Chief Executive's Statement

Adam Crozier

I was very pleased to join ITV in April this year at such an exciting and pivotal time for the company. ITV has reported a significantly improved financial performance for the first half of 2010. However, this improvement does not disguise the underlying challenges we face. The challenges are not new but fundamental change is now imperative and delivery is key.

Re-shaping the economics of ITV requires changes not only to the strategy but also to ITV's management, culture and organisation. Our objective is to build a lean business that creates world class content, executed across multiple platforms, which can be sold globally. Over time, we expect to move to a position whereby around half of our revenue base is derived from non-television advertising sources.

To achieve this, we are announcing a comprehensive five year Transformation Plan which will enable the business to deliver long-term value for shareholders.

Financial and operating performance

After the worst year-on-year decline on record in 2009, the UK television advertising market has seen a strong cyclical upturn in the first half of 2010. ITV outperformed the television advertising market with net advertising revenues (NAR) growing at 18%, versus the market which grew by 15%.

EBITA before exceptional items was up £119 million at £165 million. This reflects the cyclical advertising recovery, ITV's out performance of the market and the decisive action taken in 2009 to reduce the cost base. This performance, coupled with our focus on cash, has enabled us to reduce net debt significantly to £437 million, down from £612 million at the end of 2009, giving us a more stable platform for change.

Changing media landscape

Over the last ten years the global television market has changed beyond recognition. Audiences continue to fragment with vastly increasing viewer choice and there has been little or no real growth in UK television advertising over the last ten years. By contrast pay TV subscription services continue to grow and in ITV's other key area of operation – content production – the market has become increasingly globalised. Many of the big winners are global format owners and US studio dramas.

These market dynamics will continue to evolve and gather pace but ITV itself is not currently fit to compete in the changed environment. The business is overly dependent on TV spot advertising revenues and ITV's flagship channel is continuing to lose viewing share by platform. Historically we have been weak on technology with no clear platform strategy and our website, itv.com, lags the competition in audience, functionality and revenue terms. Our content business, ITV Studios, needs to increase both its scale in the global market and its share of ITV1's network spend, which has declined over recent years.

Transforming ITV

There is a great deal to do to transform ITV and there are no quick fixes. ITV has launched a three phase strategy to transform the business over the next five years – Phase One is Fix, Phase Two is Strengthen and Grow and Phase Three is Accelerate. The strategy will be delivered by four strategic objectives:

- To create a lean, creatively dynamic and fit for purpose organisation;
- To secure maximum audience share and revenue from our free-to-air broadcast business;
- To exploit our content across multiple platforms, free and pay, to drive new revenue streams;
- To build a stronger and more international content business

The short term focus is to fix the business's operational basics over the next 18 months and we are already making progress. I am pleased to report that Fru Hazlitt, Managing Director of Commercial and Online, Kevin Lygo, Managing Director of ITV Studios and Paul Dale, Chief Technology Officer, have now joined the management team of ITV. In addition we are in the process of recruiting a new Chief Operating Officer for ITV Studios, a new Marketing Director and a new Managing Director for ITV.com.

Operationally we are taking steps to improve our broadcast performance as part of the first phase of the Plan. This includes the successful launch of ITV1 HD in April and in January 2011 we will launch ITV1+1. We have also announced a deal with Sky to take ITV 2, 3 and 4 HD channels onto Sky's platform and behind the pay wall. Following the acquisition and review of GMTV, the programme will be re-launched as Daybreak in September 2010 with the new talent signings of Adrian Chiles and Christine Bleakley.

The strategy will require targeted investment and strong financial discipline. We will hold the ITV1 network programme budget (NPB) below £800 million in 2011 and 2012, a reduction from the current year's £820 million forecast.

An investment fund of £75 million, excluding the ITV1 NPB, has been allocated for operating investments online, in content and in our digital channels over the next three years. The strengthened balance sheet may provide some scope for capital investments. We will continue to maintain tight financial control over the business.

Outlook

ITV television advertising revenue is currently forecast to be up around 15% in the third quarter with ITV expected to outperform the market for the full year. However, the outlook for the fourth quarter when comparatives become much tougher and into 2011 remains uncertain and we are planning accordingly.

Given ITV's current level of debt, in the context of a highly geared operational model and an uncertain economic outlook, the Board has determined that it will not declare a dividend. This will be kept under review in light of the trading performance, net debt, pension deficit and investments needed to deliver the Transformation Plan.

Despite the challenges we face, ITV remains a very exciting business, a great brand, and an employer of remarkably talented people. And I am confident that with the new team and the commitment of all our people we can deliver a very different business for our shareholders in years to come.

Operating Review

Broadcasting & Online

Advertising market trends

Following the worst advertising recession on record in 2009, the first half of 2010 saw a strong cyclical upturn in the television advertising market. Over the first six months of 2010 the television advertising market was up 15% compared to the same period in 2009, while the ITV Family was up 18%.

Platform growth

During the first half of the year, the proportion of UK homes with access to digital television continued to increase as we approach analogue switch off in 2012, when 100% of homes will have converted to digital television. The proportion of homes with digital television on their primary sets was 95% at the end of June, up from 87% a year earlier.

Freeview and digital satellite continue to be the two most popular platforms in the UK with 41% and 40% of the total of primary sets respectively. Digital satellite is largely made up of BSkyB subscribers, but also includes Freesat. Freesat, the free-to-air digital TV satellite service set up as joint venture between ITV and the BBC, reached the one million sales mark in March. Digital cable accounts for 14% of sets.

The demand for online video has continued to grow with increased broadband penetration and faster connections. New services, such as Project Canvas, will accelerate further the convergence of video on demand and linear television platforms.

Viewing levels and commercial impacts

Levels of TV viewing in the UK have seen a slight increase over the last decade, averaging at around four hours per day. During the first half of 2010, viewing levels increased by 7% relative to the same period in the prior year, with the average adult viewer watching four hours and 19 minutes of television per day. All day parts saw an increase in viewing levels over the period, with a large part of the increase occurring outside of peak viewing hours, during the day time.

Average levels of viewing to commercial channels increased by 5% to two hours 39 minutes. The increase was slightly less than the increase in total viewing, reflecting a slight rise in viewing share for the BBC family of channels.

Over recent years, as the number of homes with digital television has grown, the number of channels available to viewers has increased. This has resulted in the migration of some viewing from the five traditional terrestrial channels – BBC1, BBC2, ITV1, Channel 4 and Five – towards digital channels. On average across the day, seven minutes of adverts per hour are permitted on the commercial public service broadcasters, ITV1, Channel 4 and Five. Digital channels are permitted an average of nine minutes per hour across the day. The BBC's channels are publicly funded via the licence fee, and therefore do not carry advertising.

As the absolute level of television viewing increases, and as viewing shifts away from the public service broadcasters and towards digital channels which carry more advertising, the total number of commercial impacts in the market increases (with a commercial impact defined as one person viewing one 30-second television advertisement). In the first half of 2010 the total volume of commercial impacts was up by 4%. This results in channels such as ITV1 losing share of commercial impacts (SOCI) even when the absolute volume of impacts they deliver remains static. Under the Contract Rights Renewal mechanism, the SOCI that ITV1 receives is a determinant of the share of advertising revenue the channel can attract.

44% of homes now have some form of personal video recorder (PVR), up from 31% a year ago. Within PVR homes, 14% of all viewing is timeshifted viewing, with a large proportion of this viewing happening on the day of transmission itself. The proportion of timeshifted viewing in PVR homes has actually decreased over the last few years, from a peak of 16.5% in the second quarter of 2007.

Viewing of video on demand content accounts for a very small proportion of total viewing but continues to grow rapidly.

Broadcasting & Online

Broadcast revenue, including revenue from online businesses, was up by 17% over the period to £861 million (2009: £739 million). Within this, ITV television net advertising revenues (NAR) increased by £113 million to £728 million due to the cyclical upturn in the television advertising market, coupled with the positive effect of the FIFA World Cup which attracted increased levels of advertising revenues.

Over the period ITV has outperformed the television advertising market. This was particularly noticeable in June, which was primarily due to the additional advertising the World Cup attracted. Over the first six months of the year the ITV Family had a 45.8% share of the total market, compared to 44.6% in 2009. This increase in ITV's share of the advertising market is expected to level out somewhat in the second half due to the nature of ITV's contracts with advertising agencies. These are generally based on the agency committing a share of their total TV advertising budget rather than an absolute level of advertising spend.

During the first half of the year all major advertising categories showed growth, albeit from a low base. Retail and food advertisers have performed well, both up by 25% or more compared to the previous year. Entertainment & Leisure spending was up 13%, Finance was up by 7% and Cosmetics & Toiletries were up by 17%. Government spend has declined by 20%, but this makes up a small proportion of total advertising spend, roughly 3% in the first half of 2010 compared to 5% in the first half of 2009.

Broadcasting & Online EBITA before exceptional items was £122 million, a £116 million improvement on 2009. The majority of this improvement came from the increase in net advertising revenues, with profit highly geared to the advertising market. Costs in the first half were up slightly, with an increase in the network programme budget due to the cost of the World Cup partly offset by a fall in other Broadcasting & Online costs, despite increased investment.

ITV1 – On-screen performance

ITV1's share of total viewing was 15.9% over the first half of 2010 compared to 16.7% in the equivalent period in 2009, a decrease of 5%. This compares to a similar fall of 5% in 2009. The decline in viewing share during peak viewing hours was lower at 2%. Whilst BBC1's share of viewing fell by only 1%, BBC2, Channel 4 and Five all experienced greater declines than ITV1 in their share of viewing in the period.

ITV1's SOCI was down 4% in the first half at 27.2%. This compared to a decline of 7% over the same period in 2009. During the first half ITV1 improved its viewer profile, increasing its SOCI for younger 16 – 34 year old viewers by 3% and its SOCI for ABC1 viewers by 1%.

Overall in the first half of the year, six of the top ten programmes across all channels were broadcast on ITV1. The channel accounted for over 99% of commercial programmes attracting more than five million viewers and of the top-rated 321 commercial programmes, all were aired on ITV1.

ITV1 – Programming

Returning drama performed well in the first half of the year with A Touch of Frost, Above Suspicion, Wild at Heart, Lewis and Foyle's War all achieving average audiences of over seven million. Coronation Street has been the highest performing soap on any channel in the first half with an average audience of 9.7 million, up from 9.5 million, although its actual share of viewers was down by 5% on the prior year. Emmerdale has also shown growth, with an average audience of 7.5 million, up 11% year on year, with an increase in audience share of 4%. New ITV1 dramas Married Single Other and The Prisoner performed below expectations and did not achieve anticipated audience volumes.

Returning entertainment format Britain's Got Talent was behind the previous year's series, but was still ahead of the 2007 and 2008 series, and new entertainment format Popstar to Operastar has been recommissioned. Factual programming including Wormwood Scrubs and Joanna Lumley: Jewel of the Nile did well in the first half of the year, with both achieving in the region of five million viewers. Factual programming is relatively low cost to produce when compared to drama and entertainment programming, so these programmes are efficient ways of reaching large audiences.

The historic First Election Debate attracted an average of 9.7 million viewers, beating the debates shown on BBC1 and Sky News which attracted 7.4 million and 2.2 million viewers respectively.

It was a strong half for sport with the World Cup performing well on ITV1. The best performing match of the World Cup, England v Algeria, was shown on ITV1 with a peak audience of 21.3 million. This peak audience was the highest on any channel since Euro 2004: Portugal v England on BBC1. The FA Cup and UEFA Champions' League also attracted audiences in excess of five million, although audiences were down on the previous year due to teams with lower levels of support making it through to the final stages of both competitions. ITV1 HD, a simulcast high definition version of ITV1, was launched in April in time for the World Cup. ITV1 HD is now available on Freeview, Freesat, BSkyB and Virgin Media platforms.

At the end of 2009 ITV secured full ownership of GMTV, the national breakfast-time Channel 3 licensee. In September the show will be relaunched under its new name, Daybreak, with new presenters, Adrian Chiles and Christine Bleakley. Other new talent signings in the first half include Paul O'Grady and Jonathan Ross.

Looking at the schedule for the second half of the year, a number of new programmes are planned on ITV1. These include A Bouquet of Barbed Wire, a modern reworking of the 1970's psychological drama, fictional period drama Downton Abbey created by Oscar winning writer Julian Fellowes, David Jason drama Come Rain or Shine and The Paul O'Grady Show, a new peak time chat show. Returning shows include the second series of Whitechapel, Law & Order: UK, The X Factor, I'm a Celebrity and Coronation Street, which will be celebrating its 50th Anniversary in December. We continue with our strong football line-up, showing UEFA Champions' League matches, England Euro 2012 qualifiers and friendlies, and the FA Cup.

Digital Channels

Whilst ITV1's SOCI fell in the first half, the decline was offset by an increase in the SOCI of ITV's family of digital channels which increased by 15% from 9.2% in the first six months of 2009 to 10.5% in 2010, primarily due to a strong performance by ITV3. This resulted in a flat SOCI for the ITV Family as a whole of 39.8% (2009: 39.7%).

The digital channels increased their total share of viewing in the first half by 11% but this was not a sufficient increase to offset the decline in ITV1's share of viewing, with total viewing for the ITV Family down 2% at 22.7%.

ITV2

ITV2's SOCI was 4.3% for the period (2009: 4.1%), up 5% year on year. ITV2 is the second biggest digital channel in terms of SOCI, after ITV3. ITV2's share of viewing increased by 2% to a total share of 2.3%.

Programming highlights during the period included Britain's Got More Talent, What Katie Did Next, Peter Andre: The Next Chapter, American Idol, Secret Diary of a Call Girl, and new US acquisition The Vampire Diaries. In the first half of the year 50 programmes shown on ITV2 achieved an audience of more than one million viewers (2009: 34 programmes).

In its target 16 – 34 year old demographic ITV2's SOCI was 5.9%, ahead of Five which had a SOCI of 5.8% in this demographic.

ITV3

In the first half of 2010 ITV3's SOCI was 4.5% (2009: 3.3%), an increase of 35%. ITV3's share of viewing increased by 32% to 2.2%. This increase was partly due to a reduction in the amount of drama shown on the traditional terrestrial channels: as broadcasters cut back on this comparatively expensive genre this drives viewers seeking quality drama programming to ITV3. In addition, ITV3 drama has proved to be a popular alternative to the large amount of sports programming aired on television in the first half of the year.

Programme highlights across the period include repeats of Midsomer Murders, Doc Martin, A Touch of Frost, Lewis and Mr Bean: The Animated Series.

During the first half of the year, ITV3 overtook ITV2 to become the most popular digital channel in terms of SOCI. In addition, ITV3 is the biggest multichannel station for ABC1 adult SOCI. In the six months 301 programmes on ITV3 attracted an audience of over half a million viewers compared to 112 in 2009.

ITV4

ITV4's SOCI was 1.6% for the period (2009: 1.5%) up 4%. Share of viewing was up 6% at 0.9%.

ITV secured the UK broadcast rights to the 2010 Indian Premier League (IPL) cricket which performed well for the channel. Other high performing programming included James Corden's World Cup Live and FA Cup and UEFA Europa League football.

SDN and Platforms

SDN revenues in the period were £24 million, increasing by 14% year on year. During the first six months of the year SDN has entered into two contracts to replace contracts due to expire in late 2010. This will have a limited impact on 2010 revenues but will result in an increase in revenues in 2011.

Project Canvas, a venture that will bring internet protocol (IP) connected television to free-to-air homes, is expected to launch in the first half of 2011. This follows the conclusion by the Office of Fair Trading (OFT) in May that it does not fall under the merger provisions of the Enterprise Act 2002 and approval from the BBC Trust received in June. Canvas is an open platform that will bring a wide range of content and services, including video on demand services such as ITV Player and BBC iPlayer, to the television set for no monthly fee. ITV's partners in the project are the BBC, BT, Channel 4, Talk Talk and Arqiva.

ITV has also announced the creation of a new role, Chief Technology Officer, who will lead a stand-alone directorate responsible for transmission, broadcast services and platform technology, reporting to Adam Crozier.

Online

Online, ITV's focus is on delivering video content to users via ITV's website, itv.com, and via ITV Player, funded by online video advertising. In addition ITV has video on demand agreements with BT Vision and Virgin Media.

On 25 March ITV completed the sale of Friends Reunited to Brightsolid Online Innovation Limited following regulatory approval from the Competition Commission. Excluding revenues from Friends Reunited, online revenues were up 20% at £12 million.

Unique users during the first six months of the year averaged 9.1 million per month, up 4% on the equivalent period in 2009. Since June 2009, access to Britain's Got Talent and The X Factor video content on itv.com by users outside the UK has been geoblocked (in accordance with the rights position). Stripping out overseas visitors in 2009, average monthly UK unique users for the site were up 27% year on year. While itv.com continues to build its revenues, its reach and audience remain subscale compared to the overall market and its UK free-to-air competitors.

The number of total video views on itv.com was down 14% on the prior year. While the website performed well over the World Cup period, Britain's Got Talent was unable to match the online traffic volumes of the previous year when clips from the show attracted a large number of video views worldwide. Stripping out overseas video views, total UK video views for the first half were up 48%, with a shift from short form content, such as programme clips, to long form content. Drama catch-up has performed particularly well, with ITV2's Vampire Diaries our most popular drama series to date, in addition to the continued strength of Coronation Street and Emmerdale.

itv.com had an 11% average monthly active audience reach in the first six months of the year. This represents the proportion of active UK internet users who accessed ITV's website each month. This compares to an active reach of 54% for the BBC's website, 10% for Channel 4's and 1% for Five's.

The Online business has delivered a number of developments in the period. The First Election Debate attracted 200,000 unique users to its section of the site, with around 50,000 watching the live stream. 3.4 million unique users visited itv.com's World Cup site, with two million unique users visiting the new dual screen platform, ITV Live. ITV's mobile applications also performed well, with ITV's advertising funded World Cup apps achieving 800,000 downloads and reaching the number one slot in the itunes download chart.

Indian Premier League cricket was also a big success for the site, averaging over 350,000 unique users during March and April, driving 5.4 million page views and over 850,000 video views.

ITV Studios

Content Market

ITV Studios is the largest commercial producer of television content in the UK. Other significant producers of original commissioned content in the UK include the BBC, Endemol, Fremantle (owned by RTL) and many smaller production companies. The vast majority of original content in the UK is commissioned by the free-to-air public service broadcasters, ITV, the BBC, Channel 4 and Five.

ITV Studios

ITV Studios external revenues were down 25% in the first six months of 2010 at £126 million (2009: £168 million). This was primarily due to a decline in revenues from international production, with revenues received from third party broadcasters in the UK also falling. Despite the fall in revenues, ITV Studios EBITA before exceptional items was up 8% on the previous year at £43 million.

The focus within ITV Studios is to develop formats which, in addition to performing well in the UK market, can be exploited overseas. Formats which are currently proving to be successful for ITV Studios in both the UK and overseas include Come Dine With Me, which ITV Studios makes for Channel 4 and which is now sold to 30 territories. Four Weddings has also been performing well with ITV Studios making local versions of the format in each of our main production territories, with the show now sold into a further 11 territories.

ITV Studios – UK

ITV Studios UK revenues include revenues received from the production of programming for ITV's Family of channels and for other third party broadcasters.

Internal revenues, those received from ITV's Family of channels, were flat at £128 million. Lost commissions such as Heartbeat, The Royal and The Colour of Money were offset by 2010 deliveries of Lewis, Marple and Poirot, and price increases for some of ITV's key returning shows. As a percentage of the ITV Network's spend on original commissions, ITV Studios' supply was also flat.

In the first six months of 2010 ITV Studios made five out of the top ten highest-rating programmes on ITV1 excluding sport (2009: four out of ten). This included Coronation Street, Emmerdale, The First Election Debate, Dancing on Ice and Lewis. New programmes during the first half for ITV1 which have been recommissioned include The Lakes, Lion Country and Popstar to Operastar. ITV1 piloted new daytime format May The Best House Win in the UK in February, with the show stripped across five days, and has ordered a further 30 episodes. The Prisoner, The David Dickinson Show and Michael Winner's Dining Stars did not achieve targeted audiences.

Externally ITV makes programmes for a number of UK broadcasters including University Challenge and Eggheads for the BBC, Four Weddings for Living and Come Dine With Me, Coach Trip and Countdown, which transmitted its 5,000th episode in March, for Channel 4. External UK production revenues (including resources) were £30 million, down 21%. This decline was due to a number of programmes which were delivered in the first half of 2009 not being recommissioned in the first half of 2010, such as The Street for BBC1 and Animal Cops for Animal Planet.

ITV Studios – International

Revenues from international productions totalled £39 million in the period, down 48% from the prior period.

The biggest impact on revenues was due to I'm a Celebrity in the US and Germany, which were produced in the first half of 2009, but were not recommissioned in 2010 (although the programme remains a live prospect for 2011). In addition, there were other commissions whose timing in the year is later than 2009. These timing issues, in particular in the US and Germany, will reverse in the second half of the year with the delivery of Ultimate Gamer in the US and Der Letzte Bulle in Germany.

During the first half of the year ITV Studios opened ITV Studios France, its seventh production territory. ITV Studios France has delivered its first commission and is close to securing a further significant order. ITV Studios Spain has been commissioned to make a local version of May The Best House Win for Antena 3 which will transmit later this year.

ITV Studios Global Entertainment

ITV Studios Global Entertainment is dedicated to exploiting its portfolio of content across a range of platforms. Revenues for Global Entertainment were up 4% in the first half of 2010 at £57 million.

This increase in revenue was due to sales of finished television programming to other broadcasters, which make up the majority of revenue for Global Entertainment. These revenues were up strongly on the prior year with Coronation Street, Poirot, Hell's Kitchen USA, Lewis and The Prisoner all performing particularly well.

ITV Studios Home Entertainment DVD sales were down slightly due to fewer new releases in the first half of 2010 compared to 2009, but digital revenue continued to grow year on year. Merchandising and licensing is a continuing area of activity for the Global Entertainment business. During the first half This Morning announced the launch of a collection including cookware, gardening products and soft furnishings.

Regulation

During January the Court of Appeal rejected BSkyB's appeal against the decision that it should sell down its stake in ITV from 17.9% to 7.5%. In February BSkyB reduced it 17.9% shareholding to 7.49% via a placing with Morgan Stanley.

In February, the Secretary of State for Culture Media and Sport published a statement announcing the government's decision to allow product placement, and in July Ofcom launched a consultation on the details for the operation of product placement on UK television. The proposals would enable commercial broadcasters to access a new revenue stream whilst protecting audiences consistent with the UK's obligations in European law. Ofcom's proposals include some restrictions on the types of products that can be placed and the programmes they can be placed in, the way in which they appear and the use of appropriate on-air labels to inform viewers. Revised rules for TV and radio are expected to be issued at the end of 2010.

During May the Competition Commission announced the final outcome of its review into CRR, confirming that the remedy would remain in place. As part of the decision the definition of ITV1 has been widened so that impacts from the recently launched ITV1 HD and planned ITV1+1 channels are included as part of ITV1 within the CRR undertakings. In July the House of Lords Communications Select Committee announced an inquiry into the regulation of TV advertising, focusing particularly on CRR. The inquiry will consider how advertising markets are changing – particularly in relation to competition from internet advertising – and what difference regulatory changes might make to the business models of commercial broadcasters.

In July Ofcom published its decision to repeal the Airtime Sales Rules from 1 September 2010, which have to date prohibited the withholding of airtime on ITV1, Channel 4 and Five and conditional selling of airtime by all TV channels. Ofcom is also currently seeking views on its econometric analysis of TV advertising, which may feed into a further Ofcom consultation on advertising minutage later in the year.

Also in July, Ofcom published a consultation on its 2009 Review of the ITV Networking Arrangements, with Ofcom's preliminary analysis accepting ITV plc's view that ITV's contributions to the Network Programme Budget subsidise the non-ITV plc Channel 3 licensees. Ofcom is consulting on its findings until 5 October 2010, and ITV will engage fully in the process.

For the past few months Ofcom has been engaged in a process to determine the price that should be paid by Five for the mandatory carriage of Five on ITV DTT capacity on Multiplex 2. This price determination process was satisfactorily concluded in July with the receipt of Ofcom's final determination.

Ofcom is currently carrying out a review of the financial terms of ITV plc's Channel 3 licences. This review process is a detailed assessment of the value of ITV's PSB licences to a hypothetical third party bidder which will determine whether it continues to be appropriate for ITV to make licence payments to the Treasury and, if so, how much those payments should be. We expect this review to be completed at the end of September 2010 but with any excess licence fees paid since 1 January 2010 refunded.

Corporate Responsibility / Stakeholders

ITV continues to seek to meet all its licence obligations and programme requirements in areas such as access services, and independent and original production. ITV1 is also subject to licence quotas for both regional and national news and current affairs. ITV is the most significant commercial broadcaster investor in the UK creative economy with an investment in the region of £500 million per year in original, high quality UK content. ITV's investment in television content helps support the wider artistic and creative community by providing work for writers, actors, musicians, designers, directors and editors.

As the UK's biggest investor in commercial television content, ITV has a special responsibility to its viewers, employees and the wider creative community. An important part of ITV's Corporate Responsibility programme is campaigning on and off-screen. ITV continues to focus on issues related to health and activity as part of a three year commitment which began in 2009. The theme of 'The Feelgood Factor' covers a range of network and regional programming aimed at encouraging people to make a difference to their lifestyles or their communities. Initiatives such as the ITV Feelgood Factor Award, as part of the Daily Mirror Pride of Britain Awards, and People's Millions, a campaign in partnership with the Big Lottery Fund, will run through the year and build on the strong links ITV has in all its regions.

Key Performance Indicators

ITV's Key Performance Indicators (KPIs) are under review as part of the current strategy process, with new KPIs expected to be published in the 2010 full year Annual Report & Accounts.

Historical ratios and operating statistics

Further detail on ITV's financial performance can be found in the Operating and Financial reviews.

Revenues & Market Share

£m	**2010**	2009
Total ITV revenues	**£987m**	£909m
ITV net advertising revenues	**£728m**	£615m
ITV share of UK television advertising market	**45.8%**	44.6%
ITV Studios revenue (including internal)	**£254m**	£296m
Online revenues (excluding Friends Reunited)	**£12m**	£10m

Profits, costs and cash

	2010	2009
Cost savings (excluding programme savings)	**£31m**	£15m
EBITA before exceptional items	**£165m**	£46m
Adjusted earnings / (loss) per share*	**2.2p**	(0.2)p
'Profit to cash' conversion	**150%**	378%

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

Audience and reach

	2010	2009
ITV channels' share of commercial impacts	39.8%	39.7%
ITV1 volume of commercial impacts	114.2 bn	114.1 bn
ITV1 brand health	29%	31%

Risks & Uncertainties

The 2009 Annual Report sets out the most significant risk factors relating to ITV's operations in the Directors' judgement at the time of that report. ITV does not consider that these principal risks and uncertainties have changed. However, additional risks and uncertainties not currently known to ITV, or that ITV does not currently deem material, may also have an adverse effect on its business.

The enterprise risk management process is under review to ensure ITV maintains an appropriate and effective approach, which allows the business to continue to identify and manage operational risks, while introducing a top down approach to ensure the risks related to the execution of ITV's strategy are understood and the appropriate controls are embedded in the business process.

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. 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 Review

ITV has continued to focus on cost control and cash management even though there has been a cyclical recovery in the advertising market over the first half of 2010. Costs have been reduced and good working capital management has contributed to a significant reduction in net debt. ITV is now in a stronger financial position than it was eighteen months ago.

This review focuses on the adjusted results as, in management's view, these show more accurately 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. The definition of adjusted profit was changed in 2009 and this definition continues to be used for 2010. The comparative 2009 results have been restated to reflect this change.

Total revenue for the period ended 30 June 2010 was 9% higher at £987 million (2009: £909 million).The increase in revenues, primarily driven by the increase in advertising revenues has increased EBITA before exceptional items to £165 million (2009: £46 million). This leads to adjusted earnings per share of 2.2p (2009: loss of 0.2p).

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

Six months to 30 June	**2010 £m**	2009 £m	Change £m
Broadcasting & Online revenue	**861**	739	122
Broadcasting & Online EBITA*	**122**	6	116
ITV Studios revenue	**126**	168	(42)
ITV Studios EBITA*	**43**	40	3
Other revenue	**-**	2	(2)
Other EBITA*	**-**	-	-
Total revenue	**987**	909	78
Total EBITA*	**165**	46	119
Adjusted profit / (loss)	**86**	(7)	93
Adjusted earnings / (loss) per share	**2.2p**	(0.2)p	2.4p

*Before exceptional items

Broadcasting & online

Broadcasting & online revenues

Revenues are analysed as follows:

Six months to 30 June	**2010 £m**	2009 £m	Change £m
ITV1	**565**	478	87
ITV digital channels	**135**	113	22
GMTV	**28**	24	4
ITV plc NAR	**728**	615	113
SDN	**24**	21	3
itv.com^	**12**	10	2
Other revenue	**101**	95	6
Intra Group revenue	**(4)**	(2)	(2)
Total Broadcasting & Online Revenue	**861**	739	122

^ itv.com includes all online revenue except Friends Reunited which was sold in the period and is included in other revenue.

The television advertising market has seen a cyclical upturn since 2009. In the first six months of the year the TV market was up 15% and ITV has again outperformed the market with ITV family revenue up 18%. The rate of advertising market growth of 15% has outstripped the 4% rise in market impacts, with the result that there has been some inflation of pricing compared to the prior year, reversing some of the deflation of earlier years.

Total ITV NAR and ITV1 NAR both increased by 18%. Of this increase in total ITV NAR, the improvement in the advertising market accounted for £95 million of the increase and the increase in ITV's share is worth £18 million.

ITV's digital channels, ITV2, ITV3, ITV4 and Citv increased their advertising revenues by 19%. This strong revenue performance reflects continued growth in SOCI delivered by these channels, most notably ITV3. GMTV revenue was 17% ahead of last year. The nature of GMTV's business is more heavily focused in less cyclical sectors, and did not have the FIFA World Cup benefit of ITV1, but it has also outperformed the overall market.

SDN revenues in the period were £24 million, increasing by 14% year on year. The increase was largely due to two new contracts entered into during 2009, including one for an additional (tenth) stream added in the period.

itv.com revenues, excluding Friends Reunited, were up 20% compared to last year, albeit off a low base. The disposal of Friends Reunited was completed in March 2010 and the results of this business are only included in the current year until 31 March 2010.

Despite a 14% decrease in the total number of video views on itv.com in the first half of the year, there was growth in the volume of viewing of long form (catch-up) content. Viewing of short form content declined primarily due to the geoblocking of Britain's Got Talent on itv.com and changing consumer behaviour. Long form content carries more advertising than short form content. This, combined with the strong online advertising market, resulted in the increase in itv.com revenues. As the market supply of video content increases ITV has been able to maintain premium rates on advertising through superior quality inventory.

Broadcasting & Online costs

Broadcasting & Online costs break down as follows:

Six months to 30 June	**2010 £m**	2009 £m	Change £m
ITV1	**444**	413	31
Regional news and non-news	**32**	35	(3)
Total ITV1	**476**	448	28
ITV2, ITV3, ITV4, Citv	**45**	56	(11)
GMTV	**15**	16	(1)
Total schedule costs	**536**	520	16
Other costs	**203**	213	(10)
Total costs	**739**	733	6

The increase in total ITV schedule costs is principally due to the inclusion of the FIFA World Cup and planned reductions in regional news carried through from last year. Other Broadcast & Online costs were lower, despite £6 million of investment in Canvas and HD, being the benefit of the cost saving programme initiated in 2009.

Broadcasting & Online EBITA before exceptional items

Broadcasting & Online EBITA before exceptional items increased by £116 million reflecting the high operational gearing of the business.

ITV Studios

ITV Studios revenues

Six months to 30 June	**2010 £m**	2009 £m	Change £m
UK production and resources	**30**	38	(8)
International production	**39**	75	(36)
Global Entertainment	**57**	55	2
Total external revenue	**126**	168	(42)
Original supply to ITV	**128**	128	-
Total revenue	**254**	296	(42)

Original supply to ITV channels is not included in reported ITV plc consolidated revenue as it represents an internal programming cost of sale. Internal revenue was flat year on year, after a significant decline in 2009. Revenue was held flat through the delivery of the soaps, key daytime titles such as Jeremy Kyle, This Morning and Loose Women, and new series of Lewis, Marple and Poirot.

In the period to June 2010, total external sales were down 25%. UK production for other broadcasters (including resources) was down 21% reflecting continued caution in commissioning from broadcasters. International production revenue decreased 48% driven by the commissioning cycle for I'm A Celebrity where there has been no production in 2010 in both the USA and Germany. In addition, changing broadcaster delivery schedules for other key titles, such as Ultimate Gamer in the US and drama Der Letzte Bulle in Germany, have delayed revenues to the second half of 2010. This is reflected in the total number of hours produced internationally which almost halved in the first six months of 2010 compared to 2009, driven by significant falls in Entertainment.

Global Entertainment revenues were up 4%, a good performance given the tough economic conditions. TV Sales revenues held up well on the back of strong drama sales and two distribution deals struck early in the year, while Home Entertainment revenues, primarily DVD, remain under pressure.

ITV Studios EBITA before exceptional items

Despite the fall in revenues, ITV Studios EBITA before exceptional items was up 8% on the previous year at £43 million. This margin improvement was primarily due to cost savings initiated in 2009, an increase in license income from sales of completed TV programming, and a change in genre mix across the business. Some of the profit improvement within the division has been offset by increased investment in programme development, international production start-ups and the impact of some one-off costs.

Operating exceptional items

The operating exceptional items for the period total £6 million, principally related to restructuring costs of projects approved in 2009 but initiated in 2010, such as IT outsourcing and GMTV restructuring.

STV Group plc (STV)

There has been no material change in the Group's position regarding the legal dispute between ITV and STV disclosed in the 2009 annual report. ITV continues to be confident in the basis of its claims, supported by legal opinion and advice, and fully intends to continue pursuing resolution of these issues to a satisfactory outcome.

Net financing costs

Six months to 30 June	**2010** **£m**	2009 £m
Financing costs directly attributable to bonds	**(30)**	(39)
Cash-related net financing income	**-**	1
Cash-related financing costs	**(30)**	(38)
Amortisation on bonds	**(6)**	(2)
Adjusted financing Costs	**(36)**	(40)
Mark-to-Market on swaps and foreign exchange	**16**	(9)
Imputed pension interest	**(7)**	(7)
Net other financing income	**-**	21
Net financing costs	**(27)**	(35)

The definition of adjusted net financing costs was changed in 2009 and this definition continues to be used for 2010.

Cash-related financing costs directly attributable to bonds have reduced in the period due to the benefit of bond buybacks and other changes made to the Group's debt profile since the first six months of 2009. Amortisation on bonds principally relates to the 2014 Eurobond, 2015 Bond tap and 2016 Convertible Bond, each of which will accrete up to par value over the life of the bond. The £16 million credit relating to mark-to-market on swaps and foreign exchange results from a decrease in the implied interest rates during the first six months of the year.

Tax

The total tax charge was £26 million (2009: credit of £35 million). The effective tax rate for adjusted profits is lower than the standard tax rate as the utilisation of losses is offsetting normal disallowable costs:

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

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

*Amortisation of intangible assets arising from business combinations.

Earnings per share

Basic earnings per share are 1.8 pence (2009: loss per share of 1.8 pence). Adjusted earnings per share are 2.2 pence (2009: loss per share of 0.2 pence).

Reconciliation between reported and adjusted earnings

Six months to 30 June	Reported £m	Adjustments £m	Adjusted £m
EBITA before exceptional items	**165**	-	165
Exceptional items	**(7)**	7	-
Amortisation and impairment	**(32)**	23	(9)
Financing costs	**(27)**	(9)	(36)
JVs and Associates	**(2)**	-	(2)
Profit before tax	**97**	21	118
Tax	**(26)**	(6)	(32)
Profit after tax	**71**	**15**	**86**
Earnings	**71**		**86**
Number of shares	**3,884**		3,884
Earnings per share	**1.8p**		**2.2p**

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

Dividend

Given ITV's current level of debt, in the context of a highly geared operational model and an uncertain economic outlook the Board has determined that it will not declare a dividend. This will be kept under review in light of the trading performance, net debt, pension deficit and investments needed to deliver the Transformation Plan.

Assets and disposal groups held for sale

The Group continues to actively market for sale its joint ventures Screenvision US and Screenvision Europe. Also included within assets held for sale are ITV properties in Bristol, Birmingham and Bedford. Subsequent to the period end the Group disposed of the Bristol and Birmingham properties.

Cash flow, working capital management and net debt

Cash flow and working capital management

Cash and working capital management continues to be a key focus for the Group. ITV has generated £247 million of cash from £165 million of EBITA before exceptional items, primarily due to further improvements in working capital. The key driver of the working capital benefits was the reduced inventory levels for programme and distribution rights, of which a significant portion was related to the FIFA World Cup play-out. The 'profit to cash' ratio was 150% which is comfortably above the full year target of 90%. On a 12 month rolling basis the ratio is 134%, also ahead of target.

Six months to 30 June	2010 £m	2009 £m
EBITA before exceptional items ('profit')	**165**	46
Decrease in programme rights and other inventory and distribution rights	**101**	75
(Increase)/decrease in receivables	**(29)**	35
Increase in payables	**1**	3
Working capital movement	**73**	113
Depreciation	**14**	17
Share based compensation	**5**	7
Cash generated from operations*	**257**	183
Acquisition of property, plant and equipment ("capex")	**(10)**	(9)
Adjusted operating cash flow	**247**	174
'Profit to cash' ratio – 6 months to 30 June	**150%**	378%
'Profit to cash' ratio – 12 month rolling average	**134%**	

*Before exceptional items.

Net debt

In the six months to 30 June 2010 net debt has fallen by £175 million to £437 million on the back of the strong operational cashflow.

	£m
Net debt at 31 December 2009	**(612)**
Adjusted operating cash flow	**247**
Net interest paid	**(36)**
Exceptional cash	**(21)**
Defined benefit pension deficit funding	**(30)**
Other	**15**
Net debt at 30 June 2010	**(437)**

Included in other is the principal one off cash inflow in the period of £25 million from the sale of Friends Reunited. The exceptional cash is primarily the cash cost of change associated with the cost reductions and efficiency programmes initiated in 2009.

Liquidity risk and going concern

The Group has a high degree of operational gearing and is exposed to the economic cycle. Between 2005 and 2009 ITV's profitability declined as the economy weakened and television advertising revenues fell. This resulted in a lowering of ITV's credit ratings from investment grade (BBB-/Baa3) to sub investment grade (B+/B1). However, with the upturn in television advertising revenues in 2010, these pressures have been partially eased and in May 2010 Standard & Poors revised ITV's credit ratings outlook from Negative to Stable, though still sub investment grade.

Funding

In the first half of 2010 ITV has continued to repurchase debt. ITV has bought back €32 million (£28 million) nominal of the 2011 bonds and £42 million nominal of 2015 bonds. As at 30 June 2010, the net sterling amount repayable in 2011 is only £10 million, which is the only bond repayment until 2013.

ITV is financed using debt instruments with a range of maturities. ITV's borrowings at 30 June 2010 (net of currency hedges and secured gilts) are repayable as follows:

Amount repayable	£m	Maturity
€86 million Eurobond*	10	October 2011
£110 million Eurobond	110	March 2013
£50 million Bank Loan	50	May 2013
€188 million Eurobond*	126	June 2014
£383 million Eurobond	383	October 2015
£135 million Convertible bond	135	November 2016
£250 million Eurobond	250	January 2017
£200 million Bank Loan**	62	March 2019
Finance leases	64	Various
Total repayable	**1,190**	

* Net of Cross Currency Swaps.

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

At 30 June 2010 ITV had £686 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 £59 million held principally in overseas and part owned subsidiaries. At the reporting date ITV had a £75 million undrawn, covenant free, bilateral bank facility secured on advertising receivables available to May 2013. There are no financial covenants on any of ITV's debt.

Going concern

As a result of the funding activities undertaken and the improvements in working capital, 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.

Pensions

Reducing pension risk and uncertainty

As part of the ongoing strategy to manage the risks associated with the pension schemes, the Group have implemented a further programme of measures to manage the cost of providing the defined benefit arrangements and to provide greater security for the benefits that members have built up. These initiatives form part of a long-term strategy to manage the group pension liabilities and reduce the principal risks and uncertainties.

SDN pension partnership

As announced earlier in the year the Group and the Trustee of the main section of the ITV Pension Scheme concluded a Partnership, backed by SDN.

Under the Partnership arrangements, ITV has committed to making a payment to the Scheme of up to £150 million in 2022, if and to the extent that the Scheme remains in deficit. In addition, the Partnership will make an annual distribution of £8.4 million to the Scheme for 12 years from 2011. The Partnership's interest in SDN will provide collateral for these payments. SDN's revenues, profits and cashflows continue to be consolidated in the Group's accounts and the Group will retain day-to-day operational control of SDN. Having acquired the partnership interest, the Group's pension deficit on a funding basis is reduced by £124 million (effectively reflecting the present value of the annual distributions and the £150 million payment). The agreement does not impact the deficit calculated on an IAS 19 basis.

Deficit funding contributions

The Group has agreed with the Trustee the level of contributions to the main section of the ITV Pension Scheme through to 2014. From 2011 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 has 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 pre exceptional items exceed £300 million, the Group will increase this contribution by an amount representing 10% of EBITA pre exceptional items over the threshold level. These arrangements supersede the Group's previous commitment to make annual contributions of £30 million per annum through to 2013. No further change is expected in ITV's committed contributions to the main section of the pension scheme before 2015. As a result of the SDN pension partnership a further £8.4 million of deficit contributions will commence from 2011 (see SDN pension partnership above).

Enhanced transfer value programme

We have announced the launch of an enhanced transfer value (ETV) programme aimed at the deferred pensioner population, which if successful will further reduce the pension funding liabilities. This programme is now underway, with quotations issued to members at the end of June, which are guaranteed to members for three months to the end of September.

IAS 19

The aggregate IAS 19 deficit on defined benefit schemes at 30 June 2010 was £449 million (December 2009: £436 million). The movement primarily reflects a reduction in the discount rate offset by lower market expectations of long-term inflation and deficit funding of £30 million during the period.

Actuarial valuations and deficit funding

Full actuarial valuations are carried out every three years. The latest completed actuarial valuations of Sections B and C of the main defined benefit scheme were carried out as at 1 January 2007 and, on the bases adopted by the trustees, both were in surplus with a combined surplus of £23 million or 5% of the liabilities in those sections. As a result of these surpluses no deficit funding payments are currently being paid into these sections. Actuarial valuations of Sections B and C have been undertaken as at 1 January 2010 and the initial results are currently being discussed between the Group and the Trustees.

An 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. The next valuation of Section A is due at 1 January 2011.

Condensed consolidated income statement

For the six months ended 30 June:	Note	2010 £m	2009 £m
Revenue	4	**987**	909
Operating costs		**(822)**	(863)
Earnings before interest, tax and amortisation (EBITA) before exceptional items		**165**	46
Net operating costs – exceptional items	5	**(6)**	(30)
Amortisation of intangible assets		**(32)**	(31)
Total operating costs		**(860)**	(924)
Operating profit/(loss)		**127**	(15)
Financing income		**94**	138
Financing costs		**(121)**	(173)
Net financing costs		**(27)**	(35)
Share of profit or loss of joint ventures and associated undertakings		**(2)**	(4)
Loss on sale and impairment of non-current assets (exceptional items)	5	**–**	(4)
Loss on sale and impairment of subsidiaries and investments (exceptional items)	5	**(1)**	(47)
Profit/(loss) before tax		**97**	(105)
Taxation		**(26)**	35
Profit/(loss) for the period		**71**	(70)
Profit/(loss) attributable to:			
Owners of the company		**71**	(72)
Non-controlling interests		**–**	2
Profit/(loss) for the period		**71**	(70)
Earnings/(loss) per share			
Basic earnings/(loss) per share	6	**1.8p**	(1.8)p
Diluted earnings/(loss) per share	6	**1.8p**	(1.8)p

Condensed consolidated statement of comprehensive income

For the six months ended 30 June:	2010 £m	2009 £m
Profit/(loss) for the period	**71**	(70)
Other comprehensive income:		
Exchange differences on translation of foreign operations	**2**	1
Revaluation of available for sale financial assets	**3**	–
Amounts recycled to the income statement in respect of cash flow hedges	**–**	(4)
Actuarial losses on defined benefit pension schemes	**(38)**	(389)
Income tax on other comprehensive income	**8**	109
Other comprehensive cost for the period, net of income tax	**(25)**	(283)
Total comprehensive income/(cost) for the period	**46**	(353)
Total comprehensive income/(cost) attributable to:		
Owners of the company	**46**	(355)
Non-controlling interests	**–**	2
Total comprehensive income/(cost) for the period	**46**	(353)

Condensed consolidated statement of financial position

	Note	**30 June 2010 £m**	31 December 2009 £m	30 June 2009 £m
Non-current assets				
Property, plant and equipment		**155**	161	208
Intangible assets		**998**	1,030	919
Investments in joint ventures and associated undertakings		**5**	5	8
Available for sale financial assets		**2**	1	3
Held to maturity investments	8	**149**	149	149
Derivative financial instruments		**153**	151	124
Distribution rights		**14**	16	14
Net deferred tax asset		**48**	50	54
		1,524	1,563	1,479
Current assets				
Programme rights and other inventory		**288**	388	440
Trade and other receivables due within one year		**462**	432	406
Trade and other receivables due after more than one year		**8**	7	6
Trade and other receivables		**470**	439	412
Derivative financial instruments		**8**	5	11
Cash and cash equivalents	8	**686**	582	476
Assets held for sale	7	**50**	78	258
		1,502	1,492	1,597
Current liabilities				
Borrowings	8	**(8)**	(9)	(11)
Derivative financial instruments		**(7)**	(4)	(4)
Trade and other payables due within one year		**(672)**	(646)	(657)
Trade and other payables due after more than one year		**(13)**	(31)	(16)
Trade and other payables		**(685)**	(677)	(673)
Current tax liabilities		**(45)**	(31)	(38)
Provisions	10	**(47)**	(47)	(45)
Liabilities held for sale		**-**	(3)	(11)
		(792)	(771)	(782)
Net current assets		**710**	721	815
Non-current liabilities				
Borrowings	8	**(1,335)**	(1,431)	(1,499)
Derivative financial instruments		**(37)**	(30)	(22)
Defined benefit pension deficit	9	**(449)**	(436)	(538)
Other payables		**(3)**	(12)	(16)
Provisions	10	**(19)**	(29)	(33)
		(1,843)	(1,938)	(2,108)
Net assets		**391**	346	186
Attributable to equity shareholders of the parent company				
Share capital		**389**	389	389
Share premium		**120**	120	120
Merger and other reserves		**306**	308	273
Translation reserve		**13**	11	21
Available for sale reserve		**11**	8	6
Retained losses		**(449)**	(491)	(631)
Total attributable to equity shareholders of the parent company		**390**	345	178
Non-controlling interests		**1**	1	8
Total equity		**391**	346	186

Ian Griffiths

Group Finance Director

Condensed consolidated statement of changes in equity

For the six months ended 30 June:	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
Total comprehensive income for the period									
Profit	–	–	–	–	–	71	71	–	71
Other comprehensive income									
Revaluation of available for sale financial assets	–	–	–	–	3	–	3	–	3
Exchange differences on translation of foreign operations	–	–	–	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	–	–	–	2	3	(30)	(25)	–	(25)
Total comprehensive income for the period	–	–	–	2	3	41	46	–	46
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Unwind of the equity portion of the convertible bond	–	–	(2)	–	–	2	–	–	–
Movements due to share-based compensation	–	–	–	–	–	(1)	(1)	–	(1)
Total contributions by and distributions to owners	–	–	(2)	–	–	1	(1)	–	(1)
Total transactions with owners	–	–	(2)	–	–	1	(1)	–	(1)
Balance at 30 June 2010	**389**	**120**	**306**	**13**	**11**	**(449)**	**390**	**1**	**391**

For the six months ended 30 June:	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 2009	389	120	273	24	6	(286)	526	8	534
Total comprehensive (cost)/ income for the period									
(Loss)/Profit	–	–	–	–	–	(72)	(72)	2	(70)
Other comprehensive (cost)/ income									
Exchange differences on translation of foreign operations	–	–	–	1	–	–	1	–	1
Amounts recycled to the income statement in respect of cash flow hedges	–	–	–	(4)	–	–	(4)	–	(4)
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	(389)	(389)	–	(389)
Income tax on other comprehensive income	–	–	–	–	–	109	109	–	109
Total other comprehensive costs	–	–	–	(3)	–	(280)	(283)	–	(283)
Total comprehensive (costs)/income for the period	–	–		(3)	–	(352)	(355)	2	(353)
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Equity dividends	–	–	–	–	–	–	–	(2)	(2)
Movements due to share-based compensation	–	–	–	–	–	7	7	–	7
Total contributions by and distributions to owners	–	–	–	–	–	7	7	(2)	5
Total transactions with owners	–	–	–	–	–	7	7	(2)	5
Balance at 30 June 2009	**389**	**120**	**273**	**21**	**6**	**(631)**	**178**	**8**	**186**

Condensed statement of consolidated cash flows

For the six months ended 30 June:	**£m**	**2010** **£m**	£m	2009 £m
Cash flows from operating activities				
Operating profit before exceptional items	**133**		15	
Depreciation of property, plant and equipment	**14**		17	
Amortisation and impairment of intangible assets	**32**		31	
Share based compensation	**5**		7	
Decrease in programme rights and other inventory, and distribution rights	**101**		75	
(Increase)/decrease in receivables	**(29)**		35	
Increase in payables	**1**		3	
Movement in working capital	**73**		113	
Cash generated from operations before exceptional items		**257**		183
Cash flow relating to operating exceptional items:				
Net operating loss	**(6)**		(30)	
Decrease in payables and provisions	**(15)**		(13)	
Cash outflow from exceptional items		**(21)**		(43)
Cash generated from operations		**236**		140
Defined benefit pension deficit funding	**(30)**		(31)	
Interest received	**29**		18	
Interest paid on bank and other loans	**(62)**		(59)	
Interest paid on finance leases	**(3)**		(2)	
Net taxation received	**–**		17	
		(66)		(57)
Net cash inflow from operating activities		**170**		83
Cash flows from investing activities				
Acquisition of subsidiary undertakings, net of cash and cash equivalents acquired and debt repaid on acquisition	**–**		(50)	
Proceeds from sale of assets held for sale	**25**		–	
Acquisition of property, plant and equipment	**(10)**		(9)	
Acquisition of intangible assets	**–**		(6)	
Loans granted to associates and joint ventures	**(4)**		(3)	
Loans repaid by associates and joint ventures	**1**		2	
Proceeds from sale of subsidiaries and available for sale investments	**–**		1	
Net cash inflow/(outflow) from investing activities		**12**		(65)
Cash flows from financing activities				
Bank and other loans – amounts repaid	**(69)**		(318)	
Bank and other loans – amounts raised	**–**		384	
Capital element of finance lease payments	**(9)**		(3)	
Dividends paid to non-controlling interest	**–**		(2)	
Purchase of own shares via employee's benefit trust	**–**		(2)	
Purchase of held to maturity investments	**–**		(150)	
Equity dividends paid	**–**		(25)	
Net cash outflow from financing activities		**(78)**		(116)
Net increase/(decrease) in cash and cash equivalents		**104**		(98)
Cash and cash equivalents at 1 January		**582**		616
Effects of exchange rate changes and fair value movements on cash and cash equivalents		**–**		–
Less: cash related to disposal group		**–**		(42)
Cash and cash equivalents at 30 June		**686**		476

Notes to the accounts

1 Basis of preparation

These condensed consolidated interim financial statements for the six months ended 30 June 2010 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 2009, 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 2009.

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 9). 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 2010 in accordance with IAS 19.

During the six months ended 30 June 2010, management also reassessed its estimates in respect of the recoverable amount of goodwill and provisions (see note 10).

These interim financial statements are not statutory accounts. The statutory accounts for the year ended 31 December 2009 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.

2 Accounting policies

Except as described below, the accounting policies applied and the methods of computation are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

Taxes on income in interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

3 Seasonality and cyclicality

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 cyclicality affecting the interim results of the operations.

4 Operating segmental information

The Board of Directors considers the business primarily from a product perspective. The reportable segments are therefore Broadcasting & Online, ITV Studios and Other. All of the segments reported meet the quantitative thresholds required by IFRS 8. Management has determined the reportable segments based on the reports reviewed by the Board of Directors.

The segment information provided for the reportable segments for the periods ended 30 June 2010 and 30 June 2009 is as follows:

	Broadcasting & Online		ITV Studios		Other		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m
Total segment revenue	**861**	739	**254**	296	–	2	**1,115**	1,037
Intersegment revenue	**–**	–	**(128)**	(128)	–	–	**(128)**	(128)
Revenue from external customers	**861**	739	**126**	168	–	2	**987**	909
EBITA before exceptional items	**122**	6	**43**	40	–	–	**165**	46

There is no material change in segment assets from the information disclosed in the 2009 Annual Report.

A reconciliation of EBITA before exceptional items to profit / (loss) before tax is provided as follows:

For the six months ended 30 June:	2010 £m	2009 £m
EBITA before exceptional items	**165**	46
Net operating costs – exceptional items	**(6)**	(30)
Amortisation of intangible assets	**(32)**	(31)
Net financing costs	**(27)**	(35)
Share of profit or loss of joint ventures and associated undertakings	**(2)**	(4)
Loss on sale and impairment of non-current assets (exceptional items)	**–**	(4)
Loss on sale and impairment of subsidiaries and investments (exceptional items)	**(1)**	(47)
Profit/(loss) before tax	**97**	(105)

5 Exceptional items

For the six months ended 30 June:	2010 £m	2009 £m
Operating exceptional items:		
Reorganisation and restructuring costs	**(7)**	(28)
Onerous contract provisions	**1**	–
Kangaroo closure costs	**–**	(2)
Total net operating exceptional items	**(6)**	(30)
Non-operating exceptional items:		
Loss on sale and impairment of non-current assets (exceptional items)	**–**	(4)
Loss on sale and impairment of subsidiaries and investments (exceptional items)	**(1)**	(47)
Total non-operating exceptional items	**(1)**	(51)
Total exceptional items before tax	**(7)**	(81)

In the period a charge of £7 million was incurred in respect of reorganisation and restructuring costs in relation to efficiency programmes initiated in 2009.

6 Earnings per share

For the six months ended 30 June:	2010		2009 (restated)	
	Basic	**Diluted**	Basic	Diluted
	£m	**£m**	£m	£m
Profit/(loss) for the period attributable to equity shareholders of the parent company	**71**	**76**	(72)	(72)
Exceptional items (including related tax effect of a credit of £2 million, 2009: £nil)	**5**	**5**	81	81
Profit for the period before exceptional items	**76**	**81**	9	9
Amortisation and impairment of acquired intangible assets (including related tax effect of a credit of £7 million, 2009: £5 million)	**16**	**16**	20	20
Adjustments to net financing costs (including related tax effect of a debit £3 million, 2009: £1 million)	**(6)**	**(6)**	(4)	(4)
Prior period tax adjustments	**–**	**–**	(38)	(38)
Other tax adjustments	**–**	**–**	6	6
Profit/(loss) for the period before exceptional items, amortisation and impairment of acquired intangible assets, net financing cost adjustments and prior period and other tax adjustments	**86**	**91**	(7)	(7)
Weighted average number of ordinary shares in issue – million	**3,884**	**3,884**	3,885	3,885
Dilution impact of share options – million	**–**	**23**	–	8
Dilution impact of convertible bond - million	**–**	**192**	–	–
	3,884	**4,099**	3,885	3,893
Earnings/(loss) per ordinary share	**1.8p**	**1.8p**	(1.8)p	(1.8)p
Adjusted earnings per ordinary share				
Basic Earnings/(loss)per ordinary share	**1.8p**	**1.8p**	(1.8)p	(1.8)p
Loss per ordinary share on exceptional items	**0.1p**	**0.1p**	2.1p	2.1p
Earnings per ordinary share before exceptional items	**1.9p**	**1.9p**	0.3p	0.3p
Add: Loss per ordinary share on amortisation and impairment of acquired intangible assets	**0.4p**	**0.4p**	0.5p	0.5p
Subtract: Profit per ordinary share on adjustments to net financing costs	**(0.1)p**	**(0.1)p**	(0.2)p	(0.2)p
Subtract: Profit per ordinary share on prior period tax adjustments	**–**	**–**	(1.0)p	(1.0)p
Add: Loss per ordinary share on other tax adjustments	**–**	**–**	0.2p	0.2p
Adjusted earnings/(loss) per ordinary share for the period	**2.2p**	**2.2p**	(0.2)p	(0.2)p

An adjusted earnings/(loss) per share figure has been disclosed because in the view of the directors this gives a fairer reflection of core business performance. The basis for adjusted earnings per share was changed for the results to 31 December 2009 and the 30 June 2009 loss per share has been restated consistent with the revised approach. Net financing costs are now adjusted for the non-cash imputed pension interest charge, mark-to-market movements on swaps and foreign exchange movements on bonds, the impact of amortised cost adjustments from coupon step-ups, one off gains and losses on exchanges and buybacks of bonds and the effective interest on the onerous contract provision. Internally generated intangible asset amortisation, effectively the depreciation of IT related assets, is now also included within adjusted earnings.

7 Assets held for sale

	30 June 2010 £m
Property, plant and equipment	**7**
Investment in joint ventures	**43**
Assets held for sale	**50**

The Group is actively marketing its 50% interest in Screenvision US (Technicolor Cinema Advertising LLC) and classifies this joint venture investment as an asset held for sale carried at £43 million. The investment being sold is not core to the Group's main activities. Properties at Bristol, Birmingham and Bedford continue to be held for sale carried at £7 million. Subsequent to the period end the Group disposed of properties in Bristol and Birmingham (see note 14).

8 Analysis of net debt

	1 January 2010 £m	Net cash flow £m	Currency and non-cash movements £m	30 June 2010 £m
Cash	479	105	4	**588**
Cash equivalents	103	(6)	1	**98**
Cash and cash equivalents	582	99	5	**686**
Cash held within the Disposal Group	4	(4)	–	**–**
Held to maturity investments	149	–	–	**149**
Loans and loan notes due within one year	(1)	1	–	**–**
Finance leases due within one year	(8)	4	(4)	**(8)**
Loans and loan notes due after one year	(1,366)	69	18	**(1,279)**
Finance leases due after one year	(65)	5	4	**(56)**
	(1,440)	79	18	**(1,343)**
Currency component of swaps held against Euro denominated bonds	108	–	(20)	**88**
Convertible Bond Equity Component	(35)	–	1	**(34)**
Amortised cost adjustment	20	–	(3)	**17**
Net debt	(612)	174	1	**(437)**

Loans and loan notes due after one year decreased due to the repurchase of £42 million nominal of the 2015 Eurobonds and the repurchase of €32 million (£28 million) nominal of the 2011 Eurobonds.

The currency component of swaps held against the Euro denominated bonds declined in value by £20 million due to Sterling strengthening against the Euro since 31 December 2009. This loss matches the currency gain on retranslating the Euro denominated bonds.

Included within cash equivalents is £54 million (31 December 2009: £62 million) the use of which is restricted to meeting finance lease commitments under programme sale and leaseback commitments and gilts of £35 million (31 December 2009: £34 million) over which the unfunded pension promises have a charge.

The cash held within disposal group at 31 December 2009 related to the non-core business Friends Reunited. The sale of this business was completed in March 2010.

Loans and loan notes

	Maturity	Basis of measurement	Book value 30 June 2010 £m	Book value 31 December 2009 £m	Fair value 30 June 2010 £m	Fair value 31 December 2009 £m
€86 million Eurobond (previously €118 million Eurobond)	Oct 11	Amortised cost	**71**	106	**72**	109
£110 million Eurobond	Mar 13	Amortised cost	**110**	110	**104**	105
£50 million loan	May 13	Amortised cost	**50**	50	**58**	58
€188 million Eurobond	Jun 14	Amortised cost	**142**	156	**171**	187
£383 million Eurobond (previously £425 million Eurobond)	Oct 15	Amortised cost	**344**	384	**362**	387
£135 million Convertible bond	Nov 16	Amortised cost	**98**	96	**141**	147
£250 million Eurobond	Jan 17	Amortised cost	**264**	264	**238**	240
£200 million loan	Mar 19	Amortised cost	**200**	200	**264**	244
Other loans		Amortised cost	**–**	1	**1**	1
			1,279	1,367	**1,411**	1,478

In May 2010 the £200 million March 2019 loan was amended with the fixed element of the coupon reducing from 8.85% to 6.75% and the variable element of the coupon being dependant upon a more diversified algorithm. At the same time the total return on the £138 million March 2019 gilts (which are secured against the loan) was reduced from 11.00% to 8.00% and the coupon on a further £150 million March 2019 loan (undrawn but only exercisable at the bank's option) was reduced from 10.09% to 7.34%. The impact of these amendments is a reduction in the risk of a higher than expected cost of funds for ITV.

9 Pension schemes

The IAS 19 deficit at 30 June 2010 was £449 million compared with a deficit of £436 million at 31 December 2009. The increase in the deficit primarily reflects a reduction in the discount rate from 5.7% to 5.3% offset by lower market expectations of long-term inflation from 3.4% to 3.1% and by deficit funding of £30 million during the period.

10 Provisions

	Contract provisions £m	Restructuring provisions £m	Property provisions £m	Other provisions £m	Total £m
At 1 January 2010	35	8	17	16	76
Additions in the period	-	-	-	2	2
Release in the period	(1)	-	-	-	(1)
Utilised in the year	(6)	(4)	(1)	-	(11)
At 30 June 2010	**28**	**4**	**16**	**18**	**66**

Of the provisions, £47 million (31 December 2009: £47 million) are shown within current liabilities. Contract provisions of £28 million relate to onerous sports rights commitments. Restructuring provisions of £4 million are in respect of previously announced efficiency programmes. Property provisions of £16 million mainly relate to onerous lease contracts due to empty space created by the significant headcount reduction in 2009; utilisation will be over the anticipated life of the leases, or earlier if exited. Other provisions of £18 million mainly relate to potential liabilities that may arise as a result of Boxclever having been placed into administration, most of which relate to pension arrangements.

11 Disposals of businesses

The Group disposed of its 100% interest in Friends Reunited Holdings Limited on 25 March 2010 to Brightsolid Online Innovation Limited (a wholly owned subsidiary of D.C. Thompson Limited) for an initial cash consideration of £25 million. An additional cash consideration of £2 million relating to a variable component dependant on the net current assets of the business on the date of completion has been received post period end and recognised as a receivable in these financial statements. The sale resulted in no material gain or loss on disposal.

12 Contingent liabilities

There has been no material change in the Group's contingent liabilities since 31 December 2009 and the disclosures in those annual financial statements remain appropriate at 30 June 2010.

13 Related party transactions

The nature of related parties disclosed in the consolidated financial statements for the Group as at and for the year ended 31 December 2009 has not changed. During the six months to 30 June 2010, purchases of £21 million (2009: £22 million) and sales of £2 million (2009: nil) 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 2010.

14 Subsequent events

The Group entered into sale and leaseback contracts on 16 July 2010 and disposed of its long leasehold interest in properties at Birmingham and Bristol. The completion of the sale of the property at Birmingham is scheduled to take place on 12 August 2010 for a cash consideration of £6 million. The completion of the sale of the property at Bristol is scheduled to take place on 23 August 2010 for a cash consideration of £1 million.

In July 2010 the Group repurchased €6 million (£5 million) nominal of the 2011 €86 million Eurobonds, leaving the net repayable in 2011 after cross currency swaps as £5 million.

Copies of this report are available on the Company's website, www.itvplc.com , and in hard copy from the Company Secretary, ITV plc, The London Television Centre, Upper Ground, London SE1 9LT. Tel: 020 7157 3000.

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 2009 Annual Report with the exception of the following changes in the period: Baroness Usha Prashar resigned on 31 March 2010, John Cresswell resigned on 23 April 2010, Adam Crozier was appointed on 26 April 2010 and Rupert Howell resigned 1 June 2010. A list of current directors is maintained on the ITV plc website: www.itvplc.com.

For and on behalf of the Board:

Andrew Garard
Company Secretary
3 August 2010

Independent Review Report to ITV plc

Introduction

We have been engaged by the company to review the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2010 which comprises the Condensed consolidated income statement, Condensed consolidated statement of comprehensive income, the Condensed consolidated statement of financial position, the Condensed consolidated statement of changes in equity, the Condensed statement of consolidated 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 consolidated 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 consolidated financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of consolidated 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 consolidated 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 consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

Richard Bawden
for and on behalf of KPMG Audit Plc
Chartered Accountants
PO Box 695
8 Salisbury Square
London EC4Y 8BB

3 August 2010