channel SOV up 4% and ITV family SOV up 3% for the first six weeks of 2017.

As the viewing and advertising landscape continues to fragment, the scale of our linear audiences become increasingly valuable and we will also continue to drive significant and growing value from our digital assets, most significantly the ITV Hub.

We expect ITV NAR to be down 6% over the first four months of 2017, impacted by the current economic uncertainty, although over the full year we expect to again outperform our estimate of the television advertising market.

Pictured: The Voice from Talpa Media, is one of the biggest selling entertainment formats in the world. It is broadcast in more than 180 countries with the format produced locally in 63 countries.

## Strategic Priority 2:

### Grow an international content business

**Growing a scaled international content business is also central to our strategy as an integrated producer broadcaster. As ITV creates and owns more content, our channels provide a platform to showcase our programmes before distributing them across multiple platforms in the UK and internationally.**

**■ See page 26 for more**

## Strategic Priority 2 continued

### Growing global demand for content

The strong global demand for content from broadcasters and platform owners provides a significant opportunity for ITV Studios. We estimate that the global content market is growing at about 5% per annum, with some genres such as drama growing more rapidly than others. To capitalise on this, our strategy remains to develop, own and manage content rights in genres that return and travel internationally – namely drama, entertainment and factual entertainment.

As well as strong demand from broadcasters, we are seeing significant demand from a variety of OTT platforms who want library and close-to-broadcast content rights as well as 'digital first' content.

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**Studios revenue growth £m**  
**£1,395m**

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**Studios adjusted EBITA growth £m**  
**£243m**

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### Fast growing, international producer of scale

Since 2010 we have almost doubled the number of hours of content we produce. In 2016 we produced around 7,800 hours of content, through our 60 labels, supplying over 234 channels in 10 countries. ITV is becoming an increasingly scaled and international business: we are the number one commercial producer in the UK and a leading producer in Europe and the US, with 50% of total Studios revenues coming from outside the UK.

In 2016 ITV Studios total revenues grew 13% to £1,395 million (2015: £1,237 million) and adjusted EBITA increased 18% to £243 million (2015: £206 million), driven by the acquisitions we have made.

ITV Studios has three production divisions – ITV Studios UK, ITV America and ITV Rest of World (RoW) and across these businesses, ITV agreed 228 new commissions and 188 recommissions in 2016.

The US and UK are the dominant creative markets, with the US the largest exporter of scripted content and the UK the world leader for exported formats. Over the last few years we have built scale in these key markets, organically and through acquisitions, and we now have a significant portfolio of successful series and formats that travel.

ITV Studios UK performed strongly with overall revenues up 14% at £626 million (2015: £547 million) and with good growth in sales to ITV and to other UK Broadcasters. Our off-ITV revenues have grown by 20% as we have continued to strengthen and grow the business. Our deliveries to other UK broadcasters included Poldark, NW and Witness for the Prosecution for the BBC, The Jump and Come Dine with Me for Channel 4, Hotel Inspector for Channel 5 and Agatha Raisin for Sky.

Overall, we have seen 13% growth in revenues to ITV with programmes such as Victoria, Cold Feet, Tutankhamun, Saturday Night Take Away, The Chase, The Next Great Magician and I'm A Celebrity... Get Me Out Of Here! all delivered in 2016. We have again grown ITV Studios UK's share of original content commissions on ITV main channel to 63%.

ITV America's revenue was down year-on-year by 27% to £235 million (2015: £320 million), predominantly as a result of three shows we had in 2015 which have not returned in 2016.

They are Hell's Kitchen, which has been commissioned for two series in 2017 and Texas Rising and Best Time Ever, which are not returning. We delivered the second series of two US dramas, The Good Witch and Aquarius. We have also benefited from the delivery of a high volume of programmes from our stable portfolio of unscripted series, including Pawn Stars, American Restoration, Alone, Rich Kids of Beverly Hills and First 48 and new commissions, including American Grit, Killing Fields and Millionaire Matchmaker.

Across ITV RoW, we have seen very significant growth with revenues up 67% to £355 million (2015: £213 million) driven by Talpa Media. Our production bases in Australia, Germany, France, the Netherlands and the Nordics produce original content as well as local versions of ITV Studios formats. We now produce 14 different formats in three or more of our production territories, for example; Come Dine With Me, The Chase, The Voice from Talpa Media and Love Island.

Talpa Media is performing well and continues to develop many new formats including Dance, Dance, Dance, CannonBall and 5 Gold Rings which are all selling well. It has also had the benefit of a four-year licensing agreement for The Voice of China.

Across ITV RoW, we have delivered a number of new and returning commissions including The Voice in the UK and USA, The Chase in Australia, I'm A Celebrity... Get Me Out Of Here! in Australia and Germany, Come Dine With Me in Denmark, Sweden and Germany and The Price of Beauty in Denmark and Sweden. In Norway ITV has delivered its first drama, Aber Bergen, with the second series already commissioned. In Australia, ITV has had a particularly successful year with a new management team in place and now produces for all the major television channels.

### Investing in content with international appeal

To continue growing internationally we must keep expanding our portfolio of successful series and formats that return and can be distributed globally. We have a strong mix of programmes across genres and also across their content life cycle, which balances our risk and financial exposure. Since 2010 our total hours produced has increased by 90%, our drama hours have increased by 370%, entertainment hours by 109% and factual hours by 189%.

Pictured left to right: Poldark has been sold to around 90 countries; The Chase is an internationally popular gameshow. It is the biggest daytime programme in the UK and is produced by ITV Studios in five countries with 31 format sales since it launched in 2009.

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 looking to expand our global scripted business and develop a strong portfolio of international and returning drama, particularly in the US. We are strengthening our development and creative capabilities internally and have invested in a number of producer development relationships – we now have around 20 projects in development in the US with broadcast networks, cable networks and OTT platforms.

Recent successes include a number of US drama commissions which will deliver in 2017 – a ten part drama Somewhere Between, for ABC, Sun Records for TNT and a pilot for ABC, Snowpiercer, through Tomorrow Studios.

With the acquisition of Talpa Media we have significantly strengthened our capability in entertainment and formats. Across our businesses we have grown a solid portfolio of high volume and high margin formats that travel internationally and which we produce in many of our production bases. These include The Voice, The Voice Kids, Pawn Stars, Come Dine with Me, I'm A Celebrity... Get Me Out Of Here!, Hell's Kitchen, Keeping the Nation Alive, The Chase, 5 Gold Rings, This Time Next Year, Big Star's Little Star and Love Island.

### Investing in our digital content capabilities

Through building our digital assets and content we are increasingly able to engage with younger audiences.

While demand from traditional broadcasters continues to be strong we are also seeing an increasing demand from OTT platforms for original long-form content, secondary rights and short form digital content.

We are distributing more content to OTT players through Global Entertainment as well as co-producing and jointly commissioning a number of programmes with OTT platforms. We currently have over 200 programme supply agreements in place with the major OTT platforms, including co-producing Robozuna, an original kids cartoon for Netflix and Harlots, which we are co-producing for Hulu in the US and ITV Encore in the UK.

To further expand our digital assets we are increasing our exposure to new types of content, particularly youth focused programming, and new types of distribution. In 2016 we made an investment with Sky in Ginx TV, an eSports channel for the UK and international markets. We also agreed a partnership with global youth content company AwesomenessTV and made minority investments in two 'digital first' youth content studios in the US, New Form

and RocketJump, all of which helps to improve ITV Studios content capability as well as provide new programming for the ITV Hub. This is as well as our existing investments in US digital content companies Believe Entertainment Group and Indigenous Media.

### 2017 and beyond

We have a strong international pipeline of new and returning programmes and brands. Our UK and US pipeline of scripted programmes has never been stronger and we have a very good slate of new entertainment shows coming through this year. This gives us confidence that in 2017 we will deliver good organic revenue growth and we have already secured over £150 million more revenue than at this point last year. However, with increased investment, particularly in US scripted and the reversal of the one-off benefit of the The Voice of China in 2016, ITV Studios profits in 2017 are likely to be broadly in line with 2016.

ITV is now a global business and going forward we aim to use our scale to grow our market share and expand the number of networks and OTT players we work with, particularly in the US. We will further strengthen our creative capability, both organically and through partnerships and acquisitions, as we continue to reduce our reliance on the UK market.

### Key new and returning scripted programmes

### Key new and returning entertainment programmes

Pictured: Love Island is a reality programme produced by ITV Studios UK. It had huge success on-screen and online, averaging 1.3 million viewers on ITV2 across the series and around 1 million requests on the ITV Hub per episode. 64% of the linear audience were 16-34s. Internationally, Love Island has been broadcast in 15 countries with the format being produced by ITV Studios in three countries.

## **Strategic Priority 3:**

### **Build a global pay and distribution business**

**The environment in which we operate is constantly evolving and we are seeing significant changes in digital media and consumer behaviour.**

**ITV, as a creator, owner and distributor of sought after content, is well positioned to take advantage of the opportunities that arise from these changes as we seek to further monetise our content.**

**ITV continues to explore and trial new ways, both free and pay, to distribute content to broadcasters and platform owners as well as directly to consumers.**

**■ See page 30 for more**

## Strategic Priority 3 continued

### Building our pay offering in the UK and internationally

As we look to build our pay offerings we are developing a range of SVOD services to target direct to consumer pay revenues. We have recently announced the creation of a joint venture with the BBC, through BBC Worldwide, to create BritBox US, an ad-free SVOD service offering unrivalled content from both broadcasters. ITV already has a strong advertising VOD proposition in the ITV Hub but the launch of BritBox gives us access to the fast growing SVOD market in the US.

BritBox US, which is a direct to consumer service, will launch in the first half of 2017 with the most comprehensive SVOD collection of British content available in the US. The service will feature drama premieres never seen before in the US, a selection of soaps and series that will be available 24 hours after their UK broadcast, and a collection of British classics. ITV and BBC each have a 40.5% voting share, while US cable network AMC has a 19% non-voting minority interest.

Over the last few years we have also established a number of smaller pay propositions. We now own a controlling

stake in Cirkus, a best of British SVOD service in Sweden, Norway, Finland and Iceland which will shortly launch in Germany on Amazon. Cirkus has developed a second SVOD service, Curio, due to launch in Norway in 2017, which is focused on high-quality documentaries. We have also set up ITV Essentials, an online service for expats available in 13 countries and ITV Choice, a general entertainment channel for emerging markets available in 100 countries.

We are continuing to develop ITV Hub+, our ad-free subscription version of ITV Hub. In 2017 we will roll out ITV Hub+ onto more platforms and we have already added new functionality, such as download on iOS devices for off-line viewing.

Looking ahead it is our intention to roll out our best of British SVOD services internationally through BritBox and our other SVOD services, taking advantage of the significant global demand for UK content and changing viewing habits.

### Further developing our pay revenues

ITV's pay revenues again grew strongly as we continue to earn revenue from pay television through licensing our channels and content across multiple platforms.

In the UK our pay business includes deals with Sky and Virgin for our HD digital channels and catch-up VOD, ITV Encore for Sky and a deal to make ITV's content available through Sky's connected platforms. We also agreed a new deal with Vodafone to carry ITV's free-to-air (FTA) channels and VOD for their customers, as well as with TV Player to carry ITV's FTA channels.

### Expanding our global distribution network

Global Entertainment, the distribution arm within ITV Studios, delivered revenue growth of 14% to £179 million in 2016 (2015: £157 million) as we continue to drive value from the investment we have made in creating and owning rights to quality content with international appeal. Excluding the benefit of foreign exchange, Global Entertainment grew 6% to £166 million.

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**Global Entertainment revenue growth £m**  
**£179m**

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ITV's distribution business has over 40,000 hours of television and film content that we distribute globally to over 3,500 broadcasters and platforms. In 2016 we continued to enhance our distribution network, benefiting from ITV Studios' continued growth, increased rights ownership both within ITV Studios and with third parties and strong network relationships, selling to around 190 countries around the world. Through our ongoing investment in ITV Studios, we are building an extensive and balanced portfolio of scripted and unscripted programmes in the key genres of drama, entertainment and factual entertainment. We are using our strong cash flows not only to fund and create new content from ITV Studios, but also to invest in third-party producers and their content from all over the world, such as Harlots and Schitt's Creek.



Pictured left to right: Big Star's Little Star is a primetime entertainment programme on ITV. The format is selling well internationally with six format sales in 2016; Endeavour is a detective based drama produced by Mammoth Screen, it has been sold to 180 countries internationally.

Our scripted programmes such as Victoria, Poldark, Endeavour, Vera and The Good Witch, are all selling to over 150 countries. Our entertainment and factual entertainment programmes also continue to sell well, including titles such as Come Dine With Me, The Voice, The Voice Kids, The Chase, Hell's Kitchen, Autopsy and River Monsters.

In 2016 we sold 80 different formats around the world, 24 of which were produced by ourselves or other producers in three or more countries.

We are increasingly doing multi-year and multi territory deals with OTT platforms including Netflix, Amazon, Hulu and a range of smaller platforms. As well as library deals, we are distributing close-to-broadcast or first broadcast rights to these OTT platforms across territories. We currently have over 200 content supply agreements in place, including Thunderbirds Are Go! series one and two for Amazon in the UK, US, Germany and India, as well as The Good Witch, Mr Selfridge and Poldark for Netflix.

We are also co-producing and jointly commissioning a number of programmes with OTT platforms, including Robozuna for Netflix and Harlots for Hulu.

#### Retransmission fees

We are continuing to drive the debate around the implementation of retransmission fees in the UK to ensure that we are fairly compensated for our investment in content for the main channel when it is carried on pay TV platforms. We see the publication of the Digital Economy Bill proposing the repeal of Section 73 as an important step forward in achieving retransmission fees.

#### 2017 and beyond

As we continue to rebalance ITV and diversify our revenue streams, we are further developing our pay and distribution business to drive more value from our investment in content and reflecting the changes in the way people are consuming content. We are exploring new ways

to package and sell our content to take advantage of demand for quality content in the UK and internationally from consumers, broadcasters and platform owners.

A particular focus for 2017 will be the launch of BritBox US and in time we will look to further roll out our SVOD services internationally as we continue to explore even more ways to drive value from our content.

Pictured right: Thunderbirds Are Go! has been sold to over 100 countries which includes a pan-territory deal with Amazon.

# Performance Dashboard

Demonstrating continued progress against our strategic priorities.

## Key Performance Indicators across all three priorities

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.

- **Adjusted EBITA**
- **Adjusted EPS**
- **Profit to cash conversion**
- **Non-NAR revenue**
- **Employee engagement**

Strategic priority	2016 performance
<b>1</b> <b>Maximise audience and revenue share from free-to-air broadcast and VOD business</b>	<ul style="list-style-type: none"> <li>• Share of broadcast up to 47.4% in 2016</li> <li>• ITV main channel up 3% and ITV Family SOV up 1%</li> <li>• ITV delivered 99% of commercial audiences over five million and 95% of audiences over three million</li> <li>• Delivered most watched soap, factual programme and sporting event</li> <li>• Aired seven of the top ten new dramas</li> <li>• ITV2 and ITV3 largest digital channels in the UK</li> <li>• Long-form video requests up 24% and online viewing up 42% on the ITV Hub</li> <li>• Over 23 million downloads of ITV Hub app and 17 million registered users, including over 50% of 16 to 24 year olds</li> <li>• Significant digital engagement with around 100 million votes across our big entertainment shows primarily via our programme apps</li> </ul>
<b>2</b> <b>Grow an international content business</b>	<ul style="list-style-type: none"> <li>• ITV Studios again delivered good growth with total revenue up 13% including acquisitions</li> <li>• Produced and delivered around 7,800 hours of original content, almost double since 2010</li> <li>• ITV Studios' share of ITV main channel output increased to 63%</li> <li>• 20% growth in Off-ITV production revenue in the UK</li> <li>• Continued investment in creative pipeline with 228 new commissions and 188 recommissions</li> <li>• 50% of ITV Studios total revenue generated outside the UK</li> <li>• A top indie producer in Europe and the US</li> <li>• Co-producing and jointly commissioning a number of programmes with OTT platforms</li> <li>• Selective investments in 'digital first' content businesses including New Form, RocketJump and Ginx</li> </ul>
<b>3</b> <b>Build a global pay and distribution business</b>	<ul style="list-style-type: none"> <li>• Announced new joint venture with the BBC, BritBox, our SVOD service in the US</li> <li>• Cirkus expanded to Germany on Amazon</li> <li>• ITV Essentials and ITV Choice SVOD platforms continue to deliver our content to expats and emerging markets</li> <li>• Development of the ITV Hub+, ITV's ad-free subscription version of the ITV Hub</li> <li>• A leading European distributor of content with over 40,000 hours of content</li> <li>• Strong drama content including Victoria, Poldark, Endeavour and The Good Witch all selling to over 100 countries</li> <li>• 80 different formats sold around the world, including 24 formats made in three or more countries, 14 of which are produced by ITV Studios in three or more countries</li> <li>• Multi territory and multi year content deals with OTT platforms, with over 200 programme supply agreements in place</li> </ul>

Pictured left to right: 24 Hours in A&E is a medical documentary produced by The Garden, part of ITV Studios UK, for Channel 4 and is in its eleventh series; Grantchester is a returning drama for ITV averaging 7.1 million viewers across series two in 2016.

## Focus for 2017

## Key Performance Indicators

- Continue to strengthen on-screen viewing in key demographics
- Further invest in our content, channels and brands to maintain our unique scale
- Grow our share of total television and VOD advertising
- Continue to maximise the value of our programme brands through sponsorship, interactivity and brand extensions
- Further invest in the quality and distribution of the ITV Hub to drive valuable online audiences
- Develop new and more targeted advertising opportunities
- Enhance engagement with our shows online with social media and programme apps
- Further expand our digital assets and capabilities to increase our exposure to youth focused content and distribution

- ITV Family SOV
- ITV Family SOCI
- ITV Family share of broadcast
- Percentage of commercial audiences over three million and over five million
- Total long-form video requests

See page 20 for more on Strategic Priority 1

- Build further scale internationally
- Continue to develop intellectual property in key creative markets to exploit growing worldwide demand
- Build a pipeline of programmes across key genres, particularly scripted
- Develop more 16 to 24 focused content
- Attract and retain key creative talent
- Continue to look at acquisitions, investments and talent deals

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

See page 24 for more on Strategic Priority 2

- Launch of BritBox in the US
- Focus on the further roll out of BritBox internationally
- Launch Curio SVOD service in Norway
- Further enhance the capabilities and distribution of ITV Hub+
- Continue to trial direct to consumer pay opportunities
- Further grow our international distribution network with high-quality content
- Maximise the use of our strong cash flows to finance the production of high-profile dramas that return and travel internationally
- Invest in developing third-party distribution deals
- Secure retransmission fees in the medium term

- Total long-form video requests
- Number of new commissions for ITV Studios

See page 28 for more on Strategic Priority 3

# Alternative Performance Measures

The Strategic Report includes both statutory and adjusted measures, 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 on a day-to-day basis.

Our APMs and KPIs are aligned to our strategy 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 of intangible assets acquired through business combinations and net financing costs, are made to remove their effect from adjusted profit before tax and EPS. The tax effect of all these adjustments is reflected to calculate an 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 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.

### Exceptional items

This includes acquisition related costs (further detail below), reorganisation and restructuring costs, non-recurring legal costs, gains or losses on disposal of non-core assets and impairment of intangible assets. 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. 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 lock in 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 on a statutory basis is part of our reported results. However, we exclude all consideration of this type from adjusted profit after tax and adjusted EPS as, in our view, these items are part of the capital transaction. Page 44 of the Financial and Performance Review explains this further.

#### Restructuring and reorganisation costs

These arise from Group-wide initiatives to reduce the ongoing cost base and improve efficiency in the business. They are non-recurring costs and because of their size and nature, are excluded from our adjusted measures.

### Amortisation and impairment of intangible assets

Amortisation and impairment of intangible assets acquired through business combinations is 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.

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	2016 Statutory £m	2016 Adjustments £m	2016 Adjusted £m	2015 Statutory £m	2015 Adjustments £m	2015 Adjusted £m
EBITA <sup>1</sup>	857	28	885	842	23	865
Exceptional items (operating) <sup>2</sup>	(164)	164	–	(109)	109	–
Amortisation and impairment of intangible assets <sup>3</sup>	(89)	77	(12)	(67)	58	(9)
<b>Operating profit</b>	<b>604</b>	<b>269</b>	<b>873</b>	<b>666</b>	<b>190</b>	<b>856</b>
Net financing costs <sup>4</sup>	(51)	25	(26)	(31)	18	(13)
Gain on sale of non-current assets and subsidiaries (non-operating exceptional items)	–	–	–	6	(6)	–
<b>Profit before tax</b>	<b>553</b>	<b>294</b>	<b>847</b>	<b>641</b>	<b>202</b>	<b>843</b>
Tax <sup>5</sup>	(100)	(60)	(160)	(139)	(38)	(177)
<b>Profit after tax</b>	<b>453</b>	<b>234</b>	<b>687</b>	<b>502</b>	<b>164</b>	<b>666</b>
Non-controlling interests	(4)	–	(4)	(7)	–	(7)
Loss from discontinuing operations (net of tax)	(1)	1	–	–	–	–
<b>Earnings</b>	<b>448</b>	<b>235</b>	<b>683</b>	<b>495</b>	<b>164</b>	<b>659</b>
Shares (million), weighted average	4,010	–	4,010	4,006	–	4,006
<b>EPS (p)</b>	<b>11.2p</b>		<b>17.0p</b>	<b>12.4p</b>		<b>16.5p</b>

- £28 million adjustment relates to production tax credits which we consider to be a contribution to production costs and working capital in nature rather than a corporate tax item.
- Exceptional items largely relate to acquisition costs, primarily employment linked consideration, as well as restructuring costs and pension curtailment cost.
- £77 million adjustment relates to amortisation on acquisition related intangible assets. We include only amortisation on purchased intangibles such as software within adjusted PBT.
- £25 million adjustment is primarily for non-cash interest cost. This provides a more meaningful comparison of how the business is managed and funded on a day-to-day basis.
- Tax adjustments are the tax effects of the adjustments made to reconcile PBT and adjusted PBT.

**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.

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

Twelve months to 31 December	2016 £m	2015 £m
External revenue (Reported)	3,064	2,972
Internal supply	463	411
<b>Total revenue (Adjusted)</b>	<b>3,527</b>	<b>3,383</b>

**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	2016 £m	2015 £m
Net debt	(637)	(319)
Expected contingent payments on acquisitions	(328)	(303)
Net pension deficit	(328)	(176)
Operating leases	(344)	(346)
<b>Adjusted net debt</b>	<b>(1,637)</b>	<b>(1,144)</b>
<b>Adjusted net debt to adjusted EBITDA</b>	<b>1.8x</b>	<b>1.3x</b>
<b>Reported net debt to adjusted EBITDA</b>	<b>0.7x</b>	<b>0.4x</b>

**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, 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 cash generation used for working capital management. It is calculated as adjusted cash flow as a proportion of adjusted EBITA. Profit to cash conversion is based on adjusted measures to reflect the cash generation of our underlying business after operating capex, excluding the effect of exceptional items, non-cash expenses such as depreciation and share based payments.

# Key Performance Indicators

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

**These KPIs are the key measures of success and cover all three strategic priorities. Our KPIs have not changed over the year.**

## Our strategic priorities

Maximise audience and revenue share from free-to-air broadcast and VOD business  
Grow an international content business  
Build a global pay and distribution business

Financial	<b>Adjusted EBITA</b>	<b>Definition</b> This is the key profitability measure used across the whole business. Earnings before interest, tax and amortisation (EBITA) is before exceptional items and has been adjusted to include the benefit of production tax credits. It reflects our performance in a consistent manner and in line with how the business is managed and measured on a day-to-day basis.
	<b>Adjusted EPS</b>	<b>Definition</b> 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 before exceptional items, impairment of intangible assets, amortisation of intangible assets acquired through business combinations, net financing cost adjustments and tax adjustments 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.
	<b>Profit to cash conversion</b>	<b>Definition</b> Profit to cash conversion represents the proportion of adjusted EBITA converted into a measure of adjusted cash flow (defined as cash generated from operations before exceptional items less cash related to the acquisition of operating property, plant and equipment and intangible assets).  This primarily reflects the effectiveness of our working capital management and capital expenditure control. Our aim is to keep profit to cash conversion as high as possible.
Non-Financial	<b>Non-NAR revenue</b>	<b>Definition</b> 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, Pay 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.
	<b>Employee engagement</b>	<b>Definition</b> Continuing to develop a creative, commercial and global organisation requires high-quality employees who are engaged in the work that they do, and are committed to the strategy.  Employee engagement measures pride in the work we do, pride in working for ITV and also what we say about our programmes and services.

**Our strategic priorities**

Maximising  
Growing  
Building

**Performance**

In 2016 adjusted EBITA increased by £20 million or 2% as a result of a 3% increase in total external revenue and our continued focus on costs. Revenue growth was primarily a result of a 23% increase in high margin Online, Pay & Interactive revenues and a 13% increase in ITV Studios revenue driven by acquisitions, the UK business and Global Entertainment. This was partially offset by a decline in NAR of 3%.

Group EBITA margin remained flat at 29%.

**Performance**

Adjusted EPS increased by 3% from 16.5p to 17.0p. This is higher than the corresponding increase in adjusted EBITA of 2% as a result of a lower adjusted effective tax rate in the year of 19% (2015: 21%).

**Performance**

Profit to cash has increased in the year to 97% and reflects our continued tight management of working capital balances and our disciplined approach to cash and costs.

**Performance**

Non-NAR revenue increased by 11% in 2016 as we continue to rebalance the business away from a reliance on NAR. We delivered strong growth in ITV Studios revenues and in Online and Pay revenues. Non-NAR revenues were 53% of total revenue which has increased significantly since 2009 when it was 40%.

**Performance**

Employee engagement was once again high at 90% which is above the benchmark score for companies of a similar size and nature to ours of 83%. The participation rate was 80%.

# Key Performance Indicators continued

Strategy	<b>ITV Family Share of viewing</b>	<p><b>Definition</b></p> <p>To help deliver Strategic Priority 1 through maintaining a strong and healthy Broadcast &amp; Online business, ITV Family SOV is a key indicator of 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 aims at least to maintain the ITV Family SOV.</p>
	<b>ITV Family Share of commercial impacts</b>	<p><b>Definition</b></p> <p>Part of delivering Strategic Priority 1 and maintaining our position as a leading commercial broadcaster is to have a strong ITV Family share of commercial impacts (SOCl). SOCl is the trading currency in the television advertising market, and since it only covers commercial television it does not include the BBC. This is the share of total UK television commercial impacts which is delivered by ITV's family of channels. An impact is one viewer watching one 30 second commercial. We aim to maximise our SOCl. SOCl provides an overall measure of viewing performance, however because advertisers are buying scale and breadth of audience, SOCl is not necessarily a direct indicator of advertising performance.</p>
	<b>ITV Family Share of broadcast</b>	<p><b>Definition</b></p> <p>ITV's share of UK television spot advertising revenue is known as its share of broadcast. To maximise revenue from our free-to-air business, which is a key component of Strategic Priority 1, we aim to continue to maximise our share of broadcast and to outperform the UK television advertising market.</p> <p>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. Our SOB has always been based on our estimate of the pure spot advertising market, excluding sponsorship, VOD and for 2016 going forward, we also exclude all broadcaster's self promotion revenues on their own channels because this year has seen a significant increase which further distorts the external spot market.</p>
	<b>Total long-form video requests</b>	<p><b>Definition</b></p> <p>A key part of our strategy is to maximise audience share from our free-to-air broadcast and increasingly from our VOD business.</p> <p>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.</p>
	<b>Number of new commissions for ITV Studios</b>	<p><b>Definition</b></p> <p>To deliver Strategic Priority 2 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.</p>
	<b>Percentage of ITV* output from ITV Studios</b>	<p><b>Definition</b></p> <p>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.</p> <p>The proportion of the total spend on original commissions on ITV transmitted in the year, delivered by ITV Studios demonstrates this and our aim is to increase ITV Studios' supply of programmes to ITV to allow us to deliver against all three of our Strategic Priorities.</p>

\* ITV main channel only



**Our strategic priorities**

Maximising  
Growing  
Building

**Performance**

ITV Family SOV grew 1% in 2016 to 21.4%. Within this, the ITV main channel saw an increase of 3% benefiting from the Six Nations Rugby Championships and the European Football Championships along with strong performances in Drama, Entertainment and Daytime. The digital channels were down 4% in the year mainly across ITV3 and ITV4. ITV2 viewing amongst 16-34s continues to grow, up 25% in the year and it remains the most popular digital channel in the UK based on SOV.

ITV also continues to deliver mass audiences and in 2016 delivered 99% of all commercial audiences over five million and 95% over three million.

**Performance**

ITV Family SOCI declined by 1%, with the main channel up 3%. The digital channels SOCI was down 6% and was impacted by the launch of a number of new free-to-air digital channels at the end of 2015 and first half of 2016. In addition, ITV2 is now more targeted towards younger viewers with SOCI amongst 16-34s up 24% in the year.

**Performance**

In 2016 we gained market share again, increasing our share of broadcast to 47.4% which includes UTV and excludes self promotion by all broadcasters. 2015 share of broadcast excluding self promotion, would have been 46.8% rather than 46.1%.

We have again gained share 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, as well as the benefit of UTV.

**Performance**

Long-form video requests were up 24% in 2016 to 1,025 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 42% in 2016.

**Performance**

There was strong growth in the number of new commissions for ITV Studios in 2016, up 37% to 228. 102 of these new commissions have come from the UK business, with the remaining 126 coming from our 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 63% in 2016 driven by new dramas in the year. Many of these ITV Studios programmes broadcast in 2016 have now been distributed around the world including Victoria, Cold Feet, Thunderbirds Are Go!, The Chase and I'm A Celebrity... Get Me Out Of Here!

# Financial and Performance Review

The benefit of rebalancing the business is evident in these results with growth in non-NAR revenue delivering a good performance and making ITV a more resilient business.

“

We continue to be highly cash generative which, together with our ongoing focus on costs, places us in a strong position to continue to invest in opportunities to grow the business and deliver sustainable returns to shareholders

The strategy we set out a number of years ago was to rebalance the business and reduce our reliance on spot advertising. This strategy is the right strategy for ITV and the progress we have made is clearly evident in our performance for 2016, delivering 3% external revenue growth and 3% increase in adjusted EPS, in a year where spot advertising revenue declined 3%. We continue to be highly cash generative which, together with our ongoing focus on costs, places us in a strong position to continue to invest in opportunities to grow the business and deliver returns to shareholders.

Twelve months to 31 December – on a continuing basis	2016 £m	2015 £m	Change £m	Change %
NAR	1,672	1,719	(47)	(3)
Total non-NAR	1,855	1,664	191	11
<b>Total revenue</b>	<b>3,527</b>	<b>3,383</b>	<b>144</b>	<b>4</b>
Internal supply	(463)	(411)	52	13
<b>Group external revenue</b>	<b>3,064</b>	<b>2,972</b>	<b>92</b>	<b>3</b>
<b>Adjusted EBITA</b>	<b>885</b>	<b>865</b>	<b>20</b>	<b>2</b>
Group adjusted EBITA margin	<b>29%</b>	<b>29%</b>		
<b>Adjusted EPS</b>	<b>17.0p</b>	<b>16.5p</b>	<b>0.5p</b>	<b>3</b>
<b>Adjusted diluted EPS</b>	<b>17.0p</b>	<b>16.3p</b>	<b>0.7p</b>	<b>4</b>
<b>Dividend per share</b>	<b>7.2p</b>	<b>6.0p</b>	<b>1.2p</b>	<b>20</b>
<b>Special dividend</b>	<b>5p</b>	<b>10p</b>	<b>-</b>	<b>-</b>
<b>Net debt as at 31 December</b>	<b>(637)</b>	<b>(319)</b>	<b>(318)</b>	<b>-</b>

The statutory profit before tax and EPS from the Consolidated Income Statement is below. A full reconciliation between our statutory and reported results is included in the Alternative Performance Measures section.

Twelve months to 31 December	2016 £m	2015 £m	Change £m	Change %
Profit before tax	553	641	(88)	(14)
EPS	11.2p	12.4p	(1.2)p	(10)
Diluted EPS	11.1p	12.3p	(1.2)p	(10)

Total ITV revenue increased 4% to £3,527 million (2015: £3,383 million), with external revenue up 3% at £3,064 million (2015: £2,972 million). NAR declined by 3% to £1,672 million (2015: £1,719 million) offset by a 11% growth in non-NAR revenue to £1,855 million (2015: £1,664 million). Non-NAR now accounts for 53% (2015: 49%) of total revenue.

Growth in high margin Online, Pay & Interactive revenue combined with the growth in ITV Studios and our continued focus on costs, delivered a 2% increase in adjusted EBITA to £885 million (2015: £865 million) with the adjusted EBITA margin maintained at 29%. Adjusted EPS grew 3% to 17.0p (2015: 16.5p) while statutory EPS declined by 10% to 11.2p (2015: 12.4p). Statutory EPS declined due to higher exceptional costs, principally employment linked consideration for our acquisitions (primarily Talpa Media) which is included within reported earnings. In addition there were higher restructuring costs associated with our 2017 cost savings and higher amortisation of acquired intangible assets as a result of owning Talpa Media for a full 12 months. These adjustments are explained over the following pages.

Ian Griffiths  
Group Finance Director

We remain focused on balance sheet efficiency and working capital management. Our profit to cash ratio remained strong at 97% and we ended the period with net debt of £637 million (31 December 2015: net debt of £319 million) after the acquisition of UTV, the ordinary and special dividend payments and pension deficit contributions. Increasing net debt is in line with our objective of gradually increasing our balance sheet leverage over time whilst maintaining the financial flexibility to continue to invest in the business.

Cost management remains a key priority and we are on track to deliver the previously announced £25 million reduction in overheads in 2017 across the business. This together with our strong balance sheet, our clear strategy and a more balanced business gives us the flexibility to meet the opportunities and challenges ahead.

#### Adjusted EBITA tracker

#### Broadcast & Online

Twelve months to 31 December – on a continuing basis	2016 £m	2015 £m	Change £m	Change %
<b>NAR</b>	<b>1,672</b>	1,719	(47)	(3)
Online, Pay & Interactive revenue	231	188	43	23
SDN external revenue	67	64	3	5
Other commercial income	162	175	(13)	(7)
<b>Broadcast &amp; Online non-NAR revenue</b>	<b>460</b>	427	33	8
<b>Total Broadcast &amp; Online revenue</b>	<b>2,132</b>	2,146	(14)	(1)
Total schedule costs	(1,050)	(1,045)	(5)	–
Other costs	(440)	(442)	2	–
<b>Total Broadcast &amp; Online adjusted EBITA</b>	<b>642</b>	659	(17)	(3)
<b>Adjusted EBITA margin</b>	<b>30%</b>	31%		

Broadcast & Online revenue declined by 1% to £2,132 million (2015: £2,146 million) with the decrease in NAR largely offset by strong growth in Online, Pay & Interactive.

#### Broadcast & Online revenue tracker

Against a backdrop of uncertainty created by the EU referendum, ITV Family NAR decreased by 3% to £1,672 million (including UTV) (2015: 1,719 million). This decline was less than the decline in our estimate of the television advertising market which excludes broadcaster's self-promotion, sponsorship and VOD revenue, and therefore we again took market share to increase our SOB to 47.4%. Despite the overall fall in NAR we have seen a number of categories hold or increase spend year-on-year, such as Entertainment & Leisure, with increased bookmakers spend around the European Football Championship, Cars, Cosmetics and Toiletries, and Publishing and Broadcasting. Digital brands continue to spend on television to build brand awareness. Retail, Finance and Food have seen declines with supermarkets and traditional banking decreasing spend across the year. Excluding supermarkets, Retail was up 4% year-on-year.

#### 2016 advertising category analysis

- Retail **20%**
- Entertainment & Leisure **10%**
- Finance **9%**
- Food **8%**
- Cosmetics & Toiletries **7%**
- Cars & Car Dealers **6%**
- Publishing & Broadcasting **6%**
- Airlines, Travel & Holidays **5%**
- Telecommunications **4%**
- Household Stores **4%**
- Other **21%**

# Financial and Performance Review continued

As expected, the phasing of NAR was different in 2016 reflecting the timing of major sporting events and a backdrop of uncertainty driven by the EU referendum. The first and second quarter were both flat with strong comparatives in Q1 2015, with a weaker April and May being offset by a strong June as a result of the Euro Football Championships. The third quarter was down 4% impacted by the Rugby World Cup comparatives in 2015 with the fourth quarter down 6% as increased political and economic uncertainty caused advertisers to behave more cautiously.

Looking to 2017 we expect the first four months to the end of April to be down around 6% and as ever the phasing of NAR will be different across the year. Over the full year we again expect to outperform the television advertising market.

On-screen we performed strongly with ITV Family SOV up 1% and a 3% increase in ITV main channel SOV. Going forward we remain focused on our viewing performance and continuing to deliver both mass audiences and key demographics which are highly demanded by advertisers.

Online, Pay & Interactive revenue continued to show strong growth, up 23% to £231 million (2015: £188 million) reflecting further growth in both our online advertising and pay businesses. Audience demand for VOD remains strong as does the demand for online advertising, which supported by our strong on-screen proposition, helped drive a 24% increase in long-form video requests and a 42% increase in consumption on our OTT service the ITV Hub. Interactive revenue was broadly flat, with daytime competitions and entertainment programmes performing well.

As we continue to build our digital business we will be launching our SVOD service BritBox in the US in the first half of 2017. The service is a joint venture with the BBC to provide the Best of British content to subscribers. BritBox US is expected to break even within a couple of years. ITV's share of total joint venture losses/profits will be recognised within results from JVs and Associates.

SDN external revenue, which is generated from licence sales for DTT Multiplex A, increased 5% to £67 million (2015: £64 million). This was driven by the full year impact of the 15th stream which was launched in August 2015 and the 16th stream launched in May 2016.

Other commercial income includes revenue from programme sponsorship, media sales, which relates to commission earned by ITV on sales of airtime for the non-consolidated licensees (UTV until acquisition and STV), as well as revenue from these licensees for ITV content. Other commercial income was down year-on-year at £162 million (2015: £175 million) as a result of a reduction in airtime sales commission and revenue from UTV following ITV's acquisition of the business in February 2016.

Schedule costs were broadly flat year-on-year at £1,050 million (2015: £1,045 million) with higher spend on drama offset by lower spend on sports rights with the absence of the Champions League. Looking into 2017 we expect our total annual programming budget to be around

£1,025 million which includes the previously announced £25m reduction as there is no major sporting event. We expect the programme budget to be weighted to the first half of 2017 driven by the timing of spend on entertainment and drama programmes and will be broadly flat year-on-year for the first half.

Other costs in Broadcast were flat year-on-year as we continue to maintain a tight control on costs across the business.

Overall Broadcast & Online adjusted EBITA was down 3% at £642 million (2015: £659 million) with the strong growth in Online, Pay & Interactive more than offset by the decline in the advertising market. This has led to a 1% reduction in the adjusted EBITA margin to 30% (2015: 31%).

## ITV Studios

	2016 £m	2015 £m	Change £m	Change %
Twelve months to 31 December				
Studios UK	626	547	79	14
ITV America	235	320	(85)	(27)
Studios RoW	355	213	142	67
Global Entertainment	179	157	22	14
<b>Total Studios revenue</b>	<b>1,395</b>	<b>1,237</b>	<b>158</b>	<b>13</b>
Total Studios costs	(1,152)	(1,031)	(121)	(12)
<b>Total Studios adjusted EBITA*</b>	<b>243</b>	<b>206</b>	<b>37</b>	<b>18</b>
Studios adjusted EBITA margin	17%	17%		

\* Includes the benefit of production tax credits.

	2016 £m	2015 £m	Change £m	Change %
Twelve months to 31 December				
Sales from ITV Studios to Broadcast & Online	463	411	52	13
External revenue	932	826	106	13
<b>Total Studios revenue</b>	<b>1,395</b>	<b>1,237</b>	<b>158</b>	<b>13</b>

ITV Studios total revenue grew strongly up 13% to £1,395 million (2015: £1,237 million) driven by Studios UK, Global Entertainment and our acquisitions, as we continue to build scale in creative content markets and strengthen our international portfolio of programmes that return and travel. Total organic revenue, which excludes our current and prior year acquisitions, was down 3%, and excluding foreign exchange movements as well, it was down 7%. This was primarily due to ITV America being impacted by two large shows not returning and the timing of one of our key shows. Good performances by the UK and Global Entertainment helped offset some of this organic decline. Our results include a full 12 months of our prior year acquisitions, Twofour Group, Mammoth Screen and Talpa Media all of which have delivered key programmes during the year.

It is in the nature of our business that not all programmes will return for another series and the timing of programme deliveries will vary. However, since 2010 ITV Studios has shown good organic growth (excluding all currency and all acquisitions) at 4% compound annual growth rate.

Reflecting our growth and increasing scale in key production markets in Europe and the US, 50% of ITV Studios total revenue in 2016 was generated outside the UK. As our Studios business grows internationally, foreign currency movements have an increasing impact on our results. On a constant currency basis, which assumes exchange rates remained consistent with 2015, ITV Studios revenue for 2016 would have been £75 million lower and adjusted EBITA would have been £12 million lower as a result of a stronger US dollar and euro during the year.

Total Studios UK revenue was up 14% to £626 million (2015: £547 million) with 13% growth in internal revenue and 20% increase in external revenue driven by organic growth of 6% and the acquisition of Twofour Group and Mammoth Screen in 2015. Programming sales to ITV Broadcast benefited from new drama deliveries including Victoria, Cold Feet and Tutankhamun along with returning entertainment programmes Saturday Night Takeaway, Love Island and I'm A Celebrity... Get Me Out Here! Off-ITV revenue grew strongly with successful deliveries including The Jump, The Job Interview and Raised by Wolves all for Channel 4, Poldark, Moorside and Witness for the Prosecution for BBC and Agatha Raisin for Sky.

ITV America's total revenue declined 27% to £235 million (2015: £320 million) with organic revenue, excluding acquisitions and foreign exchange, down 35%. This decline was predominantly driven by three shows – Texas Rising and Best Time Ever not returning and the phasing of Hell's Kitchen which did not deliver in 2016 but will return for two series in 2017. Our acquisitions continue to deliver new and returning programmes, including Alone, Killing Fields, Pawn Stars and Fixer Upper. Other successful non-scripted deliveries within ITV America during the year included American Grit, Tiny House Nation and The Real Housewives of New Jersey. Our returning scripted dramas, The Good Witch and Aquarius also aired during 2016 with The Good Witch already recommissioned for a third series in 2017. Aquarius has not been recommissioned for 2017, but we are confident we can replace it with our upcoming slate of new programmes, including three dramas; Sun Records, Somewhere Between and a pilot of Snowpiercer, as we build our US scripted business.

Studios RoW total revenue was up 67% to £355 million (2015: £213 million), with organic revenue down 1%. We benefited from 12 months of Talpa Media, which was acquired on 30 April 2015 and has significantly strengthened our position as a leading international producer and distributor. Talpa Media performed strongly in 2016 and also benefited from a four-year licensing agreement for The Voice of China. We also saw good growth in Australia and Denmark from producing UK formats. 2016 deliveries included I'm A Celebrity... Get Me Out Of Here! and The Chase in Australia and Germany and The Voice Kids and Come Dine With Me in Denmark. We have a strong pipeline of new and returning formats, many of which have been produced by our acquisitions Talpa Media and Twofour Group, which we will be producing in a number of our key production territories including; The Voice, This Time Next Year, Love Island, 5 Gold Rings and Big Star's Little Star.

Global Entertainment revenue increased 14% in the period to £179 million (2015: £157 million), with revenue excluding foreign exchange up 6% as we continued to grow our portfolio of programmes and formats to distribute internationally. Revenue growth was supported by our strong programme slate including Victoria, Poldark, Mr Selfridge, Coronation Street, Thunderbirds Are Go!, Aquarius, Hell's Kitchen and The Chase. We have 10 programmes sold to over 100 countries and 80 different formats we sell internationally. We have also increased distribution of our content to OTT providers including Amazon, Netflix and Hulu both in the UK and internationally.

Reflecting the strong revenue growth in ITV Studios, adjusted EBITA increased 18% to £243 million (2015: £206 million). The adjusted EBITA margin remains unchanged at 17%. In 2016 we invested £160 million in scripted content, which is a similar level to 2015. We finance our larger-scale scripted projects through our strong underlying cashflows. The production cost is 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. We balance our financial exposure through building a portfolio of programmes, with successful international dramas offsetting the risk that we will not recover the full deficit on every show.

Overall, ITV Studios continued to deliver many creative successes in the year. The ongoing investment we are making in our creative pipeline will build upon our existing strong portfolio of programmes and formats and help manage the fluctuations we experience because of the phasing of deliveries. 2017 will see the delivery of many new and returning entertainment and drama programmes and as a result we expect to return to good organic revenue growth over the full year, although the first half will be impacted the timing of deliveries. ITV Studios currently has over £150 million more revenue secured for 2017 than it did this time last year. Adjusted EBITA will be broadly flat year-on-year due to our ongoing investment in scripted content and the reversal of the one-off benefit of The Voice of China in 2016.

#### ITV Studios total revenue tracker

# Financial and Performance Review continued

## Acquisitions – 2012 to 2016 (undiscounted)

Company	Geography	Genre	Initial consideration (£m)	Additional consideration paid in 2016 (£m)	Expected future payments* (£m)	Total expected consideration** (£m)	Expected payment period	Total maximum consideration** (£m)
<b>2016</b>								
UTV	UK & Ireland	Broadcast TV	100	–	–	100		100
<b>Total for 2016</b>			<b>100</b>	<b>–</b>	<b>–</b>	<b>100</b>		<b>100</b>
Total for 2012-2015		Content	760	3	328	1,091	2016-2021	1,805
<b>Total</b>			<b>860</b>	<b>3</b>	<b>328</b>	<b>1,191</b>		<b>1,905</b>

\* Undiscounted and adjusted for foreign exchange. All future payments are performance related. Of £328 million expected future payments, £158 million has been recorded on the balance sheet to date.

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

### Acquisitions

On 29 February 2016 the Group acquired a 100% controlling interest in UTV Limited, which owns the television assets of the former UTV Media PLC, for £100 million. This further strengthens ITV's free-to-air business and, as we have integrated it into ITV it enables us to run a more efficient network. On 30 November 2016, ITV completed the €10 million sale of UTV Ireland to Virgin Media Limited.

We continue to look at potential acquisitions and partnerships as we further build scale in our international content business. 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 strengthen our creative talent and build our reputation as a leading European producer and distributor and leading unscripsted independent production company in the US.

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

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

The majority of earnouts or put and call options are dependent on the seller remaining within the business, the most significant of which is for Talpa Media whereby the total maximum consideration, including the initial payment, 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. Under the deal structure, because all future payments

and €150 million of the initial consideration are directly related to John de Mol remaining with the business, these payments are treated as employment costs and therefore on a statutory basis are part of our reported 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. 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.

Total expected consideration for all our acquisitions has increased by £128 million since 31 December 2015, primarily as a result of our acquisition of UTV Limited and future payments denominated in foreign currency. As at 31 December 2016 the amount recorded on the balance sheet was £158 million of our total expected future payments.

In 2017, around £120 million will be payable on our acquisitions, primarily relating to Talpa Media of which €100 million is due, subject to audit, in March 2017.

### Foreign Exchange Sensitivity

As our Studios business grows internationally, the performance of the business becomes increasingly sensitive to movements in foreign exchange rates, primarily with respect to the US dollar and euro.

The following table highlights ITV's sensitivity 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	±8-10
Euro	±25-30	±3-4

**Net financing costs**

Twelve months to 31 December	2016 £m	2015 £m
Financing costs directly attributable to loans and bonds	(22)	(10)
Cash-related net financing costs	(3)	(3)
Amortisation of bonds	(1)	-
<b>Adjusted financing costs</b>	<b>(26)</b>	<b>(13)</b>
Mark-to-market on swaps and foreign exchange	(3)	(4)
Imputed pension interest	(5)	(10)
Unrealised foreign exchange and other net financial losses	(17)	(4)
<b>Net financing costs</b>	<b>(51)</b>	<b>(31)</b>

Adjusted financing costs increased to £26 million (2015: £13 million) primarily due to 12 months of the seven year €600 million Eurobond issued in September 2015 and new facility fees.

Net financing costs were £20 million higher in 2016 at £51 million (2015: £31 million) primarily due to £17 million increase in the expected future payments on our acquisition portfolio. These relate to those deals structured with a put and call option for the remainder of the equity which are not dependent on the seller remaining within the business. The imputed pension charge decreased as a result of lower interest rates.

**Profit before tax**

Adjusted profit before tax, after amortisation and impairment of intangibles and financing costs, was broadly flat at £847 million (2015: £843 million). Statutory profit before tax decreased by 14% at £553 million (2015: £641 million), primarily a result of the exceptional items described below, an increase in net financial losses within net financing costs and a full 12 months amortisation of the intangible assets acquired in the purchase of Talpa Media, particularly The Voice.

**Profit before tax (PBT)**

Twelve months to 31 December – on a continuing basis	2016 £m	2015 £m
Profit before tax	553	641
Production tax credits	28	23
Exceptional items (net)	164	103
Amortisation and impairment of intangible assets*	77	58
Adjustments to net financing costs	25	18
<b>Adjusted profit before tax</b>	<b>847</b>	<b>843</b>

\* In respect of intangible assets arising from business combinations.

**Exceptional items**

Twelve months to 31 December	2016 £m	2015 £m
Operating exceptional items:		
Acquisition related expenses	(131)	(88)
Reorganisation and restructuring costs	(14)	(13)
Pension curtailment	(19)	-
Other	-	(8)
	<b>(164)</b>	<b>(109)</b>
Non-operating exceptional items	-	6
<b>Total exceptional items (net)</b>	<b>(164)</b>	<b>(103)</b>

Total exceptional items in the year were £164 million (2015: £103 million). Operating exceptional items principally relate to acquisition related expenses which are mainly performance based employment linked consideration, primarily £99 million for Talpa Media which has delivered in line with its first earnout hurdle and will receive €100 million, subject to audit, in March 2017. Reorganisation and restructuring costs includes £14 million of restructuring and redundancy costs across the business in relation to our £25 million overhead cost savings for 2017. The pension curtailment is as a result of the closure of the defined benefit pension sections of the ITV Pension Scheme to future benefit accrual.

**Tax****Adjusted tax charge**

The total adjusted tax charge for 2016 was £160 million (2015: £177 million), corresponding to an effective tax rate on adjusted PBT of 19% (2015: 21%) which is broadly in line with the standard UK corporation tax rate of 20% (2015: 20.25%). We expect this effective tax rate to be sustainable in 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	2016 £m	2015 £m
Tax charge	(100)	(139)
Production tax credits	(28)	(23)
Charge for exceptional items	(15)	(8)
Charge in respect of amortisation of intangible assets*	(11)	(4)
Charge in respect of adjustments to net financing costs	(6)	(3)
<b>Adjusted tax charge</b>	<b>(160)</b>	<b>(177)</b>
<b>Effective tax rate on adjusted profits</b>	<b>19%</b>	<b>21%</b>

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

# Financial and Performance Review continued

## Cash tax

Cash tax paid in the year was £90 million (2015: £117 million), the majority of which was paid in the UK. The cash tax figure is net of production tax credits received in the year. The cash tax payable is lower year-on-year because of the timing of the receipts of tax credits. 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	2016 £m	2015 £m
Tax charge	(100)	(139)
Temporary differences recognised through deferred tax	(13)	29
Prior year adjustments to current tax	(10)	(9)
<b>Current tax, current year</b>	<b>(123)</b>	<b>(119)</b>
Phasing of tax payments – UK	5	(1)
Phasing of tax payments – overseas	5	(1)
Production tax credits – timing of receipt	7	(14)
Cash tax impact of allowable UK pension payments	16	18
<b>Cash tax paid</b>	<b>(90)</b>	<b>(117)</b>

## 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](http://www.itvplc.com)

We have four key strategic tax objectives:

1. Engage with tax authorities in an open and transparent way in order to minimise uncertainty
2. Pro-actively 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. 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 Finance Act 2016.

## EPS – adjusted and statutory

Overall, adjusted profit after tax was up 3% at £687 million (2015: £666 million). After non-controlling interests of £4 million (2015: £7 million), adjusted basic earnings per share was 17.0p (2015: 16.5p), up 3% which is higher than the growth in adjusted EBITA of 2% due to a decrease in our adjusted effective tax rate in the year to 19% (2015: 21%). The weighted average number of shares was broadly in line at 4,010 million (2015: 4,006 million). Diluted adjusted EPS in 2016 was 17.0p (2015: 16.3p) reflecting a weighted average diluted number of shares of 4,029 (2015: 4,035).

## Adjusted EPS p

Statutory EPS declined by 10% to 11.2p (2015: 12.4p) primarily as a result of higher employment linked consideration (largely Talpa Media), which is included within reported EPS but as in prior years, is excluded from adjusted EPS as in our view these costs are part of capital consideration. In addition there were higher restructuring costs associated with our 2017 cost savings and higher amortisation of acquired intangibles assets from a full 12 months of Talpa Media.

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

## Statutory EPS p

## Dividend per share

In 2014, the Board made a commitment to grow the full year ordinary dividend by at least 20% per annum to 2016 to achieve a more normal dividend cover of between 2.0 and 2.5x adjusted earnings per share. In line with this policy and reflecting ITV's good performance in 2016, the Board is proposing a final dividend of 4.8p which equates to a full year dividend of 7.2p, which gives a cover of 2.4x. We have delivered average annual growth of 27% in the ordinary dividend over the last three years.



Reflecting ITV's strong cash generation and the Board's confidence in the business, the Board is proposing a special dividend of 5p per share worth just over £200 million, bringing the total special dividends since 2012 to almost £1.2 billion.

Looking ahead 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. ITV has £1.7 billion of distributable reserves at 31st December 2016 available immediately to support the dividend policy.

#### Dividend per share p (ordinary)

#### Cash generation

##### Profit to cash conversion

Twelve months to 31 December	2016 £m	2015 £m
<b>Adjusted EBITA</b>	<b>885</b>	<b>865</b>
Working capital movement	(20)	(72)
Depreciation	31	27
Share-based compensation and pension service costs	10	17
Acquisition of property, plant and equipment and intangible assets	(44)	(49)
<b>Adjusted cash flow</b>	<b>862</b>	<b>788</b>
<b>Profit to cash ratio</b>	<b>97%</b>	<b>91%</b>

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

ITV continues to be highly cash generative 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 and places us in a good position to continue to invest across the business and deliver sustainable returns to our shareholders.

In the year we generated £862 million (2015: £788 million) of operational cash from £885 million (2015: £865 million) of adjusted EBITA, which equates to a strong profit to cash ratio of 97% (2015: 91%).

To facilitate our working capital management, we have agreed 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 31st December, £35 million of receivables were sold under the purchase agreement.

#### Free cash flow

Twelve months to 31 December	2016 £m	2015 £m
<b>Adjusted cash flow</b>	<b>862</b>	<b>788</b>
Net interest paid	(20)	(9)
Adjusted cash tax	(126)	(127)
Pension funding	(80)	(90)
<b>Free cash flow</b>	<b>636</b>	<b>562</b>

Note: Adjusted cash tax of £126 million is total cash tax paid of £90 million excluding receipt of production tax credits, which are included within adjusted cashflow from operations, as these production tax credits relate directly to the production of programmes.

After payments for interest, cash tax and pension funding, our free cash flow remained strong in the period, up 13% to £636 million (2015: £562 million).

Overall, after dividends (ordinary and special), acquisition related costs, debt repayments and strategic investments, particularly into 'digital first' businesses, we ended the year with net debt of £637 million, compared to net debt of £796 million at 30 June 2016 and net debt of £319 million at 31 December 2015. Our cash generation was weighted towards the second half of 2016 due to the payment of the special dividend and the acquisition of UTV, both of which were paid in the first half of 2016.

#### Net debt tracker

# Financial and Performance Review continued

## Funding and liquidity

### Debt structure and liquidity

Our balance sheet strength, together with our strong free cash flow, enables us to continue to invest in opportunities to grow the business and make returns to our shareholders. To preserve our financial flexibility we have put a number of new facilities in place. We have increased our Revolving Credit Facility (RCF) from £525 million to £630 million and extended it for a further five years to 2021 (with the option to extend to 2023). We have also increased our bilateral financing facility from £175 million to £300 million, which is free of financial covenants. This, along with our two bilateral loans which total £250 million and mature in 2017 (but may be extended until 2018 at ITV's option), provides us with sufficient liquidity to meet the requirements of the business in the medium to long-term. The RCF and bilaterals have the usual financial covenants for these type of financing which are detailed in note 4. Of the total £1,180 million facilities in place, £250 million was drawn down at 31 December 2016.

Our policy is to maintain at least £250 million of available liquidity at any point.

### Leverage

Our objective is to run an efficient balance sheet. We believe maintaining leverage below 1.5x reported net debt to adjusted EBITDA will optimise our cost of capital. At 31 December 2016, reported net debt to adjusted EBITDA was 0.7x (2015: 0.4x). Our priority is to invest to drive organic growth and make acquisitions in line with our strategic priorities as we find the right opportunities to do so. We will balance this investment with attractive returns to shareholders where we have surplus capital.

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 pension deficit under IAS 19 net of gilts held as security against a proportion of those liabilities and the undiscounted operating lease commitments which mainly relate to broadcast transmission contracts and property. This adjusted leverage measure better reflects how the credit rating agencies look at our balance sheet. At 31 December 2016 adjusted net debt was £1,637 million (31 December 2015: £1,144 million) and adjusted net debt to adjusted EBITDA was 1.8x (31 December 2015: 1.3x).

### Financing

We are financed using debt instruments and facilities with a range of maturities. In December 2016 we issued a new €500 million Eurobond at a coupon of 2.00% which was swapped into sterling using a number of cross currency interest rate swaps. The net sterling interest rate payable on these swaps is c. 3.5%. The net sterling proceeds from the bond of £425 million were primarily used to refinance existing debt, including the £161 million bond that matured in January 2017, and will be used to pay the first tranche of the Talpa Media earnout due in 2017.

### Net debt

	2016 £m	2015 £m
At 31 December		
Gross cash	561	294
Gross debt	(1,198)	(613)
Net debt	(637)	(319)

### Borrowings at 31 December 2016 were repayable as follows:

Amount repayable	£m	Maturity
£161 million Eurobond	161	Jan 2017
£100 million Bilateral Loan	100	Jun 2017/2018
€600 million Eurobond	508	Sep 2022
€500 million Eurobond*	425	Dec 2023
Finance leases	4	Various
<b>Total debt repayable on maturity**</b>	<b>1,198</b>	

\* Net of £2 million cross currency swaps

\*\* In addition to above we have a £150 million bilateral loan which was drawn down at 31 December but was offset by deposit on account

At 31st December, the £630 million RCF was undrawn.

### Ratings

We are rated investment grade by two ratings agencies: BBB- (positive 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 transaction that is either a firm commitment for up to five years forward or a highly probable forecast for up to 18 months, depending 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 who oversee governance and approval of Tax and Treasury related policies and procedures within the business.

### Pensions

The net pension deficit for the defined benefit schemes at 31 December 2016 was £328 million (31 December 2015: £176 million excluding UTV pension scheme). The increase reflects a rise in pension liabilities following a significant decrease in corporate bond yields along with an increase in market expectations of long-term inflation. The overall increase in liabilities has more than offset the deficit funding contribution and increase in asset values. The net pension

deficit includes £39 million of gilts 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.

Following the acquisition of UTV Limited in February 2016, the assets and liabilities of the UTV defined benefit pension scheme (which is in a surplus of £1 million) are included within the Group net pension deficit at 31 December 2016.

#### **Actuarial valuation**

The last actuarial valuation was undertaken in 2014. On the basis adopted by the Trustee, the combined deficits as at 1 January 2014 amounted to £540 million.

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 in late 2017 or early 2018.

#### **Net pension deficit tracker**

The total deficit funding contribution for 2016 was £80 million, a £10 million reduction on 2015. This contribution is expected to remain at £80 million in 2017. Further details are included within Note 3.7.

#### **Subsequent events**

**Eurobond repayment:** On 5 January 2017 ITV repaid the £161 million Eurobond as it matured.

**Gurney Productions LLC:** On 6 February 2017, the Group exercised the call option to acquire the remaining 38.5% interest of Gurney Productions LLC.

**London Property Strategy:** On 21 February 2017, ITV announced that following an extensive review of its London property requirements, it intends to seek planning permission to redevelop its South Bank site and build a new London home. The teams currently located in the South Bank site will be relocated to various sites during the redevelopment period. As a result of the review, ITV is also proposing to close The London Studios (TLS) business and use studio capacity in the external market to meet our future business needs.

**Acquisitions:** On 28 February 2017, we announced the acquisition of 65.05% of Tetra Media Studios SAS, the French production business.

#### **Ian Griffiths**

Group Finance Director

#### **Closure to future accrual**

In December 2016, following a member consultation, the Group decided to close the defined benefit sections of the ITV Scheme to future benefit accrual with effect from 28 February 2017. The benefits of these members will become subject to statutory increases from the date of closure until retirement, rather than the capped pensionable salary that previously applied. This change has resulted in a one-off £19 million non-cash curtailment charge which is included within exceptionals.

#### **Deficit funding contributions**

The Group continues to make deficit funding contributions in line with the most recent valuation in order to eliminate the deficits in each section.

# Risks and Uncertainties

As a producer and broadcaster ITV's business carries a number of risks which we manage through our risk management framework.

**This 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. Our continuing success is dependent on how well we understand and manage our risks.**

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

- **Principal risks:**
  - High Impact, Low Likelihood (HILL) risks – of low inherent likelihood but where there would be major consequences were the risk to materialise
  - Strategic risks – would impact the successful execution of the strategy
- **Operational or process level risks**
  - embedded into everyday activity within the organisation

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 out on the following pages. Mitigating actions have been identified for all of the Principal risks. Each Strategic risk has been mapped to at least one of the three key Strategic Priorities and, where possible, assigned key risk indicators. Where appropriate, the key risk indicators are aligned to our key performance indicators (KPIs) on pages 36 to 39. All Principal risks are owned by at least one member of the Management Board.

In line with our Risk Management Framework, the Management and Divisional Boards have reviewed ITV's Principal risks and uncertainties. While these potential risks are predominately unchanged, the Board feels the potential risk of a sustained cyber/viral attack should be viewed as a HILL risk rather than a Strategic risk. The Board believes that this better reflects the nature of this risk because media companies in particular have faced increased frequency and sophistication of cyber-attacks.

## Risk appetite

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

## Three lines of defence

We continue to enhance our three lines of defence model and develop our approach to managing risks. The business divisions own their risks and the shared service functions support them in managing the risks. Internal Audit provide assurance as to the effectiveness of the internal control and risk management systems. In areas which face day to day operational risk, we are continuing to develop our three lines of defence model and to move 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. A new Leading Risk training programme is now in place for ITV Studios

production management which will continue to be developed and introduced to other areas of the business.

## Risk culture

Throughout the year we have continued to focus on and strengthen our risk culture. The Operational Risk Steering Group considers ethical behaviours, governance and compliance with our Code of Conduct. We aim to have an open communication culture where information is shared and issues are escalated as appropriate.

## Assurance

Internal Audit provide 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 review the auditable elements of the HILL, Strategic and operational risks and this review informs the areas and topics that Internal Audit focus on.

**Risk management framework**

Our ongoing process for risk identification, review and management is set out below.

<b>Board</b>		
<ul style="list-style-type: none"> <li>• Sets strategic objectives</li> <li>• Identifies and evaluates Principal risks and uncertainties</li> <li>• Sets our strategy on risk and establishes tolerance levels and risk appetite</li> <li>• Ensures a robust and appropriate risk management framework is in place</li> <li>• Continually monitors the risk management and internal control systems</li> </ul>		
<b>Management and Divisional Boards</b>	<b>Operational Risk Steering Group</b>	<b>Audit and Risk Committee</b>
<p>With support from the Divisional Boards the Management Board has responsibility for:</p> <ul style="list-style-type: none"> <li>• the development and operation of the risk management framework and for the operation of our systems of internal control. This includes: <ul style="list-style-type: none"> <li>– risk identification and assessment and establishing controls and procedures to monitor and mitigate risks.</li> <li>– 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.</li> <li>– 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.</li> </ul> </li> <li>• routinely reviewing and challenging risks and mitigations.</li> </ul>	<p>The Operational Risk Steering Group has responsibility for:</p> <ul style="list-style-type: none"> <li>• considering and setting actions for pan ITV risks and for ongoing monitoring of those actions.</li> <li>• reviewing incident reports and other statistics.</li> <li>• reviewing policies and processes to ensure they remain fit for purpose.</li> <li>• identifying and reporting emerging risks.</li> <li>• identifying and resolving issues.</li> </ul> <p>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 72.</p> <p>The Chairman of the Audit and Risk Committee attends meetings of the Operational Risk Steering Group periodically.</p>	<p>The Audit and Risk Committee has responsibility for:</p> <ul style="list-style-type: none"> <li>• overseeing and advising the Board on strategic risk exposures and future mitigation strategy.</li> <li>• reviewing internal controls and their effectiveness.</li> <li>• reviewing the effectiveness of the risk management framework.</li> <li>• conducting in depth reviews of high risk business areas or processes.</li> <li>• reviewing internal audit actions and management responsiveness to the findings.</li> </ul> <p>Details of risk reviews undertaken during the year are set out in the Audit and Risk Committee report on page 68.</p>
<b>Operation and Assurance – three lines of defence</b>		
<b>1 Business divisions</b>	<b>2 Shared service functions</b>	<b>3 Internal audit</b>
<ul style="list-style-type: none"> <li>• The business divisions own the management of their risks and are responsible for: <ul style="list-style-type: none"> <li>– identifying and reporting local risks.</li> <li>– maintaining risk registers and business continuity plans where appropriate.</li> <li>– reviewing and implementing mitigating actions</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Support the business divisions in managing risks.</li> </ul>	<ul style="list-style-type: none"> <li>• Provide assurance as to the effectiveness of the internal control and risk management systems.</li> </ul>

# Risks and Uncertainties continued

High Impact, Low Likelihood Risks (HILL)		
Potential Risk	Key Drivers	Mitigating Factors and Risk Direction
<b>Financial</b>  <b>ITV loses its credit status or lines of funding with existing lenders or there is an event that impacts financial arrangements/availability of credit.</b>  <b>There is a major collapse in investment values or a material change in liabilities leading to an impact on the pension scheme deficit.</b>	<ul style="list-style-type: none"> <li>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.</li> <li>As a result of macroeconomic changes there can be material movements in the Group's defined benefit pension scheme.</li> <li>For example if the Bank of England announces further Quantitative Easing this may change gilt yields and corporate bonds rates, increasing the scheme's liabilities.</li> <li>Or if there is an unexpected world event that impacts property values and/or impacts share prices.</li> </ul>	<ul style="list-style-type: none"> <li>The business is cash generative and working capital management remains a key focus.</li> <li>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.</li> <li>ITV has a £630 million Revolving Credit Facility with a number of core relationship banks and £250 million of financial covenant free facilities.</li> <li>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.</li> <li>There is regular communication between ITV and the pension trustees.</li> <li>The pension scheme's assets are invested in a diversified portfolio, with a significant amount of the fund held in bonds.</li> <li>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.</li> </ul>
<b>Operational</b>  <b>A significant event removes a number of the key management team from the business on a long-term or permanent basis.</b>  <b>There is a sustained cyber/viral attack causing prolonged system denial or major reputational damage, for example the ability to broadcast our channels or the availability of ITV Hub or ITV loses a significant volume of personal or sensitive data.</b>	<ul style="list-style-type: none"> <li>In the ordinary course of business activities there will be times when the Management Board are in one location or travel together as a group.</li> <li>With increasingly sophisticated technology, the risk of a cyber/viral attack has increased across the world.</li> <li>We are higher risk as a result of operating in a public environment.</li> </ul>	<ul style="list-style-type: none"> <li>There is a business resilience plan in place which includes succession plans or nominated replacements for all key positions within the Company.</li> <li>We continue to improve our ability to monitor, detect and respond to cyber threats internally and through partnerships with specialist security organisations.</li> <li>Mandatory online training modules, awareness campaigns and simplified information security policies have been implemented for employees.</li> <li>There are disaster recovery and incident management plans in place for high-risk areas of the business to help deliver a rapid and flexible response. These are kept under review by the Audit and Risk Committee.</li> </ul>

**Our strategic priorities**

Maximising

Growing

Building

**Risk direction (after mitigation)**

Increased risk

Risk stayed the same

Reduced risk

**High Impact, Low Likelihood Risks (HILL)**

Potential Risk		Key Drivers	Mitigating Factors and Risk Direction
<b>Reputation</b>	<b>An event with public interest that causes significant reputational and brand damage.</b>	<ul style="list-style-type: none"> <li>Through the Broadcasting and Studios businesses, the Company operates in a public environment.</li> </ul>	<ul style="list-style-type: none"> <li>ITV has a crisis management policy and process in place and is increasing emphasis on its development and application.</li> </ul>
	<b>There is a major health and safety incident that results in a significant loss of human life.</b>	<ul style="list-style-type: none"> <li>As the Company expands this may result in an increase in production hours, and the Company could produce certain types of programming which have higher inherent risks.</li> </ul>	<ul style="list-style-type: none"> <li>ITV has a central health and safety team and health and safety policies and procedures are in place, with appropriate training for employees where required. As we continue to expand internationally these will be kept under review.</li> <li>Regular inspections are undertaken at all sites alongside a programme of appropriate health and safety audits.</li> </ul>
	<b>A major incident results in ITV being unable to continue with scheduled broadcasting for a sustained period.</b>	<ul style="list-style-type: none"> <li>ITV's broadcast technology chain is complex and risk can materialise within ITV or with third parties responsible for servicing the broadcast supply chain.</li> </ul>	<ul style="list-style-type: none"> <li>A risk register of broadcast operations, including key outsourced functions, is in place and reviewed on a regular basis.</li> <li>Major incident scenario testing takes place bi-annually.</li> <li>An incident management process has been agreed and full disaster recovery plans are in place.</li> </ul>
	<b>There is a significant or unexpected change in regulation or legislation.</b>	<ul style="list-style-type: none"> <li>ITV could be affected if there is a change in UK media or intellectual property regulation or legislation; for example if there is a change in advertising restrictions in key categories.</li> <li>Highlighted below are key risks as a result of European Union membership referendum.</li> </ul>	<ul style="list-style-type: none"> <li>ITV regularly communicates with appropriate groups and its legal panel and Ofcom to monitor potential policy, legal and regulatory developments.</li> </ul>

**Impact of exiting the European Union**

**As a result of UK European Union membership referendum, any macro uncertainty may have a knock on impact to the overall health of the UK television advertising market.**

Further there could be wider changes in regulation or legislation within the markets in which we operate. 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 potential barriers against UK companies selling programming to, or investing in, EU companies;
- indirect taxation, direct taxation or transfer pricing regulation;
- restrictions to free movement of our staff.

In addition, given the reciprocal nature of worldwide trade deals, there could also be knock on changes to UK legislation affecting broadcasting and intellectual property laws. For example, there may be pressure to weaken obligations to purchase original content made in the UK or to broaden exceptions from intellectual property protection.

The likelihood or extent of any impact is currently unknown but going forward we will closely monitor and evaluate any potential areas of risk.

# Risks and Uncertainties continued

Strategic risks		
Potential Risk	Key Drivers	Mitigating Factors and Risk Direction
<b>The Market</b>	<p><b>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.</b></p>	<ul style="list-style-type: none"> <li>• The current economic environment is uncertain which may impact demand for advertising. However ITV has made significant progress in rebalancing the business and 53% of our total revenue comes from sources other than TV spot advertising.</li> <li>• Growing non-NAR in areas such as ITV Studios and Online, Pay &amp; Interactive, remains a key part of the strategy.</li> <li>• ITV continues to focus on cash and costs, ensuring the Company has adequate financial liquidity and balance sheet flexibility to continue to invest.</li> </ul>
	<p><b>The television market moves significantly towards pay television as a preferred model, negatively impacting ITV's free-to-air revenue.</b></p>	<ul style="list-style-type: none"> <li>• The current platform mix between free-to-air and linear pay television is around 50% each and has remained at this level over recent years.</li> <li>• ITV continues to support free platforms, including YouView, to keep free-to-air strong.</li> <li>• ITV looks at and evaluates the opportunities for expanding its existing pay services and other pay offerings.</li> <li>• ITV explores other platforms to understand viewing habits and what people are prepared to pay for.</li> </ul>
	<p><b>A faster than expected shift to VOD or other new technologies, such as internet enabled TVs or online only services, causes a sustained loss of advertising revenue.</b></p>	<ul style="list-style-type: none"> <li>• The way people are consuming television is changing and viewers are spending more time watching online. However it remains a small percentage of total viewing at around 7% (2015 internal estimates).</li> <li>• The business continues to develop the ITV Hub VOD services, maximise the distribution of the ITV Hub and grow its VOD advertising business.</li> <li>• ITV monitors the market for new technology and where appropriate explores how ITV can participate.</li> <li>• ITV continues to invest around £1 billion in its programme budget.</li> </ul>
<b>Organisation, Structure and Processes</b>	<p><b>ITV fails to evolve its organisational structure and culture to ensure that it is capable of delivering continued growth from new businesses or revenue streams and fails to attract, develop and retain key creative, commercial and management talent with the skills required for the ongoing business.</b></p>	<ul style="list-style-type: none"> <li>• Employing the best creative, commercial and management talent is key to our success.</li> <li>• Failing to create the right culture to attract and retain this talent increases this risk.</li> <li>• Employee engagement is critical and we continue to monitor it through our employee survey. This once again showed very high engagement at 90%, up on the previous year (2015: 89%).</li> <li>• ITV constantly reassesses the business to create a fit-for-purpose organisation.</li> <li>• Strategic focus on working across the business to embed and strengthen the culture of 'One ITV' way of working.</li> <li>• ITV invests in training and development for all key colleagues in the business.</li> <li>• Succession plans are in place for all key positions within the Company.</li> </ul>



**Our strategic priorities**

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Strategic risks		
Potential Risk	Key Drivers	Mitigating Factors and Risk Direction
<b>Organisation, Structure and Processes</b>	<p><b>There is significant loss of programme rights or ITV fails to identify and obtain the optimal rights packages.</b></p>	<ul style="list-style-type: none"> <li>ITV is focused on both protecting and exploiting existing rights and ensuring that future rights generated accrue to ITV.</li> <li>ITV has a detailed model to evaluate the value of third-party rights to ensure it only buys rights that make economic sense.</li> <li>ITV invests in creating and owning quality content through ITV Studios.</li> </ul>
	<p><b>ITV fails to create and own a sufficient number of hit programmes/formats across its international portfolio of content companies.</b></p>	<ul style="list-style-type: none"> <li>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 scripted content.</li> <li>ITV is focused on hiring and retaining the right key creative talent.</li> </ul>
	<p><b>ITV fails to properly resource, financially, creatively and operationally, the new growth businesses, in particular online and international content.</b></p>	<ul style="list-style-type: none"> <li>Talent management plans have been developed and reviewed to ensure adequate succession planning across ITV.</li> <li>ITV continues to embed and strengthen the culture of 'One ITV' way of working.</li> <li>Lessons from recent investments are captured through post-acquisition reviews.</li> </ul>
	<p><b>ITV remains heavily reliant on legacy systems, which could potentially restrict the ability to grow the business. These systems and processes may not be appropriate for non-advertising revenue or international growth.</b></p>	<ul style="list-style-type: none"> <li>System requirements are kept under review with business growth and system modernisation projects implemented as appropriate.</li> <li>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.</li> <li>Cyber risk mitigations in relation to all of our systems are set out on page 52.</li> <li>This is kept under review by the Audit and Risk Committee.</li> </ul>

# Risks and Uncertainties continued

## Our strategic priorities

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## Risk direction (after mitigation)

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Risk stayed the same

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Strategic risks		
Potential Risk	Key Drivers	Mitigating Factors and Risk Direction
Technology	<ul style="list-style-type: none"><li>As a broadcaster ITV has significant prominence and therefore is exposed to the risk of a high-profile incident.</li></ul>	<ul style="list-style-type: none"><li>ITV has ongoing modernisation projects to ensure transmission and distribution technologies are fit-for-purpose.</li><li>There are disaster recovery and incident management plans in place in high risk areas of the business to help deliver a rapid and flexible response.</li><li>ITV proactively manages its broadcast chain partners and suppliers to ensure the risk of incidents and regulatory breach is minimised.</li></ul>
	<ul style="list-style-type: none"><li>The key to business continuity is having an appropriate risk management framework and the right plans and procedures in place. This is taken very seriously at ITV and the adequacy and robustness of our plans are reviewed and tested.</li></ul>	<ul style="list-style-type: none"><li>Disaster recovery plans are in place with tests conducted periodically on business critical systems.</li></ul>

### Viability Statement

Annually the Board assesses ITV's prospects and risks at its June strategy day. Amongst other topics, the Board reviews the five year financial plan which is based on our Strategic Priorities.

However, in its assessment of viability the Board reviewed the planning horizon and is of the view that a three-year period to 31 December 2019 continues to be most appropriate. The factors the Board considered in adopting this timeframe are as follows:

- Visibility over ITV's broadcast advertising business is relatively short term, as advertising remains cyclical and closely linked to UK economic growth;
- The commissioning process and life cycle of programming gives ITV 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; and
- ITV's business model does not necessitate investment in large capital projects that would require a longer-term planning horizon.

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

- Broadcast & Online experiencing a significant and sharp downturn, similar to the 2008/09 financial crisis, with regards to advertising revenues, but in this case with no immediate recovery. This scenario is cautious as recessions in the advertising market have historically not exceeded a two-year period and have recovered following the downturn;
- A number of key programme brands within ITV Studios 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; and
- A significant change in ITV's pension funding obligations, following the triennial valuation in 2017 resulting in doubling the deficit funding payments.

The 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 have more than three years maturity remaining and all bond repayments due in this period have been refinanced); and that the Group maintains the stated dividend policy.

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 2019. 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:

**Adam Crozier**  
Chief Executive

# Chairman's Governance Statement

## In the Governance section

This section of the Annual Report contains a statement from your 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.

## Dear shareholder,

I was delighted to be appointed your Chairman in May 2016 and I am particularly pleased that governance at ITV is strong as this is essential to protect shareholders' interests and ensure that we can build and sustain the long-term success of the Company.

The Board continues to work closely with the executive team and offers support and robust challenge conducted in a spirit of openness, trust and transparency. The Board is a relatively small but has talented, high-performing and experienced members who are close to the business.

Over the past few years we have undertaken a continuous evaluation process carefully considering the Board's composition so that there is a balanced and diverse combination of creative, commercial and financial talent and experience enabling the Board to add the right value as the business strategy is executed. Across ITV, we work to ensure that the diversity of modern society is reflected at all levels of the business including on the Board so that we have an appropriate balance of skills and experience. Further details about diversity are set out on page 66 and page 99 and further information about the evaluation process is set out on page 66.

I am very pleased that in January this year the Board was unanimous in its decision to appoint Salman Amin as a Non-executive Director. Salman has considerable expertise and knowledge in marketing, advertising and media planning having worked for S C Johnson, PepsiCo and Procter & Gamble and as such will broaden the Board's perspective of the wider international market. He is currently undertaking a comprehensive induction programme.

It is our policy to appoint Non-executive Directors for a three-year period and then consider reappointment on an annual basis following a robust performance evaluation. At the AGM in May 2017 John Ormerod will reach the ninth anniversary of his appointment. The Board has deliberated carefully and has decided to ask John to continue as Chairman of the Audit and Risk Committee for an additional year to enable us to ensure an appropriate successor is in place who has sufficient time as a member of the Committee before he steps down.

“

We are proud of our culture and that our colleagues enjoy working at and are proud to work for ITV and are fully engaged with the business

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Sir Peter Bazalgette  
Chairman

Andy Haste will be stepping down as Chairman and a member of the Remuneration Committee following the AGM in May. He will remain a Non-executive Director and Senior Independent Director. We are pleased that Mary Harris has agreed to become Chair of the Remuneration Committee, having served on the Committee since May 2016. As a consequence Mary will be looking to reduce some of her existing commitments over the coming months.

We carefully review Directors' other commitments 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 65. 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 UK Corporate Governance Code (the Code).

ITV is a diverse business and to ensure appropriate governance it is important that we have the right culture with the right people and attitudes that encourages integrity and transparency. ITV is a talent business and ensuring that we employ great people and allow them creative freedom in the context of tight financial discipline is crucial to our success.

There are various ways that we as a Board consider and gauge the culture of the business. We undertake a number of site visits and have regular formal and informal meetings and discussions with senior executives and other colleagues across the business. Since becoming Chairman I have visited the majority of the regional news rooms, our production centres in Salford and Leeds and our businesses in New York and Paris. In addition, I hold regular round table discussions with colleagues and engage regularly with Senior Executives. This continues regularly as part of our annual board and committee programme. This helps the Board understand the cultural strengths and any weaknesses in the business that may need to be addressed with management. The Audit and Risk Committee also keep compliance with internal control processes under review to help assess behavioural culture across the business.

We are proud of our culture and that our colleagues enjoy working at and are proud to work for ITV and are fully engaged with the business. This is borne out through rigorous, regular surveys designed to gauge employee morale and attitudes. In addition, we have a robust process that enables colleagues to speak up if they have any concerns. We know that colleagues trust this process and are not concerned about using it.

The Board meets regularly for scheduled Board and Committee meetings and has a number of informal meetings to consider specific issues. Each year we hold a two-day off-site strategy meeting where we consider recent and upcoming changes in our business environment, the risks and impacts of such changes on our business and how we might meet these challenges. A brief summary of the matters considered by the Board during the year and our focus for 2017 is set out on page 65.

Our shareholders are important to us and we remain committed to maintaining regular open dialogue and effective communication with you. We believe that continued engagement is highly beneficial to all parties as it helps to build a greater understanding of our investors' views, opinions and concerns.

As a listed company, 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 2016 the Company has complied fully with the provisions of 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](http://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](http://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance)

**Sir Peter Bazalgette**  
Chairman

1 March 2017

# Board of Directors

## Committee membership

- Ⓔ General purpose
- Ⓐ Audit and Risk
- Ⓝ Nomination
- Ⓡ Remuneration

Full biographies can be found on our website:  
[www.itvplc.com/about/board-of-directors](http://www.itvplc.com/about/board-of-directors)

Ⓝ Ⓡ

### **Sir Peter Bazalgette**, Chairman

**Appointed:** June 2013 (Chairman from May 2016)

**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 of the Royal Television Society; Chairman of 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.

Ⓔ

### **Adam Crozier**, Chief Executive

**Appointed:** April 2010

**Key areas of prior experience:** Business turnaround and change management, advertising.

**Current external appointments:** Non-executive Director of Whitbread PLC from April 2017.

**Previous experience:** Non-executive Director of G4S plc, Debenhams plc and Camelot Group plc; Chief Executive of the Royal Mail Group; Chief Executive of the Football Association; Joint Chief Executive of Saatchi & Saatchi Advertising.

Ⓔ

### **Ian Griffiths**, Group Finance Director

**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.

Ⓝ

### **Salman Amin**, Non-executive Director

**Appointed:** January 2017

**Key areas of prior experience:** General management, marketing, advertising and media planning.

**Current external appointments:** Chief Operating Officer, Global Commercial Division, S C Johnson and Son Inc.

**Previous experience:** Chief Operating Officer, North America, 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.

(N)

**Roger Faxon**, Non-executive Director**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 of Mirriad Advertising Ltd; Non-executive Director of Pandora Media Inc; Director of The John Hopkins University.**Previous experience:** Director of EMI Group Global Limited and EMI Group plc; Chief Executive Officer of EMI Group Limited; Chairman and CEO of EMI Music Publishing; Director of 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.

(N) (A) (R)

**Mary Harris**, Non-executive Director**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 of Reckitt Benckiser Group PLC; Non-executive Director and Chairman of the Remuneration Committee for J.Sainsbury plc; Member of the supervisory board of Unibail Rodamco SE.**Previous experience:** Member of the supervisory board of TNT Express NV, TNT NV, Scotch and Soda NV and Irdeto BV; Partner at McKinsey & Company, Amsterdam; various positions worldwide with McKinsey & Company, Maxwell Entertainment Group, Pepsi Cola Beverages and Goldman Sachs & Co.

(N) (A) (R)

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


(N) (A)

**Anna Manz**, Non-executive Director**Appointed:** February 2016**Key areas of prior experience:** Strategy and finance and financial planning.**Current external appointments:** Group Finance Director at Johnson Matthey plc; Governor at Haberdashers' Aske's School Elstree.**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.

(N) (A) (R)

**John Ormerod**, Non-executive Director, Chairman of the Audit and Risk Committee**Appointed:** January 2008**Key areas of prior experience:** Finance, developing strategy and growth.**Current external appointments:** Non-executive Director of Constellium NV; Non-executive Director and Chairman of the Audit Committee of Gemalto NV.**Previous experience:** Non-executive Chairman of First Names Group Limited, Tribal Group plc, Merlin Claims Service Holdings Limited; Senior Independent Director of Misys plc; Trustee of The Design Museum and 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 and 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 at Deloitte & Touche; Regional Managing Partner at Arthur Andersen.

# Management Board

 Full biographies can be found on our website:  
[www.itvplc.com/about/board-of-directors](http://www.itvplc.com/about/board-of-directors)

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**Julian Bellamy**, Managing Director, ITV Studios

**Appointment to the Board:** February 2016

**Previous 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.

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**Mary Fagan**, Group Communications and Corporate Affairs Director

**Appointment to the Board:** January 2011

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

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**Andrew Garard**, Group Legal Director and Company Secretary

**Appointment to the Board:** November 2007

**Previous 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, and responsible for rights management, the ITV archive 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 Global Legal. Prior to that he was Global Head of Legal and Deputy General Counsel of Reuters Group plc in the UK, and before that, General Counsel Asia.

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**Kevin Lygo**, Director of Television

**Appointment to the Board:** August 2010

**Previous 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.

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**David Osborn**, Group HR Director**Appointment to the Board:** October 2014

**Previous 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 whilst working in a variety of businesses including EMI Music, Vodafone, Visa Europe and Marks & Spencer.

**Simon Pitts**, Managing Director, Online, Pay TV, Interactive and Technology**Appointment to the Board:** January 2011

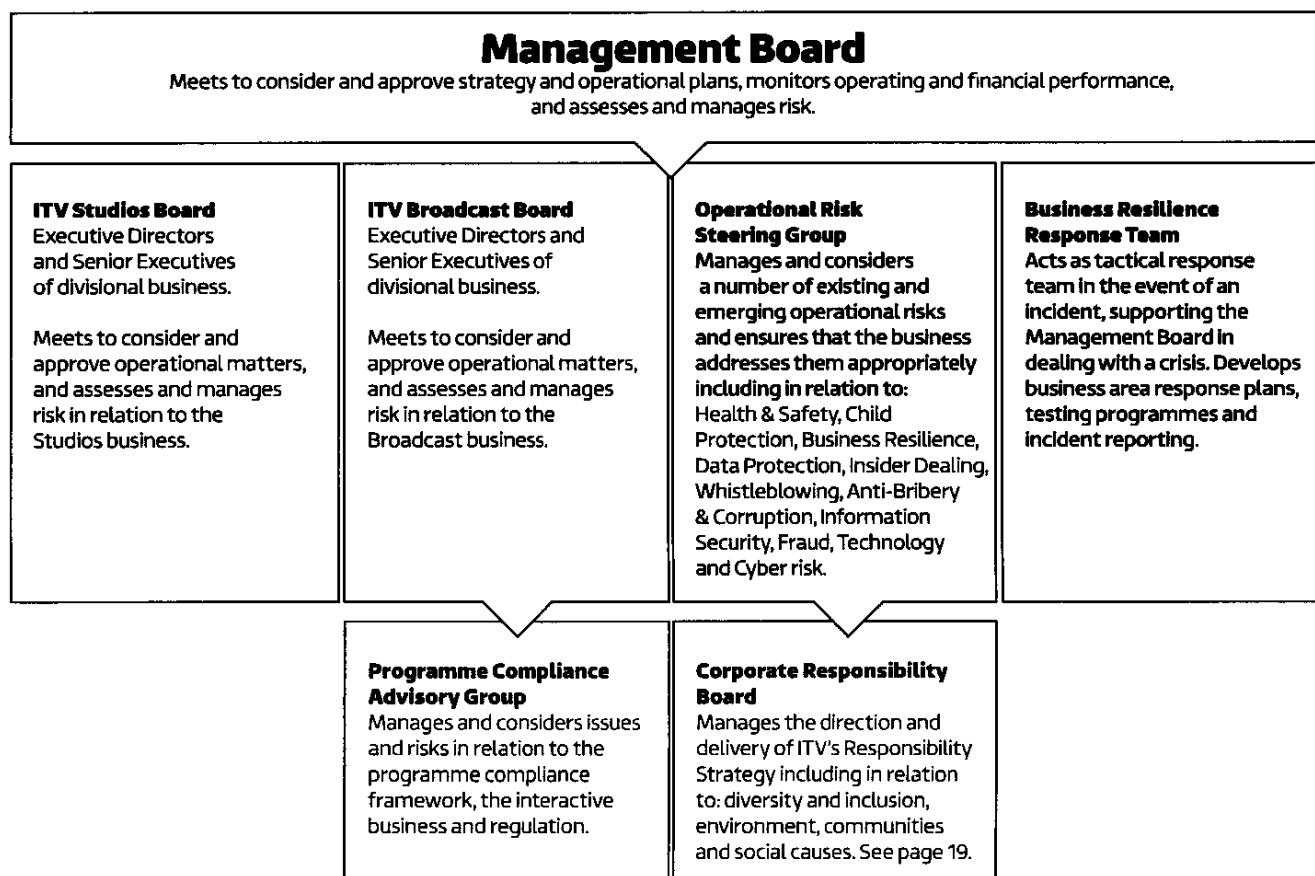
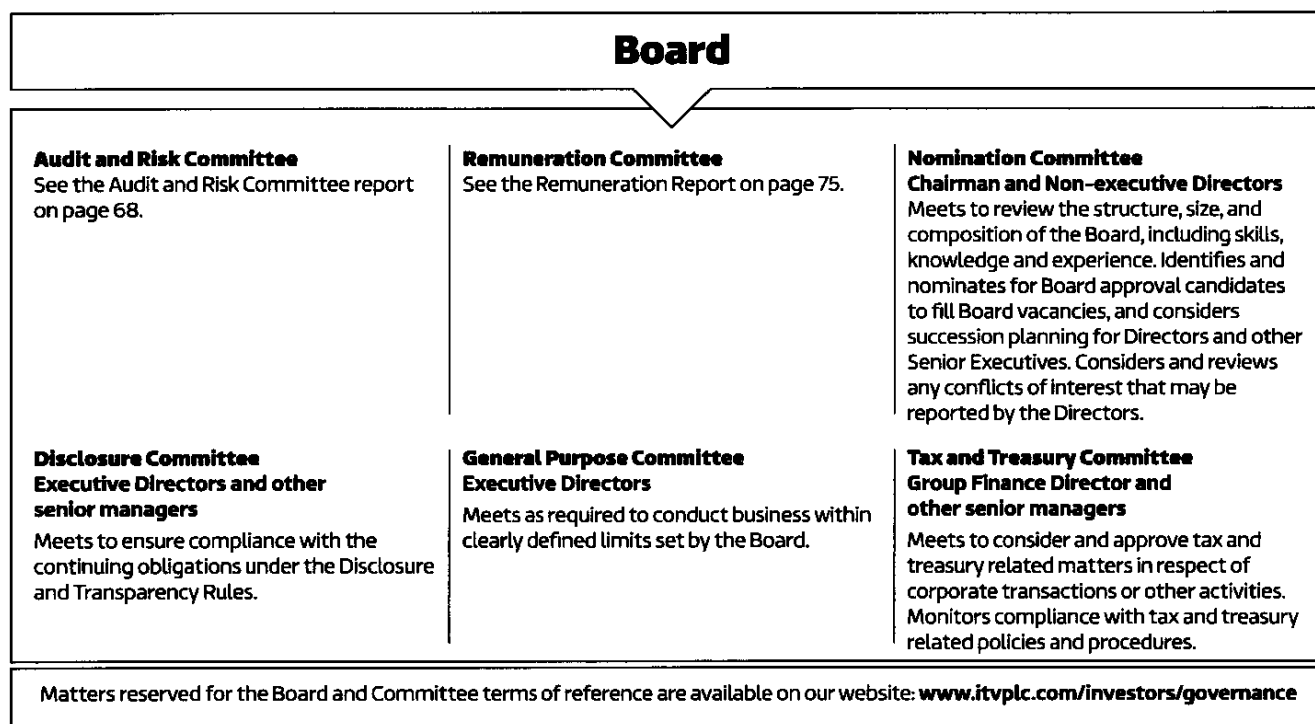
**Previous experience:** Simon joined ITV in 2000 and has held a range of roles across corporate strategy, general management, digital media, policy and regulation, and public affairs. He took on his most recent role in December 2014 with a remit to grow ITV's Online, Pay TV and Interactive businesses alongside continued leadership of the Technology team. He also has responsibility for SDN, sits on the boards of ITN and YouView and is a Trustee of the Royal Television Society. Before ITV Simon worked in the European Parliament in Brussels where he specialised in media issues.

**Kelly Williams** Managing Director, Commercial**Appointment to the Board:** December 2014

**Previous 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.

# Corporate Governance

## Our Governance structure



### Board and Committee meetings

The number of meetings held during the year and attendance of Directors is set out in the table below. The Board agrees an annual schedule of matters it wishes to consider at each of its meetings and those of its committees. The schedule ensures that all relevant matters are considered and receive appropriate attention. Meetings are normally held at one of the London sites or one of the regional or international offices. Board meetings are structured around the following areas:

- Operational and functional updates
- Financial updates
- Strategy and progress against Strategic Priorities
- Risk management framework, key risk areas and risk appetite
- Other reporting and items for approval

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

- Board members and Management Board members
- Chairman and Non-executive Directors
- Senior Independent Director and Non-executive Directors (without the Chairman present)

Our focus during 2016 and some of our plans for 2017 are set out below:

2016	2017
European Union Referendum issues	International expansion of ITV Studios
Broadcast strategy and changes to commissioning	International roll-out of SVOD strategy
Development of creative talent pipeline	Impact of exiting the European Union
Review of the North American market	London property strategy
Digital platform markets and strategy	
Viewing trends, including younger viewers	
International content strategy	
Online, Pay and SVOD strategy	

### Board and Committee membership and attendance

Board and Committee membership and attendance at scheduled meetings in 2016 is set out below.

						Board	Nomination Committee	Remuneration Committee	Audit Committee
	Status	Notes	Date of appointment to the Board	Tenure at 31 December 2016 Y/M	Contract renewal date	10	1	6	6
	Independent								
Sir Peter Bazalgette	Chairman	1	1 June 2013	3/7	1 June 2019	10	1	6	–
Adam Crozier	Executive	2	26 April 2010	6/8	n/a	10	–	–	–
Roger Faxon	Independent		31 October 2012	4/2	31 October 2017	10	1	–	–
Ian Griffiths	Executive	2	9 September 2008	8/4	n/a	10	–	–	–
Mary Harris	Independent	3	28 July 2014	2/5	28 July 2017	10	1	4	6
	Independent								
Andy Haste	SID		11 August 2008	8/5	11 August 2017	10	1	6	6
Anna Manz	Independent	5	1 February 2016	0/11	1 February 2019	9	1	–	5
	Independent								
Archie Norman	Chairman	4	5 January 2010	n/a	n/a	3	1	2	1
John Ormerod	Independent		18 January 2008	8/11	18 January 2017	10	1	6	6

1. Sir Peter Bazalgette was appointed as Chairman with effect from 12 May 2016

2. Executive Directors have rolling service contracts that provide for 12 months' notice on either side.

3. Mary Harris was appointed to the Remuneration Committee with effect from 12 May 2016 and two of the scheduled meetings were held prior to her appointment.

4. Archie Norman stepped down as Chairman and from the Board on 12 May 2016.

5. Anna Manz was appointed to the Board with effect from 1 February 2016 and one of the scheduled Board meetings was held prior to her appointment. She was also appointed to the Audit Committee with effect from 1 May 2016 and one of the scheduled meetings was held prior to her appointment.

6. During 2016 there was full attendance of Directors and Committee members at Board and Committee meetings

# Corporate Governance continued

Terms of engagement for the Non-executive Directors are available on our website.

📄 [www.itvplc.com/investors/governance](http://www.itvplc.com/investors/governance)

During the year the appointments of John Ormerod, Andy Haste and Roger Faxon were extended for a further 12 months.

During the year the Board used executive search firm Zygos to assist with the search process for a Non-executive Director with experience in the advertising industry and with an understanding of the future dynamics in the advertising sales and broader digital arenas. Following a rigorous search process Salman Amin was appointed as a Non-executive Director with effect from 9 January 2017.

## Board effectiveness Experience and independence

Biographical details for the Directors are set out on pages 60 and 61 with more detailed biographies available on our website.

📄 [www.itvplc.com/about/board-of-directors](http://www.itvplc.com/about/board-of-directors)

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

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

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

📄 [www.itvplc.com/investors/governance](http://www.itvplc.com/investors/governance)

## Evaluation

### Internal

The work of the Board Committees is reviewed annually with the support of Group Secretariat. The evaluation takes the form of interviews with 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.

Output is reported to the relevant Chairman and a report of actions is submitted to the Committees and actioned as appropriate.

### External

During 2016 the Board continued its ongoing effectiveness review facilitated by the external firm YSC. The review was aimed at evaluating progress and identifying how the Board can best add value as our strategy develops. The evaluation comprised the following:

- Individual interviews
- Observation of Board sessions
- Discussions with Senior Executives
- Interview with the Company Secretary
- Access to key Board papers

In interviews the Board members were asked to give their views on the challenges facing ITV and what this means for the Board. They were also asked to comment on the strengths and weaknesses of the Board in relation to these needs. Board members who had participated in the earlier review were also asked to reflect upon any changes since then.

A report detailing analysis and recommendations was compiled which was discussed with the Board as a whole and feedback was provided to individual Board members together with additional development sessions.

It was noted that despite ITV's recent success there was a need to ensure that the factors underpinning this success continued to work productively. The Board needs to be sensitive to creating conditions for keeping and attracting talented senior executives to ensure stability and continuity. In view of the dynamic nature of the external environment and the impact of technological change on the industry the Board needs to maintain perspective on opportunities and challenges whilst developing a clear view of its risk appetite and the extent to which success in the next phase will require the exploration of new paths and a greater appetite for risk.

Overall the Board was perceived to be extremely strong and composed of seasoned and experienced individuals who operate in a professional and disciplined manner. The culture of the Board was felt to be open and positive but also challenging. Board members

feel they have a great connection with the business and are used effectively outside of Board meetings.

The Board is perceived to handle regulation and governance in an effective and efficient manner as well as creating time for the discussion of broader strategic and cultural matters.

## Board tenure

The current board tenure is shown in the diagram below.

## Succession planning and diversity

### Succession planning

The Board has agreed a succession planning framework which it regularly reviews to ensure that:

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

This year both John Ormerod and Andy Haste will have served more than six years on the Board. The Board continues to believe that they bring a wealth of knowledge and experience to their deliberations and provide a valuable contribution within their roles. At the AGM in May 2017 John Ormerod will reach the ninth anniversary of his appointment. The Board has deliberated carefully and has decided to ask him to continue as Chairman of the Audit and Risk Committee for an additional year to enable us to ensure an appropriate successor is in place and has sufficient time as a member of the Committee before he steps down.

### Diversity

It is our policy to retain a strong but relatively small board bringing a balance of in-depth commercial and creative experience.

The Company has an Equal Opportunities policy which is followed throughout the organisation – further information is set out on page 99. It continues to be the Board's intention to increase the diverse make-up

and representation of its members as opportunities arise, but given the size of the Board specific formulaic targets are not appropriate.

#### **Induction, training and development**

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

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

- Updates and papers which cover changes affecting the Group and the market in which it operates meetings with senior executives across the Group and key advisors
- 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

Key stages of the induction programme are:

<b>Stage 1</b>
<b>Provision of documents</b> Duties of a Director, Board procedures, Board and strategy papers and corporate governance.
<b>Stage 2</b>
<b>Meetings with Chief Executive and Group Finance Director</b> Business overview, strategy, current trading and key commercial issues
<b>Stage 3</b>
<b>Visits to UK and international locations and meetings with colleagues at all levels of the business as appropriate.</b>

During 2016 the Directors visited a number of different sites. Sir Peter Bazalgette and Roger Faxon visited the ITV Studios office in the US, and Sir Peter Bazalgette visited a number of news rooms across the UK and the ITV Studios office in Paris.

As part of the YSC board effectiveness process individual development is considered and plans put in place. Executive Directors may accept external appointments as Non-executive Directors of other companies and retain any related fees paid to them. Details of positions held and fees received by Executive Directors in 2016 can be found on page 87.

#### **Relations with shareholders**

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

The Chairman and Senior Independent Director also respond to shareholder queries and hold meetings where appropriate.

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

📄 [www.itvplc.com/investors](http://www.itvplc.com/investors)

We regularly seek feedback on the perception of the Company amongst shareholders and the investor community more broadly via our corporate brokers. Investor comments are fed back to the Board and its committees regularly and the Investor Relations team provides the Board with monthly updates which include details on stock market movements, shareholder register, analyst forecasts and selected news on the media sector.

Private shareholders represent more than 93% of our shareholders holding 3% of our shares. We encourage shareholders to register their email addresses to receive information from us in a timely manner.

The AGM will be held on Wednesday, 10 May 2017 (further details can be found on page 189).

At the AGM shareholders are invited to meet the Directors prior to and after the formal proceedings. At the meeting the Chairman and Chief Executive will review the Group's current trading which is followed by a question and answer session. Separate resolutions are proposed on each substantially separate issue and all resolutions are taken on a poll. Voting can be done online or using a form of proxy. The level of votes lodged on each resolution is made available on a Regulatory Information Service and on the Company's website as soon as possible after the meeting. In 2016 the meeting was attended by 125 shareholders. Details of voting at the 2016 meeting is available on our website.

📄 [www.itvplc.com/investors/shareholder-information/aggm](http://www.itvplc.com/investors/shareholder-information/aggm)

# Audit and Risk Committee Report

## In the Audit and Risk Committee section

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 2016 which provides an overview of the areas considered by the Committee during the year.

During the year the Board reviewed and refreshed its thinking on the Company's approach to risk management. The Board decided that it would be useful for the Committee to provide greater input on the risk management process. As a result, the Board has expanded the remit of the Committee to include risk and changed its terms of reference accordingly.

The Committee received detailed updates from a number of executives who own key business risks which enabled us to understand how risks which could impact our strategic objectives are being managed and mitigated within the business.

In line with our Auditor Independence policy we have changed our external audit partner. Whilst there is no requirement to do so we have as a matter of good governance also had a change in lead partner for our outsourced internal audit function.

Looking ahead, with a change in audit partners, we have an opportunity to review our overall assurance and risk management processes. In addition, as our strategy evolves and the business diversifies we will continue to develop our approach to new revenue streams and our international operations.

During the year the FRC's Audit Quality Review team reviewed our external auditor's (KPMG) audit of our 2015 financial statements. We have discussed the report with KPMG and the Audit Quality Review team. The review identified three areas for improvement in the audit which KPMG will make in future years. Overall we found the results of the review reassuring with no issues identified which we considered cast doubt on the fundamental quality of our audit or which raised issues about our financial reporting.

We were delighted that Anna Manz joined the Committee on 1 May 2016. Anna takes our membership to four independent Non-executive Directors. She brings broad financial and commercial experience from her executive roles. The skills and experience of the members of the Committee remain strong and we have had a productive and effective year.

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](http://www.itvplc.com). We seek to respond to shareholders' expectation of audit committee reporting and welcome feedback from them.

**John Ormerod**

Chairman, Audit and Risk Committee

1 March 2017

“

ITV continues to develop its control environment in response to the increasingly international nature of its business

**John Ormerod**  
Chairman,  
Audit and Risk Committee

## Who is on the Committee

The Committee is composed entirely of Non-executive Directors.

The current members are:

- John Ormerod (Chairman)
- Mary Harris
- Andy Haste
- Anna Manz (appointed 1 May 2016)

The Committee members have between them a wide range of business and financial experience. The Committee considers that John Ormerod and Anna Manz have recent and relevant financial experience for the purposes of the Code. Anna Manz is Group Finance Director of Johnson Matthey and brings executive finance skills to the Committee deliberations.

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

## Our role

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 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.

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

## Meetings

February	May	July	September	November
<ul style="list-style-type: none"> <li>• Year-end financial reporting issues and judgements</li> <li>• Fair, balanced and understandable reviews</li> <li>• Viability Statement verification</li> <li>• KPMG audit conclusions and findings</li> <li>• Audit opinion</li> </ul>	<ul style="list-style-type: none"> <li>• Half-year financial reporting issues and judgements</li> <li>• External Audit strategy</li> <li>• Internal Audit independence and evaluation</li> </ul>	<ul style="list-style-type: none"> <li>• Half-year report</li> <li>• KPMG review conclusions and findings</li> </ul>	<ul style="list-style-type: none"> <li>• Emerging and business specific risk reviews</li> </ul>	<ul style="list-style-type: none"> <li>• Year-end planning</li> <li>• Distributable reserves planning</li> <li>• KPMG interim controls review findings</li> <li>• Review effectiveness of internal audit and following years plan</li> </ul>

In addition to Committee members the Chief Executive, Group Finance Director, Group Financial Controller, 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 and internal audit without executives present.

## 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 sought from the Chief Executive, Group Finance Director, Group Financial Controller, external auditors, Internal Audit and the Chairman of the Board.

Overall, the review concluded that the Committee is responding appropriately to its terms of reference and

will continue to develop its role. Priorities for this year will include appointing a successor to John Ormerod, developing our risk management processes and streamlining some of our administration procedures to free up time to cover a wider agenda.

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

 [www.itvplc.com/investors/governance](http://www.itvplc.com/investors/governance)

# Audit and Risk Committee Report continued

## Our focus in 2016

In planning its own agenda, and reviewing the audit plans of the internal and external auditor, the Committee takes account of significant issues and risks, both operational and financial, likely to impact on the Company's financial statements. The Committee also addresses specific queries referred to it by the Board or Remuneration Committee.

During 2016 there were no topics where there was significant disagreement between management, our 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.

<b>Financial disclosure and judgements</b>	<ul style="list-style-type: none"> <li>• Financial results announcements</li> <li>• Annual Report and Accounts</li> <li>• Accounting judgements and estimates</li> <li>• Developments in financial reporting</li> <li>• Fair, balanced and understandable</li> <li>• Viability Statement (page 57)</li> <li>• Significant failings and weaknesses</li> <li>• Going concern</li> <li>• Goodwill impairment (note 3.3, page 140)</li> <li>• Tax (note 2.3, page 126)</li> <li>• Deal debt (see below)</li> <li>• Pension accounting (note 3.7, page 148)</li> <li>• Deficit financing (see below)</li> <li>• Revenue recognition (IFRS15)</li> <li>• Appropriateness of Alternative Performance Measures (page 34)</li> </ul>	<ul style="list-style-type: none"> <li>• Auditor engagement and fees</li> <li>• Auditor independence and objectivity</li> <li>• Auditor Independence policy (including non audit fees)</li> <li>• Audit plans</li> <li>• Auditor performance and effectiveness</li> <li>• Key areas of judgement</li> </ul>	<b>External audit</b>
<b>Internal control</b>	<ul style="list-style-type: none"> <li>• Internal Audit independence and effectiveness</li> <li>• Internal Audit plan 2017</li> <li>• Effectiveness of internal controls</li> <li>• Post acquisition reviews (Talpa Media B.V.)</li> <li>• Whistleblowing process</li> <li>• Material litigation</li> <li>• Insurance programme</li> <li>• Fraud controls</li> <li>• Anti-bribery controls</li> <li>• Treasury policy and reports</li> <li>• Tax and Treasury, and Disclosure Committee review</li> </ul>	<ul style="list-style-type: none"> <li>• Principal risks and uncertainties and risk mitigations</li> <li>• Effectiveness of the risk management process</li> <li>• Cyber security (page 52)</li> <li>• Technology modernisation (page 56)</li> <li>• Health and Safety risk management (page 53)</li> </ul> <p>Further information on our risk management framework can be found on pages 50 to 57.</p>	<b>Risk</b>



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

- **Deal debt:** this is where management reviews the over and under delivery of advertising value to agencies. The Committee reviews management's approach and method of determining the provisions required for 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.

In both cases the Committee agreed with management's approach and their conclusions.

#### 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. The Committee carefully reviewed these transactions to ensure that the judgements applied by management were reasonable and any complex accounting guidance followed correctly.

Area of focus	Financial reporting and judgement	Action taken by Committee	Outcome
<b>Revenue recognition</b>	<p>Talpa: contract for 'The Voice of China'.</p> <p>Talpa signed a four year deal to license 'The Voice of China' in January 2016.</p> <p>Whilst ITV has done similar multi-year deals for Intellectual Property (IP) and content, this was by far the most material, and therefore the accounting treatment was examined in detail.</p> <p>See also note 2.1, page 120.</p>	<p>The Committee assessed whether the revenue recognition criteria had been met.</p> <p>The following points were noted:</p> <ul style="list-style-type: none"> <li>• The format IP was delivered, and is fully available for exploitation, and</li> <li>• No material performance obligations are expected of Talpa in future years.</li> </ul> <p>As a result of the above key points, together with the fulfilment of all other revenue recognition criteria, management considered it most appropriate for the format revenue for all four years (the life of the contract) to be recognised in full in 2016.</p>	<p>The Committee considered management's report on the accounting and agreed with the assessment that revenue was recognised appropriately, in accordance with IFRS and ITV accounting policies.</p> <p>KPMG also presented their view on the matter to the Committee, noting consistent conclusions on the appropriate revenue recognition for this contract.</p>

# Audit and Risk Committee Report continued

## Other matters

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

Area of focus	Issue	Action taken by Committee	Outcome
<b>Cyber security</b>	Cyber security is an increasing risk as our business develops new revenue streams and direct to consumer propositions.	The Committee undertook a review of the cyber security risks and strategy and changes to reflect the ever changing cyber threat.	Completed and planned mitigations were reviewed and assessed. The Committee was content with progress and will continue to monitor and review this area.
<b>Technology modernisation</b>	Legacy business systems are being modernised to reduce a number of key business risks.	The Committee reviewed the programme of work to modernise legacy business systems.	Completed and planned mitigations were reviewed and assessed. The Committee was content with progress and will continue to monitor and review this area.
<b>Health and Safety</b>	Following an internal audit of site specific health and safety management a number of mitigating actions were recommended and considered.	The Committee has kept the mitigation actions under regular review and is satisfied with the progress to date.  In addition a general group wide health and safety risk assessment was requested and was considered in January 2017.	In areas which face day-to-day operational risk we are continuing to develop our three lines of defence model and to move our approach to risk away from a rules and process driven system to a cultural people driven solution which encourages and focuses on prevention rather than reaction to failure.  The Committee will continue to monitor and review this area.
<b>Tax Strategy</b>	In accordance with Finance Act 2016 the Company is required to publish its Tax Strategy.	The Committee has reviewed the strategy produced by management and recommended it for adoption to the Board.	ITV's Tax Strategy was approved by the board on 26 January 2017 and is available to view on our website at <a href="http://www.itvplc.com">www.itvplc.com</a> .
<b>Bond Issue</b>	The Company proposed issuing a €500 million Eurobond for general corporate purposes and financing activities such as repayment of the £161 million bond issue in January 2017, and earn out payments due on acquisitions, primarily Talpa.	The Committee reviewed the bond issue documents and related disclosures. In addition they discussed the related treasury policy decisions such as foreign exchange hedging.	The bond was successfully issued in December 2016 and was hedged in accordance with agreed policies.

Gurney Productions LLC, a subsidiary of the Group: Before the Group initiated legal proceedings against the sellers, who held a 38.5% membership interest in Gurney Productions LLC, the Board considered advice received from US Counsel and the evidence supporting the alleged breaches of contract and their fiduciary duties, as well as self-dealing and fraudulent concealment, and agreed with the conclusions drawn and proposed actions suggested by management. In 2017 the Committee plans to consider whether any improvements in procedures and controls might have identified and mitigated the issues sooner and how any lessons learned can be applied to other acquired companies. Further information is in Note 5.3, page 172).

## 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 and development of the risk appetite framework. During the year the Committee terms of reference were extended so that the Committee could provide greater input on the Company's approach to risk management. Further information on our risk management process and details of our Principal risks and uncertainties is included in the Strategic Report on pages 50 to 56.

### 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 strategy is reviewed and approved by the Board. The Group performs a comprehensive annual strategy review and a rolling five-year financial planning exercise. The five-year plan feeds into the annual budget cycle. The Executive Directors review formal forecasts, detailed budgets, strategies and action plans and the Board approves the overall Group budget as part of its normal responsibilities. The results of operating units are reported monthly, along with an update of the Group's performance against strategic KPIs and cash. Actual results are compared to budget and forecasts, and key trends and variances are explained and analysed.

### 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 and through a suite of automated analytics which 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 who report directly to the Committee. The Committee continues to believe that outsourcing offers access to the wide range of skills and resources in the various geographies required 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. During the year there was a change to the lead partner to bring a fresh perspective and approach and continue to bring robust challenge. 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.

At the start of the year the Committee considered and approved the internal audit plan, that 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	Audit tendering and rotation	Independence, objectivity and fees	Reappointment
<p>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.</p> <p>The Committee agrees the terms of engagement, audit and non audit fees and reviews progress and results throughout the year.</p>	<p>We undertook a competitive tender in 2012 and applying the BIS guidance on the EU Audit rules the next mandatory tender would be for the 2023 financial year.</p> <p>The Committee continues to monitor audit quality to ensure a robust and effective audit.</p> <p>During 2016 there was a rotation of audit partner. Following a robust selection process by management and the Committee, our new partner is Paul Sawdon.</p> <p>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.</p>	<p>The Committee seeks to ensure the objectivity and independence of our auditor through:</p> <ul style="list-style-type: none"> <li>• focus on the assignment and rotation of key personnel;</li> <li>• the adequacy of audit resource; and</li> <li>• policies in relation to non audit work.</li> </ul> <p>During the year we updated our Auditor Independence policy to comply with EU legislation. A copy of the policy is available on our website at <a href="http://www.itvplc.com">www.itvplc.com</a>.</p> <p>Fees paid to KPMG for 2016 are set out in Note 2.1 on page 124. Non-audit fees amounted to 34% of the audit fee. Significant advice related to employment tax in the UK.</p>	<p>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 2016. The resolution was passed and KPMG was reappointed.</p> <p>The Committee has recommended the reappointment of KPMG at the AGM on 10 May 2017.</p>

# Audit and Risk Committee Report continued

## 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
<ul style="list-style-type: none"> <li>• Audit scope and materiality</li> <li>• Independence and objectivity</li> <li>• Confirmation of work performed and other significant risks</li> <li>• Re-appointment</li> </ul>	<ul style="list-style-type: none"> <li>• Audit Plan and Strategy</li> <li>• Engagement</li> </ul>	<ul style="list-style-type: none"> <li>• Fees and Independence</li> <li>• Audit Quality Review focus areas</li> </ul>	<ul style="list-style-type: none"> <li>• Auditor Independence policy (reviewed every two years)</li> <li>• Audit fees – final</li> </ul>

Audit quality is reviewed throughout the year and in 2016 the Committee used the Financial Reporting Council's (FRC) Audit Quality Practice Aid help structure its review of audit quality. When making its assessment of audit quality, the factors the Committee focused on included:

<b>External audit quality reports</b>	The audit strategy for the year addressed thematic concerns that the FRC had highlighted.
<b>Auditor interaction with management</b>	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.
<b>Auditors own view of effectiveness</b>	<p>Enquired with regards to:</p> <ul style="list-style-type: none"> <li>• their audit methodology and its effective application to ITV;</li> <li>• their robustness of challenges and findings on areas which require management judgement;</li> <li>• whether there had been an internal peer review of the ITV audit and what the findings were; and</li> <li>• the experience of the senior members of the audit team.</li> </ul>

Further in its assessment of audit quality the Committee 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.

The Committee also considered the FRC Audit Quality Review feedback from their review of our 2015 audit and agreed with KPMG the changes in audit procedures they will make and how we will support their implementation.

# Remuneration Report

## In this report

The purpose of this report is to set out for shareholders the proposed revised policy relating to directors' pay required to be submitted to shareholders for approval at least every three years and to update you on how we have applied the current policy for the financial year ended 31 December 2016. The report also aims to demonstrate how our Remuneration Policy is aligned to our strategy, supports the retention of the Executive Directors and rewards them for strong performance.

“  
ITV continues to make significant progress in growing, strengthening and rebalancing the business away from its reliance on television advertising

## Dear shareholder,

On the following pages we set out:

- the Annual Report on Remuneration (pages 75 to 88) which includes this letter and will be subject to an advisory vote at our Annual General Meeting (AGM) on 10 May 2017; and
- our revised Remuneration Policy (pages 89 to 97) which we will be asking our shareholders to formally approve at the AGM.

## 2016 performance

As discussed in the Strategic Report, ITV continues to make significant progress in growing, strengthening and rebalancing the business away from its reliance on television advertising. We continue to believe that this is the right strategy for the business. Adjusted EPS has grown by 844% since 2009 and although 2016 has seen a softening in the advertising market as a result of the economic uncertainty we have delivered revenue growth of 3% and adjusted EBITA of £885m (2015: £865m). In addition, 53% of our total revenue now comes from sources other than traditional spot advertising.

While uncertain external economic factors will clearly have an impact on our business, we remain focused on our original vision and are confident that our strategy, focused on three key Strategic Priorities, remains appropriate for the long-term.

Performance measures for our Annual Bonus Awards and Long-Term Incentive Plan (LTIP) are closely aligned to our KPIs (set out on pages 36 to 39) and Alternative Performance Measures (APMs). Our KPIs have been defined to align our performance and accountability to our strategy. The KPIs are the key measures of our success and cover all of our Strategic Priorities. Details of our APMs and the reconciliation between statutory and adjusted results is set out on pages 34 to 35.

Performance against KPIs which are aligned to our Bonus and LTIP is set out below:

	2016	2015
Adjusted EBITA	<b>£885m</b>	£865m
Profit to cash conversion	<b>97%</b>	91%
Adjusted EPS	<b>17.0p</b>	16.5p
Family SOV	<b>21.4%</b>	21.2%
Total non-NAR growth	<b>11%</b>	25%

In addition, over the past few years we have included a cost-saving target in our Annual Bonus Awards to ensure that management focuses on streamlining the business.

## 2016 remuneration outcomes

While the Company has continued to perform well, particularly in a challenging external environment, we did not achieve the ambitious profit target set internally at the start of the year. However, the targets for cost savings and profit to cash conversion were achieved in full.

**Andy Haste**  
Chairman,  
Remuneration Committee

# Remuneration Report continued

As reported last year the weighting of the personal performance target was reduced from 40% to 25% of the bonus opportunity. When considering the bonus payout levels for the Executive Directors the Committee took account of the excellent delivery against targets which included the cost saving target that was fully achieved, the increase in Family SOV demonstrating the underlying health of the brand and the strength of the main channel and strong growth in non-NAR.

As a result, the Committee agreed the total bonus payout level for both Executive Directors at 40%, 15% on financial and 25% on personal performance opportunity which paid out in full. This reflected the excellent delivery against the individual targets which were set to balance the financial targets. The Committee was conscious that this out-turn was higher than the out-turn for the financial element, but felt it was appropriate given the overall results and good performance in delivering cost savings, managing cash, viewing performance and rebalancing the business. The Committee concluded that the out-turn produced a result which was, overall, fair and did not apply any discretion to adjust it. Further information and details of the bonus targets for 2016 are set out on page 81.

During the year, awards made under the LTIP in 2014 reached the end of their performance period and will vest at 80% with the Family SOV element not vesting despite the improvement in 2016. In line with our phased approach to the introduction of holding periods 50% of the vested amount becomes exercisable in May 2017 and the remainder in May 2018. Details are set out on page 82.

The Committee considers the total pay of the Executive Directors to be a fair reflection of their overall contribution to the success of the business. The Committee has not exercised any discretion during the year or felt it appropriate to call on malus and claw-back provisions.

## Remuneration Policy review

During 2016, we undertook a review of the Remuneration Policy for the Executive Directors in preparation for the AGM in 2017 when the existing policy will reach its third anniversary and require resubmission to shareholders.

### Objective of the review

The principal objective of the review was to ensure that the remuneration framework remains aligned with the strategy of the business and continues to incentivise the Executive Directors to deliver exceptional performance for shareholders.

We believe that our existing remuneration framework remains fit for purpose, is aligned with the strategy of the business and is linked to our key KPIs. The Committee therefore does not consider it appropriate to make significant changes to our policy at this stage as we are satisfied that our remuneration framework promotes long-term alignment with shareholders and does not encourage undue risk taking. We will keep

under review emerging best practice in the light of the Executive Remuneration Working Group final report (which proposed replacing traditional LTIPs with non-performance restricted stock awards) but do not, currently, consider this appropriate.

### Summary of key changes

The proposed adjustments to the remuneration framework for Executive Directors include the following:

- **Base salary and benefits cap** – we are introducing a formal cap on base salary and on the overall cost of benefits. These do not in any way form an aspiration and we do not envisage any change in practice as a consequence; they simply reflect the latest regulatory guidance.
- **Performance measures** – we will continue to ensure that performance measures are closely aligned with our strategy. The measures continue to be appropriate but the nature of our business continues to change which may require us to consider the measures in future. To ensure we can retain the link to our strategy as it evolves we have included more flexibility to change performance measures for new awards. This is in line with existing market practice.

## Remuneration policy implementation in 2017

Details of how the Committee proposes to implement the policy, if approved, in 2017 are set out on page 94. Bonus targets and performance conditions for LTIP awards to be made in 2017 have been set in line with the proposed Remuneration Policy and have been aligned closely with our strategy.

The Executive Directors did not receive an increase to base salary from 1 January 2017. This is in line with the approach taken for the wider employee population.

## Principles considered when setting remuneration

The media market in which ITV operates is particularly competitive. We aim to balance the need to attract and retain high-quality talent essential to the Company's success with the need to be cost-effective and to reward exceptional performance. The Remuneration Policy balances these factors, while taking into account the prevailing best practice and a fair outcome for investors.

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

When considering the out-turn for annual bonus awards the Committee ensures that bonuses do not lead to adverse environmental, social or governance issues or encourage bad behaviour. ITV takes these issues seriously and further information can be found on our Responsibility website at [www.itvresponsibility.com](http://www.itvresponsibility.com) and in the Strategic and Governance reports.

#### Shareholder views

Details of voting on remuneration resolutions at the AGM in May 2016 are set out on page 84 for which we were pleased to receive strong investor support. We will make available the results of the voting at the AGM to be held in May 2017 shortly after the meeting.

We seek to respond to shareholders' expectations of remuneration reporting and would welcome feedback. Where we are proposing to make any significant changes to the ongoing operation of the Remuneration Policy we shall seek shareholders' views and take these into account.

After just over six years as Chairman of the Committee I will be stepping down following the AGM in May 2017 and I am very pleased that Mary Harris will succeed me as Chair. I will remain as a Non-executive Director and Senior Independent Director for the time being.

#### Andy Haste

Chairman, Remuneration Committee

1 March 2017

Throughout this report we make reference to Strategic Priorities. For reference these are as detailed in the tables below.

#### For awards made in 2016 and 2017

Target
Maximise audience and revenue from free-to-air and VOD business
Grow an international content business
Build a global pay and distribution business

Further information on each of the above is set out in the Strategic Report on pages 21 to 33.

#### For awards made up to and including 2014

Target
① Create a lean, creatively dynamic and fit-for-purpose organisation
② Maximise audience and revenue share from our existing free-to-air Broadcast business
③ Drive new revenue streams by exploiting our content across multiple platforms, free and pay
④ Build a strong international content business

Further information on each of the above is set out in the 2016 Strategic Report available on our website.

 [www.itvplc.com/investors](http://www.itvplc.com/investors)

# Remuneration Report continued

## Who is on the Committee

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

- Andy Haste (Chairman)
- Sir Peter Bazalgette
- Mary Harris
- John Ormerod

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

## Our role

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 and approve its implementation 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 123.

- approve the design of the Company's annual bonus arrangements and Long-Term Incentive Plans, including the performance targets that apply for the Senior Executive Group; and
- determine the award levels for the Senior Executive Group based on performance against annual bonus targets and long-term incentive conditions.

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

## Meetings

January	February	May	September	October	November
<ul style="list-style-type: none"> <li>• Financial performance update</li> <li>• Indicative bonus outcomes and payout levels</li> <li>• Indicative LTIP performance and vesting levels</li> <li>• Pay review outcomes and changes to Senior Executive Group</li> <li>• Advisor independence</li> </ul>	<ul style="list-style-type: none"> <li>• Bonus targets agreed for current year</li> <li>• LTIP awards and targets agreed for current year</li> <li>• Remuneration report review</li> <li>• Compliance with the Remuneration policy</li> <li>• Compliance with shareholding guidelines</li> <li>• Internal Audit review of outcomes</li> </ul>	<ul style="list-style-type: none"> <li>• Market update</li> <li>• Financial performance update</li> </ul>	<ul style="list-style-type: none"> <li>• Reward framework and current trends</li> <li>• Consideration of remuneration in the wider employee group</li> </ul>	<ul style="list-style-type: none"> <li>• Bonus payout forecasts</li> <li>• Internal Audit process review</li> </ul>	<ul style="list-style-type: none"> <li>• Bonus framework and targets</li> <li>• Terms of reference review</li> <li>• Review of remuneration consultants</li> <li>• Annual pay review</li> </ul>

In addition to Committee members the Chief Executive, Group Finance Director, Group HR Director, Director for Pensions and Reward and independent advisor FIT Remuneration Consultants 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, Group Finance Director, Group HR Director and FIT Remuneration Consultants, the independent advisor 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 smooth transition of Committee Chairman and consideration of wider membership.

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

📄 [www.itvplc.com/investors/governance](http://www.itvplc.com/investors/governance)



# Annual Report on Remuneration

The sections of the Annual Report on Remuneration that have been audited by KPMG are pages 80 to 84, and page 86 (from and including Directors' Share Interests) to page 88.

## Remuneration Policy in 2017

The following section provides details of how the Remuneration Policy will be implemented in 2017.

### Executive Directors

#### Salary

There has been no change to Executive Directors' base salaries with effect from 1 January 2017 and these remain as follows.

	1 January 2017 £000	1 January 2016 £000	% Change
Adam Crozier	941	941	0
Ian Griffiths	575	575	0

Salary increases for Executive Directors followed those of the wider employee population. For 2017, an increase of 1.5% was paid to employees earning less than £100,000 per annum.

#### Taxable benefits and pension

These will be provided in line with the Remuneration Policy and no changes are envisaged.

#### Bonus (cash and shares)

Awards made to Executive Directors through the bonus will be paid two-thirds in cash and one-third deferred into shares under the Deferred Share Award Plan (DSA). The proposed performance measures and weightings for awards are detailed below and remain unchanged from 2016. The Board considers the actual targets for 2017 to be commercially sensitive at this time and we envisage including equivalent disclosures to those included in respect of the 2016 bonus in next year's report.

Performance measure	Strategic target	Maximum
Adjusted ITV plc EBITA (before exceptional items)		60%
Profit to cash conversion		10%
Cost savings		5%
Individual targets		25%

#### Share awards

The proposed performance measures and targets for awards to be made in 2017 are detailed below.

Under the LTIP rules, the maximum annual award that can be granted in any financial year is 350% of salary. This is to allow the Committee flexibility when recruiting Executives and to ensure the longevity of the plan. There is currently no intention to grant awards at this level. Awards in 2017 will be made to the Executive Directors with a value of 225% of salary.

Threshold vesting for all targets is 20% with vesting between threshold and maximum (100%) on a straight-line basis. Family SOV has an additional vesting threshold 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. Each measure is also subject to an underpin that the cumulative EPS is at least 56.3 pence.

Performance measure	Strategic target	Weightings	Threshold	Maximum
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

Shares that vest will be subject to a two-year holding period.

# Annual Report on Remuneration continued

## Non-executive Directors

There was no increase to Non-executive Director fees from 1 January 2017 as set out below.

	1 January 2017 £	1 January 2016 £	% change
Chairman (all-inclusive fee) <sup>1</sup>	450,000	500,000	0
Board fee	65,054	65,054	0
Additional fees for:			
Senior Independent Director	25,000	25,000	0
Audit and Risk Committee Chairman	20,000	20,000	0
Audit and Risk Committee member	5,371	5,371	0
Remuneration Committee Chairman	20,000	20,000	0
Remuneration Committee member	5,371	5,371	0

1. Sir Peter Bazalgette was appointed Chairman on 12 May 2016. 2016 total is for the previous Chairman.

2. Details of Committee membership can be found in the Governance section on page 65.

## Remuneration policy application in 2016

The following section provides details of how the current Remuneration Policy was implemented in 2016.

## Executive Directors

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

	Salary		Taxable benefits		Bonus (cash and shares)		Share awards		Pension		Total	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000	2016 <sup>1</sup> £000	2015 <sup>1</sup> £000	2016 £000	2015 £000	2016 £000	2015 £000
Adam Crozier	941	918	19	19	677	1,586	1,571	1,129	235	229	3,443	3,881
Ian Griffiths	575	561	14	15	380	879	960	619	144	140	2,073	2,214
	1,516	1,479	34	34	1,056	2,465	2,531	1,748	379	369	5,516	6,095

1. In the 2015 Annual Report and Accounts part of the amount shown was the indicative vesting value of the 2013 PSP awards that were subject to performance conditions measured to 31 December 2015. The figures shown in the table above represent the subsequent value received on the vesting date of 29 March 2016 using the share price on that day (240.98 pence), a total decrease of £141,625.

2. The amount shown is the indicative value of the 2014 LTIP awards that were subject to performance conditions measured to 31 December 2016. The value was calculated using the average share price for the final quarter of 2016 (178 pence). 50% of these shares are subject to a one year holding period.

3. 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, plus the total emolument figures for Non-executive Directors shown on page 83, £3,908k.

Further information in relation to each of the elements of remuneration for 2016 set out in the table above is detailed below. An explanation for 2015 is set out in detail in our 2015 Annual Report and Accounts, which can be found on our website.

 [www.itvplc.com/investors](http://www.itvplc.com/investors)

### Salary

Executive Directors' base salaries were increased by 2.5% with effect from 1 January 2016 in line with those of the wider employee population.

### 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 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, which are closely linked to the strategic priorities of the business. As stated in last year's report, the weighting on personal performance was reduced for 2016 from 40% to 25% of the total bonus opportunity. Payments and deferrals in respect of the financial year are set out below.

	% of maximum bonus opportunity earned	Value deferred into shares under the DSA	Value paid in cash	Total value
Adam Crozier	40%	£225,828	£451,656	<b>£677,484</b>
Ian Griffiths	40%	£126,506	£253,011	<b>£379,517</b>

Percentage of maximum bonus opportunity earned for 2015 was 96% and 95% for Adam Crozier and Ian Griffiths respectively.

When considering performance outcomes, the Committee looks to ensure the outcomes align with overall business performance.

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 disposals, significant unbudgeted initiatives and currency movements.

The remainder of the bonus (25%) was based upon the Committee's assessment of the contribution each Executive Director has made to the overall strategy through the delivery of specific targets. Both Executive Directors had a number of common objectives aligned to our Strategic Priorities. The Strategic Report sets out more detail of the Company's achievements in the year.

In a year which brought the EU referendum result, the subsequent market uncertainty and a 3% decline in NAR the Executive Directors responded swiftly and robustly to the resulting business impact. They instigated prompt cost savings and provided strong leadership which has resulted in a record adjusted profit for the Company. The Executive Directors delivered well on their original objectives and also on some new ones developed in response to the changed market conditions:

- Adam Crozier oversaw a refreshed broadcasting strategy, resulting in SOV growth both for the Company's main and family of channels. There was once again strong growth in ITV's Online, Pay and Interactive businesses. The Group's global business was driven forward, with vertical integration of value from the Talpa acquisition and the announcement of BritBox in the USA.
- Ian Griffiths supported ITV Studios and ITV Broadcast to develop their international businesses and creative performance and secured agreement to ITV's London property strategy.

In the circumstances and noting that all of these targets were fully achieved along with full delivery of other personal measures, the Committee agreed that a 100% pay out against personal measures was appropriate as explained in the Chairman's letter on page 75. The Committee also confirms that, where relevant, it also considered environmental, social and governance factors in considering the overall outcome.

# Annual Report on Remuneration continued

In order to reflect best practice, the Committee has provided disclosure of the corporate and financial targets used for 2016, together with performance against those targets and the resulting level of payout as set out below.

Performance measure	Weighting	Performance required		Performance achieved	Payout level	Strategic target
		Threshold	Target			
Adjusted ITV plc EBITA (before exceptional items)	<b>60%</b>	£906m	£941m	£971m	£885m	0%
Profit to cash conversion	<b>10%</b>	78.5%	83.5%	88.5%	97%	100%
Cost savings	<b>5%</b>	£16.2m	£18.2m	£20.2m	£28.9m	100%

Performance against the personal targets as noted above (25% weighting), resulted in payouts of 100% of the maximum against these targets for Adam Crozier and Ian Griffiths. Up to 20% is payable for threshold and up to 60% for target performance

## Share awards

We are required to show share awards in the remuneration table on page 80 according to the year in which the performance period for each performance condition came to an end. 100% of the awards made in 2014 under the LTIP were subject to performance conditions measured to 31 December 2016. The indicative value of these awards is set out below.

	Number of shares awarded	Value at award date £	Number of shares vesting <sup>1</sup>	Value at 31 December 2016 <sup>2</sup> £	Change in share price since award date
Adam Crozier	1,103,543	2,025,000	<b>882,835</b>	<b>1,571,448</b>	(3.0)%
Ian Griffiths	674,387	1,237,500	<b>539,510</b>	<b>960,327</b>	(3.0)%

- The vesting figures shown in the table above reflect 80% of the total award that met performance conditions on 31 December 2016. 50% will become exercisable on 30 May 2017, and the remaining 50% will become exercisable after a one year holding period on 30 May 2018.
- The share price used to value the shares at 31 December 2016 is the average share price for the final quarter of 2016 (178 pence). The share price used to calculate the number of shares under award was 183.5 pence (the average of the share price on each of the 27, 28 and 29 May 2014).

When considering performance outcomes the Committee looks beyond formulaic results to ensure the outcomes align with overall business performance. In the circumstances, the formulae were applied without adjustment.

Details of the performance achieved for the 2014 LTIP awards are below. A gateway condition of minimum cumulative adjusted EPS (37.1 pence) was met before any portion of the award could vest.

Performance measure	Strategic target	Weighting	Targets	Performance achieved	Payout level
Cumulative adjusted EPS	①	50%	37.1p = 20% vesting 42.3p = 100% vesting Vesting on a straight-line basis between	<b>47.1p</b>	100%
Family SOV	②	20%	Maintain at 23.05 = 20% vesting 23.51% (+2% growth) = 100% vesting Vesting on a proportionate basis between	<b>21.36%</b>	0%
Total non-NAR growth	③④	10%	5% growth pa = 20% vesting 10% growth pa = 100% vesting Vesting on a straight-line basis between	<b>15.27%</b>	100%
International production Revenue for 2016	④	10%	5% growth pa = 20% vesting 15% growth pa = 100% vesting Vesting on a straight-line basis between	<b>31.52%</b>	100%
Online, Pay & Interactive Revenue	③	10%	5% growth pa = 20% vesting 18% growth pa = 100% vesting Vesting on a straight-line basis between	<b>25.13%</b>	100%

### Pension

The Executive Directors are not part of an ITV pension scheme but receive a cash allowance in lieu of pension with a value of 25% of base salary. Payments were reviewed and increased in 2013 to ensure they were market competitive. The cash allowance does not form part of the base salary for the purpose of determining incentives.

### Non-executive Directors

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

	Notes	Fees		Taxable benefits <sup>1</sup>		Total	
		2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Sir Peter Bazalgette	2	312	69	2	2	314	71
Roger Faxon		65	63	8	5	73	68
Mary Harris	3	74	66	8	7	82	73
Andy Haste		115	114	1	2	115	116
Anna Manz	4	63	–	1	–	63	–
Archie Norman	5	184	500	–	3	184	503
John Ormerod		90	89	2	2	92	91
		903	901	22	21	923	922

- 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.
- Peter Bazalgette was appointed Chairman on 12 May 2016.
- Mary Harris was appointed to the Remuneration Committee on 12 May 2016.
- Anna Manz was appointed to the Board on 1 February 2016 and to the Audit and Risk Committee on 1 May 2016.
- Archie Norman stepped down from the Board on 12 May 2016.

### LTIP awards made in 2016

On 29 March 2016 awards were made under the LTIP to both Executive Directors in the form of nil-cost options, subject to performance over the period to 31 December 2018.

	Award date	% salary awarded	Number of options	Value at award date	Performance period ends	Vesting date	Release date
Adam Crozier	29 March 2016	225	878,481	£2,117,138	31 December 2018	29 March 2019	29 March 2021
Ian Griffiths	29 March 2016	225	536,850	£1,293,806	31 December 2018	29 March 2019	29 March 2021

The number of nil-cost options was calculated using the average share price over the three-day period prior to the award date (241 pence).

The LTIP was introduced in 2014 following a remuneration review and subsequent approval by shareholders at the 2014 AGM. The holding periods were phased in over the first two annual awards made in 2014 and 2015, with 100% of the awards made in 2016 subject to a two-year holding period. The shares that vest under the 2016 award will not release until March 2021.

The Committee sets targets for the LTIP taking into account external forecasts, internal budgets, business priorities, and risks and uncertainties. Targets are set to be appropriately stretching in this context, with maximum performance set at a level which is considered to be the delivery of exceptional performance. The awards made in 2016 are subject to performance measures and targets as set out below. Awards will be subject to an initial cumulative adjusted EPS performance gateway equal to that required for threshold performance (54.6 pence) before any portion of the award can vest.

Performance measure	Strategic target	Weighting	Threshold	Maximum
Cumulative adjusted EPS		50%	54.6p	62.4p
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

# Annual Report on Remuneration continued

Threshold vesting for all targets is 20% with vesting between threshold and maximum (100%) is on a straight-line basis. Family SOV has an additional vesting threshold of 75% for performance of 21.2%. When assessing performance against this target, the Committee will also have regard to the health of the main ITV channel.

## Other Disclosures

### Payments to past Directors or for loss of office

No payments were made during the year.

### Committee membership and advisors

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 65.

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

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

FIT Remuneration Consultants acted as the independent advisor on remuneration policy and the external remuneration environment during 2016 and provided advice on benchmarking, shareholder consultation and long-term incentive arrangements. Total fees for the advice provided to the Committee during the year amounted to £103,154 (exclusive of VAT and expenses) which were charged on their normal terms.

The Committee has formally reviewed the work undertaken by FIT for the Committee and is satisfied that the advice they have received has been objective and independent. FIT is a member of the Remuneration Consultants Group and abides by its Code of Conduct.

### Shareholder voting

At the AGM held on 12 May 2016, votes cast by proxy and at the meeting in respect of the Executive Directors' remuneration were as follows:

Resolution	Voting for		Voting against		Total votes cast	Votes withheld
	Number of shares	%	Number of shares	%		
Annual Remuneration Report	3,002,101,203	96.15	120,053,675	3.85	3,122,154,878	51,538,304

The Remuneration Policy was approved at the AGM held on 14 May 2014 for a three-year period. Votes cast by proxy and at the meeting were as follows:

Resolution	Voting for		Voting against		Total votes cast	Votes withheld
	Number of shares	%	Number of shares	%		
Remuneration Policy	2,272,594,109	96.04	93,825,641	3.96	2,366,419,750	366,266,825

### Historic performance

The graph below shows the TSR performance of the Company against the FTSE 100 index over the eight-year period to 31 December 2016.

### Chief Executive remuneration

The table below provides a summary of the total remuneration received by the Chief Executive over the last eight 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
2016	Adam Crozier	3,443	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)	661	83	–
2009	Michael Grade	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. The 2015 numbers have been amended to reflect the actual value of the LTIP on vesting.

The table below provides details of the percentage change in the base salary, benefits and bonus of the Chief Executive between 31 December 2015 and 31 December 2016 compared to the average percentage change for other employees.

	Notes	% change in base salary	% change in benefits	% change in bonus payment
Chief Executive	1	2.5%	(1.66)	(57.29)
All employees	2, 3	5.1%	(3.61)	(13.37)

1 Benefits include the cost of medical insurance and car-related benefits.

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

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

# Annual Report on Remuneration continued

## Spend on pay

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

	Notes	2016 £m	2015 £m	% Change
Employee pay	1	419	400	4.75
Ordinary dividend		261	208	25.48
Special dividend		402	251	60.15
Employee headcount	2	6,121	5,558	10.13

1. Employee pay is the total remuneration paid to all colleagues across ITV on a full-time equivalent basis. More detail is set out on page 123.

2. Employee headcount is the monthly average number of colleagues across ITV on a full-time equivalent basis. More detail is set out on page 123.

3. There were no share buy-backs during either year.

## 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 2016
Adam Crozier	400	446
Ian Griffiths	200	473

The share price used to value the shares as at 30 December 2016 was 206 pence. The shares included in the calculation are shares held in the individual's own name and the net of tax shares held under the 2014 DSA which are not contingent on continued employment (awards made from 2015 are contingent on continued employment and will not form a part of the requirement).

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 currently required to use 25% of their annual fees, after statutory deductions, to acquire shares in the Company. The shares are purchased quarterly and held until they retire from the Board. From 2017 it is proposed that this will change so that (unless they are unable to retain their fees) they are all 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.

### 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 2016.

	31 December 2016	31 December 2015
Sir Peter Bazalgette	197,108	13,685
Adam Crozier	1,909,263	2,241,233
Roger Faxon	21,910	15,835
Ian Griffiths	1,254,554	1,754,554
Mary Harris	12,028	6,138
Andy Haste	125,446	109,222
Anna Manz	31,588	–
John Ormerod	168,407	153,898

Anna Manz was appointed to the Board on 1 February 2016.

There were no changes in Directors' interests in shares between the end of the financial year and 1 March 2017.



**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	2016 £000
Adam Crozier	G4S plc	25
Ian Griffiths	DS Smith plc	55

Adam Crozier stepped down from the board of G4S plc on 27 May 2016

**Service contracts and loss of office****Executive Directors**

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

	Date of appointment	Nature of contract	Notice period from Company	Notice period from Director	Compensation provisions for early termination
Adam Crozier	26 April 2010	Rolling	12 months	12 months	None
Ian Griffiths	9 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 annual election and 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 2017. Details of unexpired terms are set out in the table on page 65.

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

# Annual Report on Remuneration continued

## Outstanding interests under share schemes

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

	Notes	At 1 January 2016	Awarded in year	Vested in year	Exercised in year	Lapsed in in year	At 31 December 2016	Share price used for award (pence)	Share price at date of vesting (pence)	Date of release/exercise in year
<b>Adam Crozier</b>										
<b>DSA</b>										
29 March 2016	3, 6	–	219,406	–	–	–	<b>219,406</b>	241.0		
27 March 2015		197,741	–	–	–	–	<b>197,741</b>	256.7		
28 March 2014		240,534	–	–	–	–	<b>240,534</b>	194.5		
28 March 2013		346,228	–	346,228	346,228	–	–	129.5	240.98	29 March 2016
<b>LTIP</b>										
29 March 2016	6	–	878,481	–	–	–	<b>878,481</b>	241.0		
27 March 2015		804,636	–	–	–	–	<b>804,636</b>	256.7		
30 May 2014	4	1,103,543	–	–	–	–	<b>1,103,543</b>	183.5		
<b>PSP</b>										
1 March 2013	5	624,647	–	468,485	468,485	156,162	–	121.1	240.98	29 March 2016
<b>Ian Griffiths</b>										
<b>DSA</b>										
29 March 2016	3, 6	–	121,628	–	–	–	<b>121,628</b>	241.0		
27 March 2015		112,186	–	–	–	–	<b>112,186</b>	256.7		
28 March 2014		122,269	–	–	–	–	<b>122,269</b>	194.5		
28 March 2013		175,891	–	175,891	175,891	–	–	129.5	240.98	29 March 2016
<b>LTIP</b>										
29 March 2016	6	–	536,850	–	–	–	<b>536,850</b>	241.0		
27 March 2015		491,722	–	–	–	–	<b>491,722</b>	256.7		
30 May 2014	4	674,387	–	–	–	–	<b>674,387</b>	183.5		
<b>PSP</b>										
1 March 2013	5	342,549	–	256,912	256,912	85,637	–	121.1	240.98	29 March 2016

1. No awards are outstanding that have vested but have not been exercised.
2. There are no performance conditions attaching to the DSA.
3. DSA awards made in 2016 for 2015 performance are included in the remuneration table on page 80.
4. LTIP performance conditions were met in 2016 (80%). 50% will become exercisable on 30 May 2017, the remainder on 30 May 2018. The indicative value at 31 December 2016 is included in the remuneration table on page 80 and is described on page 82.
5. PSP performance conditions were met in 2015 (75%) and the value is included in the remuneration table on page 80.
6. The face value of awards granted in the financial year were £2,117,138 and £1,293,806 under the LTIP for Adam Crozier and Ian Griffiths respectively, and £528,768 and £293,122 under the DSA.
7. Performance conditions that apply to the outstanding awards under the LTIP are set out in the table below.

Strategic target		2014 LTIP				2015 LTIP		2016 LTIP	
		Weighting	Threshold vesting	Threshold	Maximum	Threshold	Maximum	Threshold	Maximum
EPS Gateway	①			37.1p		45.7p		54.6p	
Cumulative adjusted EPS	①	50%	20%	37.1p	42.3p	45.7p	52.2p	54.6p	62.4p
Family SOV	②	20%	20%	23.05%	23.51%	22%	22.44%	20.2%	21.6%
Annual non-NAR growth	③④	10%	20%	5%	10%	5%	10%	5%	10%
International production revenue growth	④	10%	20%	5%	15%	5%	15%	5%	15%
Online, Pay & Interactive revenue growth	③	10%	20%	5%	15%	5%	18%	5%	18%
				Cumulative adjusted EPS years 2014 to 2016		Cumulative adjusted EPS years 2015 to 2017		Cumulative adjusted EPS years 2016 to 2018	
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 from each threshold and maximum.									

# Remuneration Policy

The tables below summarise the main elements of the remuneration package for Directors and will be effective from the date approved by shareholders in 2017 and will apply until shareholders next consider and vote on the policy.

## Executive Directors

Fixed elements	Purpose and link to strategy	Operation	Maximum potential payment	Performance metrics	Proposed changes
<b>Base salary</b>	<p>Reflects the individual's skills, responsibilities and experience.</p> <p>Supports the recruitment and retention of Executive Directors of the calibre required to deliver the business strategy within the competitive media market</p>	<p>Reviewed annually and paid monthly in cash. Consideration is typically given to a range of factors when determining salary levels, including:</p> <ul style="list-style-type: none"> <li>• Personal and Company-wide performance.</li> <li>• Typical pay levels in relevant markets for each executive whilst recognising the need for an appropriate premium to attract and retain superior talent, balanced against the need to provide a cost-effective overall remuneration package.</li> <li>• The wider employee pay review.</li> </ul>	<p>Ordinarily salary increases will be in line with the average increase awarded to other employees in the Company. Increases may be made above this level to take account of individual circumstances, which may include:</p> <ul style="list-style-type: none"> <li>• Increase in size or scope of the role or responsibility.</li> <li>• Increase to reflect the individual's development and performance in role.</li> </ul> <p>No salary will exceed £1.13 million (being 120% of the CEO's current salary) as further increased by RPI over the life of the policy.</p>	<p>None, although overall individual and business performance is considered when setting and reviewing salaries.</p>	<p>introduce a formal cap on salaries; this is a cap and not an aspiration.</p>

# Remuneration Policy continued

Fixed elements	Purpose and link to strategy	Operation	Maximum potential payment	Performance metrics	Proposed changes
<b>Provision for an income in retirement</b>	<p>To provide competitive post-retirement benefits or cash allowance as a framework to save for retirement.</p> <p>Supports the recruitment and retention of Executive Directors of the calibre required to deliver the business strategy within the competitive media market.</p>	<p>Executives can choose to participate in the ITV defined contribution scheme, receive a cash allowance or receive payments into a personal pension or a combination thereof.</p> <p>Contributions are set as a percentage of base salary.</p> <p>Post-retirement benefits do not form part of the base salary for the purposes of determining incentives.</p>	<p>The maximum contributions or cash allowances for the Executive Directors are 25% of base salary.</p>	None	No change.
<b>Benefits</b>	<p>Ensures the overall package is competitive and provides financial protection for employees and their families.</p>	<p>The Company provides a range of market competitive benefits including travel related benefits, private medical insurance and other insurance benefits.</p> <p>Additional benefits may also be provided in certain circumstances, if required for business need. For example (but not limited to), relocation expenses, housing allowance and education support.</p>	<p>Set at a level which the Committee considers to be appropriately positioned taking into account typical market levels for comparable roles, individual circumstances and the overall cost to the business.</p> <p>The overall cost of benefits will not exceed £100,000 (£300,000 in the case of a director required to relocate between countries) in any year.</p> <p>In addition, the Company may reimburse relocation expenses and/ or provide for tax equalisation arrangements.</p>	None	<p>Introduce a formal cap on benefits; this is a cap and not an aspiration.</p> <p>Permit relevant protection for expatriate executives.</p>

Variable elements	Purpose and link to strategy	Operation	Maximum potential payment	Performance metrics	Proposed changes
<b>Bonus and DSA</b>	<p>Incentivises executives and colleagues to achieve key strategic outcomes on an annual basis.</p> <p>Focus on key financial metrics and objectives to deliver the business strategy.</p> <p>The element compulsorily deferred into shares rewards delivery of sustained long-term performance, provides alignment with the shareholder experience and supports the retention of executives.</p>	<p>Measures and targets are set annually based on business plans at the start of the financial year and pay-out levels are determined by the Committee following the year-end based on performance against objectives.</p> <p>Paid once the results have been audited. Annual bonus calculations that are based on the financial results for the year are audited by Internal Audit and reviewed by the Audit and Risk Committee before consideration by the Committee.</p> <p>The Committee has the discretion to amend the bonus pay-out should any formulaic assessment of performance not reflect a balanced view of overall business performance for the year.</p> <p>Not more than two-thirds of the bonus is delivered in cash with the balance deferred into shares under the DSA normally for a period of three years.</p> <p>During the deferral period share awards may be reduced or cancelled in certain circumstances. Further detail is provided on page 96.</p> <p>Dividends are paid to participants on the deferred shares during the deferral period.</p>	<p>The maximum bonus opportunity for any Executive Director will not exceed 200% of salary. The current bonus opportunities are 180% of salary for Adam Crozier and 165% of salary for Ian Griffiths. Increases above the current opportunities, up to the maximum limit, may be made to take account of individual circumstances, which may include:</p> <ul style="list-style-type: none"> <li>• Increase in size or scope of the role or responsibility.</li> <li>• Increase to reflect the individual's development and performance in their role.</li> </ul>	<p>Performance measures and targets are set by the Committee each year based on corporate objectives closely linked to the Strategic Priorities and individual contributions. The majority of the bonus opportunity will be based on the corporate and financial measures. The remainder of the bonus will be based on performance against individual and/or strategic objectives.</p> <p>Up to 20% of the maximum opportunity will be received for threshold performance.</p>	No material changes.

# Remuneration Policy continued

Variable elements	Purpose and link to strategy	Operation	Maximum potential payment	Performance metrics	Proposed changes
<b>LTIP</b>	<p>Incentivises executives to deliver performance which is aligned to the business strategy over the longer term and the creation of shareholder value.</p> <p>Acts as a retention tool to retain the executives required to deliver the business strategy.</p>	<p>Awards are made under the LTIP rules.</p> <p>Awards are normally made annually with vesting dependent on business performance during the performance period. The performance period will be not less than three years, other than in exceptional circumstances.</p> <p>The Committee has discretion to amend the final vesting level should any formulaic assessment of performance not reflect a balanced view of the business performance during the performance period.</p> <p>Awards will be required to be held for an additional two-year holding period after the end of the performance period.</p> <p>Dividends are earned on deferred shares during the holding period.</p> <p>During the holding period awards may be reduced or cancelled in certain circumstances. Further detail is provided on page 96.</p>	<p>Our current operational practice is to make awards of 225% of salary each year.</p> <p>Under the LTIP rules, the maximum annual award that may be granted in any financial year is 350% of salary.</p>	<p>The Committee may set such performance conditions on LTIP awards as it considers appropriate (whether financial or non-financial and whether corporate, divisional or individual).</p> <p>The Committee has sought to set measures which are closely linked to the Company's financial and strategic priorities and will continue to do so.</p> <p>The proportion of each element of the award that will vest for threshold performance against a metric will be not more than 20%.</p> <p>Performance periods may be over such periods as the Committee selects at grant, which will not be less (but may be longer) than three years.</p>	<p>Consistent with market practice, greater flexibility to set relevant performance conditions for new awards.</p>
<b>SAYE</b>	<p>Provides all employees, including Executive Directors the opportunity to voluntarily invest in Company shares.</p>	<p>Executive Directors are entitled to participate in the plan on the same basis as other employees.</p>	<p>Participation limits are as per the rules of the plan and in accordance with HMRC limits.</p>	<p>None</p>	<p>No changes.</p>

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

### Legacy arrangements

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

### Malus and claw-back

Malus and claw-back 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. Claw-back allows for repayment of bonuses previously paid and/or shares previously received following vesting. Malus/claw-back 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 may be considered from time to time and currently include material misstatement of results, gross misconduct or fraud.

### Performance measures and target setting

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

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

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

### Non-executive Directors

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

Component	Approach of the Company	Maximum potential payment
<b>Chairman fees</b>	The Committee determines the fees of the Chairman and sets the fees at a level that is considered to be appropriate, taking into account the size and complexity of the business and the expected time commitment and contribution of the role.	The aggregate fees (together with any shares and/or benefits including the reimbursement of travel and other expenses – if subject to taxation – and an amount to meet any tax arising on such expenses) of the Chairman and of Non-Executive Directors will not exceed the limit from time to time prescribed within the Company's Articles of Association (currently £1,500,000 p.a.).
<b>Non-executive fees</b>	<p>The Board determines the fees of the Non-executive Directors and sets the fees at a level that is considered to be appropriate, taking into account the size and complexity of the business and the expected time commitment and contribution of the role</p> <p>Fees are currently structured as a basic fee with additional fees payable for membership and/or chairmanship of a committee or other additional responsibilities but may be restructured within the overall limits.</p>	As above.
<b>Benefits</b>	Additional benefits may also be provided in certain circumstances, if required for business purposes. This includes the reimbursement of any travel expenses (and associated tax on those expenses).	As above.

## Remuneration Policy continued

### Application of the Remuneration Policy

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

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

#### Notes:

1. The scenarios do not include any share price growth assumptions or take into account any dividends that may be paid.
2. Fixed pay is the salary as at 1 January 2017, pension is 25% of salary, and the value of benefits is equivalent to that included in the remuneration table on page 80.
3. Annual bonus is based on 180% of salary for Adam Crozier and 165% of salary for Ian Griffiths.
4. LTIP amount is based on 225% of salary for both Executive Directors.



### Recruitment Remuneration

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

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

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

<b>Ongoing remuneration</b>	<p>In determining an appropriate remuneration structure and levels, the Committee will take into account all relevant factors to ensure they are able to recruit the most appropriate candidate for the job and that the arrangements are in the best interests of both ITV and its shareholders. The Committee will typically seek to align the ongoing remuneration package with the ongoing Remuneration Policy outlined on pages 89 to 97.</p> <p>Consistent with the DRR Regulations, the caps contained within the Remuneration Policy for fixed pay do not apply to new recruits (whether internal or external), although the Committee does not currently envisage exceeding these caps in practice.</p> <p>The maximum level of variable remuneration which may be granted to a new director upon appointment (excluding any buy-out awards for forfeited remuneration) will not be greater than 550% of salary (the sum of the maximum bonus and maximum new LTIP opportunities).</p>
<b>Buy-out awards for forfeited remuneration</b>	<p>The Committee may make awards to 'buy out' a candidate's remuneration arrangements that are forfeited as a result of leaving their previous employer.</p> <p>In doing so, the Committee will take account of relevant factors including any performance conditions attaching to the forfeited awards, the likelihood of the awards vesting and the form and timing of the awards. The Committee will typically seek to make buy-out awards on a comparable basis to those that have been forfeited but, particularly where the performance period is substantially complete, may reflect such conditions in some other way such as through a significant discount to the face value of awards forfeited. Exceptionally, where necessary, this may include a guaranteed or non-prorated annual bonus in the year of joining.</p> <p>In exceptional circumstances, the Committee may grant a buy-out award under a structure not included in the policy but that is consistent with the principles set out above (any may rely upon Listing Rule 9.4.2 in structuring such a buy-out).</p>

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

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

# Remuneration Policy continued

## Service contracts and loss of office

### Executive Directors

Executive Directors have rolling service contracts that provide for 12 months notice on either side. For a new joiner, the contract may commence with a notice period of up to two years reducing to the standard 12 months over time. There are no special provisions that apply in the event of a change of control.

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

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

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

With the exception of termination for cause or resignation (unless the Committee determines otherwise), 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 the performance achieved, provided they have a minimum of three months service in that bonus year.

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

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

### Non-executive Directors

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

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

#### External appointments

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

#### Employment conditions elsewhere in the Company

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

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

#### Shareholder views

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

Where we are proposing to make any significant changes to the ongoing operation of this Remuneration Policy we shall seek major shareholders' views and take these into account.

# Directors' Report

The Directors present their Annual Report and Accounts for the year ended 31 December 2016. The Directors' Report required under the Companies Act 2006 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](http://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. They 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 in May 2017.

## 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 65. Biographies for Directors currently in office can be found on pages 60 and 61 and on our website.

 [www.itvplc.com/about/board-of-directors](http://www.itvplc.com/about/board-of-directors)

Non-executive Directors are appointed for an initial three-year period and annually thereafter. In accordance with the UK Corporate Governance Code, each Director will retire and submit himself or herself for election or re-election at the AGM on 10 May 2017.

Detail on compensation for loss of office can be found in the Remuneration Report on page 84.

**Conflicts of interest:** The Board has delegated the authorisation of conflicts to the Nomination Committee and has adopted a Conflicts of Interest Policy. The Board has considered in detail the current external appointments of the Directors which may give rise to a situational conflict and has authorised potential conflicts where appropriate. This authorisation can be reviewed at any time but will always be subject to annual review. The Board is confident that these procedures operate effectively.

**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](http://www.itvplc.com/investors/governance)

### Dividends

The Board has proposed a final dividend and a special dividend for the year ended 31 December 2016. Details of these and other dividends paid for the year are as follows:

	2016	2015
Interim dividend	2.4p	1.9p
Final dividend	4.8p	4.1p
<b>Total ordinary dividend</b>	<b>7.2p</b>	<b>6.0p</b>
Special dividend	5.0p	10.0p
<b>Total dividend payment</b>	<b>12.2p</b>	<b>16.0p</b>

The final dividend and special dividend for 2016 will be paid on 25 May 2017 to shareholders on the register on 28 April 2017. The ex-dividend date is 27 April 2017.

### Employees

**Disability:** The Company has been certified a 'Disability Confident' employer by the Department for Work and Pensions and 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 is a member of 'Diversity Jobs', which connects people to employers who place high importance on a diverse staff population. 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 colleagues with a disability.

The Company's commitment around the disability agenda extends beyond our legal obligations and we partner with a variety of specialists to drive best practice. Further information can be found on our Responsibility website.

 [www.itvresponsibility.com](http://www.itvresponsibility.com)

**Diversity:** Our 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. The Company has four strategic commitments to diversity: inclusive programming, inclusive workforce, inclusive culture and inclusive access to programmes and services. The Company has a number of policies to support this, for example the Code of Conduct, Equal Opportunities Policy and Social Partnership framework for programme-makers. The Corporate Responsibility Board is responsible for the implementation plans to deliver on these commitments and embed practices into the business.

Further information can be found on our Responsibility website.

 [www.itvresponsibility.com](http://www.itvresponsibility.com)

**Engagement:** Attracting and retaining talent is critical to our success. It is therefore in our interest to ensure that we provide the appropriate rewards and opportunities for development so that colleagues feel engaged with the Company.

In 2016 the Management Board led a series of roadshows across the business. This gave colleagues an opportunity to feed back their thoughts and concerns about the business. Engagement was reinforced through forums such as the intranet, regular soft and hard-copy newsletters and briefings between management and their teams. These channels enabled colleagues to understand the financial and economic factors affecting the Company's performance, how their role contributed towards the execution of the strategy and how they could benefit from Company success through involvement in employee share schemes and information on their rights and benefits.

## Directors' Report continued

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

We have continued to measure and listen to colleagues through employee surveys. This year, in line with best practice, we changed the way we measured engagement globally by including additional questions in order to capture a more rounded picture. 90% of employees said they were proud to work for ITV (2015: 89.33%), and the score for total engagement was 83%.

**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 colleagues earn at least the Living Wage or greater. Where appropriate we have agreed additional increases. On 1st January 2017, all eligible colleagues received a pay increase of 1.5% (2016: 3.0%), with all those on a full-time equivalent basic salary of £100,000 or above receiving no salary increase, including the Executive Directors.

In addition a bonus arrangement extends to all our colleagues, providing a comprehensive incentive framework which rewards everybody when the Company is successful. The all-colleague bonus award for 2016 was paid at £1,300 (2015: paid in full at £1,500).

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

Information about remuneration for the Directors is included in the Remuneration Report on pages 75 to 88.

**Succession planning:** 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:

<b>Executive Development Programme</b>	Next generation potential Management Board successors, giving them an opportunity to develop their management potential and gain a greater understanding of the business.
<b>Developing Future Leaders Programme</b>	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.

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

### Greenhouse Gas emissions

The Company 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 2016 is disclosed below for direct and indirect (electricity consumption) emissions. More information on how we minimise our environmental impact can be found on our Responsibility website.

🌐 [www.itvresponsibility.com](http://www.itvresponsibility.com)

Indicator	2016	2015
Total gross CO <sub>2</sub> e emissions	26,984 (tCO <sub>2</sub> e)	31,196 (tCO <sub>2</sub> e)
Scope 1: Direct emissions	7,793 (tCO <sub>2</sub> e)	8,294 (tCO <sub>2</sub> e)
Scope 2: Indirect emissions	19,191 (tCO <sub>2</sub> e)	22,902 (tCO <sub>2</sub> e)
Total revenue	£3,527m	£3,383m
Emissions per unit/£m revenue	7.7 (tCO <sub>2</sub> e)	9.2 (tCO <sub>2</sub> e)

Source: Mitle Energy analysis of ITV data.

The emissions data covers our global operations. The latest conversion factors from the Department for Business, Energy & Industrial Strategy were used to calculate emissions in tonnes of carbon dioxide equivalents. 34% of our data set is based on estimated data. Estimates are calculated from previous consumption trends and published benchmarks.

As 90% of our greenhouse gas emissions are generated within our UK operations we have concentrated our efforts this year in our oldest buildings by starting to replace the ageing infrastructure with more efficient plant. In the last year we have seen a 12% reduction in energy use at our main site in Leeds as the replacement programme has delivered benefits. We have been able to reduce energy use in our Birmingham studio by almost 20% by replacing the air conditioning with a more efficient system and have reduced our gas consumption in London by 10% by conducting a review of building operations and varying the operating hours of the heating plant. Further investment in 2017 should deliver continued steady reductions.

### Health and safety

The health and safety of our colleagues, 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 has been identified as a Principal risk to the organisation. The Company's professional Health and Safety team continue 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.

In 2016 we rolled out a Leading Risk programme with the leadership teams in ITV Studios UK, 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.

We will build on this in 2017 across our International business and we 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

	2016			2015 <sup>3</sup>		
	Staff	Non Staff	Total	Staff	Non Staff	Total
Lost time accidents reported under RIDDOR <sup>1</sup>	4	1	5	5	7	12
Specified injuries reported under RIDDOR <sup>2</sup>	2	2	4	1	8	9

### Performance indicators – international

		Australia	France	Germany	Talpa	USA	Finland	Norway	Sweden	Denmark
Serious injuries sustained at work by staff	2016	0	0	0	0	3	0	0	0	0
or people directly involved in our activities <sup>1</sup>	2015 <sup>3</sup>	0	0	1	–	1	0	0	0	0

1. This indicates accidents that have led to people being unable to undertake their normal role for seven days or longer.

2. Specified injuries in this context means injuries such as broken bones (not fingers or toes), amputation, serious burns, loss of consciousness caused by a head injury or inpatient hospitalisation. These are reported if they were caused by our work activity.

3. Reported data excludes Mammoth, TwoFour and Talpa as these were not integrated into the ITV Health and Safety Management system in the year ended 31 December 2015.

Due to differing local legislative reporting requirements figures for lost time accidents have not yet been integrated into the ITV Health and Safety Management System.

### 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](http://www.itvplc.com/investors/governance)

The Company operates a pension scheme that provides retirement and death benefits for colleagues. 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 2016 and remain in force for the benefit of each of the directors of ITV Pension Scheme Limited. These indemnity provisions cover, to the extent permitted by law, certain losses or liabilities incurred as a director of ITV Pension Scheme Limited.

## Directors' Report continued

### Listing rule 9.8.4 disclosures

There are no disclosures to be made other than that the trustee of the ITV Employees' Benefit Trust (EBT) waived their rights to receive dividends on shares held by them which do not relate to restricted shares held under the ITV DSA.

### 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 2016 AGM. However, during 2016 the Group made no payments falling within this definition (2015: 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 161 gives details of the Group's financial risk management policies and related exposures. This is 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 116. This note is deemed to form part of this report.

**Subsequent events:** Details of post balance sheet events are set out in the Strategic Report on page 49 and in Note 5.3 on page 172.

**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 2017 or 10 August 2017, 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. The Company's EBT is funded by loans to acquire shares for the potential benefit of employees. Details of shares held by the EBT at 31 December 2016 are set out on page 171. 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 1 March 2017, 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 may have changed since notified to the Company. However, notification of any change is not required until the next applicable threshold is crossed.

	% interest in shares	Nature of interest in shares	% interest in financial instruments	Nature of interest in financial instruments	Total number of shares or interest in shares
Liberty Global Incorporated Limited	9.90	Direct	–	–	398,515,510
Ameriprise Financial, Inc. and its group	4.95	Indirect	0.01	Equity swap	201,233,569
Blackrock Inc.	3.41	Indirect	3.08	Securities lending	284,240,487
			0.56	Contract For Difference	
The Goldman Sachs Group, Inc.	0.07	Indirect	0.27	Stock Loan (physical)	826,553,051
			20.19	Swap (cash) Contract For Difference (cash) Over The Counter option (physical or cash)	

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 60 and 61, 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 Strategic and Directors' Reports include 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 2016. 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 Accounts 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; and
- 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

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

By order of the Board

**Ian Griffiths**  
Group Finance Director  
1 March 2017  
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.

## In this section



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

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

## Opinions and conclusions arising from our audit

### 1. Our opinion on the financial statements is unmodified

We have audited the financial statements of ITV plc for the year ended 31 December 2016 set out on pages 110 to 188. 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 2016 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.

### 2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement, in decreasing order of audit significance, that had the greatest effect on our audit, were as follows:

The risk	Our response
<b>Net Advertising Revenue ('NAR') £1,672 million (2015: £1,719 million) Risk vs 2015: ◀ ▶,</b> <b>Refer to page 71 (Audit Committee report), page 120 (accounting policy) and pages 121 and 122 (financial disclosures)</b>	
<p>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.</p> <p>In particular, the pricing mechanism means it is possible for a difference to arise between the price received by ITV for an advertising campaign and the value it delivered, mainly as a result of the actual viewing figures being different from the agreed level. Where the Group has over-delivered viewers this is referred to as a 'deal credit', or a 'deal debt' where delivery has fallen short. Rather than the price paid for that campaign being adjusted, these differences are noted for each agency and then taken account of when agreeing either future campaigns or the annual contract. A net deal debt position with an agency is recorded in ITV's accounts, as a liability. Net deal credit positions are not recognised.</p> <p>NAR is therefore considered a significant risk due to:</p> <ul style="list-style-type: none"> <li>• The number and complexity of contractual agreements with advertising agencies;</li> <li>• The complexity of the systems and processes of control used to record revenue; and,</li> <li>• The level of estimation involved in determining the deal debt liability at the period end.</li> </ul>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• 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; linkage to transmission/viewer data; and the system generated calculation of deal debt for each campaign;</li> <li>• Analysing revenue based on our industry knowledge and external market data, following up variances; and</li> <li>• Challenging the year-end deal debt position based on comparison with customers' correspondence and agreed terms of business.</li> </ul> <p>We also assessed the adequacy of the group's disclosures in respect of the accounting policies on revenue recognition.</p>

The risk	Our response
<b>Other revenue streams ('Non-NAR revenue') £1,392 million (2015: £1,253 million) Risk vs 2015: ▼</b> Refer to page 71 (Audit Committee report), page 120 (accounting policy) and pages 121 and 122 (financial disclosures)	
<p>Non-NAR revenue includes revenue from: programme production, the sale of programme rights, transmission supply arrangements and the Online, Pay &amp; Interactive division within the Broadcast segment.</p> <p>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.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• We considered the Group's revenue recognition policies against the relevant accounting standards; and</li> <li>• For higher value revenue contracts entered into during the year, we 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.</li> </ul> <p>We also assessed the adequacy of the group's disclosures in respect of the accounting policy on revenue recognition.</p>
<b>Defined benefit pension scheme obligations £367 million (2015: £176 million) Risk vs 2015: ▲</b> Refer to page 70 (Audit Committee report), page 148 (accounting policy) and pages 148 to 156 (financial disclosures)	
<p>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 Group takes independent actuarial advice relating to their appropriateness.</p> <p>Following an analysis of the membership data carried out for the related longevity swap, the Group updated its mortality assumptions in the year which had an impact on the obligations at the year-end.</p> <p>The Group also closed the ITV Pensions Scheme for future benefit accrual with effect from 28 February 2017.</p> <p>The valuation of the defined benefit obligations is considered a significant risk given the quantum of the pension deficits, the developments related to the schemes in the year, and given that a small change in assumptions can have a material financial impact on the Group.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• Challenging the key assumptions applied in determining the Group's pension obligations, being the discount rate, inflation rate and mortality/life expectancy, with the support of our own actuarial specialists;</li> <li>• This included a comparison of these key assumptions against externally derived data; and</li> <li>• Testing the methodology applied in determining the revised mortality expectation by comparing the conclusions of the Group's analysis with our own analysis formed using externally derived data.</li> </ul> <p>We also considered the adequacy of the group's disclosures in respect of the sensitivity of the deficits to these assumptions.</p>

We continue to perform procedures over acquisition accounting and royalty accruals. We have not assessed these as risks that had the greatest effect on our audit for the reasons explained below and, therefore, they are not separately identified in our report this year:

*Acquisition accounting* is not separately identified in our report this year as the Group did not enter into any complex transactions in the year.

*Royalty accruals* are no longer considered a significant risk reflecting further improvement in controls in the year and the overall size of the balance by comparison with the Group's Net Asset position.

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

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

Materiality for the group financial statements as a whole was set at £35 million (2015: £29 million), determined with reference to a benchmark of group profit before tax normalised to exclude the one-off pre-paid employment linked remuneration charge and pension curtailment cost disclosed in note 2.2, £623 million, of which materiality represents 5.5% (2015: 4.6% of group profit before tax).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding million £1.7 million (2015: £1.5 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

### Scoping and coverage

The Group's principal operations are in the United Kingdom. The Group audit team performed the audit of the core UK operations (comprising Broadcast and Online, the UK Studios, Global Entertainment and the central functions) as if they were a single aggregated set of financial information using materiality of £25 million (2015: £25 million). The group team performed procedures on the items excluded from normalised group profit before tax. This year Talpa Media B.V. in the Netherlands, was also scoped in for Group audit purposes as a full scope audit. The work on Talpa Media B.V. was performed by a component auditor as instructed by the Group, including the assessment of relevant risks and determination of the information to be reported back. The Group audit team set the materiality of £5 million for this component.

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

Although not in-scope for Group reporting purposes, in agreement with the Audit Committee, specified risk-based audit procedures were also performed on two entities in the US by component auditors simultaneously with the audit of the in-scope operations. The Group audit team set the materiality for specified audit procedures at £5 million for these US components. Together the above audit and these specified audit procedures covered 90% (2015: 92%) of group revenue, 89% (2015: 94%) of group profit before taxation; and 90% (2015: 88%) of total group assets.

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

In our opinion:

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

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

**5. We have nothing to report on the disclosures of principal risks**

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

- the Directors' viability statement on page 57, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the group's continuing in operation over the 3 years to 31 December 2019; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

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

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

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

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

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

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

Under the Listing Rules we are required to review:

- the Directors' statements, set out on pages 104 and 57, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on pages 64 to 67 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

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

**Scope and responsibilities**

As explained more fully in the Directors' Responsibilities Statement set out on page 104, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate). This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at [www.kpmg.com/uk/auditscopeukco2014a](http://www.kpmg.com/uk/auditscopeukco2014a), which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

**Paul Sawdon (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
 Chartered Accountants  
 15 Canada Square  
 London  
 E14 5GL  
 1 March 2017

# Consolidated Income Statement

For the year ended 31 December	Note	2016 £m	2015 £m
<b>Revenue</b>	2.1	<b>3,064</b>	<b>2,972</b>
<b>Operating costs</b>		<b>(2,460)</b>	<b>(2,306)</b>
<b>Operating profit</b>		<b>604</b>	<b>666</b>
<b>Presented as:</b>			
Earnings before interest, tax, amortisation (EBITA) before exceptional items	2.1	<b>857</b>	842
Operating exceptional items	2.2	<b>(164)</b>	(109)
Amortisation of intangible assets	3.3	<b>(89)</b>	(67)
<b>Operating profit</b>		<b>604</b>	<b>666</b>
Financing income	4.4	<b>2</b>	6
Financing costs	4.4	<b>(53)</b>	(37)
<b>Net financing costs</b>	4.4	<b>(51)</b>	(31)
Gain on sale of non-current assets (exceptional items)	2.2	<b>-</b>	5
Gain on sale of subsidiaries and investments (exceptional items)	2.2	<b>-</b>	1
<b>Profit before tax</b>		<b>553</b>	641
Taxation	2.3	<b>(100)</b>	(139)
<b>Profit from continuing operations</b>		<b>453</b>	502
Loss after tax for the period from discontinued operation	2.5	<b>(1)</b>	-
<b>Profit for the year</b>		<b>452</b>	<b>502</b>
<b>Profit attributable to:</b>			
Owners of the Company		<b>448</b>	495
Non-controlling interests	4.6.6	<b>4</b>	7
<b>Profit for the year</b>		<b>452</b>	<b>502</b>
<b>Earnings per share</b>			
Basic earnings per share	2.4	<b>11.2p</b>	12.4p
Diluted earnings per share	2.4	<b>11.1p</b>	12.3p
<b>Earnings per share from continuing operations</b>			
Basic earnings per share	2.4	<b>11.2p</b>	12.4p
Diluted earnings per share	2.4	<b>11.1p</b>	12.3p



# Consolidated Statement of Comprehensive Income

For the year ended 31 December	Note	2016 £m	2015 £m
<b>Profit for the year</b>		<b>452</b>	<b>502</b>
<b>Other comprehensive income:</b>			
<b>Items that are or may be reclassified to profit or loss</b>			
Revaluation of available for sale financial assets	4.6.4	1	(1)
Net loss on cash flow hedges	4.6.3	(2)	-
Exchange gain on translation of foreign operations (net of hedging)	4.6.3	46	10
<b>Items that will never be reclassified to profit or loss</b>			
Remeasurement (losses)/gains on defined benefit pension schemes	3.7	(248)	91
Income tax charge on items that will never be reclassified	2.3	40	(19)
<b>Other comprehensive (cost)/income for the year, net of income tax</b>		<b>(163)</b>	<b>81</b>
<b>Total comprehensive income for the year</b>		<b>289</b>	<b>583</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		285	576
Non-controlling interests	4.6.6	4	7
<b>Total comprehensive income for the year</b>		<b>289</b>	<b>583</b>

# Consolidated Statement of Financial Position

As at 31 December	Note	2016 £m	2015 £m
<b>Non-current assets</b>			
Property, plant and equipment	3.2	244	239
Intangible assets	3.3	1,624	1,500
Investments in joint ventures, associates and equity investments	3.5	76	30
Derivative financial instruments	4.3	1	8
Distribution rights	3.1.2	31	29
Other pension asset	3.7	39	-
Deferred tax asset	2.3	17	-
		<b>2,032</b>	<b>1,806</b>
<b>Current assets</b>			
Programme rights and other inventory	3.1.1	406	373
Trade and other receivables due within one year	3.1.3	526	531
Trade and other receivables due after more than one year	3.1.3	39	33
Trade and other receivables		565	564
Current tax receivable		11	13
Derivative financial instruments	4.3	8	1
Cash and cash equivalents	4.1	561	294
		<b>1,551</b>	<b>1,245</b>
<b>Current liabilities</b>			
Borrowings	4.2	(165)	(11)
Derivative financial instruments	4.3	(3)	(5)
Trade and other payables due within one year	3.1.4	(960)	(786)
Trade payables due after more than one year	3.1.5	(57)	(48)
Trade and other payables		(1,017)	(834)
Current tax liabilities		(76)	(69)
Provisions	3.6	(19)	(28)
		<b>(1,280)</b>	<b>(947)</b>
<b>Net current assets</b>		<b>271</b>	<b>298</b>
<b>Non-current liabilities</b>			
Borrowings	4.2	(1,035)	(602)
Derivative financial instruments	4.3	(9)	(6)
Defined benefit pension deficit	3.7	(367)	(176)
Deferred tax liabilities	2.3	(70)	(79)
Other payables	3.1.5	(63)	(89)
Provisions	3.6	(4)	(5)
		<b>(1,548)</b>	<b>(957)</b>
<b>Net assets</b>		<b>755</b>	<b>1,147</b>
<b>Attributable to equity shareholders of the parent company</b>			
Share capital	4.6.1	403	403
Share premium	4.6.1	174	174
Merger and other reserves	4.6.2	221	221
Translation reserve	4.6.3	79	35
Available for sale reserve	4.6.4	7	6
Retained earnings	4.6.5	(162)	275
<b>Total equity attributable to equity shareholders of the parent company</b>		<b>722</b>	<b>1,114</b>
Non-controlling interests		33	33
<b>Total equity</b>		<b>755</b>	<b>1,147</b>

The accounts were approved by the Board of Directors on 1 March 2017 and were signed on its behalf by:

**Ian Griffiths**  
Group Finance Director

# Consolidated Statement of Changes in Equity

		Attributable to equity shareholders of the parent company								
	Note	Share capital £m	Share premium £m	Merger and other reserves £m	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
<b>Total comprehensive income for the year</b>										
Profit		-	-	-	-	-	448	448	4	452
<b>Other comprehensive income/(cost)</b>										
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		-	-	-	44	1	(208)	(163)	-	(163)
<b>Total comprehensive income for the year</b>		-	-	-	44	1	240	285	4	289
<b>Transactions with owners, recorded directly in equity</b>										
<b>Contributions by and distributions to owners</b>										
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 contributions by and distributions to owners		-	-	-	-	-	(677)	(677)	(4)	(681)
<b>Total transactions with owners</b>		-	-	-	-	-	(677)	(677)	(4)	(681)
<b>Balance at 31 December 2016</b>	4.6	403	174	221	79	7	(162)	722	33	755

# 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 2015		403	174	228	25	7	177	1,014	50	1,064
<b>Total comprehensive income for the year</b>										
Profit		-	-	-	-	-	495	495	7	502
<b>Other comprehensive income/(cost)</b>										
Revaluation of available for sale financial assets		-	-	-	-	(1)	-	(1)	-	(1)
Exchange differences on translation of foreign operations (net of hedging)		-	-	-	10	-	-	10	-	10
Remeasurement gains on defined benefit pension schemes	3.7	-	-	-	-	-	91	91	-	91
Reclassification of revaluation reserve on disposal of property, plant and equipment		-	-	(4)	-	-	4	-	-	-
Income tax charge on other comprehensive income	2.3	-	-	-	-	-	(19)	(19)	-	(19)
Total other comprehensive income		-	-	(4)	10	(1)	76	81	-	81
<b>Total comprehensive income for the year</b>		-	-	(4)	10	(1)	571	576	7	583
<b>Transactions with owners, recorded directly in equity</b>										
<b>Contributions by and distributions to owners</b>										
Equity dividends		-	-	-	-	-	(459)	(459)	(5)	(464)
Movements due to share-based compensation	4.7	-	-	-	-	-	14	14	-	14
Tax on items taken directly to equity	2.3	-	-	-	-	-	5	5	-	5
Purchase of own shares via employees' benefit trust	4.7	-	-	-	-	-	(33)	(33)	-	(33)
Total contributions by and distributions to owners		-	-	-	-	-	(473)	(473)	(5)	(478)
<b>Total transactions with owners</b>		-	-	-	-	-	(473)	(473)	(5)	(478)
Changes in non-controlling interests <sup>(a)</sup>	3.4	-	-	(3)	-	-	-	(3)	(19)	(22)
<b>Balance at 31 December 2015</b>	4.6	403	174	221	35	6	275	1,114	33	1,147

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

# Consolidated Statement of Cash Flows

For the year ended 31 December	Note	£m	2016 £m	2015 £m
<b>Cash flows from operating activities</b>				
Cash generated from operations before exceptional items:	2.1		870	827
Cash flow relating to operating exceptional items:				
Operating exceptional items	2.2	(164)		(109)
Prepaid employment linked consideration	3.4	–		(109)
Increase in exceptional payables		71		60
Decrease in exceptional prepayments and other receivables		66		36
Cash outflow from exceptional items			(27)	(122)
Operating cash flow from discontinued operation	2.5		(6)	–
<b>Cash generated from operations</b>			<b>837</b>	<b>705</b>
Defined benefit pension deficit funding		(80)		(90)
Interest received		38		25
Interest paid on bank and other loans		(58)		(34)
Net taxation paid		(90)		(117)
			(190)	(216)
<b>Net cash inflow from operating activities</b>			<b>647</b>	<b>489</b>
<b>Cash flows from investing activities</b>				
Acquisition of subsidiary undertaking, net of cash acquired	3.4	(97)		(406)
Prepaid employment linked consideration	3.4	–		109
Net consideration paid		(97)		(297)
Proceeds from sale of property, plant and equipment		–		28
Acquisition of property, plant and equipment		(29)		(33)
Acquisition of intangible assets		(15)		(16)
Acquisition of investments		(41)		(14)
Loans granted to associates and joint ventures		(2)		(2)
Net proceeds from sale of assets held for sale	2.5	10		
Proceeds from sale of subsidiaries, joint ventures and available for sale investments		–		1
<b>Net cash inflow/(outflow) from investing activities</b>			<b>(174)</b>	<b>(333)</b>
<b>Cash flows from financing activities</b>				
Bank and other loans – amounts repaid		(655)		(447)
Bank and other loans – amounts raised		1,177		797
Capital element of finance lease payments		(6)		(7)
Equity dividends paid		(663)		(459)
Dividend paid to minority interest		(4)		(5)
Purchase of own shares via employees' benefit trust		(20)		(33)
<b>Net cash outflow from financing activities</b>			<b>(171)</b>	<b>(154)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>			<b>302</b>	<b>2</b>
<b>Cash and cash equivalents at 1 January</b>	4.1		<b>294</b>	<b>297</b>
Reclassification of gilts to other pension assets	3.7		(39)	–
Effects of exchange rate changes and fair value movements			4	(5)
<b>Cash and cash equivalents at 31 December</b>	4.1		<b>561</b>	<b>294</b>

# 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 2016 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 (FRS101).

### Going concern

At 31 December 2016 the Group was in a net debt position. The Group's strong balance sheet and continued generation of significant free cash flows has enabled further investment as well as the payment of a special dividend. The Group has also sought to gain further efficiencies in the balance sheet and maintain the flexibility to invest in the business by issuing a new Eurobond (see section 4 for details on capital structure and financing).

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

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

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for at least twelve 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 non-current other payables (contingent consideration); and
- Financial liabilities measured at amortised cost – separately disclosed as borrowings and trade and other payables.

Judgement is required when determining the appropriate classification of the Group's financial instruments. Details on the accounting policies for measurement of the above instruments are set out in the relevant note. 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. Cash and cash equivalents that has a charge executed over it is excluded from cash and cash equivalents.

**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, which allows for the effective portion of any foreign exchange gains or losses to be 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 movement in currency 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 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)
- Testing of goodwill impairment (note 3.3)

### 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 2016:

Accounting Standard	Requirement
<b>IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment</b>	The amendments clarify acceptable methods of depreciation and amortisation introducing a rebuttable presumption that the use of revenue-based amortisation or depreciation methods is inappropriate. This presumption can be overcome when revenue and the consumption of the economic benefits of the asset are highly correlated.
<b>IAS 27 Separate Financial Statements</b>	The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures, but also for subsidiaries.
<b>IAS 11 Joint Arrangements</b>	The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business.
<b>IAS 1 Presentation of financial statements</b>	Amendments to clarify various standards including IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 3 Business Combinations, IFRS 8 Operating Segments, IFRS 13 Fair Value Measurement, IAS 16 Property, Plant and Equipment, IAS 24 Related Party Disclosures and IAS 38 Intangible Assets.
<b>Annual Improvements to IFRS 2012 – 2014 cycle</b>	Amendments to clarify various standards including IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting.

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 2016.

The Directors also considered the impact on the Group of other new and revised accounting standards, interpretations or amendments that are currently endorsed but not yet effective. There are none that are effective for periods beginning on or after 1 January 2016 that are expected to have a significant impact on the Group's results.



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

An initial assessment of impact on the Group's performance has been performed on material revenue streams. The impact is not expected to be material for Broadcasting revenues. Studios revenues are mainly comprised of production and distribution revenue streams. No material impact is expected on the production revenues. Further detailed analysis on licensing and merchandising revenues is ongoing to assess whether contracts include dynamic (e.g. continued obligation to update content over the license period) or static performance obligations, which will aid in determining whether revenue should be recognised over the license period or at a point in time. The impact on those revenue streams is expected to be limited.

The Directors anticipate adopting IFRS 15 on 1 January 2018. When it is adopted, IFRS 15 can be applied either on a fully retrospective basis, requiring the restatement of the comparative periods presented in the financial statements, or with the cumulative retrospective impact of the standard applied as an adjustment to equity on the date of adoption. When the latter is applied disclosure of the impact of IFRS 15 on each line item in the financial statements is required. The Directors currently intend to apply the cumulative effect method.

**IFRS 9 Financial Instruments** is also effective 1 January 2018. Based on the initial assessment of the impact, the Directors are currently not expecting the application to significantly impact the Group's current accounting or hedging activities.

**IFRS 16 Leases** is effective 1 January 2019 and has not been endorsed by the EU. 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 for future lease payments. Lease costs (such as property rent) will be recognised in the form of depreciation and interest, rather than operating cost. The detailed assessment of impact on the Group's performance is ongoing, the adoption is likely to have a material impact on the presentation of the Group's assets and liabilities.

# 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, 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 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 that the service has been provided, and if so, whether there is a fixed or reasonably determinable price that is reasonably certain will 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 recognised on the following bases:

Applicable segment	Class of revenue	Recognition criteria
Broadcast & Online	Advertising (NAR)	on transmission
	Video on Demand (VOD)	as audience targets are met
	Sponsorship	across period of transmission of the sponsored programme or series
	Pay	over the term of the contract or for the expected revenue per subscriber or download
	Participation (Interactive & Brand Extensions)	as the service is provided or 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 license is transferred and the customer is able to use and benefit from the licence; over the license 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:

	2016 £m	2016 % of total	2015 £m	2015 % of total
<b>NAR</b>				
Broadcast & Online	1,672	47%	1,719	51%
<b>Non-NAR</b>				
Broadcast & Online	460		427	
ITV Studios: Productions	1,089		1,045	
ITV Studios: Distribution	306		192	
<b>Total Non-NAR</b>	<b>1,855</b>	<b>53%</b>	<b>1,664</b>	<b>49%</b>
<b>Total revenue from continuing operations</b>	<b>3,527</b>	<b>100%</b>	<b>3,383</b>	<b>100%</b>

#### 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 2016 and 31 December 2015 are therefore Broadcast & Online and ITV Studios, the results of which are outlined in the following tables:

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

	Broadcast & Online 2015 £m	ITV Studios* 2015 £m	Consolidated 2015 £m
Total segment revenue	2,146	1,237	3,383
Intersegment revenue	-	(411)	(411)
<b>Revenue from external customers including discontinued operations</b>	<b>2,146</b>	<b>826</b>	<b>2,972</b>
Less: Discontinued operations	-	-	-
<b>Revenue from external customers</b>	<b>2,146</b>	<b>826</b>	<b>2,972</b>
Adjusted EBITA including discontinued operations**	659	206	865
Adjusted EBITA from discontinued operations**	-	-	-
<b>Adjusted EBITA**</b>	<b>659</b>	<b>206</b>	<b>865</b>

\* Revenue of £320 million (2015: £389 million) was generated in the US during the year; the US represented £346 million (2015: £314 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.

Intersegment revenue, which is earned on arm's length terms, is generated from the supply of ITV Studios programmes to Broadcast & Online for transmission primarily on the ITV Network. This revenue stream is a measure which 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 segment 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

The Group's principal operations are in the United Kingdom. Revenue from external customers in the United Kingdom is £2,370 million (2015: £2,275 million), and revenue from external customers in other countries is £694 million (2015: £697 million). The Financial and Performance Review provides further detail on ITV's international revenues.

There is one media buying agency (2015: two) acting on behalf of a number of advertisers that represent the Group's major customers. This agency is the only customer which individually represents over 10% of the Group's revenue. Revenue of approximately £552 million (2015: £576 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, 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 63% of ITV main channel spend on commissioned programming. 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 straight to series.

ITV Studios also operates in five other international locations being Australia, Germany, France, 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 Financial 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:

	2016 £m	2015 £m
<b>Adjusted EBITA</b>	<b>885</b>	<b>865</b>
Production tax credits	(28)	(23)
<b>EBITA before exceptional items from continuing operations</b>	<b>857</b>	<b>842</b>
Operating exceptional items	(164)	(109)
Amortisation of intangible assets	(89)	(67)
Net financing costs	(51)	(31)
Gain on sale of non-current assets (exceptional items)	-	5
Gain on sale of subsidiaries and investments (exceptional items)	-	1
<b>Profit before tax from continuing operations</b>	<b>553</b>	<b>641</b>

**Cash generated from operations**

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

	2016 £m	2015 £m
<b>Cash flows from operating activities</b>		
Profit before tax	553	641
Gain on sale of subsidiaries and investments (exceptional items)	–	(1)
Gain on sale of non-current assets (exceptional items)	–	(5)
Net financing costs	51	31
Operating exceptional items	164	109
Depreciation of property, plant and equipment	31	27
Amortisation of intangible assets	89	67
Share-based compensation and pension service costs	10	17
(Increase)/decrease in programme rights and other inventory, and distribution rights	(35)	4
(Increase) in receivables	(56)	(21)
Increase/(decrease) in payables	63	(42)
Movement in working capital	(28)	(59)
<b>Cash generated from operations before exceptional items</b>	<b>870</b>	<b>827</b>

**Operating costs****Staff costs**

Staff costs before exceptional items can be analysed as follows:

	2016 £m	2015 £m
Wages and salaries	336	318
Social security and other costs	46	43
Share-based compensation (see note 4.7)	10	14
Pension costs	27	25
<b>Total staff costs</b>	<b>419</b>	<b>400</b>
Less: staff costs allocated to productions	(147)	(137)
<b>FTEE staff costs (non-production)</b>	<b>272</b>	<b>263</b>

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:

	2016	2015
Broadcast & Online	2,087	2,109
ITV Studios	4,034	3,449
	<b>6,121</b>	<b>5,558</b>

The increase in full-time equivalent employees in ITV Studios is primarily driven by the full year effect of acquisitions completed in 2015.

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 2016 are set out in the ITV plc entity financial statements.

**Depreciation**

Depreciation in the year was £31 million (2015: £27 million), of which £13 million (2015: £14 million) relates to Broadcast & Online and £18 million (2015: £13 million) to ITV Studios.

# 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:

2016	Transponders	Property	Total
Within one year	28	19	47
Later than one year and not later than five years	129	59	188
Later than five years	92	17	109
	249	95	344

2015	Transponders	Property	Total
Within one year	34	17	51
Later than one year and not later than five years	111	48	159
Later than five years	115	21	136
	260	86	346

The Group's operating leases relate to transponder assets, offices and studio properties. 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. These supply agreements are classified as operating leases, in accordance with the Group's policy on leases detailed in note 3.2.

Property leases run for terms ranging from five to twenty 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 future minimum sublease payments expected to be received under non-cancellable subleases at the year end are £1 million (2015: £1 million).

The total operating lease expenditure recognised during the year was £47 million (2015: £51 million) and total sublease payments received were £1 million (2015: £2 million).

### Audit fees

The Group engages KPMG LLP (KPMG) on assignments additional to their statutory audit duties where their 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:

	2016 £m	2015 £m
For the audit of the Group's annual accounts	0.6	0.6
For the audit of subsidiaries of the Group	0.6	0.4
Audit-related assurance services	0.2	0.2
<b>Total audit and audit-related assurance services</b>	<b>1.4</b>	<b>1.2</b>
Taxation advisory services	0.2	0.1
Other assurance services	0.1	0.3
<b>Total non-audit Services</b>	<b>0.3</b>	<b>0.4</b>
<b>Total fees paid to KPMG</b>	<b>1.7</b>	<b>1.6</b>

There were no fees payable in 2016 or 2015 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 disclosed on the face of the income statement.

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.	2016 £m	2015 £m
<b>Operating exceptional items:</b>			
Acquisition-related expenses	A	(131)	(88)
Reorganisation and restructuring costs	B	(14)	(13)
Pension curtailment cost	C	(19)	–
Legal related costs		–	(8)
<b>Total net operating exceptional items</b>		<b>(164)</b>	<b>(109)</b>
<b>Non-operating exceptional items:</b>			
Gain on sale of non-current assets	D	–	5
Gain on sale and impairment of subsidiaries and investments	E	–	1
<b>Total non-operating exceptional items</b>		<b>–</b>	<b>6</b>
<b>Total exceptional items before tax</b>		<b>(164)</b>	<b>(103)</b>
Tax on exceptional items		15	8
<b>Total exceptional items net of tax</b>		<b>(149)</b>	<b>(95)</b>

#### A – Acquisition-related expenses

Acquisition-related expenses of £131 million includes £110 million (2015: £78 million) relating to performance-based, employment linked costs to former owners mainly in relation to Talpa Media. The remaining £21 million (2015: £10 million) is primarily comprised of integration costs and professional fees (mainly financial and legal due diligence). See note 3.4 for further details on acquisitions.

#### B – Reorganisation and restructuring costs

In 2016 £14 million (2015: £13 million) of costs were incurred as a result of a Group-wide commitment to reduce the overhead cost base by £25 million. This cost was primarily comprised of redundancy.

#### C – 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 (see note 3.7 for further detail).

#### D – Gain on sale of non-current assets

In 2015 a £5 million gain on sale of non-current assets arose primarily as a result of the sale of a freehold property and related assets in Manchester.

#### E – Gain on sale and impairment of subsidiaries and investments

The gain of £1 million in 2015 relates to a historical disposal.

# Notes to the Financial Statements

## Section 2: Results for the Year continued

### 2.3 Taxation

#### Keeping it simple



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

#### Accounting policies

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

#### Current tax

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

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

#### Deferred tax

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

The following temporary differences are not provided for:

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

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

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

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



**Taxation – Income statement**

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

	2016 £m	2015 £m
<b>Current tax:</b>		
Current tax charge on profit before exceptional items	(134)	(125)
Current tax (charge)/credit on exceptional items	11	6
	(123)	(119)
Adjustments to prior periods	10	9
	(113)	(110)
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	18	(20)
Deferred tax (charge)/credit on exceptional items	4	2
Impact of change in the statutory tax rate	1	(2)
	23	(20)
Adjustments to prior periods	(10)	(9)
	13	(29)
<b>Total taxation charge in the income statement</b>	<b>(100)</b>	<b>(139)</b>

In order to understand how, in the income statement, a tax charge of £100 million (2015: £139 million) arises on a profit before tax of £553 million (2015: £641 million), the taxation charge that would arise at the standard rate of UK corporation tax is reconciled to the actual tax charge as follows:

	2016 £m	2015 £m
Profit before tax	553	641
Notional taxation charge at UK corporation tax rate of 20% (2015: 20.25%) on profit before tax	(111)	(130)
Non-taxable income/non-deductible expenses	(25)	(23)
Other taxes	(1)	–
Current year losses not recognised	(2)	–
Impact of overseas tax rates	10	(7)
Impact of changes in tax rates	1	(2)
Production tax credits	28	23
<b>Total taxation charge in the income statement</b>	<b>(100)</b>	<b>(139)</b>

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. This year there is no net impact of prior year adjustments in the total tax charge. The current tax charge includes a £10 million credit relating to prior years, and the deferred tax credit includes an equal and opposite £10 million charge.

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 to 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 has been enacted to fall to 19% from 1 April 2017 and 17% from 1 April 2020 (this supersedes the originally enacted reduction to 18%). The carrying value of UK temporary differences at the balance sheet date has been adjusted accordingly. This has given rise to a charge of £5 million (2015: £1 million) of which £1 million is recognised as a credit in the income statement and £6 million as a charge 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. 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.

# Notes to the Financial Statements

## Section 2: Results for the Year continued

The effective tax rate is 18.1% (2015: 21.7%), 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 2016 and 31 December 2015, the effective tax rate is comparable to the standard rate of UK corporation tax (20% in 2016 and 20.25% in 2015). As explained in the Financial and Performance 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 £18 million, compared with a charge of £20 million in 2015. The main reasons for this change are the recognition of tax losses in our overseas businesses, and the unwinding of deferred tax liabilities as intangible assets are amortised.

### Taxation – Other comprehensive income and equity

As analysed in the table below, a deferred tax credit of £40 million on actuarial movements on pensions has been recognised in other comprehensive income. A deferred tax charge of £6 million has been recognised in equity in respect of share based payments.

A current tax credit of £2 million has also been recognised in equity in relation to share based payments.

### 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 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 1 January 2015 £m	Recognised in the income statement £m	Recognised in OCI and equity £m	Business acquisitions £m	At 31 December 2015 £m
Property, plant and equipment	(1)	1	–	–	–
Intangible assets	(15)	(10)	–	(76)	(101)
Programme rights	1	–	–	–	1
Pension scheme deficits	36	(16)	(19)	–	1
Tax losses	7	(3)	–	–	4
Share-based compensation	14	(1)	(2)	–	11
Other temporary differences	1	–	–	4	5
	43	(29)	(21)	(72)	(79)

At 31 December 2016, total deferred tax assets are £65 million (2015: £22 million) and total deferred tax liabilities are £118 million (2015: £101 million). After netting off balances within countries, there is a deferred tax liability of £70 million and a deferred tax asset of £17 million (2015: net deferred tax liability of £79 million) recognised in the Consolidated Statement of Financial Position.

The deferred tax balances relate to:

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

The deferred tax balance associated with the pension deficit has been adjusted to reflect the current tax benefit obtained in the current year following the employer contributions of £93 million to the Group's defined benefit pension scheme. The adjustment in other comprehensive income to the deferred tax balance primarily relates to the actuarial loss recognised in the period.

A deferred tax asset of £377 million (2015: £399 million) in respect of capital losses of £2,215 million (2015: £2,215 million) has not been recognised due to uncertainties as to whether a capital gain will arise in the appropriate form and relevant territory against which such losses could be utilised. For the same reasons, deferred tax assets of £19 million (2015: £15 million) in respect of overseas losses that time expire between 2017 and 2027 have not been recognised.

## 2.4 Earnings per share

### Keeping it simple



Earnings per share ('EPS') is the amount of post-tax profit attributable to each share. In 2016 we present 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 £448 million (2015: £495 million) divided by 4,010 million (2015: 4,006 million) being the weighted average number of shares in issue during the year.

**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 include 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 are 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:

#### Earnings per share

	2016 £m	2015 £m
Profit for the year attributable to equity shareholders of ITV plc	448	495
Less: Loss for the year from discontinued operations	(1)	–
<b>Profit for the year attributable to equity shareholders of ITV plc from continuing operations</b>	<b>449</b>	<b>495</b>
Weighted average number of ordinary shares in issue – million	4,010	4,006
<b>Earnings per ordinary share and from continuing operations</b>	<b>11.2p</b>	<b>12.4p</b>
Loss per ordinary share from discontinued operations	–	–

#### Diluted earnings per share

	2016 £m	2015 £m
Profit for the year attributable to equity shareholders of ITV plc from continuing operations	449	495
Weighted average number of ordinary shares in issue – million	4,010	4,006
Dilution due to share options	19	29
<b>Total weighted average number of ordinary shares in issue – million</b>	<b>4,029</b>	<b>4,035</b>
<b>Diluted earnings per ordinary share and from continuing operations</b>	<b>11.1p</b>	<b>12.3p</b>
Diluted loss per ordinary share from discontinued operations	–	–

# Notes to the Financial Statements

## Section 2: Results for the Year continued

### Adjusted earnings per share

	Ref	2016 £m	2015 £m
Profit for the year attributable to equity shareholders of ITV plc		448	495
Exceptional items (net of tax)	A	149	95
Less: Loss after tax for the period from discontinued operations		(1)	–
<b>Profit for the year before exceptional items from continuing operations</b>		<b>598</b>	<b>590</b>
Amortisation and impairment of acquired intangible assets	B	66	54
Adjustments to net financing costs	C	19	15
<b>Adjusted profit from continuing operations</b>		<b>683</b>	<b>659</b>
Total weighted average number of ordinary shares in issue – million		4,010	4,006
<b>Adjusted earnings per ordinary share and from continuing operations</b>		<b>17.0p</b>	<b>16.5p</b>
<b>Adjusted loss per ordinary share from discontinued operations</b>		<b>–</b>	<b>–</b>

### Diluted adjusted earnings per share

	2016 £m	2015 £m
<b>Adjusted profit from continuing operations</b>	<b>683</b>	<b>659</b>
Weighted average number of ordinary shares in issue – million	4,010	4,006
Dilution due to share options	19	29
<b>Total weighted average number of ordinary shares in issue – million</b>	<b>4,029</b>	<b>4,035</b>
<b>Diluted adjusted earnings per ordinary share and from continuing operations</b>	<b>17.0p</b>	<b>16.3p</b>
<b>Diluted adjusted loss per ordinary share from discontinued operations</b>	<b>–</b>	<b>–</b>

Details of the adjustments to earnings are as follows:

#### A. Exceptional items (net of tax) £149 million (2015: £95 million)

Calculated as total exceptional items of £164 million (2015: £103 million) net of related tax credit of £15 million (2015: £8 million). See note 2.2 for the detailed composition of exceptional items of £164 million.

#### B. Amortisation and impairment of acquired intangible assets of £66 million (2015: £54 million)

Calculated as total amortisation and impairment of £89 million (2015: £67 million), less amortisation of software licences and development of £12 million (2015: £9 million), net of related tax credit of £20 million (2015: £13 million). This is then adjusted to recognise a £9 million cash tax benefit arising from goodwill on US acquisitions, which for tax purposes is amortised over a 15-year period (2015: £9 million).

#### C. Adjustments to net financing costs £19 million (2015: £15 million)

Net financing costs are adjusted for mark-to-market movements on derivative instruments, foreign exchange and imputed pension interest charges of £25 million (2015: £18 million) net of related tax credit of £6 million (2015: £3 million).

## 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. Accounting standards dictate that the loss from discontinued operations is recognised outside of the Group's operating results.

Management agreed to sell UTV Ireland Limited to Virgin Media on 11 July 2016 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. See section 3.4 for further details.

#### Results of discontinued operations

	2016 £m	2015 £m
Revenue	11	–
Expenses	(17)	–
<b>Operating loss</b>	<b>(6)</b>	–
Taxation	–	–
<b>Loss after tax</b>	<b>(6)</b>	–
Gain on sale of discontinued operations	5	–
Tax on gain on sale of discontinued operations	–	–
<b>Loss for the period</b>	<b>(1)</b>	–
<b>Earnings per share</b>		
Basic loss per share	–	–
Diluted loss per share	–	–

#### Cash flows from (used in) discontinued operations

	2016 £m	2015 £m
Net cash used in operating activities	(6)	–
Net cash from investing activities	10	–
<b>Net cash flow for the period</b>	<b>4</b>	–

# 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 owned 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 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.

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

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

	2016 £m	2015 £m
Acquired programme rights	157	111
Commissions	69	61
Sports rights	27	30
	253	202

**Broadcast programme commitments**

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

	2016 £m	2015 £m
Within one year	454	451
Later than one year and not more than five years	789	633
More than five years	112	141
	<b>1,355</b>	<b>1,225</b>

**Studios production costs**

Production inventory comprises the costs incurred by ITV Studios in producing a programme, where the programme is 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.

Also included here are dramas that are typically more expensive to produce. The production cost of a drama is 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:

	2016 £m	2015 £m
Production costs	<b>153</b>	<b>171</b>

**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 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. 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 are as follows:

	2016 £m	2015 £m
Distribution rights	<b>31</b>	<b>29</b>

The movement during the year comprises new rights acquired of £40 million (2015: £43 million) and amounts charged to the income statement of £38 million (2015: £27 million).

# Notes to the Financial Statements

## Section 3: Operating Assets and Liabilities continued

### 3.1.3 Trade and other receivables

#### Accounting policies

Trade receivables are recognised initially at the value of the invoice sent to the customer and subsequently at the amounts considered recoverable (amortised cost). Where payments are not due for more than one year, they are shown in the financial statements at their net present value to reflect the economic cost of delayed payment. The Group provides goods and services to substantially all 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. During the year £35 million of trade receivable invoices were sold under a receivables purchase agreement (see note 4.2 for more details). Trade and other receivables can be analysed as follows:

	2016 £m	2015 £m
Due within one year:		
Trade receivables	315	328
Other receivables	39	37
Prepaid employment linked consideration (see note 3.4)	21	55
Prepayments and accrued income	151	111
	526	531
Due after more than one year:		
Trade receivables	12	8
Prepaid employment linked consideration (see note 3.4)	-	18
Accrued income and other receivables	27	7
<b>Total trade and other receivables</b>	<b>565</b>	<b>564</b>

Prepaid employment linked consideration totalling £21 million (2015: £55 million) relates to the acquisition of Talpa Media in 2015 (see note 3.4 for details). This represents the portion of the initial consideration of €150 million that is recoverable from the seller in the event he leaves within the initial two years following acquisition. This amount is amortised over the two years to 31 March 2017 and recognised as exceptional expense (see note 2.2).

£327 million (2015: £336 million) of total trade receivables that are not impaired are aged as follows:

	2016 £m	2015 £m
Current	299	308
Up to 30 days overdue	19	17
Between 30 and 90 days overdue	6	8
Over 90 days overdue	3	3
	327	336

The balance above is stated net of a provision of £4 million (2015: £5 million) for impairment of trade receivables. Of the provision total, £3 million relates to balances overdue by more than 90 days (2015: £4 million) and £1 million relates to current balances (2015: £1 million).

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

	2016 £m	2015 £m
At 1 January	5	7
Charged during the year	3	3
Unused amounts reversed	(4)	(5)
At 31 December	4	5



**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:

	2016 £m	2015 £m
Trade payables	71	65
VAT and social security	61	71
Other payables	291	177
Accruals	332	289
Deferred income	205	184
	<b>960</b>	<b>786</b>

Other payables include £105 million (2015: £3 million) of acquisition related liabilities due in 2017, of which £72 million is employment linked contingent consideration and £33 million is payable to sellers under put options agreed on acquisition.

**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:

	2016 £m	2015 £m
Trade payables	57	48
Other payables	63	89
	<b>120</b>	<b>137</b>

Trade payables primarily relate to film creditors for which payment is due after more than one year. Other payables include the non-current portion of acquisition related liabilities of £53 million (2015: £82 million), of which £38 million is employment linked contingent consideration and £15 million is payable to sellers under put options agreed on acquisition.

**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 £28 million (2015: outflow of £59 million) derived as follows:

	2016 £m	2015 £m
(Increase)/decrease in programme rights and other inventory and distribution rights	(35)	4
(Increase) in receivables	(56)	(21)
Increase/(decrease) in payables	63	(42)
<b>Working capital outflow</b>	<b>(28)</b>	<b>(59)</b>

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

# Notes to the Financial Statements

## Section 3: Operating Assets and Liabilities continued

### 3.2 Property, plant and equipment

#### Keeping it simple



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

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

This section also explains the accounting policies followed by ITV and the specific estimates made in arriving at the net book value of these assets.

#### Accounting policies

##### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Certain items of property, plant and equipment that were revalued to fair value prior to 1 January 2004 (the date of transition to IFRS) are measured on the basis of deemed cost, being the revalued amount less depreciation up to the date of transition.

##### Leases

Finance leases are those which transfer substantially all the risks and rewards of ownership to the lessee.

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.

**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
<b>Cost</b>						
At 1 January 2015	120	67	17	237	16	457
Additions	–	–	1	37	–	38
Disposals and retirements	(31)	(1)	–	(10)	–	(42)
<b>At 31 December 2015</b>	<b>89</b>	<b>66</b>	<b>18</b>	<b>264</b>	<b>16</b>	<b>453</b>
Additions	3	–	2	28	–	33
Foreign exchange	–	–	–	6	–	6
Reclassifications	–	–	–	3	(3)	–
Disposals and retirements	–	–	–	(29)	(13)	(42)
<b>At 31 December 2016</b>	<b>92</b>	<b>66</b>	<b>20</b>	<b>272</b>	<b>–</b>	<b>450</b>
<b>Depreciation</b>						
At 1 January 2015	17	13	15	150	14	209
Charge for the year	1	2	–	24	–	27
Disposals and retirements	(12)	(1)	–	(9)	–	(22)
<b>At 31 December 2015</b>	<b>6</b>	<b>14</b>	<b>15</b>	<b>165</b>	<b>14</b>	<b>214</b>
Charge for the year	1	2	1	27	–	31
Foreign exchange	–	–	–	3	–	3
Reclassifications	–	–	–	1	(1)	–
Disposals and retirements	–	–	–	(29)	(13)	(42)
<b>At 31 December 2016</b>	<b>7</b>	<b>16</b>	<b>16</b>	<b>167</b>	<b>–</b>	<b>206</b>
<b>Net book value</b>						
<b>At 31 December 2016</b>	<b>85</b>	<b>50</b>	<b>4</b>	<b>105</b>	<b>–</b>	<b>244</b>
<b>At 31 December 2015</b>	<b>83</b>	<b>52</b>	<b>3</b>	<b>99</b>	<b>2</b>	<b>239</b>

Additions in the year includes £4 million (2015: £6 million) relating to assets owned by subsidiaries acquired during the year.

Included within property, plant and equipment are assets in the course of construction of £19 million (2015: £16 million).

In 2016, the Group retired £42 million of assets from use with a net book value of £nil. In 2015, the Group disposed of the Quay Street site and related assets in Manchester for £23 million, representing a gain on sale of £5 million.

In 2013 the Group acquired the freehold for the London Television Centre for £58 million, although the Directors' view is that fair value of the property would be significantly higher than the carrying value.

**Capital commitments**

There are £4 million of capital commitments at 31 December 2016 (2015: £2 million).

# Notes to the Financial Statements

## Section 3: Operating Assets and Liabilities continued

### 3.3 Intangible assets

#### Keeping it simple



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

These assets include formats and brands, customer contracts and relationships, contractual arrangements, licences, software development, film libraries and goodwill. The cost of these assets is the amount that the Group has paid or, where there has been a business combination, the fair value of the specific intangible assets *that could be sold separately or which arise from legal rights*. In the case of goodwill, its cost is the amount the Group has paid in acquiring a business over and above the fair value of the individual assets and liabilities acquired. The value of goodwill is '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 one-off impairment charge is made against profit.

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

#### Accounting policies

##### Goodwill

Goodwill represents the future economic benefits that arise from assets that are not capable of being individually identified and separately recognised. The goodwill recognised by the Group has all arisen as a result of business combinations. 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.

**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.

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.

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

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 license 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.

## Notes to the Financial Statements

### Section 3: Operating Assets and Liabilities continued

#### **Amortisation**

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

#### **Impairment**

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

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

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

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

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

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

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

**Intangible assets**

Intangible assets can be analysed as follows:

	Goodwill £m	Formats and brands £m	Customer contracts and relationships £m	Contractual arrangements £m	Licences £m	Libraries and other £m	Software licences and development £m	Total £m
<b>Cost</b>								
At 1 January 2015	3,627	201	385	10	121	97	89	4,530
Additions	102	273	23	–	–	1	15	414
Foreign exchange	15	7	3	–	–	1	–	26
<b>At 31 December 2015</b>	<b>3,744</b>	<b>481</b>	<b>411</b>	<b>10</b>	<b>121</b>	<b>99</b>	<b>104</b>	<b>4,970</b>
Additions	44	3	–	–	55	–	13	115
Foreign exchange	47	51	9	1	–	4	–	112
<b>At 31 December 2016</b>	<b>3,835</b>	<b>535</b>	<b>420</b>	<b>11</b>	<b>176</b>	<b>103</b>	<b>117</b>	<b>5,197</b>
<b>Amortisation and impairment</b>								
At 1 January 2015	2,654	177	347	5	90	57	71	3,401
Charge for the year	–	27	17	2	4	8	9	67
Foreign exchange	–	1	1	–	–	–	–	2
<b>At 31 December 2015</b>	<b>2,654</b>	<b>205</b>	<b>365</b>	<b>7</b>	<b>94</b>	<b>65</b>	<b>80</b>	<b>3,470</b>
Charge for the year	–	44	16	2	6	9	12	89
Foreign exchange	–	5	6	1	–	2	–	14
<b>At 31 December 2016</b>	<b>2,654</b>	<b>254</b>	<b>387</b>	<b>10</b>	<b>100</b>	<b>76</b>	<b>92</b>	<b>3,573</b>
<b>Net book value</b>								
<b>At 31 December 2016</b>	<b>1,181</b>	<b>281</b>	<b>33</b>	<b>1</b>	<b>76</b>	<b>27</b>	<b>25</b>	<b>1,624</b>
<b>At 31 December 2015</b>	<b>1,090</b>	<b>276</b>	<b>46</b>	<b>3</b>	<b>27</b>	<b>34</b>	<b>24</b>	<b>1,500</b>

All intangible asset additions in the year, excluding software, are due to the acquisition of UTV Limited, as detailed in note 3.4 (2015: four companies acquired).

**Goodwill impairment tests**

The carrying amount of Goodwill for each CGU is represented as follows:

	2016 £m	2015 £m
Broadcast & Online	386	342
SDN	76	76
ITV Studios	719	672
	1,181	1,090

There has been no impairment charge for any CGU during the year (2015: £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 long-term growth rate of 2% (2015: 2%). The growth rate used is consistent with the long-term average growth rates for both the industry and the countries in which they 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.

# Notes to the Financial Statements

## Section 3: Operating Assets and Liabilities continued

### 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 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% was applied to 2017 and -3% to 2018 with no subsequent recovery, again 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 advertising market has substantially improved since then however the impairment cannot be reversed. The impairment review set out above results in significant headroom in excess of the 2008 impairment amount.

A pre-tax market discount rate of 10.4% (2015: 9.7%) 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 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 (2017: -10% growth, 2018: 0% growth). The Directors believe that currently no reasonably possible change in the income and availability assumptions would reduce the headroom in this CGU to zero.

A pre-tax market discount rate of 11.7% (2015: 11.5%) 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 all of the goodwill arising from recent acquisitions since 2012, with the largest acquisitions being Leftfield in 2014, followed by Talpa and Twofour Group 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 (2017: -10% growth, 2018: 0% growth). The Directors believe that currently no reasonably possible change in the income and availability assumptions would reduce the headroom in this CGU to zero.

A pre-tax market discount rate of 11.6% (2015: 10.1%) has been used in discounting the projected cash flows.

*There have been no changes to the ITV Studios CGU in the year and the Directors consider that a single ITV Studios CGU continues to remain appropriate.*



### 3.4 Acquisitions

#### Keeping it simple



The following section outlines what the Group has acquired in the year.

Most of the deals are structured so that a large part of the payment made to the sellers ('consideration') is determined based on future performance. This is done so that the Group can both align incentives for growth, while reducing risk so that total consideration reflects actual performance, not expected.

IFRS accounting standards require some of this consideration to be included in the purchase price used in determining goodwill ('contingent consideration'). Examples of contingent consideration include top-up payments and recoupable performance adjustments. Any remaining consideration is required to be recognised as a liability or expense outside of acquisition accounting (put option liabilities and employment-linked contingent payments known as 'earnout' payments).

The Group considers the income statement impact of all consideration to be capital in nature and therefore 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 period, 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. 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 license.

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 €10million. Further details are included in note 2.5.

##### Key terms:

The Group purchased the businesses for a cash consideration of £100 million.

##### UTV Limited 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.

#### Acquisitions in 2015

In 2015 the Group made four acquisitions, all of which are included in the results of the ITV Studios operating segment.

##### Talpa Media B.V.

On 30 April 2015 the Group acquired a 100% controlling interest in Talpa Media B.V. and its subsidiaries.

##### Key terms:

Cash consideration of £362 million (€500 million) was paid at acquisition and the maximum total consideration for 100% of the business, including the initial payment, was £796 million (€1,100 million, undiscounted). All future payments are performance based.

The deal structure allows for a further £434 million (€600 million) payable after two, five and eight years, on the achievement of stretching performance targets for the business in the years following acquisition. For these amounts to be payable in the future, the deal requires the seller to remain with the business during the earnout period. Further, if the seller leaves within the first two years following acquisition, €150 million of the initial consideration would be refunded to ITV. While accounting standards determine that these payments are treated as an expense, even the €150 million refundable, the Group considers these payments as capital in nature, and therefore expenses in relation to these payments are excluded from adjusted profits as exceptional items.

# Notes to the Financial Statements

## Section 3: Operating Assets and Liabilities continued

### Talpa Media B.V. acquisition accounting:

Intangibles, being the value placed on formats, brands, customer contracts, non-compete arrangements and libraries, of £276 million (€382 million) were identified and goodwill was valued at £41 million (€57 million). Goodwill represents the value placed on the opportunity to diversify and grow the content and formats produced 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.

### Twofour Group

On 24 June 2015 the Group acquired Boom Supervisory Limited, the holding company of Twofour Group.

#### Key terms:

The Group purchased 100% of the Twofour Group for a cash consideration of £55 million. Subsequently the sellers subscribed to 25% of the share capital of the acquiring company. Put and call options have been granted over this 25% in Twofour Group; these options both being exercisable over the next three to five years. The transaction has been accounted for on an anticipated acquisition basis and a non-controlling interest has not been recognised. The maximum total consideration, including the initial payment, is £280 million (undiscounted). These payments are dependent on future performance of the business and linked to ongoing employment, therefore accounted for as expense. The Group considers these payments as capital in nature, and therefore expenses in relation to these payments are excluded from adjusted profits as exceptional items.

### Twofour Group acquisition accounting:

Intangibles, being the value placed on formats, brands, customer contracts, non-compete arrangements and libraries, of £18 million were identified and goodwill was valued at £50 million. Goodwill represents the value placed on the opportunity to diversify and grow the content and formats produced 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.

### Other 2015 acquisitions

The Group made initial payments totalling £15 million for two smaller acquisitions, Cats on the Roof Media Ltd and Mammoth Screen Ltd, with a view that these acquisitions will strengthen and complement ITV's existing position as a producer for major television networks in the UK. The maximum additional consideration that the Group could pay is £66 million (undiscounted). Goodwill totalling £11 million arising on these acquisitions is not expected to be deductible for tax purposes.

**Effect of acquisition**

The acquisitions noted above had the following impact on the Group assets and liabilities:

£m	2016 UTV	2015 Total
<b>Consideration transferred:</b>		
Initial consideration (net of cash acquired) (Note A)	97	406
Less: consideration classified as prepaid employment linked consideration (Note B)	–	(109)
<b>Total consideration</b>	<b>97</b>	<b>297</b>
<b>Fair value of net assets acquired:</b>		
Property, plant and equipment	4	6
Intangible assets	58	297
Deferred tax liabilities	(11)	(71)
Trade and other receivables	5	101
Trade and other payables	(7)	(138)
<b>Net assets held for sale</b>	<b>4</b>	<b>–</b>
<b>Fair value of net assets</b>	<b>53</b>	<b>195</b>
<b>Goodwill</b>	<b>44</b>	<b>102</b>
<b>Contributions to the Group's performance:</b>		
<b>From date of acquisition</b>		
Revenue	27	185
EBITA before exceptionals (Note C)	8	29
<b>Proforma – January to December</b>		
Revenue	33	306
EBITA before exceptionals (Note C)	9	49

Note A: Consideration for all acquisitions is net of cash acquired and estimated debt and working capital settlements. Cash acquired during the year is £3 million (2015: £33 million).

Note B: In 2015 total consideration was net of employment linked consideration of £109 million (€150 million). IFRS requires the employment linked consideration to be treated as remuneration. See note 3.1.4 for further detail of this prepayment.

Note C: UTV profit for the ten months from date of acquisition is £8 million and £9 million for January to December 2016, both excluding the effect of discontinued operations. This represents UTV's contribution to Group profits. On a consolidated basis the acquisition resulted in a reduction in ITV Non-NAR revenues previously earned from UTV, which on a Group basis is offset by the reduction in UTV's costs.

# Notes to the Financial Statements

## Section 3: Operating Assets and Liabilities continued

### 3.5 Investments

#### Keeping it simple



The Group holds non-controlling interests in a number of different entities. Accounting for these investments, and the Group's share of any profits and losses, depends on the level of control or influence the Group is granted via its interest. The three principal types of non-consolidated investments are: joint arrangements (joint ventures or joint operations), associates and available for sale investments.

A joint venture 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:

	2016 £m	2015 £m
Joint ventures	4	1
Associates	60	18
Available for sale investments	12	11
	<b>76</b>	<b>30</b>

The increase in the year is due to investment in New Form, a digital producer-broadcaster, and increased investment in ITV Tomorrow Studios, a scripted studio launched in 2014. Further smaller investments have been made in line with Group's strategy to grow the international content business.

Please refer to page 184 for the list of principal investments held at 31 December 2016.

### 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 2016	6	2	25	33
Additions	–	1	–	1
Utilised	(6)	–	(4)	(10)
Released	–	(1)	–	(1)
<b>At 31 December 2016</b>	<b>–</b>	<b>2</b>	<b>21</b>	<b>23</b>

Provisions of £19 million are classified as current liabilities (2015: £28 million). Unwind of the discount is £nil in 2016 and 2015.

Contract provisions comprised onerous commitments on transmission infrastructure that were expected to be utilised over the remaining contract period and onerous technology services contracts which would not be utilised.

Legal and Other provisions totalling £21 million (2015: £25 million) primarily relate to potential liabilities that may arise as a result of Boxclever having been placed into administrative receivership, most of which relate to pension arrangements. In 2011 the Determinations Panel of the Pensions Regulator determined that Financial Support Directions (FSDs) should be issued against certain 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 process is ongoing and aside from procedural issues there were no substantive case developments in the period. The Directors have obtained leading counsel's opinion and extensive legal advice in connection with the proceedings and continue to believe that the provision held is appropriate. The reduction in provisions during the year was due to settlement of various other legal matters.

# Notes to the Financial Statements

## Section 3: Operating Assets and Liabilities continued

### 3.7 Pensions

#### Keeping it simple



In this note we explain the accounting policies governing the Group's pension scheme, 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 will close to future accrual in 2017. In 2016 on acquisition of UTV Limited the Group took over the UTV Defined Benefit Scheme.

#### 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 that have elected to participate 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. 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 cash 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.

In the event of poor returns the Group needs to address this through a combination of increased levels of contribution or by making adjustments to the 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.

#### 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 2016, total contributions expensed were £16 million (2015: £16 million).

##### Defined benefit scheme

The Group's obligation in respect of the Defined Benefit Scheme (the 'Scheme') is calculated by estimating the amount of future retirement benefit that eligible employees ('members') have earned in return for 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 deficit.

The liabilities of the Scheme are measured by discounting the best estimate of future cash flows to be paid using the 'projected unit' method. This method is an accrued benefits valuation method that makes allowance for projected earnings of members in the future up to retirement.

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 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 in late 2017 or early 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 to the ITV main scheme, in the form of a charge over gilts held by the Group. The current Directors of ITV plc recognise the legacy pension obligations should be honoured, but believe the additional security for the scheme is inappropriate compared to the security provided to the members of the ITV Pension Scheme. Following the Group's unsuccessful attempt to remove the charge, the £39 million securitised gilts have been classified as other pension assets, rather than cash/cash equivalents, to more fairly 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 will be linked to statutory revaluation until retirement. This decision gave rise to a one off, non-cash £19 million curtailment charge recognised in the year.

On 29 February 2016 the Group acquired 100% of the assets and liabilities of UTV Limited, including responsibility for a defined benefit pension scheme. At acquisition the UTV Scheme had neither surplus nor deficit on an IAS 19 basis, and had a surplus of £1 million as of 31 December 2016. Due to the size of the surplus the Directors present the results and position of the UTV Scheme together with the existing ITV Schemes. The next triennial valuation will be as at 30 June 2017 and is expected to be agreed in 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 defined benefit pension deficit

Net pension deficit of £328 million at 31 December 2016 (2015: £176 million) is stated after including the unfunded scheme security asset of £39 million (2015: £nil).

The totals recognised in the current and previous years are:

	2016 £m	2015 £m
Total defined benefit scheme obligations	(4,200)	(3,446)
Total defined benefit scheme assets	3,833	3,270
<b>Defined benefit pension deficit (IAS 19)</b>	<b>(367)</b>	<b>(176)</b>
Other pension asset	39	–
<b>Net pension deficit</b>	<b>(328)</b>	<b>(176)</b>

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 income statement.

# Notes to the Financial Statements

## Section 3: Operating Assets and Liabilities continued

### Defined benefit scheme obligations

#### Keeping it simple



#### What cause 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. 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:

	2016 £m	2015 £m
<b>Defined benefit obligation at 1 January</b>	<b>3,446</b>	<b>3,687</b>
Current service cost	7	8
Curtailment charge	19	–
Interest cost	131	126
Actuarial loss/(gain)	664	(217)
UTV acquisition	98	–
Benefits paid	(165)	(158)
<b>Defined benefit obligation at 31 December</b>	<b>4,200</b>	<b>3,446</b>

Of the above total defined benefit obligation at 31 December 2016, £51 million relates to unfunded schemes (2015: £46 million), including the scheme in relation to the four former Granada executives.



## 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:

- future salary levels
- future pensionable salary levels
- 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

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 17 years (2015: 15 years).

The principal assumptions used in the Scheme's valuations at the year end were:

	2016	2015
Discount rate for:		
Past service liabilities	2.60%	3.80%
Future service liabilities	2.70%	4.00%
Inflation assumption for:		
Past service liabilities	3.25%	3.00%
Future service liabilities	3.20%	3.10%
Rate of pensionable salary increases		
ITV Pension Schemes	N/A	0.90%
UTV Pension Scheme	3.75%	N/A
Rate of increase in pension payment (LPI <sup>1</sup> 5% pension increases)	3.15%	2.90%
Rate of increase to deferred pensions (CPI)	2.25%	2.00%

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:

	2016	2016	2015	2015
Retiring today at age	60	65	60	65
Males	27.1	22.4	28.0	23.2
Females	29.3	24.5	30.6	25.7
Retiring in 20 years at age	60	65	60	65
Males	28.8	23.9	30.0	25.0
Females	31.0	26.1	32.6	27.6

During 2016 a review of the longevity of the Scheme pensioners was conducted and revealed lower life expectancy than previously assumed. The net pension deficit is sensitive to changes in assumptions. Those are disclosed further in this section.

# Notes to the Financial Statements

## Section 3: Operating Assets and Liabilities continued

### Total defined benefit scheme assets

#### Keeping it simple



The Scheme holds assets across a number of different classes which are managed by the Trustee, who consults with the Group on changes to its investment policy.

#### What are the pension Scheme assets?

At 31 December 2016 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 defined benefit pension deficit. These financial instruments are classified as Scheme assets.

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.
- 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:

	2016 £m	2015 £m
<b>Fair value of Scheme assets at 1 January</b>	<b>3,270</b>	<b>3,341</b>
Interest income on Scheme assets	126	116
Return/(loss) on assets, excluding interest income	416	(126)
Employer contributions	93	102
UTV acquisition	98	–
Benefits paid	(165)	(158)
Administrative expenses paid	(5)	(5)
<b>Fair value of Scheme assets at 31 December</b>	<b>3,833</b>	<b>3,270</b>

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 2016 was an increase of £542 million (2015: decrease of £10 million).

**How are the Scheme's assets invested?**

At 31 December 2016 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 are shown in the following table by major category:

	Market value 2016 £m		Market value 2015 £m	
<b>Liability hedging assets</b>				
Fixed interest gilts	678		532	
Index-linked interest gilts	1,135		914	
Interest rate and inflation hedging derivatives (swaps and repos)	270		59	
	<b>2,083</b>	<b>54%</b>	<b>1,505</b>	<b>46%</b>
<b>Other bonds</b>	<b>784</b>	<b>20%</b>	<b>733</b>	<b>22%</b>
<b>Return seeking investments</b>				
Quoted equities	633		653	
Infrastructure	95		68	
Property	62		54	
Hedge funds/alternatives	222		196	
	<b>1,012</b>	<b>27%</b>	<b>971</b>	<b>30%</b>
<b>Other investments</b>				
Cash and cash equivalents	183		86	
Insurance policies	42		40	
Longevity swap fair value	(271)		(65)	
	<b>(46)</b>	<b>(1%)</b>	<b>61</b>	<b>2%</b>
<b>Total Scheme assets</b>	<b>3,833</b>	<b>100%</b>	<b>3,270</b>	<b>100%</b>

Included in the above are overseas assets of £1,304 million (2015: £1,198 million), comprised of quoted equities of £565 million (2015: £564 million) and bonds of £739 million (2015: £634 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 covering £1.7bn 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 changed substantially over the year due to two key factors:

- A review of the longevity of pensioners covered by the swap which revealed lower life expectancy than previously expected. This reduced the asset value by £127 million.
- A reduction in the yields used to value the swap as falling yields adversely impact the fair value. This reduced the asset value by £79 million.

# Notes to the Financial Statements

## Section 3: Operating Assets and Liabilities continued

### Defined pension deficit sensitivities

#### Keeping it simple



#### Which assumptions have the biggest impact on the Scheme?

It is important to note that comparatively small changes in the assumptions used may have a significant effect on the consolidated income statement and statement of financial position. This 'sensitivity' to change is analysed below to demonstrate how small changes in assumptions can have a large impact on the estimation of the defined benefit pension deficit.

The Trustee manages the investment, mortality and inflation risks to ensure the pension obligations are met as they fall due. The investment strategy is aimed at the valuation obligation rather than IAS19 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 £65 million
	Decrease by 0.1%	Increase by £75 million
Rate of inflation (Retail Price Index)	Increase by 0.1%	Increase by £15 million
	Decrease by 0.1%	Decrease by £15 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 £130 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 £30 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. This occurred during 2016 when both corporate and UK government bond yields fell significantly and the market expectation of future inflation rose. However, as corporate bond yields fell further than UK Government Bond yields, the impact on the defined benefit obligation exceeded the impact on the assets.

### 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:

	2016 £m	2015 £m
Amount charged to operating costs:		
Current service cost	(7)	(8)
Scheme administration expenses	(5)	(5)
	(12)	(13)
Amount charged to net financing costs:		
Net interest on defined benefit obligation	(5)	(10)
Amount charged to exceptional costs:		
Curtailment cost	(19)	-
<b>Total charged in the consolidated income statement</b>	<b>(36)</b>	<b>(23)</b>

#### Amounts recognised through the consolidated statement of comprehensive income

The amounts recognised through the consolidated statement of comprehensive income/(cost) are:

	2016 £m	2015 £m
Remeasurement gains / (losses):		
(Loss)/Return on scheme assets excluding interest income	416	(126)
Actuarial gains / (losses) on liabilities arising from change in:		
- inflation experience	31	48
- financial assumptions	(868)	169
- mortality assumptions	173	-
	(664)	217
<b>Total recognised in the consolidated statement of comprehensive income</b>	<b>(248)</b>	<b>91</b>

The £664 million actuarial loss on the Scheme's liabilities was principally due to a decrease in bond yields over the year, which has resulted in an increase in the liabilities. The £416 million gain on the Scheme's assets primarily results from increases in the market values of gilts and swaps, which has led to assets outperforming expectations.

# Notes to the Financial Statements

## Section 3: Operating Assets and Liabilities continued

### Addressing the defined benefit pension deficit

#### Keeping it simple



The Group works closely with the Trustee to agree appropriate levels of funding for the Scheme. This involves agreeing a Schedule of Contributions at each triennial valuation, which specifies the contribution rates for the employer and 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 ('LTV') pension funding partnerships (explained below).

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 2017 for current service (including administration expenses) are expected to be in the region of £6 million (2016: £12 million) and deficit funding contributions in 2017 are expected to be £66 million (2016: £66 million), assuming current contribution rates continue as agreed with the Trustee. The reduction in normal employer contributions for current service is as a result of the closure of the ITV Pension Scheme to future benefit accrual.

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 2017 a payment of £14 million is expected as a result of those agreements.

IFRIC 14 clarifies how the asset ceiling should be applied, and in particular, how local minimum funding rules work. The Group has determined that it has an unconditional right to a refund of surplus assets if the Schemes are run off until the last member dies, on which basis IFRIC 14 does not cause any change in the balance sheet disclosures before tax.

# 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, as seen through the issuance of a new Eurobond during the year. 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 Financial and Performance Review.

The tables below analyse movements in the components of net cash during the year:

	1 January 2016 £m	Net cash flow and acquisitions £m	Reclassifications £m	Currency and non-cash movements £m	31 December 2016 £m
Cash	238	304	–	7	549
Cash equivalents	56	(6)	(39)	1	12
<b>Total cash and cash equivalents</b>	<b>294</b>	<b>298</b>	<b>(39)</b>	<b>8</b>	<b>561</b>
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	–
<b>Total debt</b>	<b>(613)</b>	<b>(514)</b>	<b>–</b>	<b>(73)</b>	<b>(1,200)</b>
Currency component of swaps held against euro denominated bonds	–	–	–	2	2
<b>Net cash/(debt)</b>	<b>(319)</b>	<b>(216)</b>	<b>(39)</b>	<b>(63)</b>	<b>(637)</b>

# Notes to the Financial Statements

## Section 4: Capital Structure and Financing Costs continued

	1 January 2015 £m	Net cash flow and acquisitions £m	Currency and non-cash movements £m	31 December 2015 £m
Cash	234	3	1	238
Cash equivalents	63	(6)	(1)	56
<b>Total cash and cash equivalents</b>	<b>297</b>	<b>(3)</b>	<b>-</b>	<b>294</b>
Loans and facilities due within one year	(78)	73	-	(5)
Finance leases due within one year	(7)	7	(6)	(6)
Loans and facilities due after one year	(161)	(433)	(4)	(598)
Finance leases due after one year	(10)	-	6	(4)
<b>Total debt</b>	<b>(256)</b>	<b>(353)</b>	<b>(4)</b>	<b>(613)</b>
<b>Net cash/(debt)</b>	<b>41</b>	<b>(356)</b>	<b>(4)</b>	<b>(319)</b>

### Cash and cash equivalents

Included within cash equivalents is £4 million (2015: £10 million), the use of which is restricted to meeting finance lease commitments under programme sale and leasebacks (see note 4.2). During 2016 gilts of £39 million (2015: £39 million) were reclassified to other pension assets. This was as a result of the outcome of legal action attempting to remove the charging deed executed on these gilts in respect of the unfunded pension commitments of four former Granada executives. Refer to note 3.7 for further details.

### 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. All short-term drawings were repaid by the end of the year (2015: no outstanding short-term funding). The maximum draw down of the RCF during the year was £500 million in May. The maximum draw down on the RCF during 2015 was £362 million.

The Group also had an unsecured £161 million Eurobond which matured in January 2017 and had a coupon of 6.125%.

### Loans and loan notes due after one year

The Group has two bilateral loan facilities maturing in March 2017; both loans can be extended until 2018 at ITV's option. The two facilities are a £100 million bilateral loan that is fully drawn down as of 31 December 2016, and a £150 million bilateral loan with an unconditional right to set off with cash on deposit with the counterparty. The £150 million arrangement is in a net £nil position.

In December 2016 the Group issued a seven-year €500 million Eurobond at a fixed coupon of 2.0% which will mature in December 2023. The bond has been swapped back to sterling using a cross currency interest swap. The resulting fixed rate payable is c. 3.5%. The proceeds of the bond were for general corporate purposes including the repayment of the £161 million sterling bond which matured in January 2017 and settling the acquisition related liabilities due in 2017.

In September 2015 the Group issued a seven-year €600 million Eurobond at a fixed coupon of 2.125% which will mature in September 2022. The bond refinanced the 12-month bridge loan facility of €500 million used for the purchase of Talpa Media in April 2015.



## 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 calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. This calculation of fair value is consistent with instruments valued under level 2 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 (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 and is also taken out for other significant receivables. In December 2016 the Group signed a new £100 million non-recourse receivables purchase agreement to replace the £75 million invoice discount facility. In December 2016 £35 million invoices were sold under the agreement (2015: £nil). The receivables in relation to those were derecognised and the Group collected cash on behalf of the counterparty.

#### 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 and perceived state support. Deposits longer than 12 months require the approval of the Board.

# Notes to the Financial Statements

## Section 4: Capital Structure and Financing Costs continued

### Borrowings

ITV is rated as investment grade by Moody's and S&P. ITV's credit ratings, the cost of credit default swap hedging and the absolute level of interest rates are key determinants in the cost of new borrowings for ITV.

### Liquidity risk

The Group's financing policy is to fund itself for the medium to long-term by using debt instruments with a range of maturities and to ensure access to appropriate short-term borrowing facilities with a minimum of £250 million of undrawn facilities available at all times.

Long-term funding comes from the UK and European Capital markets, while any short to medium-term debt requirements are provided through bank credit facilities totalling £930 million (see below). Management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn bank facilities and cash and cash equivalents) on the basis of expected cash flows. This monitoring includes financial ratios to assess any possible future impact on credit ratings and headroom and takes into account the accessibility of cash and cash equivalents.

The Group has £630 million available funds through a Revolving Credit Facility (RCF) with a group of relationship banks. This £630 million facility was amended and extended in December 2016, matures in 2021 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. Both of these facilities were undrawn at 31 December 2016 (2015: no drawings).

### Fair value versus book value

The tables below provide fair value information for the Group's borrowings:

		Book value		Fair value	
	Maturity	2016 £m	2015 £m	2016 £m	2015 £m
<b>Loans due within one year</b>					
Other short-term loans	Various	–	5	–	5
£161 million Eurobond	Jan 2017	161	161	162	168
<b>Loans due in more than one year</b>					
Bilateral loan facility	Jun 2018	100	–	100	–
€600 million Eurobond	Sept 2022	508	437	529	445
€500 million Eurobond	Dec 2023	427	–	431	–
		1,196	603	1,222	618

### Finance leases

The following table analyses when finance lease liabilities are due for payment:

	Minimum lease payments £m	Interest £m	2016 Principal £m	Minimum lease payments £m	Interest £m	2015 Principal £m
In one year or less	4	–	4	6	–	6
In more than one year but not more than five years	–	–	–	4	–	4
	4	–	4	10	–	10

Finance leases principally comprise programmes under sale and leaseback arrangements. The net book value of tangible assets held under finance leases at 31 December 2016 was £nil (2015: £1 million).

### 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 four 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;
- Interest rate swaps are derivative instruments that exchange a fixed rate of interest for a floating rate, or vice versa, or one type of floating rate for another, and are used to manage interest rate risk; and
- Cross-currency interest rate swaps are derivative instruments used to exchange the principal and interest coupons in a debt instrument from one currency to another.

Analysis of the derivatives used by the Group to hedge its exposure and the various methods used to calculate their respective fair values are detailed in this section.

#### Accounting policies

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value with the movement recorded in the income statement, except where derivatives qualify for cash flow hedge accounting. In this case, the effective portion of a cash flow hedge is recognised in other comprehensive income and presented in the hedging reserve within equity. The cumulative gain or loss is later reclassified to the income statement in the same period as the relevant hedged transaction is realised. Derivatives with positive fair values are recorded as assets and negative fair values as liabilities.

# Notes to the Financial Statements

## Section 4: Capital Structure and Financing Costs continued

### Determining Fair Value

The fair value of forward foreign exchange contracts is determined by using the difference between the contract exchange rate and the quoted forward exchange rate at the reporting date. 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 at the time of commitment for up to five years forward. The Group also hedges a proportion of highly probable non-functional currency denominated costs or revenue on a rolling 18-month basis (see 'Keeping it simple box' for explanation of non-functional currency transactions).

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. In 2015 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:

	2016 – post-tax profit	2016 – equity	2015 – post-tax profit	2015 – equity
US dollar	£3 million	£32 million	£10 million	£63 million
Euro	£10 million	£11 million	£8 million	£41 million

The Group's sensitivity to translation risk for revenue and adjusted EBITA is disclosed in the Financial and Performance Review on page 44. 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 2016 the Group's fixed rate debt represented 92% of total gross debt (2015: 99%). Consequently a 1% movement in interest rates on floating rate debt would impact the 2016 post-tax profit for the year by £2 million (2015: £nil).

For financial assets and liabilities classified at fair value through profit or loss, the movements in the year relating to changes in fair value and interest are not separated.

**What is the value of our derivative financial instruments?**

The following table shows the fair value of derivative financial instruments analysed by type of contract. Interest rate swap fair values exclude accrued interest.

At 31 December 2016	Assets £m	Liabilities £m
<b>Current</b>		
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)
<b>Non-current</b>		
Cross currency interest swaps – cash flow hedges	–	(6)
Foreign exchange forward contracts and swaps – cash flow hedges	1	(3)
	9	(12)
<hr/>		
At 31 December 2015	Assets £m	Liabilities £m
<b>Current</b>		
Foreign exchange forward contracts and swaps – cash flow hedges	–	(4)
Foreign exchange forward contracts and swaps – fair value through profit or loss	1	(1)
<b>Non-current</b>		
Interest rate swaps – fair value through profit or loss	8	(6)
	9	(11)

**Cash flow hedges**

The Group applies hedge accounting for certain foreign currency firm commitments and highly probable cash flows where the underlying cash flows are payable within the next two to 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 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 (2015: £1 million) ineffectiveness taken to the income statement and £5 million cumulative gain (2015: £6 million loss) 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 £168 million (2015: £141 million). A foreign exchange loss of £21 million (2015: £2 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.

**Interest rate swaps**

On issuing the 2017 Eurobond, the Group entered into a portfolio of fixed to floating interest rate swaps and then subsequently overlaid a portfolio of floating to fixed interest rate swaps with the result that interest was 100% fixed on these borrowings. The timing of entering into these swaps locked in an interest benefit for the Group, resulting in a net mark-to-market gain on the portfolio.

# Notes to the Financial Statements

## Section 4: Capital Structure and Financing Costs continued

### Undiscounted financial liabilities

Keeping  
it simple



The Group is required to disclose the expected timings of cash outflows for each of its financial liabilities (including derivatives). The amounts disclosed in the table are the contractual undiscounted cash flows (including interest), so will not always reconcile with the amounts disclosed on the statement of financial position.

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
<b>Non-derivative financial liabilities</b>						
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)	–
<b>Derivative financial instruments</b>						
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)
<b>At 31 December 2015</b>						
<b>Non-derivative financial liabilities</b>						
Borrowings	(613)	(703)	(30)	(184)	(28)	(461)
Trade and other payables	(834)	(834)	(786)	(34)	(14)	–
Other payables – non-current	(4)	(4)	–	(1)	(2)	(1)
Other payables – commitments on acquisitions	(85)	(303)*	(12)	(108)	(183)	–
<b>Derivative financial instruments</b>						
Cash flow hedges						
Inflow	66	66	49	17	–	–
Outflow	(70)	(70)	(53)	(17)	–	–
Foreign exchange forward contracts and swaps						
Inflow	147	147	144	3	–	–
Outflow	(147)	(147)	(144)	(3)	–	–
Interest rate swaps						
Inflow	8	22	9	13	–	–
Outflow	(6)	(12)	(6)	(6)	–	–
	(1,538)	(1,838)	(829)	(320)	(227)	(462)

\* Expected future payments depending on performance of acquisitions, the total maximum consideration is discussed in the Financial and Performance Review.

## 4.4 Net financing costs

### Keeping it simple



This section details the interest income generated on the Group's cash and other financial assets and the interest expense incurred on borrowings and other financial liabilities.

In reporting 'adjusted profit', the Group adjusts net financing costs to exclude unrealised mark-to-market movements on interest rate and foreign exchange derivatives, gains/losses on bond buybacks, net pension interest, interest and fair value movements in acquisition-related liabilities and other financing costs.

Our rationale for adjustments made to financing costs is set out in the Financial and Performance 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:

	2016 £m	2015 £m
<b>Financing income:</b>		
Interest income	2	3
Change in fair value of instruments classified at fair value through profit or loss	-	3
	2	6
<b>Financing costs:</b>		
Interest expense on financial liabilities measured at amortised cost	(25)	(17)
Net pension interest (see note 3.7)	(5)	(10)
Change in fair value of instruments classified at fair value through profit or loss	(1)	-
Foreign exchange loss	(8)	(2)
Other finance expense	(14)	(8)
	(53)	(37)
<b>Net financing costs</b>	<b>(51)</b>	<b>(31)</b>

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 2016 expense. This is where estimates of the future performance against stretch targets is reassessed, resulting in adjustments to the related put option liabilities.

# Notes to the Financial Statements

## Section 4: Capital Structure and Financing Costs continued

### 4.5 Fair value hierarchy

#### Keeping it simple



The financial instruments included on the ITV statement of financial position are measured at either fair value or amortised cost. The measurement of this fair value can in some cases be subjective, and can depend on the inputs used in the calculations. ITV generally uses external valuations using market inputs or market values (e.g. external share prices). The different valuation methods are called 'hierarchies' and are described below.

#### Level 1

Fair values are measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

#### Level 2

Fair values are measured using inputs, other than quoted prices included within Level 1, 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 2016 £m	Level 1 31 December 2016 £m	Level 2 31 December 2016 £m	Level 3 31 December 2016 £m
<b>Assets measured at fair value</b>				
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 liabilities 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
<b>Liabilities measured at fair value</b>				
Financial liabilities at fair value through profit or loss				
Contingent consideration	(1)	–	–	(1)
Foreign exchange forward contracts and swaps	(3)	–	(3)	–
Financial liabilities at fair value through reserves				
Cash flow hedges	(9)	–	(9)	–
	(13)	–	(12)	(1)



	Fair value 31 December 2015 £m	Level 1 31 December 2015 £m	Level 2 31 December 2015 £m	Level 3 31 December 2015 £m
<b>Assets measured at fair value</b>				
Available for sale financial instruments				
Available for sale gilts (see note 4.1)	38	38	–	–
Available for sale investments (see note 3.5)	11	–	–	11
Financial assets at fair value through profit or loss				
Foreign exchange forward contracts and swaps	1	–	1	–
Interest rate swaps	8	–	8	–
	58	38	9	11
<b>Liabilities measured at fair value</b>				
Financial liabilities at fair value through profit or loss				
Contingent consideration	(3)	–	–	(3)
Foreign exchange forward contracts and swaps	(1)	–	(1)	–
Interest rate swaps	(6)	–	(6)	–
Financial liabilities at fair value through reserves				
Cash flow hedges	(4)	–	(4)	–
	(14)	–	(11)	(3)

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.

# Notes to the Financial Statements

## Section 4: Capital Structure and Financing Costs continued

### 4.6 Equity

#### Keeping it simple



This section explains material movements recorded in shareholders' equity that are not explained elsewhere in the financial statements. The movements in equity and the balance at 31 December 2016 are presented in the consolidated statement of changes in equity.

#### 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 2016 of £403 million (2015: £403 million) and share premium of £174 million (2015: £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 2016 include the following reserves:

	2016 £m	2015 £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	(27)	(27)
<b>Total</b>	<b>221</b>	<b>221</b>

##### 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 £448 million (2015: £495 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. The Directors of ITV plc propose a final dividend of 7.2p per share and a special dividend of 5p per share. See details on distributable reserves on page 182.

**4.6.6 Non-controlling interests**

The movement for the year comprises:

- the share of profits attributable to non-controlling interests of £4 million (2015: £7million); and
- the distributions made to non-controlling interests of £4 million (2015: £5 million).

## 4.7 Share-based compensation

### Keeping it simple



The Group utilises share award schemes as part of its employee remuneration packages, and therefore operates a number of share-based compensation schemes, namely the Deferred Share Award (DSA), Performance Share Plan (PSP), Long Term Incentive Plan (LTIP) and Save As You Earn (SAYE) schemes.

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 based on the price or value of the Group's shares then 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 are 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 Save As You Earn scheme (SAYE), 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, are recognised in the income statement, with a corresponding adjustment to equity.

Exercises of share options granted to employees can be satisfied by market purchase or issue of new shares. No new shares may be issued to satisfy exercises under the terms of the DSA. During the year all exercises were satisfied by using shares purchased in the market and held in the ITV Employees' Benefit Trust.

Share-based compensation charges totalled £10 million in 2016 (2015: £14 million).

# Notes to the Financial Statements

## Section 4: Capital Structure and Financing Costs continued

### Share options outstanding

The table below summarises the movements in the number of share options outstanding for the Group and their weighted average exercise price:

	Number of options ('000)	2016 Weighted average exercise price (pence)	Number of options ('000)	2015 Weighted average exercise price (pence)
Outstanding at 1 January	40,167	55.63	51,933	32.97
Granted during the year – nil priced	7,351	–	6,744	–
Granted during the year – other	8,002	167.62	4,615	198.94
Forfeited during the year	(255)	151.17	(30)	143.65
Exercised during the year	(12,293)	28.81	(19,477)	16.65
Expired during the year	(6,439)	109.25	(3,618)	18.77
Outstanding at 31 December	36,533	67.86	40,167	55.63
Exercisable at 31 December	83	–	610	53.17

The average share price during 2016 was 209.91 pence (2015: 254.24 pence).

Of the options still outstanding, the range of exercise prices and weighted average remaining contractual life of these options can be analysed as follows:

Range of exercise prices (pence)	Weighted average exercise price (pence)	Number of options ('000)	2016 Weighted average remaining contractual life (years)	Weighted average exercise price (pence)	Number of options ('000)	2015 Weighted average remaining contractual life (years)
Nil	–	21,531	1.89	–	25,910	1.79
20.00 – 49.99	–	–	–	–	–	–
50.00 – 69.99	67.71	505	0.91	67.24	991	0.98
70.00 – 99.99	–	–	–	73.58	301	0.92
100.00 – 109.99	102.59	185	1.92	102.59	1,672	1.14
110.00 – 119.99	–	–	–	–	–	–
120.00 – 149.99	131.44	193	2.16	131.44	1,175	1.52
150.00 – 199.99	167.37	13,251	1.87	172.58	8,089	2.22
200.00 – 249.99	206.83	891	1.41	206.83	2,054	2.52

### Assumptions

DSA, LTIP and PSP options are valued directly by reference to the share price at date of grant.

The options 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	2 April 2015	251.00	192.52	26.00	3.25	2.27	0.74	65.85
5 Year	2 April 2015	251.00	192.52	32.00	5.25	2.27	1.14	80.81
3 Year	16 Sept 2015	249.60	206.83	25.00	3.25	2.28	0.97	55.71
5 Year	16 Sept 2015	249.60	206.83	30.00	5.25	2.28	1.38	72.02
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

# 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 2016 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 2016	16,949,851	1,694,985
DSA releases		(2,889,078)	
PSP releases		(6,200,608)	
SAYE releases		(3,003,419)	
Shares purchased		9,553,378	
	<b>31 December 2016</b>	<b>14,410,124</b>	<b>1,438,557</b>

The total number of shares held by the EBT at 31 December 2016 represents 0.36% (2015: 0.42%) of ITV's issued share capital. The market value of own shares held at 31 December 2016 is £30 million (2015: £47 million).

The shares will be held in the EBT until such time as they may be transferred to participants of the various Group share schemes. Rights to dividends have been waived by the EBT in respect of shares held which do not relate to restricted shares under the 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:

	2016 £m	2015 £m
Sales to joint ventures	8	9
Sales to associated undertakings	10	13
Purchases from joint ventures	26	24
Purchases from associated undertakings	70	65

The transactions with joint ventures primarily relate to sales and purchases of digital multiplex services with Digital 3&4 Limited.

Purchases from associated undertakings primarily relate to the purchase of news services from ITN.

All transactions with associated undertakings and joint ventures arise in the normal course of business on an arm's length basis. None of the balances are secured.

# Notes to the Financial Statements

## Section 5: Other Notes continued

The amounts owed by and to these related parties at the year end were:

	2016 £m	2015 £m
Amounts owed by joint ventures	-	3
Amounts owed by associated undertakings	57	66
Amounts owed to joint ventures	-	2
Amounts owed to associated undertakings	-	5

Balances owed by associated undertakings largely relate to loan notes and production funding advanced to Tomorrow ITV Studios for US scripted investment.

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:

	2016 £m	2015 £m
Short-term employee benefits	8	9
Share-based compensation	2	6
	10	15

## 5.2 Contingent liabilities

### Keeping it simple



A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision where uncertainty may exist regarding the outcome of future events.

There are contingent liabilities in respect of certain litigation and guarantees, broadcasting issues, and in respect of warranties given in connection with certain disposals of businesses. None of these items are expected to have a material effect on the Group's results or financial position.

## 5.3 Subsequent events

### Keeping it simple



Where the Group receives information in the period between 31 December 2016 and the date of this report about conditions related to certain events that existed at 31 December 2016, we update our disclosures that relate to those conditions in light of the new information. Such events can be categorised as adjusting or non-adjusting depending on whether the condition existed at 31 December 2016. If non-adjusting events are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, for each material category of non-adjusting event after the reporting period we disclose in this section the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

### Eurobond repayment

On 5 January 2017 the £161 Eurobond matured and the Group repaid the capital amount. The related interest rate swap contracts were settled at the same time. The repayment was financed using the €500 million Eurobond issued in December 2016.

### Exercise of Gurney Productions LLC call option

On 6 February 2017, the Group exercised the call option to acquire the remaining 38.5% membership interest of Gurney Productions LLC.

The Group has initiated legal proceedings against the sellers for alleged breaches of contracts and their fiduciary duties, as well as self-dealing and fraudulent concealment. The sellers dispute the allegations, the exercise and the value of the call option, and they have counter-claimed for unspecified damages of at least \$100 million, which the Directors believe is completely without merit.

**London Property Strategy**

On 21 February 2017, the Directors announced the outcome of an extensive review of the Group's London property requirements. The Group intends to seek planning permission to redevelop its South Bank site and build a new London home.

The teams currently located in the South Bank site will be relocated to various sites in London during the redevelopment period.

As a result of the review of the Group's London property needs, the Directors are proposing to close The London Studios (TLS) business and use studio capacity in the external market to meet our future business needs. The Group has begun a period of consultation with the employees affected by this closure.

**Acquisition of Tetra Media Studios SAS**

On 28 February 2017, the Group announced the acquisition of 65.05% of the capital of the French production business Tetra Media Studios SAS. The transaction is on a cash free / debt free basis, with put/call options to acquire the remaining interest depending on future performance of the business. The acquisition was financed through the Group's existing cash and debt facilities.

# Notes to the Financial Statements

## Section 5: Other Notes continued

### 5.4 Subsidiaries exempt from audit

Keeping  
it simple



Certain subsidiaries of the Group can take an exemption from having an audit. Strict criteria must be met for this exemption to be taken, and it must be agreed to by the Directors of that subsidiary entity.

Listed below are subsidiaries controlled and consolidated by the Group, where the Directors have taken the exemption from having an audit of its financial statements. 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	10528592	Big Talk Living the Dream Limited
1891539	Broad Street Films Limited	2285229	Campania Limited
5078683	Carbon Media Limited	4159249	Carlton Content Holdings Limited
301188	Carlton Film Distributors Limited	1692483	Carlton Finance Limited
3984490	Carlton Food Network Limited	3307790	Carltonco 103
3210452	Carlton Screen Advertising (Holdings) Limited	3053908	Carlton Programmes Development Limited
2625225	Carltonco Forty Investments	3210363	Carltonco Ninety-Six
2852812	Cosgrove Hall Films Limited	3209058	DTV Limited
290076	Granada Group Limited	3962410	Granada Limited
3106798	Granada Media Limited	5344772	Granada Screen (2005) Limited
733063	Granada Television Overseas Limited	6914987	ITV (HC) Limited
10384774	ITV Bancroft Limited	4206924	ITV Beowulf Limited
1127149	ITV Breathless Limited	4209918	ITV Cilla Limited
4206900	ITV Cradle Limited	4159210	ITV Holdings Limited
4207680	ITV Home Fires Limited	4206912	ITV J&H Limited
4206871	ITV Jericho Limited	4206927	ITV JR Limited
8723446	ITV Lewis Limited	10031419	ITV Little Boy Blue Limited
10058180	ITV Loch Ness Limited	8534385	ITV Lucan Limited
4206935	ITV Moorside Limited	4033106	ITV Mr Selfridge Limited
3916436	ITV News Channel Limited	8554937	ITV Shetland Limited
4206897	ITV Spirit Limited	10528702	ITV Studios Newco 1 Limited
10031818	ITV T&B Limited	9499040	ITV Tennison Limited
9498177	ITV Top Class Limited	8586211	ITV Thunderbirds Limited
9499012	ITV Tut Limited	10384819	ITV Trauma Limited
5518785	Juice Music UK Limited	10058008	ITV Wagstaffe Limited
10528827	Mammoth Screen (END5) Limited	10528851	Mammoth Screen (City) Limited
10031005	Mammoth Screen (Pol3) Limited	10491117	Mammoth Screen (NOK) Limited
9646520	Mammoth Screen (QV) Limited	10528763	Mammoth Screen (Pol4) Limited
4201477	Morning TV Limited	10043079	Mammoth Screen (WFTP) Limited
4206913	SOM (ITV) Limited		



# ITV plc Company Financial Statements

## Company Balance Sheet

As at 31 December	Note	2016 £m	2016 £m	2015 £m	2015 £m
<b>Non-current assets</b>					
Investments in subsidiary undertakings	iii		1,861		1,861
Derivative financial instruments	vi		4		9
Deferred tax asset			2		2
			1,867		1,872
<b>Current assets</b>					
Amounts owed by subsidiary undertakings		4,066		3,864	
Derivative financial instruments	vi	10		6	
Other receivables		19		16	
Cash and cash equivalents		438		126	
		4,533		4,012	
<b>Current liabilities</b>					
Borrowings	v	(161)		-	
Amounts owed to subsidiary undertakings		(2,856)		(3,760)	
Accruals and deferred income		(22)		(21)	
Derivative financial instruments	vi	(10)		(6)	
		(3,049)		(3,787)	
<b>Net current assets/(liabilities)</b>			1,484		225
<b>Total assets less current liabilities</b>			3,351		2,097
<b>Non-current liabilities</b>					
Borrowings	v	(1,035)		(598)	
Derivative financial instruments	vi	(9)		(6)	
		(1,044)		(604)	
<b>Net assets</b>			2,307		1,493
<b>Capital and reserves</b>					
Share capital	vii		403		403
Share premium	viii		174		174
Other reserves	viii		28		36
Retained earnings	viii		1,702		880
<b>Total equity</b>			2,307		1,493

The accounts were approved by the Board of Directors on 1 March 2017 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 2016		403	174	36	880	1,493
<b>Total comprehensive income for the year</b>						
Profit		-	-	-	1,475	1,475
Net loss on cash flow hedges		-	-	(8)	-	(8)
<b>Total comprehensive income for the year</b>		-	-	(8)	1,475	1,467
<b>Transactions with owners recorded directly in equity</b>						
<b>Contributions by and distributions to owners</b>						
Equity dividends		-	-	-	(663)	(663)
Movements due to share based compensation		-	-	-	10	10
Total contributions by and distributions to owners		-	-	-	(653)	(653)
<b>Total transactions with owners</b>		-	-	-	(653)	(653)
<b>Balance at 31 December 2016</b>	vii/viii	<b>403</b>	<b>174</b>	<b>28</b>	<b>1,702</b>	<b>2,307</b>

	Note	Share Capital £m	Share Premium £m	Other Reserves £m	Retained Earnings £m	Total £m
Balance at 1 January 2015		403	174	36	654	1,267
<b>Total comprehensive income for the year</b>						
Profit		-	-	-	671	671
<b>Total comprehensive income for the year</b>		-	-	-	671	671
<b>Transactions with owners recorded directly in equity</b>						
<b>Contributions by and distributions to owners</b>						
Equity dividends		-	-	-	(459)	(459)
Movements due to share based compensation		-	-	-	14	14
Total contributions by and distributions to owners		-	-	-	(445)	(445)
<b>Total transactions with owners</b>		-	-	-	(445)	(445)
<b>Balance at 31 December 2015</b>	vii/viii	<b>403</b>	<b>174</b>	<b>36</b>	<b>880</b>	<b>1,493</b>

# 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 FRS101.

- 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
- 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.

# Notes to the ITV plc Company Financial Statements

## continued

### Derivatives and other financial instruments

The Company uses a limited number of derivative financial instruments to hedge its exposure to fluctuations in interest and other foreign exchange rates. The Company does not hold or issue derivative instruments for speculative purposes.

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value with the movement recorded in the profit and loss account within net financing costs, except where derivatives qualify for cash flow hedge accounting. In this case, the effective portion of cash flow hedge is recognised in retained profits within equity. The cumulative gain or loss is later reclassified to the profit and loss account in the same period as the relevant hedged transaction is realised. Derivatives with positive fair values are recorded as assets and negative fair values as liabilities.

The fair value of foreign currency forward contracts is determined by using the difference between the contract exchange rate and the quoted forward exchange rate at the balance sheet date.

The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of swap counterparties.

Third-party valuations are used to fair value the Company's derivatives. The valuation techniques use inputs such as interest rate yield curves and currency prices/yields, volatilities of underlying instruments and correlations between inputs. For financial assets and liabilities classified at fair value through profit or loss the fair value change and interest income/expense are not separated.

### 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 then 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 Save As You Earn scheme (SAYE), 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, are 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.

### 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 (2015: two) Directors of ITV plc were employees of the Company during the year, both of whom remain at the year end. The costs relating to these Directors are disclosed in the Remuneration Report.

### Share based payments

The weighted average share price of share options exercised during the year was 55.33p (2015: 16.65p). The options outstanding at the year end have an exercise price in the range of nil to 206.83p (2015: nil to 206.83p) and a weighted average contractual life of one year (2015: 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 184. The carrying value at 31 December 2016 was £1,861 million (2015: £1,861 million).

In 2015, the Company increased investment in subsidiaries by £156 million.

## 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. All short-term drawings were repaid by the end of the year (2015: no outstanding short-term funding). The maximum draw down of the RCF during the year was £500 million in May.

The Group also had an unsecured £161 million Eurobond which matured in January 2017 and had a coupon of 6.125%.

# Notes to the ITV plc Company Financial Statements

## continued

### Loans and loan notes due after one year

The Group has two bilateral loan facilities maturing in March 2017; both loans can be extended until 2018 at ITV's option. The two facilities are a £100 million bilateral loan that is fully drawn down as of 31 December 2016, and a £150 million bilateral loan with an unconditional right to set off with cash on deposit with the counterparty. The £150 million arrangement is in a net £nil position.

In December 2016 the Group issued a seven-year €500 million Eurobond at a fixed coupon of 2.0% which will mature in December 2023. The bond has been swapped back to sterling using a cross currency interest swap. The resulting fixed rate payable is c. 3.5%. The proceeds of the bond were for general corporate purposes including the repayment of the £161 million sterling bond which matured in January 2017.

In September 2015 the Group issued a seven-year €600 million Eurobond at a fixed coupon of 2.125% which will mature in September 2022. The bond refinanced the 12-month bridge loan facility of €500 million used for the purchase of Talpa Media in April 2015.

### Note vi Managing market risks: derivative financial instruments

#### What is the value of our derivative financial instruments?

	Assets 2016	Liabilities 2016
<b>Current</b>		
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)
<b>Non-current</b>		
Cross currency interest swaps – cash flow hedges	–	(6)
Foreign exchange forward contracts and swaps – cash flow hedges	4	(3)
	<b>14</b>	<b>(19)</b>
	Assets 2015	Liabilities 2015
<b>Current</b>		
Foreign exchange forward contracts and swaps – cash flow hedges	3	(4)
Foreign exchange forward contracts and swaps – fair value through profit or loss	3	(2)
<b>Non-current</b>		
Interest Rate Swaps – fair value through profit or loss	9	(6)
	<b>15</b>	<b>(12)</b>

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.
- Interest rate swaps are derivative instruments that exchange a fixed rate of interest for a floating rate or vice-versa or one type of floating interest rate for another and are used to manage interest rate risk.
- 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 probable 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.

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. In result the Group makes sterling interest payments at a fixed rate.

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 (2015: £1 million) ineffectiveness taken to the income statement and £2 million cumulative gain (2015: £6 million loss) recycled to the income statement in the year.

**Interest rate swaps**

On issuing the 2017 Eurobond, the Company entered into a portfolio of fixed to floating interest rate swaps and then subsequently overlaid a portfolio of floating to fixed interest rate swaps with the result that interest was 100% fixed on these borrowings. The timing of entering into these swaps locked in an interest benefit for the Company, resulting in a net mark-to-market gain on the portfolio.

**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.

	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
<b>At 31 December 2016</b>						
<b>Non-current and current</b>						
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)
<b>At 31 December 2015</b>						
<b>Non-current and current</b>						
Foreign exchange forward contracts and swaps – cash flow hedges						
Inflow	3	136	102	34	–	–
Outflow	(4)	(136)	(102)	(34)	–	–
Foreign exchange forward contracts and swaps – fair value through profit or loss						
Inflow	3	253	248	5	–	–
Outflow	(2)	(252)	(247)	(5)	–	–
Interest Rate Swaps – fair value through profit or loss						
Inflow	9	22	9	13	–	–
Outflow	(6)	(12)	(6)	(6)	–	–
	3	11	4	7	–	–

# Notes to the ITV plc Company Financial Statements

## continued

### Note vii Share capital

		Authorised 2016 & 2015 £m	Allotted, issued and fully paid 2016 & 2015 £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
<b>Total</b>		<b>800</b>	<b>403</b>

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 56 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),
- 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 £1,475 million (2015: £671 million profit) which includes dividends of £1,500 million from subsidiaries in 2016 (2015: £700 million). Other reserves of £28 million (2015: £36 million) relate to share-buy backs in prior periods and foreign currency translation net of cashflow hedging.

#### Dividends

The Directors of the Company propose a final dividend of 7.2p per share and a special dividend of 5p per share.

#### Distributable reserves

The distributable reserves of ITV plc approximate to the balance of the retained earnings reserve of £1,702 million as at 31 December 2016.

### 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 2016 of £47 million (31 December 2015: £59 million). The Company has guaranteed certain finance and operating lease obligations of subsidiary undertakings.

There are contingent liabilities in respect of certain litigation and guarantees, broadcasting issues, and in respect of warranties given in connection with certain disposals of businesses. None of these items are expected to have a material effect on the 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.



## Note x Capital and other commitments

There are no capital commitments at 31 December 2016 (2015: 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:

	2016 £m	2015 £m
Short-term employee benefits	3	3
Share-based compensation	2	3
	5	6

Total emoluments and gains on share options received by key management personnel in the year were:

	2016 £m	2015 £m
Emoluments	3	3
Gains on exercise of share options	2	3
Gains on release of restricted share awards	2	3
	7	9

## Note xii Subsequent events

### Keeping it simple



Where the Group receives information in the period between 31 December 2016 and the date of this report about conditions related to certain events that existed at 31 December 2016, we update our disclosures that relate to those conditions in light of the new information. Such events can be categorised as adjusting or non-adjusting depending on whether the condition existed at 31 December 2016. If non-adjusting events are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, for each material category of non-adjusting event after the reporting period we disclose in this section the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

On 5 January 2017 the £161 Eurobond matured and the Group repaid the capital amount. The related interest rate swap contracts were settled at the same time. The bond was refinanced earlier in December 2016.

# Notes to the ITV plc Company Financial Statements

## continued

### Subsidiary undertakings and investments

#### Principal subsidiary undertakings

The principal subsidiary undertakings of the Company at 31 December 2016, 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. (93)(a)	Netherlands	Production of television programmes	100
ITV Studios, Inc. (70)(j)	USA	Production of television programmes	100
Leftfield Entertainment, LLC (63)(h)	USA	Production of television programmes	100

#### Subsidiary undertakings

Company Name	Country	% Holding	Company Name	Country	% Holding
12 Yard (North) Productions Limited (1)(a)	UK	100	Cat's on the Roof Media Limited (1)(a)	UK	100
12 Yard Limited (1)(a)	UK	100	Central Television Limited (1)(a)	UK	100
12 Yard Productions (Investments) Limited (1)(a)	UK	100	Channel Television Holdings Limited (1)(a)	UK	100
12 Yard Productions Limited (1)(a)	UK	100	Cosgrove Hall Films Limited (1)(a)	UK	100
A.C.E. (1988) Limited (1)(a)	UK	100	Denipurna Limited (1)(a)	UK	100
Action Time Holdings (1)(a)	UK	100	DTV Limited (1)(a)	UK	100
Anglia Television Group (1)(a)	UK	100	Electronic Rentals Group (1)(a)	UK	100
Anglia Television Limited (1)(a)	UK	100	EQ Pictures Limited (1)(a)	UK	100
Back Productions Limited (7)(a)	UK	100	GIL Limited (1)(a)	UK	100
BGSS Limited (1)(a)	UK	100	Granada AV Solutions Limited (1)(a)	UK	100
Big Talk Bliss Limited (1)(a)	UK	100	Granada Film (1)(a)	UK	100
Big Talk Cold Feet Limited (1)(a)	UK	100	Granada Film Productions Limited (1)(a)	UK	100
Big Talk Investments Limited (1)(a)	UK	100	Granada Group Limited (1)(a)	UK	100
Big Talk JL Limited (1)(a)	UK	100	Granada Limited (1)(a)	UK	100
Big Talk Pictures Limited (1)(a)	UK	100	Granada Media Group Limited (1)(a)	UK	100
Big Talk Productions Limited (1)(a)	UK	100	Granada Media Limited (1)(a)(l)	UK	100
Broad Street Films Limited (1)(a)	UK	100	Granada Productions Limited (1)(a)	UK	100
Campania Limited (1)(a)(f)	UK	100	Granada Properties (1)(a)	UK	100
Carbon Media Limited (1)(a)	UK	100	Granada Screen (2005) Limited (1)(a)	UK	100
Carlton Active Limited (1)(a)	UK	100	Granada Television International (1)(a)	UK	100
Carlton Cinema Limited (1)(a)	UK	100	Granada Television Limited (1)(a)	UK	100
Carlton Content Holdings Limited (1)(a)	UK	100	Granada Television Overseas Limited (1)(a)	UK	100
Carlton Entertainment (1)(a)	UK	100	Granada Television Productions Limited (1)(a)	UK	100
Carlton Film Distributors Limited (1)(a)	UK	100	Granada UK Rental and Retail Limited (1)(a)(e)	UK	100
Carlton Films Limited (1)(a)	UK	100	Interactive Telephony Limited (1)(a)	UK	100
Carlton Finance Limited (1)(a)	UK	100	International Television Enterprises London Limited (1)(a)(d)	UK	100
Carlton Food Network Limited (1)(a)	UK	100	ITC Distribution (1)(a)	UK	100
Carlton Productions Limited (1)(a)	UK	100	ITC Entertainment Group Limited (1)(a)	UK	100
Carlton Programmes Development Limited (1)(a)	UK	100	ITC Entertainment Holdings Limited (1)(a)	UK	100
Carlton Screen Advertising (Holdings) Limited (1)(a)	UK	100	ITV (HC) Limited* (1)(a)	UK	100
Carltonco 103 (1)(a)	UK	100	ITV (Scotland) Limited (30)(a)	UK	100
Carltonco 99 Limited (1)(a)	UK	100	ITV Bancroft Limited (1)(a)	UK	100
Carltonco Eighty-One Limited (1)(a)(b)	UK	100	ITV Beowulf Limited (1)(a)	UK	100
Carltonco Fifty Limited (1)(a)(k)	UK	100	ITV Border Limited (1)(a)	UK	100
Carltonco Forty Investments (1)(a)	UK	100	ITV Breakfast Broadcasting Limited (1)(a)	UK	100
Carltonco Forty-Five Limited (1)(a)	UK	100	ITV Breakfast Limited (1)(a)	UK	100
Carltonco Ninety-Six (1)(a)(f)	UK	100	ITV Breathless Limited (1)(a)	UK	100
Carltonco Seventeen Limited (1)(a)	UK	100	ITV Central Limited (1)(a)	UK	100
Castlefield Properties Limited (1)(a)	UK	100	ITV Channels Limited (1)(a)	UK	100

Company Name	Country	% Holding	Company Name	Country	% Holding
ITV Cilla Limited (1)(a)	UK	100	Mammoth Screen (Bouquet) Limited (1)(a)	UK	100
ITV Cradle Limited (1)(a)	UK	100	Mammoth Screen (BW) Limited (26)(a)	UK	100
ITV DC Trustee Limited (1)(a)	UK	100	Mammoth Screen (End) Ltd (1)(a)	UK	100
ITV Digital Holdings Limited (1)(a)	UK	100	Mammoth Screen (End2) Limited (1)(a)	UK	100
ITV Enterprises Limited (1)(a)	UK	100	Mammoth Screen (Falcon) Limited (1)(a)	UK	100
ITV Global Content Limited (1)(a)	UK	100	Mammoth Screen (Fearless) Limited (1)(a)	UK	100
ITV Holdings Limited (1)(a)	UK	100	Mammoth Screen (Monroe) Limited (1)(a)	UK	100
ITV Home Fires Limited (1)(a)	UK	100	Mammoth Screen (NE) Limited (1)(a)	UK	100
ITV International Channels (Asia) Limited (1)(a)	UK	100	Mammoth Screen (NI) Limited (35)(a)	UK	100
ITV Investments Limited* (1)(a)	UK	100	Mammoth Screen (NW) Limited (1)(a)	UK	100
ITV J&H Limited (1)(a)	UK	100	Mammoth Screen (PE) Limited (1)(a)	UK	100
ITV Jericho Limited (1)(a)	UK	100	Mammoth Screen (Pol2) Limited (1)(a)	UK	100
ITV JR Limited (1)(a)	UK	100	Mammoth Screen (Pol3) Limited (1)(a)	UK	100
ITV Lewis Limited (1)(a)	UK	100	Mammoth Screen (Poldark) Limited (1)(a)	UK	100
ITV Little Boy Blue Limited (1)(a)	UK	100	Mammoth Screen (QV) Limited (1)(a)	UK	100
ITV Loch Ness Limited (1)(a)	UK	100	Mammoth Screen (RM) Limited (1)(a)	UK	100
ITV LTVC (Scotland) Limited (30)(a)	UK	100	Mammoth Screen (WFTP) Limited (1)(a)	UK	100
ITV Lucan Limited (1)(a)	UK	100	Mammoth Screen (WH) Limited (1)(a)	UK	100
ITV Meridian Limited (1)(a)	UK	100	Mammoth Screen Ltd (1)(a)	UK	100
ITV Moorside Limited (1)(a)	UK	100	Millbank Studios (1)(a)	UK	100
ITV Mr Selfridge Limited (1)(a)	UK	100	Morning TV Limited (1)(a)	UK	100
ITV News Channel Limited (1)(a)(k)	UK	100	Moving Picture Company Films Limited (1)(a)	UK	100
ITV NP Limited (1)(a)	UK	100	New Providence Productions Limited (1)(a)	UK	100
ITV Pension Scheme Limited (1)(a)(b)	UK	100	Partridge Holdings (1)(a)	UK	100
ITV Play Limited (1)(a)	UK	100	Pickwick Packaging Limited (1)(a)	UK	100
ITV Productions Limited (1)(a)	UK	100	Planet 24 (1)(a)	UK	100
ITV Properties (Developments) Limited (1)(a)	UK	100	Pro-Vision Facilities Limited (1)(a)	UK	100
ITV Shetland Limited (1)(a)	UK	100	Sightseers Film Limited (1)(a)	UK	100
ITV Spirit Limited (1)(a)	UK	100	Signpost Limited (1)(a)	UK	100
ITV Sport Channel Limited (1)(a)	UK	100	SOM (ITV) Limited (1)(a)	UK	100
ITV Studios (Israel) Limited (1)(a)	UK	100	So Television Developments Limited (1)(a)	UK	100
ITV Studios Newco 1 Limited (1)(a)	UK	100	So Television Limited (1)(a)	UK	100
ITV Studios Newco 2 Limited (1)(a)	UK	100	Talpa Media UK Ltd (1)(a)	UK	100
ITV Studios Newco 3 Limited (1)(a)	UK	100	Television Music Limited (1)(a)	UK	100
ITV Studios Newco 4 Limited (1)(a)	UK	100	The CITV Channel Limited (1)(a)	UK	100
ITV Studios Newco 5 Limited (1)(a)	UK	100	The Garden Productions Limited (1)(a)	UK	100
ITV Studios Newco 6 Limited (1)(a)	UK	100	The London Studios Limited (1)(a)	UK	100
ITV Supplementary Pension Scheme Limited (1)(a)	UK	100	Tyne Tees Television Holdings (1)(a)	UK	100
ITV T&B Limited (1)(a)	UK	100	Tyne Tees Television Limited (1)(a)	UK	100
ITV Tension Limited (1)(a)	UK	100	United Broadcasting & Entertainment Limited (1)(a)	UK	100
ITV Text Santa Limited (1)(a)	UK	100	United Broadcasting Holdings (1)(a)	UK	100
ITV Thunderbirds Limited (1)(a)	UK	100	UTV Limited (34)(a)	UK	100
ITV Top Class Limited (1)(a)	UK	100	VOD Member (ITVA) Limited (1)(a)	UK	100
ITV Trauma Limited (1)(a)	UK	100	VOD Member (ITV8) Limited (1)(a)	UK	100
ITV Tut Limited (1)(a)	UK	100	Westcountry Television Limited (1)(a)	UK	100
ITV Ventures Limited (1)(a)	UK	100	Yorkshire Television Limited (1)(a)	UK	100
ITV Wagstaffe Limited (1)(a)	UK	100	Yorkshire-Tyne Tees Television Enterprises Limited (1)(a)	UK	100
ITV Wales & West Group Limited (1)(a)	UK	100	Yorkshire-Tyne Tees Productions Limited (1)(a)	UK	100
ITV Wales & West Limited (1)(a)	UK	100	Zebedee Productions Limited (1)(a)	UK	100
ITV3 Limited (1)(a)	UK	100	Artist Services Cable Pty Ltd (36)(a)	Australia	100
ITV4 Limited (1)(a)	UK	100	Artist Services Investments Pty Limited (36)(a)	Australia	100
Juice Music UK Limited (1)(a)	UK	100	Artist Services Productions Pty Ltd (36)(a)	Australia	100
Leftfield (UK) Limited (21)(a)	UK	100	Granada Media International (Australia) Pty Ltd (36)(a)	Australia	100
Link Electronics Limited (1)(a)	UK	100	Granada Media Investments (Australia) Pty Ltd (36)(a)	Australia	100
London News Network (1)(a)	UK	100	Granada Productions Pty Ltd (36)(a)	Australia	100
London Weekend Television Limited (1)(a)	UK	100	ITV Services Pty Ltd (35)(a)	Australia	100
LWT (Holdings) Limited (1)(a)(c)	UK	100	ITV Studios Australia Pty Ltd (35)(a)	Australia	100
LWT Productions Limited (1)(a)	UK	100	Leftfield Australia Pty Ltd (37)(a)	Australia	100
Mammoth Screen (AR) Limited (1)(a)	UK	100	Totally Full Frontal Productions Pty Limited (36)(a)	Australia	100
Mammoth Screen (ATTWN) Limited (1)(a)	UK	100	LTP Productions Inc.(75)(l)	Canada	100

# Notes to the ITV plc Company Financial Statements

## continued

Company Name	Country	% Holding
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 (97)(a)	Chile	100
United Productions ApS (42)(a)	Denmark	100
ITV Studios Finland Oy (43)(a)	Finland	100
ITV Studios France (Holdings) SAS (98)(a)	France	100
ITV Studios France SAS (44)(a)	France	100
ITV Studios Germany GmbH (46)(a)	Germany	100
ITV Studios Germany Holdings GmbH (46)(a)	Germany	100
Newtopia GmbH (100)(a)	Germany	100
Talpa Germany Fiction GmbH (99)(a)	Germany	100
Talpa Germany GmbH & Co KG (47)(a)	Germany	100
Talpa Germany Verwaltungs GmbH (47)(a)	Germany	100
Elecrent Insurance Limited (31)(a)	Guernsey	100
ITV Global Entertainment (Hong Kong) Limited (49)(a)	Hong Kong	100
Talpa China Limited (48)(a)	Hong Kong	100
Carlton Home Entertainment Ireland Limited (50)(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
Brandcams International B.V. (52)(a)	Netherlands	100
Global Music & Talent Agency B.V. (93)(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
Talpa Content B.V. (57)(a)	Netherlands	100
Talpa Fictie B.V. (57)(a)	Netherlands	100
Talpa Germany Holding B.V. (93)(a)	Netherlands	100
Talpa Global B.V. (53)(a)	Netherlands	100
Talpa Non-Spot B.V. (57)(a)	Netherlands	100
Talpa Producties B.V. (57)(a)	Netherlands	100
Utopia B.V. (57)(a)	Netherlands	100
Volst Media B.V. (102)(a)	Netherlands	100
Wardour Street Films B.V. (59)(a)	Netherlands	100
ITV Studios Norway AS (76)(a)	Norway	100
ITV Studios Nordic AB (77)(a)	Sweden	100
Talpa Asia Pte. Ltd. (96)(a)	Singapore	100
ITV Studios Germany GmbH, Köln, Zweigniederlassung Zürich (78)(m)	Switzerland	100
12 Yard Holdings, Inc. (70)(j)	USA	100
Anglia Television Inc. (70)(j)	USA	100
Astrum Productions, LLC (94)(j)	USA	100
Cardinal Productions of Ohio Inc. (63)(j)	USA	100
Carlton Media Company Inc. (63)(j)	USA	100
Electric Farm Entertainment Holdings Inc. (63)(j)	USA	100
Granada Cracker US Productions (70)(j)	USA	100
Granada Television International Inc. (63)(j)	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 America Inc. (63)(j)	USA	100
ITV Believe Holding Inc. (63)(j)	USA	100
ITV Diga Holding Inc. (63)(j)	USA	100

Company Name	Country	% Holding
ITV Entertainment Services Inc. (63)(j)	USA	100
ITV Global Entertainment Inc. (63)(j)	USA	100
ITV Gntty 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
ITV SVOD Holding Inc. (63)(j)	USA	100
ITV Thinkfactory Holding Inc. (63)(j)	USA	100
ITV Tomorrow Holding Inc. (63)(j)	USA	100
ITV US Holdings Inc. (63)(j)	USA	100
ITV US Productions Inc. (63)(j)	USA	100
JB Entertainment Holding Company Inc. (63)(j)	USA	100
Kirkstall Road Enterprises Inc. (63)(j)	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
Over the Pond Productions Inc. (63)(j)	USA	100
Quay Street Enterprises Inc. (63)(j)	USA	100
Red Orange Productions, LLC (94)(j)	USA	100
So Television US Inc. (70)(j)	USA	100
Talpa Media USA Inc. (94)(j)	USA	100
Upper Ground Enterprises Inc. (63)(j)	USA	100
Zinna Productions LLC (94)(j)	USA	100

### Joint ventures and investments

Company Name	Country	% Holding
Absolutely Rights Limited (6)(a)	UK	20
That Mitchell and Webb Company Limited (7)(a)	UK	20
DTV Services Limited (17)(a)	UK	20
Route 24 Limited (24)(a)	UK	24.9
Monumental Television Limited (79)(a)	UK	24.92
Channel Mum Limited (12)(a)	UK	25
Clearcast Limited (14)(a)	UK	25
ISAN UK Limited (25)(a)	UK	25
Cirkus International Limited (13)(a)	UK	28
Thinkbox TV Limited (23)(a)	UK	28.58
Cirkus Limited (13)(a)	UK	51
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 Arlington Productions Limited (4)(a)	UK	38.25
Mainstreet Pictures Limited (4)(a)	UK	38.25
Unforgotten2 Limited (4)(a)	UK	38.25
Bait Studio Limited (5)(a)	UK	55
Cloth Cat Animation Limited (5)(a)	UK	41.25
Cloth Cat LBB Limited (5)(a)	UK	41.25
Independent Television News Limited (20)(a)	UK	40
Thud Media Limited (5)(a)	UK	41.25
Bone Kickers Limited (1)(a)	UK	50
Box Clever Technology Limited (8)(a)	UK	50
British Film-Makers Limited (1)(a)	UK	50
Digital 3 and 4 Limited (16)(a)	UK	50
Freesat (UK) Limited (18)(a)	UK	50
Gameface Productions Limited (1)(a)	UK	50
Noho Film and Television Limited (28)(a)	UK	50
Standard Music Limited (29)(a)	UK	50

Company Name	Country	% Holding
Television Media Marketing Limited (1)(a)	UK	50
Possessed Limited (1)(a)	UK	51
OSF (Wales) Limited (5)(a)	UK	46.27
Oxford Scientific Films Limited (5)(a)	UK	46.27
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 Group Limited (xx)(x)	UK	75
TwoFour Broadcast Limited (xx)(x)	UK	75
TwoFour Group Holdings Limited (1)(a)	UK	75
3sixtymedia Limited (1)(a)	UK	80
GC Films Pty Limited (36)(a)	Australia	49
Think Factory Productions Canada Ltd (80)(j)	Canada	65
Talpa Nordic ApS (41)(a)	Denmark	51
Imago TV Film und Fernsehproduktion GmbH(45)(a)	Germany	80
The Lab Television 2013 Limited Partnership (81)(a)	Israel	50
Talpa Italia Srl (82)(a)	Italy	50

Company Name	Country	% Holding
Rangers Productions SRL (83)(a)	Mexico	65
Identity Mansion B.V. (95)(a)	Netherlands	25
Pomper & Linders B.V. (101)(a)	Netherlands	20
Talpa Arabia Holding Ltd (84)(a)	UAE	90
Maximum Media Production FZ-LLC (84)(a)	UAE	90
Talpa Middle East FZ-LLC (84)(a)	UAE	90
Eight Bells Productions, LLC (63)(h)	USA	60
What's the Business, LLC (85)(h)	USA	60
FT Productions, LLC (63)(h)	USA	61.5
Shirina, LLC (63)(h)	USA	63.25
Crew Ready Everywhere, LLC (63)(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
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 Media, LLC (87)(h)	USA	65
Web Legal, LLC (63)(h)	USA	65
Westside Film Partners, LLC (63)(h)	USA	65
Loud Television, LLC (63)(h)	USA	75
Next Steps Productions, LLC (63)(h)	USA	75
Outpost Entertainment, LLC (63)(h)	USA	75
Tomorrow ITV Studios, LLC (63)(k)	USA	25

### 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
DTT Multiplex Operators Limited (17)(i)	UK	25
Digital Production Partnership Limited (1)(i)	UK	50
Producers Rights Agency Limited (25)(i)	UK	50
ITV Netherlands Co-operatief W.A*(55)(h)	Netherlands	100
Chad Alan Productions, LLC (62)(h)	USA	100
Double Down Films Holdings, LLC (63)(h)	USA	100
Double Down Films, LLC (63)(h)	USA	100
Electric Farm Entertainment, LLC (63)(h)	USA	100
Moving Pictures Services Inc. (63)(h)	USA	100
Oaklawn Pacific Properties, LLC (66)(h)	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
Sunshine Productions Holdings, LLC (63)(h)	USA	100
Work Shop of NY, LLC (63)(h)	USA	100
Jaffe/Braunstein Entertainment, LLC (69)(h)	USA	100
High Noon East, LLC (71)(h)	USA	60
High Noon Group, LLC (71)(h)	USA	60
High Noon Productions, LLC (71)(h)	USA	60

Company Name	Country	% Holding
High Noon West, LLC (71)(h)	USA	60
Feeding Time Productions, LLC (89)(h)	USA	61.5
Hollywood Camera and Lighting, LLC (90)(h)	USA	61.5
Gurney Productions, LLC (70)(h)	USA	61.5
RICMA, LLC (65)(h)	USA	61.5
Yukon RAFT Productions, LLC (91)(h)	USA	61.5
Brat Brigade, LLC (73)(h)	USA	63.25
Deep Gotham Post, LLC (73)(h)	USA	63.25
DGK S, LLC (63)(h)	USA	63.25
Diga Holdings, LLC (63)(h)	USA	63.25
Diga Production Studios, LLC (63)(h)	USA	63.25
Diga, LLC (63)(h)	USA	63.25
Film Productions Rentals, LLC (70)(h)	USA	65
Roasters, LLC (63)(h)	USA	65
Thinkfactory Group, LLC (63)(h)	USA	65
1016 Productions, LLC (60)(h)	USA	75
6565 Productions Studios, LLC (60)(h)	USA	75
6565 Productions Studios 2, LLC (60)(h)	USA	75
6565 Productions Studios 3, LLC (60)(h)	USA	75
6565 Productions Studios 4, LLC (60)(h)	USA	75
All in Post, LLC (60)(h)	USA	75
Cheese String Studios, LLC (72)(h)	USA	75
In Reality Productions, LLC (72)(h)	USA	75
Gritty Productions, LLC (63)(h)	USA	100
East Olive Productions, LLC (60)(h)	USA	75
BB Rights, LLC (63)(h)	USA	50
Britbox, LLC (92)(h)	USA	40.5
TwoFour America, LLC (70)(h)	USA	75
TwoFour Broadcast Media, LLC (70)(h)	USA	75

# Notes to the ITV plc Company Financial Statements

## continued

### Address key

- (1) The London Television Centre, Upper Ground, London, SE1 9LT, UK  
 (2) 218 Penarth Road, Cardiff, CF11 8NN, UK  
 (3) Twofour Studios, Estover, Plymouth, Devon, PL6 7RG, UK  
 (4) Kingsbourne House, 229-231 High Holborn, London, WC1V 7DA, UK  
 (5) Gloworks, Porth Teigr Way, Cardiff, Wales, CF10 4GA, UK  
 (6) 18 Glasshouse Studios, Fryern Court Rd, Fordingbridge, Hampshire, SP6 1NG, UK  
 (7) 26 Nassau Street, London, W1W 7AQ, UK  
 (8) 5 New Street Square, London, EC4A 3TW, UK  
 (9) 20 Cathedral Road, Cardiff, CF11 9LJ, UK  
 (10) 9 Mansfield Street, London, W1M 9FH, UK  
 (11) 20 Orange Street, 3rd Floor, London, WC2H 7EF, UK  
 (12) 21 Hatton Gardens (Room 9), London EC1N 9BA, UK  
 (13) The Met Building, 22 Percy Street, London, W1T 2BU, UK  
 (14) 4 Roger Street, 2nd Floor, London, WC1X 2JX, UK  
 (15) c/o Creative Skillset, 1-3 Grosvenor Place, Fifth floor (Suite 5B), London, SW1X 7HJ, UK  
 (16) 124 Horseferry Road, London, SW1P 2TX, UK  
 (17) 27 Mortimer Street, London, W1T 3JF, UK  
 (18) 23-24 Newman Street, London, W1T 1PJ, UK  
 (19) Unit 8 Acorn Production Centre, R/O 105 Blundell Street, London, N7 9BN, UK  
 (20) 200 Gray's Inn Road, London, WC1X 8HF, UK  
 (21) Clay Barn, Ipsley Court, Berrington Close, Redditch, Worcestershire, B98 0TD, UK  
 (22) 10 Lower Thames Street, (Third Floor), London, EC3R 6YT, UK  
 (23) Manning House, 22 Carlisle Place, London, SW1P 1JA, UK  
 (24) York House, Empire Way, Wembley, Middlesex, HA9 0FQ, UK  
 (25) Fitzrovia House, (3rd Floor), 153-157 Cleveland Street, London, W1T 6QW, UK  
 (26) Round Foundry Media Centre, Foundry Street, Leeds, LS11 5QP, UK  
 (27) c/o Archery Pictures, 3 Archery Close, London, W2 2BE, UK  
 (28) 59 Charlotte Street, (Third Floor), London, W1T 4PE, UK  
 (29) Roundhouse, 212 Regent's Park Road, London, NW1 8AW, UK  
 (30) Quatermile One, 15 Lauriston Place, Edinburgh, EH3 9EP, Scotland  
 (31) P.O. Box 308, St. Peter Port House, Union Street, St. Peter Port, GY1 3TA, Guernsey  
 (32) Le Capelain House, Castle Quay, St. Heller, JE2 3EH, Jersey  
 (33) Ogier House, The Esplanade, St. Heller, JE4 9WG, Jersey  
 (34) Ormeau Road, Belfast, BT7 1EB, Northern Ireland  
 (35) 5 Cromac Avenue, The Gasworks, Belfast, BT7 2JA, Northern Ireland  
 (36) 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) Uglund House, P.O. Box 309, South Church Street, Georgetown, Grand Cayman, Cayman Islands  
 (41) Mosedalvej 14, 2500, Valby, Copenhagen, Denmark  
 (42) Flinsensvej 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) Am Coloneum 6, 50829, Cologne, Germany  
 (47) Jenfelder Allee 80, 22039, Hamburg, Germany  
 (48) Room 1902, 19F Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong  
 (49) Gloucester Tower (8th Floor), The Landmark, 11 Pedder Street, Central, Hong Kong  
 (50) One Spencer Dock, North Wall Quay, Dublin 1, Ireland  
 (51) Mayor Street Upper, Dublin, DUBLIN 1, Ireland  
 (52) Burgemeester Stramanweg 97c, 1191 EA, Ouderkerk aan de Amstel, Netherlands  
 (53) Sumatralaan 45, 1217 GP, Hilversum, 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) Herikerbergweg 238, 1101 CM, Amsterdam Zuidooost, Netherlands  
 (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) 8929 South Sepulveda Boulevard, Suite 510, Los Angeles, CA 90045, USA  
 (66) The Corporation Trust Company, 311 South Division Street, Carston City NV 89703, USA  
 (67) 450 North Roxbury Drive, 8th Floor, Beverly Hills CA 90210, USA  
 (68) United Corporate Services, Inc., 874 Walker Road (Suite C), Dover, Kent, DE 19904, USA  
 (69) 321 Souther Beverly Drive, Suite M, Beverly Hills, CA 90212, USA  
 (70) CT Corporation System, 818 West Seventh Street, Suite 930, Los Angeles, CA 90017, USA  
 (71) The Hodson Law Firm, 1129, East 17th Avenue, Denver, CO 80014, USA  
 (72) 24955 Pacific Coast Highway, Suite C302, Malibu, CA 90265, USA  
 (73) CT Corporation System, 111 Eighth Avenue, 13th Floor, New York, NY 10011, USA  
 (74) 21 Holborn Viaduct, London, EC1A 2DY, UK  
 (75) 120 West 3rd Avenue #201, Vancouver, BC V5Y 1E6, Canada  
 (76) Starhusgaten 2A, Bergen, Norway  
 (77) Soder Malarstrand 65, 11825, Stockholm, Sweden  
 (78) Scharenmoosstrasse 105, 8052, Zurich, Switzerland  
 (79) 9 St. Peters Street, London, N1 8JD, UK  
 (80) Buccill Goldstein LLP, 99 Atlantic Avenue, Suite 214, Toronto, M6K 3J8, Canada  
 (81) 23 Habarzel Street, Tel Aviv, 69710, Israel  
 (82) Via Enrico, Tazzoli 6, Rome, Italy  
 (83) Gonzales Carrillo, SC Abogados, Montes Urales no 632, Piso 3, Lomas de Chapaltpec, DF 11000, Mexico  
 (84) Building 2, Dubai Media City, Dubia, UAE  
 (85) 3035 South Parker Road, Suite 500, Denver, CO 80014, USA  
 (86) eResident Agent Inc. 12121 Wilshire Boulevard -1201, Los Angeles, CA 90025, USA  
 (87) 1640 South Sepulveda Boulevard, Suite 300, Los Angeles, CA 90025, USA  
 (88) CT Corporation System, 306 Main Street, Suite 512, Frankfort, KY 40601, USA  
 (89) CT Corporation System, 5615 Corporate Boulevard, Suite 400B, Baton Rouge, CA 70808, Los Angeles, USA  
 (90) 24955 Pacific Coast Highway, Suite C302, Malibu, CA 90265, USA  
 (91) Incorp Services Inc, 101 E. 9th Avenue, Suite 12-B, Anchorage, AK 99501-3651, USA  
 (92) 1120 Avenue of Americas, 5th Floor, New York, NY 10036, USA  
 (93) Famille de Mollan 1, 1217 ZB Hilversum, Netherlands  
 (94) 15000 Ventura Blvd, Suite 202, Sherman Oaks, CA 91403, USA  
 (95) Westersingel 108, 3015 LD Rotterdam, Netherlands  
 (96) 198A Telok Ayer Street, Singapore 068637  
 (97) calle Cerro El Plomo 5855, oficina 1605, comuna de Las Condes, Region Metropolitana, Chile  
 (98) 3 rue Taylor, CS 20004, 74010, Paris, France  
 (99) Gethiner Strasse 5, 10785, Berlin, Germany  
 (100) August-Bebel Strasse 58, 15711, Konigs Wusterhausen, Germany  
 (101) Keizersgracht 149a, 1015CL, Amsterdam, Netherlands  
 (102) Hollandse Kade 34, 1391JM, Abcoude, Netherlands

### Interest key

- |                                      |                            |
|--------------------------------------|----------------------------|
| (a) Ordinary                         | (h) Membership/Partnership |
| (b) Deferred                         | (i) Guarantee              |
| (c) Special deferred                 | (j) Common                 |
| (d) Redeemable preference            | (k) Preference             |
| (e) Cumulative preference            | (l) Part preference        |
| (f) Cumulative redeemable preference | (m) Branch                 |
| (g) Convertible preference           | * Direct subsidiary        |

# Shareholder Information

## Shareholder profile

Information as at 31 December 2016				
Type of holder:	Holders Number	%	Shares held Millions	%
Insurance companies	5	0.01	0	0
Banks and nominee companies	3,015	5.52	3,887	96.58
Individuals	51,260	93.87	123	3.06
Others	333	0.60	15	0.36
<b>Totals</b>	<b>54,613</b>	<b>100</b>	<b>4,025</b>	<b>100</b>

Size of holding:	Holders Number	%	Shares held	%
1 – 100	8,781	16.07	306,634	0.01
101 – 200	7,164	13.11	1,076,804	0.03
201 – 500	13,605	24.91	4,421,055	0.11
501 – 1,000	8,758	16.03	6,431,692	0.16
1,001 – 2,000	6,809	12.47	9,895,045	0.25
2,001 – 5,000	5,188	9.5	16,306,370	0.41
5,001 – 10,000	1,863	3.41	13,187,431	0.33
10,001 – 50,000	1,392	2.55	28,193,018	0.70
50,001 – 100,000	221	0.41	15,752,927	0.39
100,001 – 500,000	363	0.67	90,071,530	2.24
500,001 – 1,000,000	119	0.22	88,194,950	2.19
1,000,001 – 5,000,000	223	0.41	540,614,448	13.43
5,000,001 – 10,000,000	53	0.1	368,562,661	9.16
10,000,001 – 50,000,000	60	0.11	1,177,107,879	29.24
50,000,001 and above	14	0.03	1,665,286,750	41.37
<b>Totals</b>	<b>54,613</b>	<b>100</b>	<b>4,025,409,194</b>	<b>100</b>

## Company website

Investor and shareholder-related information, including the current price of ITV plc shares, can be found on the Company website at:


 [www.itvplc.com](http://www.itvplc.com)

## Financial calendar

Ex-dividend date for the Final and Special dividend	27 April 2017
Record date for the Final and Special dividend	28 April 2017
Annual General Meeting	10 May 2017
Interim Management Statement	10 May 2017
Payment date for the Final and Special Dividend	25 May 2017
Half year results announcement	26 July 2017

## Registered office



The London Television Centre  
Upper Ground  
London  
SE19LT

 **020 7157 3000**

Company registration number 4967001

## Registrars and transfer office

All administrative enquiries relating to shareholdings and requests to receive corporate documents should be directed to Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, BR3 4TU. They can be contacted by telephone on

-  **0871 664 0300** from the UK (calls cost 12 pence per minute plus network charges) and
-  **+44 371 664 0300** from outside the UK (calls UK will be charged at the applicable international rate).

Lines are open Monday to Friday 9.00 a.m. to 5.30 p.m.

Alternatively you could email them at:

 [shareholderenquiries@capita.co.uk](mailto:shareholderenquiries@capita.co.uk)

## Annual General Meeting

The Annual General Meeting will be held on Wednesday 10th May 2017 at 11.00 a.m. at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE. The Notice of the AGM contains an explanation of special business to be considered at the meeting and a copy of this is available on the Company website.

 [www.itvplc.com/investors/shareholder-information/agm](http://www.itvplc.com/investors/shareholder-information/agm)

# Glossary

## 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 16 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, ITVB, ITV Encore, CITV, ITV Breakfast, CITV Breakfast and all associated +1 and HD equivalents. Viewing figures include the whole of the ITV network. Revenue figures include only ITV plc operated regions

**Linear television** – television service where the viewer has to watch a scheduled TV program at the particular time it's offered, and on the particular channel it's presented on

**Long-form video requests** – video requests are a measure of the total number of videos requested across all platforms (such as itv.com, Virgin and mobile devices) and includes simulcast. 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 of ITV VOD content viewed on advertiser funded platforms (such as mobiles, itv.com, connected TVs)

**Media sales commission** – commission earned by ITV plc on sales of airtime on behalf of the non-consolidated licensees (STV and UTV until acquisition in Feb 2016)

**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** – 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** – independent regulator and competition authority for the UK communications industries

**Over-the-top content (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 which is delivered by one channel or group of channels. This measure excludes viewing of BBC channels as they do not generate commercial impacts. Unless stated otherwise, SOCI figures cited throughout this report are based on BARB data and are based on the universe of Adults (16+)

**Share of Viewing (SOV)** – the share of the total viewing audience during a defined period gained by a programme or channel. This measure includes viewing of BBC channels. Unless stated otherwise, SOV figures cited throughout this report are based on BARB data and are based on the universe of individuals

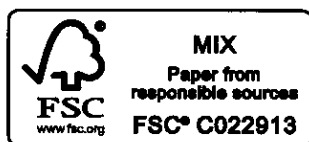
**Spot advertising** – Linear television advertising occupying a short break during or between programmes

**Subscription Video on Demand (SVOD)** – a paid for service where a subscriber has access to wide range of content whenever they request it

**Video on Demand (VOD)** – the ability to deliver video content to a customer's television set, computer or device when the customer requests it

**YouView** – a joint venture (with the BBC, Channel 4, Channel 5, BT, TalkTalk, and Arqiva) to operate and promote a hybrid television platform combining Freeview channels with catch up and on demand services





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Designed and produced by  
**CONRAN DESIGN GROUP**

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The London Television Centre  
Upper Ground  
London  
SE1 9LT

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**Investors:**  
[www.itvplc.com](http://www.itvplc.com) Stock code: ITV