

# ITV plc interim results for the half year ended 30th June 2011

## Solid progress in 1st year of five-year Transformation Plan

- Total external revenues up 4% to £1,027m (2010: £987m).
- EBITA before exceptional items increased 45% to £240m (2010: £165m) with the conversion of higher revenues into profit and the absence of Football World Cup costs.
- Adjusted EPS increased 86% to 4.1p (2010: 2.2p).
- Net debt improved to £52m from £188m at year end.
- Cost saving programme is on track to deliver £15m of savings in 2011.
- ITV Family NAR up 2% in line with expectations versus a TV advertising market up 3%.
- Solid on screen performance with ITV Family SOV up 2% with ITV1 flat (2010: down 5%) and ITV digital channels up 11%.
- ITV Player now launched on Android phones, Apple devices and Freesat. Long form video views increased 64% to 180m (2010: 110m).
- ITV Studios external revenues increased 11% to £140m (2010: £126m) driven by strong international revenues, however, EBITA fell slightly as we invested in creative talent, and in developing and piloting new programmes.
- The Board has declared an interim dividend of 0.4p.
- We are encouraged by our progress to date and the prospects for ITV in the medium to long term but we remain cautious about the advertising market and the economy.

Adam Crozier, ITV plc Chief Executive, said:

"We're now one year into our five year Transformation Plan and making good progress on delivering our strategy of creating great content and exploiting it across multiple platforms and selling it internationally.

"As today's results show, our focus on costs, cash generation and improving the efficiency of our balance sheet gives us an increasingly strong financial base from which to drive our strategy forward.

"Despite the difficult economic backdrop and the absence of the Football World Cup, our advertising revenues increased by 2% and, while we continue to plan prudently, we expect to outperform the TV advertising market across the whole of the year.

"Improving our audience share is a key part of our strategy and we had a good start to the year on-screen right across the ITV Family with our share of viewing up 2%. So far this year ITV1 has launched 8 out of the 10 top new dramas, including *Vera*, *Marchlands*, *Monroe*, and *Scott & Bailey*, while ITV2 and ITV3 are the two most popular - and amongst the fastest growing - digital channels. We also performed strongly online with 64% growth in long form video views across all of our platforms.

"We're investing in the quality and reach of our online offering. We're making ITV Player more widely available, most recently on Android and Apple devices and Freesat. We plan to have a pay mechanism in place around the turn of the year so that we can test what viewers are willing to pay for, and we continue to work with our partners on YouView, which is on track for launch early next year.

"Our plan to renew and refresh our content business is beginning to gain momentum under the new top team in ITV Studios as we invest in re-energising the creative pipeline and in developing and piloting new programmes. While there's still a long way to go, we're starting to see potential in the level of new work coming through ITV Studios with 68 new commissions so far this year, of which 29 are international. *Prime Suspect* is being co-produced in the US for NBC while Julian Fellowes' *Titanic*, also a co-production, is fully-funded and already pre-sold to 15 broadcasters around the world including ITV1. Other new entertainment programmes being produced for ITV1 include *Holding out for a Hero*, *Born to Shine* and *Red or Black*. These are early indications of the potential for ITV Studios' creative output as we renew our commitment to the producer/broadcaster model.

"There are clear signs of momentum building in the delivery of our five-year Transformation Plan but we know there is still much to be done to rebalance the business as we adapt to the digital future. We're encouraged by our progress to date and the prospects for ITV in the medium to long term, although we remain cautious about both the TV advertising market and the economy.

### HALF YEAR RESULTS

Six months ended 30 <sup>th</sup> June (£ million)	2011	2010	Change
<b>Group external revenue</b>	<b>1,027</b>	987	40
Broadcasting & Online	887	861	26
ITV Studios	140	126	14
<b>EBITA before exceptional items</b>	<b>240</b>	165	75
Broadcasting & Online	202	122	80
ITV Studios	38	43	(5)
<b>Adjusted profit before tax*</b>	<b>204</b>	118	86
<b>Adjusted earnings per share (EPS)*</b>	<b>4.1p</b>	2.2p	1.9p

\*Adjusted profit before tax and adjusted EPS remove the effect of exceptional items, impairment of acquired intangible assets, amortisation of intangible assets acquired through business combinations, financing cost adjustments, and prior period and other tax adjustments from the statutory numbers.

## Financial position

Improved profits and strong cash conversion have reduced net debt to £52 million (31 December 2010: £188 million). Profit to cash conversion is 113%, well ahead of our target of 90% on a rolling three year basis. We have also bought back debt to the value of £184 million, in line with our focus on improving the efficiency of the balance sheet, and now have no major debt repayment until 2014. Cash and cost management has remained a focus in 2011, and we are on track to deliver £15 million of cost savings on top of the £40 million delivered in 2010.

As previously stated, capital expenditure in the year will increase to approximately £80 million (2010: £28 million), focused on fixing our core business technology and the Manchester site move to MediaCity. Profit to cash conversion will be lower in the second half due to the increased level of capital expenditure and an increase in working capital, not least production stock as we produce more of our own content.

## Broadcasting and Online

Broadcasting and Online revenues rose to £887 million in the first half (2010: £861 million), driven by 2% growth in ITV Family NAR.

ITV Family NAR was up 12% in Q1 and down 6% in Q2.

EBITA before exceptional items increased to £202 million in H1 (2010: £122 million) driven by all of the revenue upside falling to profit, tight control on costs and the dropping out of the 2010 Football World Cup costs.

ITV saw a good on-screen performance in the first half with SOV for the Family up 2% and ITV1 flat in spite of the tough 2010 Q2 comparatives. For the year to the end of May (ie: before the impact of the World Cup comparative), the performance was better still, with ITV Family SOV up 4% and ITV1 up 3%. Our digital channels saw strong progress, increasing their SOV by 11% overall. Our decision to launch ITV1+1 is also bearing fruit with the channel doubling its SOV since its introduction in January, in line with our expectations. ITV Family Share of Commercial Impacts (SOCi) was up 1% at 40.0% while ITV1 Adult SOCi was down 1%.

We are investing in fixing our online technology and we are building scale in our Online business. Our new Online team is investing in both quality of technology and ease of use, and in driving up commercial performance. We are widening the distribution of ITV player, which is now available on Android and Apple devices and Freesat. Online usage grew strongly with average monthly unique users up 19% to 10.8 million (2010: 9.1 million) and long form video views up 64% to 180 million across all of our platforms. Online revenues increased by 33% to £16 million (2010: £12 million). We plan to have a pay mechanism in place around the turn of the year so that we can test what people will pay for, and we continue to work with our partners in YouView which is on track for launch early in 2012.

## ITV Studios

ITV Studios revenues have increased year-on-year to £264 million (2010: £254 million) driven largely by international production. EBITA before exceptional items has fallen to £38 million (2010: £43 million) as we invest in developing and piloting new ideas and in improving the depth of the creative pipeline.

The new ITV Studios' management team is beginning to build momentum in the new creative process with 68 new commissions so far this year, including 29 internationally. ITV Studios America is co-producing *Prime Suspect* for NBC in the US with ITV retaining distribution rights outside the US. Other international drama includes Julian Fellowes' *Titanic*, an ITV-led co-production which has already been presold to 15 broadcasters around the world including ITV1. Other commissions this year include drama such as *Vera*, *Marchlands* and *Monroe* and big new entertainment shows including *Holding Out for a Hero*, *Born to Shine*, *High Stakes* and *Red or Black*. These are all early signs of the potential for ITV Studios' creative output as we renew our commitment to the producer/broadcaster model.

## Adjusted earnings per share

Adjusted EPS has increased to 4.1p (2010: 2.2p) reflecting the solid trading performance.

Adjusted financing costs are £28 million, (2010: £36 million) helped by the impact of last year's buybacks and the higher level of cash. The adjusted effective tax rate of 23% is significantly lower than the statutory rate of UK corporation tax and is, as previously stated, expected to be maintained around this level for the next two years. This is primarily due to the utilisation of tax losses from earlier periods.

## Pension

The aggregate IAS 19 deficit on defined benefit schemes at 30<sup>th</sup> June 2011 was £312 million (31st December 2010: £313 million). The £48 million of deficit funding has been offset by a £48 million increase in net liabilities.

On 8<sup>th</sup> July we extended the SDN pension partnership which was originally agreed between the Group and the pension Trustees last year to reduce the funding deficit. As a result of the extension, the value of the partnership's interest held by the Scheme has been increased by £50 million to give £200 million in total.

## STV

On 27th April ITV and ITV Network agreed a wide ranging settlement with STV Group plc over the various ongoing legal actions. All legal actions ceased with immediate effect and the terms of the settlement included an £18 million payment by STV to ITV to settle the court claims.

## Dividend

The Board has declared an interim dividend of 0.4p. The interim dividend will be payable on 1st December to shareholders on the register as at 4th November. The ex-dividend date will be 2nd November. The level of the final dividend will be considered in light of second half trading and the economic outlook. In considering the proposed dividend the Board were mindful of the volatile history of the advertising market and the need to maintain a conservative level of cover. It is our intention to adopt a progressive dividend policy taking into account the outlook for earnings per share.

## OUTLOOK FOR 2011

- We expect ITV Family NAR to be down 2% in July, down 4% in August and, given our earlier than usual reporting date, we currently expect ITV Family NAR in September to be broadly flat. We expect ITV Family NAR to be slightly down in Q3 but ahead of the market.
- While comparatives remain tough for the rest of the year, and we remain cautious on the economic outlook and its effect on the TV advertising market, we expect to outperform the market for the year as a whole.
- The ITV1 Network Programme Budget is confirmed at around £800 million for the full year, as previously stated.
- As previously identified we expect to invest £25 million in online, content and digital channels in 2011, of which £12 million has been spent in H1.
- We are on track to deliver £15 million reduction in costs during the year.

## NOTES TO EDITORS

### 1. Operational summary

#### Broadcasting and Online performance indicators

Six Months to 30 June	2011	2010
ITV Family SOV	23.2%	22.7%
ITV1 SOV	15.9%	15.9%
ITV Family SOCI	40.0%	39.8%
ITV1 SOCI	26.8%	27.2%
ITV1 adult impacts	118bn	114bn
itv.com average monthly unique users	10.8m	9.1m
Total cumulative video views (all platforms)	228m	156m
Total long form video views (all platforms)	180m	110m

Share of viewing and share of commercial impact data is for the six months to 30<sup>th</sup> June 2011, compared to equivalent period in 2010, based on BARB / AdvanetEdge data. Share of viewing data is for individuals and SOCI data is for adults. ITV Family includes: ITV1, ITV2, ITV3, ITV4, CITV, CITV Breakfast, Men&Motors and associated 'HD' and '+1' channels.

Average monthly unique users are based on Omniture and Nedstat data. Video views are based on internal Company and Nedstat data for itv.com.

### 2. Transformation Plan

Last August, ITV Chief Executive Adam Crozier unveiled a five-year Transformation Plan with three phases – fix, strengthen and grow, and accelerate.

The objective is to become a lean ITV that can create world class content, executed across multiple platforms and sold around the world.

The plan is focused on four priorities:

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

3. ITV Family NAR was up 6% in April, down 9% in May, and down 14% in June which was marginally ahead of our expectations of a 15-20% decline. Overall, Q2 was down 6%.

Figures for ITV plc and market NAR are based on ITV estimates and current forecasts.

4. This announcement contains certain statements that are or may be forward-looking with respect to the financial condition, results or operations and business of ITV plc. 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) changes in technology or consumer demand, (vi) the termination or delay of key contracts, (vii) fluctuations in exchange rates and (viii) volatility in financial markets.

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# Strategy and operations

## Solid progress in 1st year of five-year Transformation Plan

by Adam Crozier Chief Executive

ITV is now one year into its five-year Transformation Plan and, while we are making progress, there is still much to be done. The plan has four strategic priorities:

- 1 Create a lean, creatively dynamic and fit-for-purpose organisation**
- 2 Maximise audience and revenue share from 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**

### Overview of results

We are pleased to report a sound financial performance in the first half of 2011 with total external revenues up 4% at £1,027 million. This performance was driven largely by 2% growth in ITV Family NAR alongside growth in international production.

Our focus on lowering costs, cash generation and strengthening the balance sheet has led to a further reduction in net debt to £52 million from £188 million at the end of 2010, giving a sound financial basis from which to drive our strategy forward. We are on track to deliver our target of £15 million of cost savings in 2011 on top of £40 million of savings in 2010.

The growth in advertising, ITV's focus on cost reduction and the absence of the 2010 Football World Cup costs fed through to a 45% rise in EBITA before exceptional items to £240 million, with adjusted earnings per share of 4.1p (2010: 2.2 p).

On-screen we started the year well with ITV Family SOV up 2% and ITV1 SOV flat in the first half, while ITV's digital channels were up 11%.

While the continued recovery in the television advertising market helped Q1 of this year, the slowdown in Q2, and the uncertain advertising market outlook for H2, underlines our need to rebalance the business and become less reliant on advertising revenues. Central to achieving this is the creative renewal of ITV Studios, where we are investing in re-energising our creative pipeline of high value Drama, Entertainment and Factual formats which we can sell in the UK and internationally. We are also investing heavily in our Online business and in making ITV Player more widely available and easier to use.

These are all encouraging signs of progress but we are still in the first phase of our three-phase Plan and we know there is still much to be done to rebalance the business and to ensure that we are fit to compete in the highly competitive digital world. A new culture is emerging at ITV and the organisation is becoming better prepared for the challenges of the changing market in which it operates. We are building a sound platform for future growth.

### The challenges

The media market is changing radically. Audience fragmentation, the rapid rise of digital and pay TV, and the boom in video viewing via the internet and other video on demand services have all combined to see free-to-air broadcasters lose viewing share and advertising revenues being diverted away from television.

ITV1's share of viewing and share of commercial impacts had been gradually declining over many years, we had been weak on technology and our digital and platform strategy was underdeveloped. Our Online operations were subscale and we had no access to the pay TV market which is worth over £5 billion.

ITV Studios' creative content pipeline had been starved of investment and depleted over time, with no new major entertainment programmes created since 2006. This clearly limited our ability to sell programmes both in the UK and internationally. ITV Studios' share of ITV commissions had fallen over a number of years and our fragmented approach to rights ownership and management made it difficult to exploit our content. The business lagged behind rivals in exploiting programme and channel brands outside the traditional broadcast arena.

ITV launched the Transformation Plan 12 months ago in response to all these challenges. The first phase has been to 'fix' the business to make it fit to compete, and this is still our initial priority.

### The Transformation Plan

ITV had no option but to change its strategy, management, culture and organisation in order to adapt to the new media environment. The Transformation Plan we launched last year has begun to address these issues and, while there are no quick fixes, there is clear evidence of change already within the business. The progress we have made in each of the Plan's four key priorities are set out over the next few pages.

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

## What do we want to achieve?

The very best out of our leadership, people, culture and creativity.

## What progress have we made?

Under the new Management Board we have continued to strengthen the senior team and we now have the leadership in place to create a high-performance culture throughout the organisation and drive the Transformation Plan forward. Recent appointments include Director of Brands, who will be responsible for our Total Value approach to business, Director of TV Sales and Head of Online News. In ITV Studios we have made six new senior creative appointments as well as a new Finance Director and a new HR director, while today we are announcing the appointment of a new international managing director to lead ITV Studios' expansion outside the UK.

We continue our drive for cultural change at every level throughout the organisation. Almost half of the wider leadership team has now changed since the launch of the Transformation Plan and overall we have had over 200 staff changes during the first half, of which 75 were internal promotions. Our employee engagement, through which our people are invited to feed back thoughts and concerns about the business and how it is changing, continues to improve each month.

We have put in place a new creative process between Broadcasting and Online and ITV Studios. While there is still much to be done we are now seeing potential in the level of work coming through ITV Studios and we are beginning to build momentum in strengthening our creative pipeline and developing and piloting new ideas. Peter Fincham, our Director of Television, has drawn up our vision for ITV1 out to 2013 and is working with ITV Studios and independent producers to deliver it.

As part of our Commercial and Online restructuring, we have reorganised the commercial team so we can listen and engage with our customers more effectively. Our new multi-disciplined sales team will be responsible for selling all of our assets across multiple platforms. The changes to our Commercial and Online business will see more focus than ever before on advertisers and consumers as we continue to focus on reducing our reliance on a cyclical advertising market.

We are also investing in fixing our technology. We will be rolling out our new "desktop refresh" across the organisation this year and next, which will enhance communication, collaboration and creativity amongst our people and give them the best tools for the job.

We are making progress with moving the Company's Manchester base from Quay Street to MediaCity, where we are building a bespoke production centre for *Coronation Street*— scheduled to complete in 2013. As previously outlined, we expect to see a significant increase in capital expenditure in 2011 associated with this move and our investment in technology.

We are on track to deliver our target of £15 million of cost savings in 2011 on top of £40 million of savings in 2010, and our focus on lowering costs and tight cash management has led to a further reduction in our net debt to £52 million from £188 million at the end of 2010.

On 8<sup>th</sup> July we extended the SDN pension partnership which was originally agreed between the Group and the pension Trustees last year. The partnership in essence uses the cashflows of the SDN business to reduce the funding deficit. As a result of the extension, the value of the partnership's interest held by the Scheme has been increased by £50 million to give £200 million in total.

While we are making encouraging progress there is still a lot to be done and we remain focused on our goal of fixing the business and delivering phase one of the Transformation Plan.

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

## What do we want to achieve?

- Hold ITV Family viewing share by platform
- Strengthen the channel family
- A new approach to commissioning
- Outperform the market in ad sales
- Regulatory relief

## What progress have we made?

ITV remains highly dependent on the television advertising market in the short term and it is important that we maximise audience and revenue share from our existing free-to-air business and keep firmly focused on outperforming the market.

In H1 2011 ITV Family NAR increased by 2% but, as expected, tough Football World Cup comparatives meant that we underperformed the TV advertising market by 1%. However, we expect to outperform the market for the year as a whole.

On screen we performed well with SOV for ITV Family up 2%, ITV1 SOV flat and the digital channels up 11%. ITV Family's share of commercial impacts (SOCI) in H1 was up 1% at 40.0% and, while ITV1 Adult SOCI was down 1%, this compares with a fall of 4% over the same period in 2010 – despite the boost from the World Cup.

This good on-screen performance has been driven by some significant programme successes in the first half of 2011. Nine out of the top ten commercial programmes by audience were broadcast on ITV1 and the channel accounted for 99% of all commercial programmes attracting more than 5 million viewers. So far this year ITV has also launched eight out of the top ten new dramas including *Vera*, which peaked with 7.2 million viewers, *Marchlands* with 8.4 million and *Monroe* with 7.6 million. All three of these are ITV Studios productions with both *Vera* and *Monroe* already recommissioned.

Entertainment also performed strongly with *Britain's Got Talent* attracting 14.4 million viewers for the final – the most watched TV moment outside of the Royal Wedding this year – with the average audience broadly flat year-on-year at 11.1 million (2010: 11.4 million). The *UEFA Champions League Final* was watched by a peak audience of 11.3 million viewers – the most watched sports event to date this year – while *News at Ten* won a BAFTA award for its coverage of the Cumbrian murders and our Royal Wedding coverage was critically acclaimed. Our soaps continue to perform well with average viewers for *Coronation Street* up 2% year-on-year and *Emmerdale* up 5%. The first half also saw a strong performance from *Strangeways*, which ITV1's fourth best factual performers in the last five years, attracting audiences of over 6 million. We continue to work on improving *Daybreak* which has not performed as well as we had hoped.

Our Autumn schedule will be strengthened by big new entertainment formats including *Holding out for a Hero*, *Born to Shine*, *High Stakes* and *Red or Black*, a big new game show hosted by Ant and Dec and our first co-production with Syco. For *High Stakes*, we created both a UK and US pilot, demonstrating our commitment to increasing collaboration between the Broadcast and Studios businesses internationally.

We said we would invest in our digital channels to give them clearer brand identity and this has contributed to their strong performance in H1. Both ITV2 and ITV3 – the two most popular UK digital channels - saw SOV rise 9% and 10% respectively while ITV4 saw a 23% increase. ITV2 also saw its SOCI increase by 7%, ITV3 by 7% and ITV4 by 24%.

We are building on the strength of our channel brands, the importance of which should not be underestimated in a fragmented digital market: the only channel families to have recorded growth in SOV this year are those linked to a strong “mother brand”, such as ITV, BBC, C4, C5 and Sky, while other independent digital channels have seen a 15-20% decline.

Programming highlights for ITV2 include the BAFTA-winning *The Only Way is Essex* and *Celebrity Juice*. Both saw significant increases in audience volume for their latest series on ITV2 with *The Only Way is Essex* averaging 1.5 million viewers, up 61% year-on-year and *Celebrity Juice* averaging 2 million viewers, up 38% year on year. These positive results underpin our belief that having well-known and trusted brands is vital in the multichannel world where viewers have an abundance of choice.

In January 2011 we launched ITV1+1, a one hour time shifted version of our flagship channel, which followed the launch of ITV1 HD in 2010. This has given our viewers more choice and flexibility in their viewing. So far in 2011, ITV1+1 has accounted for 3% of Adult impacts, which we expect to grow over time.

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

### What do we want to achieve?

- Enter pay TV
- Transform itv.com
- Own customer relationships on connected platforms
- Total Value approach to brand exploitation
- Build addressable advertising capabilities

## What progress have we made?

Our key objective was to fix the online technology platform we inherited and improve the quality and distribution of ITV Player. We have now made ITV Player available on Android and Apple devices and Freesat as well as on the PS3. In the two weeks following its launch on Apple, it was the most popular app with more than 650,000 downloads.

Online usage performed well with average monthly unique users up 19% in H1 to 10.8 million (2010: 9.1 million) and total video views up by 46% to 228 million (2010: 156 million). Importantly, long form video views were up by 64% to 180 million (2010: 110 million) across all of our platforms and now represent 79% of total views relative to 71% at the same stage last year.

Online revenues increased by 33% to £16 million in H1 although it is clear the business must remain focused on building scale. We plan to put in place an online payment mechanism around the turn of the year so that we can test what people will pay for. We also continue to work with our partners in YouView, which is on track for launch early in 2012.

We are already collecting customer data through our 'register to view' trials across a few key online properties, including *The Only Way is Essex* webisodes, the Champions League Final and the IPL cricket. We have over 12 million online fans including 2.8 million for *X Factor*; 1.8 million for *Britain's Got Talent*; 1 million for *Coronation Street* and 1.4 million for *I'm a Celebrity*. These are important early steps as we develop stronger relationships with our viewers on connected platforms.

We have launched a new home page on itv.com and are rolling out new versions of our website so that the user experience is consistent, regardless of the platform from which it is accessed. The quality of the user experience across our online offerings has improved but much still remains to be done. We are investing in navigation, ease of use, content and robustness, including accelerating a project to move our data centre to Greenwich to make the systems more resilient.

With our new Total Value approach to brand exploitation, we intend to maximise the lifetime revenues from our strongest programme brands – such as *Coronation Street*, *This Morning* and *Dancing on Ice* – more fully than we have in the past. An initial example of this is the launch of an interactive zone called 'The Hub' on *This Morning*, which allows viewers to engage throughout the show by text, email, Facebook, Twitter and Skype. As a result the *This Morning* site saw unique users grow by 20% year-on-year in H1 with video views up 74%.

## 4 Build a strong international content business

### What do we want to achieve?

- Transform internal creative capability
- Focus on high value returnable series on and off ITV
- Acquire attractive third party content
- Make our shows in more countries
- Build international distribution scale

### What progress have we made?

ITV Studios now has a completely new management team, focused on re-energising our creative pipeline and exploiting it both in the UK and internationally. We have made six new senior creative appointments as well as hiring a new Finance Director and a new HR director in the first half and - as we said in March - we are significantly increasing the development budget for 2011 which is already having a positive effect.

So far this year ITV Studios has seen more than 68 new commissions including 39 in the UK and 29 internationally. Commissions for ITV1 include *Someone's Daughter*, *Someone's Son* (a three-part documentary for ITV1), *Ade In Britain* with Ade Edmondson, *Security Men* - a new comedy written by Caroline Aherne and Jeff Pope, *Little England*, and *Jonathan Ross*.

In line with our focus on returnable series we have seen a number of recommissions in H1 including *Vera*, *Lewis*, *Monroe*, *The Chase* and *May the Best House Win*. We are also making progress in developing more off-ITV commissions with new commissions in H1 including *The Devil's Dinner Party* for Sky Atlantic, *Sorority Girls* for E4 and *White Heat*, a new drama for BBC2, which we expect to deliver over the next 12 months.

We are beginning to make encouraging progress internationally: ITV Studios America is co-producing *Prime Suspect* in the US with Universal Studios for NBC. ITV Studios will retain the international distribution rights outside the US, where we are closing deals in Canada, New Zealand, Australia and France, with others to follow. Other big international dramas include Julian Fellowes' *Titanic*, also a co-production, which is pre-funded and has already been pre-sold to 15 broadcasters around the world including ITV1. We have also sold a US production deal for one of our key daytime programmes, *Jeremy Kyle*, which will be syndicated throughout the US.

In the first half of 2011 ITV Studios' external revenues grew from £126 million to £140 million, driven largely by International Productions, while profits fell from £43 million to £38 million as we have invested in creative renewal and in developing and piloting new programmes. We are seeing early signs of potential from our investment as we renew our commitment to the producer/ broadcaster model.

## OUTLOOK

We are one year into our five-year Transformation Plan and have made significant progress so far. However, there is still a great deal to do and many challenges we must continue to confront to ensure that we achieve our objective of transforming the business. We remain committed to our strategy of creating great content, delivering and exploiting it across multiple platforms and selling it internationally.

Everyone at ITV remains firmly focused on delivering the Transformation Plan and it is crucially important over the next 12 months that we build on the momentum we have created.

At the half-year stage, ITV is in a strong position financially which gives us flexibility and enables us to invest in the business while making the right decisions for the long-term future of ITV.

We expect ITV Family NAR to be down 2% in July, down 4% in August and, given our earlier than usual reporting date, we currently expect ITV Family NAR in September to be broadly flat. We expect ITV Family NAR to be slightly down in Q3 but ahead of the market.

We are encouraged by our progress to date and the prospects for ITV in the medium to long term, although we remain cautious about the broader economic outlook and its impact on our market.

**Adam Crozier** Chief Executive

## Key Performance Indicators

ITV's Key Performance Indicators (KPI) align performance and accountability to the Transformation Plan.

ITV's KPI include core financial performance indicators and strategic performance indicators. While these KPI will be the key measures of success over the next five years, we will keep them under review to ensure that they remain the most appropriate measures in line with our strategy.

Further detail on ITV's financial performance and KPI can be found in the strategy and operations section, and the financial and performance review.

### Core financial performance indicators

	2011	2010
EBITA before exceptional items	£240m	£165m
Adjusted earnings per share	4.1p	2.2p
'Profit to cash' conversion	113%	150%

### Strategic performance indicators

	2011	2010
ITV Family Share of Viewing ('SOV')	23.2%	22.7%
ITV Family Share of Commercial Impacts ('SOCI')	40.0%	39.8%
ITV Family Share of Broadcast ('SOB')	45.3%	45.8%
Non-NAR revenues	£408m	£387m
itv.com unique users (average monthly)	10.8m	9.1m
Total long form video views (all platforms)	180m	110m

The proportion of the total original commissions spend on ITV1 transmitted in the full year that is delivered by ITV Studios is on track to improve from 53% in 2010.

Long form video views are a measure of the total number of views of full length programmes requested on demand across platforms (for example itv.com, Virgin, PS3 and most recently mobile). The programmes have been broadcast on ITV's channels and are available to watch in their entirety.

### Disclaimer on forward looking statements

This interim report may contain forward-looking statements based on current expectations of, and assumptions and forecasts made by, management. Various known and unknown risks, uncertainties and other factors could lead to substantial differences between actual future results, financial situations, development or performance of the Group and the estimates and historical results given herein. Information on the significant risks and uncertainties associated with our business is described in "Financial and performance review – Principal risks and uncertainties" in this document. All forward-looking statements in this document are based on information known to us on the date hereof.

Undue reliance should not be placed on forward looking statements which speak only as of the date of this document. The Group accepts no obligation to publicly revise or update these forward-looking statements or adjust them to future events or developments, whether as a result of new information, future events or otherwise, except to the extent legally required.

## Financial and performance review

ITV has again delivered a strong financial performance in the period. This performance has been driven by the Broadcasting & Online division, where net advertising revenue is up 2% despite a tough economic environment, and where schedule costs have reduced significantly due to the absence of the 2010 Football World Cup. Alongside these improved profits, the continued focus on cash management has led to a further reduction in net debt.

In line with our stated objectives, further cost has been taken out of the business, and this has been reinvested in areas key to the Transformation Plan. Investment of £12 million has been made so far this year against specific initiatives aligned to our plan: improving the online experience and making the player available on more platforms; re-energising the creative pipeline; and more brand defining content for the digital channels. Cost savings of £7 million have been delivered so far from across the business, and the target of £15 million of savings for the full year remains on track.

This review focuses on the adjusted results as, in management's view, these show more meaningfully the business performance of the Group in a consistent manner and reflect how the business is managed and measured on a daily basis. A reconciliation from the statutory to adjusted results is set out later in this review.

Total revenue for the period ended 30 June 2011 was 4% higher at £1,027 million (2010: £987 million), with growth from both divisions. This increase in revenue and the reduction in schedule costs has increased EBITA before exceptional items to £240 million (2010: £165 million), and adjusted earnings per share to 4.1p (2010: 2.2p).

Revenue and EBITA before exceptional items by reportable segment are as follows:

Six months to 30 June	2011 £m	2010 £m	Change £m
Broadcasting & Online external revenue	887	861	26
Broadcasting & Online EBITA*	202	122	80
ITV Studios external revenue	140	126	14
ITV Studios EBITA*	38	43	(5)
<b>Total external revenue</b>	<b>1,027</b>	<b>987</b>	<b>40</b>
<b>Total EBITA*</b>	<b>240</b>	<b>165</b>	<b>75</b>
<b>Adjusted profit** after tax</b>	<b>158</b>	<b>86</b>	<b>72</b>
<b>Adjusted earnings per share***</b>	<b>4.1p</b>	<b>2.2p</b>	<b>1.9p</b>

\* before exceptional items

\*\* adjusted profit is defined as profit for the period attributable to equity shareholders, before exceptional items, impairment and amortisation of intangible assets acquired through business combinations, financing cost adjustments and prior period and other tax adjustments.

\*\*\* adjusted earnings per share represent the adjusted profit for the year attributable to equity shareholders

## Broadcasting & Online

Six months to 30 June	2011 £m	2010 £m	Change £m
Net Advertising Revenue ('NAR')	743	728	15
Broadcast sponsorship	29	31	(2)
Minority revenue	26	30	(4)
SDN external revenues	29	20	9
Online & On Demand	16	12	4
Media sales, PRS and other income	44	40	4
<b>Total Broadcasting &amp; Online revenue</b>	<b>887</b>	<b>861</b>	<b>26</b>
Total schedule costs	(485)	(536)	51
Other costs	(200)	(203)	3
<b>Total Broadcasting &amp; Online EBITA before exceptional items</b>	<b>202</b>	<b>122</b>	<b>80</b>

Broadcasting & Online EBITA before exceptional items has improved by £80 million due to the £51 million reduction in schedule costs and revenue to profit conversion of the 2% NAR improvement. The detailed comparisons to 2010 for advertising, audience performance and costs are to a large extent impacted by the 2010 Football World Cup.

In the first six months of the year the television advertising market grew 3%, with ITV family NAR up 2%. This rate of advertising market growth of 3% has been outstripped by the 5% rise in market impacts, with the result that there has been some deflation of pricing compared to 2010.

The 2% rise in ITV Family NAR has been driven by categories such as finance, telecommunications and airlines, travel and holidays. The food, entertainment and leisure and household stores categories have all declined year on year. Monthly and quarterly trends are currently difficult to interpret, not helped by general economic uncertainty and world cup comparisons.

Broadcast sponsorship is down £2 million and minority revenues are down £4 million due to the phasing of schedule spend.

SDN external revenues increased by 45%, largely due to the new contracts agreed in the second half of 2010.

Online and On Demand revenues continue to grow and are up 33% to £16 million. We are investing in this area as it is a key part of our transformation. Total long form video views across all platforms have increased by 64% to 180 million, and with pricing held this has driven the improvement in revenue.

The £51 million decrease in schedule costs is principally due to the inclusion of the Football World Cup in June 2010.

## ITV Studios

Six months to 30 June	2011 £m	2010 £m	Change £m
UK production and resources	26	30	(4)
International production	65	39	26
Global Entertainment	49	57	(8)
<b>Total external revenue</b>	<b>140</b>	126	14
Original supply to ITV	124	128	(4)
<b>Total revenue</b>	<b>264</b>	254	10
Total costs	(226)	(211)	(15)
<b>Total ITV Studios EBITA before exceptional items</b>	<b>38</b>	43	(5)

Total revenue is up by £10 million due to international growth, but EBITA before exceptional items has reduced by £5 million. This is due to investment, as we re-energise the creative pipeline and spend more on scripts and pilots, and the phasing of high margin revenue in Global Entertainment moving from the first half of the year to the second.

UK production for other broadcasters (including resources) was down £4 million due to the timing of delivery of programmes such as *Coach Trip* and *Four Weddings* that will be delivered later in the year compared to 2010.

International revenues improved by £26 million in the first half of the year, with every country showing growth. Germany was particularly strong, with the return of *Ich Bin Ein Star... (I'm a Celebrity)* and *Der Bulle*.

Global Entertainment revenues were down by £8 million, with declines in both television sales and DVD sales. The TV sales decline relates to phasing; the DVD revenues are down 14% in line with the current market trends.

Original supply to ITV channels was down by £4 million to £124 million. Despite new dramas such as *Marchlands* and *Vera*, some established brands such as *Marple* and *Poirot* did not return in the first half of this year.

Most of the costs of the production business are variable and linked to revenue, hence the increased costs are primarily a function of the improved revenues. The revenue growth has come across the lower margin production businesses, whereas there has been a revenue decline in the higher margin distribution and exploitation business.

The creative renewal process within ITV Studios is beginning to show signs of momentum. The lead times between commission, delivery and transmission mean it will take time for this momentum to come through into the financial numbers.

## Net financing costs

Six months to 30 June	2011 £m	2010 £m
Financing costs directly attributable to loans and bonds	(25)	(30)
Cash-related net financing income	5	-
<b>Cash-related financing costs</b>	<b>(20)</b>	(30)
Amortisation of bonds	(8)	(6)
<b>Adjusted financing costs</b>	<b>(28)</b>	(36)
Mark-to-market on swaps and foreign exchange	3	16
Imputed pension interest	(3)	(7)
Other net financing costs	(1)	-
<b>Net financing costs</b>	<b>(29)</b>	(27)

Adjusted financing costs have reduced by £8 million. Financing costs directly attributable to bonds have reduced due to the benefit of bond buybacks in the second half of 2010. Cash-related net financing income has increased due to the increased level of cash held and the benefit of a better return through a slightly longer investment horizon.

Despite the reduction in adjusted financing costs, net financing costs have increased by £2 million. This is because in 2010 there was a £16 million credit relating to mark-to-market on swaps and foreign exchange resulting from a decrease in the implied interest rates during the first six months of that year, which largely unwound in the second half of 2010. There has not been a corresponding impact in the first half of 2011.

Imputed pension interest has reduced in the year due to an increase in the expected return on assets and a decrease in the interest on liabilities.

## Tax

The adjusted tax rate for adjusted profit is, as expected, lower than the standard tax rate as the utilisation of losses is in excess of normal disallowable costs. The total reported tax charge is £46 million (2010: £26 million).

Six months to 30 June	2011 £m	2010 £m
Profit before tax as reported	181	97
Operating exceptional items (net)	(1)	6
Amortisation and impairment of intangible assets*	24	23
Non-operating exceptional items	(1)	1
Adjustments to net financing costs	1	(9)
<b>Adjusted profit before tax</b>	<b>204</b>	<b>118</b>

  

Six months to 30 June	2011 £m	2010 £m
Tax charge as reported	(46)	(26)
Credit in respect of amortisation and impairment of intangible assets*	(6)	(7)
Charge in respect of adjustments to net financing costs	-	3
Net charge/(credit) for exceptional and other tax items	6	(2)
<b>Adjusted tax charge</b>	<b>(46)</b>	<b>(32)</b>
<b>Effective tax rate on adjusted profits</b>	<b>23%</b>	<b>27%</b>

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

## Earnings per share

Adjusted earnings per share is 4.1 pence (2010: 2.2 pence). Basic earnings per share is 3.5 pence (2010: 1.8 pence).

### Reconciliation between reported and adjusted earnings

Six months to 30 June 2011	Reported £m	Adjustments £m	Adjusted £m
EBITA before exceptional items	<b>240</b>	-	<b>240</b>
Exceptional items	2	(2)	-
Amortisation and impairment	(31)	24	(7)
Financing costs	(29)	1	(28)
JVs and Associates	(1)	-	(1)
<b>Profit before tax</b>	<b>181</b>	<b>23</b>	<b>204</b>
Tax	(46)	-	(46)
<b>Profit after tax</b>	<b>135</b>	<b>23</b>	<b>158</b>
Number of shares	3,883		3,883
<b>Earnings per share</b>	<b>3.5p</b>		<b>4.1p</b>

The adjustments shown above, such as exceptional items, remove the impact of those items that, in management's view, do not show the performance of the business in a consistent manner and do not reflect how the business is managed and measured on a daily basis.

Amortisation of intangible assets acquired through business combinations is not included within adjusted earnings. Amortisation of software licences and development is included as management consider these assets to be core to supporting the operations of the business.

The tax and net financing costs sections of this review show the adjustments to these balances.

## Dividend

The Board has declared an interim dividend of 0.4p. The interim dividend will be payable on 1<sup>st</sup> December to shareholders on the register as at 4<sup>th</sup> November. The ex-dividend date will be 2<sup>nd</sup> November. The level of the final dividend will be considered in light of second half trading and the economic outlook. In considering the proposed dividend the Board were mindful of the volatile history of the advertising market and the need to maintain a conservative level of cover. It is our intention to adopt a progressive dividend policy taking into account the outlook for earnings per share and the investment requirements of the Transformation Plan.

# Cash flow, working capital management and net debt

## Cash flow and working capital management

Cash and working capital management continues to be a key priority. ITV has generated £272 million of cash from £240 million of EBITA before exceptional items, primarily due to further improvements in working capital. The 'profit to cash' ratio was 113% for the 6 month period and 112% on a 12 month rolling basis, both ahead of the target of 90% on a three year rolling basis.

Six months to 30 June	2011 £m	2010 £m
<b>EBITA before exceptional items ('profit')</b>	<b>240</b>	165
Decrease in programme rights and other inventory and distribution rights	20	101
Decrease / (increase) in receivables	78	(29)
(Decrease) / increase in payables	(72)	1
<b>Working capital movement</b>	<b>26</b>	73
Depreciation	12	14
Share based compensation	7	5
<b>Cash flow generated from operations*</b>	<b>285</b>	257
Acquisition of property, plant and equipment and intangible assets	(13)	(10)
<b>Adjusted cash flow</b>	<b>272</b>	247
<b>'Profit to cash' ratio – 6 months to 30 June</b>	<b>113%</b>	150%
<b>'Profit to cash' ratio – 12 month rolling average</b>	<b>112%</b>	134%

\*Before exceptional items.

Over the past two years programme rights and other inventory have been reduced significantly, to the extent that they are now down to more normalised levels, so the high 'profit to cash' ratios of previous years are unlikely to be repeated.

Acquisition of property, plant and equipment and intangible assets was £13 million (2010: £10 million), with the full year expenditure expected to be £80 million as previously announced.

## Net debt

In the six months to 30 June 2011 net debt has fallen by £136 million to £52 million (31 December 2010: £188 million), mainly due to the cash flow generated from operations, which are detailed above.

	£m
Net debt at 31 December 2010	(188)
Adjusted cash flow	272
Net interest paid	(27)
Corporation tax paid	(41)
Pension deficit funding	(48)
Other	(20)
<b>Net debt at 30 June 2011</b>	<b>(52)</b>

Defined benefit pension deficit funding of £48 million includes £41 million of regular contributions and £6 million of contributions as a result of the SDN pension partnership.

Whilst there will be significant capital investment and an increase in working capital, not least production stock, in the second half of the year, which will reduce the 'profit to cash' conversion as explained above, the corporation tax and pension deficit funding payments have been weighted towards the first half of the year.

There is no IFRS definition of net debt and the figures in the table represent the Group's measure of this metric. The major credit rating agencies each adjust ITV's definition of net debt in assessing the Group's credit worthiness, taking a wider view of total indebtedness. There is no consistent methodology but adjustments include ITV's IAS19 pension deficit, an imputed level of debt in lieu of operating leases, and adjustments to cash to exclude amounts not considered available for debt repayment or core.

## Liquidity risk

The Group has a high degree of operational gearing and is exposed to the economic cycle.

As a result of the substantial improvement in the financial performance of the Group, in April 2011 Moody's raised ITV's credit rating from Ba3 to Ba2 and Standard & Poor's increased ITV's credit rating from B+ to BB. The revised ratings are both Stable Outlook. Fitch also revised upward the outlook on ITV's BB rating to Positive from Stable.

### Funding

In June 2011 ITV repurchased £74 million nominal of its £383 million 5.375% 2015 bonds at no gain or loss. In June 2011 ITV also repurchased all of its £110 million 2013 bonds (which had a coupon of 3 month libor plus 2.7%) at a loss of £4 million. There is now no major debt repayment until 2014. We will continue to take actions to make the balance sheet more efficient where it makes economic sense.

Given the improved cash position, some deposits are now made over a longer investment horizon than previously to improve the returns on our cash balances.

ITV is financed using debt instruments with a range of maturities. ITV's borrowings at 30 June 2011 (net of currency hedges and secured gilts) are repayable as follows:

Amount repayable	£m	Maturity
€54 million Eurobond*	(16)	October 2011
€188 million Eurobond*	126	June 2014
£309 million Eurobond	309	October 2015
£135 million Convertible bond	135	November 2016
£250 million Eurobond	250	January 2017
£200 million Bank Loan**	62	March 2019
Finance leases	55	Various
<b>Total repayable</b>	<b>921</b>	

\* Net of Cross Currency Swaps.

\*\* Net of £138 million (nominal) Gilts secured against the loan.

At 30 June 2011 ITV had £814 million of cash and cash equivalents. This figure includes £89 million of cash equivalents whose use is restricted to finance lease commitments and unfunded pension promises. Cash and cash equivalents also include £51 million held principally in overseas and part owned subsidiaries. At the reporting date ITV had a £125 million undrawn, covenant free, bilateral bank facility secured on advertising receivables available to September 2015. There are no financial covenants on any of ITV's debt.

## Pensions

### IAS 19 – the accounting deficit

The aggregate IAS 19 deficit on defined benefit schemes at 30 June 2011 was £312 million (31 December 2010: £313 million). The most significant variances are the £48 million of deficit funding offset by a £48 million increase in liabilities.

The increase in liabilities is mainly due to an adjustment to reflect actual demographic experience. The data produced as part of the actuarial valuation of ITV Pension Scheme ('the Scheme') has provided information which has allowed the actuarial assumptions to reflect the latest experience of the Scheme. This has resulted in an experience loss of £58 million. This experience loss is the difference between actual scheme experience and actuarial assumptions since the last triennial valuation, not least for the effect of mortality and higher inflation during that period.

### SDN pension partnership extension

The Group has a long-term strategy to implement a programme of measures to manage the costs and risks associated with the pension schemes, and as part of this strategy the Group has now extended the SDN pension partnership to further reduce the funding deficit.

On 8 July 2011, the partnership's interest in SDN was increased by a further £50 million, enabled by the increase in the value of the SDN business. As a result of this, the partnership will increase the annual distribution to the Scheme by £3 million to £11 million per annum. Under the partnership arrangements, the Group has committed to making a payment to the main section of the Scheme of up to £200 million in 2022 (an increase of £50 million compared to the original agreement made in 2010), if and to the extent that it remains in deficit.

### Actuarial valuations

Full actuarial valuations are carried out every three years. The latest completed actuarial valuation of Section A of the main defined benefit scheme was carried out as at 1 January 2008 and, on the bases adopted by the Trustees, that section was in deficit to an amount of £190 million or 9% of the liabilities in that section. An actuarial valuation of Section A is being undertaken as at 1 January 2011 and the initial results will be discussed between the Group and the Trustees during the second half of 2011.

Actuarial valuations of Sections B and C of the main scheme were carried out at 1 January 2010 and on the bases adopted by the Trustees, both were in deficit with a combined deficit of £49 million or 11% of the liabilities in those sections.

Given that the timetable for the valuation of Section A of the Scheme was different to that of Sections B and C, in order to increase efficiency and to streamline the processes the Group has agreed with the Trustees of the Scheme that actuarial valuations of all three Sections will be undertaken as at 1 January 2011.

### **Deficit funding contributions**

The Group has agreed with the Trustees the level of contributions to the main section of the ITV Pension Scheme through to 2014. The Group will make deficit funding contributions of £35 million per annum. From 2012 the Group's annual contribution will be increased by £5 million, unless during the previous year the Group implemented initiatives which reduce the Scheme's deficit by at least £10 million, compared with the level absent such initiatives. In addition from 2012, if the Group's reported EBITA before exceptional items exceed £300 million in the previous year, the Group will increase this contribution by an amount representing 10% of EBITA before exceptional items over the threshold level. In addition to the agreed deficit funding contributions, the SDN partnership established in 2010, and extended in July 2011, provides an annual distribution to this section of the Scheme of £11 million per annum. Assuming no unforeseen circumstances, no further change is currently expected in ITV's committed contributions to the main section of the pension scheme before 2015.

Following completion of actuarial valuations of Sections B and C as at 1 January 2010 the Group has agreed with the Trustees to make deficit funding contributions of £6 million per annum in order to eliminate the deficits in these sections by 31 March 2020.

# Principal risks and uncertainties

ITV continues to apply the risk management approach outlined in the 2010 Annual Report and Accounts (pages 38 and 39). When preparing the Interim results, the High Impact Low Likelihood (HILL) risks, Strategic risks and Process level risks were reconsidered. There were no changes to the significance of these risk factors or any new risks identified in the period. A summary of the significant risk factors are as follows:

## Strategic risks

The risk that:

- ITV lacks sufficient experienced and creative talent to deliver the Transformation Plan
- ITV employees are not sufficiently engaged in the new strategy
- The extensive degree of change that the business will undergo will overload a small number of key personnel
- ITV lacks the process maturity and experience to support new core processes and outsourcing
- The lack of commercial and strategic clarity between Studios and Broadcasting & Online will result in sub-optimal decisions being made
- A significant and high profile transmission incident causes significant reputation damage to ITV
- ITV fails to identify and secure sufficient programme rights
- Management information is not sufficient to support process improvement, integration or decision-making
- ITV fails to invest in, develop or operate international businesses
- Current technological environment and business processes are not sufficient to support the growth in interactive and direct customer relationships
- ITV's infrastructure does not support the developing needs of the business going forward
- ITV remains over-reliant on the advertising market and therefore heavily exposed to the economic cycle

## High Impact Low Likelihood (HILL) risks

The risk that:

- there is a major regulatory breach that results in the loss of the Channel 3 licence, or the Channel 3 licence is not renewed in 2014 and no contingency plan is in place to cover that loss
- there is a major decline in advertising revenues, or that there is a double dip recession, significantly impacting ITV's overall financial performance
- there is a significant or unexpected change in regulation or legislation
- there is a significant loss of programme rights
- a major physical incident results in ITV being unable to continue with scheduled broadcasting
- a significant event removes a number of the key management team from the business on a long-term or permanent basis
- ITV loses its credit status or lines of funding with existing lenders
- there is a major collapse in investment values leading to a material pension scheme deficit
- there is a major health and safety incident that results in a significant loss of human life
- there is a sustained denial of transmission facilities at Technicolor, our third party outsourced provider
- there is a loss of a major data centre
- there is a sustained cyber/viral attack causing prolonged system denial or major reputational damage

## Condensed interim financial statements

In preparing these condensed interim financial statements we continue to adopt the same style as the 2010 year end accounts. Our objective is to make ITV's financial statements less complex and more relevant to shareholders and to provide readers with a clearer understanding of what drives financial performance of the Group. We have grouped notes under three key headings, 'Results for the year', 'Operating assets and liabilities' and 'Capital structure and financing costs'. Text in speech bubbles provides commentary on each section in plain English.

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## Condensed consolidated income statement

For the six month period to 30 June:	Note	2011 £m	2010 £m
<b>Revenue</b>	2.1	<b>1,027</b>	987
Operating costs		<b>(817)</b>	(860)
<b>Operating profit</b>		<b>210</b>	127
Presented as:			
<b>Earnings before interest, tax, amortisation (EBITA) and exceptional items</b>	2.1	<b>240</b>	165
Operating exceptional items		<b>1</b>	(6)
Amortisation of intangible assets		<b>(31)</b>	(32)
<b>Operating profit</b>		<b>210</b>	127
Financing income		<b>106</b>	94
Financing costs		<b>(135)</b>	(121)
<b>Net financing costs</b>		<b>(29)</b>	(27)
Share of profits or (losses) of joint ventures and associated undertakings		<b>(1)</b>	(2)
Gain/(loss) on sale and impairment of subsidiaries and investments (exceptional items)		<b>1</b>	(1)
<b>Profit before tax</b>		<b>181</b>	97
Taxation		<b>(46)</b>	(26)
<b>Profit for the period</b>		<b>135</b>	71
<b>Profit attributable to:</b>			
Owners of the Company		<b>135</b>	71
Non-controlling interests		<b>-</b>	-
<b>Profit for the period</b>		<b>135</b>	71
<b>Earnings per share</b>			
Basic earnings per share	2.2	<b>3.5p</b>	1.8p
Diluted earnings per share	2.2	<b>3.4p</b>	1.8p

## Condensed consolidated statement of comprehensive income

For the six month period to 30 June:	2011 £m	2010 £m
<b>Profit for the period</b>	<b>135</b>	<b>71</b>
<b>Other comprehensive income/(cost):</b>		
Foreign currency translation differences	–	2
Revaluation of available for sale financial assets	–	3
Actuarial losses on defined benefit pension schemes	<b>(46)</b>	(38)
Income tax (charge)/credit on other comprehensive income	<b>(4)</b>	8
<b>Other comprehensive cost for the period, net of income tax</b>	<b>(50)</b>	(25)
<b>Total comprehensive income for the period</b>	<b>85</b>	<b>46</b>
<b>Total comprehensive income attributable to:</b>		
Owners of the Company	<b>85</b>	46
Non-controlling interests	–	–
<b>Total comprehensive income for the period</b>	<b>85</b>	<b>46</b>

## Condensed consolidated statement of financial position

	Note	30 June 2011 £m	31 December 2010 £m	30 June 2010 £m
<b>Non-current assets</b>				
Property, plant and equipment		148	151	155
Intangible assets		941	969	998
Held to maturity investments	4.1	147	148	149
Derivative financial instruments		96	89	153
Distribution rights		14	12	14
Net deferred tax asset		67	73	48
Other non-current assets		6	5	7
		<b>1,419</b>	<b>1,447</b>	1,524
<b>Current assets</b>				
Programme rights and other inventory		262	284	288
Trade and other receivables due within one year		363	442	462
Trade receivables due after more than one year		7	6	8
Trade and other receivables		370	448	470
Derivative financial instruments		74	69	8
Cash and cash equivalents	4.1	814	860	686
Assets held for sale		1	3	50
		<b>1,521</b>	<b>1,664</b>	1,502
<b>Current liabilities</b>				
Borrowings	4.1	(58)	(55)	(8)
Derivative financial instruments		(8)	(3)	(7)
Trade and other payables due within one year		(610)	(672)	(672)
Trade payables due after more than one year		(18)	(26)	(13)
Trade and other payables		(628)	(698)	(685)
Current tax liabilities		(65)	(65)	(45)
Provisions	3.1	(32)	(34)	(47)
		<b>(791)</b>	<b>(855)</b>	(792)
<b>Net current assets</b>				
		<b>730</b>	<b>809</b>	710
<b>Non-current liabilities</b>				
Borrowings	4.1	(1,048)	(1,223)	(1,335)
Derivative financial instruments		(32)	(39)	(37)
Defined benefit pension deficit	3.2	(312)	(313)	(449)
Other payables		(5)	(3)	(3)
Provisions	3.1	(3)	(15)	(19)
		<b>(1,400)</b>	<b>(1,593)</b>	(1,843)
<b>Net assets</b>				
		<b>749</b>	<b>663</b>	391
<b>Attributable to equity shareholders of the parent company</b>				
Share capital		389	389	389
Share premium		120	120	120
Merger and other reserves		302	304	306
Translation reserve		14	14	13
Available for sale reserve		5	5	11
Retained losses		(83)	(171)	(449)
<b>Total equity attributable to equity shareholders of the parent company</b>		<b>747</b>	<b>661</b>	390
Non-controlling interests		2	2	1
<b>Total equity</b>		<b>749</b>	<b>663</b>	391

Ian Griffiths

Group Finance Director

## Condensed 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 losses £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2011	389	120	304	14	5	(171)	661	2	663
<b>Total comprehensive income for the period</b>									
Profit	–	–	–	–	–	135	135	–	135
<b>Other comprehensive cost</b>									
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	(46)	(46)	–	(46)
Income tax on other comprehensive income	–	–	–	–	–	(4)	(4)	–	(4)
Total other comprehensive cost	–	–	–	–	–	(50)	(50)	–	(50)
<b>Total comprehensive income for the period</b>	–	–	–	–	–	85	85	–	85
<b>Transactions with owners, recorded directly in equity</b>									
<b>Contributions by and distributions to owners</b>									
Equity portion of the convertible bond	4.1	–	–	(2)	–	–	2	–	–
Movements due to share-based compensation	–	–	–	–	–	–	7	–	7
Purchase of own shares via employees' benefit trust	–	–	–	–	–	–	(6)	–	(6)
Total contributions by and distributions to owners	–	–	(2)	–	–	–	3	–	1
<b>Change in ownership interest in subsidiaries that do not result in a loss of control</b>									
Total changes in ownership interests in subsidiaries	–	–	–	–	–	–	–	–	–
Total transactions with owners	–	–	(2)	–	–	–	3	–	1
<b>Balance at 30 June 2011</b>	<b>389</b>	<b>120</b>	<b>302</b>	<b>14</b>	<b>5</b>	<b>(83)</b>	<b>747</b>	<b>2</b>	<b>749</b>

Attributable to equity shareholders of the parent company									
	Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Available for sale reserve £m	Retained losses £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2010	389	120	308	11	8	(491)	345	1	346
<b>Total comprehensive income for the period</b>									
Profit	–	–	–	–	–	71	71	–	71
<b>Other comprehensive income/(cost)</b>									
Revaluation of available for sale financial assets	–	–	–	–	3	–	3	–	3
Foreign currency translation differences	–	–	–	2	–	–	2	–	2
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	(38)	(38)	–	(38)
Income tax on other comprehensive income	–	–	–	–	–	8	8	–	8
Total other comprehensive income/(cost)	–	–	–	2	3	(30)	(25)	–	(25)
<b>Total comprehensive income for the period</b>	–	–	–	2	3	41	46	–	46
<b>Transactions with owners, recorded directly in equity</b>									
<b>Contributions by and distributions to owners</b>									
Equity portion of the convertible bond	–	–	(2)	–	–	–	2	–	–
Movements due to share-based compensation	–	–	–	–	–	–	(1)	–	(1)
Total contributions by and distributions to owners	–	–	(2)	–	–	–	1	–	(1)
<b>Change in ownership interest in subsidiaries that do not result in a loss of control</b>									
Total changes in ownership interests in subsidiaries	–	–	–	–	–	–	–	–	–
Total transactions with owners	–	–	(2)	–	–	–	(1)	–	(1)
<b>Balance at 30 June 2010</b>	<b>389</b>	<b>120</b>	<b>306</b>	<b>13</b>	<b>11</b>	<b>(449)</b>	<b>390</b>	<b>1</b>	<b>391</b>

## Condensed consolidated statement of cash flows

For the six month period to 30 June:	Note	£m	2011 £m	£m	2010 £m
<b>Cash flows from operating activities</b>					
Profit before tax	2.1	181		97	
(Gain)/loss on sale and impairment of subsidiaries and investments (exceptional items)		(1)		1	
Share of (profits) or losses of joint ventures and associated undertakings		1		2	
Net financing costs		29		27	
Operating exceptional items		(1)		6	
Depreciation of property, plant and equipment		12		14	
Amortisation and impairment of intangible assets		31		32	
Share-based compensation		7		5	
Decrease in programme rights and other inventory, and distribution rights		20		101	
Decrease/(increase) in receivables		78		(29)	
(Decrease)/increase in payables		(72)		1	
Movement in working capital		26		73	
Cash generated from operations before exceptional items		285		257	
Cash flow relating to operating exceptional items:					
Net operating income/(loss)		1		(6)	
Decrease in payables and provisions		(5)		(15)	
Cash outflow from exceptional items			(4)		(21)
Cash generated from operations			281		236
Defined benefit pension deficit funding	3.2	(48)		(30)	
Interest received		27		29	
Interest paid on bank and other loans		(51)		(62)	
Interest paid on finance leases		(3)		(3)	
Net taxation paid		(41)		–	
			(116)		(66)
<b>Net cash inflow from operating activities</b>			<b>165</b>		<b>170</b>
<b>Cash flows from investing activities</b>					
Proceeds from sale of property, plant and equipment		2		–	
Acquisition of property, plant and equipment		(9)		(10)	
Acquisition of intangible assets		(4)		–	
Loans granted to associates and joint ventures		(3)		(4)	
Loans repaid by associates and joint ventures		1		1	
Proceeds from sale of subsidiaries, joint ventures and available for sale investments		–		25	
<b>Net cash (outflow)/inflow from investing activities</b>			<b>(13)</b>		<b>12</b>
<b>Cash flows from financing activities</b>					
Bank and other loans – amounts repaid	4.1	(187)		(69)	
Capital element of finance lease payments		(3)		(9)	
Purchase of own shares via employees' benefit trust		(6)		–	
<b>Net cash outflow from financing activities</b>			<b>(196)</b>		<b>(78)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>			<b>(44)</b>		<b>104</b>
<b>Cash and cash equivalents at 1 January</b>	4.1		<b>860</b>		<b>582</b>
Effects of exchange rate changes and fair value movements			(2)		–
<b>Cash and cash equivalents at 30 June</b>	4.1		<b>814</b>		<b>686</b>

## Section 1 Basis of preparation

This section lays out the accounting conventions and accounting policies used in preparing these condensed interim financial statements.

These condensed consolidated interim financial statements for the six months ended 30 June 2011 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, "Interim financial reporting" as adopted by the European Union. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which were prepared in accordance with IFRS as adopted by the European Union.

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, income and expense. Actual results may differ from these estimates. Except as described below, in preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2010.

Revenues are impacted by underlying economic conditions and the cyclical demand for advertising and seasonality of programme sales. Major events, including sporting events, will impact the seasonality of schedule costs. Other than this, there is no significant seasonality or cyclicity affecting the interim results of the operations.

For the purposes of interim reporting the defined benefit pension schemes' key assumptions and asset values have been reviewed to assess whether material net actuarial gains and losses have occurred during the period (see note 3.2). As there have been material movements in the key underlying assumptions and asset values during the period a formal revaluation has been carried out and actuarial gains and losses have been recognised through the statement of comprehensive income. A full valuation will take place at 31 December 2011 in accordance with IAS 19.

During the six months ended 30 June 2011, management also reassessed its estimates in respect of provisions (see note 3.1) and considered the recoverable amount of goodwill. No impairment of goodwill was identified.

These interim financial statements are not statutory accounts. The statutory accounts for the year ended 31 December 2010 have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

### Going concern

The Group has reduced its current level of net debt and has also improved both its short-term and medium-term liquidity position. The Group continues to review forecasts of the television advertising market to determine the impact on ITV's liquidity position and will continue to evaluate opportunities to push out maturity and create further headroom. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current financing. ITV's forecasts have been prepared on a more cautious basis than external market expectations.

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

## Section 2 Results for the year

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 period, segmental information and earnings per share.

### 2.1 Profit before tax

This section shows the Group's profit before tax and a reconciliation from earnings before interest, tax, amortisation and exceptional items. Earnings before interest, tax, amortisation and exceptional items remains the Group's key profit indicator. This reflects the way the business is managed and how the directors assess the performance of the Group.

#### Segmental information

Operating segments, which have not been aggregated, are reported in a manner that is consistent with the internal reporting provided to the Board of directors, regarded as the chief operating decision-maker.

The Board of directors considers the business primarily from a product or activity perspective. The reportable segments for the period ended 30 June 2011 and 30 June 2010 are therefore 'Broadcasting & Online' and 'ITV Studios', the results of which are outlined below:

	Broadcasting & Online 2011 £m	ITV Studios 2011 £m	Consolidated 2011 £m
For the six month period to 30 June:			
Total segment revenue	887	264	1,151
Intersegment revenue	–	(124)	(124)
Revenue from external customers	887	140	1,027
EBITA before exceptional items *	202	38	240

	Broadcasting & Online 2010 £m	ITV Studios 2010 £m	Consolidated 2010 £m
For the six month period to 30 June:			
Total segment revenue	861	254	1,115
Intersegment revenue	–	(128)	(128)
Revenue from external customers	861	126	987
EBITA before exceptional items *	122	43	165

\* Segment EBITA before exceptional items is shown after the elimination of inter-segment revenue and costs.

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

	2011 £m	2010 £m
For the six month period to 30 June:		
EBITA before exceptional items	240	165
Operating income – exceptional items	1	(6)
Amortisation and impairment of intangible assets	(31)	(32)
Net financing costs	(29)	(27)
Share of profits or (losses) of joint ventures and associated undertakings	(1)	(2)
Gain/(loss) on sale and impairment of subsidiaries and investments (exceptional items)	1	(1)
Profit before tax	181	97

Included in operating exceptional items is a credit of £1 million for onerous contract provisions. In 2010, operating exceptional items included a £7 million charge for reorganisation and restructuring costs and a £1 million credit for onerous contract provisions.

## 2.2 Earnings per share

Earnings per share ('EPS') is the amount of post tax profit attributable to each share.

Basic EPS is calculated on the Group profit for the year attributable to equity shareholders of the parent company of £135 million (2010: £71 million) divided by 3,883 million (2010: 3,884 million) being the weighted average number of shares in issue during the year.

Diluted EPS takes into account the dilutive effect of all share options being exercised and assumes that the £135 million convertible bond is converted to shares in its entirety.

Basic EPS is adjusted in order to more accurately show the business performance of the Group in a consistent manner and reflect how the business is managed and measured on a day-to-day basis. Adjusted EPS is adjusted for exceptional items, amortisation and impairment of acquired intangible assets, net financing cost adjustments and prior period and other tax adjustments.

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

### Basic earnings per share

For the six month period to 30 June:			2011	
	Ref.	Basic £m	Diluted £m	
Profit for the year attributable to equity shareholders of the parent company	A	135	139	
Weighted average number of ordinary shares in issue – million		3,883	3,883	
Dilution impact of share options		–	33	
Dilution impact of convertible bond	A	–	192	
Total weighted average number of ordinary shares in issue – million		3,883	4,108	
<b>Earnings per ordinary share</b>		<b>3.5p</b>	<b>3.4p</b>	

For the six month period to 30 June:			2010	
	Ref.	Basic £m	Diluted £m	
Profit for the year attributable to equity shareholders of the parent company	A	71	76	
Weighted average number of ordinary shares in issue – million		3,884	3,884	
Dilution impact of share options		–	23	
Dilution impact of convertible bond	A	–	192	
Total weighted average number of ordinary shares in issue – million		3,884	4,099	
<b>Earnings per ordinary share</b>		<b>1.8p</b>	<b>1.8p</b>	

### Adjusted earnings per share

For the six month period to 30 June:			2011	
	Ref.	Adjusted £m	Diluted £m	
Profit for the year attributable to equity shareholders of the parent company		135	139	
Exceptional items	B	(2)	(2)	
<b>Profit for the year before exceptional items</b>		<b>133</b>	<b>137</b>	
Amortisation and impairment of acquired intangible assets	C	18	18	
Adjustments to net financing costs	D	1	1	
Other tax adjustments	E	6	6	
Adjusted profit	F	158	162	
Total weighted average number of ordinary shares in issue – million		3,883	4,108	
<b>Adjusted earnings per ordinary share</b>		<b>4.1p</b>	<b>3.9p</b>	

For the six month period to 30 June:

	Ref.	Adjusted £m	Diluted £m	2010
Profit for the year attributable to equity shareholders of the parent company		71	76	
Exceptional items	B	5	5	
Profit for the year before exceptional items		76	81	
Amortisation and impairment of acquired intangible assets	C	16	16	
Adjustments to net financing costs	D	(6)	(6)	
Adjusted profit	F	86	91	
Total weighted average number of ordinary shares in issue – million		3,884	4,099	
Adjusted earnings per ordinary share		2.2p	2.2p	

**A** – Diluted earnings per share is impacted by the £135 million 2016 Convertible Eurobond issued in November 2009. When calculating diluted EPS, profit for the year is increased by £4 million to reflect the after tax interest recognised in respect of the debt portion of the convertible bond.

**B** – The exceptional items detailed in Section 2.1 are adjusted to reflect profit for the period before exceptional items net of related tax charges.

**C** – Amortisation and impairment of acquired intangible assets of £24 million (2010: £23 million) is adjusted, including a related tax credit of £6 million (2010: £7 million).

**D** – Adjustments to net financing costs of £1 million (2010: £9 million) includes a £nil related tax effect (2010: £3 million).

**E** – Other tax adjustments primarily reflect the reversal of the credit arising from the recognition of the deferred tax asset generated on certain losses partially offset by losses utilised in the current year.

**F** – Adjusted profit is defined as profit for the period before exceptional items, amortisation and impairment of acquired intangible assets, net financing cost adjustments and other tax adjustments.

## Section 3 Operating assets and liabilities

### 3.1 Provisions

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 made. The main estimates relate to the cost of holding properties that are no longer in use by the Group and contracts the group has entered into that are now unprofitable.

#### Provisions

The movements in provisions during the period are as follows:

	Contract provisions £m	Restructuring provisions £m	Property provisions £m	Other provisions £m	Total £m
At 1 January 2011	20	5	8	16	49
Release	–	–	(1)	–	(1)
Unwind of discount	1	–	–	–	1
Utilised	(7)	(3)	(4)	–	(14)
<b>At 30 June 2011</b>	<b>14</b>	<b>2</b>	<b>3</b>	<b>16</b>	<b>35</b>

The table includes provisions of £32 million that are classified as current liabilities (2010: £34 million).

Contract provisions are for onerous sports rights commitments and are expected to be utilised over the remaining contract period of one year.

Restructuring provisions are in respect of previously announced efficiency programmes and are expected to be utilised within one year.

Property provisions principally relate to onerous lease contracts due to empty space created by the significant reduction in headcount in 2009. Utilisation of the provision will be over the anticipated life of the leases or earlier if exited.

Other provisions of £16 million mainly relate to potential liabilities that arise as a result of Boxclever having been placed into administration, most of which relate to pension arrangements.

### 3.2 Pensions

The Group has historically offered its employees the opportunity to participate in a number of defined benefit schemes. However, these schemes are now closed to new members. The Group continues to offer employees a defined contribution pension scheme and, where taken up, makes payments into this scheme on their behalf.

The IAS 19 deficit at 30 June 2011 was £312 million compared with a deficit of £313 million at 31 December 2010. The deficit has remained broadly unchanged following deficit funding of £48 million offset by an actuarial loss of £58 million to reflect demographic experience. This

experience loss represents the difference between actual scheme experience and actuarial assumptions since the last triennial valuation, not least for the effect of mortality and higher inflation during that period.

## Section 4 Capital structure and financing costs

This section outlines how the Group manages its capital. The Group considers its capital structure and dividend policy at least twice a year ahead of announcing results in the context of its ability to continue as a going concern and deliver its business plan. The Group focuses on leverage, credit ratings and interest cost, particularly when considering investment.

On the following pages there are sections on the Group's net debt, borrowings and held to maturity investments.

The Group is not subject to any externally imposed capital requirements.

### 4.1 – Net debt

Net debt is the Group's key measure used to evaluate total outstanding debt net of the current cash resources.

In defining total outstanding debt the directors consider it appropriate to include the following: the currency impact of swaps held against those debt instruments; equity components of debt instruments; and the accounting impact on specific bonds due to the downgrade of ITV's investment status in August 2008.

#### Analysis of net debt

The table below analyses the Group's components of net debt and their movements in the period:

	1 January 2011 £m	Net cash flow and acquisitions £m	Currency and non-cash movements £m	30 June 2011 £m
Cash	761	(42)	(3)	<b>716</b>
Cash equivalents	99	(2)	1	<b>98</b>
Cash and cash equivalents	860	(44)	(2)	<b>814</b>
Held to maturity investments	148	–	(1)	<b>147</b>
Loans and loan notes due within one year	(47)	–	(3)	<b>(50)</b>
Finance leases due within one year	(8)	4	(4)	<b>(8)</b>
Loans and loan notes due after one year	(1,170)	187	(18)	<b>(1,001)</b>
Finance leases due after one year	(53)	2	4	<b>(47)</b>
	(1,278)	193	(21)	<b>(1,106)</b>
Currency component of swaps held against Euro denominated bonds	98	–	10	<b>108</b>
Convertible bond equity component	(31)	–	2	<b>(29)</b>
Amortised cost adjustment	15	–	(1)	<b>14</b>
Net debt	(188)	149	(13)	<b>(52)</b>

#### Cash and cash equivalents

Included within cash equivalents is £50 million (2010: £53 million), the use of which is restricted to meeting finance lease commitments under programme sale and leaseback commitments, and gilts of £39 million (2010: £36 million) over which the unfunded pension promises have a charge.

#### Loans and loan notes due within one year

Loans repayable in one year or less as at 30 June 2011 comprise an unsecured €54 million Eurobond (£50 million) which has a coupon of 6.0% and matures in October 2011. After cross currency swaps there is a net amount receivable in October 2011 of £16 million.

#### Loans and loan notes due after one year

In June 2011 ITV repurchased £74 million nominal of its £383 million 5.375% 2015 bonds at no gain or loss. In June 2011 ITV also repurchased all of its £110 million 2013 bonds (which had a coupon of 3 month libor plus 2.7%) at a loss of £4 million.

### Currency components of swaps held against euro denominated bonds

As at 30 June 2011 the currency element of the cross currency interest rate swaps is a £108 million asset (2010: £98 million asset) and this offsets the exchange rate movement of the 2011 and 2014 Euro denominated bonds.

### Convertible bond

In November 2009 ITV issued a £135 million convertible Eurobond with a maturity date of November 2016 and a coupon of 4%. As the bond contains an option for the issuer to convert a portion of the debt into ITV's equity, the components are treated as separate instruments.

The debt portion is £103 million (2010: £100 million) and is included within loans and loan notes due after one year. The effective interest

rate on the carrying value of the debt component is 9.4%. The equity component of £29 million (2010: £31 million) is shown separately.

### Amortised cost adjustment

The purpose of the amortised cost adjustment is to exclude the impact of the coupon step-up on net debt. ITV's Standard & Poor's credit rating was lowered to BB+ in August 2008, resulting in a coupon step-up in the 2011 and 2017 bonds. The recalculation of the amortised cost carrying values as required by IAS 39 resulted in a non-cash increase in net debt of £30 million as at 31 December 2008. The accounting treatment unwinds this increase in future years as a reduction in interest expense. As this adjustment has no impact on the cash interest paid, the interest charged to unwind the adjustment is excluded from net financing costs as described in the financial and performance review.

## 4.2 Borrowings and held to maturity investments

The Group borrows money from financial institutions in the form of bonds and other financial instruments. These generally have fixed interest rates and are for a fixed term. Interest rate swaps are entered into in relation to some of these instruments to move from fixed to floating rates. The Group's interest rate policy is to have between 40% and 60% of its gross borrowings held at fixed rates over the medium term in order to provide a balance between certainty of cost and benefit from lower floating rates.

Some of these financial instruments are complex in that they require the Group to hold investments, of a lesser value, in assets that have fixed interest rates and a fixed maturity date.

### Fair values versus book value

The tables below provide fair value information for the Group's borrowings and held to maturity investments:

Assets	Maturity	Book value		Fair value	
		30 June 2011 £m	31 Dec 2010 £m	30 June 2011 £m	31 Dec 2010 £m
Held to maturity investments	Mar 19	147	148	152	150

The fair value of held to maturity investments is based on quoted market bid prices at the year-end.

Liabilities	Maturity	Book value		Fair value	
		30 June 2011 £m	31 Dec 2010 £m	30 June 2011 £m	31 Dec 2010 £m
€54 million Eurobond	Oct 11	50	47	49	48
£110 million Eurobond	Mar 13	–	110	–	109
€188 million Eurobond	Jun 14	160	150	190	185
£309 million Eurobond (previously £383 million Eurobond)	Oct 15	276	347	306	373
£135 million Convertible bond	Nov 16	103	100	180	172
£250 million Eurobond	Jan 17	262	263	255	258
£200 million loan	Mar 19	200	200	264	269
		1,051	1,217	1,244	1,414

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

The book value of the 2015 £309 million Eurobond decreased in the year as a result of repurchases.

The fair value of the £135 million Convertible bond is based upon the par value, whereas the book value of this Eurobond is accounted for partly as debt and partly as equity, net of issue costs, as described in note 4.1.

## Section 5 Other notes

### 5.1 Related party transactions

The related parties identified by the directors include joint ventures, associated undertakings, investments and key management personnel.

The nature of related parties disclosed in the consolidated financial statements for the Group as at and for the year ended 31 December 2010 has not changed. During the six months to 30 June 2011, purchases of £33 million (2010: £29 million) and sales of £6 million (2010: £5 million) were made with joint ventures and associated undertakings. These transactions arose in the normal course of business on an arm's length basis. There have been no other significant related party transactions in the six month period ended 30 June 2011 (2010: £nil).

### 5.2 Contingent liabilities

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 has been no material change in the Group's contingent liabilities since 31 December 2010 and the disclosures in those annual financial statements remain appropriate at 30 June 2011.

### 5.3 Subsequent events

Where the Group receives information in the period between 30 June 2011 and the date of this report about conditions related to certain events that existed at 30 June 2011, we update our disclosures that relate to those conditions in the light of the new information. Such events can be categorised as adjusting or non-adjusting depending on whether the condition existed at 30 June 2011. 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.

There are no subsequent events.

# Responsibility statement of the directors in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

- the condensed set of consolidated financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU;
- the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of consolidated financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

The directors of ITV plc are listed in the ITV plc 2010 Annual Report. A list of current directors is maintained on the ITV plc website: [www.itvplc.com](http://www.itvplc.com).

For and on behalf of the Board:

Andrew Garard  
Company Secretary  
26 July 2011

# Independent review report to ITV plc

## Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011, which comprises the Condensed consolidated income statement, Condensed consolidated statement of comprehensive income, Condensed consolidated statement of financial position, Condensed consolidated statement of changes in equity, Condensed consolidated statement of cashflows and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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 Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). 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 half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU.

## Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

Mark Summerfield for and on behalf of KPMG Audit plc,  
Chartered Accountants  
15 Canada Square  
London E14 5GL

26 July 2011