Transforming ITV

ITV plc Report and accounts 2010

ITV today

ITV is the largest commercial television network in the UK. It operates a family of channels including ITV1, and delivers content across multiple platforms via itv.com and ITV Player. ITV Studios produces and sells programmes and formats in the UK and worldwide.

Broadcasting & Online

ITV content is funded by advertising and sponsorship revenues as well as viewer competitions and voting. ITV1 is the largest commercial channel in the UK. It attracts the largest audience of any UK commercial broadcaster and has the greatest share of the UK television advertising market at 45.1%. ITV's digital channels continue to grow their audiences and most recently saw the launch of high definition (HD) versions of ITV1 on Freeview and Sky, and ITV2, 3 and 4 on Sky. ITV1+1 also recently launched.

ITV's broadcast assets include the multiplex operator SDN, which continues to grow its revenues, and operates one of the six digital terrestrial multiplex licences in the UK that make up Freeview.

Online, ITV is focused on delivering ITV programming across multiple platforms including itv.com, video on demand on cable television and other 'closed' platforms, mobile devices and games consoles. itv.com includes ITV Player, which allows users to access catch-up and watch clips from the best ITV programmes. Online revenues are primarily sourced from advertising.

ITV Studios

ITV Studios comprises ITV's UK production operations, ITV's international production companies and ITV Studios Global Entertainment.

ITV Studios produces programming for ITV's own channels and for other UK and international broadcasters.

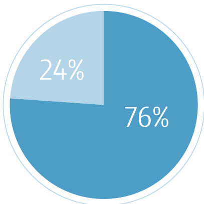
A wide range of programme genres are produced, including: drama, soaps, entertainment, factual, daytime, arts, current affairs, quiz and game shows. It has a growing portfolio of international production offices around the world, including in the US, Germany, Australia, Sweden, Spain and France.

ITV Studios Global Entertainment is ITV's international distribution, home entertainment, publishing, merchandising and licensing business. It has over 35,000 hours of original and formatted programmes that it distributes to broadcasters in 240 territories worldwide.

Total revenue (including internal)

Broadcasting & Online
£1,771m

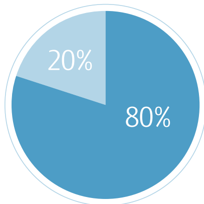
ITV Studios
£554m



EBITA before exceptional items

Broadcasting & Online
£327m

ITV Studios
£81m



ITV's Directors' report
The Directors' report explains in detail how we have performed this year and sets out a fair review of the business, a balanced and comprehensive analysis of our performance, the use of financial and non-financial key performance indicators to explain how much progress we have made, a description of the principal risks and uncertainties facing the Company, and an indication of likely future developments.

The Directors' report is prepared in line with the relevant provisions of the Companies Act 2006. In preparing the Directors' report the Company has had regard to the guidance issued by the Accounting Standards Board in its Reporting Statement on narrative reporting. The Directors' report is intended to provide shareholders with a greater understanding of the Company, of its position in the markets within which it operates, and of its prospects.

In setting out the Company's main risks and uncertainties, an indication of likely future developments, and in other content, this report and accounts contains statements which, by their nature, cannot be considered indications of likelihood or certainty. The statements are based on the knowledge and information available at the date of preparation of the Directors' report, and what are believed to be reasonable judgements. A wide range of factors may cause the actual outcomes and results to differ materially from those contained within, or implied by, these various forward-looking statements. Nor should any of these statements be construed as a profit forecast.

Financial summary

Group external revenues

£2,064m 09/ £1,879m

EBITA before exceptional items*

£408m 09/ £202m

Adjusted cash flow*

£517m 09/ £345m

Profit before tax

£286m 09/ £25m

Basic earnings per share

6.9p 09/ 2.3p

Adjusted earnings per share*

6.4p 09/ 1.8p

Net debt

£188m 09/ £612m

*See definitions on page 26

We need to be a lean ITV that can create world class content, executed across multiple platforms and sold around the world.

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Chairman's statement

by **Archie Norman**

'Over the next ten years the global market will change beyond recognition'

Dear Shareholder

I arrived as Chairman a little over a year ago as ITV emerged from one of the most troubled periods in its history. Since then we have embarked on a far reaching programme of change.

The problems ITV experienced in 2009 were in part an inevitable consequence of high gearing and recession. However, they showed up in sharp relief our dependence on a narrow and increasingly volatile source of revenue in free to air television advertising. And they highlighted longer term trends which pose serious challenges for the traditional television model. Over the next ten years the global market will change beyond recognition. In the short term we can improve our operating capability and performance. In the long term we face a transformational imperative.

The transformation imperative

In embarking on a transformation of this extent there are a number of critical ingredients for success. The first of these is strong leadership. It is therefore very important that Adam Crozier joined us at the end of April as Chief Executive. Under his unswerving direction the foundations of change have already been laid and momentum is starting to build within the business. The top team has been rebuilt and a new talented leadership team is now in place.

Second we require clarity of vision and a clear road map for change. Transformation requires a sense of 'time and place' because it is vital that everyone at ITV knows what is required of them and where we are in the journey. Therefore the team has set out a five-year transformation plan that has been briefed to shareholders and to everyone in the business. That plan is set out with great lucidity in this report.

‘In the short term we can improve our operating capability and performance. In the long term we face a transformational imperative’

We are very much in the first phase which involves building the foundations and ‘fixing the basics’. It is vital we build the momentum for change but unless we do the hard things first the vision is irrelevant.

Third we need the financial and operational space to deliver change. That is why over the last year we have been explicit with our shareholders, our people, and our other stakeholders that we are focused on delivering value over five years. Of course we want to do the best for shareholders each year. But there are, sometimes painful trade offs to be made. For instance in technology and the creative process and where necessary we will make the right decision for the longer term.

Finally we fully recognise that change is not just technological or financial. It requires a different high performance culture, organisation, and way of working. And our success depends on attracting and retaining people of extraordinary creative ability. At ITV we have very talented people. But they have been immersed in a historically successful model that is now challenged. That is why we have been bringing in new skills and new people to enable our existing teams to adapt to a new way of working and the leadership team has already made changes to how we communicate, interact, assess performance, recruit and reward people.

Strong financial performance
The financial performance of the last year has been encouraging and has given us a much stronger position to be able to make the right decisions and investments required for the long-term future of ITV. However, it should not provide any excuse for taking the pressure off: the most difficult challenges are those that appear over the horizon. Recovery in the advertising markets is welcome but every day we see portents of the landscape shift that will take place over the next decade. Nevertheless the last year’s performance was strong and tight financial management, cost reduction and working capital controls over the last two years have converted market recovery into a substantial reduction in our debt.

Changed Board and Governance
Since I arrived we have reduced the size of the Board and repositioned its focus and activities. As we embark on the journey ahead it is important we have a very engaged Board close to the business who are able to both support and challenge the executive team. I am delighted that Lucy Neville-Rolfe has joined us and believe we have a strong non-executive team with immense breadth of experience and outlook.

Since I last wrote to you John Cresswell has left the Board. His steadfast leadership helped guide the ship through stormy waters. Rupert Howell, who has also departed played an important role in sustaining our advertising revenues in difficult times. And Baroness Usha Prashar has stepped down as a non-executive and Chairman of the Remuneration Committee. We are grateful to all of them for their contribution.

We now have a very strong team which is mindful of its responsibilities not just in helping deliver the strategy but also in overseeing financial controls and risk management.

Uncertain outlook
Whilst the advertising market remains in growth at the time of writing we are not depending on this continuing. The ‘bounce back’ takes it to levels in real terms only slightly above those achieved in the early 1990s. If it teaches us anything it is that volatility can work both ways. However we have a leaner business and one that is immeasurably more robust with a stronger balance sheet and strong leadership, a clear plan for the journey ahead and better operating performance.

Therefore the Board plans to restore the payment of a dividend at the interim results in July 2011.

Archie Norman

A strategy for the future

by **Adam Crozier** Chief Executive

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 focusing on our four strategic priorities...

1. Create a lean, creatively dynamic and fit-for-purpose organisation
Go to pages 06–09

2. Maximise audience and revenue share from existing free-to-air broadcast business
Go to pages 10–15

3. Drive new revenue streams by exploiting our content across multiple platforms, free and pay
Go to pages 16–19

4. Build a strong international content business
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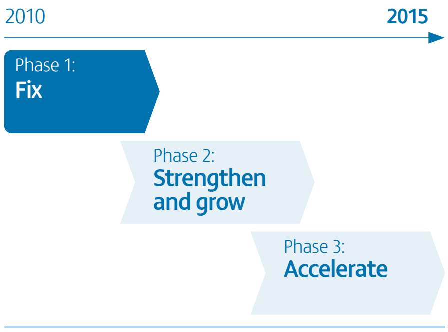
‘While this is a strong financial performance for 2010, it does not disguise the major challenges that ITV needs to face up to’



Our eight workstreams map to our four strategic priorities

– Alignment and simplicity
– Great place to work

– News review
– New regulatory deal

– Online and On Demand
– Pay TV
– Total value creation

– New creative process

Overview of results
We are pleased to report a significantly improved financial performance in 2010 with total external revenues up 10% at £2,064 million. This was largely driven by the stronger than expected UK television advertising market and ITV’s outperformance of that market.

The growth in advertising and ITV’s continued focus on cost reduction fed through to substantially increased profits with adjusted earnings per share at 6.4 pence (2009: 1.8 pence). The decisive action taken on cash management has led to a significant reduction in our net debt position down from £612 million at the end of 2009 to £188 million at the end of 2010.

Whilst the recovery in the television advertising market is helpful, it shows how volatile the market is and our results show how ITV remains overly reliant on advertising revenue. Our Online revenues grew but remain subscale compared to our Broadcasting business and ITV Studios’ revenues declined emphasising the need for creative renewal.

We face major ongoing challenges to rebalance the business and to ensure that in the long run we are fit to compete, which is why we have embarked on the five-year Transformation Plan to fundamentally change the Company.

ITV’s significant challenges
The global media environment continues to change dramatically. Audiences have fragmented and free-to-air broadcasters have lost viewing share with the rapid rise of digital and pay TV. The boom in video viewing via the internet, and other video on demand services, has also contributed to a vast increase in consumer choice and seen advertising revenues diverted away from television. Broadcasters have been under pressure to reduce risk and buy proven formats. The winners from this trend have been format owners, particularly US studios.

ITV has not responded to the changing environment. In part this is because its organisational ineffectiveness and entrenched legacy culture limited our ability to respond to the challenges of a changing market place. The first phase of our Transformation Plan is therefore to ‘fix’ the business which remains our initial priority.

ITV has seen its core proposition of free-to-air broadcasting steadily eroded. ITV1’s share of viewing and commercial impacts has gradually declined over many years. We have been weak on technology and our digital and platform strategy was underdeveloped. Our Online operations are subscale and until Q4 2010 we had no access to the pay TV market which is worth over £5 billion.

ITV Studios’ creative content pipeline had depleted over time with no major new entertainment programme format created since 2006. This impacted our ability to sell programmes both in the UK and internationally. ITV Studios’ share of ITV commissions has been falling for a number of years and a fragmented approach to rights ownership and management hindered our ability to exploit our content. We were slow to exploit our programme and channel brands outside of the traditional broadcast arena.

Transformation Plan
Adapting to this new media environment requires urgent change to ITV’s strategy, management, culture and organisation. We have started to address the challenges we face but there are no quick fixes.

We launched a three-phase strategy in August 2010, to transform ITV over the next five years. Phase 1 is to Fix the Company so we are ready to compete; Phase 2 is to Strengthen and grow the business, investing on solid foundations and building platforms for growth, and Phase 3’s focus is to Accelerate, driving performance and value.

The Transformation Plan has four strategic priorities which are covered over the following pages. In order to execute and deliver the plan, eight separate workstreams have been set up which map to the four priorities. Each workstream is sponsored by a member of the Management Board. We have set up a Transformation office, headed by Simon Pitts, Director of Strategy & Transformation, to coordinate and help drive forward each workstream.

We are less than 12 months into our five-year plan and have made some real progress in driving change throughout the organisation, but we are only at the start of the journey.

Transforming ITV

energise

The new Management Board is now in place and is committed to delivering the Transformation Plan.

From left: **Andrew Garard** Legal, **Andy Doyle** HR, **Simon Pitts** Strategy & Transformation, **Mary Fagan** Communications, **Ian Griffiths** Finance, **Adam Crozier** CEO, **Fru Hazlitt** Commercial & Online, **Peter Fincham** Broadcasting, **Kevin Lygo** Studios, **Paul Dale** Technology & Platforms

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

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What do we want to achieve?

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

Transforming ITV

'Attracting creative talent is crucial to the success of our business'

'Our new top team will measure our success by delivery and execution'

How are we going to achieve it?

In order to turn ITV into a lean, creatively dynamic and fit-for-purpose organisation a relentless pursuit of improvement needs to be undertaken at all levels of the business. Key to this strategy is the continued strengthening of the creative talent of the business.

To be a top class organisation requires top class people. This will be achieved by ensuring that we have the best possible leadership team who are able to operate in a seamless and agile manner, adapting quickly to change when needed.

It does not stop with the leadership team. Throughout the organisation we need to recruit the best people, implementing appropriate development programmes, with incentives around delivering our strategy. This will enable us to drive through the cultural change necessary to become a performance driven organisation, operating transparently with no silos.

It is vital that Broadcasting & Online and ITV Studios work closely together. This will help us to develop an integrated creative process with a focus on long-running returnable franchises and the ability for Total Value brand exploitation – extracting revenues from a brand across a variety of platforms and merchandise.

What progress have we made?

We have made some significant changes within the leadership of ITV.

The new Management Board is now in place with a number of new appointments: Kevin Lygo was appointed Managing Director of ITV Studios; Fru Hazlitt joined as Managing Director of ITV Commercial & Online; Paul Dale was recruited as Chief Technology Officer; Mary Fagan is Group Communication & Corporate Affairs Director and Simon Pitts has been internally promoted to become Director of Strategy & Transformation. Six out of the ten members of the Management Board are new and we now have the right skills from inside and outside the industry to deliver the strategy.

To complement this we have put in place new internal board structures for each division to facilitate change and speed up decision making within the business.

It is imperative that cultural change is driven throughout the business. Outside of the Management Board, there have also been significant people changes and around a third of the wider leadership team have changed. We have embarked on a development programme for the leadership team that will help drive changes down to all levels of the business. To facilitate this we held a number of employee roadshows around the country in 2010. All ITV employees were invited in order to share the new strategy and give them an opportunity to feed back their thoughts and concerns. Employee engagement measured in 2010 has improved from 65% in 2009 to 75%, a positive result but there is still some way to go.

The new creative process is now in place between Broadcasting & Online and ITV Studios and while it will take time to see the results of this onscreen, progress is being made – ITV Studios share of ITV1 Network spend on original commissions has increased from 50% in 2009 to 53% in 2010.

We continue to take steps to make the business fit for purpose. We are starting to identify where improvements in ITV's technological and management systems and processes can be made, but they will take time to implement and for the benefits to be realised. In December, we announced that, subject to planning permission, we will move the Company's Manchester base to MediaCityUK in Salford Quays and build a bespoke production centre for Coronation Street. The move is expected to complete in 2012/13. There is expected to be a significant increase in capital expenditure in 2011 associated with the new Manchester base and our investment in technology.

During 2010 targeted cost efficiencies of £40 million were delivered. In 2011 we will continue to focus on costs to ensure we have the appropriate cost base across the business and have identified a further £15 million of savings that are largely non-personnel related. However, there are increased costs associated with a number of the decisions we have made, such as increased transmission costs as a result of launching ITV1+1 and the digital HD channels on Sky.

While important progress is being made in Phase 1 of the Transformation Plan towards creating a lean, creatively dynamic and fit-for-purpose organisation, there is still a great deal to do to fix the business.

'We have embarked on a development programme for the top leadership team which will help drive changes down to all levels of the business'

Transforming ITV

2

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

What do we want to achieve?

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

focus

Our focus will be on how we spend our programme budget more efficiently to at least maintain our share of viewing.

Below: **Downton Abbey**

Transforming ITV

The Lakes achieved good audiences, especially for factual programming, with its best episode drawing an average audience of 4.9 million

How are we going to achieve it?

A key component in achieving our objective of maximising audience share from our existing free-to-air broadcast business is to hold ITV's viewing share across our family of channels.

In an increasingly fragmented market we must invest in quality programming and refresh the schedules to strengthen all of our channels.

Our focus will be on how we spend our programme budget more efficiently to at least maintain our share of viewing. We have announced ITV1's network programme budget will remain at around £800 million in 2011. This is a small reduction on the budget of £820 million in 2010, but this amount included the cost of the football World Cup. The key for us is investment in long-running returnable series, which also travel well internationally, particularly in entertainment and drama.

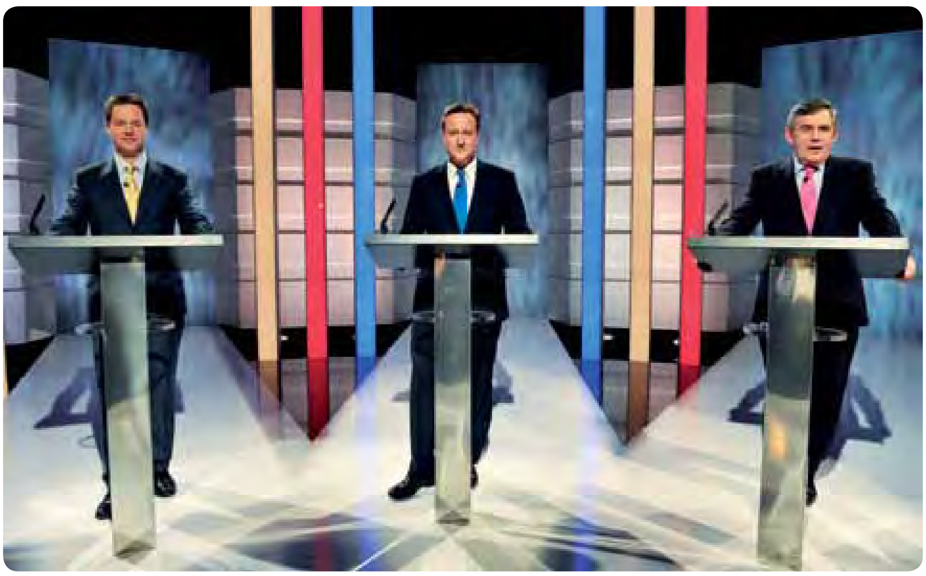
A new approach to commissioning will play a major part in achieving this. We recognise television is a long-term business and we need to move away from short-term slot filling into building long-running returnable franchises and brands. Commissioners will lead integrated business teams including Research and Development, Commercial Finance and Marketing. Commissioning decisions will be based on a wider range of factors than has been the case in the past. There will be emphasis on a Total Value approach and a broader commercial input to key commissioning decisions.

In order to maximise revenues from the existing free-to-air broadcast business, and to continue to outperform the television advertising market, we need to focus on delivering maximum value for our clients. We must offer creative and collaborative advertiser friendly solutions across our family of channels and platforms and offer a schedule that delivers what advertisers want.

Our pursuit of greater regulatory relief will continue but we must focus on the factors that are within our control as significant regulatory change could well take time to deliver.

'In an increasingly fragmented market we must invest in quality programming and refresh the schedules to strengthen all of our channels'

Historic first Election debate attracted an audience of 9.7 million



'In 2010, ITV outperformed the television advertising market by 1%'

What progress have we made?

X Factor achieved its best rating episode ever for the series final with 19.8 million viewers

DCI Banks launched with an average audience of 6.8 million

ITV remains highly dependent on the television advertising market and therefore we must ensure that we maximise our viewing and our share of advertising revenues.

In 2010 ITV outperformed the television advertising market by 1%, with the ITV Family of channels' share of total television advertising revenues increasing from 44.7% to 45.1%. ITV's strongest performance year-on-year was in June, due to the increased demand for advertising on ITV1 around the Football World Cup.

Whilst we need to outperform our competitors, we also need to balance unpredictable linear television advertising with other revenue streams across multiple platforms. Despite significant growth in the television advertising market in 2010, it is still only back to 2006 levels. We have restructured the sales team and appointed a new Director of Television Sales, Kelly Williams, and Director of Multiplatform and Partnerships, Simon Daglish. We now have the right team in place to deliver creative and commercial advertiser solutions not only in television but across all our platforms.

We had some very strong programmes in 2010, for example X Factor, Britain's Got Talent, Coronation Street, Emmerdale and Downton Abbey, the best performing new drama on any channel in the year. However, the schedule as a whole was not consistent throughout the year and we remain reliant on a number of very successful key shows.

The share of viewing for the family was down 1%, with ITV1's share of viewing down by 4% and the Family of digital channels up by 11%. ITV Family's share of commercial impacts (SOCI) in 2010 was broadly flat compared to the previous year at 39.8%. Whilst in 2010 ITV1 adult SOCI was down 4%, in the key demographics of ABC1 adults and 16-34 year-old adults, ITV1's SOCI actually increased resulting in a significantly improved audience profile for advertisers. This has resulted in an aggregate Contract Rights Renewal (CRR) ratchet of over 99%. As this ratchet is used as a basis for 2011 negotiations, it gives us confidence in our ability to outperform the television advertising market again this year.

Other programme successes in 2010 included broadcasting five out of the top ten new dramas, including DCI Banks, The Little House and Downton Abbey. The X Factor achieved its best rating episode ever for the series final with 19.8 million viewers. The I'm A Celebrity... Get Me Out of Here! final attracted its highest audience in six years. Coronation Street celebrated its 50th anniversary with the live episode and in the same week it achieved its best episode ratings since February 2004. The 2010 Football World Cup performed well for ITV1 with the England vs. Algeria match achieving the highest peak audience of the year with 21.3 million and a 71% viewing share. ITV also aired the historic first Election debate, attracting an audience of 9.7 million. However, certain slots in the schedule have been disappointing. Daybreak has not performed as we would have hoped and the 9pm slot, particularly on a Friday, remains a challenge for ITV.

In January 2011 we launched ITV1+1, a one hour time shifted version of our flagship channel, which followed the launch of ITV1 HD in 2010. This has given our viewers more choice and flexibility with their viewing. So far in 2011 ITV1+1 has accounted for 2.5% of ITV1 impacts, which we expect to grow in time.

Transforming ITV

Football World Cup 2010 performed well with the England vs. Algeria match achieving a 71% viewing share

'We have now agreed our vision for ITV1 out to 2013 and will work with independent producers and ITV Studios to deliver it'

The Only Way is Essex peaked on ITV2 with 11% share of 16-34 Adults

What progress have we made? continued

The digital channels have performed very well, particularly ITV3 which saw its SOCI increase by 24%. ITV2 and ITV4 also increased their SOCI by 3% and 17% respectively but further investment is planned to give them a clearer brand identity. This strong performance helped to hold ITV Family SOCI virtually flat despite the decline in ITV1 SOCI.

Recognising that television is a long-term business, we need to determine the vision of our schedule several years in advance while maintaining some flexibility. Peter Fincham and his team have now agreed our vision for ITV1 out to 2013 and will work with independent producers and ITV Studios to deliver it. In 2010 we announced a three-year deal for the X Factor and Britain's Got Talent with Syco and Fremantle Media, which secures two of our most popular programmes until 2013. We have also secured the rights to the Rugby World Cup for 2011 and 2015. Our approach to the provision of news on ITV is also currently being reviewed.

Our strategy is not dependent on regulatory relief, but we have made some progress in this area and we will continue to push for liberalisation. During the year Ofcom relaxed certain airtime sales rules relating to the requirement of commercial broadcasters to sell all of their advertising inventory as well as the bundling of airtime sales packages across several channels. While we operate under CRR, these have limited impact on ITV.

In October Ofcom completed its review of ITV's licence payments and concluded that Channel 3 payments should be cut to almost zero, in recognition of the cost of delivering public service obligations such as news and current affairs. In December Ofcom confirmed the new rules on product placement that came into effect on 28 February 2011. The new rules contain restrictions on the type of products that can be placed and in which programmes they can be placed. These restrictions will impact our ability to exploit this new revenue stream.

During 2010 the House of Lords began a review of the CRR mechanism and concluded in February 2011 that the CRR rules on the sale of advertising are overly detrimental to ITV and should be abolished. It also concluded that the number of advertising minutes per hour should be harmonised down to an average of seven minutes per hour on all commercial channels, subject to further research by Ofcom.

We are encouraged by the House of Lords' recommendations and that the Government appears to be increasingly pro deregulation.

ITV2's Celebrity Juice attracted a peak audience of 1.9 million

'Coronation Street celebrated its 50th anniversary with the live episode and its best audience since February 2004'

Transforming ITV

improve

We need to transform itv.com into a site which has a richer and deeper relationship with our viewers and can be the engine for our growth in new, connected platforms.

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

What do we want to achieve?

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

Transforming ITV

‘Develop new revenue streams through building our programme brands and platform offerings’

How are we going to achieve it?

We need to develop a channel portfolio that is more balanced between pay and free television, driving forward sponsorship and product placement and developing new revenue streams through building our programme brands and platform offerings.

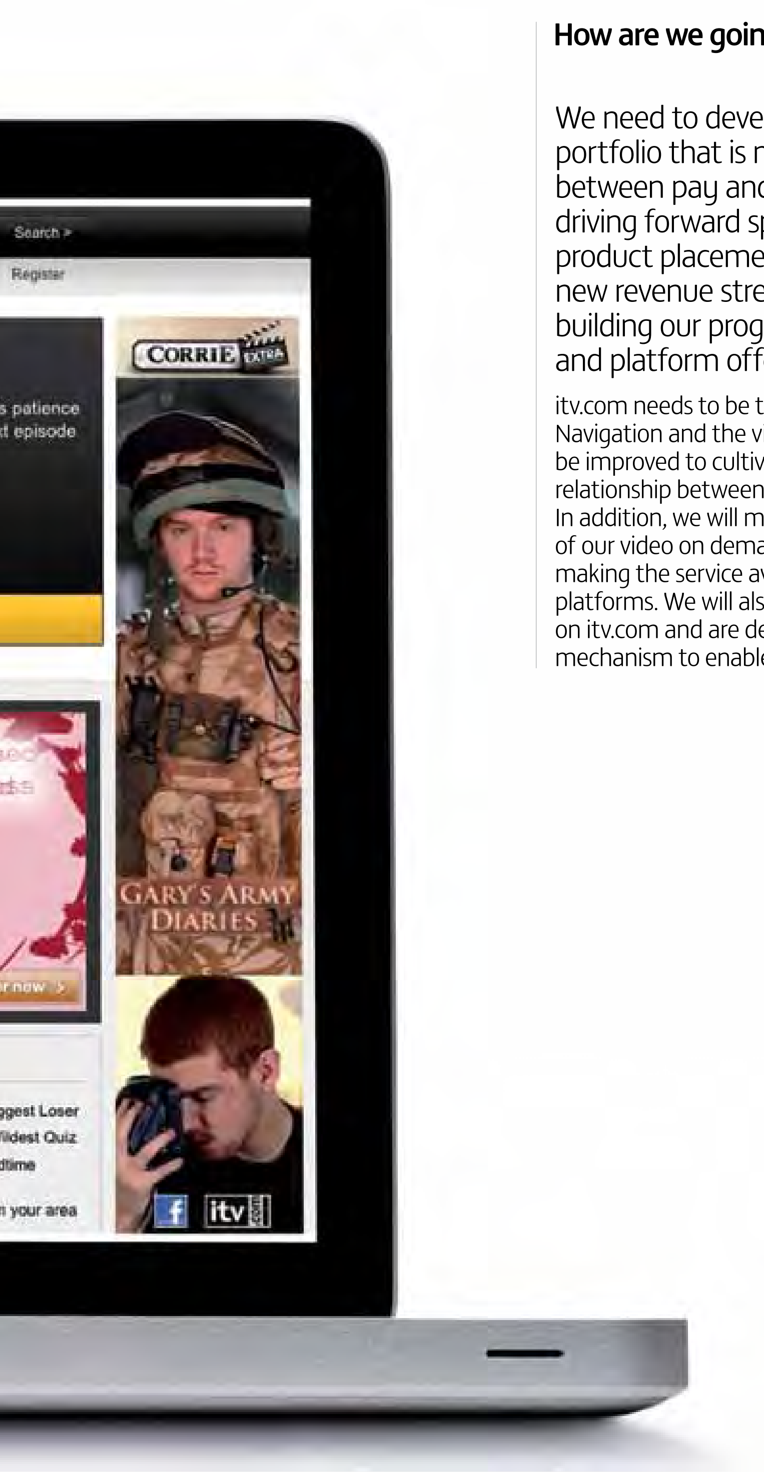
itv.com needs to be transformed. Navigation and the viewing experience will be improved to cultivate a richer, deeper relationship between ITV and its viewers. In addition, we will maximise the reach of our video on demand service, ITV Player, making the service available on new platforms. We will also undertake pay trials on itv.com and are developing a payment mechanism to enable us to do this.

We will continue to support and grow the Freeview and Freesat platforms where ITV channels perform strongly. Part of our platform strategy will also be the launch of YouView, the next generation of Freeview. This will allow viewers to navigate seamlessly between their favourite Freeview channels and the most popular on demand content on ITV Player and the BBC iPlayer, subscription free.

Growing revenues from the SDN business, which operates one of the six digital terrestrial multiplex licences in the UK that make up Freeview, also remains a focus.

In the past we have not exploited the full value of our programming. With our new Total Value approach to programme commissioning and brand exploitation, we intend to maximise the lifetime revenues from our strongest brands.

As explained earlier we have restructured the sales team to ensure we have the right team in place to offer creative advertising solutions and drive revenues across all our platforms.



Corrie Nation

ITV Live iPhone app

'Operationally we have made progress but Online continues to be subscale compared to our Broadcasting business'

What progress have we made?

In August we announced our first move into pay television, with the digital channels ITV2, 3 and 4 HD launching behind the Sky paywall in autumn 2010.

This is a three-year deal and is profitable for ITV from the outset, but it is only a small first step into pay television and it does not enable us to own the customer relationship directly. Developing a pay strategy for the future is a key part of our eight workstreams and we have resourced it accordingly.

Online revenues, excluding Friends Reunited, increased in 2010 by 17% to £28 million. While this is a good performance it is off a very low base and Online continues to be subscale compared to our Broadcasting business. Operationally Online has made progress with unique users averaging 10.2 million per month in 2010, up 17% year-on-year, and more valuable long form viewing making up an increasing proportion of it. Video views totalled 234 million which was up 9% year-on-year. Long form video views were up 79% year-on-year to 129 million, now making up 55% of the total video views on itv.com.

However, itv.com is still not currently fit-for-purpose with a poor navigation and content experience. At the end of 2010 Robin Pembrooke joined ITV as Managing Director of Online and On Demand, and with his senior team now in place, work has started on improving the site. The Online vision for 2011 has been agreed, as has the necessary investment required.

With regards to platforms we have successfully incorporated YouView as a seven-way joint venture in September. Though the project will not launch to consumers until early 2012, the focus is on getting the final proposition right for viewers and advertisers. ITV's part-owned platforms, Freeview and Freesat, have also performed well and are now used by 11 million UK homes as their primary source of television.

At the end of 2010 we launched ITV Player on the PS3, and we are now working on plans to launch ITV Player on Freesat and YouView. Meanwhile SDN continues to grow its revenues, and in 2010 it agreed three new contracts, including the multiple videostream contract with Channel 5.

We have agreed the initial key brands that will be the focus of our Total Value exploitation, including Coronation Street, This Morning and Dancing on Ice. These are not the only brands where we will look to create more value, but we will develop our approach on these brands and then roll-out more fully where appropriate across our large catalogue. For example, we have already agreed a joint two-year broadcast deal and a five-year commercial deal with Alan Titchmarsh for his daytime chat show and peak programming, as well as a merchandising deal.

ITV Player launched on PS3

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4 Build a strong international content business

What do we want to achieve?

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

extend

Extending our production and distribution network internationally.

Above: **Dancing on Ice**

Transforming ITV

Come Dine With Me is produced in 28 countries around the world

The Chase, an ITV Studios game show, performed strongly in daytime in 2010, peaking at 2.5 million viewers

How are we going to achieve it?

Transforming the internal creative capability of the business, to ensure we have the very best team in place, lies at the heart of our goal to build ITV into a strong international content business.

We need creative leadership with the ability to attract talent throughout the division. We will develop a mixed model to recruit and manage on and off-screen talent including partnerships.

As we build the right team and develop the internal creative processes, we will focus on developing high value returnable series for both the ITV channels and third-party broadcasters, in the UK and internationally. We will concentrate on developing ideas that work not only in the UK but also internationally to exploit fully all possible revenue streams. Entertainment and drama formats travel best internationally and ITV has strength in these areas, for example I'm A Celebrity, Dancing on Ice and Lewis. Factual entertainment series also travel well and we have seen success with programmes such as Four Weddings, Coach Trip and Come Dine With Me.

The key to the success of the content business is developing, or having a significant stake in, the intellectual property rights for the content that we show on our screens and sell to other broadcasters. We must own the rights to programmes and formats so that we can exploit the long tail value of them. In the shorter term we may look to acquire rights to distribute internationally with our own content to help drive revenues while we develop our own pipeline.

To have the strongest possible international content business we need to be making and distributing our programmes in as many territories as possible. The UK is core to this but we need an effective distribution and production network and access to ideas and formats across geographies. Over the next five years we will increase our number of production bases to ensure we have a presence in key global territories. We can enter new markets organically, as we did in France in early 2010 for less than £1 million or we may invest or partner. In addition to developed markets we will also look for growth in developing markets.

'We will focus on developing high value returnable series for both the ITV channels and third-party broadcasters in the UK and internationally'

I'm A Celebrity... Get Me Out of Here! has been sold in six territories to date

'Researching the creative pipeline is key for ITV going forward'

Four Weddings which we produce for Living in the UK, is broadcast in 15 countries

Coach Trip, which we produce in UK for Channel 4, has recently been commissioned in France

What progress have we made?

We now have a new creative leadership team in place following the appointment of Kevin Lygo as Managing Director of ITV Studios, Denise O'Donoghue as Managing Director ITV Studios UK and Maria Kyriacou as Managing Director of ITV Studios Global Entertainment.

However, we still need to rebuild the creative talent team to ensure that we have the right people across the business and this process is underway.

In 2010 total ITV Studios external revenues and profits were down. The market was tough with broadcasters de-risking, but ITV's ability to sell programmes was also impacted by its depleted pipeline. Internal revenues were broadly flat, but ITV Studios share of ITV1 network spend increased from 50% to 53%.

Our creative pipeline needs strengthening as we have not created an international entertainment hit since Dancing on Ice in 2006. This is obviously inhibiting our ability to sell both in the UK and internationally. However, a number of ITV Studios dramas will be on ITV1 in 2011, including Vera and Marchlands, and new entertainment pilots are being considered by the ITV Network. While this is promising, it is only a start and refreshing the creative pipeline is key for ITV going forward. As a result we have significantly increased the development budget for 2011.

We need to maintain the ongoing success of our soaps and other popular long running programmes. In 2010 we invested in new HD studios in Leeds which secured the future of the production of Emmerdale there.

We announced that we will be moving the Company's Manchester base to MediaCityUK in Salford Quays in 2012 and that we will be building a high-tech production and studio centre for Coronation Street at Trafford Wharf, adjacent to the main MediaCityUK site. The total cost of this is expected to be less than £35 million and once we have vacated the current Manchester site we will look to maximise its value.

We already have some great examples of formats which we are exploiting in multiple territories. Come Dine With Me, which we make for Channel 4 in the UK, is produced in 28 countries, with ITV producing the versions in six of these, and Four Weddings that we make for Living in the UK is broadcast in 15 countries, and produced or co-produced by ITV in eight. We have also recently agreed a US production deal for one of our key daytime programmes, Jeremy Kyle, and we have sold a number of other shows to Latin America.

Following the opening of our Spanish office in 2009 we opened an office in France in early 2010. Both of these territories won their first commissions in 2010, May the Best House Win in Spain and Coach Trip in France. We now have production bases in seven countries.

2011 and beyond

'As we enter 2011, ITV is in a much stronger position financially which enables us to invest in the business and make the right decisions for the long-term future of ITV'

Jason Manford joins ITV with fresh entertainment show Comedy Rocks

We are less than 12 months into our five-year Transformation Plan and are already making significant progress. However, there is still a great deal to do and many challenges we must confront to ensure that in the long-term we are fit to compete.

Over the next 12 months we need to maintain and build on the momentum of change that we have created.

While you will see rapid progress across all our four priorities our focus will be on transforming itv.com, on strengthening our creative talent and creative pipeline and improving our technology. We expect to invest £25 million of our three-year £75 million investment fund in 2011 – £7 million in Online, £12 million in Content and £6 million for Digital channels in our development fund.

Britain's Got Talent returns with a new judging panel

Our capital expenditure will more than double in 2011 to approximately £80 million as we upgrade technology across the business and invest in future-proofing our Soaps, in particular the new site for Coronation Street. While we are making significant investments in the business we will still maintain our focus on cost management to ensure we have the right cost across the organisation. We have identified £15 million of cost savings that will be delivered in 2011.

Creating a lean, creatively dynamic and fit-for-purpose organisation
We will continue to recruit the right creative talent across the organisation. There is a new creative process between Broadcasting and ITV Studios, with these businesses working more closely together. We are creating a high performance culture that aligns incentives throughout the Company to reward creative and commercial performance.

Maximise audience and revenue share from our existing free-to-air broadcast business
In 2011 we aim to again outperform the television advertising market and to maintain the ITV Family share of viewing. To do this we must improve the consistency of the schedule across the year. We are launching many new programmes, including dramas Marchlands, Vera and Monroe as well as the new documentary strand Perspectives and authored factual series featuring Caroline Quentin and Martin Clunes.

New ITV Studios drama Marchlands launched on ITV1 with an average audience of 7.8 million

‘We expect to invest £25 million of our three-year £75 million investment fund in 2011 – £7 million in Online, £12 million in Content and £6 million for Digital channels’

Brenda Blethyn OBE stars in Vera, a new murder mystery

ITV has secured the rights to the Rugby World Cup 2011 and 2015

Some of our most successful programmes return in 2011 including the X Factor, Britain’s Got Talent, I’m A Celebrity and Downton Abbey as well as Coronation Street and Emmerdale. Top sporting events such as the Rugby World Cup, Champions League, the FA Cup and Euro 2012 qualifiers are also on ITV this year.

Drive new revenue streams by exploiting our content across multiple platforms, free and pay
To help drive new revenue streams a multiplatform commissioning structure will be put in place. We are developing our product placement offerings and will launch Total Value exploitation across a number of key brands. We will deliver an improved and redesigned itv.com and start to undertake pay trials online. YouView will commence consumer trials in late 2011 and is planned to be fully launched in early 2012. All these initiatives will take time to make an impact and we are unlikely to receive the benefits until 2012.

Build a strong international content business
Building a strong international content business remains a key priority and we will increase investment in programme development and pilots to create returnable commercial franchises. We are rebuilding the senior talent team and are looking at new ways of working with talent and production companies as well as considering the potential for partnerships and investments across the international ITV network.

Outlook
We have a great deal still to do and we will measure the success of the Transformation Plan by both delivery and execution. We have developed a new set of key performance indicators that align our performance and accountability to the Transformation Plan.

As we enter 2011, ITV is in a much stronger position financially which enables us to invest in the business and make the right decisions for the long-term future of ITV.

The television advertising market has performed strongly so far in 2011. In Q1 ITV net advertising revenue (NAR) is expected to be up 12% and initial forecasts for April are for NAR to be up between 8% and 12%. However, the comparatives we face are becoming increasingly tough. The outlook into the rest of 2011 remains uncertain and we are cautious about the broader economic outlook and its impact on our market. We will maintain our focus on cash and costs in 2011 and on delivering the Transformation Plan to secure the long-term stability of the Company.

Adam Crozier Chief Executive

Key Performance Indicators

ITV has redefined its Key Performance Indicators (KPI) to align performance and accountability to the Transformation Plan.

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

Core financial performance

EBITA before exceptional items

	2010	2009
EBITA before exceptional items	**£408m**	£202m

Earnings before interest, tax and amortisation ('EBITA') before exceptional items more accurately reflects the business performance of the Group in a consistent manner and in line with how the business is managed and measured on a day-to-day basis.

EBITA before exceptional items has increased during the year to £408 million mainly due to a £205 million increase in television advertising revenues and the continued positive impact of cost savings, which were partially offset by increased transmission and schedule costs in the year.

Adjusted earnings per share

	2010	2009
Adjusted earnings per share	**6.4p**	1.8p

Adjusted earnings per share represent the adjusted profit for the year attributable to equity shareholders. It more accurately reflects the business performance of the Group in a consistent manner and in line with how the business is managed and measured on a day-to-day basis.

Adjusted profit is defined as profit for the year attributable to equity shareholders before exceptional items, impairment of intangible assets, amortisation of intangible assets acquired through business combinations, financing cost adjustments (see page 32) and prior period and other tax adjustments.

Adjusted earnings per share has increased to 6.4 pence reflecting the significant improvement in trading and EBITA before exceptional items, the reduction in adjusted financing costs as a result of the repurchase of debt and the reduction in the adjusted tax rate due to the utilisation of prior year losses.

'Profit to cash' conversion

	2010	2009
'Profit to cash' conversion	**127%**	171%

'Profit to cash' conversion represents the proportion of EBITA before exceptional items converted into a measure of adjusted cash flow (defined as cash generated from operations before exceptional items less cash related to the acquisition of property, plant and equipment and intangible assets – see page 35). 2009 has been restated to include cash related to the acquisition of intangible assets.

It remains ITV's aim to keep this 'profit to cash' conversion as high as possible, and in excess of 90% on a rolling three-year basis.

A 'profit to cash' conversion ratio of over 100% has been achieved for the second successive year. This shows that ITV has maintained a strong focus on working capital, in particular stock balances. The high conversion rates over the past two years have been key factors in the net debt reduction. 'Profit to cash' conversion in 2011 will be lower than 2010 since stock has been reduced to more normalised levels and capital expenditure will be higher.

Strategic performance indicators

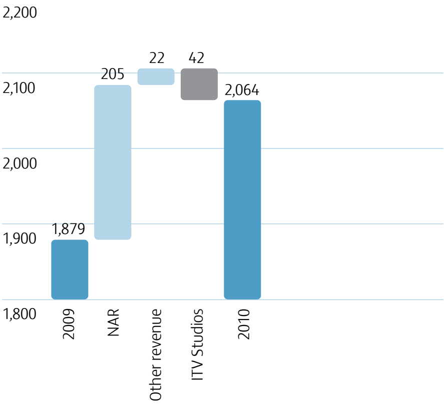
KPI description	Performance	2010	2009
ITV Family Share of Viewing (SOV) ITV Family Share of Viewing (SOV) is ITV's share of the total viewing audience over the year achieved by ITV's family of channels compared to the entire television market, including the BBC Family. ITV aims to at least maintain the ITV Family SOV.	ITV Family SOV	**22.9%**	23.1%
	ITV Family SOV has declined by 1% in the year. The movement in SOV can be split between viewing performance on each platform and the change in usage of each of these platforms during the year ('platform mix'). Removing the impact of the change in platform mix, 2009's SOV adjusted for the 2010 platform mix was 22.8%. Adjusted SOV therefore actually slightly improved during the year.		
ITV Family Share of Commercial Impacts (SOCI) This is the share of total UK television commercial impacts which is delivered by ITV's family of channels. An impact is one viewer watching one 30-second commercial. SOCI is the trading currency in the television advertising market. ITV aims to maximise its SOCI.	ITV Family SOCI	**39.8%**	40.0%
	ITV Family SOCI was broadly flat year-on-year. ITV1's SOCI was down 4% year-on-year, but this was largely offset by the strength in the ITV digital channels, particularly ITV3.		
ITV Family Share of Broadcast (SOB) ITV's UK television advertising market share is known as its Share of Broadcast (SOB). To maximise revenues from ITV's free-to-air business, ITV aims to continue to maximise its SOB and to outperform the UK television advertising market.	ITV Family SOB	**45.1%**	44.7%
	In 2010, ITV NAR gained market share increasing its SOB to 45.1% of the total UK television market. This was due to strong performances by both the sales team and on screen as ITV continues to deliver the big audiences and brands that are most demanded by advertisers.		
Non-NAR revenues Non-NAR revenues includes all ITV revenues, both internal and external, except net advertising revenues (NAR). Growing non-NAR revenues is key to the Transformation Plan as we aim to rebalance the business away from its reliance on advertising revenues.	Non-NAR revenues	**£829m**	£850m
	The reduction in non-NAR revenues in 2010 by £21 million to £829 million is due to a £43 million reduction in total revenue in ITV Studios, partially offset by smaller increases in Broadcasting & Online non-NAR revenues.		
itv.com unique users Average monthly unique users are a measure of the number of individual users visiting itv.com.	itv.com unique users	**10.2m**	8.7m
	Unique users are up 17% year-on-year, but Online remains subscale compared to our Broadcasting business.		
itv.com video views Video views are a measure of the total number of videos viewed on itv.com in the year. It includes long and short form video views.	itv.com video views	**234m**	215m
	Video views are up 9% year-on-year. An increasing proportion is long form views which are more valuable to ITV; this now constitutes 55% of total video views with 129 million long form video views in 2010.		
Percentage of ITV1 output from ITV Studios This represents the proportion of the total original commissions spend on ITV1 transmitted in the year, delivered by ITV Studios. In order to grow the content business, ITV Studios needs to increase its supply of high potential programmes to the ITV Network. Once they have been made famous in the UK, they can then be sold around the world.	Percentage of ITV1 output from ITV Studios	**53%**	50%
	The percentage of ITV1 output from ITV Studios has increased in the year. This has been driven by the delivery of daytime and factual programmes. Going forward ITV aims to deliver more entertainment and drama programming. However, it should be noted that ITV1's spend on original commissions has declined in the year by £32 million since sport costs increased due to the football World Cup.		

Financial and performance review

by **Ian Griffiths** Group Finance Director

'The focus on cash and costs is clearly evident in our much improved financial position, most notably the net debt reduction'

External revenue versus 2009 (£m)



Key financials

	2010 £m	2009 £m	Change £m
External revenue	**2,064**	1,879	185
EBITA before exceptional items	**408**	202	206
Adjusted earnings per share ('EPS')	**6.4p**	1.8p	4.6p
Net debt	**(188)**	(612)	424

Overview

ITV has delivered a strong financial performance in 2010 with external revenues and profits significantly up on prior year. This has been driven largely by the strong cyclical recovery in the television advertising market and ITV's outperformance of that market. Despite this cyclical recovery, ITV has maintained its focus on cost control and cash management. Costs have been reduced and increased revenues have been effectively converted into increased profits. The continued focus on cash management, alongside improved profits, has led to a significant reduction in net debt.

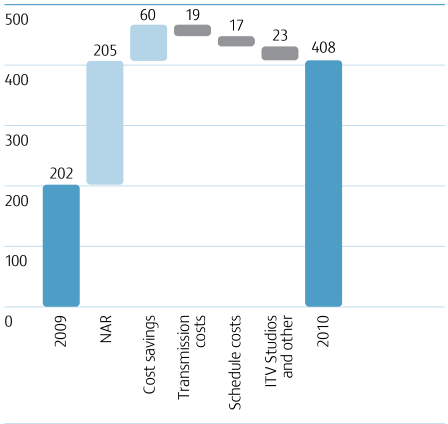
ITV is now in a substantially stronger financial position than two years ago, but this does not disguise the ongoing challenges that the business faces.

The following review is focused on adjusted results as, in management's view, these show more meaningfully the business performance of the Group in a consistent manner and reflect how the business is managed and measured on a daily basis. We have also restructured the notes to the accounts, to present a clearer view of our financial performance and financial position as at 31 December 2010.

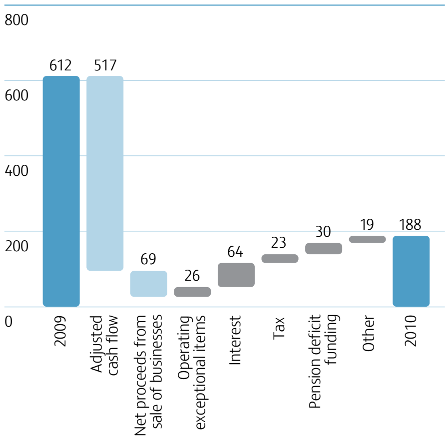
External revenue and EBITA before exceptional items

Total revenue for the year ended 31 December 2010 was 10% higher at £2,064 million (2009: £1,879 million). The improvement in Net Advertising Revenue ('NAR'), driven by the strong television advertising market, has been partially offset by a 13% reduction in external revenue in ITV Studios, mainly from international productions.

EBITA before exceptional items versus 2009 (£m)



Net debt versus 2009 (£m)



The increase in NAR is the principal reason that EBITA before exceptional items more than doubled to £408 million (2009: £202 million). Cost savings of £60 million have been made (£40 million of efficiency savings and £20 million from the reduction in the licence fee) which further boosted profitability, but these have been offset by increased schedule costs, increased transmission costs to support the launch of the HD channels and YouView, and reduced ITV Studios profits.

The improved EBITA before exceptional items has driven the increase in adjusted EPS to 6.4p (2009: 1.8p).

Net debt

Cash management has remained a key focus in 2010, with net debt reducing from £612 million at 31 December 2009 to £188 million at 31 December 2010.

Adjusted cash flow of £517 million (2009: £345 million) has increased this year not only as a result of improved profits but also from another year of strong 'profit to cash' conversion. The continued focus on cash resulted in a 'profit to cash' ratio in 2010 of 127% (2009: 171%) as we continued to reduce our stock levels and manage working capital tightly.

Aside from adjusted cash flow, £69 million was raised from the sale of Friends Reunited and Screenvision US. The cash costs of operating exceptional items in 2010 mainly relate to items provided for in previous years, such as the cash costs which underpin the efficiency savings delivered over the past two years. The return to corporation tax payments in 2010 is a consequence of improved profitability.

Broadcasting & Online

Broadcasting & Online revenues

	2010 £m	2009 £m	Change £m
Net Advertising Revenue ('NAR')	**1,496**	1,291	205
Broadcast sponsorship	**60**	59	1
Minority revenue	**54**	47	7
SDN external revenues	**43**	40	3
itv.com	**28**	24	4
Media sales, PRS and other income	**90**	82	8
Total Broadcasting & Online revenue	**1,771**	1,543	228
Total schedule costs	(1,023)	(1,006)	(17)
Other costs	(421)	(426)	5
Total Broadcasting & Online EBITA before exceptional items	**327**	111	216

The year-on-year changes in the Broadcasting & Online segment have been driven by the television advertising market, resulting in a £205 million improvement in NAR to £1,496 million (2009: £1,291 million). The television advertising market was up 15% in the year and ITV has outperformed the market once again with ITV Family revenue up 16%. ITV's share of broadcast, at 45.1%, was up 0.4 share points on last year.

Of the £205 million increase in total ITV NAR, the improvement in the television advertising market accounted for £191 million and the increase in ITV's share is worth £14 million. ITV has outperformed the television advertising market for the past three years, as we continue to deliver the big audiences and brands that are most demanded by our advertisers. This market outperformance was achieved despite a 5% decline in ITV1 SOCI in 2009 compared to 2008; under the Contract Rights Renewal remedy, advertisers are entitled to reduce their advertising share commitment to ITV1 in proportion to the decline in ITV1's SOCI in the previous year.

Financial and performance review continued

'Growing non-NAR revenues is key to rebalancing the business away from its reliance on television advertising revenues'

The rate of television advertising market growth of 15% has outstripped the 6% rise in the total market of commercial 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. Television advertising, however, continues to offer value for money given its reach and 2010 has seen television take share from other media. Over the year, the total radio advertising market grew by 4%, internet by 11%, and press declined by 1%; these all compare to television, which grew by 15%.

Broadcast sponsorship income was broadly flat at £60 million (2009: £59 million). Although closely related to advertising, sponsorship tends to be committed under longer term contracts which can mitigate the impact of short-term movements in the advertising market.

Minority revenues comprise ITV Network programme sales to Channel 3 licences not owned by ITV (STV, UTV & Channel). These revenues increased by £7 million to £54 million (2009: £47 million) due to the higher network programme budget, and fewer programmes being subject to an opt out claim than in 2009.

SDN, which operates one of the six digital terrestrial multiplex licences in the UK that make up Freeview, grew external revenues by £3 million to £43 million (2009: £40 million). In 2010 SDN agreed three new contracts, including the multi videostream deal with Channel 5. As a result of these new contracts we expect to continue to grow revenues from the SDN business in 2011.

The itv.com revenues, excluding Friends Reunited, were up 17% compared to last year, albeit off a low base. Unique users were up 17% and video views up 9%, with long form viewing, which is more valuable to advertisers, making up an increased proportion of total video views. This, combined with the strong online advertising market, resulted in the increase in itv.com revenues.

Media sales, PRS and other income has grown and includes premium rate telephony services, airtime sales on behalf of third parties, interactive transactions associated with ITV and our first steps into pay television.

Total ITV schedule costs increased by £17 million in 2010 to £1,023 million (2009: £1,006 million). The increase is principally due to the inclusion of the football World Cup.

Other Broadcasting & Online costs of £421 million (2009: £426 million) include industry and regulatory costs, as well as staff and overhead costs. The year-on-year decline is mainly from the delivery of cost savings and lower licence fees. There has been an increase in transmission costs, mainly due to the launch of the HD channels and costs associated with YouView.

A review of Channel 3 licence fees resulted in a £20 million saving as Ofcom recognised the cost of delivering public service obligations such as news and current affairs and adjusted the regional broadcasting licence fees accordingly.

'The decline in revenues across ITV Studios highlights the need for creative renewal'

ITV Studios

	2010 £m	2009 £m	Change £m
UK production and resources	**64**	71	(7)
International production	**106**	138	(32)
Distribution and exploitation	**123**	126	(3)
Total external revenue	**293**	335	(42)
Original supply to ITV	**261**	262	(1)
Total revenue	**554**	597	(43)
Total costs	**(473)**	(506)	33
Total ITV Studios EBITA before exceptional items	**81**	91	(10)

ITV Studios includes original productions for the UK and international markets, the distribution and exploitation of internally generated and acquired rights, and studios and facilities revenue. ITV Studios' creative content pipeline has depleted over time which, coupled with an environment where broadcasters are taking less risk with new content and budgets are still relatively tight, has impacted ITV's ability to sell programmes both in the UK and internationally. This highlights the need for creative renewal.

UK production and resources external revenue (for other UK broadcasters) has decreased by 10% to £64 million (2009: £71 million), and the number of external hours produced have also reduced by 10%. Programmes such as The Street and Animal Cops did not return, but these were partially offset by the growth of programmes such as Coach Trip and Four Weddings.

International production revenues reduced by 23% to £106 million (2009: £138 million). This was largely driven by I'm A Celebrity where there has not been any production in 2010 in the USA, Germany or Sweden; nothing of scale replaced these. This is reflected in the total number of hours produced internationally which reduced by 11% in 2010 compared to 2009.

Distribution and exploitation sales were down by 2% to £123 million (2009: £126 million). Television sales revenues held up well on the back of strong drama sales, but were offset by lower co-production revenues. Home Entertainment revenues, primarily DVD, remain under pressure, particularly in the UK.

Original supply to ITV channels is not included in reported ITV plc consolidated revenue as it represents an internal programming cost of sale. This internal supply is broadly flat at £261 million (2009: £262 million) as programmes delivered in 2009 such as Heartbeat and The Royal did not recur, but there were new programmes such as Popstar to Opera Star and The Chase in 2010.

ITV Studios' cost base has reduced by £33 million to £473 million (2009: £506 million). Most of the costs in the production business are variable and linked to revenue. The fixed costs have been reduced as part of the ongoing challenge to the cost base and those savings have helped maintain overall margins of 15%.

Financial and performance review continued

‘Financing costs have reduced as we have repurchased some of our more expensive debt’

Exceptional items

Operating exceptional items

Income/(cost)	2010 £m	2009 £m
Reorganisation and restructuring	**(17)**	(40)
Onerous contract provision	**1**	(1)
Onerous property provision	**7**	(14)
Pension scheme changes	**28**	110
Kangaroo closure costs	**–**	(2)
Total operating exceptional items	**19**	53

Net operating exceptional income in the year was £19 million (2009: £53 million).

These include £17 million of reorganisation and restructuring costs in relation to cost savings that have been delivered. There was a £7 million credit to onerous property provisions following the successful subletting of some excess space and consolidation of London offices.

The pension exceptional credit relates to pension scheme initiatives undertaken in the year to reduce the pension liability. Further details are included in section 3.6 of the financial statements.

Non-operating exceptional items
Total non-operating exceptional items are £nil (2009: cost of £73 million). A £4 million gain (2009: £51 million loss) on sale and impairment of subsidiaries and investments, principally relating to the sale of Screenvision US, was offset by a £4 million (2009: £22 million) loss on sale and impairment of non-current assets.

Net financing costs

Income/(cost)	2010 £m	2009 £m
Financing costs directly attributable to bonds	**(59)**	(74)
Cash-related net financing income	**1**	1
Cash-related financing costs	**(58)**	(73)
Amortisation of bonds	**(11)**	(6)
Adjusted financing costs	**(69)**	(79)
Mark-to-market on swaps and foreign exchange	**5**	(7)
Imputed pension interest	**(13)**	(15)
Other net financing income	**2**	10
Net financing costs	**(75)**	(91)

The cash-related financing costs of £58 million (2009: £73 million) are primarily the interest costs relating to ITV’s bond debt, which have reduced significantly year-on-year, mainly due to £146 million of debt repurchases. Cash-related net financing income remains low, despite the increasing cash balances, as most of the cash reserves are held on short-term deposit with low interest rates.

Amortisation of bonds is non-cash in the short term but will result in a cash payment on settlement. This principally relates to the 2014 Eurobond, 2015 Bond tap and 2016 Convertible Bond.

Adjusted financing costs are used to reflect the controllable interest costs of ITV’s net debt. The principal differences between the reported net financing costs and adjusted financing costs relate to mark-to-market movements on swaps and foreign exchange on bonds, which are volatile and unrealised within the year, and the imputed pension interest.

The £5 million gain (2009: £7 million charge) relating to mark-to-market on swaps and foreign exchange on bonds is as a result of decreases in the implied interest rates at 31 December 2010 compared to 31 December 2009.

Other net financing income includes the unwind of the amortised cost adjustment (as described in note 4.1) and the net losses from bond buy-backs.

'The adjusted tax rate of 23% is expected to remain at, or close to, this level for at least the next two years'

Tax

The total reported tax charge of £16 million (2009: credit of £69 million) results in an effective tax rate significantly lower than the statutory rate of tax. This is primarily due to the recognition of a deferred tax asset of £68 million in respect of tax losses not previously recognised. The deferred tax asset is being recognised as the Group is making sufficient taxable profits to be able to utilise these brought forward tax losses.

Corporation tax paid during the year of £23 million arises as a result of the return to profitability of the Group during the year, partially offset by utilisation of tax losses and pension contributions. The significant initiatives made towards addressing the pension deficit have resulted in tax relief for the Group.

Taking the brought forward losses and pension relief into account the Group should pay a relatively low level of cash tax compared to the statutory charge over the next two to three years. The timing of these deductions does not effect the statutory tax charge due to the deferred tax impact, which is recognised in full in the year.

The adjusted tax rate for adjusted profits is lower than the standard tax rate as the utilisation of losses is in excess of normal disallowable costs:

	2010 £m	2009 £m
Profit before tax as reported	**286**	25
Operating exceptional items (net)	**(19)**	(53)
Amortisation and impairment of intangible assets*	**48**	51
Non-operating exceptional items	**–**	73
Adjustments to net financing costs	**6**	12
Adjusted profit before tax	**321**	108

	2010 £m	2009 £m
Tax (charge)/credit as reported	**(16)**	69
Net charge for exceptional and other items	**5**	21
Credit in respect of amortisation and impairment of intangible assets*	**(13)**	(14)
Credit in respect of adjustments to net financing costs	**(2)**	(3)
Credit in respect of prior period items	**–**	(82)
Other tax adjustments	**(47)**	(26)
Adjusted tax charge	**(73)**	(35)
Adjusted rate of tax	**23%**	32%

*Amortisation of intangible assets arising from business combinations.

The purpose of presenting an adjusted tax charge is to more closely reflect the expected cash tax in respect of the current year's profit before tax. The Group adjusts its reported tax charge for exceptional items and material or non-recurring items, including amortisation of intangibles, adjustments to net financing costs and certain tax adjustments. In 2010 the other adjustments of £47 million primarily represents the deferred tax benefit of tax losses available for use in future years. These losses are expected to be utilised over the next two to three years and as a result the adjusted tax rate in that period is expected to be lower than the statutory rate.

Financial and performance review continued

'Improved profits, reduced interest and a lower effective tax rate have all helped adjusted EPS rise from 1.8p to 6.4p'

Earnings per share

Adjusted earnings per share is 6.4 pence (2009: 1.8 pence). Basic earnings per share is 6.9 pence (2009: 2.3 pence).

Reconciliation between reported and adjusted earnings

	Reported £m	Adjustments £m	Adjusted £m
EBITA before exceptional items	408	–	408
Exceptional items	19	(19)	–
Amortisation and impairment	(63)	48	(15)
Financing costs	(75)	6	(69)
JVs and associates	(3)	–	(3)
Profit before tax	286	35	321
Tax	(16)	(57)	(73)
Profit after tax	**270**	**(22)**	**248**
Non-controlling interests	(1)	–	(1)
Earnings	**269**	(22)	**247**
Number of shares	3,884		3,884
Earnings per share	**6.9p**		**6.4p**

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

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

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

Dividend

The Board intends to restore payment of a dividend at the interim results in July 2011.

Disposals and assets held for sale

The Group continues to dispose of non-core assets. Two businesses, Friends Reunited and the 50% interest in Screenvision US, were sold for a net consideration of £69 million. Properties at Bristol and Birmingham were sold for a total consideration of £7 million.

The Group continues to actively market for sale its 50% interest in the joint venture Screenvision Europe and its surplus properties.

Cash flow, working capital management and net debt

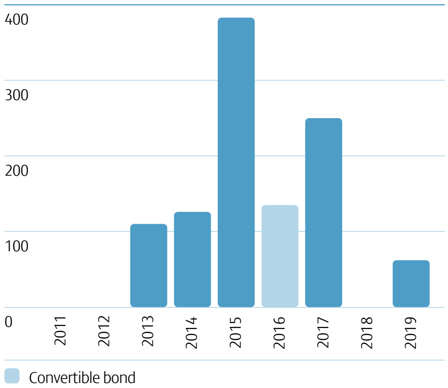
Cash flow and working capital management

With profits and cash flows overly dependent on the volatile television advertising market, it is important that ITV manages its cash and working capital tightly. 2010 was another good year in this regard, with 127% 'profit to cash' conversion being delivered, well ahead of our benchmark of 90% over a rolling three-year period. It will be difficult to repeat this level of 'profit to cash' conversion in 2011, primarily because our capital expenditure is rising and programme rights and other inventory are now reduced to more normalised levels.

	2010 £m	2009 (restated) £m
EBITA* ('profit')	**408**	202
Decrease in programme rights and other inventory and distribution rights	**108**	125
(Increase)/decrease in receivables	**(8)**	11
Decrease in payables	**(1)**	(15)
Working capital movement	**99**	121
Depreciation	**30**	38
Share-based compensation	**8**	11
Cash flow generated from operations*	**545**	372
Acquisition of property, plant and equipment and intangible assets	**(28)**	(27)
Adjusted cash flow	**517**	345
'Profit to cash' ratio	**127%**	171%

* Before exceptional items.
2009 has been restated to include cash spend on the acquisition of intangible assets, since this is core to supporting the operations of the business.

Maturity profile at 31 December 2010 (£m)



Liquidity risk

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 volatile television advertising revenues fell. This resulted in a lowering of ITV's credit ratings by Standard & Poor's, Fitch and Moody's respectively from investment grade (BBB-/BBB-/Baa3) to sub investment grade (B+/BB-/B1). However, with the upturn in television advertising revenues in 2010 combined with good cash and cost control, these pressures have been partially eased. Although still sub investment grade, in May 2010 Standard & Poor's revised ITV's credit ratings outlook from Negative to Stable (B+) and then put it on 'credit watch positive' in January 2011. In August 2010 Fitch and Moody's both increased ITV's credit ratings by one notch to BB and Ba3 respectively.

Funding

ITV is aware of the perceived inefficiency of holding £860 million of cash and cash equivalents and over £1 billion of gross debt, but it is important to note the speed at which the net debt has reduced over the past two years. The extent of decline of the television advertising market in 2008 and 2009, and then the subsequent recovery in 2010, was unexpected. This recovery, combined with tight cash control, has allowed net debt to reduce significantly over two years from £730 million at 31 December 2008 to £188 million at 31 December 2010. In addition to net debt of £188 million at 31 December 2010, the Group also has an IAS 19 Pension Deficit of £313 million.

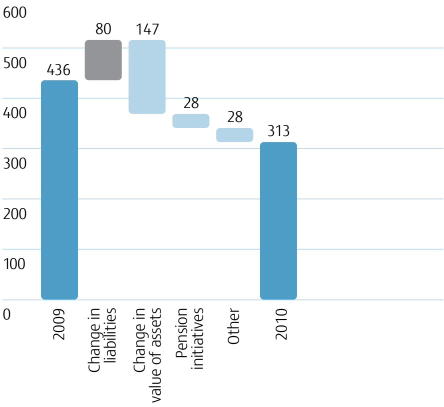
In 2010 ITV bought back €63 million (£54 million) nominal of the 2011 bonds, £42 million nominal of 2015 bonds and repaid the £50 million May 2013 loan. As at 31 December 2010, ITV's net sterling position after the impact of cross currency swaps against the remaining €54 million 2011 Eurobond is a receivable of £16 million. This receivable has arisen due to large positive swap values arising from favourable currency movements; when ITV exchanged or bought back these series of bonds it was more efficient to enter into new swaps to protect this position rather than terminate existing swaps.

In October 2010 ITV increased the size of its undrawn, covenant free bilateral bank facility secured on advertising receivables from £75 million to £125 million and the maturity of this facility was extended from March 2013 to September 2015. This facility remains undrawn.

Financial and performance review continued

'Gross debt has been reduced in the year due to the repurchase of some of the more expensive debt'

IAS 19 pension deficit versus 2009 (£m)



ITV is financed using debt instruments with a range of maturities. Borrowings at 31 December 2010 (net of currency hedges and secured gilts) are repayable as follows:

Amount repayable	£m	Maturity
€54 million Eurobond*	(16)	October 2011
£110 million Eurobond	110	March 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	61	Various
Total repayable	**1,111**	

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

At 31 December 2010 ITV had £860 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 commitments. Cash and cash equivalents also include £47 million held principally in overseas and part owned subsidiaries.

As explained above, steps have been taken to repurchase some of the more expensive debt. The remaining debt now held is not expensive given our credit rating (at an average gross cost of debt of 7%), is an appropriate mix of medium to long-term debt and has no financial covenants. As ITV drives forward the Transformation Plan it is also important that some flexibility is maintained to invest in the business.

Pensions

Reducing pension risk and uncertainty

As part of the long-term strategy to manage the risks and uncertainties associated with the pension schemes, the Group has continued to implement a programme of measures to manage the cost and risks of providing the defined benefit arrangements and to provide greater security for the benefits that members have built up.

During 2010, ITV implemented two initiatives to reduce these risks, resulting in a £28 million income statement gain. With effect from 1 April 2010, ITV is offering all new pensioners the opportunity to uplift part of their pension in return for giving up rights to annual increases on that part of their pension. Additionally, the offer was extended to existing pensioners who retired after the initial offer was made in 2009. The level of member acceptance resulted in a past service credit of £27 million over 2010, reflecting the reduction in the liabilities due to the option being accepted by these pensioners and the expected take-up of this option in the future. In addition, the Group carried out an enhanced transfer value ('ETV') programme aimed at reducing the liabilities in respect of the deferred pensioner population. This resulted in a net settlement gain of £1 million, reflecting the difference between the liabilities removed and the ETV paid.

IAS 19

Detailed analysis of the Group's pension schemes, including timing of actuarial valuations, are included in note 3.6 of the financial statements.

The Group's defined contribution schemes gave rise to an operating charge in 2010 of £6 million (2009: £4 million).

The aggregate IAS 19 deficit on defined benefit schemes at 31 December 2010 was £313 million (2009: £436 million). This decrease was driven by an increase in the value of the scheme assets, the benefits from the actions taken in the year as set out above and the reduction in liabilities due to the Government's decision to link statutory pension increases to the Consumer Price Index rather than the Retail Price Index. This was offset in part by a decrease in the discount rate applied to liabilities.

‘We continue to implement a programme of measures to manage the cost and risks of providing the defined benefit arrangements’

SDN pension partnership
In the first half of 2010 the Group and the Trustee of the ITV Pension Scheme (‘the Scheme’) created a pension funding partnership, ITV Scottish Limited Partnership (‘the Partnership’). The Partnership owns SDN Limited and the Group has contributed an interest in the Partnership worth £124 million to the main section of the Scheme. The Group retains control, and continues to consolidate the revenue and cashflow, of the Partnership and SDN.

Under the Partnership arrangements, the Group has committed to making a payment to the main section of the Scheme of up to £150 million in 2022, if and to the extent that it remains in deficit. In addition, the Partnership will make an annual distribution of £8 million to the Scheme for 12 years from 2011. The Partnership’s interest in SDN will provide collateral for these payments. The Scheme’s interest in the Partnership reduces the deficit on a funding basis, although the agreement does not impact the deficit on an IAS 19 basis, as it is not an asset controlled by the Scheme. The deferred tax balance associated with the pension deficit has been adjusted to reflect this transaction (see note 2.3 in the financial statements).

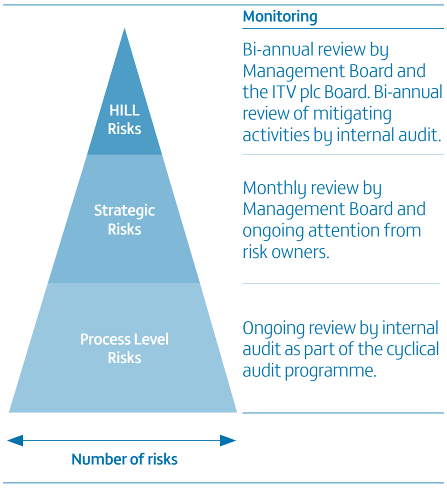
Deficit funding
The Group has agreed with the Trustee the level of contributions to the main section of the ITV Pension Scheme through to 2014. From 2011 the Group will make deficit funding contributions of £35 million per annum. From 2012 the Group’s annual contribution will be increased by £5 million, unless during the previous year the Group implemented initiatives which reduce the Scheme’s deficit by at least £10 million, compared with the level absent such initiatives. In addition from 2012, if the Group’s reported EBITA before exceptional items exceeds £300 million in the previous year, the Group will increase this contribution by an amount representing 10% of EBITA before exceptional items over this threshold level. These arrangements supersede the Group’s previous commitment to make annual contributions of £30 million per annum through to 2013. Further deficit contributions of £8 million will commence from 2011 as a result of the SDN partnership, as described above. Assuming no unforeseen circumstances, no further change is currently expected in ITV’s committed contributions to the main section of the Scheme before 2015. The triennial valuation, as at 1 January 2010, of the two smaller sections of the defined benefit pension scheme, sections B and C, is in progress.

Trustees’ investment strategy
The Trustees continue to review the investment strategy for the main defined benefit pension scheme. The asset allocation of the main section of the Scheme as at 31 December 2010 was broadly that 47% of the assets were invested in equity, property and other return seeking assets, and 53% were invested in bonds and other liability-matching investments. The Trustees also use derivative instruments to hedge partial exposures to movements in interest rates, inflation and foreign exchange rates.

Ian Griffiths Group Finance Director

Risks and uncertainties

The effective identification and management of risks is essential for ITV to successfully execute the Transformation Plan, to protect its reputation and to enhance shareholder value.



'In 2010 ITV undertook a review of its risk management process and has developed a new approach'

Risk management approach and structure

In 2010 ITV undertook a review of its risk management process and has developed a new approach. ITV is of the belief that it provides a greater focus on the key risks whilst retaining (and building upon) the output of the previous process. This new approach covers risks at all levels of the organisation and examines business risks from both a top down and bottom up basis.

The new approach breaks down risks into three core groups

- High impact, low likelihood (HILL) risks – of low inherent likelihood but where there would be major consequences were the risk to materialise;
- Strategic risks – would impact the successful execution of the strategy; and
- Process level risks – risks that are embedded into every day activity within the organisation.

Risk management process

Each strategic risk is owned by a member of the Management Board. The risk owner will formally report to the Management Board, which has overall responsibility for the content and operation of the risk management framework, on a monthly basis.

The ITV plc Board regularly reviews the risk management framework (including risk at all three levels), its content and its operation. The Board is responsible for establishing a robust and appropriate process, including regularly reviewing the risks themselves. The Audit Committee keeps under review the effectiveness of the risk management process.

HILL risks

These risks can be described as those that would be considered to have a low degree of likelihood of occurring, but, if they were to materialise would have a very significant impact on the organisation. They are pervasive risks that impact the whole of the organisation. They are generally more static in nature and as such are subject to a lower frequency of review.

The following HILL risks have been identified and for each risk mitigating actions have been put in place. The risk that:

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

Strategic risks

The top strategic risks are those that impact the successful execution of the strategy and as a result require regular Management Board monitoring. A risk owner at Management Board level has been identified for each risk, mitigating actions have been put in place and key risk indicators identified. All of the strategic risks identified have been mapped to the four strategic priorities of the Transformation Plan and have been grouped by five key risk themes.
See table below.

Strategic priorities

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

Risk theme	Risk	Strategic priorities 1	2	3	4
People	ITV lacks sufficient experienced and creative talent to deliver the Transformation Plan	✓	✓	✓	✓
Culture	ITV employees are not sufficiently engaged in the new strategy	✓	✓	✓	✓
	The extensive degree of change that the business will undergo will overload a small number of key personnel	✓			
Organisation, structure and process	ITV lacks the process maturity and experience to support new core processes and outsourcing	✓			
	The lack of commercial and strategic clarity between Studios and Broadcasting & Online will result in sub-optimal decisions being made	✓	✓	✓	✓
	A significant and high profile transmission incident causes significant reputation damage to ITV	✓	✓		
	ITV fails to identify and secure sufficient programme rights		✓	✓	
	Management information is not sufficient to support process improvement, integration or decision-making	✓	✓	✓	✓
	ITV fails to invest in, develop or operate international businesses				✓
Technology	Current technological environment and business processes are not sufficient to support the growth in interactive and direct customer relationships	✓		✓	
The market	ITV's infrastructure does not support the developing needs of the business going forward	✓	✓	✓	✓
	ITV remains over-reliant on the advertising market and therefore heavily exposed to the economic cycle		✓	✓	✓

Process level risks

Process level risks are those that are embedded into the everyday activities of each of the divisions of the organisation. These risks are mapped to the annual internal audit programme.

Responsibility

'As a broadcaster and producer, ITV's activities can impact the lives of millions of people'

'ITV has launched a new bespoke engagement survey which enables us to gain an accurate picture of morale and engagement at team level as well as business area level'

Responsibility

As a broadcaster and producer, ITV's activities can impact the lives of millions of people: our employees, our viewers and online users, UK and international broadcasters, suppliers and the community and environment in which we operate. We have a responsibility to all these people to behave in a responsible manner. ITV1's average weekly reach alone is 42.7 million people. This is 75% of the UK population and as such ITV is in a unique position with the potential to have a significant impact on the way the world is viewed from live General Election debates to the latest pop sensation.

Our people

Our people are fundamental to our business and to the delivery of the Transformation Plan. Therefore, attracting and retaining talent is critical to our success. Our focus over the last nine months has been on fixing the business and making it fit for purpose. This has involved not only making sure we have the best leadership team but the right people across the whole organisation and building their engagement and commitment to the Transformation Plan.

ITV has launched a new bespoke engagement survey which enables us to gain an accurate picture of morale and engagement at team level as well as business area level. Employee engagement has improved from 65% to 75%. However, there is still work to be done and ITV will work with managers to improve employee engagement. The new survey approach provides the leadership team with better information to increase employee engagement and commitment and to target improvements on how ITV can become a better place to work.

People development

In 2010, ITV has started to deliver against an ambitious people development agenda, in support of our business transformation. People development is important across the business. The initial focus has been on assessing and further developing the leadership capability of our 120 leaders, who will then help their own teams to develop.

The leadership team has undergone development reviews, incorporating psychometric tests and coaching support. The output of this has resulted in improved clarity on the make up of our leadership team and the identification of strengths and capability gaps. ITV has begun to address these gaps by means of a four stage leadership development programme – 'Leading Transformation'. This programme has begun to create a network of leaders with a common frame of reference on how we lead at ITV. Next year, we will continue to roll out the Leading Transformation programme to our leadership team with a focus on strengthening the network, leading change and managing sustainable commercial relationships.

Key to our business transformation is the creation of a high performance culture and we have established a programme to upskill all our managers in performance management with practical sessions facilitated by credible leaders in the business. This is in support of our end of year performance reviews. The launch of the performance management cycle will enable managers to drive performance throughout the year and ensure we focus and build capability around clear and effective objective setting, personal development and succession as well as performance.

We continue to be inclusive in our approach to training and development and this year over 1,800 of our colleagues have benefited from a formal training course. We have run new programmes to develop middle and senior managers as well as establishing monthly development master classes open to all colleagues.

Responsibility continued

'Effective, open, two-way internal communication is vital to making ITV a great place to work and to the successful delivery of our five-year Transformation Plan'

Benefits and incentives

A key element of the Transformation Plan is to make ITV a great place to work. We want to create an environment of 'one ITV', a single, dynamic organisation. We aim to establish a performance driven culture that recognises employees for their personal achievements and contribution towards delivering ITV's goals.

In 2010 ITV launched Relish, a new benefits package, which is available to all employees and provides valuable cost savings to both the Company and employees. A new option for 2011, gives all employees the opportunity to access private healthcare cover for themselves and their dependants. The introduction of Relish has been well received with over 50% of eligible employees participating.

In January 2011, ITV's annual pay review awarded all eligible employees earning under £60,000 a 3% increase, as well as an additional one-off award to the value of £300. Part of this one-off award was made in ITV shares to give all employees a stake in the business.

As part of the shift towards ensuring performance is at the heart of our business, the 2011 pay award for eligible employees earning £60,000 or above is linked to their performance rating for 2010. This is the first step towards our goal of creating a strong link between performance and reward for all ITV employees.

Diversity

Our Diversity and Equality strategy aims to ensure equality of opportunity to all employees irrespective of gender, marital status, race, origin, nationality, religious belief, disability, age or sexual orientation. ITV is recognised as a positive employer and holds the 'two-tick' disability symbol to demonstrate its commitment in recruiting and retaining individuals with disabilities.

ITV is an active participant in the major national and industry specific diversity forums. Throughout the year it has achieved successes in finding and developing new diverse talent as well as delivering specific employee engagement initiatives to work towards a workforce that fully reflects the audience it serves. The table on page 45 gives further information on ITV's workplace profile.

Communication

Effective, open, two-way internal communication is vital to making ITV a great place to work and to the successful delivery of our five-year Transformation Plan.

Employees receive regular updates on our Transformation Plan through a number of different channels. Everyone had the opportunity to hear our strategy directly from the Management Board at company-wide roadshows. Bi-monthly breakfast meetings are held for the senior leadership team and information from these are cascaded down through teams across the Company. The Company intranet – the Watercooler – has been re-launched and now provides a number of social media functions where colleagues can give feedback and ask questions right across the Company.

Health and safety

The health and safety (H&S) of employees, contractors and visitors at ITV is always a high priority. A management system has been developed by the internal H&S team to meet the specific risk profile of the business and is supported by a comprehensive training programme. H&S is communicated throughout the organisation by a network of local committees, who report to the ITV H&S Steering Group. The table on page 45 gives further information on ITV's H&S statistics.

'All ITV programmes must comply with the Ofcom Broadcasting Code in relation to their content and scheduling'

Customers

Our key customers are our viewers, our advertisers and other broadcasters.

To understand ITV viewers and their expectations of us more fully, throughout 2010 we continued to commission an independent research company to recruit and survey our Vision Panel. The panel is representative of 8,000 adult television viewers along with a smaller independent panel, My Digital Life, to obtain feedback from the online market. This enables ITV to measure audience reaction to our programmes and content on a daily basis and to achieve an in-depth understanding of viewer reaction and preferences. It also allows ITV to ask regular questions about the family of digital channels, using the panel to test new ideas and to find out people's views on broader media issues. ITV also undertakes qualitative research, using focus groups to obtain feedback on a range of programming.

All ITV programmes must comply with the Ofcom Broadcasting Code in relation to their content and scheduling. ITV observes the 9.00 pm watershed, and alerts viewers to material that may cause offence immediately before relevant programming. ITV has detailed compliance processes and an in-house compliance team that provides support and advice for programme makers and commissioners before and during production, and reviews programmes before broadcast. ITV maintains a responsive complaints handling service via ITV's Viewer Services team, and viewers can also raise any concerns about programmes directly with Ofcom. In 2010, 1,145 ITV programmes were complained about to Ofcom, compared to 797 in 2009, and Ofcom adjudications found six breaches compared to 13 in 2009.

Our relationship with advertisers is key to driving advertising revenues. ITV has restructured its Commercial and Online division as we forge ahead with our strategic plan. The Commercial department will have a renewed focus on our customers and clients giving more opportunities for advertisers to promote their brands across a number of platforms. This will ensure that they rely on us even more to help them stand out in an increasingly competitive market as well as to deliver a better return on investment.

ITV Studios supply programming to broadcasters and commissioners worldwide. The business works closely with its partners to produce and supply the highest quality content, which is commercially appealing and rewarding.

Suppliers

ITV conducts business with a large variety of suppliers and believes that its terms are considered fair and reasonable. To ensure ITV trades responsibly, environmental and health and safety questionnaires are completed on all transactions.

The procurement team is organised in a way that supports the business in choosing and managing the correct supplier. Specific focus has been in the areas of technology, production, property and site, travel and marketing. An internal review was undertaken in 2010 which has led to the appointment of two new Commercial Vendor Managers. This will develop the focus on the commercial management of our key technology suppliers and partners.

ITV has a variety of suppliers who are key to the business. A number of the Company's major suppliers are involved in the broadcast of ITV's family of channels and include Arqiva, Technicolor, SES Astra and BT. Other key suppliers include those who provide the technology for outside broadcast such as SIS. In 2010, ITV signed a five-year outsourcing contract with Accenture for them to provide ITV with technology operations and support services.

Key suppliers of programming and broadcasting programme rights include ITN, who provides ITV's national news programmes, Fremantle who produce Britain's Got Talent and The X Factor for ITV1, the Football Association, The Rugby Football Union and NBC Universal Studios.

ITV work closely with all key suppliers and seek to appropriately manage any risks arising from these arrangements, for example by signing long-term contracts in areas such as programme supply, or by working with more than one supplier in areas where we do not wish to become reliant on a single partner.

Responsibility continued

‘ITV engages in Diversity and Disability initiatives including our award-winning in-house signing facility, SignPost, which provides online signing services, news, information, entertainment and education in and about sign language’

Community

ITV is proud to play a wider social role and we actively engage our viewers across the country on issues that affect their lives and have an impact on the community in which they live. Both on and off-screen, ITV’s network and regional teams aim to take part in important initiatives that encourage individuals to seek to improve their lives, support community projects or promote integration of minority groups within their region.

In 2010, ITV continued to be an active partner in the cross-industry and government campaign to improve the nation’s health and fitness. As a founding member of the Business4Life movement, ITV continued to support the Change4Life campaign both onscreen and online. Through network and regional programming viewers are encouraged to achieve a healthier lifestyle. Campaigns include the ITV Feelgood Factor Award and the launch of ITV’s Walk4Life Day in September.

In 2010 ITV regional news programmes across the UK helped give away £3.5 million of lottery funding in the People’s Millions competition. Around 75 community projects received awards of up to £50,000 from the Big Lottery Fund. Now in its sixth year, the People’s Millions competition within regional news programmes has helped give away more than £25 million with hundreds of good causes benefiting as a result.

Young people and their views on what needs fixing in our communities is the focus for another regional news initiative called ITV Fixers. In partnership with the Public Service Broadcasting Trust and funded by the Nationwide Foundation and by V – the youth volunteering charity. Young volunteers with the support of mentors from the Trust make a film about their projects which were transmitted on ITV regional news programmes.

ITV engages in diversity and disability initiatives including our award-winning in-house signing facility, SignPost, which provides online signing services, news, information, entertainment and education in and about sign language. In 2010, SignPost won four more awards including an RTS Best Online Production and a UK IT Industry Medal.

As a member of various diversity organisations, such as Stonewall, Cultural Diversity Network and Employers’ Forum on Disability, we look to support under-represented groups and local communities. This is achieved by offering services and facilities in-kind for events and lend our name to endorse key projects.

Environment

In 2010, ITV continued to focus on the careful management of environmental matters across all areas of the organisation. Our environmental management programme is built around a broad range of activities, although the focus for 2010 was heavily influenced by the need to comply with the new Carbon Reduction Commitment – Energy Efficiency Scheme (CRC).

ITV continued to measure and monitor its carbon footprint and environmental impact during 2010. We are currently working on new ways to identify opportunities to improve our performance. The changes to our property portfolio during the year, coupled with the ongoing focus on resource management, has led to a reduction in the size of the carbon footprint of certain parts of the business and an improving situation with regard to water consumption.

Procedures to ensure new environmental regulatory requirements are identified, understood and proactively managed were put in place during 2009. These procedures allowed us to promptly fulfil the complex registration requirements of the CRC. Having met the obligations we are currently reviewing our operation and property portfolio to identify any areas of opportunity for reducing our energy consumption.

Our cross business CRC working group has identified a number of organisational priorities for the coming year. These include the building of carbon skills into the business and preparing for the purchase of carbon in April 2012.

Our innovative waste management continued to deliver strong results, encouraging waste reduction and the recycling of materials. The total mass of waste produced by ITV during 2010 shows a reduction of more than 15% when compared with the same figure for 2009. In terms of recycling, 60% of waste produced was sent to recycling which is slightly lower than 2009 but in excess of our target of 50%. In order to ensure the best possible results, both for the business and in terms of environmental protection, ITV is undertaking a programme of verification audits which will be reported next year.

'In 2010, ITV continued to focus on the careful management of environmental matters across all areas of the organisation'

Donations

ITV supports a range of charities. In 2010, ITV produced and broadcast Socceraid which raised in excess of £2.8 million for UNICEF; whilst viewers of This Morning's Xmas Appeal supported the children's cancer charity CLIC Sargent with donations of £400,000.

The Company made contributions to charities and equivalent organisations amounting to £1.5 million (2009: £2 million) in cash and £5.7 million (2009: £10 million) in kind, totalling £7.2 million (2009: £12 million). In kind donations include a Pro Bono Bank initiative which, through a novel arrangement with the Solicitors Regulation Authority, enables ITV in-house lawyers to provide free legal advice to charities. Further details will be set out in our Corporate Responsibility report.

It is the Company's policy not to make cash contributions to any political party. However, within the normal activities of the Group's national and regional news gathering operations there are occasions when activity may fall within the wide definition of political expenditure contained in the Companies Act 2006. Shareholder authority for such expenditure was given at the Annual General Meeting in 2010 and a similar resolution will be proposed at the 2011 Annual General Meeting. During the year the Group made no payments falling within the definition of political expenditure (2009: nil).

Corporate Responsibility

ITV recognises the importance of Corporate Responsibility. Full details on ITV's Corporate Responsibility objectives and activities will be set out in the separate Corporate Responsibility report available on the Company's website, www.itvplc.com

The tables below provide a summary of performance against key Corporate Responsibility performance indicators:

Protecting the environment(1)

	2010	2009
CO_2 emissions from business travel (tonnes)(2)	**5,774**	6,831
Total CO_2 emissions (tonnes)(2)	**44,427**	46,383
Total waste (tonnes)	**1,800**	2,195
Total waste recycled	**60%**	65%
Total water use (m^3)(3)	**87,000**	86,656

Workplace profile (%)

	2010	2009
Female employees	**49.9**	48.2
Ethnic minority employees(4)	**9.7**	9.1
Employees with a disability(5)	**2.7**	3.1
Employees aged over 50	**15**	12.9

Health and safety(6)

	2010	2009
Accidents requiring more than three days-off work	**5**	6
Major accidents	**2**	5
Fatal accidents	**0**	0

Access services for ITV1 (% of programmes)

	2010	2009
Subtitling	**98.2**	94.5
Audio description	**21.5**	17.3
Signing	**6.4**	5.6

(1) UK only, including landlord managed sites, assistance with data compilation by Mason Hardy Ltd.
(2) Calculated in accordance with the WRI/WBCSD Greenhouse Gas Protocol methodology.
(3) Our reported water position represents an estimate pending final data unavailable at the time of reporting.
(4) Percentage of those who disclosed their ethnicity.
(5) Percentage of those who disclosed their disability.
(6) Employee accidents excluding contractors.

Board of directors

The particulars below relate to directors in office at the date of this report. For a full list of directors who served during the year, please see page 52. Details of their interests in shares and share schemes are set out in the Remuneration report.

Archie Norman
Chairman

Appointment to the board: 1 January 2010

Age: 56 (01 May 1954)

Committee membership: Nomination (Chairman), Remuneration

External appointments:
- Adviser to Wesfarmers Limited (2009)
- Director of Coles Group (2007)
- Chairman, HSS Hire Services Group (2007)
- Founder, Aurigo Management Partners LLP (2006)
- Senior Adviser to Lazard (2003)
- Trustee, Cystic Fibrosis Trust (2009)
- Governor, National Institute of Economic and Social Research (1997)

Previous experience:
- Chairman, Energis (2002–2005)
- Member of Parliament (1997–2005), Chief Executive and Deputy Chairman of the Conservative Party (1998–1999); Shadow Minister for Europe (1999–2000); Shadow Secretary of State for Department of Environment, Transport and the Regions (2000–2001); Founder, Policy Exchange (2001)
- Chief Executive (1991–1996) and Chairman (1996–1999), ASDA Group plc
- Finance Director, Kingfisher plc (1986–1991)
- Chairman, Chartwell Land plc (1987–1991)
- Non-executive director of British Rail (1992–1994), Railtrack plc (1994–2000), and Geest plc (1988–1991)
- Partner, McKinsey and Co (1979–1986)

Qualifications: MA, MBA

Adam Crozier
Chief Executive

Appointment to the board: 26 April 2010

Age: 47 (26 January 1964)

Committee membership: General Purpose

External appointments:
- Non-executive director of Debenhams plc (2006)

Previous experience:
- Group Chief Executive, Royal Mail Group (2003–2010)
- Non-executive director of Camelot Group plc (2007–2010)
- Chief Executive of the Football Association (2000–2002)
- Joined Saatchi & Saatchi Advertising in 1988. Joint Chief Executive (1995–1998)

Qualifications: BA

Mike Clasper CBE
Senior independent director

Appointment to the board: 3 January 2006

Age: 57 (21 April 1953)

Committee membership: Audit, Nomination, Remuneration

External appointments:
- Chairman of Which? Ltd (2008)
- Chairman of HM Revenue & Customs (2008)
- Chairman of the West London Consortium (2006)

Previous experience:
- Member of the Investor Board of EMI Group (2007–2008)
- Operational managing director of Terra Firma (2008)
- Member of the National Employment Panel (2006–2008)
- Founder member of the Corporate Leaders Group on Climate Change
- Chief executive of BAA plc (2003–2006), deputy chief executive BAA plc (2001–2003)
- President of Global Home Care, Procter & Gamble (1999–2001)

Qualifications: MA

Ian Griffiths
Group Finance Director

Appointment to the board: 9 September 2008

Age: 44 (26 September 1966)

Committee membership: General Purpose

External appointments: None

Previous experience:
- Group Finance Director of Emap plc (2005–2008)
- Senior Finance roles held within Emap plc including director of financial control (2000–2005) and head of finance at Emap Business Communications (1995–2000)
- Manager in audit and corporate finance Ernst & Young (1988–1994)

Qualifications: MA, ACA

Andy Haste
Non-executive director

Appointment to the board: 11 August 2008

Age: 49 (01 January 1962)

Committee membership: Audit, Nomination, Remuneration (Chairman)

External appointments:
- Group Chief Executive of RSA Insurance Group plc (2003)

Previous experience:
- Chief Executive of AXA Sun Life plc (1999–2003)
- Director of AXA UK plc (life and pensions) (1999–2003)
- President and CEO, GE Capital Global Consumer Finance UK, Western Europe and Eastern Europe (1998–1999)
- CEO, GE Capital Global Consumer Finance UK (1996–1998)
- President of National Westminster Bank US Consumer Credit Business (1995–1996), senior vice-president and head of US Consumer Loan Products Division (1992–1995)

Lucy Neville-Rolfe CMG
Non-executive director

Appointment to the board: 3 September 2010

Age: 58 (02 January 1953)

Committee membership: Nomination

External appointments:
- Executive Director, Corporate and Legal Affairs, Tesco plc (2006)
- Deputy Chair, British Retail Consortium (1998)
- Chairman, Dobbies Garden Centres (2007)
- Non-executive director, The Carbon Trust (2008)
- Member of the Coalition Government's Efficiency and Reform Board (2010)
- Member of China-Britain Business Council (2007), UK-India Business Council (2008) and Corporate Leaders Group on Climate Change (2006)

Previous experience:
- Group Director of Corporate Affairs (1997–2006) and Company Secretary (2004–2006), Tesco plc
- Director of Deregulation Unit, BIS (then DTI) and Cabinet Office (1995–1997)
- Member of Prime Minister's Policy Unit (1992–1994)
- Ministry of Agriculture Fisheries & Food (1973–1992)

Qualifications:
- BA, MA, FCIS

John Ormerod
Non-executive director

Appointment to the board: 18 January 2008

Age: 62 (09 February 1949)

Committee membership: Audit (Chairman), Nomination, Remuneration

External appointments:
- Non-executive Chairman of Tribal Group plc (2010, director from 2009)
- Senior independent director and chairman of audit committee Misys plc (2005)
- Non-executive director and chairman of audit committee Gemalto NV (2006) and Computacenter plc (2006)
- Trustee of The Design Museum (2006)

Previous experience:
- Non-executive director of Negative Equity Protection Holdings Limited (2007–2009), Millen Group Limited (2007–2009), BMS Associates Limited (2004–2008) and Merlin Claims Services Holdings Limited (2007–2010)
- Member of audit and retail risk control committees HBOS plc (2004–2008)
- Trustee of The Roundhouse Trust (2003–2008)
- Chairman of Walbrook Group (2004–2007)
- Chairman of audit committee Transport for London (2004–2006)
- Practice senior partner, London, Deloitte & Touche (2002–2004)
- Regional managing partner, UK and Ireland and senior partner, UK, Arthur Andersen (2001–2002)
- Held various positions within Arthur Andersen from 1970

Qualifications: MA, FCA

Corporate governance

Dear Shareholder,

The Board of ITV takes corporate governance within the organisation seriously and follows the main principles set out in the UK Corporate Governance Code. On the following pages we set out ITV's Governance policy. The report comprises the following sections:

- Leadership;
- How the Board operates;
- Effectiveness;
- Relations with shareholders;
- Audit Committee report; and
- Remuneration report.

Our aim is to ensure that shareholders are given the information they need to decide whether the management and the Board are being effective.

During 2010 ITV plc complied with the requirements of the Combined Code on Corporate Governance (the Code) with one exception (C.3.1). I was appointed a member of the Audit Committee on 2 February 2010 to enable the Committee to remain quorate until Andy Haste took up membership. I stepped down as a member of the Audit Committee with effect from 31 December 2010.

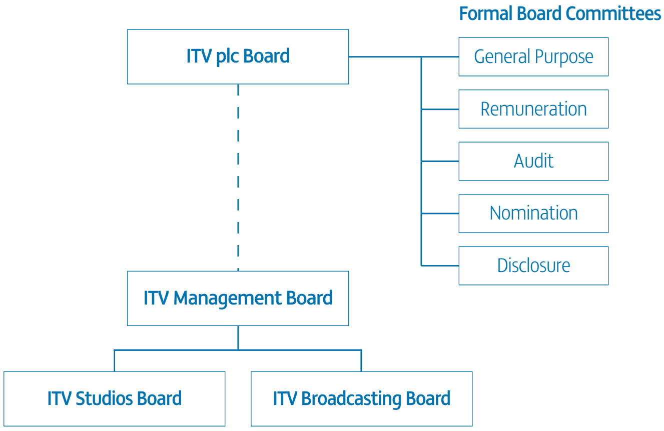
From 1 January 2011 ITV plc has followed the requirements of the UK Corporate Governance Code (the New Code) and will continue to do so during 2011. The Board has decided that due to recent changes to the structure of the Board the requirement for annual election of Board members (B.7.1) will not be put in place in 2011.

Archie Norman
2 March 2011

Leadership

Board structure

Set out below is an outline of the governance structure at ITV.



Details of membership of the ITV Management Board can be found on our website at www.itvplc.com. The Board has approved a formal framework for approval of expenditure within the Company around this governance framework.

Composition and appointments

The composition of the Board during 2010 is set out in the table on page 52.

The Board currently consists of two executive directors and five non-executive directors. Biographical details for each of the directors are set out on pages 46 and 47.

During the year we made the following changes to the Board:

- Archie Norman, Adam Crozier and Lucy Neville-Rolfe were appointed to the Board with effect from 1 January 2010, 26 April 2010 and 3 September 2010 respectively; and
- Baroness Usha Prashar, John Cresswell and Rupert Howell stepped down from the Board with effect from 31 March 2010, 23 April 2010 and 1 June 2010 respectively.

John Ormerod completed three years as a non-executive director in January 2011. It was agreed that he should serve a further term subject to the Board succession planning framework.

Roles

A summary of the roles of each of the Chairman, the Chief Executive and the Senior Independent Director are shown in the table below. Full job descriptions have been agreed by the Board.

Role	Description
Chairman	Archie Norman's principal responsibilities are to: – lead the Board, ensuring that it is effective in setting and implementing the Group's direction and strategy; and – act as the Company's leading representative for all key shareholders. The Board is satisfied that his other professional commitments do not interfere with the performance of his duties for the Company.
Chief Executive	Adam Crozier has responsibility for the performance of the Company's businesses, as dictated by the overall strategy agreed by the Board.
Senior Independent Director	Mike Clasper was appointed as Senior Independent Director on 1 January 2010. His principal responsibilities are to: – act as Chairman of the Board when the Chairman is conflicted; – act as a conduit to the Board for the communication of shareholder concerns when other channels are inappropriate; and – ensure that the Chairman is provided with effective performance feedback.

How the Board operates

Meetings

The number of meetings held during the year and attendance of directors is set out in the table on page 52. The Board approves annually a schedule of matters to be considered at each meeting and at each meeting of its committees. Meetings are normally held in London and when appropriate at different regional offices.

Board meetings are structured around the following areas:

- operational and functional updates;
- financial updates;
- strategy and risk; and
- other reporting.

Senior executives are regularly invited to attend meetings for specific items.

Some of the matters scheduled for consideration in 2011 include:

- strategy for international content business;
- strategy for news; and
- strategy for the schedule, commissioning and brands.

Meetings between the Chairman and non-executive directors are scheduled on the annual board programme to formally discuss governance issues. The Chief Executive is sometimes invited to attend.

Responsibility and delegation

Specific responsibilities are set out in a schedule of matters reserved to the Board. These include:

- setting long-term objectives and corporate strategy and approving an annual budget;
- approving major acquisitions;
- approving major divestments and capital expenditure;
- approving appointments to the Board;
- reviewing systems of internal control and risk management; and
- approving policies relating to directors' remuneration.

The matters reserved to the Board are available on our website at www.itvplc.com

Corporate governance continued

Board Committees

The Board has delegated certain responsibilities to its committees detailed on the following pages. The terms of reference for each committee are reviewed annually and the current versions are available on the Company's website at www.itvplc.com

General Purpose Committee: the Committee is comprised of the executive directors. The Committee meets as required to conduct the Company's business within the clearly defined limits delegated by the Board and subject to those matters reserved to the Board.

Remuneration Committee: see the Remuneration report on page 56.

Audit Committee: see the Audit Committee report on page 53.

Nomination Committee: The Committee is comprised of the non-executive directors.

Archie Norman became Chairman of the Committee on 1 January 2010 and Lucy Neville-Rolfe joined the Committee on 27 September 2010.

Full details of attendance at Committee meetings can be found in the table on page 52.

Role: the role of the Committee is to:

- review the structure, size and composition of the Board;
- identify and nominate for Board approval, candidates to fill board vacancies;
- evaluate the balance of skills, knowledge and experience on the Board;
- consider succession planning for directors and other senior executives; and
- consider any conflicts of interest that may be reported by directors of the Company.

During 2010 these tasks were undertaken by the full Board. The Board intends to resume the normal Nomination Committee programme in 2011.

Disclosure Committee: the Committee is comprised of certain senior management of the Company. The function of the Committee, in accordance with the Company's Inside Information Policy, is to ensure compliance with continuing obligations under the Disclosure and Transparency Rules and the Listing Rules through the timely public disclosure of material information.

The current membership of each committee (other than the Disclosure Committee) is set out below:

	General Purpose	Remuneration	Audit	Nomination
Mike Clasper		✓	✓	✓
Adam Crozier	✓			
Ian Griffiths	✓			
Andy Haste		✓*	✓	✓
Lucy Neville-Rolfe				✓
Archie Norman		✓		✓*
John Ormerod		✓	✓*	✓

* Denotes Chairman

Internal Control

The Board is required to review, at least annually, all material internal controls including financial, operational, and compliance controls and risk management systems. The Board has conducted a review of the effectiveness of the Group's systems of internal controls for the year ended 31 December 2010. In the opinion of the Board, the Company has complied with the internal control requirements of the Code throughout the year, maintaining an ongoing process for identifying, evaluating and minimising risk. Further information is set out in the Audit Committee report on page 55.

Board tenure

All directors are required by the Company's Articles of Association to be elected by shareholders at the first Annual General Meeting (AGM) following their appointment by the Board. Subsequently, all directors are subject to re-election by shareholders at least every three years.

The graph below shows the current balance of the Board.

Succession planning and diversity

The Board has agreed a succession planning framework to ensure that:

- board tenure is appropriate and encourages fresh thinking and new ideas;
- the Board is sufficiently diverse and has the appropriate mix of generalist and specialist skills; and
- non-executive directors have the appropriate level of independence, from the executive and each other.

Outside appointments

With the approval of the Board, executive directors as part of their professional development may accept external appointments as non-executive directors of other companies and retain any related fees paid to them. Details of fees received by executive directors during 2010 can be found in the Remuneration report on page 61.

Non-executive directors

The Board considers each of its current non-executive directors to be independent in both character and judgement. They constructively challenge and help develop proposals on strategy, and bring strong, independent judgement, knowledge and experience to the Board's deliberations.

The Board also considers that the non-executive directors are of sufficient calibre and number that their views carry significant weight in the Board's decision making. Each brings skills and experience in different aspects.

Terms of engagement: non-executive directors all have a contract of service, and are appointed for an initial period of three years. At the third anniversary of appointment the director will discuss with the Board whether it is appropriate for a further term to be served, subject to the Board succession planning framework which provides that any further term may be adjusted in length should that be in the interests of an orderly succession of non-executive directors to the Board. The re-appointment of directors who have served for more than nine years will be subject to annual review. An outline of the terms of engagement can be found on our website at www.itvplc.com

Time commitment: non-executive directors are expected to commit 18 to 20 days per annum. The Board is satisfied that each of the non-executive directors commits sufficient time to the business of the Company.

Professional advice and Board support

Directors are given access to independent professional advice at the Company's expense when the directors deem it necessary in order for them to carry out their responsibilities. The directors also have access to the advice and services of the Company Secretary, who acts as secretary to the Board, and Group Secretariat who ensure that board processes and corporate governance practices are followed.

Insurance and indemnities

The Company maintains liability insurance for its directors and officers which is renewed on an annual basis. The Company has also entered into deeds of indemnity with its directors. A copy of the indemnity can be found on our website at www.itvplc.com

Conflicts of interest

The Board is authorised to approve conflicts. It has delegated the authorisation of conflicts to the Nomination Committee and has adopted a Conflicts of Interest Policy.

The policy outlines how conflicts will be dealt with and the process for directors to follow when notifying the Company of an actual or potential conflict. When deciding whether to authorise a conflict or potential conflict of interest, only those that have no interest in the matter under consideration will be able to take the relevant decision. In addition, the Nomination Committee will be able to impose limits or conditions when giving authorisation where appropriate.

The Board has considered in detail the current external appointments of the directors which may give rise to a situational conflict and has authorised potential conflicts where appropriate.

This authorisation can be reviewed at any time but will always be subject to annual review. The Board is confident that these procedures operate effectively.

Effectiveness

Induction and continuing professional development

The Company has a policy and programme for induction and continuing professional development. On appointment, each director takes part in a comprehensive induction programme where they:

- receive information about the Group in the form of presentations by executives from all parts of the business and on the regulatory environment;
- meet representatives of the Company's key advisers;
- receive information about the role of the Board and the matters reserved for its decision, the terms of reference and membership of board committees and the powers delegated to those committees;
- receive information about the Company's corporate governance practices and procedures and the latest financial information about the Group; and
- are advised of their legal and other duties and obligations as a director of a listed company.

This is supplemented by visits to key locations, including studios and regional sites, and meetings with key senior executives and with major shareholders where appropriate.

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

- regular updates on changes affecting the Group and the market in which it operates through written briefings and meetings with senior executives across the Group and from meetings with key advisers;
- regular updates on changes to the legal and governance requirements of the Group and in relation to their own position as directors; and
- presentations given at board and committee meetings on business matters and technical update sessions from external advisers where appropriate.

The Chairman addresses the development needs of the Board as a whole, with a view to developing its effectiveness. He ensures that the directors' professional development needs are identified and that they are adequately informed about the Company and their responsibilities as directors.

Corporate governance continued

Performance evaluation

The Board has established a formal process for the annual evaluation of the performance of the Board, its committees, and individual directors (with particular attention given to those who are due for re-election). The directors are made aware on appointment that their performance will be subject to an annual evaluation and that a director would not be put up for re-election at an AGM unless the Chairman has decided that they continue to perform effectively and show commitment to the role.

The evaluation is focused around board processes, board roles and responsibilities, board culture and committee roles and processes.

Some of the actions taken during the year resulting from the 2009 evaluation include:

Objectives	Achievements
Review content of board papers for presentation and clarity of issues	Finance reports and management reports have all been refined
Review the balance of time spent on strategic and routine business	Annual board programme has been reviewed and refined
Ensure sufficient board succession planning in place	Succession planning will be considered further during 2011

During 2010 the Board changed significantly and a formal external evaluation was not considered appropriate. However, an informal internal evaluation of the effectiveness of the individual directors and of the Board and its committees was carried out by the Chairman and Senior Independent Director.

The quality of papers circulated and presentations made to the Board has improved significantly allowing more time for discussion and debate. The Board are satisfied that questions are answered honestly and constructively.

Relations with shareholders

The Board attaches a high priority to effective communication with shareholders. In addition to the final and interim results presentations and the AGM, a series of meetings between institutional shareholders and senior management were held throughout 2010. The Chairman gave feedback to the Board on issues raised with him by major shareholders. This process will continue throughout 2011.

The Company maintains a corporate website containing a wide range of information of interest to institutional and private investors. The Company has frequent discussions with institutional shareholders on a range of issues affecting its performance both following the Company's announcements and in response to individual ad hoc requests.

Save in exceptional circumstances, all members of the Board will attend the AGM and shareholders are invited to ask questions during the meeting and to meet with directors prior to and after the formal proceedings. At the meeting the Chairman will review the Group's current trading. Notice of the AGM, together with any related documents, is made available to shareholders on the Company's website or mailed to them, if they have elected to receive hard copies, at least 20 working days before the meeting. Separate resolutions are proposed on each substantially separate issue. At the meeting all resolutions are taken on a poll. The level of votes lodged on a resolution is made available on a regulatory information service and on the Company's website at www.itvplc.com

The Company regularly seeks feedback on perception of the Company amongst its shareholders and the investor community more broadly via its corporate brokers. The Company considers annually whether it is appropriate to commission an investor audit.

Details of the AGM are set out page 66 and shareholder information can be found on page 115.

Board and Committee membership, and attendance at meetings in 2010

					Attendance in 2010		
					Board	Audit Committee	Remuneration Committee
	Status	Notes	Date of appointment to Board		**8**	**6**	**5**
Current directors							
Mike Clasper	Independent and SID		3 January 2006		8	6	5
Adam Crozier	Executive		26 April 2010		5	–	–
Ian Griffiths	Executive		9 September 2008		8	–	–
Andy Haste	Independent	1	11 August 2008		7	3	5
Lucy Neville-Rolfe	Independent		3 September 2010		2	–	–
Archie Norman	Independent	2, 3	1 January 2010		8	5	5
John Ormerod	Independent		18 January 2008		8	6	4
Directors who stepped down in the year				Date of resignation from Board and Committees			
John Cresswell	Executive		16 January 2006	23 April 2010	3	–	–
Rupert Howell	Executive		28 February 2008	1 June 2010	4	–	–
Baroness Usha Prashar	Independent	4	7 February 2005	31 March 2010	1	–	1

Notes:
(1) Missed one board meeting due to an RSA board meeting.
(2) Independent on appointment to the Board.
(3) Missed one audit committee due to unavoidable overseas commitment.
(4) Missed two board meetings and one remuneration committee meeting due to involvement with the Iraq Inquiry.

Audit Committee report

Dear Shareholder,

On the following pages we set out the Audit Committee's report for 2010. The report comprises four sections:

- Committee overview;
- Activities in 2010;
- Auditors; and
- Internal control.

Throughout 2010 the Audit Committee (the Committee) continued to monitor the integrity of the financial statements of the Company, to assist the Board in reviewing the effectiveness of the Company's internal control and risk management systems, and to review arrangements for its employees to raise concerns in confidence.

The Committee has also been responsible for reviewing the effectiveness of the Company's internal audit function and making recommendations to the Board in relation to the re-appointment and remuneration of the Company's external auditor.

During the year the Committee reviewed the results of a fundamental review of the Group's risk management process. Changes are being implemented to sharpen the focus on key risks assisting the Board to identify the changing risks faced by the Group; to establish the Group's risk appetite; and through internal audit and other procedures to monitor the risk management processes.

The Committee works to a structured programme of activities with agenda items focused to coincide with key events of the annual financial reporting cycle, together with standing items that the Committee is required to consider regularly.

The Committee reports regularly to the Board on its work.

John Ormerod
Chairman, Audit Committee
2 March 2011

Committee overview

Composition

The Committee is comprised entirely of non-executive directors. The current members are:

- John Ormerod (Chairman)
- Mike Clasper
- Andy Haste (appointed 27 September 2010)

John Ormerod was appointed as Chairman on 1 January 2010.

Archie Norman was appointed to the Committee on 2 February 2010 and stepped down on 31 December 2010.

Full details of attendance at Committee meetings can be found in the table on page 52.

The Code requires the Board to be satisfied that at least one member of the Committee has recent and relevant financial experience. The Board considered this requirement during 2010, and concluded that the wide range of business and financial experience of the Committee members as a whole, gained at the highest level of UK FTSE 100 companies and other blue-chip organisations, was sufficient to enable the Committee to fulfil its terms of reference in a robust and independent manner. Biographical details of the members of the Committee including their qualifications are set out on pages 46 and 47.

At the invitation of the Chairman of the Committee, the Chief Executive, Group Finance Director, Group Legal Director, Group Financial Controller, Head of Internal Audit (Deloitte), external auditors (KPMG) and representatives of senior management regularly attend Committee meetings. The Committee as a whole has the opportunity to meet privately with the internal and external auditors prior to meetings as required.

Role

The role of the Committee is to:

- monitor the integrity of the consolidated and parent company financial statements;
- review the effectiveness of the internal control and risk management systems;
- review the arrangements for employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters;
- monitor and review the effectiveness of the internal audit function; and
- consider and make recommendations to the Board in relation to the appointment, re-appointment, replacement and remuneration of the Company's external auditor.

Audit Committee report continued

Activities in 2010

The Committee's activities during the year included:

- reviewing the Group's financial statements (including the format and layout of the detailed disclosures);
- reviewing the appropriateness of the Group's accounting policies, reviewing key judgements and estimates and considering related accounting treatments in specific areas such as revenue recognition; assumptions underlying the quantification of pension scheme liabilities; impairment of goodwill and other assets and provisions for taxation and other liabilities;
- reviewing the analysis supporting the carrying value of goodwill;
- reviewing the Group's cash flow forecasts and facilities to support the going concern statement in the annual report. The going concern statement is set out on page 75;
- reviewing and approving the annual external audit process, the external auditor's strategy and plan for the audit, considering the findings of that work and confirming that all significant matters had been satisfactorily resolved;
- reviewing the management letter arising from the 2009 year-end external audit and monitoring implementation of recommended improvements;
- monitoring regularly the non-audit services being provided to the Group by its external auditor. Further information is given in the Auditors section;
- approving the internal audit plan, considering internal audit reports, the actions taken to implement the recommendations made in those reports and the status of progress against previously agreed actions;
- reviewing the internal audit relationship with Deloitte with agreement to continue on this basis for a further 12 months and reviewing procedures to ensure appropriate independence is maintained;
- reviewing the results of a fundamental review of the Group's risk management processes;
- continuing to monitor the implementation of the integrated finance processes and system;
- reviewing the effectiveness of the whistleblowing process through which the employees may, in confidence, raise concerns;
- reviewing processes for the prevention of bribery and fraud;
- receiving reports from the Treasury department on their activities; and
- considering regulatory and professional developments in respect of financial accounting and reporting.

Auditors

Independence and objectivity

The Committee regularly monitors the other services being provided to the Group by its external auditor, and has developed a formal policy to ensure this does not impair their independence or objectivity which is available in full on the Company's website at www.itvplc.com

The policy is based on the five key principles which underpin the provision of other services by the external auditor. These are that the auditor may not provide a service which:

- places them in a position to audit their own work;
- creates a mutuality of interest;
- results in the auditor developing close personal relationships with ITV employees;
- results in the auditor functioning as a manager or employee of ITV; or
- puts the auditor in the role of advocate for ITV.

The Committee has pre-approved the categories of other services that may be performed by the external auditor and explicitly set out the categories of work that they may not perform. For this purpose auditing the accounts of subsidiaries and associates pursuant to legislation and other services that generally only the auditor can reasonably provide are regarded as audit services.

The auditors are eligible for selection to provide non-audit services only to the extent that their skills and experience make them a competitive and most appropriate supplier of these services.

The Committee believes that a 1:1 ratio for the annual split between audit and other fees charged by the external auditor is important. However, it is also of the view this should not act as a hard ceiling on non-audit fees but as a guide that may be exceeded from time to time to ensure flexibility so that the Company receives the best and most appropriate advice. Non-audit services will be subject to market tenders or tests and will be awarded to the most appropriate provider. Approval is required from the Committee Chairman for any engagement of the external auditor where the fee is likely to be in excess of £0.1 million. A report on the level of non-audit work provided by the auditor is given to the Committee half-yearly.

Details of the related audit and other services are set out in note 2.1 of the consolidated financial statements. The significant engagements are categorised as follows:

- tax restructuring work in relation to overseas subsidiaries; and
- reviewing indirect and payroll tax controls and processes.

The senior audit partner and the independent reviewing partner serve no more than five years continuously in either role and other key partners serve no longer than seven consecutive years. The Committee monitors the tenure of partners and senior staff.

Performance

The Committee performs a specific evaluation of the performance of the external auditor annually, through assessment of the results of questionnaires completed by relevant senior management in addition to committee members' own views of auditor performance. It is the Company's policy to carry out periodic market testing either through benchmarking or a form of audit tender.

Re-appointment

During the year the Committee considered the tenure (KPMG Audit Plc has been ITV's auditor since 2004), performance and audit fees of the external auditor, and the level of non-audit work undertaken, and recommended to the Board that a resolution for the re-appointment of KPMG Audit Plc for a further year as the Company's auditor be proposed to shareholders at the AGM in May 2010. The resolution was passed and KPMG Audit Plc was re-appointed for a further year.

Internal control

The Board has overall responsibility for the Group's systems of internal control and for regularly reviewing the effectiveness of those systems. The Committee assists the Board in reviewing the Group's systems of internal control. The primary responsibility for the operation of these systems is delegated to management. Such systems can only provide reasonable and not absolute assurance against material misstatement or loss. Key control procedures are designed to manage rather than eliminate risk and can be summarised as follows:

- **Strategy and financial reporting:** the strategy is reviewed and approved by the Board. The Group performs a comprehensive annual strategy review and five-year financial planning exercise. The five-year plan feeds into the annual budget cycle. The executive directors review the detailed budgets, strategies and action plans and the Board approves the overall Group budget as part of its normal responsibilities. The results of operating units are reported monthly, with actual results compared to budget and forecasts and key trends and variances explained and analysed.
- **Organisational structure and authorisation procedures:** the Group has an established organisational structure with clearly stated lines of responsibility and reporting. Authorisation procedures, and approval limits in respect of matters such as purchase commitments, capital expenditure, investment and treasury transactions were reviewed during the year in line with new board structures shown on page 48.
- **Risk assessment and management:** management is responsible for identifying the risks facing the business and for establishing controls and procedures to monitor and mitigate those risks.

  The Board is responsible for establishing a robust risk management process and for regularly reviewing the identified risks. The Committee keeps the effectiveness of the process under regular review. Details on the Company's key risks can be found on pages 38 and 39.
- **Control environment:** financial controls, policies and procedures are considered as part of the Group's ongoing risk assessment process. These controls are reviewed to ensure risks are identified and the processes and procedures are in accordance with and aligned to the strategy. The internal audit team provides objective assurance as to the effectiveness of the Group's systems of internal control and risk management, reporting to both the Management Board and the Committee.
- **Reviewing and monitoring the effectiveness of internal controls:** controls are monitored by senior management, internal audit and the Committee. Directors of each business team are required annually to confirm compliance with internal control in their area. Remedial plans are put in place where controls are weak or there are opportunities for improvement. Serious control weaknesses (if any) are reported to the Board and actions taken as appropriate.

The Committee is authorised by the Board to seek any information that it requires from any employee and to obtain, at the Company's expense, independent legal or professional advice on any matter within its terms of reference and to call any employee to be questioned at a meeting of the Committee as and when required. The Committee members are subject to the programme of continuing professional development that applies to the full board.

Approval

The Audit Committee report was approved by the Board on 2 March 2011 and signed on its behalf by John Ormerod.

Remuneration report

Dear Shareholder,

On the following pages we set out the Remuneration report for 2010. The report comprises five sections:

- Committee overview;
- Remuneration policy;
- Delivering remuneration policy;
- Non-executive directors; and
- Detailed audited disclosures.

The new five-year strategy discussed earlier recognises that far reaching changes will be needed to deliver a path to sustainable growth in shareholder value over the medium-term.

In order to ensure that ITV's incentives framework is closely aligned to the priorities of the Transformation Plan and to address the failure of previous arrangements to drive change in the business, the Remuneration Committee (the Committee) undertook a full review of incentive arrangements during 2010. As the previous arrangements were too heavily weighted towards short-term results and have not proved to be well aligned to shareholder value, a new incentive structure has been developed in dialogue with major shareholders.

In order to successfully achieve the transformation of ITV into a lean, creatively dynamic and fit-for-purpose organisation, it is crucial that executive directors and senior executives (together the Senior Executive Group) work together as an effective team focused on delivering medium-term shareholder value. As ITV operates in a talent based market, our creative renewal also depends on attracting and retaining the best people.

The new incentive arrangements to support the Transformation Plan emphasise the delivery of strategic change, co-operative endeavour and three to five year outcomes aligned to shareholder value.

All the changes are within the limits of ITV's existing share plans.

The Committee would encourage shareholders to note the following:

- a significant proportion of the Senior Executive Group's remuneration is dependent on the achievement of stretching performance conditions that support the creation of shareholder value;
- the compulsory deferral period for part of the annual bonus has been significantly extended to three years and the Senior Executive Group is encouraged to make further long-term personal investment in ITV to create alignment with the shareholder experience;
- benefits awarded to the Senior Executive Group are delivered within the same framework as for all other ITV employees; and
- in relation to 2010 performance, the Committee believes that the level of bonus payments is a fair reflection of company performance during the year, and reflect the efforts made by the Senior Executive Group in completing the strategic review. It also reflects the progress made against phase one of the Transformation Plan, whilst maintaining expected operational progress across the core business, reducing ITV's cost base and managing cash and working capital, all of which were achieved in 2010.

The Committee reports regularly to the Board on its work.

Andy Haste
Chairman, Remuneration Committee
2 March 2011

Committee overview

Composition

The Committee is comprised entirely of non-executive directors. The current members are:

- Andy Haste (Chairman)
- Mike Clasper (appointed 2 February 2010)
- Archie Norman (appointed 2 February 2010)
- John Ormerod (appointed 1 March 2010)

Baroness Usha Prashar served as Chairman of the Committee during the year until she stepped down from the Board on 31 March 2010. Andy Haste became acting Chairman and was formally appointed Chairman on 30 November 2010. Full details of attendance at Committee meetings can be found in the table on page 52.

Advisers

The Committee obtains advice from various sources in order to ensure it makes informed decisions. The Committee's main advisers are set out below, and certain executives and other external advisers are invited to attend as appropriate. No individual is involved in decisions relating to their own remuneration.

Adviser	Area of advice
Andy Doyle, Group HR Director	Main internal adviser, provides updates on remuneration, employee relations and human resource issues affecting the Company.
Deloitte LLP*	Independent advisers on remuneration policy and the external remuneration environment; provide performance testing for LTIPs.
Hogan Lovells LLP	Legal matters.
Towers Watson	Salary benchmarking data.

*During the year Deloitte also provided the Group with advice on tax and corporate finance, and acted on a consultancy basis to provide internal audit and systems support under separate engagement terms.

Role

The role of the Committee is primarily to:

- review the ongoing appropriateness and relevance of the Group remuneration policy;
- approve the remuneration policy and strategy for the Senior Executive Group including the executive directors and company secretary;
- approve the design of the Company's annual bonus arrangements and long-term incentive plans, including the performance targets that apply for the Senior Executive Group; and
- determine individual award levels for the Senior Executive Group based on performance against annual bonus targets and long-term incentive performance conditions.

The Committee also maintains an active dialogue with shareholder representatives.

Activities in 2010

The Committee's activities during the year included:

- undertaking a fundamental review of the Company's remuneration strategy, and developing and agreeing an amended incentive framework for the Senior Executive Group, which supports the transformation of ITV. The incentive framework that has been developed reduces short-term cash, while increasing long-term focus and alignment with the shareholder experience;
- ensuring that decisions taken in respect of the Senior Executive Group's remuneration packages are sensitive to the activities being undertaken in the wider group, while also remaining appropriate in ITV's commercial environment;
- agreeing performance targets in relation to the 2011 bonus; and
- agreeing remuneration packages for new appointments to the Senior Executive Group, which are aligned with the terms offered to all other ITV employees, and termination arrangements for those individuals within the Senior Executive Group whose employment ceased.

Remuneration policy

As a company that operates in the particularly competitive media market, ITV aims to balance the need to attract and retain the high quality talent essential to the Company's success with the need to be cost effective and to reward exceptional performance. The Committee has designed a remuneration policy which balances these factors, while also taking into account prevailing best practice and investor expectations.

In addition to the above, the remuneration policy for the Senior Executive Group is based on the following key principles:

- a significant proportion of remuneration should be tied to the achievement of specific stretching performance conditions which align remuneration with the creation of shareholder value and delivery of the Transformation Plan;
- focus on sustained long-term performance and alignment of executives with the shareholder experience. Performance is measured over clearly specified timescales, and encourages executives to take action in line with the Transformation Plan, using good business management principles and well planned considered risks; and
- individuals should be rewarded for success and steps should be taken, within contractual obligations, to prevent rewards for failure. Payments to directors on termination only reflect contractual obligations.

When developing remuneration policy, the Committee obtains advice from the key advisers outlined in the Advisers section. When determining remuneration for the Senior Executive Group and all employees of ITV, the Committee also considers any relevant environmental, governance and social issues.

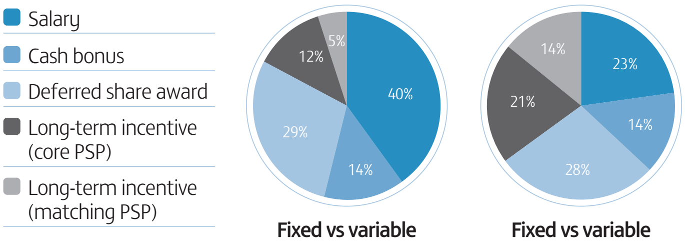
Remuneration report continued

Components of reward

The reward package for the Senior Executive Group consists of a combination of fixed and variable elements intended to provide motivation and reward for short, medium and long-term performance and to retain key executives over the longer term. Each component is intended to fulfil a different function within the remuneration framework as set out in the table below.

Components	Function
Fixed	
Base salary	To recognise the individual's skills and experience and provide a market competitive base reward.
Pension	To provide an opportunity for executives to build up income on retirement.
Other benefits	To reflect market competitive practice.
Variable	
Short-term incentives	To incentivise and reward exceptional performance against financial and non-financial annual targets thus delivering value to shareholders and contributing to the transformation of ITV.
Long-term incentives	To drive sustained long-term performance that supports the creation of shareholder value in alignment with shareholders' interests.

Details of how these components are delivered are set out in the Delivering remuneration policy section. By way of illustration, the balance between the fixed and variable elements of the total remuneration package (excluding pension) for executive directors is shown in the charts below. The charts illustrate the mix at both target and maximum performance levels and show the typical delivery of remuneration through cash and shares, over the short and longer term. Broadly, there is a 40:60 split between fixed and variable pay at target performance and a 23:77 split at maximum performance, showing the high proportion of performance-related pay that is 'at risk' in the total remuneration package.



Fixed vs variable pay at target performance

Fixed vs variable pay at maximum performance

Shareholder alignment

The Committee continues to recognise the importance of executive directors aligning their interests with shareholders through the commitment of a significant amount of their own investment capital. Shareholding guidelines are in place, which encourage executive directors to build up and hold ITV plc shares within three to five years of appointment with a value equivalent to 200% of salary for Adam Crozier, and 150% of salary for Ian Griffiths. Shareholding guidelines are also in place for members of the Management Board. Details of the executive directors' current personal shareholdings are shown on page 65.

Delivering remuneration policy

Base salary

Market positioning of base salary is approached on an individual basis, and the Committee takes account of robust salary surveys and an individual's skills before reaching its conclusions. The aim is for base salary to be set around market median, whilst recognising the need for an appropriate premium to attract and retain superior talent.

Executive directors' base salaries are reviewed on an annual basis, effective from 1 January, and the same annual review process is applied to the Senior Executive Group as to all other ITV employees. In 2010 there was a pay freeze and no increase was made to Ian Griffiths's salary.

Following completion of the 2011 salary review, the Company agreed a salary increase of 3% for all ITV employees earning under £60,000, with any increase for those earning £60,000 and above being linked to their performance rating for 2010. The executive directors both received a salary increase of 3% in line with overall personal and company wide performance. The base salaries for the executive directors are set out in the emoluments table in the Detailed audited disclosures section.

Pension Benefits

ITV offers members of the Senior Executive Group a pension benefit in line with that offered to other ITV employees. The majority of the Senior Executive Group are either members of the ITV Defined Contribution Scheme or receive a cash payment equivalent to the employer contribution. The executive directors' pension arrangements are set out on page 65.

Incentives

The Committee undertook a full review of incentive plans during 2010 to ensure that they effectively supported the aims of the Transformation Plan and to address the failure of previous arrangements to drive change in the business. As a result of this review, a new overall framework has been introduced based on the following principles:

- simple overall architecture;
- a break from what has gone before: fracturing the legacy culture and attracting and re-energising senior executives;
- shareholder aligned incentives: reduced reliance on short-term cash; increased long-term focus and alignment with the shareholder experience;
- application of strategic change metrics: linked to both strategy and financial performance;
- support a culture of accountability: valuing execution and delivery, with a clear commercial focus; and
- reward sustained performance over an extended period.

Under the new incentive framework, annual bonus deferral periods have been extended to three years and executives would need to voluntarily defer part of their annual bonus into shares in order to maintain previous long-term incentive plan (LTIP) award levels. There is a clear expectation that, across the senior executive team, key individuals will demonstrate their commitment to the business by investing on a voluntary basis. Overall, award levels remain within the limits of existing share plans.

Short-term incentives

Annual incentives are provided for the Senior Executive Group through the ITV Annual Bonus Scheme (Bonus). The performance conditions that apply are set on an individual basis and are closely linked to the Company's corporate, financial and strategic priorities. A bonus arrangement extends to all ITV employees, providing a comprehensive and fully integrated incentive framework which rewards all employees when ITV is successful.

Under the new incentive framework the Bonus arrangements for the Senior Executive Group will be as follows:

- one-third of any Bonus paid in cash;
- one-third of any Bonus compulsorily deferred into shares for three years under the Deferred Share Award Plan (DSA); and
- one-third of any Bonus may be taken in cash or deferred into shares under the DSA for three years.

This represents a significant increase on the previous deferral period for executive directors of 12 and 24 months after the end of the financial year to which the Bonus relates.

As part of the changes to substantially increase the deferral requirements, and in conjunction with the change to the structure of the long-term incentives, the 2011 Bonus opportunity for Adam Crozier has been increased to 180% and for Ian Griffiths to 165% (both from 150%).

2010 Bonus: Bonus opportunities for the Senior Executive Group in 2010 were designed to focus on profit generation (EBITA before exceptional items) and the efficient management of cash (profit to cash conversion). Targets were set so that generally maximum payout could only be achieved for significant outperformance. In addition, the Committee determined that no 2010 Bonus award would be paid if profits were below a threshold level.

ITV's financial performance in 2010 has been strong, as outlined in the Performance and financials section. In light of performance during the year, the following payment levels against financial targets for executive directors have been approved:

Target	Achieved	Bonus Payout
Profit generation (EBITA before exceptional items)		
maximum payment for 120% of budget	132%	100%
Cash management (profit to cash conversion)		
maximum payment for 90% conversion	127%	100%

In addition, Adam Crozier and Ian Griffiths received payout levels of 90% and 75% respectively for performance against 2010 individual targets.

The 2010 Bonus awards to the executive directors will be made in line with the new incentives framework set out above.

2011 Bonus: The Committee has set 2011 performance targets to ensure they continue to drive and support both the Transformation Plan and delivery of key operational outcomes. The Committee ensures that the maximum bonus opportunity can only be achieved for significant outperformance of all corporate, financial and individual bonus outcomes, with on target performance achieving a 60% payout of maximum bonus opportunity.

The majority of the bonus opportunity (60%) is based upon the achievement of corporate and financial targets. The remainder of the bonus opportunity (40%) is based upon the contribution that the executive makes toward the overall Transformation Plan through the delivery of specific targets.

The corporate and financial targets are weighted to the area of the business for which the executive has primary responsibility. For Adam Crozier and Ian Griffiths the targets are set at a corporate level. Across the Senior Executive Group these targets include operating profit, profit to cash conversion, platform adjusted Share of Viewing (SOV), Online targets, revenue targets, content creation targets and delivery of agreed cost savings targets.

The individual targets for members of the Senior Executive Group focus on their specific areas of responsibility and the way in which they contribute to delivery of the overall transformation.

Long-term incentives

As part of the new incentives framework to support the delivery of the Transformation Plan, the following changes have been made to the terms of the long-term incentive awards to be made to the Senior Executive Group under the Performance Share Plan (PSP):

- core PSP awards reduced to 90% of salary (from the previous maximum level of 150%). Adam Crozier would have previously received 150% and Ian Griffiths 125%.
- if an individual voluntarily defers one-third of their annual Bonus into shares, they will be awarded additional shares under the PSP (on a 1:1 basis subject to the performance conditions that apply to PSP awards).
- aggregate PSP awards will not exceed the current 150% limit.

In order to ensure that executives are only rewarded if value is delivered to shareholders, awards will be subject to an initial EPS performance gateway. If this gateway is achieved, performance will then be assessed by reference to the following:

- 50% on EPS. This represents the key financial metric of the business. The EPS growth targets that have been set are considered by the Committee to be appropriately demanding and in line with market practice.
- 25% on SOV. This is aligned with the strategic priorities of the business.
- 25% on non-net advertising revenue (NAR) growth and increased internal supply. These are key measures of success over the transformation period as the Company reduces its reliance on spot advertising revenues and generates greater shareholder value from its integrated production and broadcast businesses.

SOV and non-NAR are both measures of performance that are important to our business as further explained in the Performance and financials section.

Further details of the performance conditions are available on page 60. The intention is to make awards under this arrangement in 2011.

The plans under which awards have been made to date, and are still outstanding, are:

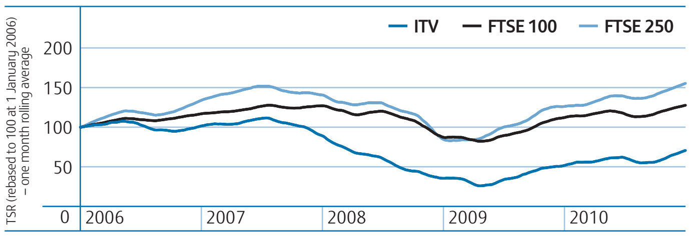
- **Performance Share Plan:** this was the only long-term incentive used for awards made in 2009 and 2010. Awards were made on 26 March 2010. This Plan will continue to be used under the new incentives framework.
- **Turnaround Plan:** no awards have been made under this plan since 2008.

The table on page 60 outlines the key features and performance conditions of the above plans. The Company also operates an all employee Save As You Earn scheme. The executive directors' participation in this scheme is set out in the Detailed audited disclosures section.

In line with the Turnaround Plan, a corresponding long-term cash-based incentive also exists for the wider employee population, not including participants in the Turnaround Plan, known as the Turnaround Incentive Opportunity, which is dependent on the same performance conditions.

Performance graph

The graph below shows the Total Shareholder Return (TSR) performance of the Company against the FTSE 100 and FTSE 250 index over the five-year period to 31 December 2010. Both indices have been shown as the Company has been a constituent of both over the previous five years.



Source: Datastream

Remuneration report continued

Summary of long-term incentive plans

Existing arrangements: Performance Share Plan (PSP); Turnaround Plan (TP)
New arrangements from 2011: Performance Share Plan (PSP)

	Existing arrangements: Performance Share Plan (PSP)	Existing arrangements: Turnaround Plan (TP)	New arrangements from 2011: Performance Share Plan (PSP)
Award Level (plan maximum)	150%	550%	150%

Co-investment requirements

Performance Share Plan (PSP), existing arrangements

None

Turnaround Plan (TP)

Requirement to:

- acquire a number of shares with a value of up to 100% of salary within a specified period from date of grant; and
- hold the shares for the duration of the relevant performance period.

Performance Share Plan (PSP), new arrangements from 2011

- award levels will be significantly reduced unless a voluntary deferral is made of annual bonus into shares for a period of three years.
- awards for executive directors will not exceed 90% of salary unless they make this voluntary deferral.

Performance period

Performance Share Plan (PSP), existing arrangements

- three years from the date of grant.

Turnaround Plan (TP)

- 25% of total award – 1 January 2007 to 31 December 2009.
- 75% of total award – 1 January 2007 to 31 December 2011.

Performance Share Plan (PSP), new arrangements from 2011

- three years from the date of grant.

Performance conditions

Performance Share Plan (PSP), existing arrangements

75% TSR

- measured equally against two distinct comparator groups drawn from the FTSE 250 and a specific international industry peer group.

25% STRATEGIC – for awards made in 2009

- measured in equal proportions against two targets:

Strategic target	Threshold	Maximum
SOCI (ITV Family)	36.6%	38.5%
EPS Growth	RPI +3%	RPI +5%

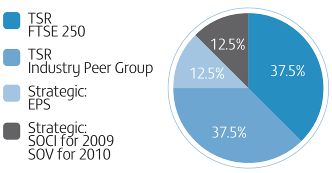
- EPS base year 2008.

25% STRATEGIC – for awards made in 2010

- measured in equal proportions against two targets:

Strategic target	Threshold	Maximum
Family SOV growth	No change (to 2009 figures)	2%
EPS (cumulative adjusted)	18p	20p

- EPS cumulative years 2010 to 2012.



Turnaround Plan (TP)

50% TSR

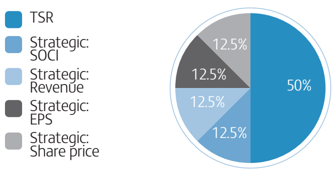
- measured against a customised FTSE 100 comparator group excluding certain industry sectors that are less relevant as a benchmark of performance.

50% STRATEGIC

- measured in equal proportions against four targets:

Strategic target	Threshold	Maximum
SOCI (ITV Family)	36.6%	38.5%
Revenue growth	2% p.a.	5% p.a.
EPS (adjusted)	8p	12p
Share price	£1.35	£2.25

- share price will be measured as an average over any 28-day period within the final three years of the TP.



Performance Share Plan (PSP), new arrangements from 2011

Gateway EPS

- a Gateway condition of cumulative adjusted EPS of 21 pence must be reached before any portion of the award vests.

50% EPS

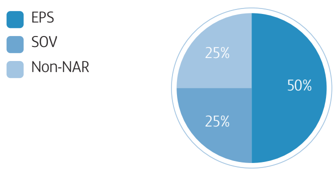
Strategic target	Threshold	Maximum
EPS (cumulative adjusted)	21p	24p

- EPS cumulative years 2011 to 2013.

50% OTHER STRATEGIC

- measured in equal proportions against two targets:

Strategic target	Threshold	Maximum
Family SOV growth	No change (to 2010 figures)	2%
Non-NAR growth and increased internal supply	5%	10%



Vesting

Performance Share Plan (PSP), existing arrangements

75% TSR

- Median and below – nil
- Above median to upper quartile – vesting on a straight line basis
- Upper quartile – 100%.

25% STRATEGIC – for awards made in 2009

- Threshold performance – 25%
- Maximum performance – 100%
- Vesting on a straight line basis in between.

25% STRATEGIC – for awards made in 2010

- Threshold performance – EPS:30%, SOV:50%
- Maximum performance – 100%
- Vesting on a proportionate basis in between.

Turnaround Plan (TP)

50% TSR

- Below median – nil
- Median – 25%
- Upper quartile – 100%
- Vesting on a straight line basis in between.

50% STRATEGIC

- Threshold performance – 25%
- Maximum performance – 100%
- Vesting on a straight line basis in between.

Performance Share Plan (PSP), new arrangements from 2011

50% EPS

- Threshold performance – 30%
- Maximum performance – 100%
- Vesting on a straight line basis in between.

50% STRATEGIC

- Threshold performance – SOV:50%, Non-NAR:30%
- Maximum performance – 100%
- Vesting on a proportionate basis (SOV) and a straight line basis (Non-NAR) in between.

Exercise period

Performance Share Plan (PSP), existing arrangements

- Once vested awards can be exercised for 12 months, any portion of the award that does not vest or is not exercised will lapse.

Turnaround Plan (TP)

- Once vested awards can be exercised until 31 December 2012, any portion of the award that does not vest or is not exercised will lapse.

Performance Share Plan (PSP), new arrangements from 2011

- Once vested awards can be exercised for 12 months, any portion of the award that does not vest or is not exercised will lapse.

Leavers

Standard good leaver provisions apply (broadly relating to compassionate circumstances) and include pro-rating for service. If a participant ceases to be employed for any other reason, the award will lapse unless determined otherwise.

Change of control

Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions. The proportion that vests may be capped depending on the time elapsed since grant.

Service contracts

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

	Date of appointment	Nature of contract	Notice period from Company	Notice period from director	Compensation provisions for early termination
Ian Griffiths	9 September 2008	Rolling	12 months	12 months	None
Adam Crozier	26 April 2010	Rolling	12 months	12 months	None

Note:
The Company retains the right to terminate employment by making payment in lieu of notice, in which case the executive would be entitled to receive 12 months' salary and benefits (including pension contributions).

Executive directors' non-executive directorships

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

During the year Adam Crozier retained fees for an external non-executive directorship as set out below:

Company	2010 £000
Debenhams plc	**36**

Payments to outgoing executive directors

Michael Grade ceased to be a director on 31 December 2009. He received a payment of £167,000 in respect of his remaining contractual notice period to 30 April 2010, and £35,000 in respect of remaining contractual obligations.

Both John Cresswell and Rupert Howell ceased to be directors during the financial year. When agreeing the terms of their departure the Committee ensured that any payments made reflected contractual obligations.

John Cresswell ceased to be a director on 23 April 2010. The date of cessation of his employment was 30 June 2010, and he received a payment of £713,305 including a payment in lieu of notice equivalent to 12 months' salary and the value of benefits (including 12 months' pension entitlement).

Rupert Howell ceased to be a director on 1 June 2010. The date of cessation of his employment was 31 July 2010, and he received a payment of £558,700, including a payment in lieu of notice equivalent to 12 months' salary and the value benefits (including pension contributions). This payment was subject to mitigation for a period of four months following cessation of employment due to the role that Rupert held.

All of their outstanding share awards have been treated in accordance with the relevant plan rules. As such the DSA awards released on cessation of employment. The awards oustanding under the PSP and TP were pro-rated for service and a proportion lapsed accordingly. The share options outstanding after pro-ration will remain subject to performance conditions at the normal vesting dates.

Non-executive directors

Each non-executive director has a contract of service with the Company, further details of which can be found in the Governance section. Fees paid to the non-executive directors are determined by the Board based on market information, and in accordance with the restrictions contained within the Company's Articles of Association.

Non-executive directors do not participate in decisions concerning their own fees.

The fees are reviewed annually. The additional fee for membership of the Nomination Committee ceased from 1 January 2010. There has been no change in the level of fees paid since 2007, and it has been agreed that the basic annual fee will increase by £2,500 to £57,500 with effect from 1 January 2011. The annual fees payable in 2010 were as follows:

Non-executive directors' fees	£000
Board member	55
Additional fees for:	
Senior Independent Director	25
Audit Committee member	5
Audit Committee Chairman	20
Remuneration Committee member	5
Remuneration Committee Chairman	15

Note:
Details of committee membership can be found in the Governance section.

The non-executive directors are required to use 25% of their annual fees, after statutory deductions, to acquire shares in the Company. The shares are purchased quarterly and are held by a nominee on their behalf. The shares release when they retire from the Board. Details of their shareholdings can be found on page 65.

The Chairman receives an annual fee of £300,000 and no further payment for membership of committees. He also received an award of 400,000 shares for each year (total 1.2 million shares) of his initial three-year appointment term. These will be released at the end of the initial term on 31 December 2012. He will not be required to apply a percentage of his cash fee to acquire shares, as the Committee considers him to be sufficiently aligned with shareholders' interests following his purchase of 380,000 shares on appointment, together with the share element of his remuneration.

Detailed audited disclosures

The following tables provide details of each of the directors' and former directors' emoluments, pension entitlements, rights to share options and awards. All of these tables have been audited by KPMG Audit Plc.

Aggregate directors' remuneration

The total amounts of directors' remuneration for the period from 1 January 2010 to 31 December 2010 were as follows:

	2010 £000	2009 £000
Emoluments	**3,645**	5,309
Gains on exercise of share options	**172**	1,092
	3,817	6,401

Notes:
Gains on exercise of share options:
(1) Valued on date of release to participant.
(2) Includes the exercise of share options and the release of restricted shares under the DSA in order to make year-on-year comparisons more representative.
(3) Includes value of restricted shares awarded in March 2010. Participants entered into a section 431 election to pay income tax on the value of the awards on the date of grant, so the value of awards released on 31 December 2010 was net of income tax.
(4) Figure for 2010 is lower than 2009 as no awards were exercised by John Cresswell and Rupert Howell during the period from 1 January 2010 until the date they ceased to be directors of ITV plc.
(5) Further information is contained in the tables on pages 63 and 64.

Remuneration report continued

Directors' emoluments

The directors' emoluments for the year ended 31 December 2010 are set out in the table below.

Emoluments

Name of director	Status	Notes	Basic salary/ Fees £000	Benefits in kind(7) £000	Pension contributions(8) £000	Award/ Payment on appointment £000	Short-term incentives (cash)(9) £000	Total for the year ended 31 December 2010 £000	Total for the year ended 31 December 2009 £000
Current directors									
Adam Crozier	Executive	1	**532**	**13**	**48**	**334**	**252**	**1,179**	–
Ian Griffiths	Executive		**425**	**14**	**64**	**–**	**186**	**689**	712
Mike Clasper	Non-executive		**90**	**–**	**–**	**–**	**–**	**90**	80
Andy Haste	Non-executive		**69**	**–**	**–**	**–**	**–**	**69**	65
Lucy Neville-Rolfe	Non-executive	2	**18**	**–**	**–**	**–**	**–**	**18**	–
Archie Norman	Non-executive	3	**300**	**–**	**–**	**–**	**–**	**300**	–
John Ormerod	Non-executive		**79**	**–**	**–**	**–**	**–**	**79**	65
Directors who stepped down in the year									
John Cresswell	Executive	4	**221**	**7**	**–**	**–**	**433**	**661**	958
Rupert Howell	Executive	5	**187**	**19**	**28**	**–**	**308**	**542**	833
Baroness Usha Prashar	Non-executive	6	**18**	**–**	**–**	**–**	**–**	**18**	75
Past directors' emoluments (for comparative purposes)			**–**	**–**	**–**	**–**	**–**	**–**	2,521
Total emoluments			**1,939**	**53**	**140**	**334**	**1,179**	**3,645**	5,309

Notes:

(1) The figures shown for Adam Crozier reflect:
– emoluments paid from the date of appointment on 26 April 2010;
– pension contributions representing a cash payment in lieu of pension described further in the pension entitlements section of this report; and
– a one-off cash payment of £200,000 made as a part of his joining package; the taxable value of £133,665, following the release of 198,636 ITV shares on 26 October 2010 as a part of the restricted share award made on 26 April 2010 as detailed on page 63.

(2) The figures shown for Lucy Neville-Rolfe reflect fees paid from the date of appointment on 3 September 2010.

(3) An award over 1.2 million shares was made on appointment as shown in the table on page 63.

(4) The figures shown for John Cresswell reflect:
– emoluments received up until 23 April 2010 when he stepped down from the Board;
– £133,484 for emoluments for the period from 24 April 2010 up until his cessation of employment on 30 June 2010; and
– an allowance of £125,000 per annum paid prorata for the period of time he served as Interim Chief Executive, from 1 January 2010 until 23 April 2010. This payment is included in the basic salary figure.

(5) The figures shown for Rupert Howell reflect:
– emoluments and benefits in kind paid up until 1 June 2010 when he stepped down from the Board; and
– £93,920 for emoluments for the period from 2 June 2010 up until his cessation of employment on 31 July 2010.

(6) The figures shown for Baroness Prashar reflect fees paid up until 31 March 2010 when she stepped down from the Board.

(7) This disclosure includes the cost of private medical insurance and car related benefits.

(8) Pension contributions represent payments made into Personal Pension Plans, or cash payments in lieu of pension, and are described further in the pension entitlements section.

(9) Short-term incentives:
– current executive directors will receive a bonus for 2010 as detailed in the table below:

	Percentage of maximum bonus opportunity earned	Value paid in cash (shown in the table above) £	Value compulsorily deferred into shares under the DSA £	Value voluntarily deferred into shares under the DSA £	Total paid for 2010 Bonus £
Adam Crozier	95% (resulting value pro-rated for time employed)	252,496	252,496	252,496	757,488
Ian Griffiths	87.5%	185,938	185,938	185,938	557,814

– John Cresswell received a bonus for 2010 representing 82.5% of his bonus opportunity which has been pro-rated for time served.
– Rupert Howell will receive a bonus for 2010 representing 78% of his bonus opportunity which has been pro-rated for time served.

(10) Non-executive directors' fees include an element which is used to purchase shares as described on page 61. Details of their shareholdings are shown on page 65.

Directors' interests in share options

Information given in the table below is for the period from 1 January 2010 to 31 December 2010.

Current directors

Award date	Notes	At 1 January 2010	Awarded in year	Exercised/ Released in year	Lapsed in year	At 31 December 2010	Share price used for award (pence)	Exercise price (pence)	Date of exercise/ release	Share price at date of exercise/ release (pence)	Gain at date of exercise/ release (£)	Vesting date/Exercise period
Adam Crozier												
Restricted Share Award												
26 April 2010	1	–	595,908	198,636	–	397,272	70.48	–	–	–	–	April 2011 and October 2011
Nil-cost Option Award												
26 April 2010	2A	–	4,115,044	–	–	4,115,044	56.50	–	–	–	–	April 2013 – April 2014
Ian Griffiths												
Deferred Share Award Plan												
24 April 2009	3	48,841	–	48,841	–	–	31.00	–	31 December 2010	71.4148	34,880	–
26 March 2010	4	–	191,861	191,861	–	–	59.89	–	31 December 2010	71.4148	137,017	–
26 March 2010	4	–	191,862	–	–	191,862	59.89	–	–	–	–	December 2011
Performance Share Plan												
1 June 2009	A	1,188,812	–	–	–	1,188,812	35.75	–	–	–	–	June 2012 – June 2013
26 March 2010	A	–	933,820	–	–	933,820	56.89	–	–	–	–	March 2013 – March 2014
Turnaround Plan												
2 October 2008	B	3,017,752	–	–	–	3,017,752	42.25	–	–	–	–	December 2011 – December 2012
Archie Norman												
Restricted Share Award												
17 March 2010	5	–	1,200,000	–	–	1,200,000	50.17	–	–	–	–	December 2012

Notes:
(1) One-off award made on joining ITV with a value of £420,000 to release in three tranches of 198,636 on 26 October 2010, 26 April 2011 and 26 October 2011. Whilst held under award the shares cannot be sold or transferred. The value of the shares released on 26 October 2010 is shown in the emoluments table on page 62.
(2) An award over nil-cost options subject to the same provisions and performance conditions attaching to the awards made under the PSP in March 2010. In accordance with the terms of this award, the number of shares subject to award was calculated using the market price on 27 January 2010, the date before Adam Crozier's appointment was announced.
(3) Awarded in the form of nil-cost options.
(4) Awarded in the form of restricted shares. All participants entered into a section 431 election to pay income tax on the value of the awards on the date of grant. No further income tax Is payable on release.
(5) One-off award made on joining ITV. Initially the award was to be released as 400,000 shares annually over the initial three-year appointment term. On Mr Norman's request, and with the approval of the Remuneration Committee, the terms of the award were altered during the year under a Deed of Variation, and all 1.2 million shares will now release on 31 December 2012. As announced on 18 November 2009, the number of shares awarded was calculated using the market price immediately before his appointment as Chairman was announced. Whilst held under award the shares cannot be sold or transferred.

The comparator groups for each award are set out in the table below, and apply as marked in the notes column:

A	The portion of the award subject to TSR will be measured equally against two distinct comparator groups, the constituents of the FTSE 250 index (excluding companies from the basic materials, financial services, oil and gas and industrials industries), and an industry sector specific group of 23 companies: British Sky Broadcasting Group, Scripps Networks, Canal Plus, Telecinco, CBS, Tf1 (Tv.Fse.1), Daily Mail & General Trust, Time Warner, M6-Metropole TV, Trinity Mirror, Mediaset, Viacom Digital, Modern Times Group, Virgin Media, News Corporation, Vivendi, Pearson, WPP Group, Premier AG, Yell Group, Proseiben Sat 1 Pf., Zon Multimedia and RTL Group.
B	British Airways, British Sky Broadcasting Group, BT Group, Capita Group, Carnival, Compass Group, Diageo, DSG International, Enterprise Inns, Home Retail Group, Intercontinental Hotels Group, Kingfisher, Marks & Spencer Group, Next, Pearson, Reed Elsevier, Thomson Reuters, SABMiller, Scottish & Newcastle, Vodafone Group, WPP and Yell Group.

Remuneration report continued

Directors' interests in share options

Information given in the table below is for the period from 1 January 2010 until the date they stepped down from the Board.

Directors who stepped down in the year

Award date	Notes	At 1 January 2010	Awarded in year	Exercised/ Released in year	Lapsed in year	At date stepped down from the Board(6)	Share price used for award (pence)	Exercise price (pence)	Date of exercise/ release	Share price at date of exercise/ release (pence)	Gain at date of exercise/ release (£)	Vesting date/Exercise period
John Cresswell												
Deferred Share Award Plan												
24 April 2009	1	264,315	–	–	–	264,315	31.00	–	–	–	–	June 2010 – June 2011
26 March 2010	2	–	356,867	–	–	356,867	59.89	–	–	–	–	June 2010
Performance Share Plan												
1 June 2009	A	1,608,392	–	–	–	1,608,392	35.75	–	–	–	–	June 2012 – June 2013
Turnaround Plan												
13 September 2007	B	2,136,825	–	–	–	2,136,825	111.00	–	–	–	–	December 2011 – December 2012
Save As You Earn scheme												
17 July 2009		54,370	–	–	–	54,370	35.75	28.60	–	–	–	June 2010 – December 2010
Commitment Scheme												
22 August 2003	3	471,944	–	–	471,944	–	–	100.72	–	–	–	–
20 March 2006	4, C	259,179	–	–	259,179	–	–	–	–	–	–	–
20 March 2006	4, C	259,179	–	–	259,179	–	–	115.75	–	–	–	–
Executive Share Option Schemes												
22 December 2000	5	959	–	–	–	959	–	217.78	–	–	–	December 2003 – December 2010
6 July 2001	5	36,399	–	–	–	36,399	–	137.02	–	–	–	July 2004 – June 2011
28 September 2001	5	113,851	–	–	–	113,851	–	91.35	–	–	–	September 2004 – June 2011
9 January 2002	5	1,040	–	–	–	1,040	–	143.27	–	–	–	January 2005 – June 2011
10 July 2002	5	19,240	–	–	–	19,240	–	106.25	–	–	–	July 2005 – June 2011
7 January 2003	5	18,200	–	–	–	18,200	–	76.92	–	–	–	January 2006 – June 2011
Rupert Howell												
Deferred Share Award Plan												
24 April 2009	1	206,855	–	–	–	206,855	31.00	–	–	–	–	July 2010 - July 2011
26 March 2010	2	–	262,663	–	–	262,663	59.89	–	–	–	–	July 2010
Performance Share Plan												
1 June 2009	A	1,101,399	–	–	–	1,101,399	35.75	–	–	–	–	June 2012 – June 2013
26 March 2010	A	–	791,001	–	–	791,001	56.89	–	–	–	–	March 2013 – March 2014
Turnaround Plan												
3 October 2007	B	1,767,857	–	–	–	1,767,857	105.00	–	–	–	–	December 2011 – December 2012

Notes:

(1) Awarded in the form of nil-cost options.
(2) Awarded in the form of restricted shares. All participants entered into a section 431 election to pay income tax on the value of the awards on the date of grant. No further income tax Is payable on release.
(3) The performance condition applicable for the awards made under the Granada Commitment Scheme was TSR relative to Granada's international media comparator group. 25% of awards vest at median; and 100% at upper decile. Up to 50% of these awards were capable of vesting after two years, with the remainder subject to performance over a four-year period. The options are shown in ITV plc shares and were adjusted following the merger of Granada with Carlton in 2004. The remaining balance of options were not exercised and have lapsed.
(4) The remaining 50% lapsed on 20 March 2010 as performance conditions were not met.
(5) Awards outstanding under the Granada Media and Granada Schemes. The options are shown in ITV plc shares and were adjusted following the merger of Granada with Carlton in 2004.
(6) All outstanding share awards held by John Cresswell and Rupert Howell have been treated in accordance with the relevant plan rules. As such the DSA awards released on cessation of employment. The awards oustanding under the PSP and TP were pro-rated for service and a proportion lapsed accordingly. The share options outstanding after pro-ration will remain subject to performance conditions at the normal vesting dates.

The comparator groups for each award are set out in the table below, and apply as marked in the notes column:

A	The portion of the award subject to TSR will be measured equally against two distinct comparator groups, the constituents of the FTSE 250 index (excluding companies from the basic materials, financial services, oil and gas and industrials industries), and an industry sector specific group of 23 companies: British Sky Broadcasting Group, Scripps Networks, Canal Plus, Telecinco, CBS, Tf1 (Tv.Fse.1), Daily Mail & General Trust, Time Warner, M6-Metropole TV, Trinity Mirror, Mediaset, Viacom Digital, Modern Times Group, Virgin Media, News Corporation, Vivendi, Pearson, WPP Group, Premier AG, Yell Group, Proseiben Sat 1 Pf., Zon Multimedia and RTL Group.
B	British Airways, British Sky Broadcasting Group, BT Group, Capita Group, Carnival, Compass Group, Diageo, DSG International, Enterprise Inns, Home Retail Group, Intercontinental Hotels Group, Kingfisher, Marks & Spencer Group, Next, Pearson, Reed Elsevier, Thomson Reuters, SABMiller, Scottish & Newcastle, Vodafone Group, WPP and Yell Group.
C	BAA, Alliance Boots, Brambles, British Airways, British Sky Broadcasting Group, BT Group, Cable & Wireless, Capita Group, Carnival, Compass Group, Daily Mail and General Trust, Diageo, DSG International, Enterprise Inns, Home Retail Group, InterContinental Hotels Group, Kingfisher, Ladbrokes, Marks & Spencer Group, Next, PartyGaming, Pearson, Reed Elsevier, Rentokil Initial, Thomson Reuters, Rexam, SABMiller, Scottish & Newcastle, Vodafone Group, Wolseley, WPP and Yell Group.

Pension entitlements

Adam Crozier, Ian Griffiths and Rupert Howell were not members of any Company pension scheme during the year. The Company made contributions to Personal Pension Plans belonging to Ian Griffiths and Rupert Howell with a value of 15% of their respective basic salaries. Adam Crozier received a cash payment of 9% of his basic salary in lieu of pension contributions. These payments are included in the emoluments table on page 62.

No directors were members of money purchase schemes operated by the Group.

No directors were members of defined contribution schemes operated by the Group.

John Cresswell ceased to be a director on 23 April 2010, and remained an active member of the defined benefit pension scheme until he ceased employment with the Company on 30 June 2010. His accrued entitlements under the scheme are as follows:

Name of director	Accrued pension 1 January 2010 £000	Increase in accrued pension in the year £000	**Accrued pension 31 December 2010 £000**
John Cresswell	119	6	**125**

The following table sets out the transfer value of his accrued benefits under the scheme calculated in a manner consistent with the Occupational Pension Schemes (Transfer Values) Regulations 2008.

The pension benefits of John Cresswell are provided on a defined benefit basis. The accrued pension shown is that which would be paid annually based on John Cresswell's membership in the Scheme. The increase in accrued pension during the year reflects an increase in the pension entitlement as a result of an additional six months of service.

Name of director	Transfer value 1 January 2010 £000	Contributions made by the director £000	Increase in transfer value in the year net of contributions(1) £000	**Transfer value 31 December 2010 £000**
John Cresswell	1,487	23	298	**1,808**

Notes:
(1) The transfer value at 31 December 2010 has been calculated in accordance with the transfer value John Cresswell would receive if he transferred his pension elsewhere. The Trustees of the ITV Pension Scheme updated the transfer value factors over 2010 to allow for increasing evidence that people are living longer than previously expected which has contributed to the increase in the transfer value to 31 December 2010. The increase in the transfer value also includes the effect of fluctuations due to factors beyond the control of the Company and directors, such as stock market movements.
(2) John Cresswell has a normal retirement age of 63.
(3) In the event of the death of an executive director, a pension equal to one half of the director's pension will become payable to a surviving spouse. A pension may become payable to any surviving dependent children.
(4) In common with other members of the defined benefit pension scheme, the executive director may, with the consent of the Company, receive and draw a pension at any time after reaching the age of 55.

The following additional information is given to comply with the requirements of the Listing Rules which differ in some respects from the equivalent statutory requirements.

Name of director	Increase in accrued pension in the year in excess of inflation £000	Transfer value of increase in the year less director's contributions £000
John Cresswell	–	(22)

The transfer values disclosed above do not represent a sum paid or payable to John Cresswell. Instead they represent a potential liability of the pension scheme.

Directors' interests

The figures set out below represent shareholdings in the ordinary share capital of ITV plc beneficially owned by directors and their family interests. Between the end of the financial year and 2 March 2011, there were no changes in directors' interests in shares.

Director	**31 December 2010**	31 December 2009 (or date of appointment if later)
Mike Clasper	**68,693**	46,784
Adam Crozier	**97,126**	–
Ian Griffiths	**449,098**	233,358
Andy Haste	**49,261**	33,302
Lucy Neville-Rolfe	**3,615**	–
Archie Norman	**380,000**	380,000
John Ormerod	**94,628**	75,372

Share price information

The market price of the ITV plc ordinary shares at 31 December 2010 was 70.05 pence and the range during the year was 48.28 pence to 74.2 pence.

Approval

The Remuneration report was approved by the Board on 2 March 2011 and signed on its behalf by Andy Haste.

Other governance and statutory disclosures

Substantial shareholdings

As at 2 March 2011 the Company had received notifications from the following companies and institutions of the voting interests of themselves and their clients in 3% or more of the issued ordinary share capital (carrying rights to vote in all circumstances) of the Company (numbers of shares and percentage interests are as at the notification dates).

	Shares	%
AXA S.A.	170,580,317	4.39
Blackrock, Inc.	429,509,856	11.04
Brandes Investment Partners, L.P.	275,411,157	7.08
Sky Holdings Ltd(1)	291,684,730	7.50
Legal and General Investment Management Ltd	153,692,144	3.95

Notes:
(1) Subsidiary of British Sky Broadcasting Group plc.
(2) A profile of shareholdings is set out on page 115.

Share capital

Issued: At the date of this report there were 3,889,129,751 ordinary shares of 10 pence each in issue, all of which are fully paid up and quoted on the London Stock Exchange. Further details of the movements in the authorised and issued share capital of the Company during the year are set out on page 113.

Rights: The rights attaching to the Company's ordinary shares, as well as the powers of the Company's directors, are set out in the Company's Articles of Association, copies of which can be obtained from the Company's website at www.itvplc.com or by writing to the Company Secretary.

Restrictions: There are no restrictions on the transfer of ordinary shares in the capital of the Company other than those which may be imposed by law from time to time. In accordance with the Disclosure and Transparency rules, certain employees are required to seek approval to deal in ITV shares. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfers of securities and/or voting rights. No person holds securities in the Company carrying special rights with regard to control of the Company. Unless expressly specified to the contrary, the Company's Articles of Association may be amended by special resolution of the shareholders.

Purchase of own shares: The directors have the authority to purchase up to 388.9 million of the Company's ordinary shares. The authority remains valid until the 2011 Annual General Meeting, or 6 August 2011 if earlier.

Trusts: The Company has a discretionary trust funded by loans to acquire shares for the potential benefit of employees of the Group. Details of shares held by the trust at 31 December 2010 are set out in note 4.7.6. During the year shares have been released from the trust in respect of share schemes for employees. The trust waives the right to dividends payable on those shares held by the trust that are not subject to any share plan operated by the Company where participants are the beneficial but not registered owners of shares.

Change of control

All of the Company's share schemes contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions. Certain of the Group's bonds/borrowing facilities have change of control clauses whereby the issuer can require ITV to repay/redeem bonds in the event of a change of control. The Company is not aware of any other significant agreements to which it is party that take effect, alter or terminate upon a change of control of the Company.

Creditor payment policy

The Company's policy, in relation to all its suppliers, is to settle the terms of payment when agreeing the terms of the transaction, ensure awareness of the terms and to abide by those terms provided that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Company does not follow any code or standard payment practice. The number of days' purchases outstanding for payment by the Company as at 31 December 2010 was nil days (2009: nil).

Pension Scheme indemnities

Qualifying pension scheme indemnity provisions, as defined in section 235 of the Companies Act 2006, were in force for the financial year ended 31 December 2010 and remain in force for the benefit of each of the directors of ITV Pension Scheme Limited, an associated company of ITV plc. These indemnity provisions cover, to the extent permitted by law, certain losses or liabilities incurred as a director or officer of ITV Pension Scheme Limited.

Audit

The directors who held office at the date of approval of the Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. As recommended by the Audit Committee, a resolution for the re-appointment of KPMG Audit Plc as auditor to the Company will be proposed at the 2011 Annual General Meeting.

Annual General Meeting

The Annual General Meeting will be held on Wednesday, 11 May 2011 at 11.00 am at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE. The Notice of the Annual General Meeting contains an explanation of special business to be considered at the meeting. A copy of the Notice will be available on the Company's website at www.itvplc.com.

By order of the Board

Andrew Garard
Company Secretary
2 March 2011

ITV plc
The London Television Centre
Upper Ground
London SE1 9LT
Registered number 4967001

Documents for corporate governance

The following documents are available on the Company's website at www.itvplc.com:

- Terms of engagement for non-executive directors;
- Schedule of matters reserved to the Board;
- Terms of reference for the Audit, Disclosure, General Purpose, Nomination and Remuneration Committees;
- Auditor's Independence Policy;
- Guidelines for seeking independent advice;
- Directors' indemnity; and
- Terms of reference for remuneration consultants.

Statement of directors' responsibilities in respect of the annual report and financial statements

The directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

Each of the directors, the names of whom are set out on pages 46 and 47, confirms that to the best of his or her knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets and liabilities, financial position and the profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' report includes a review of the development and performance of the business and the position of the issue and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Andrew Garard
Company Secretary
2 March 2011

Independent auditors' report to the members of ITV plc

We have audited the Consolidated and Company financial statements of ITV plc for the year ended 31 December 2010 set out on pages 70 to 114. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' 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 and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 67, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion:

– the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2010, and of the Group's profit for the year then ended;

– the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;

– the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;

– the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

– the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and

– the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

– adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

– the parent company financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records and returns; or

– certain disclosures of directors' remuneration specified by law are not made; or

– we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

– the Directors' statement, set out on page 75, in relation to going concern;

– the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and

– certain elements of the report to shareholders by the Board on directors' remuneration.

Richard Bawden (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants

15 Canada Square
London E14 5GL
2 March 2011

Introduction and table of contents

In preparing these financial statements we have changed the format and layout following the principles outlined in the Financial Reporting Council's publication 'Louder than words'. We have made these changes to make ITV's financial statements less complex and more relevant to shareholders. We have grouped notes under three key headings; 'Results for the year', 'Operating assets and liabilities' and 'Capital structure and financing costs'. Each section sets out the accounting policies applied in producing these notes together with any key judgements and estimates used. The purpose of these changes is to provide readers with a clearer understanding of what drives financial performance of the Group. Text in speech bubbles provides commentary on each section in plain English.

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

Contents

Consolidated income statement

For the year ended 31 December:	Note	2010 £m	2009 £m
Revenue	2.1	**2,064**	1,879
Operating costs		**(1,700)**	(1,683)
Operating profit		**364**	196
Presented as:			
Earnings before interest, tax, amortisation (EBITA) before exceptional items	2.1	**408**	202
Operating exceptional items	2.2	**19**	53
Amortisation of intangible assets	3.3	**(63)**	(59)
Operating profit		**364**	196
Financing income	4.4	**185**	201
Financing costs	4.4	**(260)**	(292)
Net financing costs	4.4	**(75)**	(91)
Share of profits or (losses) of joint ventures and associated undertakings	2.1	**(3)**	(7)
Loss on sale and impairment of non-current assets (exceptional items)	2.2	**(4)**	(22)
Gain/(loss) on sale and impairment of subsidiaries and investments (exceptional items)	2.2	**4**	(51)
Profit before tax		**286**	25
Taxation	2.3	**(16)**	69
Profit for the year		**270**	94
Profit attributable to:			
Owners of the Company		**269**	91
Non-controlling interests		**1**	3
Profit for the year		**270**	94
Earnings per share			
Basic earnings per share	2.4	**6.9p**	2.3p
Diluted earnings per share	2.4	**6.6p**	2.3p

Operating exceptional items during the year mainly comprise reorganisation and restructuring costs, onerous property provisions and gains arising from pension scheme changes (see note 2.2 for details).

Consolidated statement of comprehensive income

For the year ended 31 December:	2010 £m	2009 £m
Profit for the year	**270**	94
Other comprehensive income:		
Foreign currency translation differences	**3**	(4)
Revaluation of available for sale financial assets	**(3)**	2
Amounts recycled to the income statement in respect of cash flow hedges	**–**	(9)
Actuarial gains/(losses) on defined benefit pension schemes	**67**	(391)
Income tax (charge)/credit on other comprehensive income	**(22)**	101
Other comprehensive income/(cost) for the year, net of income tax	**45**	(301)
Total comprehensive income/(cost) for the year	**315**	(207)
Total comprehensive income/(cost) attributable to:		
Owners of the Company	**314**	(210)
Non-controlling interests	**1**	3
Total comprehensive income/(cost) for the year	**315**	(207)

Consolidated statement of financial position

As at 31 December	Note	2010 £m	2009 £m
Non-current assets			
Property, plant and equipment	3.2	**151**	161
Intangible assets	3.3	**969**	1,030
Investments in joint ventures and associated undertakings		**2**	5
Available for sale financial assets		**3**	1
Held to maturity investments	4.1	**148**	149
Derivative financial instruments	4.3	**89**	151
Distribution rights	3.1.1	**12**	16
Net deferred tax asset	2.3	**73**	50
		1,447	1,563
Current assets			
Programme rights and other inventory	3.1.2	**284**	388
Trade and other receivables due within one year	3.1.4	**442**	432
Trade receivables due after more than one year	3.1.4	**6**	7
Trade and other receivables		**448**	439
Derivative financial instruments	4.3	**69**	5
Cash and cash equivalents	4.1	**860**	582
Assets held for sale	3.4	**3**	78
		1,664	1,492
Current liabilities			
Borrowings	4.2	**(55)**	(9)
Derivative financial instruments	4.3	**(3)**	(4)
Trade and other payables due within one year	3.1.5	**(672)**	(646)
Trade payables due after more than one year	3.1.6	**(26)**	(31)
Trade and other payables		**(698)**	(677)
Current tax liabilities		**(65)**	(31)
Provisions	3.5	**(34)**	(47)
Liabilities held for sale	3.4	**–**	(3)
		(855)	(771)
Net current assets		**809**	721
Non-current liabilities			
Borrowings	4.2	**(1,223)**	(1,431)
Derivative financial instruments	4.3	**(39)**	(30)
Defined benefit pension deficit	3.6	**(313)**	(436)
Other payables		**(3)**	(12)
Provisions	3.5	**(15)**	(29)
		(1,593)	(1,938)
Net assets		**663**	346
Attributable to equity shareholders of the parent company			
Share capital	4.7.1	**389**	389
Share premium	4.7.1	**120**	120
Merger and other reserves	4.7.2	**304**	308
Translation reserve		**14**	11
Available for sale reserve		**5**	8
Retained losses		**(171)**	(491)
Total equity attributable to equity shareholders of the parent company		**661**	345
Non-controlling interests		**2**	1
Total equity		**663**	346

Ian Griffiths
Group Finance Director

Consolidated statement of changes in equity

	Note	Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Available for sale reserve £m	Retained losses £m	Total £m	Non-controlling interests £m	Total equity £m
		Attributable to equity shareholders of the parent company								
Balance at 1 January 2010		**389**	**120**	**308**	**11**	**8**	**(491)**	**345**	**1**	**346**
Total comprehensive income for the year										
Profit		–	–	–	–	–	269	269	1	**270**
Other comprehensive income/(cost)										
Revaluation of available for sale financial assets		–	–	–	–	(3)	–	(3)	–	**(3)**
Foreign currency translation differences		–	–	–	3	–	–	3	–	**3**
Actuarial gains on defined benefit pension schemes	3.6	–	–	–	–	–	67	67	–	**67**
Income tax on other comprehensive income	2.3	–	–	–	–	–	(22)	(22)	–	**(22)**
Total other comprehensive income/(cost)		–	–	–	3	(3)	45	45	–	**45**
Total comprehensive income/(cost) for the year		**–**	**–**	**–**	**3**	**(3)**	**314**	**314**	**1**	**315**
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Equity portion of the convertible bond	4.1	–	–	(4)	–	–	4	–	–	**–**
Movements due to share-based compensation	4.7.7	–	–	–	–	–	8	8	–	**8**
Purchase of own shares via employees' benefit trust	4.7.7	–	–	–	–	–	(6)	(6)	–	**(6)**
Total contributions by and distributions to owners		–	–	(4)	–	–	6	2	–	**2**
Change in ownership interest in subsidiaries that do not result in a loss of control										
Total changes in ownership interests in subsidiaries		–	–	–	–	–	–	–	–	**–**
Total transactions with owners		–	–	(4)	–	–	6	2	–	**2**
Balance at 31 December 2010	4.7	**389**	**120**	**304**	**14**	**5**	**(171)**	**661**	**2**	**663**

	Note	Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Available for sale reserve £m	Retained losses £m	Total £m	Non-controlling interests £m	Total equity £m
		Attributable to equity shareholders of the parent company								
Balance at 1 January 2009		**389**	**120**	**273**	**24**	**6**	**(286)**	**526**	**8**	**534**
Total comprehensive income for the year										
Profit		–	–	–	–	–	91	91	3	94
Other comprehensive income/(cost)										
Revaluation of available for sale financial assets		–	–	–	–	2	–	2	–	2
Foreign currency translation differences		–	–	–	(4)	–	–	(4)	–	(4)
Amounts recycled to the income statement in respect of cash flow hedges		–	–	–	(9)	–	–	(9)	–	(9)
Actuarial losses on defined benefit pension schemes	3.6	–	–	–	–	–	(391)	(391)	–	(391)
Income tax on other comprehensive income	2.3	–	–	–	–	–	101	101	–	101
Total other comprehensive income/(cost)		–	–	–	(13)	2	(290)	(301)	–	(301)
Total comprehensive income/(cost) for the year		**–**	**–**	**–**	**(13)**	**2**	**(199)**	**(210)**	**3**	**(207)**
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Equity dividends		–	–	–	–	–	–	–	(2)	(2)
Equity portion of the convertible bond	4.1	–	–	35	–	–	1	36	–	36
Movements due to share-based compensation	4.7	–	–	–	–	–	11	11	–	11
Purchase of own shares via employees' benefit trust	4.7	–	–	–	–	–	(3)	(3)	–	(3)
Total contributions by and distributions to owners		–	–	35	–	–	9	44	(2)	42
Change in ownership interest in subsidiaries that do not result in a loss of control										
Non-controlling interest acquired		–	–	–	–	–	(15)	(15)	(8)	(23)
Total changes in ownership interests in subsidiaries		–	–	–	–	–	(15)	(15)	(8)	(23)
Total transactions with owners		–	–	35	–	–	(6)	29	(10)	19
Balance at 31 December 2009	4.7	**389**	**120**	**308**	**11**	**8**	**(491)**	**345**	**1**	**346**

Consolidated statement of cash flows

For the year ended 31 December:	Note	£m	2010 £m	£m	2009 £m
Cash flows from operating activities					
Profit before tax		**286**		25	
(Gain)/loss on sale and impairment of subsidiaries and investments (exceptional items)	2.2	**(4)**		51	
Loss on sale and impairment of non-current assets (exceptional items)	2.2	**4**		22	
Share of (profits) or losses of joint ventures and associated undertakings		**3**		7	
Net financing costs	4.4	**75**		91	
Operating exceptional items	2.2	**(19)**		(53)	
Depreciation of property, plant and equipment	3.2	**30**		38	
Amortisation and impairment of intangible assets	3.3	**63**		59	
Share-based compensation	4.7	**8**		11	
Decrease in programme rights and other inventory, and distribution rights		**108**		125	
(Increase)/decrease in receivables		**(8)**		11	
Decrease in payables		**(1)**		(15)	
Movement in working capital	3.1	**99**		121	
Cash generated from operations before exceptional items			**545**		372
Cash flow relating to operating exceptional items:					
Net operating income	2.2	**19**		53	
Increase in payables and provisions and the impact of the exceptional pension gain		**(45)**		(116)	
Cash outflow from exceptional items			**(26)**		(63)
Cash generated from operations			**519**		309
Defined benefit pension deficit funding		**(30)**		(31)	
Interest received		**40**		44	
Interest paid on bank and other loans		**(100)**		(116)	
Interest paid on finance leases		**(4)**		(4)	
Net taxation (paid)/received		**(23)**		41	
			(117)		(66)
Net cash inflow from operating activities			**402**		243
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 property, plant and equipment		**7**		4	
Acquisition of property, plant and equipment		**(26)**		(14)	
Acquisition of intangible assets		**(2)**		(13)	
Loans granted to associates and joint ventures		**(6)**		(6)	
Loans repaid by associates and joint ventures		**9**		4	
Proceeds from sale of subsidiaries, joint ventures and available for sale investments		**69**		4	
Net cash inflow/(outflow) from investing activities			**51**		(71)
Cash flows from financing activities					
Bank and other loans – amounts repaid		**(155)**		(508)	
Bank and other loans – amounts raised		**–**		516	
Capital element of finance lease payments		**(7)**		(7)	
Acquisition of non-controlling interests		**–**		(23)	
Dividends paid to non-controlling interest		**–**		(2)	
Purchase of own shares via employees' benefit trust		**(6)**		(3)	
Purchase of held to maturity investments	4.1	**–**		(150)	
Equity dividends paid		**–**		(25)	
Net cash outflow from financing activities			**(168)**		(202)
Net increase/(decrease) in cash and cash equivalents			**285**		(30)
Cash and cash equivalents at 1 January	4.1		**582**		616
Effects of exchange rate changes and fair value movements			**(7)**		–
Less: cash related to disposal group			**–**		(4)
Cash and cash equivalents at 31 December	4.1		**860**		582

Section 1 Basis of preparation

This section lays out the Group's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates. This section also shows new EU endorsed accounting standards, amendments and interpretations, whether these are effective in 2010 or later years. In both cases we explain how they are expected to impact the performance of the Group.

The financial statements consolidate those of ITV plc, ('the Company') and its subsidiaries (together referred to as 'the Group') and include the Group's interests in associates and jointly controlled entities. The Company is domiciled in the United Kingdom.

As required by EU law (IAS Regulation EC 1606/2002) the Group's accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS'), and approved by the directors.

The financial statements are principally prepared on the basis of historical cost. Areas where other bases are applied are identified in the relevant accounting policy.

The Company has elected to prepare its parent company financial statements in accordance with UK GAAP.

Going concern

As a result of the funding activities undertaken, improvements in working capital, disposals and the upturn in television advertising, the Group has in 2010 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 cash 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 funding.

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.

Subsidiaries, joint ventures, associates and special purpose entities

Subsidiaries are entities that are directly or indirectly controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of the entity in order to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

A joint venture is an entity in which the Group holds an interest under a contractual arrangement where the Group and one or more other parties undertake an economic activity that is subject to joint control. The Group accounts for its interests in joint ventures using the equity method. Under the equity method the investment in the entity is stated as one line item at cost plus the investor's share of retained post-acquisition profits and other changes in net assets.

An associate is an entity, other than a subsidiary or joint venture, over which the Group has significant influence. Significant influence is the power to participate in the financial and operating decisions of an entity but is not in control or joint control over those policies. These investments are also accounted for using the equity method.

The Group establishes special purpose entities (SPEs) for trading and investment purposes. An SPE is consolidated if, based on an evaluation of the substance of its relationships with the Group and the SPE's risks and rewards, it is concluded that the Group controls the SPE. Those SPEs controlled by the Group are established under terms that impose strict limitations on the decision-making powers of their management and that result in the Group receiving the majority of the benefits related to the SPEs' operations and net assets, being exposed to the majority of risks incidental to their activities and receiving the majority of the residual or ownership risks related to the SPEs or their assets.

Current/non-current distinction

Current assets include assets held primarily for trading purposes, cash and cash equivalents, and assets expected to be realised in, or intended for sale or use in, the course of the Group's operating cycle. All other assets are classified as non-current assets.

Current liabilities include liabilities held primarily for trading purposes, liabilities expected to be settled in the course of the Group's operating cycle and those liabilities due within one year from the reporting date. All other liabilities are classified as non-current liabilities.

Classification of financial instruments

The financial assets and liabilities of the Group are classified into the following financial statement captions in the statement of financial position in accordance with IAS 39: financial instruments:

- 'Loans and receivables' – separately disclosed as cash and cash equivalents (excluding gilts over which unfunded pension promises have a charge) and trade and other receivables;
- 'Available for sale financial assets' – measured at fair value through other comprehensive income. Includes gilts over which unfunded pension commitments have a charge and equity securities that do not meet the definition of subsidiaries, joint ventures or associates;
- 'Held to maturity investments';
- 'Financial assets/liabilities at fair value through profit or loss' – separately disclosed as derivative financial instruments-assets/liabilities; and
- 'Financial liabilities measured at amortised cost' – separately disclosed as borrowings and trade and other payables.

Details on the accounting policies for measurement of the above instruments are set out in the relevant note.

Recognition and derecognition of financial assets and liabilities

The Group recognises a financial asset or liability when it becomes a party to the contract. Financial instruments are no longer recognised in the statement of financial position when the contractual cash flows expire or when the Group no longer retains control of substantially all the risks and rewards under the instrument.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits with maturity of less than or equal to three months from the date of acquisition, cash held to meet certain finance lease commitments and gilts over which unfunded pension promises have a charge. The carrying value of cash and cash equivalents is considered to approximate fair value.

Section 1 Basis of preparation continued

Foreign currencies

The primary economic environment in which the Group operates is the UK. The consolidated financial statements are therefore presented in pounds sterling ('£').

Where Group companies based in the UK transact in foreign currencies, these transactions are translated into pounds sterling at the exchange rate on that day. Foreign currency monetary assets and liabilities are translated into pounds sterling at the year-end exchange rate. Where there is a movement in the exchange rate between the date of the transaction and the year-end, a foreign exchange gain or loss may arise. Any such differences are recognised in the income statement. Non-monetary assets and liabilities measured at historical cost are translated into pounds sterling at the exchange rate on the date of the transaction.

The assets and liabilities of Group companies outside of the UK are translated into pounds sterling at the year-end exchange rate. The revenues and expenses of these companies are translated into pounds sterling at the average monthly exchange rate during the year. Where differences arise between these rates, they are recognised in the translation reserve within equity and other comprehensive income.

Exchange differences arising on the translation of the Group's interests in joint ventures and associates are recognised in the translation reserve within equity and other comprehensive income.

In respect of all Group companies outside of the UK only those translation differences arising since 1 January 2004, the date of transition to IFRS, are presented as a separate component of equity. On disposal of an interest in a joint venture or an associate, the related translation reserve is released to the income statement as part of the gain or loss on disposal.

Accounting estimates and judgements

The preparation of financial statements requires management to exercise judgement in applying the Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and in any future periods affected.

The areas involving a higher degree of judgement or complexity are set out below and in more detail in the related notes:

– Revenue recognition (note 2.1)

– Classification of financial instruments (included in this note)

– Consolidation of SPEs (included in this note)

The areas involving the most sensitive estimates and assumptions that are significant to the financial statements are set out below and in more detail in the related notes:

– Intangible assets (note 3.3)

– Impairment of assets (note 3.2 and note 3.3)

– Programme rights and other inventory (note 3.1)

– Trade receivables (note 3.1)

– Taxation (note 2.3)

– Defined benefit pension schemes (note 3.6)

– Employee benefits (note 4.7)

– Provisions (note 3.5)

Application of new or amended EU endorsed accounting standards

Accounting Standard	Requirement	Impact on financial statements
IFRS 8: Operating Segments	IFRS 8 was amended to state that segment information for total assets is only required if such information is regularly reported to the chief operating decision-maker ('CoDM').	The Group has not disclosed total assets since this information is not regularly reported to the CoDM.
IAS 1: Presentation of Financial Statements	IAS 1 was amended to state that the classification of the liability component of a convertible instrument as current or non-current is not affected by terms that, at the option of the holder, result in settlement of the liability through issue of equity instruments.	The holders of ITV's convertible bond have no ability to force early conversion of the convertible bond, and therefore the liability component continues to be held as a non-current liability.
IAS 17: Leases – Classification of leases of land and buildings	The standard was amended such that leases over a long (several decades) period of time may now be classified as a finance lease, even if at the end of the lease term title does not pass to the lessee.	The Group continues to hold such leases as operating leases.
IAS 36: Impairment of Assets	The standard was amended to confirm that the largest unit to which goodwill can be allocated is the operating segment level, as defined in IFRS 8, before applying the aggregation criteria.	The Group has reconsidered the allocation of goodwill in the current year (see note 3.3).

The directors considered the impact of other new and revised accounting standards, interpretations or amendments on the Group that are currently endorsed but not yet effective. It was concluded that none were relevant to the Group's results.

Section 2 Results for the year

This section focuses on the results and performance of the Group. On the following pages you will find disclosures explaining the Group's results for the year, segmental information, exceptional items, taxation and earnings per share.

2.1 Profit before tax

This section analyses the Group's profit before tax by reference to the activities performed by the Group and an analysis of key operating costs.

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

Accounting policies

Revenue recognition

Revenue is stated exclusive of VAT and consists of sales of goods and services to third parties. Revenue from the sale of products is recognised when the Group has transferred both the significant risks and rewards of ownership and control of the products sold and the amount of revenue can be measured reliably.

Key classes of revenue are recognised on the following bases:

Class of revenue	Recognition criteria
Advertising	on transmission or display
Sponsorship	on transmission of the sponsored programme or series
Programme production	on delivery
Programme rights	when contracted and available for exploitation
Multiplex services	as the service is provided
Participation revenues*	as the service is provided

* Participation revenues relate to interactive and 'red button' services and arise principally in the 'Broadcasting & Online' segment.

Segmental information

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

The Board of directors considers the business primarily from a product or activity perspective. The reportable segments for the years ended 31 December 2010 and 31 December 2009 are therefore 'Broadcasting & Online', 'ITV Studios' and 'Other' (2009 only) the results of which are outlined below:

	Broadcasting & Online 2010 £m	ITV Studios 2010 £m	Consolidated 2010 £m
Total segment revenue	**1,771**	**554**	**2,325**
Intersegment revenue	**–**	**(261)**	**(261)**
Revenue from external customers	**1,771**	**293**	**2,064**
EBITA before exceptional items	**327**	**81**	**408**
Share of profits or (losses) of joint ventures and associated undertakings	**(3)**	**–**	**(3)**

	Broadcasting & Online 2009 £m	ITV Studios 2009 £m	Other 2009 £m	Consolidated 2009 £m
Total segment revenue	1,543	597	1	2,141
Intersegment revenue	–	(262)	–	(262)
Revenue from external customers	1,543	335	1	1,879
EBITA before exceptional items	111	91	–	202
Share of profits or (losses) of joint ventures and associated undertakings	(4)	–	(3)	(7)

'Broadcasting & Online' is responsible for commissioning and scheduling programmes on the ITV channels, marketing and programme publicity and online rights exploitation. It derives its revenue primarily from the sale of advertising airtime and sponsorship. Other sources of revenue are from online advertising, participation revenue and the digital terrestrial multiplex, SDN.

'ITV Studios' derives its revenue primarily from ITV Studios UK (a commercial programme production company), international production centres in America, Germany, Sweden and Australia and the distribution and exploitation businesses in ITV Studios Global Entertainment. A proportion of revenue is generated internally via programme sales to the 'Broadcasting & Online' segment. ITV Studios Global Entertainment sells programming, exploits merchandising and licensing worldwide, and is a distributor of DVD entertainment in the UK.

Depreciation in the year was £30 million (2009: £38 million), of which £19 million (2009: £25 million) relates to 'Broadcasting & Online' and £11 million (2009: £13 million) to 'ITV Studios'.

Sales between segments are carried out at arms-length terms. In preparing the segment information, costs have been allocated between reportable segments consistently on the basis of a relevant allocation methodology. For example, rent is allocated on the basis of square feet occupied. This reflects the basis of reporting to the Board of directors.

Section 2 Results for the year continued

The Board of directors assess the performance of the reportable segments based on a measure of EBITA before exceptional items. This is defined as operating profit before amortisation of intangible assets and operating exceptional items. The Board of directors uses this measurement basis as it excludes the effect of non-recurring income and expenditure. Amortisation, investment income and share of profit/(losses) of joint ventures and associates are also excluded to reflect more accurately how the business is managed and measured on a day-to-day basis. Net financing costs are not allocated to segments as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

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

	2010 £m	2009 £m
EBITA before exceptional items	**408**	202
Operating income – exceptional items	**19**	53
Amortisation and impairment of intangible assets	**(63)**	(59)
Net financing costs	**(75)**	(91)
Share of profits or (losses) of joint ventures and associated undertakings	**(3)**	(7)
Loss on sale and impairment of non-current assets (exceptional items)	**(4)**	(22)
Gain/(loss) on sale and impairment of subsidiaries and investments (exceptional items)	**4**	(51)
Profit before tax	**286**	25

The Group's principal operations are in the United Kingdom. Its revenue from external customers in the United Kingdom is £1,865 million (2009: £1,621 million), and the total revenue from external customers in other countries is £199 million (2009: £258 million).

Revenues of approximately £400 million (2009: £324 million), £270 million (2009: £194 million), £202 million (2009: £190 million) and £196 million (2009: £226 million) are derived from four external customers. The Group's major customers are all media buying agencies acting on behalf of a number of customers. These revenues are attributable to the 'Broadcasting & Online' segment and contain the only customers which individually represent over 10% of the Group's revenues.

Operating costs

Staff costs

Staff costs can be analysed as follows:

	2010 £m	2009 £m
Wages and salaries	**212**	244
Social security and other costs	**32**	33
Share-based compensation (see note 4.7)	**8**	11
Pension costs	**17**	16
	269	304

Staff costs within exceptional items were £11 million (2009: £32 million) and principally relate to redundancy payments. Total staff costs including exceptional items for the year ended 31 December 2010 are £280 million (2009: £336 million).

The number of employees (excluding short-term contractors and freelancers), calculated on a weighted average basis, during the year was:

	2010	2009
Broadcasting & Online	**2,312**	2,606
ITV Studios	**1,635**	1,908
Other	**–**	5
	3,947	4,519

Details of the directors' emoluments, share options, pension entitlements and long-term incentive scheme interests are set out in the Remuneration report.

Operating leases

The total future minimum lease payments under non-cancellable operating leases fall due for payment as follows:

	2010 £m	2009 £m
Within one year	**11**	13
Later than one year and not later than five years	**38**	39
Later than five years	**138**	145
	187	197

These leases primarily relate to the Group's properties, which principally comprise offices and studios. Leases typically run for a period of between five and ten years and may have an option to renew after that date. Lease payments are typically subject to market review every five years to reflect market rentals, but because of the uncertainty over the amount of any future changes, such changes have not been reflected in the table above. None of the leases include contingent rentals.

The total future minimum sublease payments expected to be received under non-cancellable subleases at the year end is £8 million (2009: £5 million).

The total operating lease expenditure recognised during the year was £12 million (2009: £14 million) and total sublease payments received was £5 million (2009: £4 million).

Audit fees

The Group engages KPMG Audit Plc ('KPMG') on assignments additional to their statutory audit duties where their expertise and experience with the Group are important. The Group's policy on such assignments is set out in the Audit Committee report.

Fees paid to KPMG during the year are set out below:

	2010 £m	2009 £m
Fees payable to KPMG for the audit of the Group's annual accounts	**0.7**	0.7
Fees payable to KPMG and its associates for other services:		
The audit of the Group's subsidiaries pursuant to legislation	**0.2**	0.2
Other services supplied pursuant to legislation	**0.2**	0.4
Other services relating to taxation	**0.8**	0.2
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Group or any of its associates	**–**	0.6
All other services	**–**	0.1
	1.9	2.2

Fees paid to KPMG for audit and other services to the Company are not disclosed in its individual accounts as the Group accounts are required to disclose such fees on a consolidated basis.

2.2 Exceptional Items

Exceptional items are excluded from management's assessment of profit. In management's judgement exceptional items are material and non-recurring. They are excluded in order to understand the Group's underlying quality of earnings and reflect how the business is managed and measured on a day-to-day basis.

Accounting policies

Exceptional items, as disclosed on the face of the income statement, are items that due to their material and non-recurring nature have been classified separately in order to draw them to the attention of the reader of the financial statements.

Exceptional items

Operating and non operating exceptional items are analysed as follows:

(Charge)/credit	Ref.	2010 £m	2009 £m
Operating exceptional items:			
Reorganisation and restructuring costs	A	**(17)**	(40)
Onerous contract provisions		**1**	(1)
Onerous property provision	B	**7**	(14)
Pension scheme changes	C	**28**	110
Kangaroo closure costs		**–**	(2)
Total net operating exceptional items		**19**	53
Non-operating exceptional items:			
Loss on sale and impairment of non-current assets	D	**(4)**	(22)
Gain/(loss) on sale and impairment of subsidiaries and investments	E	**4**	(51)
Total non-operating exceptional items		**–**	(73)
Total exceptional items before tax		**19**	(20)

A – Reorganisation and restructuring costs

In 2010 a charge of £17 million (2009: £40 million) was recognised in relation to cost saving restructuring initiatives.

B – Onerous property provision

A £7 million credit (2009: charge of £14 million) in respect of sublet property at Gray's Inn Road was recognised during the year.
This provision release relates to changes in the anticipated use of the site previously expected to be excess space, as a result of significant headcount reductions in 2009. This provision was raised as an operating exceptional in 2009, and therefore the partial release of this provision has been credited to operating exceptional items.

C – Pension scheme changes (see note 3.6)

Operating exceptional gains of £28 million were recognised in 2010 in relation to changes made to the ITV Pension Scheme. These included:

- a past service credit of £25 million in relation to the introduction of a member option to change pension payments at retirement;
- a past service credit of £2 million in relation to the one-off change to pension payments; and
- a settlement gain of £1 million in relation to the enhanced transfer value exercise.

In 2009 operating exceptional gains of £110 million were recognised for the following:

- a curtailment gain of £72 million for changes that were made to implement a cap on increases to pensionable salary levels; and
- a £38 million past service credit for changes made offering retired members the option of altering the structure of their pension by receiving an uplift now in return for giving up rights to future annual increases.

D – Loss on sale and impairment of non-current assets

The £4 million (2009: £22 million) loss on sale and impairment of non-current assets relates to:

- a net £3 million (2009: £14 million) impairment on property, plant and equipment no longer used at properties expected to be vacated;
- a net £1 million (2009: £3 million) loss arising on the disposal of property, plant and equipment; and
- a £nil (2009: £5 million) impairment on properties, included within assets held for sale, to reflect their estimated market value.

E – Gain/(loss) on sale, net of impairment, of subsidiaries, joint ventures and associates

The £4 million gain on sale, net of impairment of subsidiaries, joint ventures and associates principally relates to the sale of Screenvision US (Technicolor Cinema Advertising LLC) as disclosed in note 3.4.

In 2009 the net £51 million loss principally included a £32 million impairment loss on Friends Reunited; £5 million net loss on sale of subsidiaries; £9 million net impairment of joint ventures and associates; and a £6 million charge in relation to Carlton Screen Advertising Limited ('CSA') being put into creditors' voluntary liquidation.

2.3 Taxation

This section lays out the tax accounting policies, the current and deferred tax charges or credits in the year (which together make up the total tax charge or credit in the income statement), a reconciliation of profit or loss before tax to the tax charge or credit and the movements in deferred tax assets and liabilities.

Accounting policies

The tax charge for the period is recognised in the income statement and the statement of comprehensive income, according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable in respect of previous years. The current tax charge is based on tax rates that are enacted or substantively enacted at the year-end.

The Group recognises liabilities for anticipated tax issues based on estimates of the additional taxes that are likely to become due, which requires judgement. Amounts are accrued based on management's interpretation of specific tax law and the likelihood of settlement. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax arises due to certain temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and those for taxation purposes. The following temporary differences are not provided for:

– the initial recognition of goodwill;
– the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and
– differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. A deferred tax asset is recognised only to the extent that it is probable that sufficient taxable profit will be available to utilise the temporary difference.

Recognition of deferred tax assets, therefore, involves judgement regarding the timing and level of future taxable income. Deferred tax assets and liabilities are disclosed net to the extent that they relate to taxes levied by the same authority and the Group has the right of set off.

Taxation – Income statement

The total taxation (charge)/credit in the income statement is analysed as follows:

	2010 £m	2009 £m
Current tax:		
Current tax charge before exceptional items	**(64)**	(13)
Current tax credit on exceptional items	**3**	10
	(61)	(3)
Adjustment for prior periods	**–**	68
	(61)	65
Deferred tax:		
Origination and reversal of temporary differences	**53**	21
Deferred tax on exceptional items	**(8)**	(31)
Adjustment for prior periods	**–**	14
	45	4
Total taxation (charge)/credit in the income statement	**(16)**	69

In order to understand how, in the income statement, a tax charge of £16 million arises on a profit before tax of £286 million, the taxation charge that would arise at the standard rate of UK corporation tax is reconciled to the actual tax charge as follows:

	2010 £m	2009 £m
Profit before tax	**286**	25
Taxation charge at UK corporation tax rate of 28% (2009: 28%)	**(80)**	(7)
Non-taxable/non-deductible exceptional items	**–**	(21)
Non-taxable income/non-deductible expenses	**(1)**	(8)
Recognition of tax losses brought forward	**68**	26
Over provision in prior periods	**–**	82
Other	**(3)**	(3)
Total taxation (charge)/credit in the income statement	**(16)**	69

Non-deductible expenses are expenses that are not expected to be allowable for tax purposes. Similarly non-taxable income is income that will not be taxed.

Tax losses brought forward may be utilised against current year profits if the brought forward losses and the current year profits are of the same type. Use of tax losses in this way leads to a reduction of the tax charge. Tax losses of £68 million (2009: £26 million) include a credit for utilisation of financing losses linked to previous investments ('loan relationship deficits') of £16 million (2009: £23 million) and the recognition of deferred tax of £45 million (2009: £3 million) on the remaining loan relation deficits and a credit of £5 million (2009: £nil) on the recognition of a deferred tax asset on other losses.

Over provision in prior periods may arise if a more favourable outcome is obtained for tax purposes than was expected when the provision was made. Upon confirmation that the more favourable tax treatment will apply, the over provision may be released to lower the current year tax charge. The opposite is true of under provisions.

The emergency budget on 22 June 2010 announced a change to the UK corporation tax rate from 28% to 27%. This was substantially enacted on 20 July 2010 and will be effective from 1 April 2011. This will reduce the Group's future tax charge and accordingly deferred tax assets and liabilities have been revalued at 27%.

The effective tax rate is the tax charge (or credit) on the face of the income statement expressed as a percentage of the profit (or loss) before tax. In the year ended 31 December 2010, the effective tax rate is lower (2009: lower) than the standard rate of UK corporation tax primarily because circumstances have changed such that the Group is now making taxable profits, and it is envisaged that it will be possible to utilise brought forward tax losses. As set out in the financial review ITV uses an adjusted tax rate to show the cash tax impact on its adjusted earnings.

Taxation – Other comprehensive income

Within other comprehensive income a tax charge totalling £22 million (2009: credit of £101 million) has been recognised representing deferred tax. An analysis of this is included below in the deferred tax movement table.

Taxation – Statement of financial position

The table below outlines the deferred tax assets/(liabilities) that are recognised in the statement of financial position, together with their movements in the year:

	At 1 January 2010 £m	Recognised in the income statement £m	Recognised in equity £m	**At 31 December 2010 £m**
Property, plant and equipment	1	1	–	**2**
Intangible assets	(82)	17	–	**(65)**
Programme rights	2	–	–	**2**
Pension scheme deficits	122	(24)	(22)	**76**
Tax losses	–	50	–	**50**
Interest-bearing loans and borrowings, and derivatives	(1)	–	–	**(1)**
Share-based compensation	7	–	–	**7**
Unremitted earnings of subsidiaries, associates and joint ventures	(3)	3	–	**–**
Other	4	(2)	–	**2**
	50	45	(22)	**73**

	At 1 January 2009 £m	Recognised in the income statement £m	Recognised in equity £m	At 31 December 2009 £m
Property, plant and equipment	(15)	16	–	1
Intangible assets	(95)	13	–	(82)
Programme rights	4	(2)	–	2
Pension scheme deficits	49	(25)	98	122
Interest-bearing loans and borrowings, and derivatives	(1)	–	–	(1)
Share-based compensation	4	–	3	7
Unremitted earnings of subsidiaries, associates and joint ventures	(3)	–	–	(3)
Other	2	2	–	4
	(55)	4	101	50

At 31 December 2010, total deferred tax assets are £139 million (2009: £136 million) and total deferred tax liabilities are £66 million (2009: £86 million).

The deferred tax balance relating to:

- property, plant and equipment principally relates to timing differences arising on assets qualifying for capital allowances;
- intangible assets mainly relates to timing differences on intangible assets arising on business combinations;
- programme rights relates to timing differences on intercompany profits on stock;
- pension scheme deficits relates to timing differences on the IAS 19 pension deficit as well as the spreading of tax relief on one-off large pension funding payments;
- tax losses relates to timing differences in receiving the benefit of the Group's tax losses;
- interest-bearing loans and borrowings and derivatives relates to timing differences on hedging instruments;
- share-based compensation relates to timing differences on share schemes;
- unremitted earnings of subsidiaries, associates and joint ventures relates to tax losses of associated companies; and
- other relates to timing differences on miscellaneous items including sale and leaseback arrangements and various provisions.

A deferred tax asset of £45 million in relation to carried forward loan relationship deficits of £168 million has been recognised after the utilisation in 2010 of part of the loan relationship deficits on which deferred tax was not recognised at 31 December 2009. Additionally a deferred tax asset of £5 million has been recognised in relation to other carried forward tax losses. The deferred tax on these losses has now been recognised as circumstances have changed such that the Group is now making taxable profits and it is envisaged that it will be possible to utilise these losses going forward.

The deferred tax balance associated with the pension deficit has been adjusted to reflect the current tax benefit obtained in the current year following the contribution of £171 million to the Group's defined benefit pension scheme.

A deferred tax asset of £602 million (2009: £625 million) in respect of capital losses of £2,230 million (2009: £2,230 million) has not been recognised due to uncertainties as to the amount and whether a capital gain will arise in the appropriate form and relevant territory against which such losses could be utilised. For the same reasons, deferred tax assets in respect of overseas losses of £9 million (2009: £10 million) that time expire between 2017 and 2026 have not been recognised.

Section 2 Results for the year continued

2.4 Earnings per share

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

Basic EPS is calculated on the Group profit for the year attributable to equity shareholders of the parent company of £269 million (2009: £91 million) divided by 3,884 million (2009: 3,882 million) being the weighted average number of shares in issue during the year.

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

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

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

Basic earnings per share

	Ref.	2010 Basic £m	2010 Diluted £m
Profit for the year attributable to equity shareholders of the parent company		**269**	**270**
Weighted average number of ordinary shares in issue – million		**3,884**	**3,884**
Dilution impact of share options		**–**	**27**
Dilution impact of convertible bond	A	**–**	**192**
Total weighted average number of ordinary shares in issue – million		**3,884**	**4,103**
Earnings per ordinary share		**6.9p**	**6.6p**

	Ref.	2009 Basic £m	2009 Diluted £m
Profit for the year attributable to equity shareholders of the parent company		91	92
Weighted average number of ordinary shares in issue – million		3,882	3,882
Dilution impact of share options		–	13
Dilution impact of convertible bond	A	–	192
Total weighted average number of ordinary shares in issue – million		3,882	4,087
Earnings per ordinary share		2.3p	2.3p

Adjusted earnings per share

	Ref.	2010 Adjusted £m	2010 Diluted £m
Profit for the year attributable to equity shareholders of the parent company		**269**	**270**
Exceptional items	B	**(14)**	**(14)**
Profit for the year before exceptional items		**255**	**256**
Amortisation and impairment of acquired intangible assets	C	**35**	**35**
Adjustments to net financing costs	D	**4**	**4**
Other tax adjustments	E	**(47)**	**(47)**
Adjusted profit	F	**247**	**248**
Total weighted average number of ordinary shares in issue – million		**3,884**	**4,103**
Adjusted earnings per ordinary share		**6.4p**	**6.0p**

	Ref.	2009 Adjusted £m	2009 Diluted £m
Profit for the year attributable to equity shareholders of the parent company		91	92
Exceptional items	B	41	41
Profit for the year before exceptional items		132	133
Amortisation and impairment of acquired intangible assets	C	37	37
Adjustments to net financing costs	D	9	9
Prior period tax adjustments		(82)	(82)
Other tax adjustments	E	(26)	(26)
Adjusted profit	F	70	71
Total weighted average number of ordinary shares in issue – million		3,882	4,087
Adjusted earnings per ordinary share		1.8p	1.7p

A – Diluted earnings per share are impacted by the £135 million 2016 Convertible Eurobond issued in November 2009.

B – The exceptional items detailed in Section 2.2 are adjusted to reflect profit for the year before exceptional items. The 2010 exceptional items include a related tax effect of a charge of £5 million (2009: charge of £21 million).

C – Amortisation and impairment of acquired intangible assets of £48 million (2009: £51 million) is adjusted, including a related tax credit of £13 million (2009: £14 million). The rationale for adjustments to amortisation of intangibles is provided in the Financial and performance review.

D – Adjustments to net financing costs of £6 million (2009: £12 million) includes a related tax effect of a credit £2 million (2009: credit of £3 million). The rationale for adjustments made to financing costs is provided in the Financial and performance review.

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

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

Section 3 Operating assets and liabilities

This section shows the assets used to generate the Group's trading performance and the liabilities incurred as a result. Liabilities relating to the Group's financing activities are addressed in Section 4. Deferred tax assets and liabilities are shown in Section 2.3.

On the following pages there are sections covering working capital, non-current assets, other payables due after more than one year, provisions and pensions.

3.1 Working capital

Working capital represents the assets and liabilities the Group generates through its trading activity. The Group therefore defines working capital as distribution rights, programme rights and other inventory, trade and other receivables and trade and other payables.

Careful management of working capital is vital as it ensures that the Group can meet its trading and financing obligations within its ordinary operating cycle. One of the Group's key performance indicators is 'profit to cash' conversion; the effective management of working capital will help meet the Group target that its 'profit to cash' ratio on a rolling three year basis is at least 90%.

In the following section you will find further information regarding working capital management and analysis of the elements of working capital.

Accounting policies

Distribution rights

'Distribution rights' are programme rights acquired from producers primarily for the purposes of commercial exploitation through onward distribution to customers, principally through licensing to broadcasters, and are classified as non-current assets as these rights are used to derive long-term economic benefit for the Group.

Distribution rights are recognised initially at cost and charged through operating costs in the income statement over a maximum five year period that is dependent on cumulative sales and programme genre, or based on forecast future sales. Certain film rights are expensed over a period of up to 10 years reflecting the estimated longer period over which these types of rights can be exploited. These estimates are based on historical experience with similar rights as well as anticipation of future events. Advances paid for the acquisition of distribution rights are disclosed as distribution rights as soon as they are contracted. These advances are not expensed until the programme is available for distribution. Up to that point they are assessed annually for impairment through the reassessment of the future sales expected to be earned from that title.

Programme rights and other inventory

Where programming, sports rights and film rights are acquired for the primary purpose of broadcasting, these are recognised within current assets.

Assets are recognised when the Group controls the respective assets and the risks and rewards associated with them. For acquired programme rights, assets are recognised as payments are made and are recognised in full when the programme is available for transmission. Programmes produced internally, either for the purpose of broadcasting or to be sold in the normal course of the Group's operating cycle, are recognised within current assets at production cost.

Programme costs and rights, including those acquired under sale and leaseback arrangements are generally expensed to operating costs in full on first transmission. However, film rights and certain acquired programmes are expensed over a number of transmissions reflecting the pattern in which the right is consumed.

Programme costs and rights not yet written-off are included in the statement of financial position at the lower of cost and net realisable value. In assessing net realisable value for programmes in production, consideration is given to the contracted sales price and estimated costs to complete. For programme stock, sports rights and film rights, the net realisable value assessment is based on estimated airtime value, with consideration given to whether the number of transmissions purchased can be efficiently played out over the licence period. Any reversals of write downs for programme costs and rights are recognised as a reduction in operating costs.

Historically, ITV has entered into sale and leaseback agreements in relation to certain programme titles. Related outstanding sale and leaseback obligations, which comprise the principal and accrued interest, are included within borrowings. The finance related element of the agreement is charged to the income statement over the term of the lease on an effective interest basis. Sale and leaseback obligations are secured against an equivalent cash balance held within cash and cash equivalents.

Trade receivables

Trade receivables are recognised initially at the value of the invoice sent to the customer and subsequently at the amounts considered recoverable (amortised cost). Where payments are not due for more than one year, they are shown in the financial statements at their net present value to reflect the economic cost of delayed payment. The Group provides goods and services to substantially all its customers on credit terms.

Estimates are used in determining the level of receivables that will not, in the opinion of the directors, be collected. These estimates include such factors as historical experience, the current state of the UK and overseas economies and industry specific factors. A provision for impairment of trade receivables is established when there is sufficient evidence that the Group will not be able to collect all amounts due.

The carrying value of trade receivables is considered to approximate fair value.

Section 3 Operating assets and liabilities continued

Trade payables

Trade payables are recognised at the value of the invoice received from a supplier.

The carrying value of trade payables is considered approximate to fair value.

Working capital management

Cash and working capital management continues to be a key focus. During the year the cash inflow from working capital was £99 million (2009: £121 million) as follows:

	2010 £m	2009 £m
Decrease in programme rights and other inventory and distribution rights	**108**	125
(Increase)/decrease in receivables	**(8)**	11
(Decrease) in payables	**(1)**	(15)
Working capital inflow	**99**	121

The majority of the working capital improvement came through reduced inventory levels for programme and distribution rights, as a result of managing commitments and just-in-time commissioning.

3.1.1 Distribution rights

Movements in distribution rights during the year are shown in the table below:

	2010 £m	2009 £m
Cost:		
At 1 January	**99**	82
Additions	**12**	17
At 31 December	**111**	99
Charged to income statement:		
At 1 January	**83**	69
Expense for the year	**16**	14
At 31 December	**99**	83
Net book value	**12**	16

3.1.2 Programme rights and other inventory

The programme rights and other inventory at the year-end are shown in the table below:

	2010 £m	2009 £m
Acquired films	**170**	207
Production	**52**	48
Commissions	**36**	73
Sports rights	**21**	23
Prepayments	**4**	36
Other	**1**	1
	284	388

Programme rights and other inventory written off in the year was £3 million (2009: £11 million). There have been no reversals relating to inventory previously written down to net realisable value (2009: £nil).

3.1.3 Programme commitments

There are operating commitments in respect of programming entered into in the ordinary course of business with programme suppliers, sports organisations and film distributors in respect of rights to broadcast on the ITV network. Commitments in respect of these purchases, which are not reflected in the statement of financial position, are due for payment as follows:

	2010 £m	2009 £m
Within one year	**396**	377
Later than one year and not more than five years	**315**	396
	711	773

3.1.4 Trade and other receivables

Trade and other receivables can be analysed as follows:

	2010 £m	2009 £m
Due within one year:		
Trade receivables	**354**	353
Other receivables	**14**	22
Prepayments and accrued income	**74**	57
	442	432
Due after more than one year:		
Trade receivables	**6**	7
	6	7
Total trade and other receivables	**448**	439

£360 million (2009: £360 million) of total trade receivables that are not impaired are aged as follows:

	2010 £m	2009 £m
Current	**301**	230
Up to 30 days overdue	**7**	43
Between 30 and 90 days overdue	**1**	8
Over 90 days overdue	**51**	79
	360	360

With a focus on cash collection, the ageing of trade receivables has improved significantly in the year. The £51 million balance over 90 days overdue principally relates to non-consolidated licensee customers.

As at 31 December 2010, trade receivables of £8 million (2009: £8 million) were provided against. Movements in the Group's provision for impairment of trade receivables can be shown as follows:

	2010 £m	2009 £m
At 1 January	**8**	14
Charged during the year	**5**	4
Receivables written-off during the year as uncollectible (utilisation of provision)	**(1)**	(6)
Unused amounts reversed	**(4)**	(4)
At 31 December	**8**	8

Trade receivables that are less than 90 days overdue are not usually considered impaired. The majority of the £8 million provision is therefore held against trade receivables that are over 90 days overdue.

Trade receivables of £59 million (2009: £130 million) were past due but not impaired. Of this, £55 million (2009: £88 million) relates to non-consolidated licensee customers in the 'Broadcasting & Online' segment where the Group has supplier and customer relationships. Further amounts relating to these same customers of £12 million (2009: £1 million) and £5 million (2009: £7 million) are included in current trade receivables and other receivables respectively. There is also a credit of £49 million (2009: credit of £61 million) included in trade and other payables relating to these customers. The net balance due from non-consolidated licensees is therefore £23 million (2009: £35 million), the majority of which relates to STV Group plc.

3.1.5 Trade and other payables due within one year

Trade and other payables due within one year can be analysed as follows:

	2010 £m	2009 £m
Trade payables	**56**	83
Social security	**16**	13
Other payables	**183**	162
Accruals and deferred income	**417**	388
	672	646

3.1.6 Trade payables due after more than one year

Trade payables due after more than one year can be analysed as follows:

	2010 £m	2009 £m
Trade payables	**26**	31

This relates to film creditors for which payment is due after more than one year.

3.2 Property, plant and equipment

The following section shows the physical assets used by the Group to generate revenues and profits. These assets include office buildings and studios, as well as various items of equipment used in broadcast transmission, programme production and for support activities.

The cost of these assets is the amount initially paid for them. A depreciation expense is charged to the income statement to reflect annual wear and tear and the reduced value of the asset. Depreciation is calculated by estimating the number of years the Group expects the asset to be used (useful economic life). If there has been a technological change or decline in business performance the directors review the value of assets to ensure they have not fallen below their depreciated value. If an asset's value falls below its depreciated value an additional one-off impairment charge is made against profit.

This section also explains the accounting policies followed by ITV and the specific estimates made in arriving at the net book value of these assets.

Accounting policies

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Certain items of property, plant and equipment that were revalued to fair value prior to 1 January 2004, the date of transition to IFRS, are measured on the basis of deemed cost, being the revalued amount less depreciation up to the date of transition.

Leases

Finance leases are those which transfer substantially all the risks and rewards of ownership to the lessee. Assets held under such leases are included within property, plant and equipment and depreciated on a straight-line basis over their estimated useful lives. Outstanding finance lease obligations, which comprise the principal plus accrued interest, are included within borrowings. The finance element of the agreements is charged to the income statement over the term of the lease on an effective interest basis.

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

Depreciation

Depreciation is provided to write-off the cost of property, plant and equipment, less estimated residual value, on a straight line basis over their estimated useful lives. The annual depreciation charge is sensitive to the estimated useful life of each asset and the expected residual value at the end of its life. The major categories of property, plant and equipment are depreciated as follows:

Asset class	Depreciation policy
Freehold land	not depreciated
Freehold buildings	up to 60 years
Leasehold properties	shorter of residual lease term or 60 years
Leasehold improvements	shorter of residual lease term or estimated useful life
Vehicles, equipment and fittings	3 to 20 years

Section 3 Operating assets and liabilities continued

Impairment of assets

Property, plant and equipment that is subject to depreciation is reviewed annually for impairment or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Indicators of impairment may include changes in technology and business performance.

Property, plant and equipment

Property, plant and equipment can be analysed as follows:

	Freehold land and buildings	Improvements to leasehold land and buildings		Vehicles, equipment and fittings		Total
		Long	Short	Owned	Finance leases	
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2009	49	69	20	241	15	394
Additions	–	–	–	14	–	14
Reclassification	5	(1)	–	(4)	–	–
Reclassification to assets held for sale	–	(14)	–	–	–	(14)
Disposals and retirements	–	(4)	–	(40)	–	(44)
At 31 December 2009	54	50	20	211	15	350
Additions	–	5	–	22	–	27
Reclassification	3	–	–	(3)	–	–
Reclassification to assets held for sale	–	(3)	–	(2)	–	(5)
Disposals and retirements	(5)	–	–	(3)	–	(8)
At 31 December 2010	**52**	**52**	**20**	**225**	**15**	**364**
Depreciation						
At 1 January 2009	–	13	8	149	4	174
Charge for the year	3	3	2	27	3	38
Impairment charge for the year (see note 2.2)	6	2	4	2	–	14
Reclassification	3	–	–	(3)	–	–
Reclassification to assets held for sale	–	(5)	–	–	–	(5)
Disposals and retirements	–	(1)	–	(31)	–	(32)
At 31 December 2009	12	12	14	144	7	189
Charge for the year	1	1	1	25	2	30
Impairment charge for the year (see note 2.2)	–	–	1	2	–	3
Reclassification to assets held for sale	–	(1)	–	–	–	(1)
Disposals and retirements	(5)	–	–	(3)	–	(8)
At 31 December 2010	**8**	**12**	**16**	**168**	**9**	**213**
Net book value						
At 31 December 2010	**44**	**40**	**4**	**57**	**6**	**151**
At 31 December 2009	42	38	6	67	8	161

Included within the book values above is expenditure of £9 million (2009: £3 million) on property, plant and equipment that is in the course of construction.

Capital commitments

There are £2 million of capital commitments at 31 December 2010 (2009: £1 million).

3.3 Intangible assets

The following section shows the non-physical assets used by the Group to generate the revenues and profits of the business.

These assets include goodwill, brands, customer contracts and relationships, licences, software development and film libraries. The cost of these is the amount that the Group has paid or, where there has been a business combination, the fair value of the identifiable intangible assets that can be sold separately or arise from legal rights. In the case of goodwill, the cost is the amount the Group has paid in acquiring a business in excess of the fair value of the individual assets and liabilities acquired. The value of goodwill is that 'intangible' value that comes from, for example, a uniquely strong market position and the outstanding productivity of its employees.

The value of intangible assets, with the exception of goodwill, is expensed to the income statement over the number of years the Group expects to use the asset, the useful economic life, via an annual amortisation charge. Where there has been a technological change or decline in business performance the directors review the value of assets to ensure they have not fallen below their amortised value. Should an asset's value fall below its amortised value an additional one-off impairment charge is made against profit.

This section explains the accounting policies followed by the Group and the specific estimates made in arriving at the net book value of these assets.

Accounting policies

Goodwill

Goodwill represents the future economic benefits that arise from assets that are not capable of being individually identified and separately recognised. The goodwill recognised by the Group has all arisen as a result of business combinations.

Due to changes in accounting standards, the goodwill shown on the Group's statement of financial position has been calculated using three different methods depending on the date of acquisition of the related business:

Method 1: All business combinations that have occurred since 1 January 2009 are accounted for by applying the acquisition method. Under this method, goodwill is measured as the fair value of the consideration transferred including the recognised amount of any non-controlling interests in the acquiree, less the net recognised amount at fair value of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date. Subsequent adjustments to the fair values of net assets acquired can be made within 12 months of the acquisition date where original fair values were determined provisionally. These adjustments are accounted for from the date of acquisition. Acquisitions of non-controlling interests are accounted for as transactions with owners and therefore no goodwill is recognised as a result of such transactions. Transaction costs that the Group incurs in connection with a business combination, such as legal fees, due diligence fees and other professional and consulting fees, are expensed as incurred.

Method 2: All business combinations that occurred between 1 January 2004 and 31 December 2008 have been accounted for by applying the purchase method in accordance with IFRS 3 'Business Combinations (2004)'. Goodwill on these combinations represents the difference between the cost of the acquisition and the fair value of the identifiable net assets acquired and did not include the value of the non-controlling interest. Transaction costs that the Group incurred in connection with a business combination, such as legal fees, due diligence fees and other professional and consulting fees, are included in the cost of acquisition.

Method 3: For business combinations prior to 1 January 2004, goodwill is included at its deemed cost, which represents the amount recorded under UK GAAP at that time less amortisation up to 31 December 2003. The classification and accounting treatment of business combinations occurring prior to 1 January 2004, the date of transition to IFRS, has not been reconsidered as permitted under IFRS 1. Goodwill is stated at its recoverable amount being cost less any accumulated impairment losses and is allocated to cash-generating units.

Other intangible assets

Other intangible assets are those that are identifiable and can be sold separately or which arise from legal rights.

Within ITV there are two types of intangible assets: those acquired and those that have been internally generated (such as software licences and development).

Other intangible assets acquired directly by the Group are stated at cost less accumulated amortisation. Those separately identified intangible assets acquired as part of a business combination are shown at fair value at the date of acquisition less accumulated amortisation.

The main intangible assets that the Group has been required to value are brands, licences and customer relationships and contracts.

Section 3 Operating assets and liabilities continued

The table below details the Group's valuation method on initial recognition, amortisation method and estimated useful life by class of intangible asset.

Class of intangible asset	Valuation method	Amortisation method	Estimated useful life
Brands	Applying a royalty rate to the expected future revenues over the life of the brand	Straight line	up to 11 years
Customer contracts and relationships	Expected future cash flows from those contracts and relationships existing at the date of acquisition are estimated. If applicable, a contributory charge is deducted for the use of other assets needed to exploit the cash flow. The net cash flow is then discounted back to present value.	Straight line	up to 6 years for customer contracts 5 to 10 years for customer relationships
Licences	Start-up basis of expected future cash flows existing at the date of acquisition. If applicable, a contributory charge is deducted for the use of other assets needed to exploit the cash flow. The net cash flow is then discounted back to present value.	Straight line	11 to 17 years depending on term of license
Software licences and development*	Initially at cost and subsequently at cost less accumulated amortisation	Straight line	1 to 5 years
Film libraries	Initially at cost and subsequently at cost less accumulated amortisation	Sum of digits	20 years

*Internally generated software development costs in relation to itv.com are expensed as incurred.

In determining the fair value of intangible assets arising on acquisition, the directors are required to make estimates regarding the timing and amount of future cash flows to be derived from exploiting the assets being acquired. These cash flows are then discounted using an appropriate discount rate. Such estimates are based on current budgets and forecasts, extrapolated for an appropriate period taking into account growth rates, expected changes to selling prices, operating costs and the expected useful lives of assets following purchase. Judgements are also made regarding whether and for how long licences will be renewed, and this drives our amortisation policy for those assets. The directors estimate the appropriate discount rate using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the businesses being acquired.

Amortisation

Amortisation is charged to the income statement over the estimated useful lives of intangible assets unless such lives are judged to be indefinite. Indefinite life assets, such as goodwill, are not amortised but are tested for impairment at each year-end.

Impairment

Goodwill is not subject to amortisation and is tested annually for impairment and when circumstances indicate that the carrying value may be impaired.

Other intangible assets are subject to amortisation and are reviewed for impairment whenever events or changes in circumstances indicate that the amount carried in the statement of financial position is less than its recoverable amount.

Any impairment is recognised in the income statement. Impairment is determined for goodwill by assessing the recoverable amount of each asset or cash-generating unit (or group of cash-generating units) to which the goodwill relates. Assets are grouped at the lowest levels for which there are separately identifiable cash flows ('cash-generating unit' or 'CGU').

The recoverable amount is the higher of an asset's fair value less costs to sell and 'value in use'. The value in use is based on the discounted present value of the future cash flows expected to arise from the CGU to which the asset relates. Growth assumptions assumed as part of the transformation plan are not included in the estimated future cash flows used for impairment testing.

Estimates are used in deriving these cash flows and the discount rate. Such estimates reflect current market assessments of the risks specific to the asset and the time value of money. The estimation process is complex due to the inherent risks and uncertainties. If different estimates of the projected future cash flows or a different selection of an appropriate discount rate or long-term growth rate were made, these changes could materially alter the projected value of the cash flows of the asset, and as a consequence materially different amounts would be reported in the financial statements.

Impairment losses in respect of goodwill are not reversed. In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Intangible assets

Intangible assets can be analysed as follows:

	Goodwill £m	Brands £m	Customer contracts and relationships £m	Licences £m	Software licences and development £m	Film libraries and other £m	Total £m
Cost							
At 1 January 2009	3,484	200	338	121	46	84	4,273
Additions	–	–	–	–	13	–	13
Reclassification to assets held for sale	(115)	(26)	(8)	–	–	(3)	(152)
Disposals	(4)	(1)	(2)	–	(7)	(2)	(16)
At 31 December 2009	3,365	173	328	121	52	79	4,118
Additions	–	–	–	–	2	–	2
At 31 December 2010	**3,365**	**173**	**328**	**121**	**54**	**79**	**4,120**
Amortisation and impairment							
At 1 January 2009	2,735	86	234	38	9	31	3,133
Charge for the year	–	17	21	9	8	4	59
Reclassification to assets held for sale	(81)	(9)	(5)	–	–	(2)	(97)
Disposals	–	–	(1)	–	(5)	(1)	(7)
At 31 December 2009	2,654	94	249	47	12	32	3,088
Charge for the year	–	16	20	9	15	3	63
At 31 December 2010	**2,654**	**110**	**269**	**56**	**27**	**35**	**3,151**
Net book value							
At 31 December 2010	**711**	**63**	**59**	**65**	**27**	**44**	**969**
At 31 December 2009	711	79	79	74	40	47	1,030

There has been no movement in the net book value of goodwill in the current year. The 2009 net movement in goodwill of £38 million resulted from the transfer of £34 million to assets held for sale regarding Friends Reunited and £4 million from the disposal of Enable Media Limited.

Also included within the book values above is expenditure of £1 million (2009: £6 million) on software that is in the course of development.

Goodwill impairment tests

The following CGUs represent the carrying amounts of goodwill.

	2010 £m	2009 £m
Broadcasting & Online	**328**	328
SDN	**76**	76
ITV Studios	**307**	307
	711	711

There has been no impairment charge for the year (2009: nil).

When assessing impairment, the recoverable amount of each CGU is based on value in use calculations. These calculations require the use of estimates, specifically: pre-tax cash flow projections; long-term growth rates; and a pre-tax market discount rate.

Cash flow projections are based on the Group's current five-year plan. Beyond the five-year plan these projections are extrapolated using an estimated long-term growth rate of 1%–2.5% (2009: 1%–2.5%) depending on the CGU. The growth rates used are consistent with the long-term average growth rates for the industry and are appropriate because these are long-term businesses.

A pre-tax market discount rate of 11.8% (2009: 12.9%) has been used in discounting the projected cash flows for each CGU. The discount rate has been revised to reflect the latest market assumptions for the Risk Free-rate, the Equity Risk Premium and the net cost of debt.

Management believes that a consistent discount rate can be applied to all CGUs, due to the similarity of the risk factors affecting them and their geographical spread. There is currently no reasonably possible change in discount rate that would reduce the headroom in any CGU to zero.

Broadcasting & Online

As a result of the strategic review, the Group reconsidered the appropriate level to test goodwill impairment during the year and concluded that the Broadcasting, GMTV and Online CGUs previously assessed separately are a single CGU, 'Broadcasting & Online'. These businesses jointly rely on the ITV licences, brands and content to generate cash inflows. This classification is consistent with the Broadcasting & Online operating segment and is the level at which management monitor goodwill.

The goodwill in this CGU arose as a result of the acquisition of broadcasting businesses since 1999, the largest of which were the acquisition by Granada of United News and Media's broadcast businesses in 2000 and the merger of Carlton and Granada in 2004 to form ITV plc.

No impairment charge arose in the Broadcasting & Online CGU during the course of 2010 (2009: nil), due to the improvement of the advertising market in 2010 and the cost savings achieved in 2009. Management believe that currently no reasonably possible change in the advertising market would reduce the headroom in this CGU to zero.

The main assumptions on which the forecast cash flows projections for this CGU are based include; the television share of the advertising market, share of commercial impacts, and programme and other costs.

The key assumption in assessing the recoverable amount of Broadcasting & Online goodwill is the size of the TV advertising market. In forming its assumptions about the TV advertising market, the Group has used a combination of long-term trends, industry forecasts and in-house estimates, which place greater emphasis on recent experience. These are broadly in the range of –3% to +3% for 2011 and 0% to +4% for 2012, with the Group's assumptions at the cautious end of these ranges. It is also assumed that ITV renews its broadcasting licences in 2014.

Section 3 Operating assets and liabilities continued

SDN

The goodwill in this CGU arose on the acquisition of SDN (the licence operator for DTT Multiplex A) in 2005 and represented the wider strategic benefits of the acquisition to ITV plc. The strategic benefits were principally the enhanced ability to promote Freeview as a platform, business relationships with the channels which are on Multiplex A and additional capacity available from 2010.

No impairment charge arose in the SDN CGU during the course of 2010 (2009: nil).

The main assumptions on which the forecast cash flows are based are income to be earned from medium-term contracts and the market price of available multiplex video streams in the period up to and beyond digital switch over. These assumptions have been determined by using a combination of current contract terms, recent market transactions and in-house estimates of video stream availability and pricing. It is also assumed that the Multiplex A licence is renewed to 2022.

Management believe that currently no reasonably possible change in the income and availability assumptions would reduce the headroom in this CGU to zero.

ITV Studios

The goodwill in this CGU arose as a result of the acquisition of production businesses since 1999, the largest of which were the acquisition by Granada of United News and Media's production businesses in 2000 and the merger of Carlton and Granada in 2004 to form ITV plc.

No impairment charge arose in the ITV Studios CGU during the course of 2010 (2009: nil).

The key assumptions on which the forecast cash flows were based include revenue (including the share of total network programme budget obtained) and margin growth. These assumptions have been determined by using a combination of extrapolation of historical trends within the business, industry estimates and in-house estimates of growth rates in all markets.

Management believe that currently no reasonably possible change in the revenue and margin assumptions would reduce the headroom in this CGU to zero.

3.4 Assets held for sale, acquisitions and disposals

The following section outlines what the Group is either holding for sale, has acquired, or has disposed of in the year.

Accounting policies

Non-current assets or disposal groups are classified as held for sale if: their carrying amount will be recovered principally through sale, rather than continuing use; they are available for immediate sale; and, the sale is highly probable. A disposal group consists of assets that are to be disposed of, by sale or otherwise, in a single transaction together with the directly associated liabilities. The group includes goodwill acquired in a business combination if the disposal group is a cash-generating unit to which goodwill has been allocated.

On initial classification as held for sale, non-current assets or components of a disposal group are re-measured in accordance with the Group's accounting policies. Thereafter generally the assets or disposal groups are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment on a disposal group is first allocated to goodwill and then to remaining assets and liabilities on a pro-rata basis, except to programming rights and other inventory, financial assets and deferred tax assets, which continue to be measured in accordance with the Group's accounting policies. Impairment on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment.

No amortisation or depreciation is charged on non-current assets (including those in disposal groups) classified as held for sale. Assets classified as held for sale are disclosed separately on the face of the statement of financial position and classified as current assets or liabilities, with disposal groups being separated between assets held for sale and liabilities held for sale.

Disposal groups are classified as discontinued operations where they represent a major line of business or geographical area of operations.

The income statement for the comparative period is re-presented to show the discontinued operations separate from the continuing operations.

Disposals

All disposals were included within assets held for sale in 2009.

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 a cash consideration of £27 million. The sale resulted in no material gain or loss on disposal in 2010.

The Group disposed of its 50% interest in Screenvision US (Technicolor Cinema Advertising LLC) on 14 October 2010 for a total consideration of $80 million (£50 million). Consideration of $75 million (£47 million) has been received resulting in a gain on disposal of £4 million. $5 million (£3 million) is contingent on contractual commitments.

The Group disposed of its long leasehold interest in properties at Birmingham and Bristol on the 12 August 2010 and 23 August 2010 respectively for a total consideration of £7 million resulting in a net £1 million loss on sale.

Assets held for sale

The £3 million included in assets held for sale relates to property, plant and equipment (2009: £78 million related to the Group's investments in Screenvision US and Friends Reunited as well as certain properties). The movement in assets held for sale since 1 January 2010 is summarised in the table below:

	2010 £m
At 1 January 2010	**78**
Transfer from property, plant and equipment	**4**
Net repayment of loans from Screenvision US	**(4)**
Disposal of Screenvision US	**(39)**
Disposal of Friends Reunited	**(28)**
Disposal of properties held for sale	**(8)**
At 31 December 2010	3

The movements in liabilities held for sale since 1 January 2010 is summarised in the table below:

	2010 £m
At 1 January 2010	**(3)**
Disposal of Friends Reunited	**3**
At 31 December 2010	–

During the year the Group began actively marketing property that is surplus to requirements and disposal is anticipated to be completed within one year. Property was transferred from property, plant and equipment at a net book value of £4 million. The property in Bedford, classified as an asset held for sale in prior periods, continues to be classified as such, since it continues to be actively marketed.

Section 3 Operating assets and liabilities continued

3.5 Provisions

A provision is recognised by the Group where an obligation exists, relating to events in the past, and it is probable that cash will be paid to settle it.

A provision is made where the Group is not certain how much cash will be required to settle a liability, so an estimate is made. The main estimates relate to the cost of holding properties that are no longer in use by the Group and contracts the Group has entered into that are now unprofitable.

Accounting policies

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation arising from past events, it is probable cash will be paid to settle it and the amount can be estimated reliably. Provisions are determined by discounting the expected future cash flows by a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a financing cost in the income statement. These provisions are estimates for which the amount and timing of actual cash flows are dependent on future events.

Provisions

The movements in provisions during the year are as follows:

	Contract provisions £m	Restructuring provisions £m	Property provisions £m	Other provisions £m	Total £m
At 1 January 2010	35	8	17	16	76
Addition/(release)	(1)	5	(6)	–	(2)
Unwind of discount	1	–	1	–	2
Utilised	(15)	(8)	(4)	–	(27)
At 31 December 2010	**20**	**5**	**8**	**16**	**49**

The table includes provisions of £34 million that are classified as current liabilities (2009: £47 million).

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

Restructuring provisions are in respect of previously announced efficiency programmes and are expected to be utilised within one year. The amount utilised in 2010 was the remaining provision from 2009.

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

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

3.6 Pensions

In this section we explain the accounting policies governing the Group's treatment of the pension schemes that ITV have in place, followed by analysis of the deficit on the defined benefit pension scheme and how this has been calculated.

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

The Group is required to disclose in the statement of financial position the net of the defined benefit pension assets and liabilities representing the Group's present obligation to its past and current employees. In the event of a net liability the directors are obliged to determine how this deficit will be addressed. The assets are calculated at fair value and the obligations are measured by discounting the best estimate of future cash flows to be paid out by the scheme. The Group discloses the assets and obligations of the scheme and the assumptions used to calculate these. The detailed disclosures are included in the section below. In addition we have placed text boxes to explain some of the technical terms used in the disclosure.

Accounting policies

Defined contribution schemes

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

Defined benefit schemes

The Group's obligation in respect of defined benefit pension schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and the fair value of scheme assets is then deducted. The discount rate used is the yield at the valuation date on high quality corporate bonds.

The Group takes advice from independent actuaries relating to the appropriateness of the assumptions which include life expectancy of members, expected salary and pension increases, inflation and the return on scheme assets. It is important to note that comparatively small changes in the assumptions used may have a significant effect on the income statement and statement of financial position.

The liabilities of the defined benefit scheme are measured by discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit method. This method is an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. These calculations are performed by a qualified actuary.

Actuarial gains and losses are recognised in full in the period in which they arise through the statement of comprehensive income.

Unfunded schemes in relation to previous directors are accounted for under IAS 19. Assets are held outside of the pension scheme in the form of gilts included within cash and cash equivalents.

The Group's pension schemes

Under the defined contribution schemes, the Group pays fixed contributions into a separate fund on behalf of the employee and has no further obligations to employees. The risks and rewards associated with this type of scheme are assumed by the members rather than the employer.

In a defined benefit scheme the employer underwrites investment, mortality and inflation risks. In the event of poor returns the employer needs to address this through a combination of increased levels of contribution or by making adjustments to the scheme. Schemes can be funded where regular cash contributions are made by the employer into a fund which is invested, or unfunded where no regular money or assets are put aside to cover future payments. The main ITV schemes are funded.

Under the defined benefit scheme, the Group has an obligation to provide the member with future benefits in the form of cash payments. The Group makes contributions to the ITV Pension Scheme, a separate trustee-administered fund that is not consolidated in these financial statements, but is reflected on the defined benefit pension deficit line on the statement of financial position. The pension trustees manage and invest the assets of the scheme. The trustees of the fund are required to act in the best interest of the fund's beneficiaries. The appointment of trustees to the fund is determined by the scheme's documentation.

In an unfunded scheme the Group is responsible for holding assets to meet pension obligations.

The following section outlines the key elements of the Group's defined contribution and defined benefit schemes during the year and as at the 31 December 2010.

Section 3 Operating assets and liabilities continued

Defined contribution schemes

Total contributions recognised as an expense in relation to defined contribution schemes during 2010 were £6 million (2009: £4 million). This is the default scheme for all new employees.

Defined benefit schemes

The Group's main scheme was formed from a merger of a number of schemes on 31 January 2006. The level of retirement benefit is principally based on pensionable salary at retirement.

The Group's main scheme consists of three sections, A, B and C. The first triennial valuation of section A was completed as at 1 January 2008 by an independent actuary for the Trustees of the ITV Pension Scheme and the next triennial valuation of this section is being undertaken as at 1 January 2011. The first triennial valuation of sections B and C were completed as at 1 January 2007 and the next triennial valuation of these sections as at 1 January 2010 is in progress. The Group will monitor funding levels annually.

The defined benefit pension deficit

The defined benefit pension deficit at 31 December 2010 was £313 million (2009: £436 million).

The assets and liabilities of the scheme are recognised in the consolidated statement of financial position and shown within non-current liabilities. The total recognised in the current and previous years are:

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Total defined benefit scheme obligations	**(2,746)**	(2,687)	(2,339)	(2,603)	(2,657)
Total defined benefit scheme assets	**2,433**	2,251	2,161	2,491	2,372
Net amount recognised within the consolidated statement of financial position	**(313)**	(436)	(178)	(112)	(285)

Addressing the deficit

The statutory funding objective is that the scheme has sufficient and appropriate assets to pay its benefits as they fall due. This is a long-term target. Future contributions will always be set at least at the level required to satisfy the statutory funding objective. The general principles adopted by the trustees are that the assumptions used, taken as a whole, will be sufficiently prudent for pensions and benefits already in payment to continue to be paid, and to reflect the commitments which will arise from members' accrued pension rights.

The levels of ongoing contributions to the defined benefit schemes are based on the current service costs (as assessed by the scheme trustees) and the expected future cash flows of the scheme. Normal employer contributions into the schemes in 2011 for current service are expected to be in the region of £10 million (2010: £9 million) assuming current contribution rates continue as agreed with the scheme trustees. From July 2010, these figures include member contributions paid by the employer under a salary sacrifice arrangement. In addition, the following deficit funding payments are expected for forthcoming years, these funding arrangements are fixed to 2014, regardless of the Section A valuation due to be completed in 2011. Sections B and C funding arrangements may vary:

- In 2011 the Group will make deficit funding contributions of £35 million.
- 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 before exceptional items for the year ended 31 December 2011 exceed £300 million, the Group will increase this contribution by an amount representing 10% of EBITA before exceptional items over this threshold level.
- As a result of the SDN pension partnership a further £8 million of annual deficit contributions will commence from 2011. Under the partnership arrangements, the Group 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 at that time.

The Group estimates the average duration of UK scheme liabilities to be 15 years (2009: 14 years).

The remaining sections provide further detail of the value of scheme assets and liabilities, how these are accounted for and the impact on the income statement.

Total defined benefit scheme obligations

The defined benefit obligation (the pension scheme liabilities) may change due to the following:

- Current service cost/(credit) – changes in the present value of the obligation attributable to the members' current period's service. This is charged to operating costs in the income statement.
- Curtailment losses/gains – these occur when the Company is demonstrably committed to amend a scheme so that the benefits for future services are reduced or eliminated. A change in future benefits is treated as a curtailment and recognised in operating costs in the income statement rather than an actuarial gain or loss recognised in equity, if the effect of the re-measurement is significant.
- Past service costs/(credits) – these occur when there is a change in the present value of the obligation, in respect of a member's prior period of service. These can arise due to changes in the benefit entitlement of members and are recognised through operating costs.
- Settlement gains – these occur when the Company enters into a transaction to eliminate all further legal or constructive obligations for some or all of the benefits provided by the plan. Settlement gains can arise from enhanced transfer values exercises, fully insuring benefits or on business disposals.
- Increase due to interest cost – this is the unwinding of the discount on the present value of the obligation. Broadly, it is determined by multiplying the discount rate at the beginning of the period by the present value of the obligation during the period. This is recognised through net financing costs in the income statement.
- Actuarial losses/gains – arise from differences between the actual and expected outcome in the valuation of the obligation. These can be experience adjustments, which are differences between the assumptions made and what actually occurred, or they can result from changes in assumptions. Actuarial gains and losses are recognised through retained losses within equity.
- Cash contributions/benefits paid – cash contributions by scheme participants will increase the obligations by the scheme whereas any benefits paid out by the scheme will lower the obligations of the scheme.

The movement in the present value of the defined benefit obligation for these schemes is analysed below:

	2010 £m	2009 £m
Defined benefit obligation at 1 January	**2,687**	2,339
Current service cost	**5**	7
Curtailment loss/(gain) (redundancies)	**1**	(2)
Operating exceptional curtailment gain (salary cap)	**–**	(72)
Past service cost (augmentations)	**–**	1
Operating exceptional past service credit (one-off change to pension payment)	**(2)**	(38)
Operating exceptional past service credit (introduction of pensions payment change option)	**(25)**	–
Settlement (enhanced transfer values)	**(21)**	–
Interest cost	**149**	143
Net actuarial loss	**80**	439
Contributions by scheme participants	**2**	4
Benefits paid	**(130)**	(134)
Defined benefit obligation at 31 December	2,746	2,687

The present value of the defined benefit obligation is analysed between wholly unfunded and funded defined benefit schemes in the table below:

	2010 £m	2009 £m
Defined benefit obligation in respect of funded schemes	**2,709**	2,653
Defined benefit obligation in respect of wholly unfunded schemes	**37**	34
Total defined benefit obligation	**2,746**	2,687

Assumptions used to calculate the best estimate of future cash flows to be paid out by the scheme include: future salary levels, future pensionable salary levels, the estimate of increases in pension payments, the life expectations of members, the effect of inflation on all these factors and ultimately the discount rate used to estimate the present day fair value of these obligations.

When deciding on these assumptions the Group will take independent actuarial advice relating to the appropriateness of the assumptions.

The principal assumptions used in the scheme valuations at the year-end were:

	2010	2009
Discount rate for scheme liabilities	**5.40%**	5.70%
Inflation assumption	**3.40%**	3.40%
Rate of pensionable salary increases	**0.90%**	0.90%
Rate of increase in pension payment (LPI 5% pension increases)	**3.30%**	3.30%
Rate of increase to deferred pensions (CPI)	**2.90%**	3.40%

IAS 19 requires that the discount rate used be determined by reference to high quality fixed income investments in the UK that match the estimated term of the pension obligations. The discount rate has been based on the yield available on AA rated corporate bonds of a term similar to the liabilities.

The inflation assumption has been set by looking at the difference between the yields on fixed and index-linked Government bonds. The inflation assumption is used to calculate the remaining assumptions except where caps have been implemented as part of the Group's actions during 2009.

In July 2010, the UK Government announced changes to the inflation index used for statutory increases (both for pensions in payment and pensions in deferment) to apply to private sector pension schemes. This has resulted in an actuarial gain of £45 million during the period in respect of the ITV pension scheme.

In estimating the life expectancy of pension scheme members, the Group has used PA92 year of birth tables with medium cohort improvements, with a 1% per annum underpin and a one year age rating (i.e. tables are adjusted so that a member is assumed to be one year older than actual age). Using these tables the assumed life expectations on retirement are:

	2010	2010	2009	2009
Retiring today at age	**60**	**65**	60	65
Males	**26.6**	**21.7**	26.5	21.6
Females	**29.9**	**24.9**	29.8	24.8
Retiring in 20 years at age	**60**	**65**	60	65
Males	**28.6**	**23.5**	28.5	23.4
Females	**32.0**	**26.8**	31.9	26.7

The tables above reflect published mortality investigation data in conjunction with the results of investigations into the mortality experience of scheme members.

The sensitivities regarding the principal assumptions used to measure the defined benefit obligation are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 8% (£220 million)
Rate of inflation	Increase/decrease by 0.5%	Increase/decrease by 5% (£137 million)
Life expectations	Increase by 1 year	Increase by 2% (£55 million)

The sensitivities above consider the single change shown with the other assumptions assumed to be unchanged.

In practice, changes in one assumption may be accompanied by offsetting changes in another assumption (although this is not always the case). The Group's net pension deficit is the difference between the scheme liabilities and the scheme assets. Changes in the assumptions may occur at the same time as changes in the market value of scheme assets. These may or may not offset the change in assumptions. For example, a fall in interest rates will increase the scheme liability, but may also trigger an offsetting increase in the market value of certain scheme assets so there is no net effect on the Group's liability.

Total defined benefit scheme assets

Pension scheme assets are measured at their fair value and can change due to the following:

– The expected return on scheme assets is determined based on the market expectations at the beginning of the year and calculated as the expected percentage return multiplied by the fair value of the scheme assets. This expected return on scheme assets is recognised through net financing costs in the income statement.

– Actuarial gains and losses arise from differences between the actual and expected outcome in the valuation of the assets. These can be experience adjustments, which are differences between the assumptions made and what actually occurred, or they can result from changes in assumptions. For example differences in the actual asset performance versus the expected performance would be an actuarial gain/(loss). Actuarial gains and losses are recognised through retained losses within equity.

– Employer's contributions and cash contributions by scheme participants are paid into the scheme to be managed and invested.

Section 3 Operating assets and liabilities continued

The movement in the fair value of the defined benefit scheme assets is analysed below:

	2010 £m	2009 £m
Fair value of scheme assets at 1 January	**2,251**	2,161
Expected return on assets	**136**	128
Net actuarial gain	**147**	48
Employer contributions	**47**	44
Contributions by scheme participants	**2**	4
Settlement (enhanced transfer values)	**(20)**	–
Benefits and expenses paid	**(130)**	(134)
Fair value of scheme assets at 31 December	**2,433**	2,251

At 31 December 2010 the scheme assets were invested in a diversified portfolio that consisted primarily of equity and debt securities. The fair value of the scheme assets are shown below by major category:

	Market value 2010 £m	Market value 2009 £m
Market value of assets – equity-type assets	**901**	869
Market value of assets – bonds	**1,242**	1,263
Market value of assets – other	**290**	119
Total scheme assets	**2,433**	2,251

Exposure through the different asset classes is obtained through a combination of executing swaps and investing in physical assets. The trustees have a substantial holding of equity-type investments, mainly shares in listed and unlisted companies. The investment return related to these is variable, and they are generally considered 'riskier' investments. However, it is generally accepted that the yield on these investments will contain a premium to compensate investors for this additional risk. There is significant uncertainty about the likely size of this risk premium. In respect of overseas equity investments there is also a risk of unfavourable currency movements which the Group manage by hedging broadly 60% of the overseas investments against currency movements.

The trustees also hold corporate bonds and other fixed interest securities. The risk of default on these is assessed by various rating agencies. Some of these bond investments are issued by the UK Government. The risk of default on these is very small compared to the risk of default on corporate bond investments, although some risk may remain.

The expected return for each asset class is weighted based on the target asset allocation for 2011 to develop the expected long-term rate of return on assets assumption for the portfolio. The benchmark for 2011 is to hold broadly 47% equities and 53% bonds. The majority of the equities held by the scheme are in international blue chip entities. The aim is to hold a globally diversified portfolio of equities, with a target of broadly 22% of equities being held in UK and 78% of equities held overseas. Within the bond portfolio the aim is to hold 58% of the portfolio in government bonds (gilts) and 42% of the portfolio in corporate bonds and other fixed interest securities.

The expected rates of return on scheme assets by major category and target allocations are set out below:

	Expected long-term rate of return 2011 % p.a.	Planned asset allocation 2011 % of assets	Expected long-term rate of return 2010 % p.a.	Planned asset allocation 2010 % of assets
Equity and property	7.8	47	8.1	47
Bonds	3.7–4.7	53	4.0–5.0	53

The expected yield on bond investments with fixed interest rates can be derived exactly from their market value. The actual return on the scheme's return seeking assets for the year ended 31 December 2010 was an increase of £283 million (2009: increase of £176 million).

Amounts recognised through the income statement

Amounts recognised through the income statement in the various captions are as follows:

	2010 £m	2009 £m
Amount charged to operating costs:		
Current service cost	**(5)**	(7)
Curtailment (loss)/gain (redundancies)	**(1)**	2
Past service cost (augmentations)	**–**	(1)
	(6)	(6)
Amount credited to operating income – exceptional items:		
Curtailment gain (salary cap)	**–**	72
Past service credit (one-off change to pensions payment)	**2**	38
Past service credit (introduction of pensions payment change option)	**25**	–
Settlement gain (enhanced transfer values)	**1**	–
	28	110
Amount (charged)/credited to net financing costs:		
Expected return on pension scheme assets	**136**	128
Interest cost	**(149)**	(143)
	(13)	(15)
Total credited in the consolidated income statement	**9**	89

Operating exceptional gains of £28 million, included above, were recognised in 2010 in relation to changes made to the ITV Pension Scheme. These included:

- a past service credit of £25 million in relation to the introduction of a member option to change pension payments at retirement
- a past service credit of £2 million in relation to the one off change to pension payments, and
- a settlement gain of £1 million in relation to the enhanced transfer value exercise.

Amounts recognised through the consolidated statement of comprehensive income/(cost)

The amounts recognised through the consolidated statement of comprehensive income/(cost) are:

	2010 £m	2009 £m
Actuarial gains and (losses):		
Arising on scheme assets	**147**	48
Arising on scheme liabilities	**(80)**	(439)
	67	(391)

The cumulative amount of actuarial gains and losses recognised through the consolidated statement of comprehensive income since 1 January 2004 is an actuarial loss of £252 million (2008: £319 million loss).

Included within actuarial gains and losses are experience adjustments as follows:

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Experience adjustments on scheme assets	**147**	48	(438)	15	32
Experience adjustments on scheme liabilities	**(3)**	–	–	(18)	(12)

Section 4 Capital structure and financing costs

The directors have to determine the appropriate capital structure of ITV specifically how much is raised from shareholders (equity) and how much is borrowed from financial institutions (debt) in order to finance the Group's activities both now and in the future.

The Board's focus during the year was on reducing net debt and improving the Group's credit rating. As these improvements continue the Board will review its policies on capital structure to support the Transformation Plan.

The Board is mindful that equity capital cannot be easily flexed and in particular raising new equity would only be likely in the context of an acquisition. Debt can be issued and repurchased more easily but there are high transaction costs in frequent adjustment and debt holders are under no obligation to accept any offer to repurchase.

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

On the following pages there are sections on the Group's net debt, borrowings and held to maturity investments, derivative financial instruments, net financing costs, financial risk factors, fair value hierarchies, equity and share-based compensation.

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

4.1 – Net debt

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

In defining total outstanding debt the directors consider it appropriate to include the following:

- the currency impact of swaps held against those debt instruments;
- equity components of debt instruments; and
- the accounting impact on specific bonds due to the increase in coupon rates caused by the downgrade of ITV's investment status in August 2008.

Analysis of net debt

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

	1 January 2010 £m	Net cash flow and acquisitions £m	Currency and non-cash movements £m	**31 December 2010 £m**
Cash	479	282	–	**761**
Cash equivalents	103	(6)	2	**99**
Cash and cash equivalents	582	276	2	**860**
Cash held within the disposal group	4	(4)	–	**–**
Held to maturity investments	149	–	(1)	**148**
Loans and loan notes due within one year	(1)	1	(47)	**(47)**
Finance leases due within one year	(8)	8	(8)	**(8)**
Loans and loan notes due after one year	(1,366)	146	50	**(1,170)**
Finance leases due after one year	(65)	4	8	**(53)**
	(1,440)	159	3	**(1,278)**
Currency component of swaps held against Euro denominated bonds	108	–	(10)	**98**
Convertible bond equity component	(35)	–	4	**(31)**
Amortised cost adjustment	20	–	(5)	**15**
Net debt	(612)	431	(7)	**(188)**

Section 4 Capital structure and financing costs continued

	1 January 2009 £m	Net cash flow and acquisitions £m	Currency and non-cash movements £m	31 December 2009 £m
Cash	503	(20)	(4)	479
Cash equivalents	113	(11)	1	103
Cash and cash equivalents	616	(31)	(3)	582
Cash held within the disposal group	–	–	4	4
Held to maturity investments	–	150	(1)	149
Loans and loan notes due within one year	(252)	249	2	(1)
Finance leases due within one year	(7)	7	(8)	(8)
Loans and loan notes due after one year	(1,192)	(221)	47	(1,366)
Finance leases due after one year	(72)	–	7	(65)
	(1,523)	35	48	(1,440)
Currency component of swaps held against Euro denominated bonds	147	–	(39)	108
Convertible bond equity component	–	(36)	1	(35)
Amortised cost adjustment	30	–	(10)	20
Net debt	(730)	118	–	(612)

Cash and cash equivalents

Included within cash equivalents is £53 million (2009: £62 million), the use of which is restricted to meeting finance lease commitments under programme sale and leaseback commitments, and gilts of £36 million (2009: £34 million) over which the unfunded pension promises have a charge.

Held to maturity investments

In February 2009 ITV raised a net £50 million through a £200 million covenant free loan with a maturity of March 2019, secured against the purchase of 4.5% March 2019 gilts with a nominal value of £138 million (for a cost of £150 million). As at December 2010 this gilt has a carrying value of £148 million.

Loan and loan notes due within one year

During the course of the year ITV repurchased €63 million (£54 million) of the October 2011 bonds with €54 million (£47 million) remaining due within one year. In 2009 ITV repaid €195 million (£171 million) of this October 2011 bond and exchanged at par €188 million for the issuance at par of new bonds with a maturity of June 2014 and a coupon of 10%.

Loan and loan notes due after one year

In 2010 ITV conducted further repurchases of £42 million of the £425 million October 2015 bonds reducing the outstanding balance to £383 million. These bonds carry a coupon of 5.375%.

In December 2010 ITV repaid the remaining £50 million of the £125 million May 2013 loan (2009: £75 million repaid).

Included within loan notes due after one year is the £200 million covenant free loan raised in February 2009 with a maturity of March 2019. This loan is secured against the 4.5% March 2019 gilts with a nominal value of £138 million (for a cost of £150 million) described above. Interest on the loan is fixed at 6.75% for the first three years and a variable rate thereafter, depending in part on the performance of an interest rate algorithm. The interest mechanism on these instruments was adjusted during the year. The change was not significant and did not impact the accounting treatment. The lender has the option to increase this debt by £150 million.

In March 2009 ITV repaid its £250 million Eurobond.

Currency components of swaps held against euro denominated bonds

As at 31 December 2010 the currency element of the cross currency interest rate swaps is a £98 million asset (2009: £108 million asset) and this offsets the exchange rate movement of the 2011 and 2014 Euro denominated bonds. The interest element of the swap is a £10 million asset (2009: £12 million asset) resulting in an overall net asset total at 31 December 2010 of £108 million (2009: £120 million net asset total)

Convertible bond

In November 2009 ITV issued a £135 million convertible Eurobond with a maturity date of November 2016 and a coupon of 4%. As the bond contains an option for the issuer to convert a portion of the debt into ITV's equity, the components are treated as separate instruments. The accounting policy for this compound instrument is detailed in note 4.2.

The debt portion is £100 million (2009: £96 million) and is included within Loans and loan notes due after one year. The effective interest rate on the carrying value of the debt component is 9.4%. The equity component of £31 million (2009: £35 million) is shown separately.

Amortised cost adjustment

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

4.2 Borrowings and held to maturity investments

The Group borrows money from financial institutions in the form of bonds and other financial instruments. These generally have fixed interest rates and are for a fixed term.

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

The interest payable and receivable on these instruments is shown in the Net financing costs note in Section 4.4

Accounting policies

Borrowings

Borrowings are recognised initially at fair value including directly attributable transaction costs, with subsequent measurement at amortised cost using the effective interest rate method. Under the amortised cost method the difference between the amount initially recognised and the redemption value is recorded in the income statement over the period of the borrowing on an effective interest basis.

Where the Group has identified that the treatment of a borrowing (amortised cost) and its related derivative (fair value) result in a mismatch, the Group has adopted the fair value option within IAS 39 (revised) to eliminate this accounting mismatch. This is considered more appropriate than the amortised cost method as the movements in these financial instruments largely offset each other and, as a result, they are managed on an aggregated basis. The effect of this is that the Group recognises any such borrowings at fair value in all periods subsequent to initial recognition, with resultant gains or losses recorded in the income statement.

Compound financial instruments

Compound financial instruments are instruments that are classified as partly debt and partly equity due to the terms of the instrument.

The Group has one compound financial instrument which is a convertible note that can be converted to share capital at the option of the holder at maturity.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition but is transferred to retained losses over the term of the instrument on an effective interest rate basis.

Held to maturity assets

Where the Group has the positive intent and ability to hold financial assets to maturity, they are classified as held to maturity. Held to maturity financial assets are recognised initially at fair value including any directly attributable transaction costs. Subsequent to initial recognition, held to maturity financial assets are measured at amortised cost using the effective interest method, less any impairment.

Borrowings and held to maturity investments

The table below analyses the Group's borrowings by when they fall due for payment:

2010	Loans and loan notes £m	Finance leases £m	Total £m
Current			
In one year or less, or on demand	**47**	**8**	**55**
Non-current			
In more than one year but not more than two years	**–**	**10**	**10**
In more than two years but not more than five years	**607**	**34**	**641**
In more than five years	**563**	**9**	**572**
	1,170	**53**	**1,223**
Total	**1,217**	**61**	**1,278**

2009	Loans and loan notes £m	Finance leases £m	Total £m
Current			
In one year or less, or on demand	1	8	9
Non-current			
In more than one year but not more than two years	106	9	115
In more than two years but not more than five years	316	39	355
In more than five years	944	17	961
	1,366	65	1,431
Total	1,367	73	1,440

Current loans and loan notes due within one year

Loans repayable in one year or less as at 31 December 2010 comprise an unsecured €54 million Eurobond (£47 million) which has a coupon of 6.0% and matures in October 2011. After cross currency swaps there is a net amount receivable in October 2011 of £16 million. In 2009 this bond was classified as due in more than one year but not more than two years.

Loans and loan notes repayable between two and five years

Loans repayable between two and five years as at 31 December 2010 includes an unsecured £110 million Eurobond which has a coupon of three-month sterling LIBOR plus 2.7% and matures in March 2013, an unsecured €188 million Eurobond (£126 million net of cross currency swaps) which has a coupon of 10.0% and matures in June 2014 and an unsecured £383 million Eurobond which has a coupon of 5.375% and matures in October 2015.

Section 4 Capital structure and financing costs continued

Loans and loan notes repayable after five years

Loans repayable after five years includes an unsecured £135 million convertible Eurobond which has a coupon of 4.0% and matures in November 2016, an unsecured £250 million Eurobond which has a coupon of 7.375% and matures in January 2017 and an unsecured bank loan for £200 million which has a coupon of 6.75% until March 2012 and a variable rate thereafter and matures in March 2019.

Fair values versus book value

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

		Book value		Fair value	
Assets	Maturity	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Held to maturity investments	Mar 19	**148**	149	**150**	143

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

		Book value		Fair value	
Liabilities	Maturity	**2010 £m**	2009 £m	**2010 £m**	2009 £m
€54 million Eurobond (previously €118 million Eurobond)	Oct 11	**47**	106	**48**	109
£110 million Eurobond	Mar 13	**110**	110	**109**	105
£50 million loan	May 13	**–**	50	**–**	58
€188 million Eurobond	Jun 14	**150**	156	**185**	187
£383 million Eurobond (previously £425 million Eurobond)	Oct 15	**347**	384	**373**	387
£135 million Convertible bond	Nov 16	**100**	96	**172**	147
£250 million Eurobond	Jan 17	**263**	264	**258**	240
£200 million loan	Mar 19	**200**	200	**269**	244
Other loans		**–**	1	**–**	1
		1,217	1,367	**1,414**	1,478

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

The book value of the 2011 Eurobond decreased in the year principally as a result of repurchases. After taking account of cross currency interest rate swaps ITV will receive a net £16 million at maturity.

The book value of the 2015 £383 million Eurobond decreased in the year as a result of repurchases.

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

Finance leases

The following table analyses when finance lease liabilities are due for payment:

			2010			2009
	Minimum lease payments £m	**Interest £m**	**Principal £m**	Minimum lease payments £m	Interest £m	Principal £m
In one year or less	**11**	**3**	**8**	12	4	8
In more than one year but not more than five years	**50**	**6**	**44**	58	10	48
In more than five years	**10**	**1**	**9**	18	1	17
	71	**10**	**61**	88	15	73

Finance leases principally comprise programmes under sale and leaseback arrangements and a contractual arrangement relating to the provision of news accounted for as a lease. The net book value of tangible assets held under finance leases at 31 December 2010 was £9 million (2009: £8 million).

4.3 Derivative financial instruments

A derivative is a financial instrument used to manage risk. Its value changes over time in response to underlying variables such as exchange rates or interest rates and is for a fixed period. In accordance with Board approved policies, the Group uses derivatives to manage its exposure to fluctuations in interest on its borrowings and foreign exchange rates. These policies are included within Section 4.5.

Derivative financial instruments are initially recognised as either assets or liabilities at fair value and are subsequently re-measured at fair value at each reporting date. Movements in instruments measured at fair value are recorded in the income statement in net financing costs.

Analysis of these derivatives and the various methods used to calculate their respective fair values is detailed in this section.

Accounting policies

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

Derivative financial instruments are initially recognised at fair value and are subsequently re-measured at fair value with the movement recorded in the income statement within net financing costs. Derivatives with a positive fair value are recorded as assets and negative fair values as liabilities.

The fair value of foreign currency forward contracts is determined by using the difference between the contract exchange rate and the quoted forward exchange rate at the reporting date. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current creditworthiness of swap counterparties.

Third party valuations are used to fair value the Group's derivatives. The valuation techniques use inputs such as interest rate yield curves and currency prices/yields, volatilities of underlying instruments and correlations between inputs.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity.

Any ineffective portion of the hedge is recognised immediately in the income statement.

For financial assets and liabilities classified at fair value through profit or loss the fair value change and interest income/expense are not separated.

Derivative financial instruments

The following table shows the fair value of derivative financial instruments analysed by type of contract.

	2010 Assets £m	2010 Liabilities £m	2009 Assets £m	2009 Liabilities £m
Current				
Interest rate swaps – fair value through profit or loss	**69**	**(3)**	3	(3)
Forward foreign exchange contracts – fair value through profit or loss	**–**	**–**	2	(1)
	69	**(3)**	5	(4)
Non-current				
Interest rate swaps – fair value through profit or loss	**89**	**(39)**	151	(30)
	158	**(42)**	156	(34)

Interest rate swap assets as at 31 December 2010 include £108 million of cross-currency and interest rate swaps relating to the €54 million 2011 Eurobond and the €188 million 2014 Eurobond (see note 4.2).

The remaining £50 million of assets relate to a number of floating rate swaps. ITV has a £125 million swap matched against half of the 2017 £250 million bond. Under this swap ITV receives 6.125% (to match the original bond coupon) and pays three-month sterling LIBOR plus 0.51% with the three month sterling LIBOR capped at 5.25% for rates between 5.25% and 8.0%.

ITV also has a £162.5 million swap matched against part of the 2015 £383 million bond. Under this swap ITV receives 5.375% (to match the bond coupon) and pays six-month sterling LIBOR plus 0.3%.

ITV has other swaps totalling £162.5 million matched against part of the 2015 £383 million bond. Under these swaps ITV receives 5.375% (to match the bond coupon) and pays a weighted average of three-month sterling LIBOR plus 1.45%.

Section 4 Capital structure and financing costs continued

Interest rate swap liabilities of £42 million as at 31 December 2010 relate to various fixed and floating rate swaps. ITV has a £162.5 million swap with a maturity of October 2015 under which it receives three-month sterling LIBOR and pays 4.35%. The bank has the right to cancel the swap.

ITV has a £162.5 million swap with a maturity of October 2015 under which it receives six-month sterling LIBOR plus 0.3%, and pays the higher of six-month sterling LIBOR minus 0.2% or six-month US$ LIBOR minus 1.0%, set in arrears or in advance.

ITV has a £120.5 million swap with a maturity of October 2015 under which it receives 5.375% (to match the bond coupon) and pays the higher of six-month sterling LIBOR plus 2.905% or six-month US$ LIBOR plus 2.105%, set in arrears with a cap on payment of 8%.

ITV has a £125 million swap with a maturity of January 2017 under which it receives three-month sterling LIBOR and pays 4.31%. The bank has the right to cancel the swap.

ITV has a £125 million swap with a maturity of January 2017 under which it receives 7.375% (to match the bond coupon) and pays the higher of six-month sterling LIBOR plus 4.52% or six-month US$ LIBOR plus 3.72%, set in arrears with a cap on payment of 10%.

All forward foreign exchange contracts hedge underlying currency exposures.

4.4 Net financing costs

This section details the interest income generated on the Group's financial assets and the interest expense incurred on its borrowings and other financial assets and liabilities. In reporting its 'adjusted profits', the Group adjusts financing costs for mark-to-market movements on swaps and foreign exchange, imputed pension interest and other financing costs when assessing the net financing costs. The rationale for adjustments made to financing costs is provided in the Financial and performance review.

Accounting policies

Net financing costs comprise interest income on funds invested, gains/losses on the disposal of financial instruments, changes in the fair value of financial instruments, interest expense on borrowings and finance leases, unwinding of the discount on provisions, foreign exchange gains/losses and implied interest on pension assets and liabilities. Interest income and expense is recognised as it accrues in profit or loss, using the effective interest method.

Net financing costs

Net financing costs can be analysed as follows:

	2010 £m	2009 £m
Financing income:		
Interest income	**26**	23
Expected return on defined benefit pension scheme assets	**136**	128
Gain on bond exchange	**–**	14
Change in fair value of instruments classified at fair value through profit or loss	**11**	–
Foreign exchange gain	**12**	36
	185	201
Financing costs:		
Interest expense on financial liabilities measured at amortised cost	**(93)**	(93)
Interest on defined benefit pension scheme obligations	**(149)**	(143)
Losses on early settlement	**(10)**	(8)
Change in fair value of instruments classified at fair value through profit or loss	**–**	(37)
Other interest expense	**(8)**	(11)
	(260)	(292)
Net financing costs	**(75)**	(91)

The foreign exchange gain relates principally to Euro denominated bonds that are economically hedged by cross currency interest rate swaps.

4.5 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risks (including currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to minimise certain risk exposures.

Treasury policies have been approved by the Board for managing each of these risks including levels of authority on the type and use of financial instruments. Transactions are only undertaken if they relate to underlying exposures. The treasury function reports regularly to the Audit Committee and treasury operations are subject to periodic reviews.

Market risk

a) Currency risk

The Group operates internationally and is therefore exposed to currency risk arising from movements in foreign exchange rates, primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from: differences in the dates commercial transactions are entered into and the date they are settled; recognised assets and liabilities; and, net investments in foreign operations.

The Group's foreign exchange policy is to hedge material foreign currency denominated costs at the time of commitment and to hedge a proportion of foreign currency denominated revenues on a rolling 12-month basis unless a natural hedge exists.

The Group ensures that its net exposure to foreign denominated cash balances is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Euro denominated interest and principal payments under the €54 million and €188 million bonds have been fully hedged by cross-currency interest rate swaps.

The Group's investments in subsidiaries are not hedged as those currency positions are considered to be long term in nature.

At 31 December 2010, if sterling had weakened/strengthened by 10% against the US dollar with all other variables held constant, post-tax profit for the year would have been £2 million (2009: £2 million) higher/lower. Equity would have been £13 million (2009: £13 million) higher/lower.

At 31 December 2010, if sterling had weakened/strengthened by 10% against the Euro with all other variables held constant, post-tax profit for the year would have been £3 million (2009: £3 million) higher/lower. Equity would have been £2 million (2009: £2 million) higher/lower.

b) Price risk

The Group is not exposed to any material price risk.

c) Interest rate risk

Interest rate risk is the risk that the Group is impacted by significant changes in interest rates. Borrowings issued at or swapped to floating rates expose the Group to interest rate risk.

The Group's interest rate policy is to have between 40% and 60% of its borrowings held at fixed rates over the medium term in order to provide a balance between certainty of cost and benefit from lower floating rates. The Group uses interest rate swaps and options in order to achieve the desired mix between fixed and floating rates.

All of the Group's interest rate swaps are classified as fair value through profit or loss so any movement in the fair value goes through the income statement rather than equity.

At 31 December 2010, if interest rates had increased/decreased by 0.1%, post-tax profit for the year would have been £2 million (2009: £1 million) lower/higher.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the Group's receivables from customers, cash and held to maturity investments. There is also credit risk relating to the Group's own credit rating as this impacts the availability and cost of future finance.

a) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The majority of trade receivables relate to airtime sales contracts with advertising agencies and advertisers. Credit insurance has been taken out against these companies to minimise the impact on the Group in the event of a possible default.

b) Cash and held to maturity investments

The Group operates strict investment guidelines with respect to surplus cash and the emphasis is on preservation of capital. Counterparty limits for cash deposits are largely based upon long-term ratings published by the major credit rating agencies and perceived state support. Deposits longer than six months require the approval of the General Purpose Committee.

c) Borrowings

ITV's credit ratings with Standard & Poor's and Moody's Investor Service are B+/Ba3 respectively and are 'sub-investment grade' with both agencies. The combination of ITV's lower credit rating and the deterioration in credit conditions adversely impacts the availability and costs of future finance.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's financing policy is to fund itself for the long term by using debt instruments with a range of maturities. It is substantially funded from the UK and European capital markets and it has a bilateral bank facility.

Management monitors rolling forecasts of the Group's liquidity reserve (comprising undrawn bank facilities and cash and cash equivalents) on the basis of expected cash flows. This monitoring includes financial ratios to assess possible future credit ratings and headroom and takes into account the accessibility of cash and cash equivalents.

At 31 December 2010 the Group has available £125 million (2009: £75 million) of undrawn committed facilities. The £125 million facility is provided by one bank and is secured on advertising receivables. The facility has no financial covenants and matures in September 2015. The facility was renewed during the year resulting in the increased size and longer maturity.

Section 4 Capital structure and financing costs continued

The table below analyses the Group's financial liabilities and derivative financial liabilities into relevant maturity groupings based on the period remaining until the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest), so will not always reconcile with the amounts disclosed on the statement of financial position:

At 31 December 2010	Total contractual cash flows £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Non-derivative financial liabilities					
Borrowings	**(1,812)**	**(138)**	**(90)**	**(899)**	**(685)**
Held to maturity investments	**231**	**11**	**11**	**33**	**176**
Trade and other payables	**(698)**	**(672)**	**(22)**	**(4)**	**–**
Other payables – non current	**(3)**	**–**	**(3)**	**–**	**–**
Derivative financial instruments					
Interest rate swaps	**142**	**74**	**9**	**50**	**9**
Forward foreign exchange contracts – fair value through profit or loss					
Outflows	**(13)**	**(13)**	**–**	**–**	**–**
Inflows	**14**	**14**	**–**	**–**	**–**
	(2,139)	**(724)**	**(95)**	**(820)**	**(500)**

At 31 December 2009	Total contractual cash flows £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Non-derivative financial liabilities					
Borrowings	(2,167)	(108)	(215)	(639)	(1,205)
Held to maturity investments	288	15	15	45	213
Trade and other payables	(677)	(646)	(23)	(8)	–
Other payables – non current	(12)	–	(10)	(2)	–
Derivative financial instruments					
Interest rate swaps	165	13	79	64	9
Forward foreign exchange contracts – fair value through profit or loss					
Outflows	(77)	(61)	(16)	–	–
Inflows	77	61	16	–	–
	(2,403)	(726)	(154)	(540)	(983)

Held to maturity investments are included within the table above because the £138 million March 2019 gilts are used as security against the £200 million 2019 loan, and the net repayment in 2019 is £62 million.

4.6 Fair value hierarchy

The financial instruments included on the ITV statement of financial position are measured at either fair value or amortised cost. The measurement of this fair value can in some cases be subjective, and can depend on the inputs used in the calculations. ITV generally uses external valuations using market inputs or market values (e.g. external share prices) and does not calculate its own fair values. The different valuation methods are called 'hierarchies' and are described below.

The table below sets out the financial instruments included on the ITV statement of financial position at 'fair value'.

Assets measured at fair value	Fair value 31 December 2010 £m	Level 1 31 December 2010 £m	Level 2 31 December 2010 £m	Level 3 31 December 2010 £m
Available for sale financial instruments				
STV shares	1	1	–	–
Available for sale gilts	36	36	–	–
Financial assets at fair value through profit or loss				
Interest rate swaps	158	–	158	–
	195	37	158	–

Liabilities measured at fair value	Fair value 31 December 2010 £m	Level 1 31 December 2010 £m	Level 2 31 December 2010 £m	Level 3 31 December 2010 £m
Financial liabilities at fair value through profit or loss				
Interest rate swaps	(42)	–	(42)	–
	(42)	–	(42)	–

Assets measured at fair value	Fair value 31 December 2009 £m	Level 1 31 December 2009 £m	Level 2 31 December 2009 £m	Level 3 31 December 2009 £m
Available for sale financial instruments				
STV shares	1	1	–	–
Available for sale gilts	34	34	–	–
Financial assets at fair value through profit or loss				
Interest rate swaps	154	–	154	–
Forward foreign exchange contracts	2	–	2	–
	191	35	156	–

Liabilities measured at fair value	Fair value 31 December 2009 £m	Level 1 31 December 2009 £m	Level 2 31 December 2009 £m	Level 3 31 December 2009 £m
Financial liabilities at fair value through profit or loss				
Interest rate swaps	(33)	–	(33)	–
Forward foreign exchange contracts	(1)	–	(1)	–
	(34)	–	(34)	–

Level 1

Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2

Fair values measured using inputs, other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly.

Interest rate swaps and options are accounted for at their fair value based upon termination prices. Forward foreign exchange contracts are accounted for at the difference between the contract exchange rate and the quoted forward exchange rate at the reporting date.

Level 3

Fair values measured using inputs for the asset or liability that are not based on observable market data.

Section 4 Capital structure and financing costs continued

4.7 Equity

This section explains material movements recorded in shareholders equity that are not explained elsewhere in the financial statements. The movements in equity and the balance at 31 December 2010 are presented in the consolidated statement of changes in equity.

The Group utilises share award schemes as part of its employee remuneration packages. The various ITV Share-based compensation schemes are explained in this section as they are accounted for through retained losses.

Accounting policies

Available for sale reserve

Available for sale assets are stated at fair value, with any resultant gain or loss recognised directly in the available for sale reserve in equity, unless the loss is a permanent impairment, when it is then recorded in the income statement.

Dividends

Dividends are recognised through equity on the earlier of their approval by the Company's shareholders or their payment.

Share-based compensation

The Group operates a number of share-based compensation schemes. The fair value of the equity instrument granted is measured at grant date and spread over the vesting period via a charge to the income statement with a corresponding increase in equity.

The fair value of the share options and awards is measured using either a Monte Carlo or Black-Scholes model, as appropriate, taking into account the terms and conditions of the individual scheme. Under these valuation methods, the share price for ITV plc is projected to the end of the performance period as is the Total Shareholder Return for ITV plc and the companies in the comparator groups. Based on these projections, the number of awards that will vest and their present value is determined.

The valuation of these share-based payments also requires estimates to be made in respect of the number of options that are expected to be exercised.

Vesting conditions are limited to service conditions and performance conditions. Conditions other than service or performance conditions are considered non-vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each reporting date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

4.7.1 Share capital and share premium

The Group's share capital at 31 December 2010 of £389 million (2009: £389 million) and share premium of £120 million (2009: £120 million) is the same as that of ITV plc. Details of this are given in the ITV plc Company financial statements section of this annual report.

4.7.2 Merger and other reserves

Merger and other reserves at 31 December 2010 include merger reserves arising on the Granada/Carlton and previous mergers of £119 million (2009: £119 million), capital reserves of £112 million (2009: £112 million), capital redemption reserves of £36 million (2009: £36 million), revaluation reserves of £6 million (2009: £6 million) and £31 million (2009: £35 million) in respect of the equity element of the 2016 convertible bond.

4.7.3 Translation reserve

The translation reserve comprises all foreign exchange differences arising on the translation of the accounts of, and investments in, foreign operations.

4.7.4 Available for sale reserve

The available for sale reserve comprises all movements arising on the revaluation and disposal of assets accounted for as available for sale.

4.7.5 Retained losses

The retained losses reserve comprises of profit for the year attributable to owners of the company of £269 million (2009: £91 million) and other items recognised directly through equity as presented on the consolidated statement of changes in equity.

4.7.6 Non-controlling interests

In 2010 £1 million of profit was attributable to non-controlling interests.

The £7 million movement in 2009 was £3 million profit attributable to non-controlling interests, net of £2 million for dividends paid to such interests and £8 million in respect of the 25% non-controlling interest element in GMTV purchased in November 2009.

4.7.7 Share-based compensation

A transaction will be classed as a share-based transaction where the Group receives services from employees and pays for these in shares or similar equity instruments. If the Group incurs a liability whose amount is based on the price or value of the Group's shares then this will also fall under a share-based transaction.

The Group operates a number of share-based compensation schemes. A description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted, and the method of settlement (e.g. whether in cash or equity) are set out in the Remuneration report.

Exercises of share options granted to employees can be satisfied by market purchase or issue of new shares. No new shares may be issued to satisfy exercises under the terms of the Deferred Share Award Plan. During the year all exercises were satisfied by using shares purchased in the market and held in the ITV Employees' Benefit Trust rather than by issuing new shares.

Share-based compensation charges totalled £8 million in 2010 (2009: £11 million).

The table below summarises the movements in the number of share options outstanding for the Group and their weighted average exercise price:

	2010 Number of options ('000)	2010 Weighted average exercise price (pence)	2009 Number of options ('000)	2009 Weighted average exercise price (pence)
Outstanding at 1 January	**101,989**	**63.94**	116,454	71.88
Granted during the year – nil priced	**25,792**	**–**	26,821	–
Granted during the year – other	**3,438**	**42.90**	13,498	28.60
Forfeited during the year	**(6,311)**	**21.63**	(12,794)	39.23
Exercised during the year	**(8,141)**	**1.79**	(8,772)	–
Expired during the year	**(39,465)**	**121.42**	(33,218)	52.19
Outstanding at 31 December	**77,302**	**22.32**	101,989	63.94
Exercisable at 31 December	**8,767**	**121.61**	33,694	160.42

For those options exercised in the year, the average share price during 2010 was 59.99 pence (2009: 38.37 pence).

Of the options still outstanding, the range of exercise prices and weighted average remaining contractual life of these options can be analysed as follows:

Range of exercise prices (pence)	2010 Weighted average exercise price (pence)	2010 Number of options ('000)	2010 Weighted average remaining contractual life (years)	2009 Weighted average exercise price (pence)	2009 Number of options ('000)	2009 Weighted average remaining contractual life (years)
Nil	**–**	**50,161**	**2.54**	–	47,851	3.23
20.00 – 49.99	**31.56**	**15,238**	**2.83**	28.60	13,326	3.71
50.00 – 69.99	**54.69**	**3,643**	**1.62**	55.40	5,377	2.58
70.00 – 99.99	**85.03**	**1,046**	**1.03**	84.75	1,462	1.99
100.00 – 109.99	**105.99**	**1,878**	**1.44**	101.90	11,321	1.04
110.00 – 119.99	**112.30**	**2,183**	**0.94**	114.14	6,787	4.22
120.00 – 149.99	**136.40**	**2,584**	**0.90**	137.33	3,401	1.87
200.00 – 249.99	**–**	**–**	**–**	217.78	1,035	0.98
250.00 – 299.99	**280.00**	**569**	**0.05**	270.09	11,337	0.54
300.00 – 385.99	**–**	**–**	**–**	385.31	91	0.40

Share schemes

Full details of the ITV share plans and awards can be found in the Remuneration report.

Awards made under the ITV Commitment Scheme, Granada Media and Granada Commitment schemes, the Granada Media, Granada and Carlton Executive Share Option schemes, the Carlton Equity Participation Plan, the Carlton Deferred Annual Bonus Plan and the Granada Save As You Earn (SAYE) have all reached the end of their various performance periods, and have vested or lapsed accordingly. Details of the performance criteria that applied to these awards have been detailed in the notes to previous financial statements, and in previous remuneration reports and have not been repeated in these financial statements on the grounds of relevance. The ITV SAYE scheme is an Inland Revenue Approved SAYE scheme. Although awards remain vested but unexercised under these Plans, they are not considered material for the purposes of disclosure in this note.

The awards made under the ITV Performance Share Plan and the ITV Turnaround Plan all have market based performance conditions that are taken into account in the fair value calculation using a Monte-Carlo pricing model. The Black-Scholes model is used to value the SAYE Schemes as these do not have any market performance conditions.

Assumptions made relating to grants of share options during 2010 and 2009 are as follows:

Scheme name	Date of grant	Share price at grant (pence)	Exercise price (pence)	Expected volatility %	Expected life (years)	Gross dividend yield %	Risk free rate %	Fair value (pence)
Save As You Earn								
ITV – three year	17-Jul-09	35.00	28.60	53.00%	3.25	–	2.40%	17.00
ITV – five year	17-Jul-09	35.00	28.60	43.00%	5.25	–	3.10%	18.00
ITV – three year	01-Apr-10	62.95	42.90	56.00%	3.25	–	1.97%	21.45
ITV – five year	01-Apr-10	62.95	42.90	45.00%	5.25	–	2.89%	22.75
Performance Share Plan								
ITV – three year	01-Jun-09	40.00	–	53.00%	3.00	–	2.10%	30.20
ITV – three year	26-Mar-10	58.70	–	56.00%	3.00	–	1.88%	39.55
ITV – three year	03-Aug-10	51.60	–	57.00%	3.00	–	1.42%	34.15
Nil-Cost Options award under deed								
ITV – three year	26-Apr-10	69.40	–	56.00%	3.00	–	2.00%	50.35

Section 4 Capital structure and financing costs continued

The expected volatility for awards made in 2010 reflects the historic volatility of ITV plc's share price and equity markets as a whole over the preceding three or five years, and depending on the expected life of the award, prior to the grant date of the share options awarded.

Employees' Benefit Trust

The Group has investments in its own shares as a result of shares purchased by the ITV Employees' Benefit Trust ('EBT'). Transactions with the Group-sponsored EBT are included in these financial statements. In particular, the EBT's purchases of shares in ITV plc are debited directly to equity.

The table below shows the number of ITV plc shares held in the trust at 31 December 2010 and the purchases/(releases) from the EBT made in the year to satisfy awards under the Group's share schemes.

Shares held at:	Number of shares (released)/purchased	Nominal value £	Scheme
1 January 2010	3,528,761	352,876	
	(6,776,765)	(677,677)	ITV Deferred Share Award Plan
	(984,401)	(98,440)	Granada Commitment Scheme
	(377,507)	(37,751)	ITV SAYE Scheme
	(113,406)	(11,340)	Employee Share Award
	7,037,274	703,727	Shares purchased
31 December 2010	**2,313,956**	**231,395**	

The total number of shares held by the EBT at 31 December 2010 represents 0.06% (2009: 0.09%) of ITV's issued share capital. The market value of own shares held is £2 million (2009: £2 million).

The shares will be held in the EBT until such time as they may be transferred to participants of the various Group share schemes. Rights to dividends have been waived by the EBT in respect of shares held which do not relate to restricted shares under the Deferred Share Award Plan. In accordance with the Trust Deed, the Trustees of the EBT have the power to exercise all voting rights in relation to any investment (including shares) held within that trust.

Section 5 Other notes

5.1 Related party transactions

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

To enable users of our financial statements to form a view about the effects of related party relationships on the Group, we disclose the related party relationship when control exists, irrespective of whether there have been transactions between the related parties.

Related party transactions

Transactions with joint ventures and associated undertakings

Transactions with joint ventures and associated undertakings during the year were:

	2010 £m	2009 £m
Sales to joint ventures	**13**	4
Sales to associated undertakings	**2**	2
Purchases from joint ventures	**21**	13
Purchases from associated undertakings	**50**	46

The transactions with joint ventures primarily relate to sales and purchased of digital multiplex services with Digital 3&4 Limited.

The purchases from associated undertakings relate to the purchase of news services from ITN. All transactions with associated undertakings and joint ventures arise in the normal course of business on an arms-length basis. None of the balances are secured.

The amounts owed by and to these related parties at the year-end were:

	2010 £m	2009 £m
Amounts owed by joint ventures	**1**	25
Amounts owed by associated undertakings	**8**	4
Amounts owed by pension scheme	**1**	1
Amounts owed to joint ventures	**1**	1
Amounts owed to associated undertakings	**–**	1

Amounts paid to the Group's retirement benefit plans are set out in note 3.6. During the year the Group and the Trustee of the main section of the ITV Pension Scheme concluded a partnership, backed by SDN. The full details of this arrangement are set out in note 3.6 and the Financial and performance review.

Transactions with key management personnel

Key management consists of ITV plc executive and non-executive directors and the ITV Management Board. Key management personnel compensation is as follows:

	2010 £m	2009 £m
Short-term employee benefits	**8**	10
Post-employment benefits	**1**	1
Termination benefits	**2**	2
Share-based compensation	**4**	5
	15	18

Section 5 Other notes continued

Principal joint ventures, associated undertakings and investments

The Company indirectly held at 31 December 2010 the following holdings in significant joint ventures, associated undertakings and investments:

Name	Note	Interest in ordinary share capital 2010 %	Interest in ordinary share capital 2009 %	Principal activity
Crackit Productions Limited	a	**25.00**	25.00	Production of television programmes
Freesat (UK) Limited	b	**50.00**	50.00	Provision of a standard and high definition enabled digital satellite proposition
Independent Television News Limited	a	**40.00**	40.00	Supply of news services to broadcasters in the UK and elsewhere
ISAN UK Limited	a	**25.00**	25.00	Operates voluntary numbering system for the identification of audiovisual works
Mammoth Screen Limited	a	**25.00**	25.00	Production of television programmes
Screenvision Holdings (Europe) Limited(1)	b	**50.00**	50.00	European cinema advertising
STV Group plc(2)	c	**6.91**	7.36	Television broadcasting in central and north Scotland
Digital 3&4 Limited	b	**50.00**	50.00	Operates the Channel 3 and 4 digital terrestrial multiplex
YouView TV Limited	b	**14.30**	–	Internet connected television platform

(1) Classified as an Asset Held for Sale.
(2) Incorporated and registered in Scotland.

a Associated undertaking.
b Joint venture.
c Available for sale financial asset.

5.2 Contingent liabilities

A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision where uncertainty may exist regarding the outcome of future events.

There has been a disagreement between the Group, STV Group plc and the two licence holding subsidiaries, STV Central and STV North, as to the amounts of money due and payable to the Group. A legal claim, based upon the balances outstanding at 30 April 2009, for approximately £38 million in respect of outstanding invoices, was filed on 22 September 2009 and Particulars of Claim were served on 24 September 2009. Since then STV has admitted over £37 million in full satisfaction of the Group's claim.

The Group recognises that certain amounts are due to STV and these and other amounts are the subject of a counterclaim served by STV on 13 November 2009. Prior to the litigation, the Group and STV have come to an arrangement whereby amounts owed to each other will be set off, although until the current litigation is resolved, that amount cannot be accurately identified. For the period after 30 April 2009, the Group and STV have agreed to operate a monthly payment on account scheme so that the operations may continue effectively.

In a separate action STV Central and STV North issued proceedings on 16 November 2009 against ITV Network and other Group companies in relation to the exploitation of new media rights in the UK. Through the proceedings STV Central and STV North seek an injunction to prevent the ITV Network from entering into any UK wide deals involving new media rights and seek declarations in relation to how the rights are owned and may be exploited. The Group rejects this claim and intends to defend it robustly. No provision has been made in these financial statements for this claim.

On 24 February 2010, STV issued a letter alleging that the Group has acted with unfair prejudice against the interests of STV and that ITV Network is in breach of its fiduciary duties to STV. ITV Network rejects these allegations and will vigorously defend any claim that is brought.

There are other contingent liabilities in respect of certain litigation and guarantees, and in respect of warranties given in connection with certain disposals of businesses. None of these items are expected to have a material affect on the Group's results or financial position.

5.3 Subsequent events

Where the Group receives information in the period between 31 December 2010 and the date of this report about conditions related to certain events that existed at the year-end, we update our disclosures that relate to those conditions in light of the new information. Such events can be categorised as adjusting or non-adjusting depending on whether the condition existed in 2010. If non-adjusting events after the year-end are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements.

Accordingly, for each material category of non-adjusting event after the reporting period we disclose in this section the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

There are no subsequent events.

ITV plc Company Financial Statements

Company balance sheet

At 31 December:	Note	2010 £m	2010 £m	2009 £m	2009 £m
Fixed assets:					
Investments in subsidiary undertakings	iii		**1,646**		1,671
Held to maturity investments			**148**		149
Derivative financial instruments			**89**		151
			1,883		1,971
Current assets:					
Amounts owed by subsidiary undertakings		**9**		173	
Derivative financial instruments		**67**		–	
Cash at bank and in hand and short-term deposits		**33**		146	
		109		319	
Creditors – amounts falling due within one year:					
Borrowings	iv	**(47)**		–	
Amounts owed to subsidiary undertakings		**(111)**		(173)	
Accruals and deferred income		**(16)**		(21)	
		(174)		(194)	
Net current (liabilities)/assets			**(65)**		125
Total assets less current liabilities			**1,818**		2,096
Creditors – amounts falling due after more than one year:					
Borrowings	iv		**(1,171)**		(1,366)
Derivative financial instruments			**(39)**		(29)
			(1,210)		(1,395)
Net assets			**608**		701
Capital and reserves:					
Called up share capital	v		**389**		389
Share premium	vi		**120**		120
Other reserves	vi		**67**		71
Profit and loss account	vi		**32**		121
Shareholders' funds – equity			**608**		701

The accounts were approved by the Board of directors on 2 March 2011 and were signed on its behalf by:

Ian Griffiths
Director

Notes to the ITV plc Company Financial Statements

i Accounting policies

Basis of preparation

These accounts have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP).

As permitted by section 408 (3) of the Companies Act 2006, a separate profit and loss account, dealing with the results of the parent company, has not been presented.

Under FRS 29 the Company is exempt from the requirement to provide its own financial instruments disclosures, on the grounds that it is included in publicly available consolidated financial statements which include disclosures that comply with the IFRS equivalent to that standard.

Subsidiaries

Subsidiaries are entities that are directly or indirectly controlled by the Company. Control exists where the Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The investment in the Company's subsidiaries is recorded at cost, adjusted for the effect of the adoption of UITF 41. Annual FRS 20 share-based payment compensation costs are recharged to the subsidiaries through the profit and loss account.

Foreign currency transactions

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Foreign currency monetary assets and liabilities at the balance sheet date are translated into sterling at the rate of exchange ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account. Non-monetary assets and liabilities measured at historical cost are translated into sterling at the rate of exchange on the date of the transaction.

Borrowings

Borrowings are recognised initially at fair value including directly attributable transaction costs, with subsequent measurement at amortised cost using the effective interest rate method. The difference between initial fair value and the redemption value is recorded in the profit and loss account over the period of the liability on an effective interest basis.

Derivatives and other financial instruments

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

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value with the movement recorded in the profit and loss account within net financing costs. Derivatives with a positive fair value are recorded as assets and negative fair values as liabilities.

The fair value of foreign currency forward contracts is determined by using the difference between the contract exchange rate and the quoted forward exchange rate at the balance sheet date. The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of swap counterparties.

Third party valuations are used to fair value the Company's derivatives. The valuation techniques use inputs such as interest rate yield curves and currency prices/yields, volatilities of underlying instruments and correlations between inputs.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. Any ineffective portion of the hedge is recognised immediately in the profit and loss account.

For financial assets and liabilities classified at fair value through profit or loss the fair value change and interest income/expense are not separated.

Dividends

Dividends are recognised through equity on the earlier of their approval by the Company's shareholders or their payment.

ii Employees

Four (2009: four) directors of ITV plc were employees of the Company during the year, two of which remain at year end. The costs relating to these directors are disclosed in the Remuneration report.

iii Investments in subsidiary undertakings

The principal subsidiary undertakings are listed in note ix.
The movements during 2010 were as follows:

	£m
At 1 January 2010	1,671
Disposal of Friends Reunited	(25)
At 31 December 2010	**1,646**

The Company 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 a cash consideration of £27 million. The sale resulted in no material gain or loss on disposal in 2010.

iv Borrowings

Current loans and loan notes due within one year

Loans repayable in one year or less as at 31 December 2010 comprise an unsecured €54 million Eurobond (£47 million) which has a coupon of 6.0% and matures in October 2011.

Loan repayable after more than one year

Loans repayable after more than one year as at 31 December 2010 includes an unsecured £110 million Eurobond which has a coupon of three-month sterling LIBOR plus 2.7% and matures in March 2013, an unsecured €188 million Eurobond (£126 million net of cross-currency swaps) which has a coupon of 10.0% and matures in June 2014 and an unsecured £383 million Eurobond which has a coupon of 5.375% and matures in October 2015. Maturing in November 2016 is an unsecured £135 million convertible Eurobond which has a coupon of 4.0%.
An unsecured £250 million Eurobond which has a coupon of 7.375% and matures in January 2017 and an unsecured bank loan for £200 million which has a coupon of 6.75% until March 2012 and a variable rate thereafter which matures in March 2019.

v Called up share capital

	Authorised		Allotted, issued and fully paid	
	2010 £m	2009 £m	**2010 £m**	2009 £m
Ordinary shares of 10 pence each				
Authorised:				
8,000,000,000 (2009: 8,000,000,000)	**800**	800		
Allotted, issued and fully paid:				
3,889,129,751 (2009: 3,889,129,751)			**389**	389
Total	**800**	800	**389**	389

The Company's ordinary shares give shareholders equal rights to vote, receive dividends and to the repayment of capital. There have been no issued ordinary share capital movements during the period.

vi Reconciliation of movements in shareholders' funds

	Share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total £m
At 1 January 2010	389	120	71	121	701
Retained loss for year for equity shareholders	–	–	–	(101)	(101)
Share-based compensation	–	–	–	8	8
Equity portion of the convertible bond	–	–	(4)	4	–
At 31 December 2010	**389**	**120**	**67**	**32**	**608**

The loss after tax for the year dealt with in the accounts of ITV plc is £101 million (year ended 31 December 2009: profit of £67 million).

On 17 February 2011 the Company received a dividend of £75 million from its subsidiary Carlton Communications Limited, resulting in an increase in profit and loss reserves.

vii Contingent liabilities

Under a group registration, the Company is jointly and severally liable for VAT at 31 December 2010 of £39 million (31 December 2009: £25 million). The Company has guaranteed certain finance and operating lease obligations of subsidiary undertakings.

There are contingent liabilities in respect of certain litigation and guarantees and in respect of warranties given in connection with certain disposals of businesses and in respect of certain trading and other obligations of certain subsidiaries.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

viii Capital and other commitments

There are no capital commitments at 31 December 2010 (2009: none).

ix Related party transactions

Transactions with key management personnel

Key management consists of ITV plc executive directors. Key management personnel compensation is as follows:

	2010 £m	2009 £m
Short-term employee benefits	**3**	5
Termination benefits	**1**	–
Share-based compensation	**2**	3
	6	8

Notes to the ITV plc Company Financial Statements continued

x Principal subsidiary undertakings and investments

Principal subsidiary undertakings

The principal subsidiary undertakings of the Company at 31 December 2010, all of which are wholly-owned (directly or indirectly) and incorporated and registered in England and Wales except where stated, are:

Name	Principal activity
12 Yard Productions (Investments) Limited	Production of television programmes
3sixtymedia Limited(1)	Supplier of facilities for television productions
Carlton Communications Limited	Holding company
ITV Breakfast Limited (previously GMTV Limited)	Production and broadcast of breakfast time television under national Channel 3 licence
Granada Limited	Holding company
Granada Ventures Limited	Production and distribution of video and DVD products
ITV Broadcasting Limited	Broadcast of television programmes
ITV Consumer Limited	Development of platforms, broadband, transactional and mobile services
ITV Digital Channels Limited	Operation of digital television channels
ITV Global Entertainment Limited	Rights ownership and distribution of television programmes and films
ITV Network Limited(2)	Scheduling and commissioning television programmes
ITV Services Limited	Provision of services for other companies within the Group
ITV Studios Limited	Production of television programmes
ITV2 Limited	Operation of digital television channels
SDN Limited	Operation of Freeview Multiplex A
Granada Media Australia Pty Limited(3)	Production of television programmes
Granada Produktion für Film und Fernsehen GmbH(4)	Production of television programmes
Imago TV Film und Fernsehproduktion GmbH(4, 5)	Production of television programmes
ITV Global Entertainment, Inc(6)	Distribution of television programmes
ITV Studios, Inc. (formerly Granada Entertainment USA)(6)	Production of television programmes
ITV Scottish Limited Partnership(7)	Holding company

(1) 80% owned.
(2) Interest in company limited by guarantee.
(3) Incorporated and registered in Australia.
(4) Incorporated and registered in Germany.
(5) 67.72% owned.
(6) Incorporated and registered in the USA.
(7) 99.9% owned SPE partnership with the remaining interest held by the ITV pension scheme. Fully consolidated in the Group accounts. Incorporated and registered in Scotland holding the ownership interest in SDN. The Group has taken advantage of the exemption conferred by Regulation 7 of the Partnership (Accounts) Regulations 2008 and has, therefore, not appended the accounts of this qualifying partnership to these accounts. Separate accounts for the partnership are not required to be, and have not been filed at Companies House.

A list of all subsidiary undertakings will be included in the Company's annual return to Companies House.

Principal joint ventures, associated undertakings and investments

The Company indirectly held at 31 December 2010 the following holdings in significant joint ventures, associated undertakings and investments:

Name	Note	**Interest in ordinary share capital 2010 %**	Interest in ordinary share capital 2009 %	Principal activity
Crackit Productions Limited	a	**25.00**	25.00	Production of television programmes
Freesat (UK) Limited	b	**50.00**	50.00	Provision of a standard and high definition enabled digital satellite proposition
Independent Television News Limited	a	**40.00**	40.00	Supply of news services to broadcasters in the UK and elsewhere
ISAN UK Limited	a	**25.00**	25.00	Operates voluntary numbering system for the identification of audiovisual works
Mammoth Screen Limited	a	**25.00**	25.00	Production of television programmes
Screenvision Holdings (Europe) Limited(1)	b	**50.00**	50.00	European cinema advertising
STV Group plc(2)	c	**6.91**	7.36	Television broadcasting in central and north Scotland
Digital 3&4 Limited	b	**50.00**	50.00	Operates the Channel 3 and 4 digital terrestrial multiplex
YouView TV Limited	b	**14.30**	–	Internet connected television platform

(1) Classified as an Asset Held for Sale.
(2) Incorporated and registered in Scotland.

a Associated undertaking.
b Joint venture.
c Available for sale financial asset.

xi Post balance sheet events

There are no post balance sheet events.

Shareholder information

Shareholder profile

	Holders Number	%	Shares held Millions	%
Type of holder:				
Banks and nominee companies	2,412	3.45	3,659.54	94.09
Individuals	66,999	95.96	151.63	3.90
Others	409	0.59	77.95	2.01
Totals		**100.00**		**100.00**
Size of holding:				
1 – 100	9,813	14.05	0.36	0.01
101 – 200	9,194	13.17	1.38	0.04
201 – 500	19,527	27.97	6.16	0.16
501 – 1,000	11,757	16.84	8.66	0.22
1,001 – 2,000	9,279	13.30	13.37	0.34
2,001 – 5,000	6,091	8.72	18.97	0.49
5,001 – 10,000	1,995	2.86	14.34	0.37
10,001 – 50,000	1,329	1.90	26.28	0.67
50,001 – 100,000	161	0.23	11.54	0.30
100,001 – 500,000	280	0.40	67.93	1.75
500,001 – 1,000,000	102	0.15	71.64	1.84
1,000,001 – 5,000,000	178	0.25	423.62	10.89
5,000,001 – 10,000,000	47	0.07	326.67	8.40
10,000,001 – 50,000,000	51	0.07	1,098.94	28.26
50,000,001 and above	16	0.02	1,799.25	46.26
Totals		**100.00**		**100.00**

Information as at 31 December 2010.

Registrars and transfer office

All administrative enquiries relating to shareholdings and requests to receive corporate documents should, in the first instance, be directed to Capita Registrars, The Registry, 34 Beckenham Road, Beckenham BR3 4TU.

0871 664 0300 (calls cost 10 pence per minute plus network charges) from the UK and **+44 20 8639 3399** from outside the UK. Lines are open Monday to Friday 8.30 am to 5.30 pm.

Alternatively you could email them at: **ssd@capitaregistrars.com**

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

By logging on to **www.capitashareportal.com** shareholders can benefit from a number of online services as follows:

– Cast your proxy vote online;

– Elect to receive shareholder communication electronically;

– View your holding balance, indicative share price and valuation;

– View transactions on your holding and dividend payments you have received;

– Update your address or register a bank mandate instruction to have dividends paid directly to your bank account;

– Access a wide range of shareholder information including downloadable forms.

You will need your investor code (IVC) which can be found on your share certificate(s) to register to use the Shareholder Portal.

Share dealing services

The Company's shares can be traded through most banks, building societies and stockbrokers. Additionally, the Company's registrars offer online and telephone dealing for UK resident shareholders through Capita IRG Trustees Limited. To use this service shareholders should contact Capita:

0871 664 0364 from the UK (calls cost 10 pence per minute plus network charges) or **1 890 946 375** from Ireland. Lines are open Monday to Friday 8.00 am to 4.30 pm.

www.capitadeal.com

ShareGift

ShareGift is a charity share donation scheme for shareholders who may wish to dispose of a small quantity of shares where the market value makes it uneconomic to sell on a commission basis. The scheme is administered by the Orr Mackintosh Foundation and further information can be obtained by contacting them:

020 7930 3737

www.sharegift.org

Share price information

The current price of ITV plc ordinary shares is available on Ceefax and on the Company website at www.itvplc.com.

The Unclaimed Assets Register

The Company participates in The Unclaimed Assets Register, which provides a search facility for financial assets, which may have been lost or forgotten and which donates 10% of its public search fees to a wide range of UK charities. For further information and to obtain a search request form contact:

The Unclaimed Assets Register
PO Box 9501
Nottingham NG80 1WD

0870 241 1713

search@uar.co.uk

www.uar.co.uk

Unsolicited mail

The Company is legally obliged to make its register of members available to the public. As a consequence of this some shareholders might receive unsolicited mail. Shareholders wishing to limit the amount of such mail should write to the Mailing Preference Service (MPS):

FREEPOST 29 LON20771
London W1E 0ZT

Alternatively you can register online or request an application form by telephone or by email. MPS will then notify the bodies that support its service that you do not wish to receive unsolicited mail.

0845 703 4599

mps@dma.org.uk

www.mpsonline.org.uk

Registered office

The London Television Centre
Upper Ground
London SE1 9LT

020 7157 3000

Company registration number 4967001

Shareholder information continued

Company website

Investor and shareholder related information can be found on the Company website at:

www.itvplc.com

Financial calendar

Annual General Meeting	11 May 2011
Interim Management Statement	May 2011
Half year results announcement	July 2011

Unauthorised brokers (Boiler Room Scams)

Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. These are typically from overseas based brokers who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as boiler rooms.

If you receive any unsolicited investment advice:

– Make sure you get the correct name of the person and organisation.

– Check that they are properly authorised by the FSA before getting involved by visiting:

www.fsa.gov.uk/pages/register

– Report the matter to the FSA either by calling 0300 500 5000 or by visiting:

www.moneymadeclear.fsa.gov.uk

– If the calls persist, hang up.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at:

www.fsa.gov.uk/pages/doing/regulated/law/alerts/overseas.shtml

Details of any sharedealing facilities that the Company endorses will only be included in company mailings.

More detailed information can be found on the FSA website:

www.moneymadeclear.fsa.gov.uk

Identity theft

Tips for protecting your ITV plc shares:

– Ensure all your certificates are kept in a safe place or hold your shares electronically in CREST via a nominee.

– Keep all correspondence from Capita in a safe place, or destroy correspondence by shredding.

– If you change address inform Capita in writing or via the Shareholder Portal. If you receive a letter from Capita regarding a change of address but have not recently moved please contact them immediately.

– Consider having your dividend paid directly into your bank. This will reduce the risk of the cheque being intercepted or lost in the post.

– If you change your bank account, inform Capita of the details of your new account. You can do this via post or online using the Shareholder Portal. Respond to any letters Capita sends you about this.

– If you are buying or selling shares only deal with brokers registered in your country of residence or the UK.

Financial record

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Results					
Revenue	**2,064**	1,879	2,029	2,082	2,181
Earnings before interest, tax and amortisation (EBITA) before exceptional items	**408**	202	211	311	375
Amortisation of intangible assets	**(63)**	(59)	(66)	(56)	(56)
Impairment of intangible assets	**–**	–	(2,695)	(28)	(20)
Share of profits or (losses) of joint ventures and associated undertakings	**(3)**	(7)	(15)	2	8
Investment income	**–**	–	1	1	3
Exceptional items	**19**	(20)	(108)	(9)	4
Profit/(loss) before interest and tax	**361**	116	(2,672)	221	314
Net financing costs	**(75)**	(91)	(60)	(33)	(26)
Profit/(loss) before tax	**286**	25	(2,732)	188	288
Taxation	**(16)**	69	178	(50)	(66)
Profit/(loss) after tax	**270**	94	(2,554)	138	222
Non-controlling interests	**(1)**	(3)	(2)	(1)	(3)
Profit/(loss) for the financial year	**269**	91	(2,556)	137	219
Basic earnings/(loss) per share	**6.9p**	2.3p	(65.9)p	3.5p	5.5p
Dividend per share	**–**	–	0.675p	3.15p	3.15p
Consolidated statement of financial position					
Share capital	**389**	389	389	389	401
Reserves	**272**	(44)	137	2,844	2,755
Total equity attributable to equity shareholders of the parent company	**661**	345	526	3,233	3,156
Non-controlling interests	**2**	1	8	6	7
Net assets	**663**	346	534	3,239	3,163
Represented by:					
Property, plant and equipment and intangible assets	**1,120**	1,191	1,360	4,084	4,088
Investments	**5**	6	71	89	103
Distribution rights	**12**	16	13	7	11
Inventory	**284**	388	516	440	400
Trade and other receivables (including assets held for sale and derivative financial instruments)	**511**	565	528	472	548
Deferred tax asset	**73**	50	–	–	–
Total assets	**2,005**	2,216	2,488	5,092	5,150
Net debt	**(188)**	(612)	(730)	(668)	(734)
Deferred tax liability	**–**	–	(55)	(75)	(7)
Other liabilities	**(1,105)**	(1,182)	(1,085)	(1,079)	(1,219)
Provisions	**(49)**	(76)	(84)	(31)	(27)
	663	346	534	3,239	3,163

This financial record sets out the balance sheet and results of the Group since its formation following the merger of Granada plc and Carlton Communications plc.

Cash and cash equivalents are included within net debt.

Financial record

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
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Revenue	**2,064**	1,879	2,029	2,082	2,181
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