



ITV plc  
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**itv 50**

# 50 years of ITV – something to celebrate

ITV plc  
Interim report 05

## Financial highlights (published basis)

### Revenue

**+9% to £1,044m**

(2004: £956m)

### Operating profit\*

**+65% to £201m**

(2004: £122m)

### Profit before tax\*

**+60% to £205m**

(2004: £128m)

### Cash generated from operations

**£196m**

### Adjusted earnings per share\* (Basic)

**+46% to 3.5p**

(2004: 2.4p)

### Published earnings per share (Basic)

**2.7p**

(2004: 0.8p)

\*before amortisation and material non-recurring items

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Cover Image: Paul O'Grady presenting at the British Soap Awards

## Chairman's statement

During the first half of 2005 we have made excellent progress in shaping our business for the digital age.

Our profits are significantly ahead of last year with adjusted basic earnings per share (before amortisation and material non-recurring items) up by 46% on the comparable period last year to 3.5 pence per share. We have decided to increase the interim dividend this year by 20% to 1.32 pence per share, payable on 9 January 2006 to shareholders on the register on 11 November 2005. The ex-dividend date will be 9 November 2005. As we have previously outlined, we intend to rebalance over the medium term, the respective levels of interim and final dividend, such that the interim dividend represents approximately one-third of the total. At the full year, the Board therefore intends, in the absence of any unforeseen circumstances, to recommend an increase in the final dividend by more than the increase in the interim dividend.

ITV is proud to be celebrating 50 years as the UK's leading commercial broadcaster this year. Since the historic opening broadcast in September 1955 the channel has produced more than 70% of the nation's most popular television programmes. Programming therefore is at the heart of the ITV50 celebrations this autumn. The channel will broadcast a series of special programmes including *Avenue of the Stars* and a major television event in which viewers will select their favourite shows from *ITV's 50 Greatest Shows*. Other programming highlights include star studded dramas, *Ant and Dec's Gameshow Marathon* and special news and sport events. Off screen the anniversary will be marked by the release of a special collection of ITV50 stamps from the Royal Mail and a major three year project where ITV viewers will determine the allocation of £65 million of Lottery funds.

#### Broadcasting

On 29 June 2005 Ofcom confirmed the new financial terms for our Channel 3 licences. Our cash payments have reduced by approximately £135 million, but we still are paying a very substantial amount.

Our strategy of developing our multichannel offer is progressing well. ITV2 and ITV3 have continued to beat both internal targets and external forecasts for ratings and for revenues. We aim to match and build on their success with the launch of ITV4 in November.

We have acquired additional broadcasting bandwidth on the digital terrestrial television platform which will ensure that we have transmission capacity for our channels following digital switchover.

#### New revenue streams

We have established a dedicated consumer team to provide a clear focus on the creation of new revenue streams through different platforms, including mobile and broadband, and through new channels including interactive and transactional elements. The first two elements of this work are already being delivered with our mobile portal now in operation and with the first trials of an ITV local broadband service planned during the coming months.

#### Pension schemes

At the Annual General Meeting in May I said that we expected to address the funding deficit in our defined benefit pension schemes before the end of the calendar year. Many defined benefit arrangements in the UK have a funding deficit due to a combination of factors, of which the most significant include the effect of poor market performance at the beginning of the decade and the effects of increased life expectancy with the current low level of long-term real interest rates, both of which raise the net present value of liabilities.

We have decided to address this issue by making a £325 million lump sum contribution into our schemes. Based on an analysis carried out for the Company by our actuaries, we expect that this sum, together with estimated future investment returns on the schemes' assets, will enable the schemes to move towards being fully funded (on an ongoing basis) over an appropriate period of time.

This substantial injection of funds will give our pension scheme members greater confidence in their individual positions and should be seen as a proactive step in administering our defined benefit arrangements.

#### People

Finally, I would like to extend the Board's thanks to our executives and all our colleagues for their contribution to our results. They have continued to improve the efficiency of our business and have delivered the full merger savings. The success of our new channels is clear evidence of the strength and popularity of our programmes.

The Board and I look forward to working with our colleagues as we continue to structure the business to take increasing advantage of our undoubted business strengths in the digital age.



Sir Peter Burt  
Chairman

## Operating review

### Introduction

Following the completion of the merger we are now focused on our current strategic initiatives to drive the business forward.

We have achieved a substantial improvement in our first half results. Our revenue for the six months to 30 June 2005 was up 9% at £1,044 million. Revenue, excluding advertising revenue and sponsorship from our ITV1 channel, was up by 36% to £317 million and now represents over 30% of our total revenue. As explained below, this was driven by strong performances from our new channels ITV2 and ITV3. Our operating profit before amortisation and material non-recurring items was up 65% at £201 million compared to the same period in 2004 and has doubled compared to the same period in 2003 prior to the merger. Profit before tax, amortisation and material non-recurring items was up by 60% at £205 million on the same basis.

We remain ahead of schedule on the timing of delivery of the £120 million of merger savings and are continually seeking opportunities to improve the operating efficiency of the ongoing business. Clear evidence of this can be seen in the improving margin, with operating profit, before amortisation and material non-recurring items, as a percentage of revenue up by more than 6 percentage points. Our cash flow has, once again, been strong in the first half with cash generated from operations of £196 million. A detailed financial review is included in this report.

### Modernise regulation

2005 has already seen a significant move for us with the setting of new financial terms for our Channel 3 licences. In 2004 the combined licence payments (including GMTV) were £215 million net of the digital rebate. In 2005 we expect that figure to be less than £80 million, a reduction of over 60%. The payment will continue to fall as digital penetration increases and will reduce to around £4 million in current terms by the time analogue transmissions cease. The reduced financial terms reflect the declining value of the analogue broadcasting spectrum and will allow us to continue to invest in high quality programming across our family of channels and in our digital strategy.

In both our provision of Public Service Broadcasting and Ofcom's forthcoming TV advertising market review, ITV will continue to look for more appropriate regulations for the multichannel world in which we now operate.

### UK advertising market

ITV plc's net advertising revenue was up 3.4% in the first six months of 2005 reflecting strong growth in our digital channels (ITV2 and ITV3), up by more than 100% on 2004, and a first time contribution from GMTV. The net advertising revenue of our eleven ITV1 licences was down by 3.5%. This was due to several factors including the Contract Rights Renewal (CRR) remedy. CRR, agreed as a condition of the merger, ties our ITV1 share of the UK TV advertising market to the ITV1 share of commercial viewing. Our commercial impact performance is affected as viewers move to digital platforms (Freeview, cable and satellite) where there is more channel choice and the viewing levels of all the five main terrestrial channels are inevitably lower than in analogue homes. As digital viewing approaches saturation this effect will reduce.

In the second quarter, ITV1's advertising performance was influenced by the general election, which led to depressed advertising in part due to reduced Government spending. This accentuated the already tough comparisons to 2004, when the European Football Championship attracted significant advertising revenue. Without any major sporting event this year we have seen a reduction in first half revenue from cars, finance and alcoholic drinks which traditionally advertise around major sporting events.

The category which has grown most is food with spend up by 25% in the first half. Entertainment and telecoms have also seen good year-on-year growth.

ITV continues to promote the benefits of television advertising. This includes new digital opportunities, such as interactive advertising. Examples of this work are our "Values of Fame" campaign and our "Fame Metrics" initiative which demonstrates that brand fame is linked to company profitability. These initiatives enable us to engage with our advertisers and show them the benefits of TV advertising to improving both consumer loyalty and earnings.

### Driving multichannel

In the first half, the viewing share of our ITV channels grew on both digital terrestrial and digital satellite platforms. ITV1 remains the most popular channel in peak time and continues to maintain its mass market leadership against a backdrop of increasing audience fragmentation. It is the most watched commercial channel across all multichannel homes with an 18.4% share of individuals in the first half, increasing to 22.3% in Freeview homes. We have had notable successes such as the Champions League Final between Liverpool and AC Milan which peaked close to 15 million viewers at the penalty shoot out, ranking as the highest peak audience for ITV1 since Euro 2004.

ITV2 and ITV3 viewing shares continue to grow strongly. By share of adult commercial impacts ITV2 and ITV3 are the first and third largest commercial digital channels in multichannel homes over the first half of the year, and these two channels alone contributed 55% of the growth in multichannel adult commercial impact volume for the approximately 200 digital channels during that period. ITV2 and ITV3 also accounted for half of the total multichannel advertising revenue growth over the first half of the year. The success of our channels results largely from our strategy of scheduling the separate channels to attract different demographic audiences and actively using cross promotion of their complementary schedules. ITV2's programming has a 16–34 audience profile whilst ITV3 targets a 35+ demographic. Amongst ITV2's successes have been the Tour de France, UEFA Champions League and *Extra Time*, a brand extension of *Footballers' Wives*.

The viewing share for individuals of our combined ITV channels in multichannel homes in the first half was 21.9%, up by 2% on the same half year period three years ago. This is a considerable achievement given the ever increasing number of channels available.

We remain firmly on track to achieve at least our target of £150 million pa of multichannel revenue by the end of 2007. We are now looking at opportunities to invest in US acquired programming and other popular material for the channels to drive their viewing shares even harder.

### Freeview and free satellite service

Freeview continues to be the digital platform on which ITV performs best, and is by far the fastest growing platform accounting for approximately 75% of all new digital homes. It is therefore a strategic objective for us to support the growth of Freeview.

In April we announced the acquisition of SDN (making ITV the operator of 38% of the commercial capacity on DTT excluding the BBC) at a total cost of £136 million. SDN owns the licence to operate digital terrestrial Multiplex A which currently broadcasts ten channels on Freeview. This acquisition, which provides a new revenue stream for ITV, is immediately earnings enhancing (before amortisation of intangible assets), and is an exciting step forward in our digital strategy. It gives ITV the potential for additional broadcast capacity from 2010 and the prospect of advances in digital compression technology allowing an extra channel to be added to the multiplex in 2007.

We are working with the BBC on the marketing of a free satellite service and will be moving to decrypt our digital satellite transmissions for ITV1, ITV2 and ITV3 so that they are freely available to viewers equipped with digital satellite receivers.

### Content for the future

Our production business continues to focus on delivering high quality programming and excellent value for broadcasters. In the first half of 2005 Granada productions have accounted for seven of the top ten highest rating programmes on ITV1. Granada productions are the most efficient source of programmes for the channel having delivered 55% of adult commercial impacts during network programming in 2004 in return for just 40% of the network programme budget.

Our soaps have been performing strongly with *Coronation Street* winning its timeslot the whole year. *Emmerdale* has been on a roll and on 17 March this year celebrated its 4,000th episode with an hour-long special. *Emmerdale* has consistently been closing the ratings gap on the BBC's *EastEnders*, and in some weeks has beaten *EastEnders* outright.

*Diamond Geezer* was a great success attracting almost 10 million viewers, a 44% share of adults. *Heartbeat* remains the top performing long-running drama series on television consistently achieving an audience share of over 35%.

In entertainment programming the ITV1 success in the first half was Granada's *Ant & Dec's Saturday Night Take Away* which returned an average 41% viewing share of 16–34s over the series.

Our international production business has also seen considerable success. Revenue was up by 26% as we delivered a number of series to our US Network customers. These include *Nanny 911* and *Hell's Kitchen* for Fox Broadcasting Network, *Celebrity Fit Club* for VH1 and *Hit Me Baby One More Time* for NBC.

International secondary sales of our programmes to other broadcasters continued to be a source of high margin revenue with the top selling title being *Agatha Christie's Poirot* generating £2.4 million in the six months. As well as producing *Nanny 911* in America, we hold the international rights to that production which we have sold to 20 major territories and we have also licensed the programme format. We have made further progress on video-on-demand trials and are in the process of assessing the revenue opportunities for downloadable archives via broadband. We have expanded our DVD sales, both through sales to the public and by leasing the rights to newspapers and other publications throughout the UK. Granada International have also been winning mandates to represent third parties.

### News

ITV's commitment to investment in the latest news technology has resulted in both improved ratings for our early evening regional bulletin and cost savings. We have continued to install new digital TV centres and digital news rooms, with Central, Meridian, Manchester, Newcastle and Leeds completed so far this year and Norwich to be fully equipped before the year end.

Editorial content continues to benefit from a single news management with ITN achieving a number of notable news scoops. This was particularly evident with ITV News' 48 hour coverage of the 2012 Olympic bid and the London bombings on 7 July when we were able to bring our viewers the top stories ahead of our competitors through our ability to co-ordinate the deployment of both network and regional resources. ITV has also won "News Programme of the Year" at the Broadcast Awards and Alastair Stewart won "Presenter of the Year" at the RTS Journalism Awards 2005.

### New revenue streams

The role of ITVC, our new Consumer team, is to build ITV's non Free-to-Air business, with a focus on direct consumer revenues.

We have appointed Jeff Henry as Chief Executive to drive these opportunities. His experience in running pay television operations is being complemented by a team with experience in other fields that will help us to develop ways to exploit our content and aggregation skills through mobile, broadband and new technologies such as DVB-H and other consumer devices.

ITVC has launched our mobile portal in three different versions: WAP, Flash and Java, making it the most accessible TV mobile portal. Driven primarily by ITV content, it will provide up-to-date news and weather services, TV guides and entertainment stories. We are planning trials of a broadband based ITV Local Service with news, travel, classified advertising and other transactional services for towns and cities in our regions.

We have an enormous quantity of popular library material and high rating current productions which lend themselves to the creation of must-view content for delivery direct to consumers across a variety of platforms.

### Outlook

#### ITV channels

The ITV1 2005 Autumn schedule focuses on ITV's core strengths of big name stars, strong programme brands and must-see entertainment.

In Drama we will see an exciting selection of series and two-part programmes starring high-profile faces such as Ray Winston, Robert Carlyle, Robert Lindsay, Rik Mayall, Caroline Quentin, Sarah Lancashire, Tamzin Outhwaite and Matthew Kelly and the return of David Jason in *A Touch of Frost* and Martin Clunes in *Doc Martin*.

In Entertainment *I'm A Celebrity Get Me Out Of Here* will be returning for a new series in November, fronted by Ant and Dec. *X Factor*, featuring Simon Cowell, Louis Walsh and Sharon Osbourne has also returned to the screen and Michael Parkinson's hugely successful Saturday night chat show will follow later in the Autumn. We have also secured the rights to the network premiere of *Harry Potter and the Chamber of Secrets* and have a number of new movie deals starting in early 2006 with the Hollywood studios.

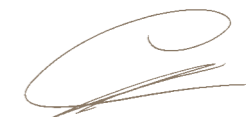
Sport remains a key area of focus for ITV1 and we look forward to screening the UEFA Champions League and the FIFA football World Cup in 2006 and have secured the FIFA football World Cup rights for 2010 and 2014. Boxing has now returned to ITV with a two year contract signed with Frank Warren and we will continue to screen the best of Formula 1 action.

We are looking forward to the launch of ITV4 which will target a male demographic, one which is particularly sought after by advertisers. ITV4 will be an entertainment channel showcasing a mix of brand new US drama, top end British drama, comedy, movies, sport, sci-fi and factual programming. We will also be launching an ITV children's channel in the next six months. This channel will be the only commercial children's channel available on all platforms, using the rich heritage of CiTV's multi-award winning programmes. The channel will also premiere new programmes and cover every genre.

### Advertising

Advertising revenue in the third quarter is stronger than in the first half. ITV plc's advertising revenue in the quarter to 30 September 2005 will be up approximately 4% on the same period last year including a first time contribution from GMTV. ITV plc's combined advertising revenue from our channels, excluding GMTV, over that period will be up by approximately 0.7% on the same period last year.

I would particularly like to join with Sir Peter Burt in expressing our thanks to everyone in ITV for their continuing dedication to bringing the best television to our screens and for their contribution to delivering these results for our shareholders.



Charles Allen  
Chief Executive

## Financial review

### Statutory results for the six months ended 30 June 2005

Revenue for the six months to 30 June 2005 was up 9% at £1,044 million (2004: £956 million). Operating profit increased to £150 million (2004: £39 million) with underlying operating profit before amortisation and material non-recurring items up 65% at £201 million (2004: £122 million). Profit before tax, amortisation and material non-recurring items increased by 60% to £205 million (2004: £128 million). Profit before tax includes a £9 million gain on sale of property, principally arising from the sale of the Nottingham Studios.

Tax was charged on profits before amortisation and material non-recurring items at an effective rate of 28% (2004: 27%).

Adjusted basic earnings per share before amortisation and material non-recurring items were up 46% at 3.5 pence (2004: 2.4 pence).

### Pro forma results for the six months ended 30 June 2004

For the six months ended 30 June 2004 pro forma results were prepared to show the results of ITV as if the merger between Granada plc and Carlton Communications Plc had taken place before the start of that period. In summary, and adjusted for IFRS, these are:

	Published 2005 £m	Pro forma 2004 £m	Published 2004 £m
Revenue	1,044	986	956
Operating EBITA*	201	123	122
Profit before tax*	205	128	128
Operating margin (EBITA* as a percentage of revenue)	19.3%	12.5%	12.8%
Adjusted* earnings per share – basic	3.5p	2.3p	2.4p

\*Pre amortisation and material non-recurring items

On this basis, revenue for the six months to 30 June 2005 was up 6% at £1,044 million (2004: £986 million). Operating profit before amortisation and material non-recurring items was up 63% at £201 million (2004: £123 million). Profit before tax, amortisation and material non-recurring items increased by 60% to £205 million (2004: £128 million).

The increase in revenue reflects movements in net advertising revenue (NAR) as follows:

	2005 £m	2004 £m	Change %
ITV1	710	736	(3.5)
ITV2, ITV3, ITV News, Men & Motors	48	24	100
GMTV	28	–	–
Total NAR	786	760	3.4

The increase in operating profit reflects the reduction in licence fees as follows:

	2005 £m	2004 £m	Saving £m
PQR Levy	103	132	29
Cash bid payment	2	33	31
Digital licence rebate	(65)	(64)	1
Total	40	101	61

### Dividend

The interim dividend is increased by 20% to 1.32 pence per share (2004: 1.1 pence). This is covered 2.65 times by the earnings per share (before amortisation and material non-recurring items) of 3.5 pence.

### Acquisition of businesses

During the period, ITV acquired SDN at a total cost of £136 million. As required by IFRS 3 (Business combinations) SDN's assets have been adjusted to reflect the fair value of the acquired net assets at the date of acquisition by ITV. Intangible assets of £82 million (in respect of the multiplex licence and customer contracts) have been recognised along with an associated deferred tax liability of £25 million. Goodwill is £80 million. Further details are given in note 6 to the accounts.

### Net debt

The principal movements in net debt during the period are shown in the table below:

	£m
Net debt at 31 December 2004	(280)
Adjustment for IAS 32 and IAS 39 (see note 9)	(47)
Net debt at 1 January 2005 (restated)	(327)
Cash generated from operations	196
Acquisition of SDN	(136)
Taxation paid	(66)
Dividends paid	(45)
Other movements	(6)
Net debt at 30 June 2005	(384)

Cash generated from operations was £196 million (2004: £207 million) reflecting the strong trading in the six months to 30 June 2005. This is after a net outflow of £47 million cash in respect of licence fees in excess of the income statement charge for the period. Excluding this, the working capital inflow would be £48 million and cash generated from operations, £243 million.

The total cash outflow to acquire SDN was £136 million. Taxation paid of £66 million includes payments on account during the period and payment following the settlement of prior years' Group relief with United Business Media plc which had been previously provided for. The 2004 interim dividend of £45 million was paid at the beginning of 2005.

During the period €125 million of the Exchangeable bond was repaid.

### International Financial Reporting Standards (IFRS)

ITV plc adopted IFRS on 1 January 2005 and has presented its accounts under IFRS for the first time in this report. The basis of preparation, along with ITV plc's significant accounting policies, is set out in note 11. The 2004 comparative financial information has been restated and represented under IFRS. Details of this conversion are given later in this report and further information is given in ITV plc's Preliminary International Financial Reporting Standards Financial Statements for 2004 which is available on the corporate website [www.itvplc.com](http://www.itvplc.com).

## Consolidated income statement

For the six months ended 30 June:

	Note	2005 £m	2004 £m
Group and share of joint ventures' revenue		1,073	991
Less share of joint ventures' revenue		(29)	(35)
<b>Revenue</b>		<b>1,044</b>	<b>956</b>
Operating costs before depreciation, amortisation of intangible assets and material non-recurring items		(828)	(815)
Operating costs – material non-recurring items	1	(1)	(23)
<b>EBITDA</b>		<b>215</b>	<b>118</b>
Depreciation of property, plant and equipment		(15)	(19)
<b>EBITA</b>		<b>200</b>	<b>99</b>
Amortisation of intangible assets	5	(50)	(60)
<b>Total operating costs</b>		<b>(894)</b>	<b>(917)</b>
<b>Operating profit</b>		<b>150</b>	<b>39</b>
Financing income		7	9
Financing costs		(18)	(17)
Net financing costs		(11)	(8)
Share of profit of associates and joint ventures		4	5
Investment income		2	4
Gain on sale of property		9	5
<b>Profit before tax</b>		<b>154</b>	<b>45</b>
Taxation		(43)	(8)
<b>Profit for the period</b>		<b>111</b>	<b>37</b>
Profit attributable to minority interest		(2)	(5)
<b>Profit attributable to equity shareholders of the Company</b>		<b>109</b>	<b>32</b>
Basic earnings per share	2	2.7p	0.8p
Diluted earnings per share	2	2.7p	0.8p

All results are from continuing operations.

## Consolidated balance sheet

	Note	30 June 2005 £m	31 December 2004 £m	30 June 2004 £m
<b>Non-current assets</b>				
Property, plant and equipment		240	258	259
Intangible assets	5	3,909	3,797	3,756
Distribution rights		16	12	18
Investments in joint ventures and associates	7	85	83	113
Other investments	7	170	140	151
Deferred tax asset in respect of pension scheme deficits		204	202	168
Other deferred tax balances		(144)	(136)	(129)
Net deferred tax asset		60	66	39
		<b>4,480</b>	4,356	4,336
<b>Current assets</b>				
Current asset investments		–	–	174
Assets held for resale		–	–	59
Programme rights and other stock		321	368	271
Trade and other receivables due within one year		356	349	336
Trade and other receivables due after more than one year		10	8	30
Trade and other receivables		366	357	366
Cash and cash equivalents	8	415	582	400
		<b>1,102</b>	1,307	1,270
<b>Current liabilities</b>				
Borrowings	8	(10)	(10)	(412)
Trade and other payables due within one year		(622)	(713)	(617)
Trade and other payables due after more than one year		–	–	(20)
Trade and other payables		(622)	(713)	(637)
Current tax liabilities		(221)	(225)	(222)
Provisions		(28)	(32)	(20)
		<b>(881)</b>	(980)	(1,291)
<b>Net current assets/(liabilities)</b>		<b>221</b>	327	(21)
<b>Non-current liabilities</b>				
Borrowings	8	(789)	(852)	(557)
Defined benefit pension deficit		(679)	(672)	(559)
Other payables		(6)	(7)	(7)
Provisions		(41)	(43)	(62)
		<b>(1,515)</b>	(1,574)	(1,185)
<b>Net assets</b>		<b>3,186</b>	3,109	3,130
<b>Attributable to equity shareholders</b>				
Share capital	10	423	422	422
Share premium account	10	94	91	90
Merger and other reserves	10	2,666	2,666	2,660
Translation reserve	10	(3)	(2)	(1)
Available for sale reserve	10	18	–	–
Retained earnings	10	(22)	(84)	(63)
<b>Total attributable to equity shareholders</b>	10	<b>3,176</b>	3,093	3,108
Minority interest	10	10	16	22
<b>Total equity</b>	10	<b>3,186</b>	3,109	3,130

## Consolidated cash flow statement

	Note	2005 £m	2004 £m
For the six months ended 30 June:			
<b>Cash flows from operating activities</b>			
Operating profit before material non-recurring items		151	62
Depreciation of property, plant and equipment		15	19
Amortisation of intangible assets		50	60
Movement in working capital**		1	96
Cash generated from operations before material non-recurring items		217	237
Cash flow relating to material non-recurring items:			
Operating loss		(1)	(23)
Increase in debtors		(11)	–
Decrease in creditors and provisions*		(9)	(7)
Cash outflow from material non-recurring items		(21)	(30)
Cash generated from operations		196	207
Interest received		7	7
Interest paid on bank and other loans		(20)	(25)
Interest paid on finance leases		(2)	(2)
Investment income		2	4
Dividends received from investments in joint ventures and associates		–	2
Taxation paid		(66)	(8)
		<b>(79)</b>	(22)
<b>Net cash from operating activities</b>		<b>117</b>	185
<b>Cash flows from investing activities</b>			
Acquisition of subsidiary undertakings, net of cash and cash equivalents acquired, and debt repaid on acquisition	6	(136)	461
Proceeds from sale of property, plant and equipment		23	19
Acquisition of minority interest		–	(140)
Acquisition of property, plant and equipment		(16)	(7)
Acquisition of investments		(30)	(2)
Proceeds from sale of subsidiaries		5	–
Proceeds from sale of investments		–	2
<b>Net cash from investing activities</b>		<b>(154)</b>	333
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary share capital		46	7
Purchase of US held shares		(42)	–
Bank and other loans repaid		(88)	(85)
Capital element of finance lease payments		(2)	(2)
Preference dividends paid to shareholders		–	(5)
Redemption of redeemable shares on merger		–	(200)
Equity dividends paid		(45)	(28)
<b>Net cash used in financing activities</b>		<b>(131)</b>	(313)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(168)</b>	205
<b>Cash and cash equivalents at 1 January</b>		<b>582</b>	185
Effects of exchange rate changes and fair value movements on cash and cash equivalents		1	10
<b>Cash and cash equivalents at 30 June</b>		<b>415</b>	400

\*Includes £6 million (2004: £6 million) relating to expenditure against provisions held in respect of activities which have been previously discontinued.

\*\*Licence fees paid in the period were £47 million greater than the income statement charge. This excess has now been repaid and will represent a working capital inflow in the second half of the year.

## Consolidated statement of recognised income and expense

For the six months ended 30 June:	2005 £m	2004 £m
Exchange differences on translation of foreign operations	(1)	(1)
Movements in respect of cash flow hedges	(2)	–
Revaluation of available for sale investments	5	–
<b>Net income recognised directly in equity</b>	<b>2</b>	<b>(1)</b>
<b>Profit for the period</b>	<b>111</b>	<b>37</b>
<b>Total recognised income and expense for the period</b>	<b>113</b>	<b>36</b>
Attributable to:		
Equity shareholders of the Company	111	31
Minority interests	2	5
<b>Total recognised income and expense for the period</b>	<b>113</b>	<b>36</b>

## Notes to the accounts

### 1 Material non-recurring items

For the six months ended 30 June:	2005 £m	2004 £m
Operating items:		
Reorganisation and integration costs	(12)	(23)
Receipt from the liquidators of ITV Digital	11	–
Total material non-recurring items	(1)	(23)

### 2 Earnings per share

For the six months ended 30 June:	2005		2004	
	Basic £m	Diluted £m	Basic £m	Diluted £m
Profit for the financial period attributable to shareholders	109	109	32	32
Material non-recurring items (including related tax effect of £nil, 2004: £6 million)	1	1	17	17
Profit before material non-recurring items	110	110	49	49
Amortisation of intangible assets (including related tax effect of £15 million, 2004: £18 million)	35	35	42	42
Profit for the financial period before material non-recurring items and amortisation of intangible assets	145	145	91	91
Weighted average number of shares in issue – million	4,075	4,075	3,824	3,824
Dilution impact of share options – million	–	49	–	70
	4,075	4,124	3,824	3,894

**Earnings per ordinary share** 2.7p 2.7p 0.8p 0.8p

#### Adjusted earnings per share

Basic earnings per share	2.7p	2.7p	0.8p	0.8p
Add: Loss per share on material non-recurring items	–	–	0.5p	0.4p
Earnings per share before material non-recurring items	2.7p	2.7p	1.3p	1.2p
Add: Loss per ordinary share on amortisation of intangible assets	0.8p	0.8p	1.1p	1.1p
Earnings per share for the financial period before material non-recurring items and amortisation of intangible assets	3.5p	3.5p	2.4p	2.3p

All profits arise from continuing operations. An adjusted earnings per share has been disclosed because in the view of the directors this gives a true reflection of the results of the underlying business.

### 3 Dividends

Dividends are recognised in equity during the period in which they are declared. Dividends recognised in equity for the six months ended 30 June 2005 total £53 million (six months ended 30 June 2004: £20 million) and represent the 2004 final dividend declared by the Company on 8 March 2005 (six months ended 30 June 2004: 2003 final dividend declared on 3 March 2004).

The Company has declared a dividend in respect of the six months ended 30 June 2005 of 1.32 pence (six months ended 30 June 2004: 1.1 pence) per ordinary share totalling £54 million (six months ended 30 June 2004: £45 million) which will be paid on 9 January 2006 to shareholders on the register at 11 November 2005. The ordinary shares will be quoted ex dividend from 9 November 2005.

### 4 Segmental analysis

ITV comprises one main producer/broadcaster business segment. This segment includes all activities related to the production and broadcasting of television programmes and channels, including the exploitation of related rights and assets. Any businesses falling outside of this main segment are grouped together as other operations.

For the six months ended 30 June:	Producer/broadcaster		Other operations		Consolidated	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Segment revenue	1,001	917	43	39	1,044	956
Segment result	149	37	1	2	150	39

## 5 Intangible assets

	Goodwill £m	Brands £m	Licences £m	Customer contracts and relationships £m	Film libraries and other £m	Total £m
<i>Cost</i>						
At 31 December 2004	3,294	173	48	319	81	3,915
Acquisitions	80	–	73	9	–	162
<b>At 30 June 2005</b>	<b>3,374</b>	<b>173</b>	<b>121</b>	<b>328</b>	<b>81</b>	<b>4,077</b>
<i>Amortisation</i>						
At 31 December 2004	4	15	4	86	9	118
Charge for period	–	9	3	35	3	50
<b>At 30 June 2005</b>	<b>4</b>	<b>24</b>	<b>7</b>	<b>121</b>	<b>12</b>	<b>168</b>
<i>Net book value</i>						
<b>At 30 June 2005</b>	<b>3,370</b>	<b>149</b>	<b>114</b>	<b>207</b>	<b>69</b>	<b>3,909</b>
At 31 December 2004	3,290	158	44	233	72	3,797

## 6 Acquisition of businesses

On 27 April 2005, the Group acquired 50.1% of the shares in SDN Ltd and 100% of the shares in United Media & Information Ltd (which holds the remaining shares in SDN Ltd) for a total consideration of £83 million in cash. As part of the acquisition, loan amounts due by these companies, totalling £53 million, were repaid bringing the total cash outflow of the Group to £136 million. SDN holds the licence to operate Multiplex A on digital terrestrial television.

In the two months to 30 June 2005 the acquired entities contributed £1 million to the consolidated operating profit of the Group (before additional amortisation of £1 million). Had the acquisition occurred on 1 January 2005, the estimated revenue for the Group would have been £7 million higher at £1,051 million and operating profit before amortisation and material non-recurring items £2 million higher at £203 million (additional amortisation would have been £2 million) for the six months ended 30 June 2005. The acquired net assets of SDN are set out in the table below.

	Book value before acquisition £m	Fair value adjustments £m	Fair value to ITV plc £m
Intangible assets	–	82	82
Trade and other receivables	6	–	6
Borrowings	(53)	–	(53)
Trade and other payables	(7)	–	(7)
Deferred tax liability	–	(25)	(25)
Net assets and liabilities	(54)	57	3
Goodwill on acquisition			80
Consideration paid			83
Borrowings settled at date of acquisition			53
Total cash outflow			136

The intangible assets recognised at a fair value of £82 million include the multiplex licence and customer contracts. A deferred tax liability of £25 million has been recognised in respect of these intangible assets.

The goodwill recognised represents the wider strategic benefits of the acquisition to ITV plc. Principally these are the enhanced ability to promote Freeview as a platform, business relationships with the channels which are on Multiplex A and the additional capacity available from 2010. These, in combination with existing ITV assets, including the ITV brand and programming, generate the goodwill on acquisition.

## 7 Investments

	Joint ventures £m	Associated undertakings £m	Listed investments £m	Unlisted investments £m	Total £m
At 31 December 2004	55	28	128	12	223
Adjustment for IAS 32 and IAS 39 (note 9)	–	–	13	–	13
1 January 2005 (restated)	55	28	141	12	236
Additions at market value	–	–	13	–	13
Share of attributable profits	1	2	–	–	3
Revaluation of listed investments to market value at 30 June 2005	–	–	4	–	4
Other	–	(1)	–	–	(1)
<b>At 30 June 2005</b>	<b>56</b>	<b>29</b>	<b>158</b>	<b>12</b>	<b>255</b>

## 8 Analysis of net debt

	31 December 2004 £m	Adjustment for IAS 32 and IAS 39 (note 9) £m	1 January 2005 (restated) £m	Net cash flow and acquisitions £m	Currency and non-cash movements £m	30 June 2005 £m
Cash and cash equivalents	582	–	582	(168)	1	415
Loans and loan notes due within one year	(7)	–	(7)	–	–	(7)
Loans and loan notes due after one year	(774)	(39)	(813)	88	12	(713)
Preference shares	–	(8)	(8)	–	8	–
Finance leases	(81)	–	(81)	2	–	(79)
	(862)	(47)	(909)	90	20	(799)
<b>Net debt</b>	<b>(280)</b>	<b>(47)</b>	<b>(327)</b>	<b>(78)</b>	<b>21</b>	<b>(384)</b>

Included within cash and cash equivalents is £79 million (31 December 2004: £81 million) the use of which is restricted to meeting finance lease commitments. €125 million of the Exchangeable bond was repaid in January 2005. The Preference shares were redeemed on 29 June 2005.

## 9 Adoption of IAS 32 and IAS 39

The Group has taken the IFRS 1 option to apply IAS 32 and IAS 39 prospectively from 1 January 2005. The impact on the Group's opening balance sheet at 1 January 2005, by balance sheet category, is outlined below:

	31 December 2004 £m	Effect of IAS 32 and IAS 39 £m	1 January 2005 £m
Other investments (a)	140	13	153
Net deferred tax asset (b)	66	2	68
Trade and other receivables due within one year (c)	349	34	383
Trade and other payables due within one year (d)	(713)	2	(711)
Borrowings (non-current) (e)	(852)	(47)	(899)
Impact on net assets		4	

- Revaluation of investments to January 2005 fair values.
- Deferred tax effect of IAS 39 adjustments.
- Reclassification of currency option relating to Exchangeable bond from borrowings.
- Revaluation of interest rate swaps and foreign exchange contracts to 1 January 2005 fair values.
- Reclassification of currency option to trade and other receivables (see c above), revaluation of loans and loan notes to 1 January 2005 fair values and reclassification of Carlton Preference shares from minority interests.

## 10 Consolidated statement of changes in equity

	Attributable to equity shareholders							Minority interest £m	Total equity £m
	Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Available for sale reserve £m	Retained earnings £m	Total £m		
At 31 December 2004	422	91	2,666	(2)	–	(84)	3,093	16	3,109
Adjustment for IAS 32 and IAS 39 (note 9)	–	–	–	–	13	(1)	12	(8)	4
1 January 2005 (restated)	422	91	2,666	(2)	13	(85)	3,105	8	3,113
Cancellation of shares	(3)	(39)	–	–	–	–	(42)	–	(42)
Shares issued in the period	4	42	–	–	–	–	46	–	46
Total recognised income and expense	–	–	–	(1)	5	107	111	2	113
Movements due to share based compensation	–	–	–	–	–	9	9	–	9
Equity dividends	–	–	–	–	–	(53)	(53)	–	(53)
<b>At 30 June 2005</b>	<b>423</b>	<b>94</b>	<b>2,666</b>	<b>(3)</b>	<b>18</b>	<b>(22)</b>	<b>3,176</b>	<b>10</b>	<b>3,186</b>

	Attributable to equity shareholders							Minority interest £m	Total equity £m
	Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Retained earnings £m	Total £m			
At 31 December 2003	277	–	1,191	–	(81)	1,387	1	1,388	
Business combinations	143	85	1,669	–	–	1,897	167	2,064	
Redemption of Granada redeemable shares	–	–	(200)	–	–	(200)	–	(200)	
Purchase of minority interest	–	–	–	–	–	–	(146)	(146)	
Shares issued in the period	2	5	–	–	–	7	–	7	
Total recognised income and expense	–	–	–	(1)	32	31	5	36	
Movements due to share based compensation	–	–	–	–	6	6	–	6	
Dividends paid to non-equity shareholders	–	–	–	–	–	–	(5)	(5)	
Equity dividends	–	–	–	–	(20)	(20)	–	(20)	
At 30 June 2004	422	90	2,660	(1)	(63)	3,108	22	3,130	

## 11 Significant accounting policies

### a) Basis of preparation

EU law (IAS Regulation EC 1606/2002) requires that the Group's next annual consolidated financial statements, for the year ending 31 December 2005, be prepared in accordance with International Financial Reporting Standards and International Accounting Standards adopted by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB as adopted for use in the EU (called "IFRS" in this document).

This interim financial information has been prepared on the basis of the recognition and measurement requirements of IFRSs in issue that either are endorsed by the EU and effective (or available for early adoption) at 31 December 2005 or are expected to be endorsed and effective (or available for early adoption) at 31 December 2005, the Group's first annual reporting date at which it is required to use adopted IFRSs. Based on these adopted and unadopted IFRSs, assumptions have been made about the accounting policies expected to be applied, when the first annual IFRS financial statements are prepared for the year ending 31 December 2005.

In particular, it has been assumed that the amendment to IAS 19 (Employee Benefits) and the fair value option amendment to IAS 39 (Financial Instruments: Recognition and Measurement) will be adopted by the EU in sufficient time that they will be available for use in the annual IFRS financial statements for the year ending 31 December 2005.

Were these standards not to be endorsed in time for 2005 financial reporting then the accounting policies or presentation of certain financial information contained in this document may need to be changed. It is therefore possible that further changes will be required to this information before it is presented in the 2005 annual report.

The comparative information presented in these accounts has been restated and represented under IFRS. In respect of financial instruments, the Group's policy, as permitted under IFRS 1, has been to adopt IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement) from 1 January 2005. Comparatives have therefore not been restated to reflect the requirements of IAS 32 and IAS 39 and continue to be prepared in accordance with UK GAAP for the comparative period. Note 9 sets out the impact of the adoption of IAS 32 and IAS 39 at 1 January 2005. Further details on the restatement of comparative information and conversion to IFRS are given later in this report.

The accounting policies set out below have been applied consistently in presenting this financial information.

### 11 Significant accounting policies (continued)

#### b) Revenue recognition

Revenue is stated exclusive of VAT and consists of sales of goods and services to third parties. Revenue from services is recognised when the outcome can be estimated reliably and by reference to the stage of completion of the transaction. Revenue from the sale of goods is recognised when the Group has transferred the significant risks and rewards of ownership and control of the goods sold and the amount of revenue can be measured reliably. Key classes of revenue are recognised on the following basis:

Advertising and sponsorship	on transmission
Programme production	on delivery
Programme rights	when contracted and available for exploitation

Revenue on barter transactions is recognised only when the goods or services being exchanged are of a dissimilar nature.

#### c) Subsidiaries, associates and joint ventures

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 so as to obtain benefits from its activities. The proportion of net income and net assets attributable to minority shareholders is presented separately as a minority interest in the consolidated income statement and consolidated balance sheet.

A joint venture is an entity in which the Group holds an interest under a contractual arrangement where the Group and one or more other parties undertake an economic activity that is subject to joint control. The Group accounts for its interests in joint ventures using the equity method.

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 the financial and operating decisions of an entity but is not control or joint control over those policies. These investments are accounted for using the equity method.

#### d) 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 consumption 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.

#### e) Property, plant and equipment

##### Owned assets

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Certain items of property, plant and equipment that had been 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 at the date of that revaluation.

##### Leases

Finance leases are those which transfer substantially all the risks and rewards of ownership to the lessee. Assets held under such leases are capitalised within property, plant and equipment and depreciation is provided where appropriate. 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 a systematic basis.

All other leases are operating leases the rentals on which are charged to the income statement on a straight line basis over the lease term.

##### Depreciation

Depreciation is provided to write off the cost of property, plant and equipment less estimated residual value on a straight line basis over their estimated future lives. The major categories of property, plant and equipment are depreciated as follows:

Vehicles, equipment and fittings	3 to 10 years
Plant and machinery	10 to 15 years
Properties:	
television studios	50 years
leaseholds	shorter of residual lease term or 50 years
Freehold land	not depreciated
Freehold buildings	up to 50 years

## 11 Significant accounting policies (continued)

### f) Intangible assets

#### Business combinations and goodwill

All business combinations that have occurred since 1 January 2004 are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the identifiable net assets acquired. Subsequent adjustments to the fair values of assets acquired made within 12 months of the acquisition date are accounted for from the date of acquisition. The interim financial information presented has been restated to reflect changes to the fair value adjustments made subsequent to the prior year's interim accounts.

For business combinations prior to this date, but after 30 September 1998, goodwill is included at its deemed cost, which represents the amount recorded under the relevant GAAP at that time. The classification and accounting treatment of business combinations occurring prior to 1 January 2004, the date of transition to IFRS, has not been reconsidered as permitted under IFRS 1.

Goodwill is stated at cost less any accumulated impairment losses and is allocated to cash generating units. Goodwill is not amortised but tested annually for impairment.

Goodwill arising on acquisitions prior to 30 September 1998 was recognised as a deduction from equity.

#### Other intangible assets

Other intangible assets acquired by the Group are stated at cost less accumulated amortisation except those acquired as part of a business combination which are shown at fair value at the date of acquisition (in accordance with IFRS 3 (Business Combinations)) less accumulated amortisation.

#### Amortisation

Amortisation is charged to the income statement over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill is not amortised but is tested for impairment at each balance sheet date. The useful lives and amortisation methods for each major class of intangible asset are as follows:

Film libraries	20 years	sum of digits
Licences	11 to 17 years	straight line
Brands	11 years	straight line
Customer contracts	up to 6 years	straight line
Customer relationships	7 to 10 years	straight line

### g) Distribution rights

Programme rights acquired primarily for the purposes of distribution are classified within the balance sheet as non-current assets. They are recognised initially at cost and charged through the income statement over either a three or five year period depending on genre.

### h) Other investments

Other investments comprise equity securities which do not meet the definition of subsidiaries, joint ventures and associates, and are stated at fair value, with any resultant gain or loss recognised directly in the available for sale reserve in equity. Prior to the Group's adoption of IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement) from 1 January 2005, investments in equity securities were held at initial cost less any impairment subsequently recognised. The effect of adopting IAS 32 and IAS 39 is shown in note 9.

### i) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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. Impairment losses in respect of goodwill are not reversed.

### j) Foreign currencies

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

#### Financial statements of foreign operations

The assets and liabilities of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into sterling at the average rate of exchange ruling during the financial period. Exchange differences arising on translation are recognised directly in the translation reserve in equity.

#### Net investment in foreign operations

Exchange differences arising on the translation of the net investment in foreign operations, and of related hedges, are taken directly to the translation reserve within equity.

In respect of all foreign operations only those translation differences arising since 1 January 2004, the date of transition to IFRS, are presented as a separate component of equity as permitted under IFRS 1.

## 11 Significant accounting policies (continued)

### k) Programme rights

Where programming, sports rights and film rights are acquired for the primary purpose of broadcasting these are recognised within current assets. An asset is recognised when the Group controls, in substance, the respective assets and the risks and rewards associated with them. For acquired programme rights an asset is recognised as payments are made and is recognised in full when the acquired programming is available for transmission. Programming produced internally either for the purpose of broadcasting or to be sold in the normal course of the Group's operating cycle is recognised within current assets at production cost.

Programme costs and rights are written off to operating costs in full on first transmission except certain film rights which are written off over a number of transmissions. Films and programme costs not yet written off at the balance sheet date are included on the balance sheet at the lower of cost and net realisable value.

### l) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits with maturity of less than or equal to three months.

### m) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation arising from past events and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows by a rate which reflects current market assessments of the time value of money and the risks specific to the liability.

### n) Borrowings

Borrowings consist of loans, loan notes and finance leases. Borrowings are recognised initially at fair value, less attributable transaction costs. In subsequent periods loans accounted for using the fair value option amendment to IAS 39 are stated at fair value with the movement recorded in the income statement. Other loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis. Prior to the Group's adoption of IAS 32 and IAS 39 from 1 January 2005, amounts were recognised in the balance sheet at cost. The effect of adopting IAS 32 and IAS 39 is shown in note 9.

### o) IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations)

IFRS 5 applies prospectively for periods beginning on or after 1 January 2005 and has therefore not been adopted for the comparative period.

### p) Taxation

The tax charge for the period comprises both current and deferred tax. Taxation is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is calculated based on the expected rate of tax payable on the taxable income for the full year and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method on any temporary differences between the carrying amounts 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 sufficient taxable profit will be available to utilise the temporary difference.

### q) Employee benefits

#### Defined contribution schemes

Obligations under the Group's defined contribution schemes are recognised as an expense in the income statement as incurred.

#### Defined benefit plans

The Group's obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of plan assets is deducted. The discount rate is the yield at the valuation date on high quality corporate bonds. The calculation is performed by a qualified actuary using the projected unit credit method. A full valuation is carried out at the full year only. The pension cost for the interim period is calculated on a year to date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-time events.

In accordance with IFRS 1 ITV has chosen to recognise the full pensions deficit on the balance sheet at 1 January 2004. The Group has taken the option of adopting early the amendment to IAS 19 (Employee Benefits) issued on 16 December 2004. As a result, actuarial gains and losses are recognised in full in the period in which they arise through the statement of recognised income and expense.

#### Share based compensation

The Group operates a number of share based compensation schemes. The fair value of the equity instrument is measured at grant date and spread over the vesting period through the income statement with a corresponding increase in equity. The fair value of the share options and awards is measured using either a Monte-Carlo or Black-Scholes model as appropriate taking into account the terms and conditions of the individual scheme. The amount recognised as an expense is adjusted to reflect the actual vesting except where forfeiture is due only to market based criteria not being achieved.

## 11 Significant accounting policies (continued)

### r) Derivatives and other financial instruments

The Group uses a limited number of derivative financial instruments to hedge its exposure to fluctuations in interest and other foreign exchange rates. The Group does not hold or issue derivative instruments for speculative purposes.

Derivative financial instruments are initially recognised at cost and are subsequently remeasured at fair value.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges in respect of on-balance sheet assets and liabilities are recorded in the income statement. Foreign exchange differences on the hedged asset or liability and any movements in the fair value of any hedged bond that is attributable to the hedged risk are also recorded in the income statement.

The accounting treatment applied to cash flow hedges in respect of off-balance sheet assets and liabilities relating to contractual purchases of foreign currency sports, programme and film rights can be summarised as follows:

- For qualifying hedges, the effective component of changes in the fair value of the foreign currency forward contract is deferred within a separate component of retained earnings. Releases from equity occur via a basis adjustment when the right is recognised on-balance sheet in accordance with the Group's policy.
- The ineffective component of the changes in fair value of the hedging instrument is recorded immediately in the income statement.

The fair value of foreign currency forward contracts is determined by using forward exchange market rates at the balance sheet 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 balance sheet date, taking into account current interest rates and the current creditworthiness of swap counterparties.

For qualifying hedge relationships, the Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge. The Group also documents both at the hedge inception and on an ongoing basis, its assessment of whether the hedging derivatives are effective in offsetting changes in fair values or cash flows of the hedged items.

Prior to the Group's adoption of IAS 32 and IAS 39 from 1 January 2005 interest receipts and payments under interest rate swap and option agreements were accrued so as to match the net income or cost with the related finance expense. No amounts were recognised in respect of future periods. The difference between the fair value and book value of bonds and derivative instruments arising on the acquisition accounting for Carlton was amortised through net interest over the remaining life of the instruments. The effect of adopting IAS 32 and IAS 39 is shown in note 9.

### s) Dividends

Dividends are recognised through equity in the period in which they are declared.

### t) Investment income

Investment income comprises dividends received from the Group's investments. Dividend income is recognised in the income statement on the date the Group's right to receive payments is established.

## Independent review by KPMG Audit Plc to ITV plc

### Introduction

We have been engaged by the Company to review the financial information set out on pages 5 to 16 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

### Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual financial statements except where any changes, and the reasons for them, are disclosed.

As disclosed in note 11 to the financial information, the next annual financial statements of the Group will be prepared in accordance with IFRSs adopted for use in the European Union.

The accounting policies that have been adopted in preparing the financial information are consistent with those that the directors currently intend to use in the next annual financial statements. There is, however, a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with those IFRSs adopted for use by the European Union. This is because, as disclosed in note 11, the directors have anticipated that certain standards, which have yet to be formally adopted for use in the EU, will be so adopted in time to be applicable to the next annual financial statements.

### Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 Review of interim financial information issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

### Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.

### KPMG Audit Plc

Chartered Accountants  
London  
7 September 2005

## Conversion to International Financial Reporting Standards (IFRS)

Following ITV plc's adoption of IFRS, the 2004 comparative financial information in these accounts has been restated and represented under IFRS. The reconciliations below highlight the key impacts on both the profit attributable to equity shareholders and on total equity. ITV plc has produced Preliminary International Financial Reporting Standards Financial Statements for 2004 which set out in greater detail the impact of IFRS on ITV plc's 2004 results and include detailed reconciliations from UK GAAP of the balance sheets at 1 January 2004, 30 June 2004 and 31 December 2004 and the income statements for the six months ended 30 June 2004 and the year ended 31 December 2004. This document is available on the ITV plc corporate website at [www.itvplc.com](http://www.itvplc.com).

### Reconciliation of profit attributable to equity shareholders from UK GAAP to IFRS

	12 months ended 31 December 2004 £m	Six months ended 30 June 2004 £m
Profit attributable to equity shareholders (UK GAAP)	139	37
IAS 19 (Employee benefits)*	(3)	(1)
IFRS 2 (Share based payment)*	(3)	(1)
IFRS 3 (Business combinations)*	5	(3)
Other	(1)	–
<b>Profit attributable to equity shareholders (IFRS)</b>	<b>137</b>	<b>32</b>

\* Includes related deferred tax effect.

### Reconciliation of total equity from UK GAAP to IFRS

	31 December 2004 £m	30 June 2004 £m	1 January 2004 £m
Total equity (UK GAAP)	3,418	3,378	1,656
IAS 10 (Events after the balance sheet date)	53	45	20
IAS 19 (Employee benefits)*	(389)	(301)	(274)
IFRS 3 (Business combinations)*	39	20	–
IAS 12 (Taxation)	(5)	(5)	(9)
Other	(7)	(7)	(5)
<b>Total equity (IFRS)</b>	<b>3,109</b>	<b>3,130</b>	<b>1,388</b>

\* Includes related deferred tax effect.

## Shareholder information

### Registrars and transfer office

All administrative enquiries relating to shareholdings and requests to receive corporate documents by email should, in the first instance, be directed to Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Telephone 0870 1623100 from the UK and +44 20 8639 2157 from outside the UK. Alternatively you could email them at: [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com).

Shareholders who receive duplicate sets of company mailings because they have multiple accounts should write to the registrar to have the accounts amalgamated.

By logging on to [www.capitaregistrars.com](http://www.capitaregistrars.com) and selecting Online Shareholders Services you can benefit from a number of online services as follows:

- View share price and current value of shareholding.
- View shareholding details.
- View share transaction history.
- View details of dividends paid.
- Apply/change dividend mandate instruction.
- Apply/change dividend reinvestment plan mandate.
- Change registered postal address.
- Proxy voting.
- Register email address to receive future shareholder communications and reports via the Internet rather than by post.

You will need your investor code (IVC) which can be found on your share certificate(s).

### Share dealing services

ITV has established the following share dealing services:

Hoare Govett – a low-cost postal dealing service. To use this service shareholders should contact Hoare Govett Limited, Low-cost Share Dealing Department for details, telephone 020 7661 6616 (Purchases) or 020 7661 6617 (Sales).

Capita Registrars – a telephone and online share dealing service for UK resident shareholders. To use this service shareholders should contact Capita Registrars on 0870 458 4577 or visit [www.capitadeal.com](http://www.capitadeal.com).

### ShareGift

ShareGift is a charity share donation scheme for shareholders who may wish to dispose of a small quantity of shares where the market value makes it uneconomic to sell on a commission basis. The scheme is administered by the Orr Mackintosh Foundation and further information can be obtained by calling 020 7337 0501 or from [www.sharegift.org](http://www.sharegift.org).

### Share price information

The current price of ITV ordinary shares is available on Ceefax, Teletext, FT Cityline (operated by the Financial Times), telephone 0906 843 2753 and on ITV's corporate website. The current price of ITV convertible shares is also available on ITV's corporate website.

### Dividend Reinvestment Plan

ITV operates a Dividend Reinvestment Plan to provide UK shareholders with a facility to invest cash dividends by purchasing further ITV shares. Further details are available from the registrar.

### Individual Savings Accounts (ISAs)

ITV has introduced corporate sponsored Maxi and Mini ISAs. The ISAs offer UK resident shareholders a simple low-cost and tax efficient way to invest in ITV ordinary shares. Full details together with a form of application are available from HSBC Trust Company (UK) Limited, Corporate PEPs & ISAs, 1st Floor, Courtwood House, Silver Street Head, Sheffield S1 2BH. Telephone 0845 745 6123.

### The Unclaimed Assets Register

ITV participates in The Unclaimed Assets Register, which provides a search facility for financial assets, which may have been lost or forgotten and which donates 10% of its public search fees to a wide range of UK charities.

For further information contact:  
The Unclaimed Assets Register  
Bain House  
16 Connaught Place  
London W2 2ES  
Telephone 0870 241 1713  
Email [search@uar.co.uk](mailto:search@uar.co.uk)  
[www.uar.co.uk](http://www.uar.co.uk)

### Unsolicited mail

ITV is legally obliged to make its register of members available to the public. As a consequence of this some shareholders might receive unsolicited mail. Shareholders wishing to limit the amount of such mail should write to the Mailing Preference Service (MPS), Freepost 29 LON20771, London W1E 0ZT. Alternatively you can register online at [www.mpsonline.org.uk](http://www.mpsonline.org.uk) or request an application form by calling 0845 703 4599. MPS will then notify the bodies that support its service that you do not wish to receive unsolicited mail.

**Registered office**

ITV plc  
The London Television Centre  
Upper Ground  
London SE1 9LT  
Telephone 020 7620 1620  
Company Registration number: 4967001

**Company website**

Further information about ITV is available on the Company website at [www.itv.com](http://www.itv.com). Investor and shareholder related information can be found on the Corporate Information section of the Company website at [www.itvplc.com](http://www.itvplc.com).

**Financial calendar**

Full year results announcement March 2006.  
Annual General Meeting Wednesday 10 May 2006.

**Dividend**

Interim 2005	
Ex-dividend date	Wednesday 9 November 2005
Record date	Friday 11 November 2005
Final date for return of DRIP mandate forms	Thursday 15 December 2005
Payment date and DRIP purchase	Monday 9 January 2006
Certificated and Crest accounts credited	Friday 20 January 2006

**Consolidated tax vouchers**

ITV has introduced consolidated tax vouchers in respect of the dividends paid in July 2005 and payable in January 2006. This means that you will not receive an individual tax voucher for those dividends. Instead, for 2005/2006 and future tax years, you will receive a single tax voucher each year, normally sent in March in time for the tax year end, containing details of dividends paid in that tax year. If you would prefer to receive a tax voucher for each dividend payment please contact the registrar.

Copies of this statement are being sent to all shareholders and are available from the registered office.

DISCLOSURE NOTICE: The information contained in this document is as of 6 September 2005. The delivery of this document shall under no circumstances create any implication that there has been no change in the affairs of ITV since the date hereof or that the information contained herein is correct as of any time subsequent to this date.

**Forward-looking statement**

ITV is providing the following cautionary statement. This document contains certain statements that are or may be forward-looking with respect to the financial condition, results or operations and business of ITV. By their nature forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to (i) adverse changes to the current outlook for the UK television advertising market, (ii) adverse changes in tax laws and regulations, (iii) the risks associated with the introduction of new products and services, (iv) pricing, product and programme initiatives of competitors, including increased competition for programmes, (v) the viewing performance of ITV's channels compared to its competitors, (vi) changes in technology or consumer demand, (vii) the termination or delay of key contracts and (viii) fluctuations in exchange rates.