

- Operating review John Cresswell
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# Operating Review

*A more efficient business maintaining performance in a tough market*

John Cresswell

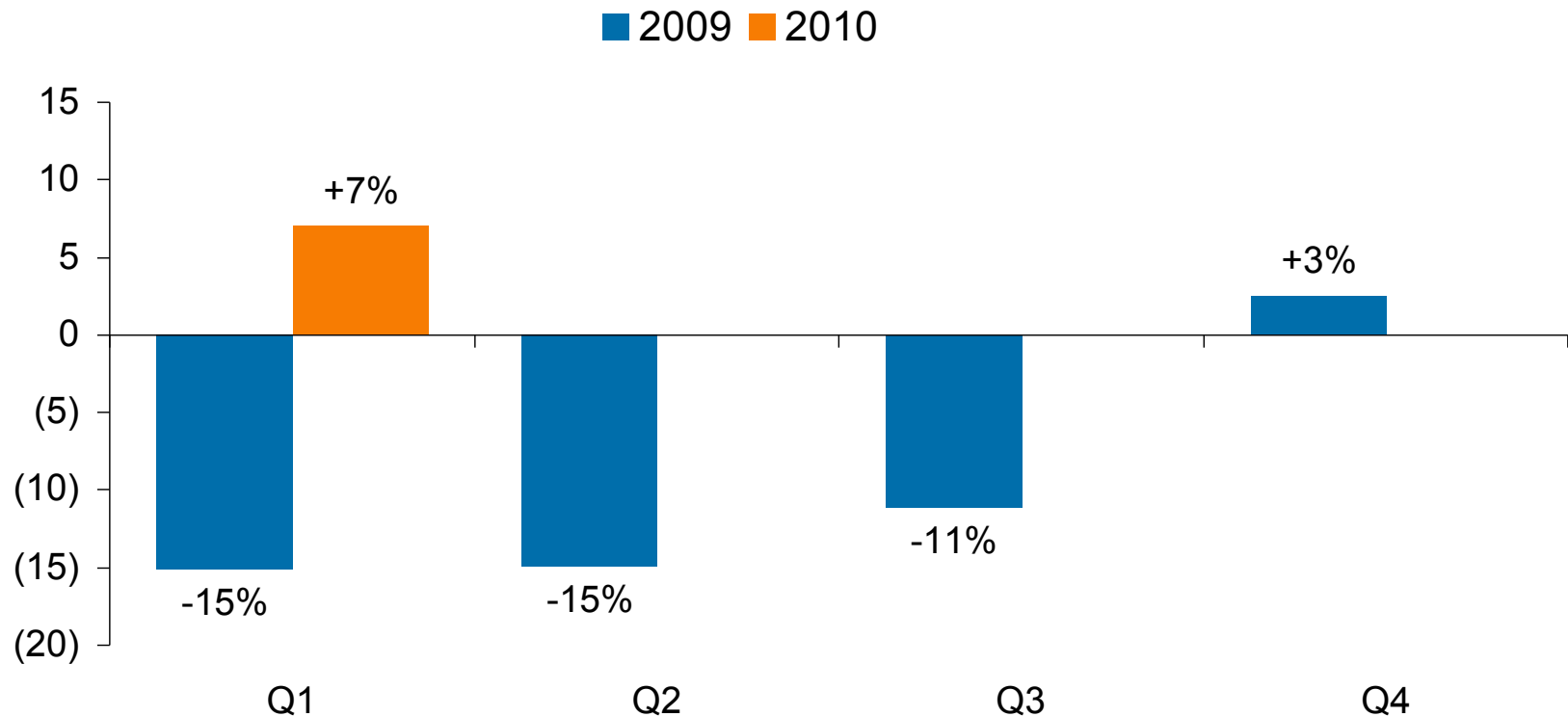
# Financial headlines

Maintaining earnings, improved cash and debt position

	2009	2008
■ Revenues	£1,879m	£2,029m
■ NAR	£1,291m	£1,425m
■ EBITA before exceptional items	£202m	£211m
■ Adjusted cash flows	£358m	£158m
■ Net debt	£612m	£730m
■ Adjusted EPS	1.8p	1.8p

TV advertising growth in early 2010....but vs 15% declines in H1 2009

## ITV NAR, 2009-10



***Maintained and improved core operating performance***

- Growing ad market share and stabilising audience share
- Delivering greater online reach and building video views
- Building international production revenues and holding profits

***Reduced costs and increased efficiency***

- 2009 target exceeded with £169m savings delivered
- Headcount reduced by 1,200 posts

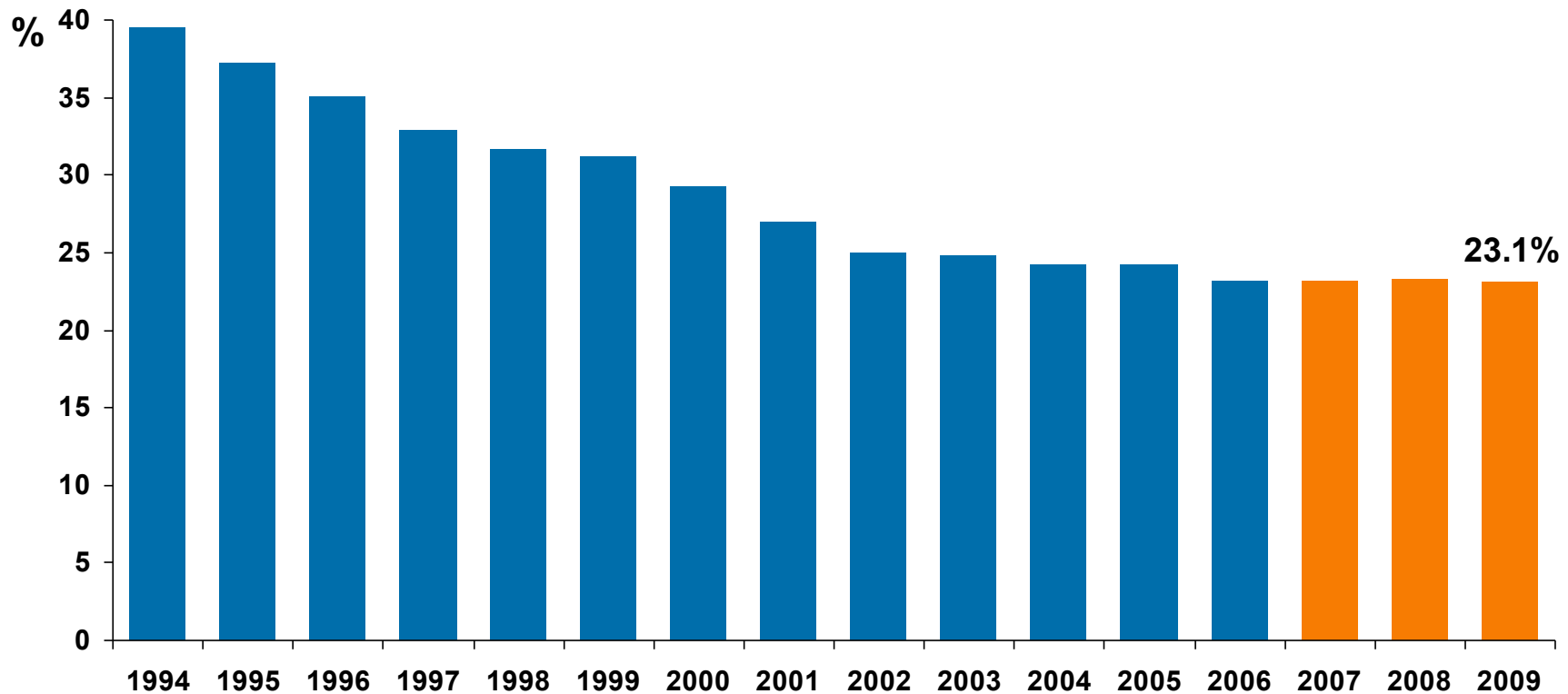
***Strengthened cash flow and the balance sheet***

- Adjusted cash flows increased by £200m
- Net debt reduced and maturity profile extended
- Implementing steps to tackle pension deficit

# Maintained and improved core operating performance

## Held ITV channels share of viewing

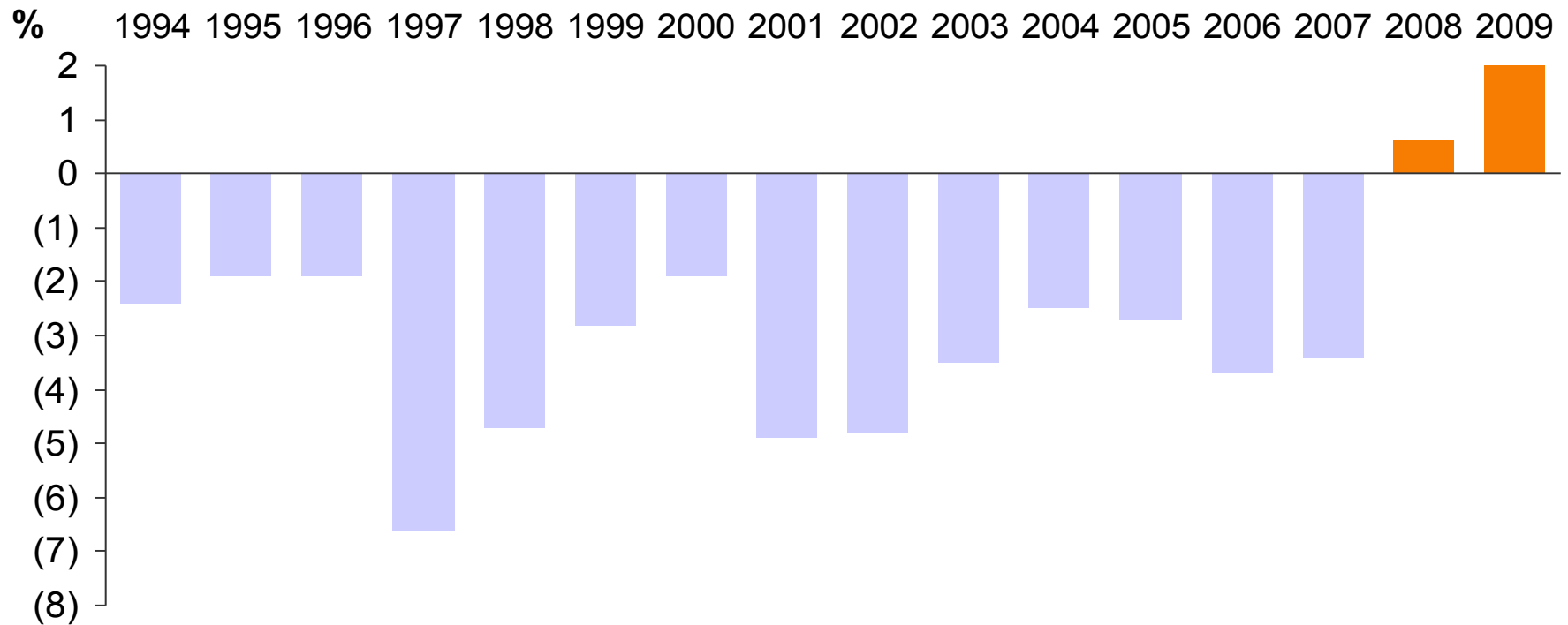
### All time ITV family share of viewing



# Maintained and improved core operating performance

Increased share of television advertising market

## ITV family TV ad market share (year on year change)

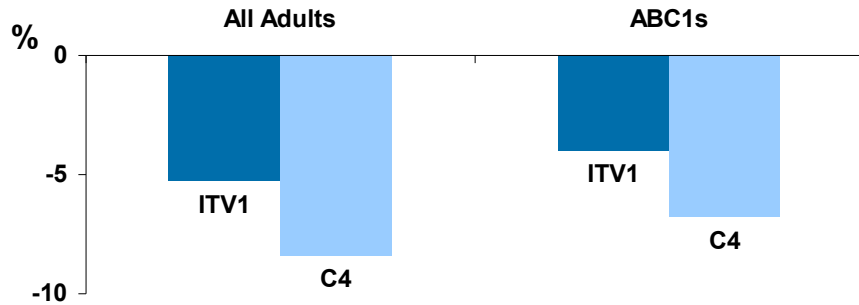




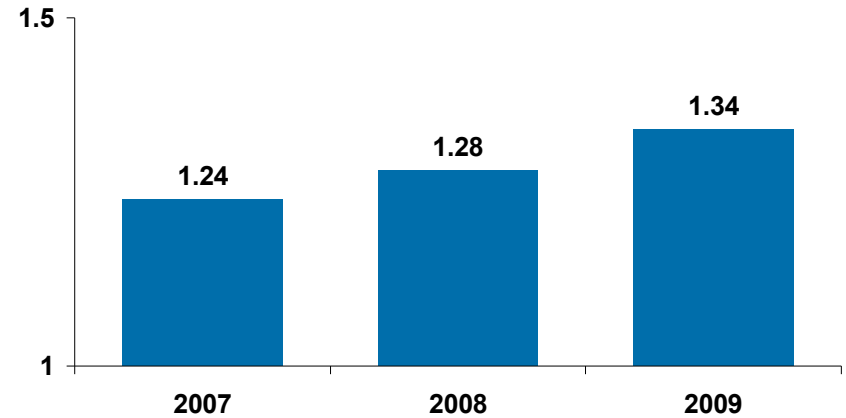
# Maintained and improved core operating performance

ITV1: outperforming competition, tracking closer to the market

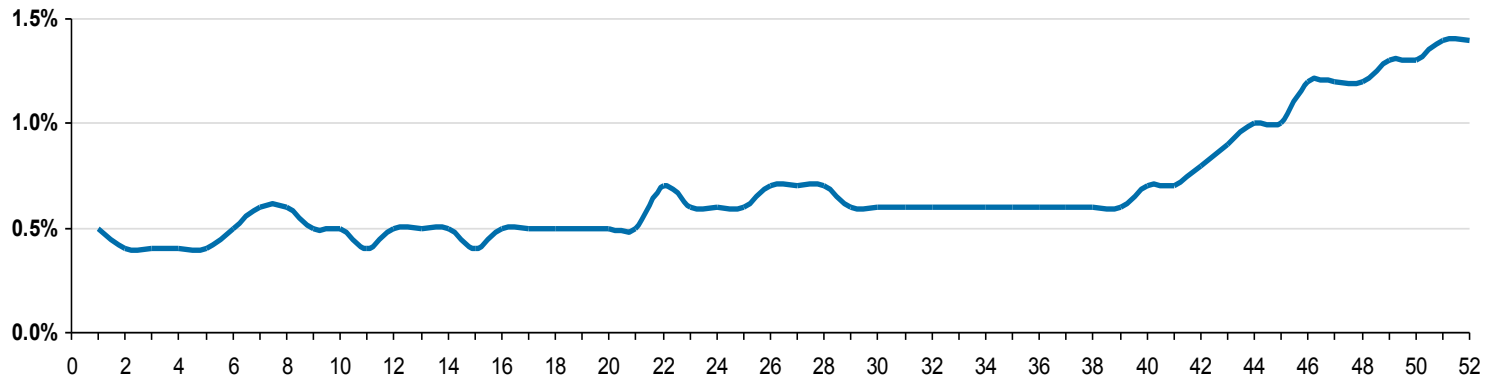
## Outperforming competition: SOCI change, 2009



## ITV1 share of NAR/share of impacts



## ITV1 peak share lead over BBC1, 2009

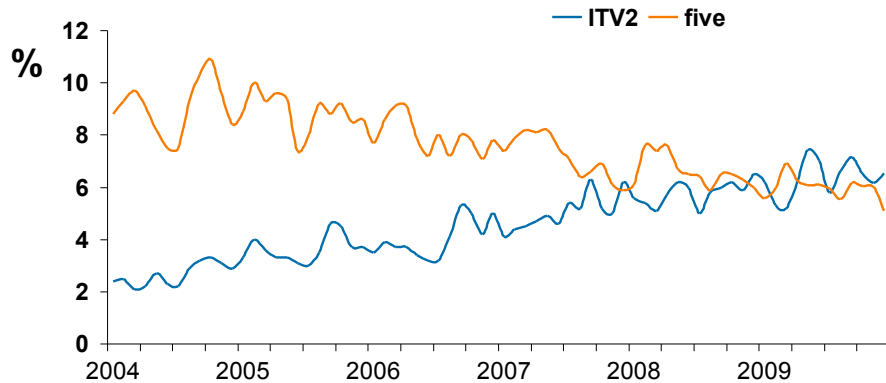




# Maintained and improved core operating performance

## ITV channels: building audience and advertising scale

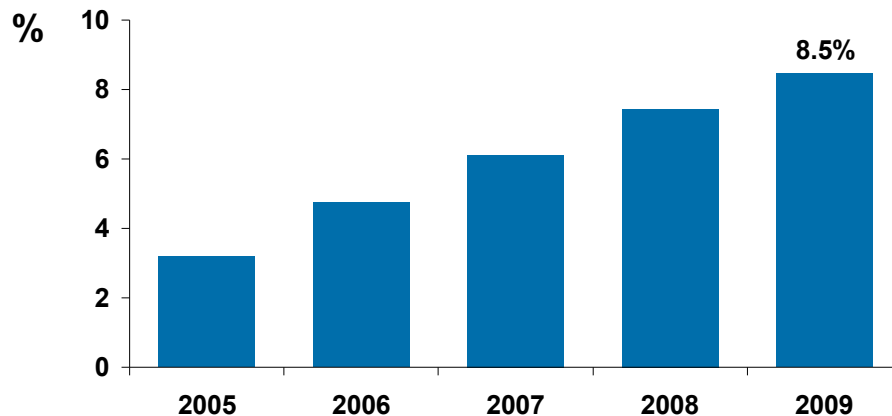
### ITV2 overtaking five for younger viewers 16-34s SOCI



### ITV digital channels continued growth

Top UK digital channels by SOCI			
	Channel	2009	2008
1	ITV2	4.3	4.0
2	ITV3	3.4	3.1
3	E4	2.9	2.8
4	DAVE	2.2	1.9
5	MORE4	2.0	1.7
6	SKY1	1.6	1.3
7	ITV4	1.5	1.4
8	LIVING	1.5	1.5
9	VIRGIN1	1.5	1.1
10	FIVEUSA	1.4	1.1

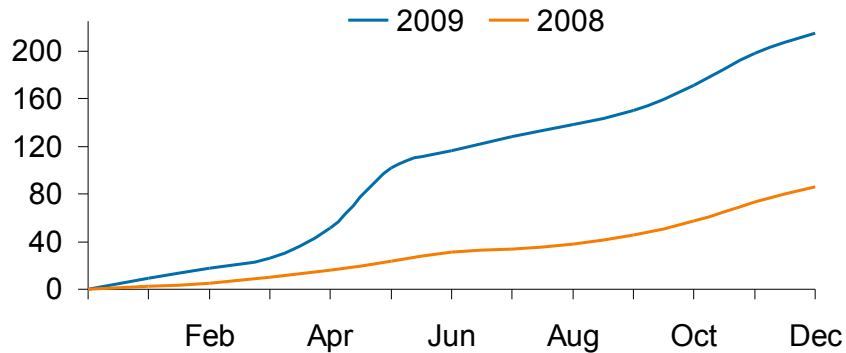
### Digital channels increasing NAR share % of UK TV NAR



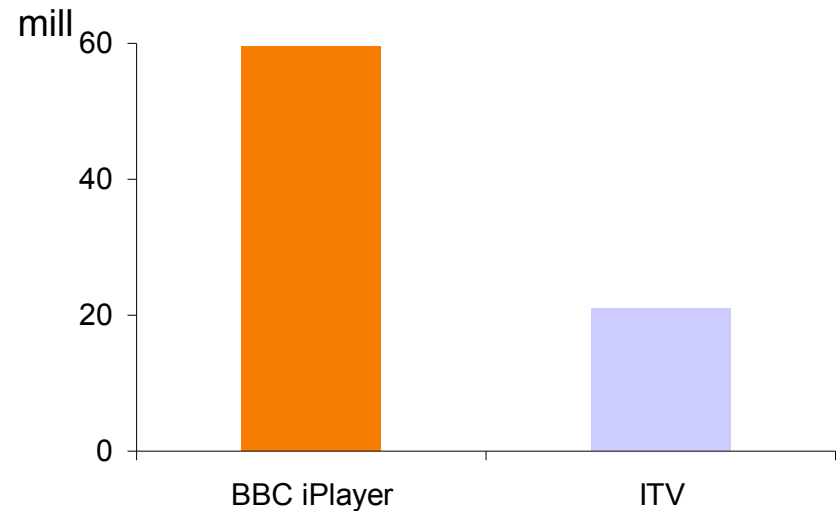
# Maintained and improved core operating performance

itv.com: building reach and audiences, but still sub-scale

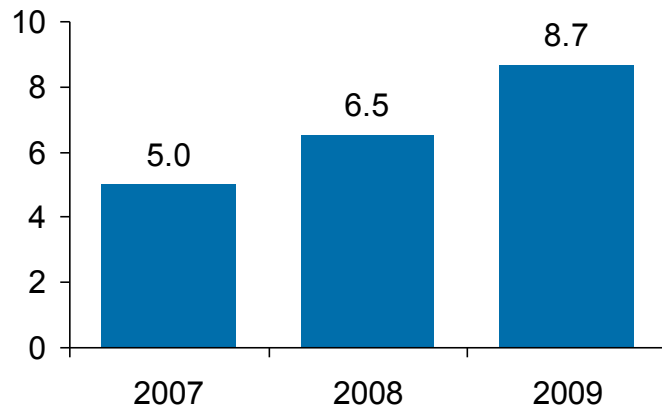
**Video views (cumulative)**  
millions



**Long-form video views**  
November 2009







**Unique users (average per month)**  
millions

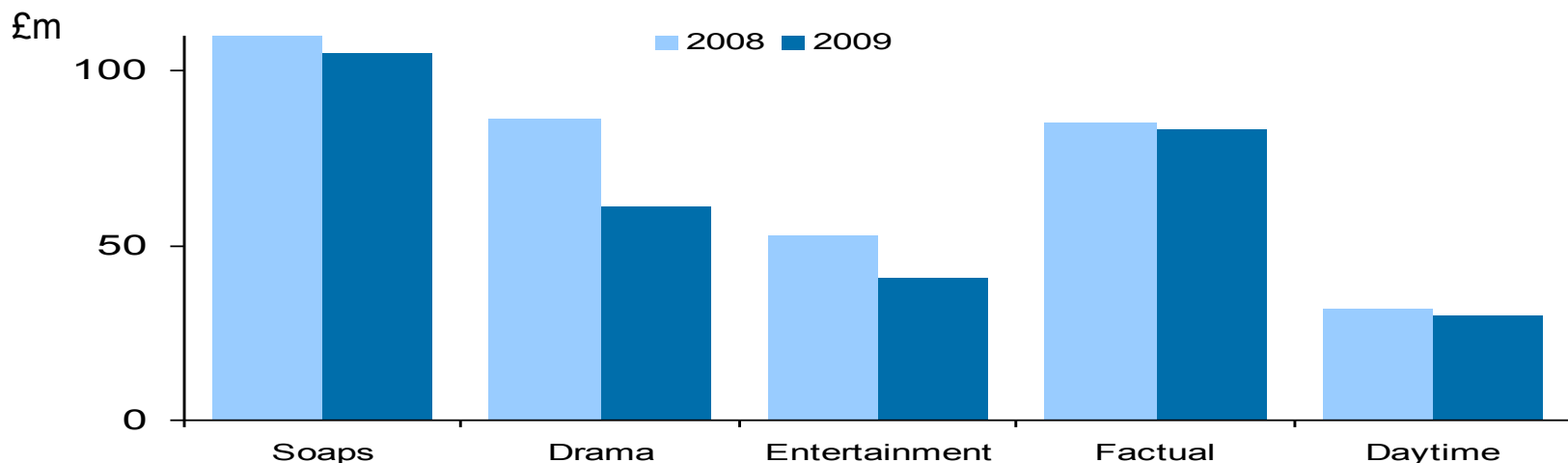


## Maintained and improved core operating performance

Studios holding profits, growing internationally, but losing ground in the UK

Revenues of major programme brands			
Title	ITV Studios	2009	Lifetime
	UK, US, Germany Sweden, India	£38m	£172m
	UK, US	£37m	£123m
	UK, Germany, Sweden	£21m	£57m
	UK, Germany, Australia	£13m	£54m

### Changing mix in ITV Studios UK production revenues

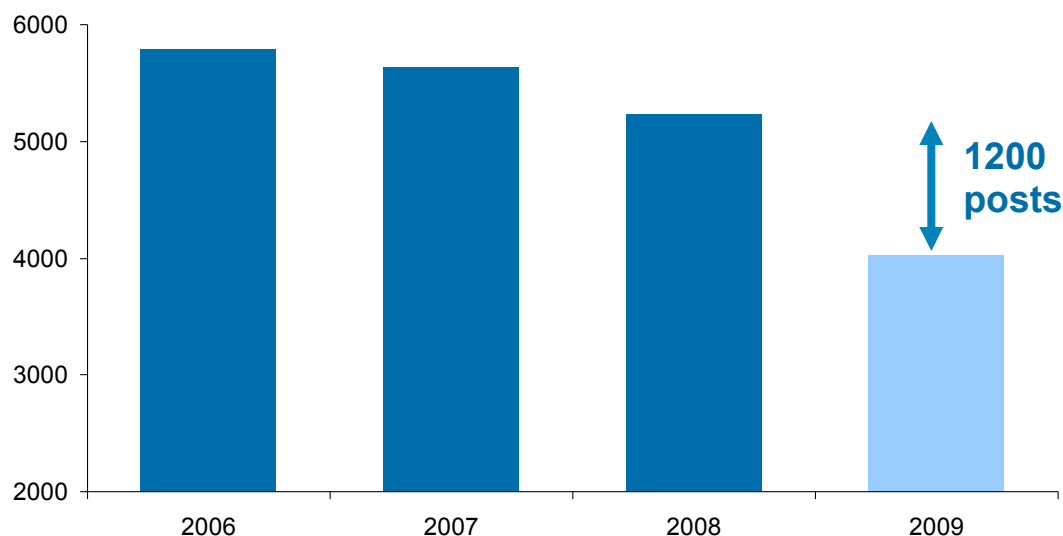


# Reduced costs and increased efficiency

Savings target exceeded, substantial headcount reduction

2009 cost savings		
£m	Target	Delivered
Efficiencies	50	50
Network programming	65	75
Regional programming	40	44
<b>Total</b>	<b>155</b>	<b>169</b>

## Reducing ITV headcount, 2006-09



- In 2009, ITV delivered on its stated objectives
  - Maintained operating momentum
  - Delivered a leaner, more efficient business
  - Strengthened financial position
- Progress in 2009 means ITV has a stronger platform for change

# Financial Review

*Resilient financial performance and strengthened balance sheet*

Ian Griffiths

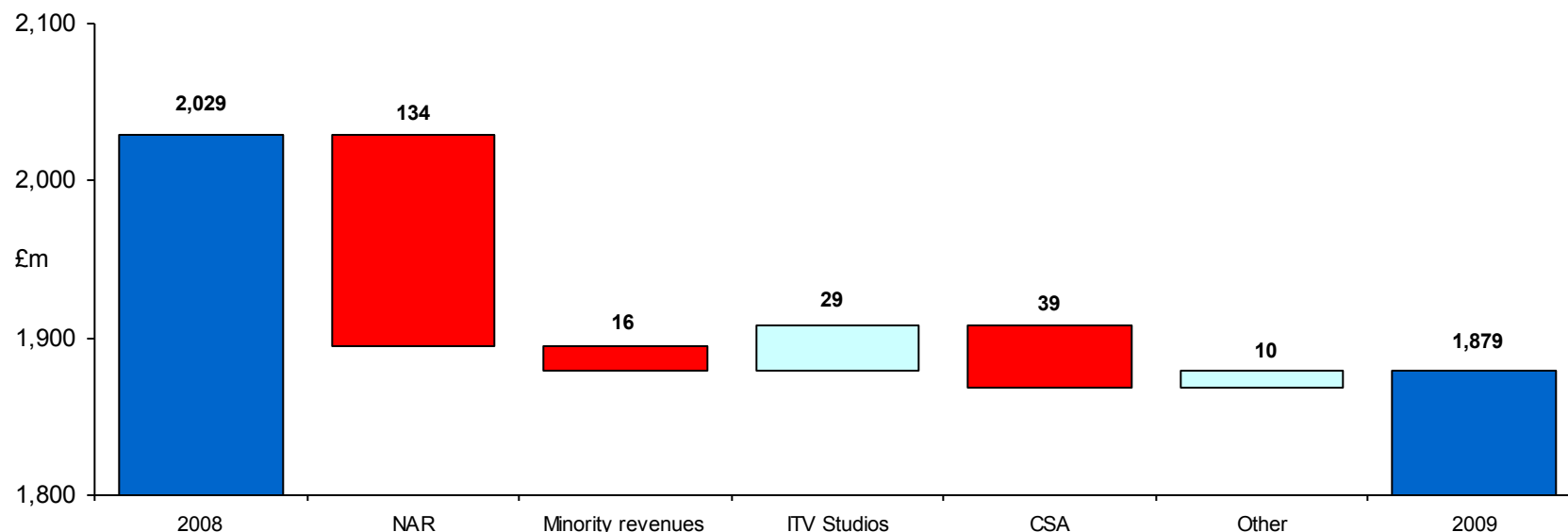
### Adjusted results

£m	2009	2008
EBITA before exceptional items	202	211
Associates, JVs and Investment Income	(7)	(14)
Internally generated intangible asset amortisation	(8)	(8)
Financing costs	(79)	(77)
Profit before tax	108	112
Tax	(35)	(39)
Profit after tax	73	73
Non-controlling interests	(3)	(2)
<b>Profit for the year</b>	<b>70</b>	<b>71</b>
<b>EPS (p)</b>	<b>1.8p</b>	<b>1.8p</b>

# Resilient financial performance

Revenue: NAR decline partially offset by Studios growth

£m	2009	2008	% Change
Broadcast	1,506	1,647	(9)
Online	37	36	3
Broadcast & Online	1,543	1,683	(8)
ITV Studios	335	306	9
Other	1	40	(98)
<b>Total External Revenue</b>	<b>1,879</b>	<b>2,029</b>	<b>(7)</b>





# Resilient financial performance

## EBITA: cost savings mitigate impact of revenue decline

£m	2009	2008	% Change
Broadcast	120	140	(14)
Online	(9)	(20)	55
Broadcast & Online	111	120	(8)
ITV Studios	91	90	1
Other	0	1	(100)
<b>Total EBITA before exceptional items</b>	<b>202</b>	<b>211</b>	<b>(4)</b>



## Resilient financial performance

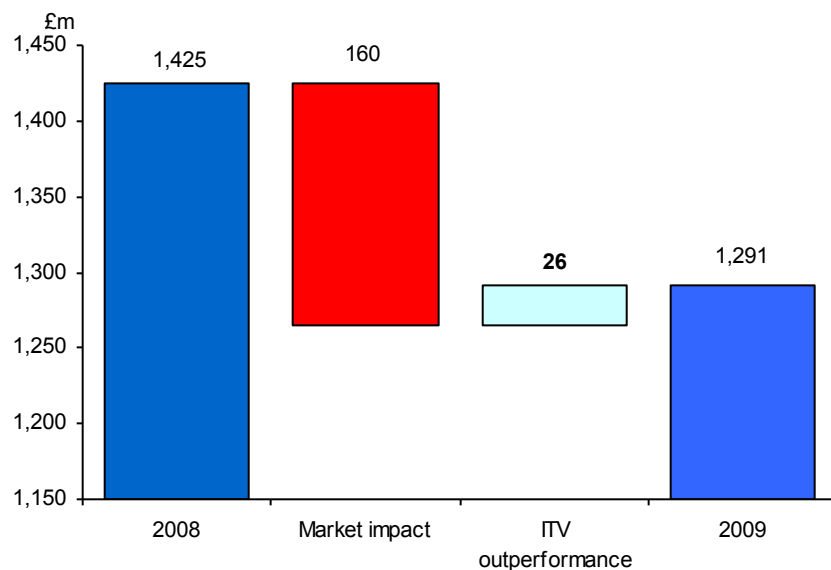
Broadcast profits held via schedule savings and SDN growth

£m	2009	2008	% Change
<b>Revenue</b>			
ITV NAR	1,291	1,425	(9)
Sponsorship	59	58	2
Minority revenue	47	63	(25)
Media Sales, PRS and other income	69	68	1
SDN	44	33	33
Intra-segment revenue	(4)	0	-
Broadcast revenue	1,506	1,647	(9)
itv.com*	24	18	33
Friends Reunited	13	18	(28)
<b>Total Broadcast &amp; Online Revenue</b>	<b>1,543</b>	<b>1,683</b>	<b>(8)</b>
Schedule costs	1,006	1,125	(11)
Other Broadcasting costs	426	438	(3)
<b>Total EBITA before exceptional items</b>	<b>111</b>	<b>120</b>	<b>(8)</b>

# Resilient financial performance

## ITV outperforming in severe advertising downturn

### ITV NAR vs 2008



### ITV Sales performance by category

	2009 £m	YOY +/-
Retail	276.0	(5.1)
Entertainment	132.2	(7.8)
Food	130.9	(5.4)
Cosmetics	106.0	(13.9)
Finance	111.3	(4.7)
Household Stores	66.5	(14.2)
Telecommunications	66.1	(5.8)
Cars and Car dealers	60.8	(32.3)
Pharmaceuticals	55.3	0.8
Government	52.2	(2.9)

£m	2009	2008	% Change
<b>Revenue</b>			
International Productions	138	98	41
Distribution & Exploitation	126	123	2
UK Productions	58	68	(15)
Resources	13	17	(24)
<b>External Revenue</b>	<b>335</b>	<b>306</b>	<b>9</b>
ITV Supply	262	316	(17)
<b>Total Revenue</b>	<b>597</b>	<b>622</b>	<b>(4)</b>
<b>Total EBITA before exceptional items</b>	<b>91</b>	<b>90</b>	<b>1</b>

## Resilient financial performance

Exceptional items: costs of change and pension credit

£m	2009	2008
Reorganisation and integration costs	(40)	(40)
Onerous contract provision	(1)	(50)
Onerous property provision	(14)	0
Pension initiatives	110	0
Other operating exceptionals	(2)	(7)
<b>Total operating exceptional items</b>	<b>53</b>	<b>(97)</b>
Loss on the sale and impairment of non-current asset	(22)	(17)
Other non-operating exceptionals	(51)	6
<b>Total non-operating exceptionals items</b>	<b>(73)</b>	<b>(11)</b>
<b>Total exceptional items</b>	<b>(20)</b>	<b>(108)</b>

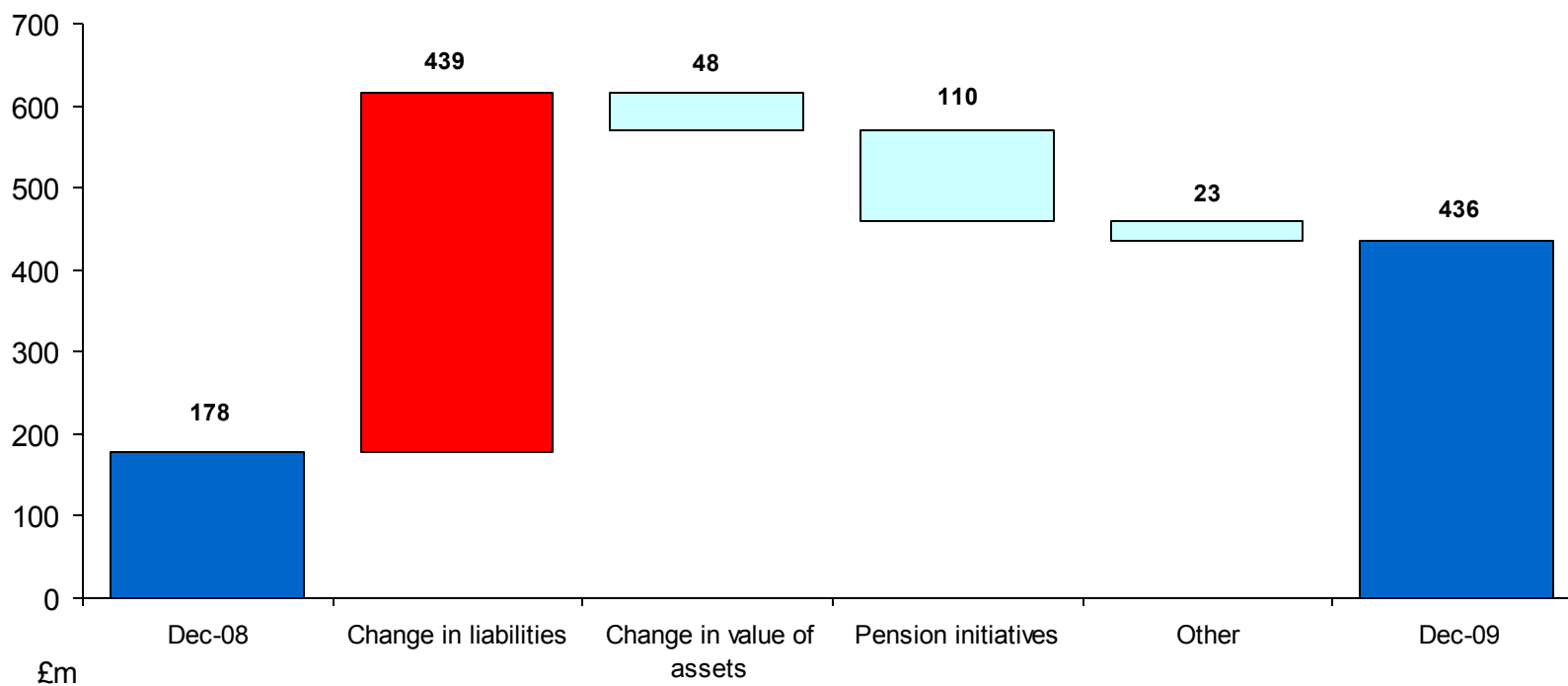
## Resilient financial performance

Financing costs reflect lower interest rates and non-cash moves

£m	2009	2008
Financing costs directly attributable to bonds	(74)	(99)
Other interest	1	24
<b>Cash-related financing costs</b>	<b>(73)</b>	<b>(75)</b>
Amortisation of Bonds	(6)	(2)
<b>Adjusted financing costs</b>	<b>(79)</b>	<b>(77)</b>
Mark-to-Market on swaps	(7)	31
Imputed pension interest	(15)	16
Other financing income/(costs)	10	(30)
<b>Statutory net financing costs</b>	<b>(91)</b>	<b>(60)</b>

# Strengthened balance sheet

Pension deficit: benefit of changes offset by liability moves



## P&L charge

£m	2009	2008
Current service cost	(6)	(10)
Net interest cost	(15)	16
<b>Total income statement</b>	<b>(21)</b>	<b>6</b>

# Strengthened balance sheet

## Step change in working capital management

### Profit into cash performance

£m	2009	2008
<b>EBITA before exceptional items</b>	<b>202</b>	<b>211</b>
Decrease / (increase) in stock	125	(82)
Decrease / (increase) in debtors	11	(34)
Increase / (decrease) in creditors	(15)	49
Working capital movement	121	(67)
Share based compensation	11	10
Capex - Tangible Assets	(14)	(32)
Depreciation	38	36
<b>Adjusted cash flow</b>	<b>358</b>	<b>158</b>
<b>Profit to cash ratio</b>	<b>177%</b>	<b>75%</b>

### Net debt reconciliation

£m	2009
Adjusted cash flow	358
Exceptional cash	(63)
Tax and interest	(35)
Net M&A cashflows	(73)
Dividends	(25)
Pension deficit funding	(31)
Other	(13)
Change in net debt	118
Opening net debt	(730)
<b>Closing net debt</b>	<b>(612)</b>

### Cash and net debt

£m	2009	2008
Cash and cash equivalents *	586	616
Debt	(1,198)	(1,346)
<b>Net debt</b>	<b>(612)</b>	<b>(730)</b>

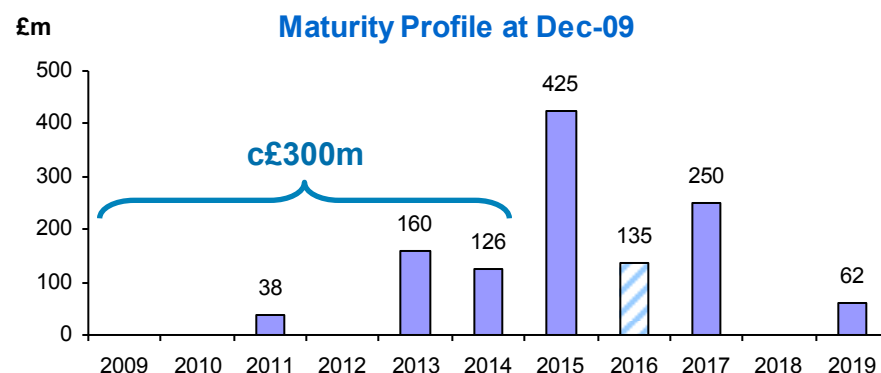
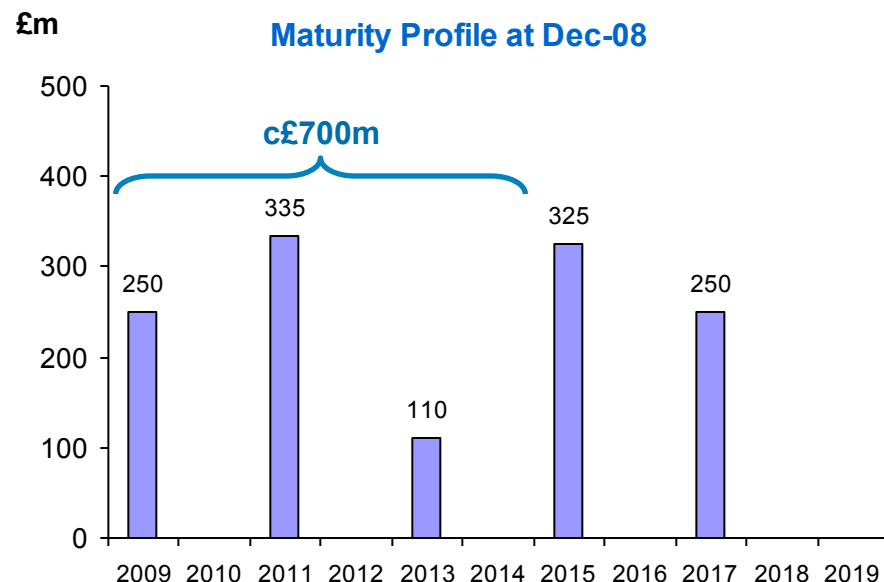


# Strengthened balance sheet

## Improving liquidity and debt maturity profile

### Funding – actions taken:

	Transaction date	£m
2019 New bilateral facility	February 2009	50
2009 Eurobond repaid	March 2009	(250)
2013 Loan Drawdown	March 2009	125
2015 Bond tap	May 2009	58
2011 Bond tender and exchange	June 2009	(69)
2013 Loan repayment	October 2009	(75)
2016 Convertible bonds	October 2009	132
2011 Bonds partially repaid	Nov/Dec 2009	(102)
2015 Bonds partially repaid	Jan/Feb 2010	(42)
2011 Bonds partially repaid	February 2010	(23)

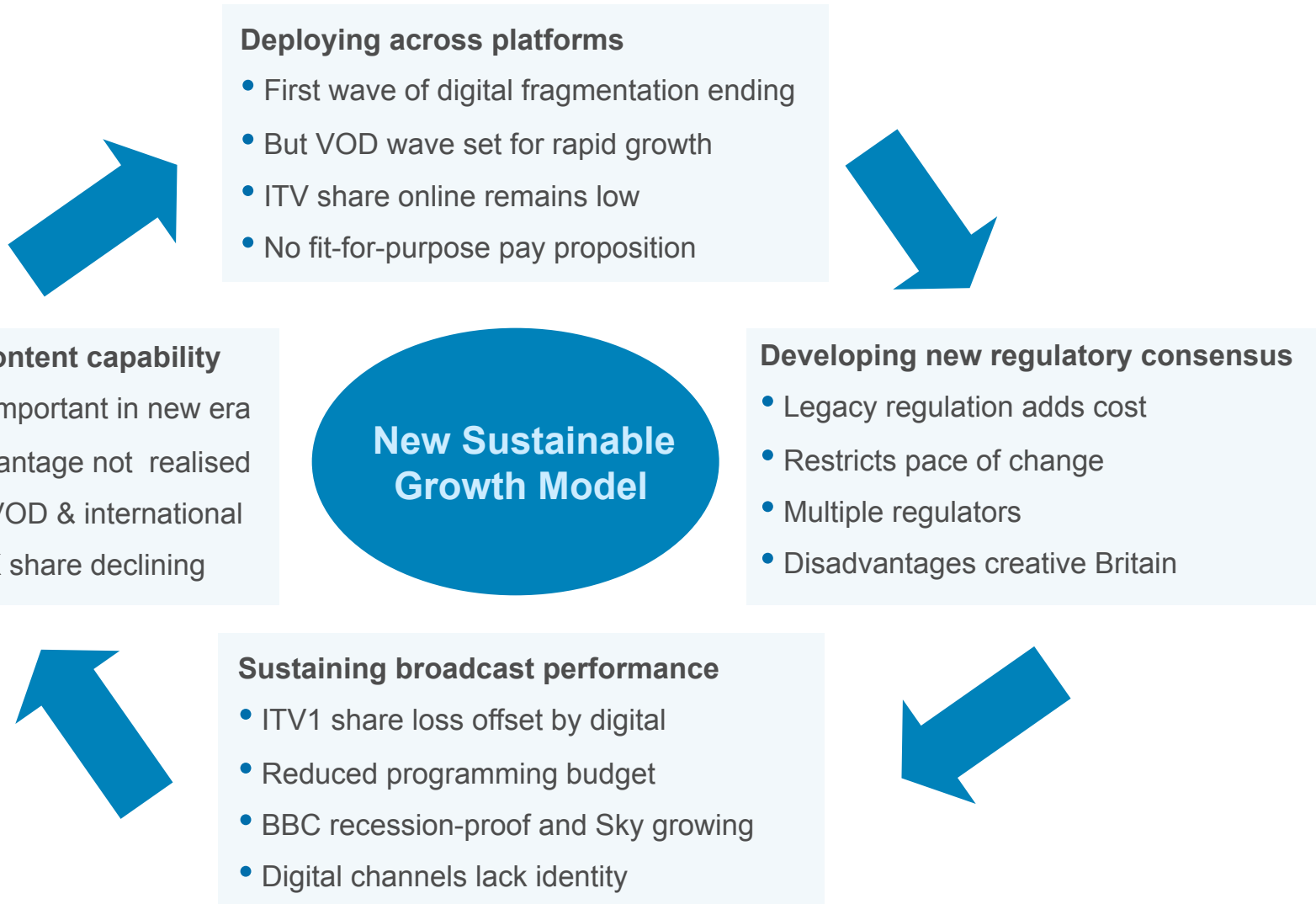


# The agenda for change

Archie Norman

- ITV has emerged from recession with an opportunity to transform
  - Stabilised financial position in uncertain markets
  - Strong brand and broadcasting performance
  - In-house creative potential
  - Many talented people with a will to win
- **BUT** a business as yet dependent on and organised around the legacy free-to-air model

To create a sustainable growth model less dependent on free-to-air broadcasting



Adam Crozier to arrive to lead transformational programme

- 3-5 year journey
- Maintaining and consolidating strength of existing business
- Strategic review underway
- Changes in direction, organisation and culture likely
- Streamlined organisation
- Pace increases from here

# Platform for change

ITV plc  
2009 Preliminary Results

3<sup>rd</sup> March 2009



£m	2009	2008
<b>Revenue</b>	<b>1,879</b>	<b>2,029</b>
<b>EBITA before exceptional items</b>	<b>202</b>	<b>211</b>
Amortisation	(59)	(66)
Goodwill impairment	0	(2,695)
Exceptional items (total)	(20)	(108)
Associates, JVs and Investment Income	(7)	(14)
Profit/(loss) before interest and tax	116	(2,672)
Net financing costs	(91)	(60)
Profit/(loss) before tax	25	(2,732)
Tax	69	178
Profit/(loss) after tax	94	(2,554)
Non-controlling interests	(3)	(2)
Profit for the year	91	(2,556)
Earnings per share	<b>2.3 p</b>	<b>(65.9)p</b>



£m	2009	2008	% Change
Commissions	540	608	(11)
Sport	128	146	(12)
Acquired	88	73	21
ITN news & weather	41	40	3
Total ITV1	797	867	(8)
Regional News and non-news	68	112	(39)
Total ITV1 inc regional	865	979	(12)
ITV2, ITV3, ITV4, News, CITV, M&M	110	112	(2)
GMTV	31	34	(9)
<b>Total schedule costs</b>	<b>1,006</b>	<b>1,125</b>	<b>(11)</b>

£m	2009	2008	% Change
Cash bid payment	5	4	25
PQR Levy	149	169	(12)
Digital licence rebate	(132)	(143)	(8)
<b>Total</b>	<b>22</b>	<b>30</b>	<b>(27)</b>

## JVs, Associates & Investment income

£m		2009	2008
JVs	Screenvision	(3)	(7)
	Freesat	(3)	(4)
	Liverpool.com* / Arsenal.com	0	3
	Kangaroo	0	(3)
		(6)	(11)
Associates	ITN	(2)	(1)
Interest and tax		1	(3)
<b>Total</b>		<b>(7)</b>	<b>(15)</b>

\* 2008: relates to loan repaid previously written off

## P&amp;L tax credit and cash tax

£m	2009	2008
Current year tax expense	(3)	(5)
Deferred tax	4	(15)
Prior year adjustments	68	198
<b>P&amp;L tax (credit) / charge</b>	<b>69</b>	<b>178</b>
Cash paid on account for the year	(1)	(5)
Payments made relating to prior years	0	(14)
Cash tax refunds for prior years	42	62
<b>Net cash received</b>	<b>41</b>	<b>43</b>

# Financing costs

£m	2009	2008
£250m at 5.625% Coupon Mar 09	(3)	(20)
€118m Eurobond at 6% Coupon Oct 11	(15)	(23)
£110m Eurobond at LIBOR +2.7% Mar 13	(5)	(5)
£125m Loan at LIBOR + 6.814% May 13	(8)	(19)
€188m Eurobond at 10% Coupon Jun 14	(7)	0
£325m Eurobond at 5.375% Coupon Oct 15	(14)	(18)
£100m Eurobond at 15.6% Yield Oct 15	(3)	0
£135m Convertible Bond 4% Coupon Nov 16	(1)	0
£250m Eurobond at 6.125% Coupon Jan 17	(16)	(14)
£200m Loan at 8.85% less £138m nominal Gilts at 11.0% Mar 19	(2)	0
<b>Financing costs directly attributable to bonds</b>	<b>(74)</b>	<b>(99)</b>
Other	1	24
<b>Cash-related financing costs</b>	<b>(73)</b>	<b>(75)</b>
<b>Non-cash movements</b>		
Amortisation of bonds	(6)	(2)
<b>Adjusted net financing costs</b>	<b>(79)</b>	<b>(77)</b>
Mark-to-Market on bonds and swaps	(7)	31
Imputed pension interest	(15)	16
Amortised cost adjustment	10	(30)
Effective interest on sports provision	(3)	0
Bond buybacks/exchanges	3	0
<b>Statutory Net Financing Costs</b>	<b>(91)</b>	<b>(60)</b>

## Reconciliation between current and historic adjusted basis

£m	2009	2008	2007	2006
<b>Current adjusted financing costs</b>	<b>(79)</b>	<b>(77)</b>	<b>(55)</b>	<b>(43)</b>
Mark-to-Market on swaps	(7)	31	4	(1)
Imputed pension interest	(15)	16	18	18
<b>Historic adjusted financing costs</b>	<b>(101)</b>	<b>(30)</b>	<b>(33)</b>	<b>(26)</b>
Amortised cost adjustment	10	(30)	0	0
Bond buybacks/exchanges	3	0	0	0
Effective interest on sports provision	(3)	0	0	0
<b>Statutory net financing costs</b>	<b>(91)</b>	<b>(60)</b>	<b>(33)</b>	<b>(26)</b>

£m	2009	2008	2007	2006
EBITA before exceptional items	202	211	311	375
Associates, JVs and Investment Income	(7)	(14)	3	11
Adjusted financing costs	(101)	(30)	(33)	(26)
Adjusted Loss / profit before tax	94	167	281	360
Adjusted Tax	(31)	(59)	(86)	(105)
Adjusted Loss / profit after tax	63	108	195	255
Minority interests	(3)	(2)	(1)	(3)
<b>Adjusted Loss / profit for the period</b>	<b>60</b>	<b>106</b>	<b>194</b>	<b>252</b>
<b>EPS (p)</b>	<b>1.5</b>	<b>2.7</b>	<b>5.0</b>	<b>6.3</b>

£m	Dec 2009	Dec 2008
£250m Eurobond Mar 09	0	250
€118m Eurobond Oct 11	38	346
£110m Mar 13	110	110
£50m May 13	50	0
€188m Jun 14	115	0
£425m Oct 15	384	323
£135m Convertible Nov 16	132	0
£250m Oct 17	264	266
£200m Mar 19*	200	0
Other loans and loan notes	1	2
Finance Leases	73	79
Amortised cost adjustment	(20)	(30)
£138m Gilts Mar 19*	(149)	0
Cash and cash equivalents	(586)	(616)
<b>Statutory net debt</b>	<b>612</b>	<b>730</b>

\* £200m loan to 2019 partially offset by 2019 gilts



# Movement from reported to adjusted profits / earnings

## 2009

2009

	Per Annual Report	Operating Exceptional Items	Loss on Sale of Property	Gain on Sale and Impairment of Subs. & Invsts.	Amortisation	Net Financing Costs Adjs	Other tax adjs	Adjusted
Operating EBITA	202							202
Operating exceptional items	53	(53)						0
Amortisation	(59)				51			(8)
JV's & Associates	(7)							(7)
Gain on Sale of Property	(22)		22					0
Loss on Sale of Subs & Invts	(51)			51				0
PBIT	116	(53)	22	51	51	0	0	187
Interest	(91)					12		(79)
PBT	25	(53)	22	51	51	12	0	108
Tax	69	10			(14)	(4)	(96)	(35)
PAT	94	(43)	22	51	37	8	(96)	73
Minority Interests	(3)							(3)
Earnings	91	(43)	22	51	37	8	(96)	70
Weighted Average	<u>3,882</u>							<u>3,882</u>
EPS	2.3p							1.8p

# Movement from reported to adjusted profits / earnings

2008

2008

	Per Annual Report	Operating Exceptional Items	Gain on Sale of Property	Gain on Sale and Impairment of Subs. & Invsts.	Amortisation	Net Financing Costs Adjs	Other tax adjs	Adjusted
Operating EBITA	211							211
Operating Exceptional items	(97)	97						0
Amortisation	(2,761)				2,753			(8)
JV's & Associates	(15)							(15)
Investment Income	1							1
Gain on Sale of Property	(17)		17					0
Gain on Sale of Subs & Invts	6			(6)				0
PBIT	(2,672)	97	17	(6)	2,753			189
Interest	(60)					(17)		(77)
PBT	(2,732)							112
Tax	178	(23)			(14)	6	(186)	(39)
PAT	(2,554)	74	17	(6)	2,739	(11)	(24)	73
Minority Interests	(2)							(2)
Earnings	(2,556)							71
Weighted Average	3,877							3,877
EPS	(65.9p)							1.8p

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