ITV plc Annual Report and Accounts

for the year ended 31 December 2011

Stock code: ITV

Transforming ITV

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

In August 2010 we announced our strategy to transform the business over five years, focusing on our four strategic priorities:

1

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

2

Maximise audience and **revenue share** from our 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

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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.

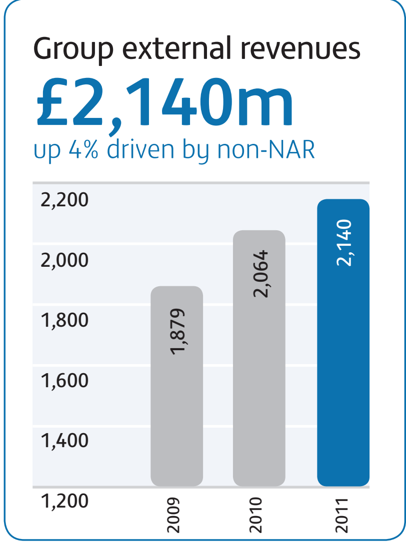
The Directors' Report is prepared in line with the relevant provisions of the Companies Act 2006. In preparing the Directors' Report the Company has had regard to the guidance issued by the Accounting Standards Board in its Reporting Statement on narrative reporting. The Directors' Report is intended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

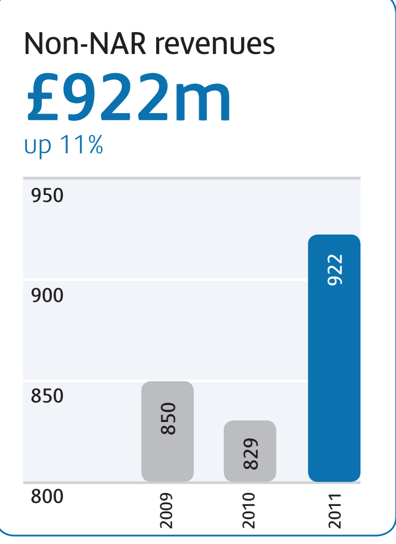
In setting out the Company's main risks and uncertainties, an indication of likely future developments, and in other content, this report and accounts contains statements which, by their nature, cannot be considered indications of likelihood or certainty. The statements are based on the knowledge and 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.

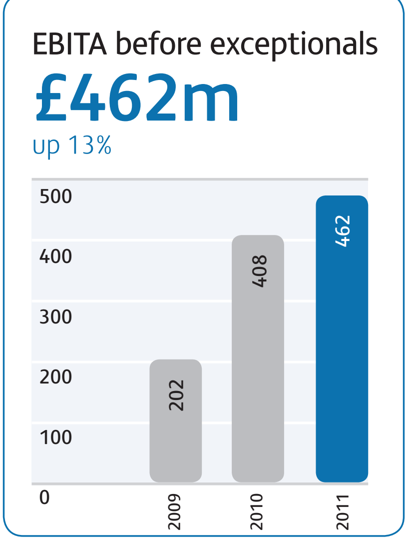
Investor Proposition

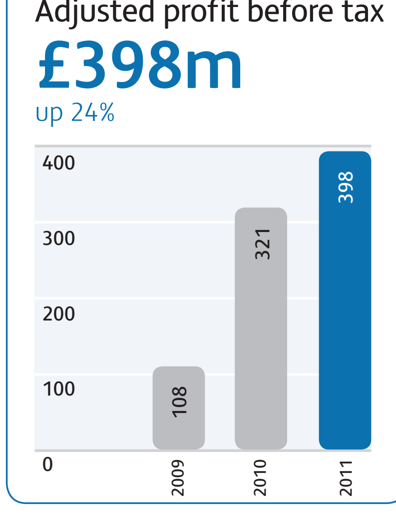
- We are now less than two years into our five-year Transformation Plan but our continued revenue growth and improved profits – at a time when the television advertising market is broadly flat – demonstrate that we are performing in line with our strategic objectives.
- We have made real progress to date but we are aware that there is still much to do. We remain focused on rebalancing the business and are on track to deliver the Transformation Plan.
- We will continue to focus on improving the efficiency and performance of ITV, and will increasingly look to content, online and pay as engines of growth both in the UK and internationally, as we invest further in our key strategic priorities.
- We remain cautious on the television advertising outlook for 2012, but we expect to outperform the market for the full year. Our progress against the Plan and the strength of our results gives the Board confidence to propose a full year dividend of 1.6p.

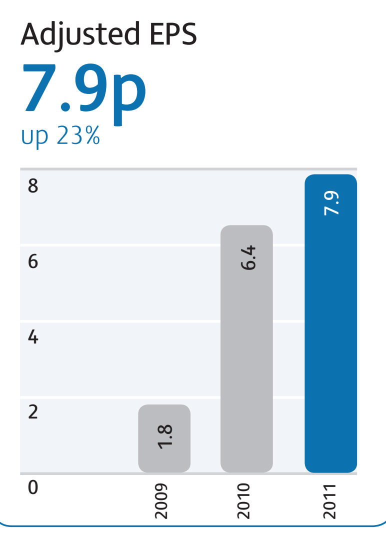
Financial Highlights

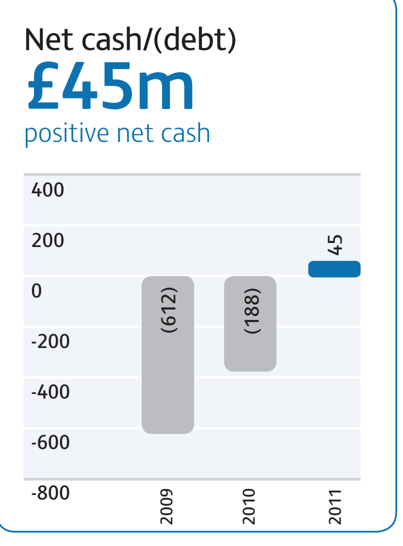








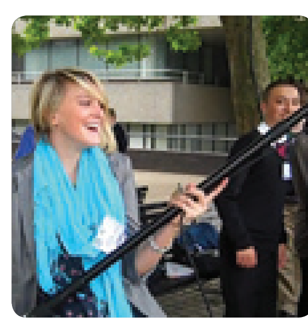




Chairman's Statement

Archie Norman

Nearly two years ago, after far reaching changes to the Board and leadership of ITV, we outlined a new five year Transformation Plan. The purpose of the plan was to impro



Coronation Street is an important part of our schedule on ITV1. It is sold around the world to other broadcasters and special editions are sold directly to consumers in DVD format through ITV Global Entertainment.

Now that the problems we face are being addressed and the balance sheet has been restored we will look for ways of accelerating the strategy. So although our base plan relies on organic growth, if value enhancing acquisition opportunities arise, particularly in international content, we will consider them, albeit based on rigorous strategic and financial criteria.

Whilst the Company is focused on annual performance targets we are making investments in people, content and technology for the long term value of the business. Although the Transformation Plan is being delivered against the context of a complex regulatory environment for UK broadcasting, we do not see regulation as a barrier to delivery of the strategy and we have started discussions with Ofcom and the Government about the ITV Channel 3 licences, the current terms of which end in 2014.

Since changes made to the Board two years ago we have established a renewed approach to governance and Board process. The Board works as a team committed to the objective of creating long term shareholder value. Our approach is to conduct the Board process in a spirit of openness that encourages forthright debate and constructive rigour.

Finally, the enormous strides that have been made in strengthening our balance sheet, the encouraging improvement in profit and our confidence in the Transformation Plan, mean the Board has proposed a final dividend of 1.2p making a total dividend of 1.6p for the year.

Archie Norman

Interim Dividend
0.4p

Final Dividend
1.2p

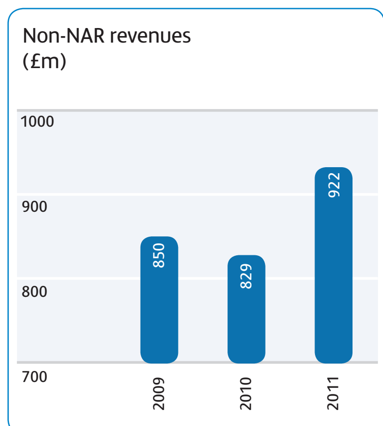
Total Dividend
1.6p

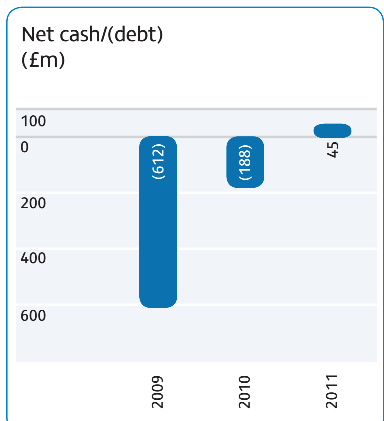
Chief Executive's Review – Strategy & Operations

Chief Executive's Review Strategy & Operations

Adam Crozier

ITV has produced a strong set of financial results with continued growth in revenue and profitability and further improvement in our balance sheet strength





Overview of results

ITV has produced a strong set of financial results with continued growth in revenue and profitability and further improvement in our balance sheet strength. This was achieved against an unsettled economic backdrop. External revenues were up 4% at £2,140 million in a broadly flat television advertising market. Revenue growth was driven largely by our non-net advertising revenue (non-NAR) which, in line with our strategic priorities, grew significantly, up 11% or £93 million to £922 million.

This revenue growth, together with our tight control on costs, has fed through to a 13% increase in EBITA to £462 million, with adjusted EPS up 23% at 7.9p. We delivered £20 million of cost savings, which was in excess of the £15 million target. Our continued focus on cash and costs and our high profit to cash conversion saw us end the year with a positive net cash position of £45 million, having begun the year with net debt of £188 million. This gives us a strong financial base as we invest further in our key strategic priorities.

We have made progress across the business and against virtually all of our key performance indicators in 2011. We saw a solid performance on-screen, with ITV Family share of viewing (SOV) up by 1% in 2011 and the digital channels continuing to show strong growth with SOV up 10%. ITV1 SOV, which benefited from the successful launch of ITV1+1, was down 2%, and ITV Family share of commercial impacts (SOCI) was down 1% but we will continue to work to improve these performances.

Online we have improved the performance of itv.com and ITV Player, we have made our content available on more platforms and, with our recent video on demand (VOD) deals with Sky, Netflix and Lovefilm, we are driving our pay strategy forward. We have also increased long form video views by 44%.

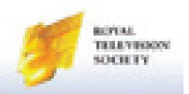
ITV Studios, under the new management team, performed strongly both in the UK and internationally. New commissions were up 28% to 111, which has driven the increase in non-NAR revenues. ITV Studios also increased its share of ITV1 output from 53% to 55% as we continue to strengthen the creative relationship between Broadcasting and Studios.

Our Vision

We are operating in an evolving and highly competitive digital market in which advances in technology are changing the way in which people consume media. We are transforming our business so that we are able to respond to the challenges of new technologies, changing patterns of user behaviour and new market entrants, while also ensuring that we are in a position to take advantage of the opportunities which the digital environment offers. The combination of our strong channel brands, access to content and commitment to our producer-broadcaster model gives us significant advantages but we are under no illusion about the need to remain focused on the task ahead.

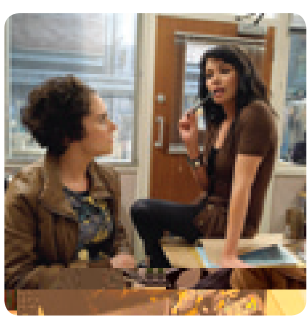
view the Adam Crozier interview online @ **ar2011.itvplc.com/adamcrozierinterview**

Awards 2011/12



The high quality of the content we produce and the programming we make famous on our channels has been recognised by many industry awards during 2011, including:

- Three Royal Television Society Awards including X Factor for Best Entertainment Show, Ant & Dec for Best Entertainment Performance (I m a Celebrity) and the Road to Coronation Street for Best Single Drama.
- Eight BAFTAs including ITV News at Ten for Best News Coverage, The Cube for Best Entertainment Programme and The Only Way is Essex for the YouTube Audience Award.
- Four Primetime and one International Emmy Awards including Downton Abbey for Best Mini-series or Movie.
- Five Broadcast Digital Awards including ITV2 for Best Entertainment Channel and Channel of the Year.
- Eight National Television Awards including Coronation Street for Best Serial Drama, This Morning for Best Factual Programme and I m a Celebrity for Best Reality Programme.
- Terrestrial Channel of the Year Award for ITV1 at the Edinburgh Festival.



Top: Endeavour, a new drama produced in association with ITV Studios, attracted 8.2 million viewers when it was broadcast on 2 January 2012.

Bottom: Coronation Street averaged 9.4 million viewers in 2011 which was 0.4 million higher than the average Eastenders audience.

Our vision remains to create world class content which we can make famous on our channels, before exploiting its value across multiple platforms, free and pay, in the UK and internationally. Content creation therefore lies at the heart of our Transformation Plan and we are encouraged by the momentum that is building. The high quality of content we produce and the programming we broadcast on our channels has been recognised by many industry awards.

We are also encouraged by the prospects for our free-to-air television business given current trends within the market. As we approach the end of analogue switch-off in the UK, the impact of fragmentation on audiences has already largely been felt. The daily average number of minutes of television watched has been rising in the UK in recent years, reaching record levels in 2010, and was broadly flat year-on-year in 2011 at 4 hours 2 minutes. Live viewing via television sets is still around the same level as it was in 2004, but viewing via other devices is growing. This suggests that VOD viewing to date has been incremental.

We are less than two years into the Transformation Plan and there are clear signs that we are making good progress against our strategic priorities, but there is still a great deal to do. As we continue to improve the efficiency and performance of ITV, we will also look at further ways to rebalance our revenue streams as we focus on content, pay and online.

Performance Dashboard

Reporting Progress against our five year Transformation Plan:

1

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

Milestones achieved

- New senior leadership team delivering
- Employee engagement up to 85% (2010: 75%)
- Restructuring across ITV driving out waste and complexity
- £20m of cost savings
- More coordinated rights negotiation and management
- Investment in technology
- Manchester move to MediaCity under way
- Progress in simplifying network arrangements
- Pension longevity swap
- £339m bond buy-backs

Focus for 2012

- Focus on delivering the Transformation Plan
- Continue to build strength in the team across ITV
- Drive out further waste and complexity
- Deliver further cost efficiency target of £20m
- Strengthen collaborative creative process
- Further investment of £25m behind our strategy
- Capex of £70 80m as we implement site moves and technology improvements

Read more on **Page 09**

2

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

Milestones achieved

- Increased variety and quality within programme budget
- Four out of top five new dramas on ITV1
- Investment of £10m in brand defining content
- Major sports rights deals renegotiated with savings
- Successful launch of ITV1+1
- ITV1 wins Terrestrial Channel of the Year
- ITV2 and ITV3 largest digital channels
- ITV Family SOV up 1%
- Digital channels growing key audiences
- ITV NAR up 1%, outperforming the market

Focus for 2012

- Maintain ITV Family SOV
- ITV programme budget confirmed at *c.*£1bn for 2012
- Outperform the television advertising market
- Refresh and enhance channel brands
- Continue to invest in brand defining content
- Build and develop non-spot advertising revenues
- Ongoing implementation of news review
- Focus on long running, returnable series

Read more on **Page 13**

3

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

Milestones achieved

- Investment in technology infrastructure online
- Improved quality and distribution of ITV Player
- 376m long form video views in 2011, up 44%
- 9% of VOD viewing in December on mobile
- 3m downloads of ITV Player App
- Online revenues up 21%
- Growing engagement with our viewers
- ITV2, 3, 4 pay HD channels on Sky performing in line with expectations
- New VOD deals with Sky, Netflix and Lovefilm

Focus for 2012

- Improve ITV Player
- Drive online viewing and revenues
- Launch ITV Pay Player and pay products
- Increase pay VOD deals
- Renegotiate existing VOD deals
- Development of potential pay channels
- Ensure ITV Player available on connected TV sets
- Launch YouView
- Roll out Total Value exploitation

Read more on **Page 17**

4

Build a strong **international content** business

Milestones achieved

- New team in place driving creative renewal
- Invested £8m in creative talent and developing new ideas and pilots
- 111 new commissions in 2011
- Developing new partnerships
- New dramas being sold successfully internationally
- ITV Studios (ITVS) now producing 55% of ITV1 output
- ITVS revenues up 10%
- ITVS EBITA before exceptional items up £2m to £83m

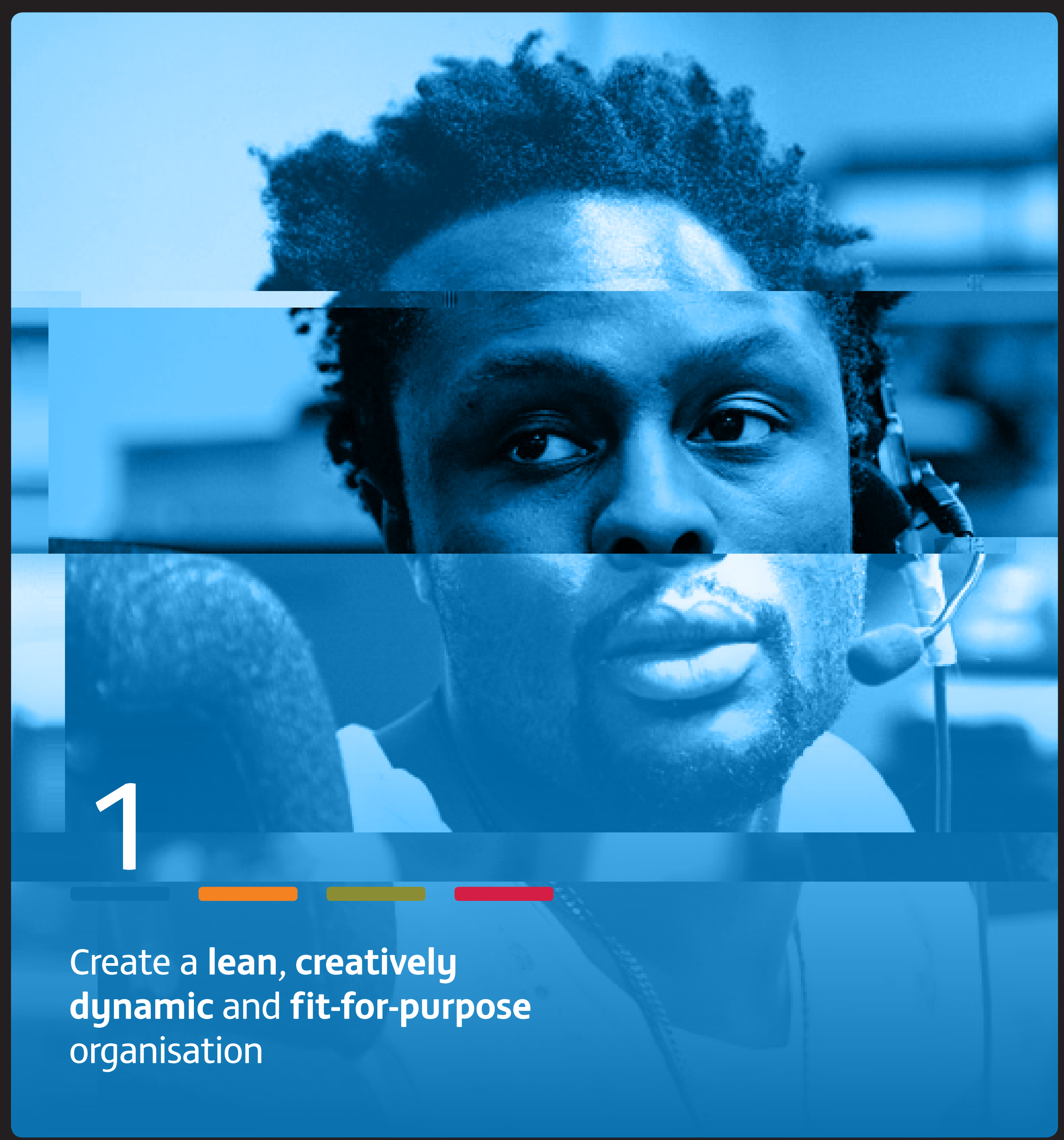
Focus for 2012

- Continue to build strength of creative team and talent
- Invest in developing and piloting further new ideas
- Focus on long running returnable series
- ITVS to grow its share of ITV1 original commissions
- Target off-ITV and international commissions
- Increased focus on international co-productions and roll-out of ITVS formats
- Develop and invest in the ITVS international network

Read more on **Page 21**

Strategy In Action

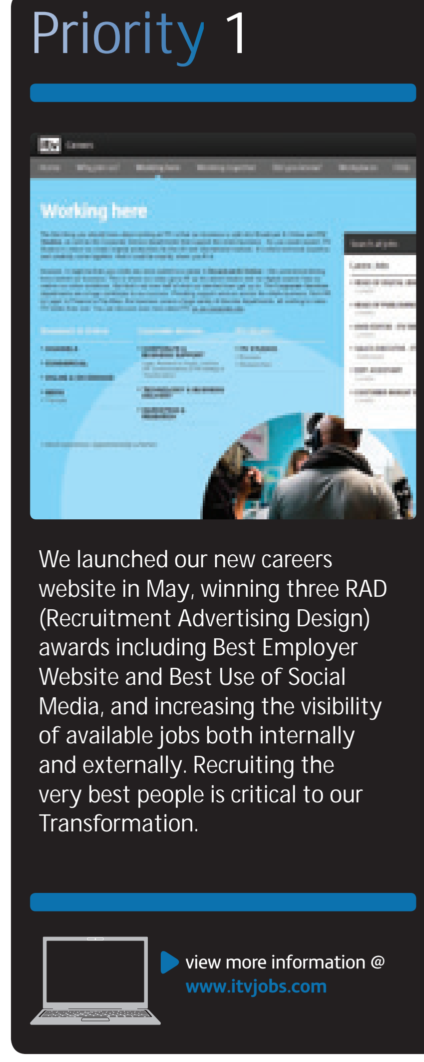
Priority 1



Our people remain key to ITV and to the delivery of the Transformation Plan. As such we are pleased that employee engagement has risen to 85% (2010: 75%)

our shows by implementing plans for tapeless content. Significant technology projects are being implemented across the organisation we are aware that they will take time to accomplish but we are confident that they will lead to great improvements to the way in which we operate.

We remain committed to our producer-broadcaster model and want to gain maximum benefit from it. The improved rights negotiation and management process which we introduced has strengthened the collaboration between Broadcast and Studios and allows us to secure rights at the best value.



We launched our new careers website in May, winning three RAD (Recruitment Advertising Design) awards including Best Employer Website and Best Use of Social Media, and increasing the visibility of available jobs both internally and externally. Recruiting the very best people is critical to our Transformation.

view more information @ www.itvjobs.com

Your questions answered

Q. How do you measure success?
A. We are driving significant change throughout the organisation and taking our people with us: employee engagement is up to 85% (from 65% in 2009).

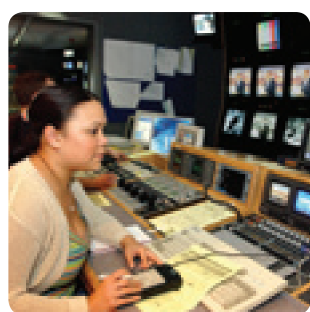
Q. What's coming up in 2012?
A. We are targeting a further £20 million of cost savings in 2012, we will be continuing to roll out our desktop refresh programme to all areas of the business and we will see the first people moving into our new offices in MediaCity. We will also continue to focus on getting the right people to work for ITV.

Group HR Director

view the video online @ ar2011.itvplc.com/andydoyle

Strategy In Action

Strategic Priority 1



The move of the Company s Manchester base from Quay Street to MediaCity is now well under way and will deliver a bespoke, state-of-the-art production facility for Coronation Street as well as providing modern offices for everyone working in Manchester with improved technology. The first move for staff in Manchester into the new site will take place later this year. We will also be moving all staff in Leeds to one site and modernising a number of our regional offices with HD studios. As a result of our investment in technology and property, there is expected to be an increase in capital expenditure in 2012 to £70 £80 million.

During 2011, we made progress in simplifying the network structure through the acquisition of Channel Television.

Significant progress has been made towards creating a lean, creatively dynamic and fit-for-purpose organisation. This process will be ongoing as we prepare for the next stage in the plan. We continue to look for ways in which we can improve the business and make it work more efficiently.

Our recent investment in the new ITV Meridian studios ensures that our people are working with the latest HD technology.

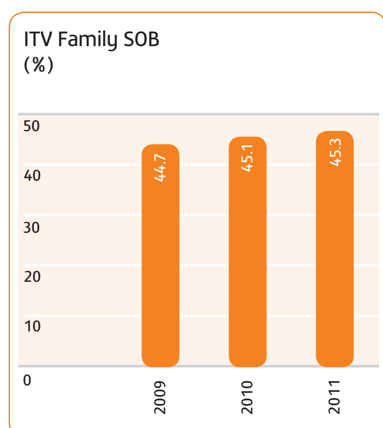
Strategy In Action

Priority 2

Strategy In Action

Strategic Priority 2

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



ITV Family SOV
(%)

	2009	2010	2011
ITV Family SOV (%)	23.1	22.9	23.1

ITV Family SOCI
(%)

	2009	2010	2011
ITV Family SOCI (%)	40.0	39.8	39.5

Although we delivered significant growth in non-NAR revenues in 2011, we still have a high degree of reliance on advertising revenues. We therefore remain firmly focused on maximising our audience and revenue share from our free-to-air broadcast business.

Our performance relative to the market is an important metric for us and this is reflected in our share of broadcast (SOB) one of our key performance indicators. ITV Family net advertising revenue (NAR) was up 1% in 2011, ahead of the television advertising market for the fourth consecutive year, with SOB increasing from 45.1% to 45.3%. This outperformance was driven by an improved second half performance as advertisers concentrated spend around our autumn schedule of sport, drama and entertainment.

In 2011, ITV Family s share of viewing (SOV) was up 1%, driven by the continued strong growth of our digital channels which were up 10%. ITV1 SOV, which benefited from the successful launch of ITV1+1, was down 2% this is below where we want it to be and we will work to improve performance in 2012.

ITV Family share of commercial impacts (SOCI) was down 1% in 2011 with ITV1 Adult SOCI down 4%, although we saw stronger performances from many of our key sub-demographics (Housewives, Adult ABC1s, 16 34s) which have a bearing on the contract rights renewal mechanism. Our digital channels SOCI was again strong, up 9%.

ITV1 s on-screen successes in 2011 have included Vera, Marchlands, Scott and Bailey, Strangeways, the Rugby World Cup, Doc Martin, and Downton Abbey, which won a Golden Globe for best mini-series, as well as winning the Christmas ratings battle with a consolidated audience of 12 million. Four of the top five performing new dramas were on ITV1 in 2011 and ITV1 also won the Terrestrial Channel of the Year Award at the Edinburgh Television Festival.

Our soaps continued to perform strongly with Emmerdale (average 7.6 million viewers per episode) increasing SOV by 3% during the year, while Coronation Street (9.4 million viewers) was only marginally down (-1%) despite the tough comparative of the 50th anniversary year in 2010.

Your questions answered

Q. What have been the main achievements in delivering against Priority 2 in 2011?

A. We had four of the top five performing new dramas on British television, ITV1 won the Terrestrial Channel of the Year award at the Edinburgh Television Festival, our big entertainment shows continued to play to huge audiences on ITV1 and our digital channels continued their strong growth.

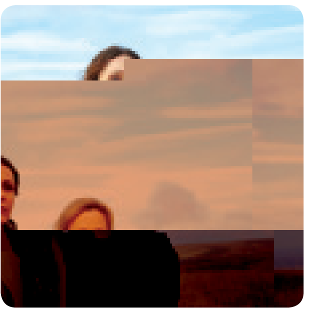
Q. What is happening to programming spend in 2012?

A. We will spend around £1 billion on programming in 2012 which will give the schedule the variety and quality we need for our viewers and advertisers. We will also continue to invest in brand defining content for our digital channels.

Four of the top five performing new dramas in 2011 were on ITV1 – Scott and Bailey, The Jury, Marchlands and With or Without You

Some of our key shows, including X Factor and I m a Celebrity, did not perform as well as in 2010, but they remain very important brands for us as they still drive large, diverse audiences, which appeal greatly to advertisers. We remain committed to these programmes and continually look at ways of refreshing them to improve their on-screen performance. ITV1 continues to deliver some of the largest audiences on television. The average X Factor audience across the series was 12.3 million, which made it the largest entertainment format on UK television in 2011, as it has been for three of the last four years. It was also the third most successful series ever of the show in terms of audience.

Our digital channels continue to perform very strongly. ITV2 and ITV3 remain the largest digital channels in the UK and saw SOV rise 8% and 11% respectively, while ITV4 saw a 13% rise in SOV making it one of the fastest growing digital channels. ITV2, which won Channel of the Year and Best Entertainment Channel at the Broadcast Digital Awards, has seen particular success with the BAFTA award-winning The Only



Top: Scott and Bailey was the most watched new drama on any channel last year with a peak audience of 9.4 million.

Bottom: Monroe, produced by Mammoth (in which ITV has a 25% stake), was watched by a peak audience of 6.9 million.

Your questions answered

Q. How is ITV benefiting from its producer-broadcaster model?

A. We want our doors to be open to the best ideas from independent producers but we also generate ideas within ITV, where we own the rights that s extremely good for business. We see that as a growing part of what we do at ITV it has been over the last couple of years and will continue to be so.

Q. How is ITV planning to deliver against this priority in 2012?

A. By continuing to come up with great programme ideas, develop and produce them, retain the rights and then exploit them on different platforms, on different media, in different countries. Above all, it comes back to great content and great programmes in all the genres. If we can do that we ll be in a good place.

Director of Television

view the video online @
ar2011.itvplc.com/peterfincham

Strategy In Action

Strategic Priority 2

Top: This Morning launched a voting competition, Dog for the Dales, a cross collaboration with Emmerdale to find a dog to star in the soap.

Bottom: The Rugby World Cup was watched by 6.4 million (52% share) on 8 October 2011 for the quarter final game England vs France.

Way is Essex (TOWIE) and Celebrity Juice, both of which will be returning in 2012. TOWIE averaged 1.8 million viewers (up 21%) across the series while Celebrity Juice averaged 2.2 million viewers (up 12%), with one episode peaking at 3.1 million (14% share) making it the most-watched non-terrestrial programme of the year. We are continuing to invest in brand-defining content for our digital channels with new drama commissions for ITV2 and rights to the French Open, Europa League and the African Cup of Nations for ITV4.

Our channel brands are increasingly important in the constantly evolving digital market. Those channels linked to a strong mother brand (ITV, BBC, C4, C5 and Sky) have recorded growth in SOV this year while other independent digital channels have seen a marked 9% decline. To consolidate this strength and build upon it we will be rebranding all of our channels during the second half of 2012 to position them for the challenges and opportunities which lie ahead.

In December, Ofcom announced that it would not be referring the advertising trading model to the Competition Commission. While our strategy is not dependent upon regulatory relief, we welcomed this decision as we had always maintained that a lengthy market review, at a time of such rapid change and increasing competition, would not be beneficial for UK consumers or the UK television industry.

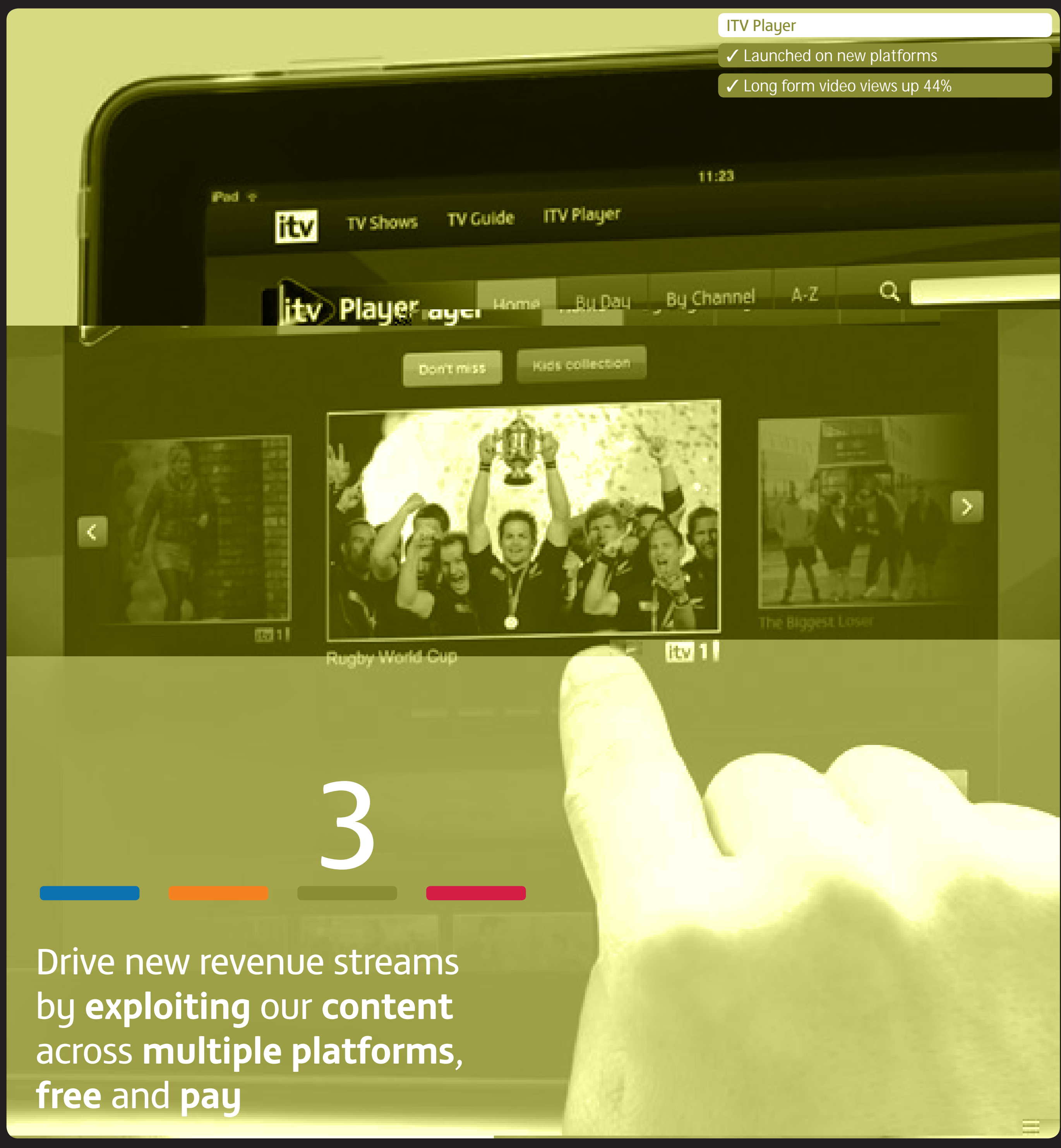
Television is a long-term business and Peter Fincham and his team continue to make plans for the schedule several years in advance. In 2011, we spent just over £1 billion on programming and we continue to ensure that our programming investment is made as efficiently as possible, while maintaining variety and quality. Our programme budget for 2012 will remain at around £1 billion we believe this is a sufficient level to provide the breadth, variety and freshness that audiences and advertisers require. We recently secured *c.*£35 million of savings from 2013 onwards when we renegotiated a number of rights deals including the Champions League and FA Cup. Some of these savings may be reinvested back into the schedule.

We will continue to work at delivering maximum value from our free-to-air business while at the same time building and developing new non-spot advertising revenues.

Downton Abbey won a Golden Globe for best mini-series as well as winning the Christmas ratings battle with 12 million viewers.

Strategy In Action

Priority 3

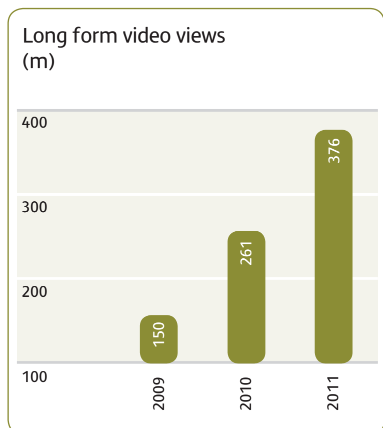


Drive new revenue streams by **exploiting** our **content** across **multiple platforms**, **free** and **pay**

Strategy In Action

Strategic Priority 3

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



We are continuing to execute our strategy of developing new revenue streams that are more balanced between pay and free television through building our programme brands and platform offerings. As well as the latest programmes, ITV has a huge archive of content and the technical advances of the digital market have opened up great opportunities for monetising this archive across the many devices on which people now consume content.

Online revenues grew by 21% in 2011 to £34 million, which contributed to the 13% growth in non-NAR revenues within Broadcasting and Online to £310 million (2010: £275 million). While this represents encouraging growth we are still aware of the need to build scale within Online. Our challenge is to choose the best monetisation strategy for our content and to continue to innovate, to open up new revenue streams.

As part of this strategy, ITV Player is now available on more platforms, including PS3, Android, iOS and Freesat. This improvement in the distribution of ITV s content has driven the 44% growth in long form video views across all platforms to 376 million (2010: 261 million). This is a key performance indicator as we seek to monetise our online traffic.

While our pay revenues are still relatively small in the context of ITV, they are derived from an increasing number of sources and our pay strategy is beginning to gain momentum.

2011 was the first full year of the pay HD channels ITV2, ITV3 and ITV4 on the Sky platform, and they performed in line with our expectations. In early 2012 we signed archive video on demand (VOD) deals with Lovefilm and Netflix and a VOD and catch up deal with Sky. These are non-exclusive deals which enable us to retain the option of doing similar deals with other parties should opportunities arise. We will also be launching a pay version of ITV Player later this year, which we will start to test internally in the second quarter of 2012. While this is slightly later than originally anticipated, we want to guarantee the quality of the user experience before launching to the public.

Your questions answered

Q. What have been the main achievements in delivering against Priority 3 in 2011?

A. We have delivered strong growth in non-NAR of 11% or £93 million. We have reorganised our whole sales team to become much more customer focused. Online revenues are up 21%, while long form views are up 44%, driven by the increased distribution and quality of ITV Player.

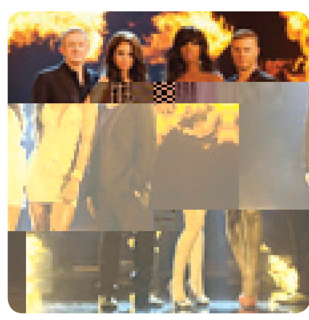
Q. How is ITV driving new revenue streams?

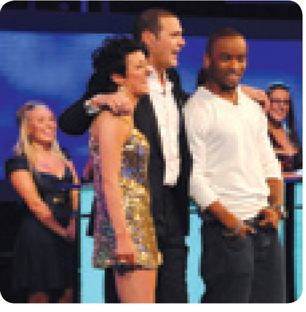
A. Our strategy is to exploit our content across multiple platforms, both free and pay. We have announced content deals with Netflix and Lovefilm and a content and catch up deal with Sky, exploiting ITV s archive. We will continue to look at pay opportunities across many platforms both in the UK and internationally.

ITV Player is now available on more platforms including PS3, Android, iOS and Freesat.

We are continually looking at ways in which we can develop closer engagement with our viewers in order to provide greater value to advertisers. While we are starting from a small base, we have seen significant increases in audience engagement via the 15.4 million Facebook fans which we have across all of our pages (2010: 7.4 million). We have also now collected 3.6 million contactable email addresses (2010: 1.6 million). These interactions are indicative of the power of the ITV brand and aid the exploitation of our content across multiple platforms as part of our Transformation Plan.

Mobile viewing has increased rapidly in 2011, representing 9% of all VOD viewing of ITV content in December, comparable with the BBC iPlayer. This enables us to engage ever more closely with consumers. In the first seven months following its launch the ITV Player app had more than three million downloads.





Top: X Factor has driven strong online engagement in 2011 with 26 million catch up views, 4 million Facebook fans and over 1 million downloads of the X Factor app.

Bottom: Dating show Take Me Out presented by Paddy McGuinness is one of the top ten programmes watched via catch up with 7 million views.

Priority 3

Watching television has become a much more social and interactive experience. Viewers of Dancing on Ice can now Score the Stars in real time at home via their second screen (eg: on a PC or ipad) adding to the show s live feeling while also having access to other exclusive content via the website. The programme now has over 375,000 fans on Facebook and Twitter and the 2011 app was one of the top five free apps in the iTunes store upon launch, surpassing the total downloads of the 2010 app within the first 10 days of release.

view more information @ www.itv.com/dancingonice

Your questions answered

Q. How will ITV adapt to the rise of VOD viewing in the way it sells advertising?

A. The rise of VOD is a huge opportunity for ITV because it is able to combine the mass-market power of the 30-second spot with the interactive, direct response and engagement of the digital platforms. We are introducing more targeted advertising, which we are already working on with a number of key clients, and innovative advertising formats, two of which we have trialled and will launch shortly.

Q. How is ITV planning to deliver against this priority in 2012?

A. ITV has the largest marketing platform in the UK and we want to use this to drive revenues both within the UK and internationally. We will be offering a blend of free and paid-for content, available to people at their convenience across multiple platforms.

Fru Hazlitt

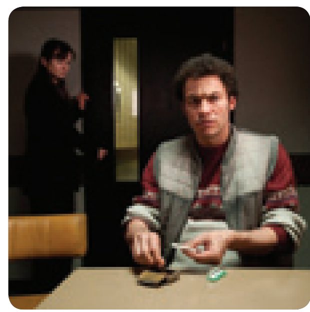
Managing Director, Commercial and Online

view the video online @ ar2011.itvplc.com/fruhazlitt

Strategy In Action

Strategic Priority 3

The ITV Player app has had over 3 million downloads since launch in July and mobile viewing now represents 9% of all VOD viewing on ITV. Coronation Street, one of our most watched programmes, had 1.5 million catch up views on mobile (and 72 million across all platforms).



Top: I m a Celebrity drew an average audience on screen of almost 9 million in 2011 and was followed by 1.6 million Facebook fans online.

Bottom: Appropriate Adult had average catch up views across all platforms of 670,000 per episode.

These all represent encouraging trends in our engagement with consumers but our challenge is to monetise the audiences we now have across multiple platforms. We have invested in fixing our online technology platform in 2011 but still have some way to go and the quality and the performance of ITV Player will further improve. We will continue to invest in navigation, ease of use, content and robustness to improve the quality of the overall user experience on our website.

The SDN business, which operates one of the six digital terrestrial multiplex licences in the UK that make up Freeview, saw 37% growth in its revenues as a result of the renegotiation of a number of its licences in 2010. This revenue growth will not be repeated in 2011 as this was a one-off increase.

In 2011 we announced the first product placement deals in the UK with Nationwide and NestlØ but the market remains very small. We previously highlighted that the new rules which Ofcom implemented would impact our ability to exploit this new revenue stream and this continues to be the case.

The Britain s Got Talent Buzzer app had 562,000 downloads on top of an average audience of 10 million viewers per episode and 2 million Facebook fans in 2011. The show has a new judging panel for 2012.

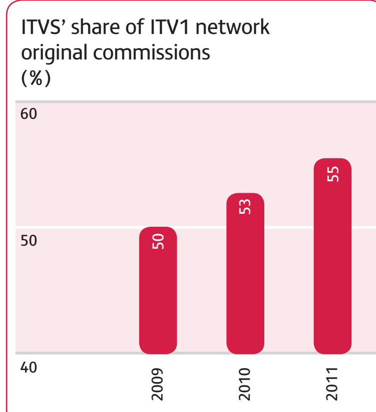
Strategy In Action

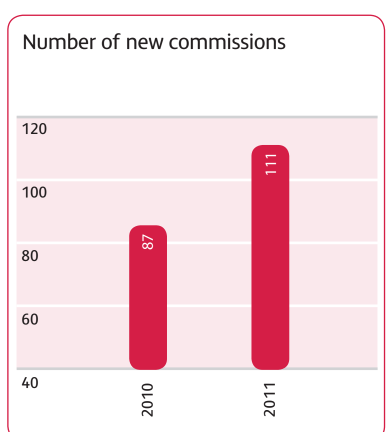
Priority 4

Strategy In Action

Strategic Priority 4

Build a strong **international content** business





Creative renewal lies at the heart of our strategy to build an international content business. 2011 saw a significant increase in our development budget and the number of new pilots created. This contributed to ITV Studios (ITVS) securing 111 new commissions in the year (up 28% compared to 2010), of which 66 were in the UK and 45 were international.

The new ITVS management team is now in place and providing the creative leadership needed to transform the internal capability of the business. We have rebuilt our creative team in the UK and internationally with several new appointments, demonstrating that we are able to attract the right talent.

Our Studios business has shown particularly strong growth in 2011. Total ITVS revenues grew 10% from £554 million to £612 million, driven primarily by international production. External revenues were up 9% to £320 million. This revenue growth has more than offset the investment made in creative renewal, enabling EBITA before exceptional items to rise £2 million to £83 million during the year.

Our new UK commissions for ITV1 include SWAGS (a six-part drama about service wives and girlfriends), Superstar (in collaboration with Lord Andrew Lloyd Webber) which will be screened in 2012, and Mr Selfridge (a ten-part drama about the life of the flamboyant American entrepreneur, Harry Gordon Selfridge) for 2013. We also had ten off-ITV commissions including The Devil s Dinner Party for Sky Atlantic and Dirk Gently for BBC.

Our strategy revolves around creating long-running, returnable drama and entertainment formats which travel well internationally, so recommission levels are also a key focus for us. 75 recommissions in the UK, including Vera, Lewis and a celebrity version of The Chase, relative to 57 in 2010, represent positive steps in this area as we build up our pipeline of content.

Your questions answered

Q. What have been the main achievements in delivering against priority 4 in 2011?

A. We now have a completely new Studios management team who are providing the necessary creative leadership to drive the creation of new programming. We have had 111 new commissions and 101 recommissions in the UK and internationally, which represents encouraging momentum.

Q. What changes in management have there been at ITV Studios in 2011?

A. We have new managing directors in both our UK and International studios businesses, some new creative directors, a new finance director and a new HR director.

Creative renewal lies at the heart of our strategy to build an international content business

On top of our UK activity, we are beginning to build momentum internationally. Our 45 new international commissions included Bill Cunningham and Buried Treasure in the US, as well as a production deal for a US version of Jeremy Kyle which was sold throughout the US, with Sekretarinnen being commissioned in Germany. We also had 26 international recommissions, including Four Weddings in France and the US and I m a Celebrity in Germany.

We have highlighted the need to have a significant stake in the intellectual property rights of the content we show on our screens, and have made progress in this area in 2011. ITVS produced 1,929 hours of original commissions (2010: 1,740) for the ITV1 network, increasing its share of the network s spend to 55% from 53% in 2010 but we want to grow our share further still.

Top: May the Best House Win, broadcast on ITV1, has been sold to seven countries.

Bottom: Four Weddings, which ITVS produces for UKTV, has been sold to 15 countries.

Priority 4

Content creation lies at the heart of the Transformation Plan and we are constantly developing new ways of working with creative talent through joint ventures and partnerships. Our co-production of Julian Fellowes Titanic was pre-funded and has already been sold to 86 countries, demonstrating our ability to sell our content internationally. Its transmission will coincide with the centenary of the ship s sinking in April.

view more information @ www.itv.com/titanic

Your questions answered

Q. What progress is being made internationally?

A. 45 of our 111 commissions are international including Jeremy Kyle, which has been recommissioned for a second series in the US, our co-production of Titanic, and Prime Suspect, our first venture into US prime time drama.

Q. How is ITV planning to deliver against this priority in 2012?

A. We will continue to invest in pilots, in creative talent and in developing new ideas throughout the ITVS international network as we build up our pipeline of content with our main focus on the UK and US.

Kevin Lygo

Director of ITV Studios

view the video online @ ar2011.itvplc.com/kevinlygo

Strategy In Action

Strategic Priority 4

Top: ITVS produces The Devil s Dinner Party for Sky Atlantic, which is starting to grow its audience and is performing better than the slot average on the channel.

Bottom: The Jeremy Kyle Show which launched in America in 2011 has been recommissioned for the 2012 13 season in a number of US states.

Our strategy is based upon a mixed economy approach to content production: while we want to own more of what is shown on our channels, we are also prepared to enter into partnerships to ensure we are working with the best creative talent. The UK and US remain our main creative engines but we are also investing in growth in our other production hubs (France, Sweden, Australia and Germany), as well as exploring opportunities in other emerging creative markets, as we want to be making and distributing programmes in as many countries as possible.

We continue to look at new ways of working with creative talent and have signed a development agreement with an independent production company, The Garden. We have also entered into a joint venture with BAFTA-winning Channel 4 drama commissioners Camilla Campbell and Robert Wulff-Cochrane to establish a new scripted production company, Noho Film and TV, which will begin development on a number of projects in 2012.

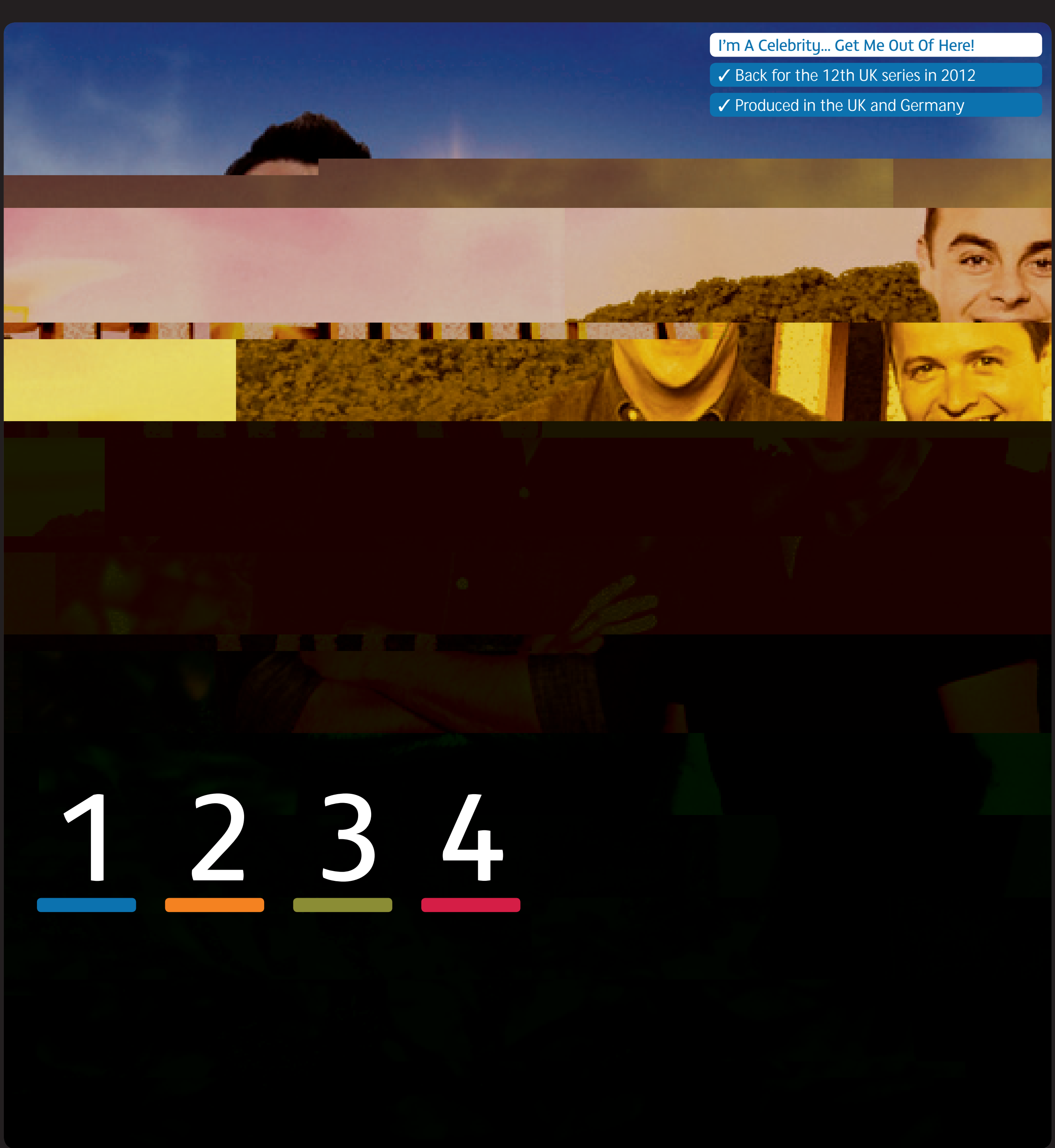
We have increased our co-production activity as well: in 2011, we co-produced Julian Fellowes Titanic which has now been sold into 86 countries ahead of its screening in April to coincide with the centenary of the Titanic s disaster; we also co-produced Prime Suspect in the US with Universal Television for NBC, which was sold into 116 countries. In 2012 we will be co-producing Mrs Biggs, a drama about Ronnie Biggs wife, with Seven Network in Australia.

We are making encouraging progress but, given the long lead time involved in production, there is still a lot of work to do to develop scale in our content business on the international stage. We will continue to develop and invest in our international network as we build on the momentum which has been created within ITVS.

Dancing on Ice has now been sold to 13 countries.

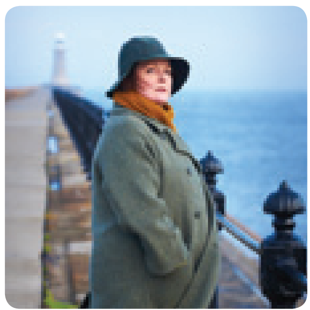
Strategy In Action

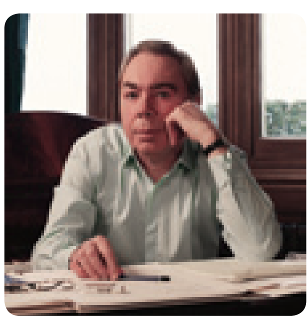
2012 and beyond



2012 and beyond

Our aim is to rebalance the business away from a dependency on television advertising revenues. Our non-NAR revenue growth, driven by the Studios business, shows we are making progress against our strategic priorities.





Top: Vera, a new commission for ITVS in 2011, peaked at 6.7 million viewers. It has been recommissioned for 2012.

Bottom: Our new entertainment show Superstar will be made by ITVS and broadcast on ITV1, in collaboration with Lord Andrew Lloyd Webber.

We are less than two years into our five-year Transformation Plan and there is still much to do but we have made good progress and are building momentum. Our aim is to rebalance the business away from a dependency on television advertising revenues. Our non-NAR revenue growth, driven by ITVS, shows that we are making progress against our strategic priorities.

The first phase of the plan has been primarily focused on fixing the business. While we relentlessly look for ways to improve the efficiency and performance of ITV, we have put in place a solid foundation for the growth phase of the plan which lies ahead of us.

In 2012 we will look to build on the momentum we have created. In 2011 we invested £28 million in ITVS, Online, technology and our digital channels, and in 2012 we expect to invest a further £25 million.

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

In 2012 we will continue to build strength in the team across ITV to drive forward the Transformation Plan. We will look for further ways to improve efficiency and performance, driving out waste and complexity. We have identified a further £20 million of cost savings and planned further improvements in technology our desktop refresh will continue throughout the year to ensure that our people have the right equipment to do their jobs. Capital expenditure in 2012 is expected to be £70 £80 million as we make these technological improvements and implement our site move from Manchester. We will also continue to build the improved collaborative creative process between Broadcast and Studios to help focus on creating long-running, returnable formats.

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

In 2012, we aim to repeat the performance of 2011 by outperforming the television advertising market, as we did in 2011, and hold ITV Family SOV. We will refresh and enhance all of our channel brands and continue to invest in brand defining content as efficiently as possible.

Our total programming budget for 2012 will be around £1 billion, of which around £800 million will be spent on the ITV1 NPB, as we work to improve the variety of the schedule across the year. Schedule costs in the first half will increase due to Euro 2012 in June.

We will increasingly focus on long-running, returnable series and have a strong schedule for 2012 with returning dramas such as Downton Abbey, Vera, and Scott and Bailey alongside an exciting line-up of new drama including SWAGS, Titanic and Mrs Biggs many of which are being made by ITVS. A number of ITV s top entertainment shows will be returning in 2012, including X Factor, I m a Celebrity, Dancing on Ice and Long Lost Family, while we will be screening new shows including Superstar and Fool Britannia.

Live top sporting events in 2012 include Euro 2012, Champions League, Europa League, Tour de France and The French Open tennis. We will also continue to implement our ongoing news review.

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

We will continue to build scale in our online business, improving the distribution and performance of ITV Player, and driving up online viewing and revenues. We also plan to make ITV Player available on manufacturers connected television sets and launch YouView. We will expand our pay strategy in 2012, as we launch ITV Pay Player and pay products, renegotiate existing video on demand deals and negotiate new ones, and develop potential pay channels over time. We also plan to roll out our Total Value exploitation under new teams.

Build a strong international content business

We will continue to invest in building our creative strength and talent and developing and piloting new ideas. We will further grow ITVS share of ITV1 network commissions, focusing on long-running, returnable series, whilst increasing off-ITV commissions both in the UK and internationally. We will increasingly focus on new international co-productions and rolling out ITVS formats but will also look at different ways of working with creative talent. We will develop and invest in our international network through our creative engines, production hubs and emerging creative markets. In time, we may look to make acquisitions but we remain focused initially on growing the business organically.

Outlook

Our 2011 financial and operating results demonstrate the progress we are making and the momentum we have built up. We will increasingly look to content, pay and online as engines for growth in the UK and internationally as we invest further in our key strategic priorities. Everyone at ITV remains firmly focused on delivering the Transformation Plan and we remain on track to do so.

We will maintain our tight focus on cash management throughout the organisation. With positive net cash of £45 million, ITV is in a strong position financially which gives us the flexibility to invest in the business while making the right decisions for the long-term future of the business. After £339 million of bond buy-backs in 2011 we will continue to look at options for the balance sheet that make economic sense. We are conscious of the uncertain economic environment and the need to maintain flexibility to deliver our strategic priorities.

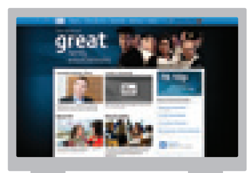
Although ITV Family NAR has started the year better than we expected, it is still down 2% in Q1 and, whilst we expect to outperform the market again in 2012, we remain cautious on the full year outlook for the television advertising market.

Adam Crozier
Chief Executive

Everyone at ITV remains firmly focused on delivering the Transformation Plan and we remain on track to do so

Top: Long Lost Family will return to our screens in 2012 for a second series.

Bottom: Doc Martin will return to ITV1 for a sixth series following record average viewers of 10.6 million in 2011.



view more online @ www.itvplc.com

Performance & Financials

Key Performance Indicators

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

2 **Maximise audience** and **revenue share** from our 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

We have defined our Key Performance Indicators (KPIs) to align performance and accountability to the Transformation Plan. These KPIs will be the key measures of success over the life of the Transformation Plan and cover all four strategic priorities.

Strategic Priority	KPI	Performance		
		2011	2010	Absolute Change
1, 2, 3, 4	**EBITA before exceptional items** This is the key profitability measure used across the whole business. Earnings before interest, tax and amortisation (EBITA) before exceptional items reflects our performance in a consistent manner and in line with how the business is managed and measured on a day-to-day basis.	£462m	£408m	£54m
		The £54 million improvement is primarily due to 4% external revenue growth, which has been driven by non-NAR revenue, and delivery of cost savings. The cost savings made across the business, both through efficiencies and on the schedule, have funded investment in areas of the business which drive the Transformation Plan.		

Strategic Priority	KPI	Performance		
		2011	2010	Absolute Change
1, 2, 3, 4	**Adjusted earnings per share** Adjusted earnings per share represents the adjusted profit for the year attributable to equity shareholders. 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 and prior period and other tax adjustments. It 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.	7.9p	6.4p	1.5p
		Adjusted earnings per share has increased to 7.9 pence, a 23% increase, reflecting the improvement in trading discussed above and the reduction in adjusted financing costs.		

Strategic Priority	KPI	Performance		
		2011	2010	Absolute Change
1, 2, 3, 4	**'Profit to cash' conversion** 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). A key priority is to keep tight control on cash and costs and this measure primarily reflects our working capital management and capital expenditure control. As such, 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.	103%	127%	(24)%
		A profit to cash conversion ratio of over 100% has been achieved for the third successive year, demonstrating the continued focus on working capital management. While 103% is lower than the past two years, this is still a strong performance and above our 90% rolling three-year target. The total profit to cash conversion over the past three years has been 126%, which has driven the significant net debt reduction over that period.		

Strategic Priority	KPI	Performance		
		2011	2010	Absolute Change
1	**Employee Engagement** To turn ITV into a world class organisation that is lean, creatively dynamic and fit-for-purpose requires high quality people who are engaged in the work that they do, and are committed to the Transformation Plan. Employee engagement measures pride in the work we do, pride in working for ITV and also what we say about our programmes and services.	85%	75%	10%
		The 10% improvement in engagement is an indicator of improved commitment across the Company and of employees embracing the changes arising from the Transformation Plan, which is critical to our success.		

Strategic Priority	KPI	Performance		
		2011	2010	Absolute Change
2	**ITV Family Share of Viewing (SOV)** Strategic priority 2 aims to maximise audience share from our existing free-to-air broadcast business, and ITV Family Share of Viewing (SOV) is the clearest indicator of this. ITV Family SOV is ITV s share of the total viewing audience over the year achieved by ITV s family of channels as a proportion of total television viewing, including the BBC family. ITV aims to at least maintain the ITV Family SOV.	23.1%	22.9%	0.2%
		ITV Family SOV has improved by 1% in the year, returning audience share back to the same level as in 2009. A 2% decline in ITV1 audience share has been more than offset by a continued strong performance by the digital channels, which were up 10%. 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, 2010 s SOV adjusted for the 2011 platform mix was 22.7%.		

Strategic Priority	KPI	Performance		
2	**ITV Family Share of Commercial Impacts (SOCI)** Strategic priority 2 aims to maximise audience share from our existing free-to-air broadcast business, and ITV Family Share of Commercial Impacts (SOCI) is another key indicator of this. SOCI is the trading currency in the television advertising market, and since it only covers commercial television it does not include the BBC. 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. We aim to maximise our SOCI.	**2011** **39.5%**	**2010** **39.8%**	**Absolute Change** **(0.3)%**
		ITV Family SOCI was down by 1% year-on-year. ITV1 s SOCI was down 4% year-on-year, but this was largely offset by 9% growth across the ITV digital channels.		

Strategic Priority	KPI	Performance		
2	**ITV Family Share of Broadcast (SOB)** ITV s share of UK television advertising revenues is known as its Share of Broadcast (SOB). To maximise revenues from our free-to-air business, which is a key component of strategic priority 2, we aim to continue to maximise our SOB and to outperform the UK television advertising market.	**2011** **45.3%**	**2010** **45.1%**	**Absolute Change** **0.2%**
		In 2011, we gained market share once again, increasing our SOB to 45.3% of the total UK television market. This was due to strong performances by both the sales team and on-screen as we continue to deliver the big audiences and brands that are most demanded by advertisers.		

Strategic Priority	KPI	Performance		
3	**Total long form video views** The Transformation Plan looks to drive new revenue streams by exploiting our content across multiple platforms, and long form video views are a key measure of this. Long form video views are a measure of the total number of videos viewed across all platforms (such as itv.com, Virgin and mobile devices). A long form video is a programme that has been broadcast on television and is available to watch online and on demand in its entirety.	**2011** **376m**	**2010** **261m**	**Absolute Change** **115m**
		Total long form video views are up 44% year-on-year at 376 million. Views on itv.com and Virgin, the largest components, continue to grow at over 30%, with growth also coming from making our content available on new platforms such as games consoles, smartphones and tablets. Following the launch of our mobile apps in summer 2011, mobile devices now account for around 9% of all long form video views in recent months.		

Strategic Priority	KPI	Performance		
3 4	**Non-NAR revenues** Non-NAR revenues include 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 our reliance on television advertising revenues.	**2011** **£922m**	**2010** **£829m**	**Absolute Change** **£93m**
		There has been significant growth in non-NAR revenues in 2011 with an increase of £93 million to £922 million. This is due to a £35 million increase from international productions, a £31 million increase in supply of programming from ITV Studios to Broadcasting & Online, a £16 million increase in SDN external revenues, and a £6 million increase from online advertisingreliance on television platforms, and lonadvertising r N50.8 k/G(bTfTbT10 1 Tf0 SDN ext)2(ernal r)25(evenn [illegible]		

Broadcasting & Online

	2011 £m	2010 £m	Change %
Net Advertising Revenue ('NAR')	**1,510**	1,496	1
SDN external revenues	**59**	43	37
Online & On Demand	**34**	28	21
Other commercial income	**217**	204	6
Broadcasting & Online non-NAR revenue	**310**	275	13
Total Broadcasting & Online revenue	**1,820**	1,771	3
Total schedule costs	**(1,004)**	(1,023)	2
Other costs	**(437)**	(421)	(4)
Total Broadcasting & Online EBITA before exceptional items	**379**	327	16

Total Broadcasting & Online revenue was up 3% with EBITA before exceptional items up 16%. The majority of revenue growth in the Broadcasting & Online division has come from non-NAR revenues, in particular from SDN, Online & On Demand and pay revenues. Total costs have been held flat as cost efficiencies and schedule savings have funded investment in the digital channels and Online & On Demand in line with the strategic priorities.

Despite the tough economic environment, our television advertising revenues have increased by 1%, outperforming the rest of the market for the fourth year in a row.

Our largest advertising categories of retail, food, and entertainment & leisure all declined in 2011 in the context of a challenging consumer environment, but this was compensated for by strong growth in finance, cars and car dealers, and telecommunications.

Across the wider advertising market, internet advertising has taken share from press, whilst television has remained broadly flat as a proportion of total advertising spend.

SDN external revenues increased by 37%, largely due to the full year impact of the new contracts signed in the second half of 2010. Growth of this scale will not be repeated in 2012 as there were no material changes to SDN contracts in 2011.

Online & On Demand revenues have increased by £6 million, continuing the growth of recent years which has seen these revenues almost double from £18 million in 2008.

Other commercial income includes sponsorship, minority revenues, pay, PRS, media sales and other income. The 6% growth in 2011 has been helped by the new pay revenues from ITV2, 3 and 4 HD on Sky. These pay revenues will increase again in 2012 due to the new deals signed with Sky, Lovefilm and Netflix.

Broadcasting & Online costs have been tightly managed. The £19 million decrease in schedule costs is principally due to there being no football World Cup costs in 2011. This has been offset in part by £10 million investment in more brand defining content for the digital channels, supporting their continuing growth in key demographic audiences. Other costs have increased by 4% due to investment and revenue-related costs, such as £7 million investment in Online & On Demand and the launches of ITV1+1 and pay HD channels, offset in part by general efficiency savings.

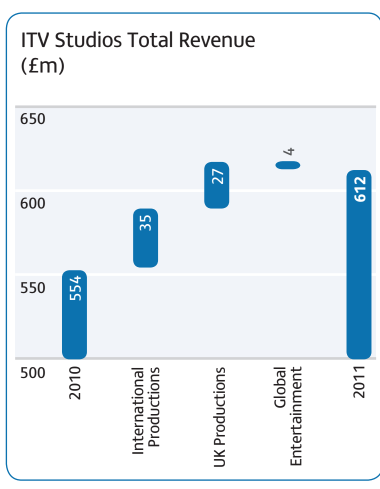
Pay revenues will increase again in 2012 due to new deals with Sky, Lovefilm and Netflix

Financial and Performance Review

continued

10% total revenue growth in ITV Studios as the creative renewal starts to feed through to the financials

ITV Studios



Net financing costs

	2011 £m	2010 £m
Financing costs directly attributable to loans and bonds	**(45)**	(59)
Cash-related net financing income	**8**	1
Cash-related financing costs	**(37)**	(58)
Amortisation of bonds	**(13)**	(11)
Adjusted financing costs	**(50)**	(69)
Mark-to-market on swaps and foreign exchange gains	**16**	5
Imputed pension interest	**(5)**	(13)
Losses on buy-backs	**(39)**	(10)
Other net financing income	**3**	12
Net financing costs	**(75)**	(75)

Adjusted financing costs are £19 million (28%) lower as we continue to make the balance sheet more efficient. Financing costs directly attributable to bonds have reduced due to the benefit of £485 million of bond buy-backs over the last two years, including £339 million in 2011. Cash-related net financing income has increased by £7 million, mainly due to the increased level of cash held and the benefit of receiving a better return through a slightly longer investment horizon.

Despite the reduction in adjusted financing costs, statutory net financing costs are flat at £75 million. This is primarily because of £39 million of one-off losses incurred on the buy-backs of certain bonds, in particular that of the 2015 £100 million bond tap which was issued at a substantial discount in 2009. These losses were partially offset by mark-to-market gains and lower imputed pension interest.

The mark-to-market gains resulted from a further reduction in implied interest rates during the year. Imputed pension interest has reduced due to the increase in the expected return on assets and a decrease in the interest on liabilities.

The adjusted financing costs in 2012 are likely to be broadly flat as the full year benefit from the bond buy-backs carried out in 2011 is likely to be largely offset by a step up in the interest rate on the 2019 loan.

Adjusted financing costs are £19 million (28%) lower as we continue to make the balance sheet more efficient

Earnings per share

Adjusted earnings per share were 7.9 pence (2010: 6.4 pence). Basic earnings per share were 6.4 pence (2010: 6.9 pence).

Whilst statutory profit before tax of £327 million (2010: £286 million) has improved, basic earnings per share are lower than 2010 due to the statutory tax charge. The reason for this statutory tax charge increase of £63 million is primarily due to the recognition of a deferred tax asset of £68 million in 2010 in respect of tax losses not previously recognised.

Reconciliation between reported and adjusted earnings

	Reported £m	Adjustments £m	Adjusted £m
EBITA before exceptional items	462		462
Exceptional items	1	(1)	
Amortisation and impairment	(59)	47	(12)
Financing costs	(75)	25	(50)
JVs and Associates	(2)		(2)
Profit before tax	**327**	71	**398**
Tax	(79)	(12)	(91)
Profit after tax	**248**	59	**307**
Non-controlling interest	(1)		(1)
Earnings	**247**	59	**306**
Number of shares (million)	3,883		3,883
Earnings per share (pence)	**6.4p**		**7.9p**

The adjustments 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. The adjustments made are consistent with those made last year and are explained below.

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

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

Adjusted EPS at 7.9p is a 23% improvement on 2010

Financial and Performance Review

continued

Positive net cash position for the first time since 2004

Cash flow, working capital management and positive net cash

Cash flow and working capital management

Cash and working capital management continues to be a key priority. We have generated £474 million of adjusted cash flow from £462 million of EBITA before exceptional items, driven by further improvements in working capital. The profit to cash ratio was 103% for the year, ahead of the KPI target of 90% on a three-year rolling basis.

	2011 £m	2010 £m
EBITA before exceptional items ('profit')	**462**	408
Decrease in programme rights and other inventory and distribution rights	**–**	108
Decrease/(increase) in receivables	**52**	(8)
Decrease in payables	**(34)**	(1)
Working capital movement	**18**	99
Depreciation	**26**	30
Share-based compensation	**11**	8
Cash flow generated from operations before exceptional items	**517**	545
Acquisition of property, plant and equipment and intangible assets	**(43)**	(28)
Adjusted cash flow	**474**	517
'Profit to cash' ratio	**103%**	127%

The profit to cash ratio is more in line with target this year following the very high conversion rates over the previous two years. Programme rights and other inventory have reduced by over £200 million since 2008, meaning that they are now at more normal levels.

Cash spend on acquisition of property, plant and equipment and intangible assets was £43 million (2010: £28 million), as we started to upgrade our technology across the business and invest in future-proofing our soaps, in particular the new site for Coronation Street. This is expected to increase significantly in 2012 to around £70 £80 million due to increased investment in core technology and moving the Manchester site to MediaCity.

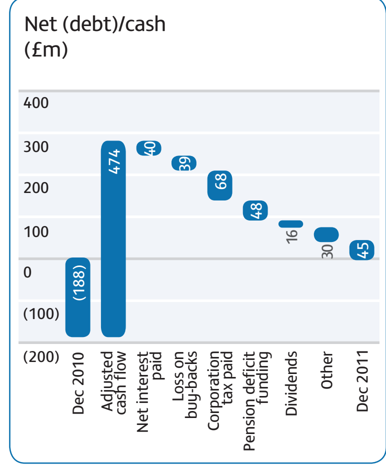
Positive Net Cash

A £233 million improvement in the year has resulted in a positive net cash position at 31 December 2011 of £45 million (31 December 2010: net debt of £188 million). Total cash has reduced by £59 million in the year to £801 million, as a significant portion of the cash generated from operations has been used to reduce gross debt. This reduction in gross debt has been achieved through £339 million (nominal) of debt buy-backs.

Interest paid was lower than 2010 as our adjusted financing costs reduced, but we also had one-off losses on debt buy-backs of £39 million and higher corporation tax payable as we returned to a full year of making payments for taxable profits. We also resumed the payment of dividends.

The £16 million of dividend payments represents only the payment of the interim dividend whereas in 2012 we are likely to pay both the 2011 final and the 2012 interim dividends.

There is no IFRS definition of net cash/(debt) and our figures represent our measure of this metric, which is consistent with previous years; this can be seen in section 4.1 of the Financial Statements. The major credit rating agencies each adjust our definition of net cash/(debt) in assessing our credit worthiness, taking a wider view of total indebtedness, which each agency views differently. Adjustments include the IAS 19 pension deficit, an imputed level of debt in lieu of operating leases, and adjustments to cash to exclude amounts not considered available for immediate debt repayment or core.



Liquidity risk and funding

Strong free cash flow generation in 2011 further strengthened the balance sheet and liquidity position.

Financing

Our debt is financed using instruments with a range of maturities. Borrowings at 31 December 2011 (net of currency hedges and secured gilts) are repayable as follows:

Amount repayable	£m	Maturity
188 million Eurobond*	126	June 2014
£154 million Eurobond	154	Oct 2015
£135 million Convertible bond	135	Nov 2016
£250 million Eurobond	250	Jan 2017
£200 million Bank loan	62	March 2019
Finance leases	53	Various
Total repayable	780	

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

There are no financial covenants on any of our debt and the next scheduled repayment is in June 2014.

Debt Structure

During the year we took further steps to improve the efficiency of our balance sheet, where it made economic sense to do so. In 2011 we repurchased £339 million nominal value of bonds comprising all of the £110 million 2013 bonds (at a book loss of £4 million) and £229 million of the 2015 bonds. The repurchase of 2015 bonds was at a book loss of £35 million, which was mainly incurred against repurchasing all £100 million of a tap issue to this series of bonds undertaken in early 2009 at the height of the financial crisis.

In addition, during the year a 54 million Eurobond (£47 million book value) matured along with associated cross currency interest rate swaps (book value £63 million), resulting in a net cash inflow of £16 million.

These repurchases have smoothed our maturity profile and have ensured that we have no scheduled debt repayments due within two years.

Given the improved cash position, some cash deposits are now made over a longer investment horizon; this has improved the returns on our cash balances.

We are aware of the inefficiency of the balance sheet and, as noted above, have continued to take steps during the course of the year to help address this. Since October 2009 we have repurchased £662 million (nominal value) of debt.

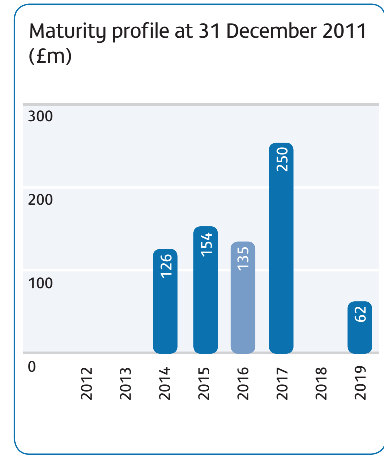
In 2012 we will continue to look at the options for the balance sheet that make economic sense. Any potential course of action will take into account our prudent view of liquidity under an uncertain economic outlook, and ensure that sufficient flexibility is maintained to invest in the business and to deliver the Transformation Plan.

Ratings

Our credit ratings continued to improve in 2011. In April, Standard & Poor s upgraded the long-term credit rating from B+ (Stable Outlook) to BB (Stable Outlook) and Moody s Investors Service increased its rating from Ba3 (Stable Outlook) to Ba2 (Stable Outlook). In May, Fitch revised its outlook on our BB rating from Stable to Positive. In August, Moody s Investors Service similarly revised upward the outlook.

Despite improvements in the credit ratings from all three agencies over the past two years, we remain sub-investment grade and would require two notch upgrades from each agency in the future in order to restore investment grade. The sub-investment grade status reflects the business high degree of operational gearing, exposure to the economic cycle, lack of business and geographical diversity and ongoing structural changes in the media industry. We recognise these issues and seek to address them through the Transformation Plan.

£339 million of debt repurchases in the year reduces gross debt and smoothes the maturity profile



Financial and Performance Review

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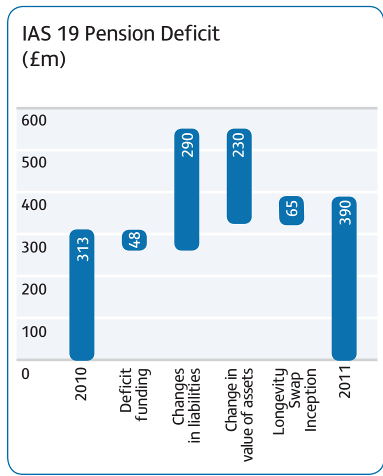


Pensions

IAS 19 – the accounting deficit

The aggregate IAS 19 deficit on defined benefit schemes at 31 December 2011 was £390 million (31 December 2010: £313 million). The most significant reason for the increase was as a result of the fall in corporate bond yields which are used to value the liabilities, although this was partially offset by a reduction in the rate of market implied inflation. The value of the assets of the ITV Pension Scheme (the Scheme) increased during the year, driven by a strong performance by the bonds and swaps used for hedging interest and inflation risk. This gain has been reduced by losses in the Scheme s equity portfolio and the impact of the introduction of the longevity swap.

Measures to manage the costs and risks associated with the Scheme

We have a long-term strategy to implement a programme of measures to manage the costs and risks associated with the Scheme, and as part of this strategy two significant steps a longevity swap and an extension to the SDN pension partnership were taken during the year to reduce the exposure of our business to legacy pension risk.

(i) Longevity Swap

On 22 August 2011 the trustee of the Scheme (the Trustee) completed a transaction that removes the risk of increases in pension liabilities that would arise if a significant portion of the Scheme s defined benefit pensioner population were to enjoy a longer life than is currently expected. The instrument is known as a longevity swap and it de-risks the future cash flows of the pension scheme.

Initial recognition of the swap resulted in a reduction to the Scheme s assets of £65 million, thereby increasing the net IAS 19 pension deficit. The valuation reflects the value of the fixed cash flows the Trustee will make to the counterparty compared to the value of the forecast payments that the counterparty makes to the Trustee based on actual requirements.

The swap is included in the valuation of Scheme assets and in the future it will move up or down in value based on changes to actuarial assumptions including mortality, discount rates and inflation. Although the value of the instrument will move, the net cash flows made by the pension scheme in respect of these members are now fixed.

Pensions continue to be paid from the Scheme based on actual requirements.

(ii) SDN pension partnership extension

On 8 July 2011, the partnership s interest in SDN was increased by a further £50 million, enabled by the increase in the value of the SDN business. As a result of this, the partnership will increase the annual contribution to the Scheme by £3 million to £11 million per annum from 2013 onwards; the 2012 cash contribution will be £10 million. Under the partnership arrangements, we have committed to making a payment to the main section of the Scheme of up to £200 million in 2022 (an increase of £50 million compared to the original agreement made in 2010), if and to the extent that it remains in deficit.

Actuarial valuations

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

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

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

Deficit funding contributions

We have agreed with the Trustee the level of contributions to the main section of the Scheme through to the end of 2014.

We expect to make deficit funding contributions of £71 million in 2012, £66 million to Section A and £5 million to Sections B and C. Details of how this is constituted can be seen in section 3.6 of the Financial Statements and are summarised below.

Expected Pension Contributions in 2012	£m
Section A	
Regular deficit funding	35
Additional 2012 deficit funding for Section A*	5
10% of 2011 EBITA before exceptional items over £300 million	16
SDN pension partnership	10
	66
Sections B and C	
Regular deficit funding	5
Total expected pension contributions in 2012	71

* Since there were no initiatives in 2011 which reduced the Scheme s deficit by at least £10 million, compared with the level had such initiatives not been implemented.

Assuming no unforeseen circumstances, no further change is currently expected in our committed contributions to Section A of the Scheme before 2015.

Ian Griffiths
Group Finance Director

The longevity swap and the SDN pension partnership extension help towards our long-term strategy to manage the costs and risks associated with the Scheme

Risks and Uncertainties

Risk management process

In 2011 ITV continued to develop and review its risk management process. Our approach covers risks at all levels of the organisation and examines business risks on both a top down and bottom up basis. The 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 embedded into everyday activity within the organisation.

The ITV plc Board regularly reviews the risk management framework, 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 the effectiveness of the risk management process under review.

The Board continues to review the appropriate risk appetite for certain risk types to ensure ITV is carrying an acceptable level of risk.

Each strategic risk has been mapped to one of the four key strategic priorities and, where possible, assigned key risk indicators. Where appropriate, the key risk indicators are aligned to our key performance indicators. All strategic risks are owned by a member of the Management Board. The Management Board has overall responsibility for the content and operation of the risk management framework and performs regular review of both strategic and HILL risks. Process level risks are subject to ongoing review by internal audit.

ITV s risk monitoring and mitigation process is embedded in the running and review of the business. While risks are primarily controlled through the risk management process in place, mitigating actions are identified for each of the risks.

High Impact, Low Likelihood (HILL) risks

Risk theme	Risk
External Economic and Political Environment	There is a major decline in advertising revenues, or a double dip recession, significantly impacting ITV s overall financial performance. ITV loses its credit status. There is a collapse: - in investment values, leading to a material pension scheme deficit. - of the euro impacting European trading and asset prices. - of a major bank impacting the availability of credit.
Regulatory Change or Breach	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 significant or unexpected change in regulation or legislation. There is a significant loss of programme rights.
Critical Failure in Delivery Model	There is a sustained denial of transmission facilities at Technicolor, our third party outsourced provider, or the loss of a major data centre.
Significant Physical Incident	A major incident results in ITV being unable to continue with scheduled broadcasting for a sustained period, or removes a number of the key management team from the business on a long-term or permanent basis. There is a major health and safety incident that results in a significant loss of human life.
Prolonged Cyber Attack	There is a sustained cyber/viral attack causing prolonged system denial or major reputational damage.

Strategic risks

The key strategic risks are those that impact the successful execution of the strategy and as a result require regular Management Board monitoring. All of the strategic risks identified have been mapped to the four strategic priorities of the Transformation Plan and have been grouped by key risk themes.

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

2 **Maximise audience** and **revenue share** from our 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
People	ITV lacks adequate management capability and creative talent.	1 2 3 4
	ITV employees are not sufficiently engaged in the business.	1 2 3 4
	The extensive degree of change that the business will undergo will overload a small number of key people.	1 2 3 4
Organisation, structure and process	The business continues to work in silos, resulting in sub-optimal decisions being made which impacts execution of the strategy.	1 2 3 4
	A significant and high profile transmission incident (or high numbers of single point failures) causes significant reputational damage to ITV.	1 2
	ITV fails to identify and secure sufficient programme rights.	2 3 4
	ITV fails to invest in, develop or operate international businesses effectively.	4
Technology	Late delivery of the new technology platform, and heavy reliance placed on legacy technologies prior to the project s completion, negatively impacts ITV s ability to achieve its strategic aims.	1 2 3
	Current technological environment and business processes are not sufficient to support the growth in Online services.	1 3
	ITV fails to ensure appropriate business continuity planning and resilience within its core systems, processes and platforms.	1 2 3
The market	ITV remains over-reliant on the advertising market and is therefore heavily exposed to the economic cycle.	2 3 4
	The television market moves significantly towards pay television as a preferred model, negatively impacting ITV s free-to-air revenues.	2
	ITV risks losing its advertising unique selling point due to the increasing threat of competition, negatively impacting ITV s Share of Broadcast.	2 3 4

In 2010 we identified two potential strategic risks 1) inadequate management information and 2) inadequate infrastructure which are not included in our 2011/12 risk register. Following improvements in our management information systems we no longer deem this to be a key strategic risk, and the risk of inadequate infrastructure has been encompassed within more specific risks above.

Responsibility

Responsibility

ITV has a responsibility to both existing and future stakeholders

Pride of Britain Awards, broadcast on ITV1, attracted an audience of over 6 million viewers.

Our major new charity initiative and entertainment event for Christmas, Text Santa, raised awareness and money for those most vulnerable during the festive period.

Creating a responsible future

At ITV, we have a responsibility to both existing and future stakeholders which is taken seriously. As a broadcaster and producer our activities can impact the lives of millions of viewers and users of our services, in addition to affecting the perception of ITV by other stakeholders. Other stakeholders include investors, regulators, talent, suppliers and employees, whose engagement with ITV plays an essential role in the success of our Transformation Plan.

During 2011, our responsibility strategy has been revised to align to the Transformation Plan and our four strategic priorities, and to contribute towards long-term industry sustainability. The strategy also aims to mitigate our risks and uncertainties and ensure the Company continues to behave in a responsible manner through specific performance targets. Objectives have been identified by the newly formed Corporate Responsibility Committee and are supported by the Management Board. A new role of Head of Corporate Responsibility has been appointed to roll out the strategy across the Company. They will be responsible for consolidating activity for maximum impact and managing policy around charitable giving, both on and off-screen. This role reports directly into the Group HR Director, who also chairs the Corporate Responsibility Committee, ensuring activity is relevant and integrated into the business.

A list of Committee members and their roles at ITV can be found on our Corporate Responsibility website.

Priorities

Over the next three years our strategy aims to help to grow our business through strengthening stakeholder pride and loyalty in ITV. Our approach is to utilise our strong presence as a catalyst in the heart of our communities. This will be achieved through the following three priorities:

– Investing in drama in our regions
Utilising ITV s brand, expertise and presence to generate long-term sustainability in the creative industry outside of London, by supporting grass-roots talent, skills and production in drama.

– Responsible reach
Utilising ITV s unique position as a regional and national broadcaster and the reputation of well-known programmes as a vehicle to engage mass audiences in national campaigns and raise awareness around grass-roots issues.

– Operating responsibly
Being seen as a responsible industry leader by demonstrating the link between responsibility and a sustainable future. In particular:

- Utilising external benchmark tools to improve ITV s position and working cross-industry to share best practice;
- Setting performance targets where feasible and transparency on results;
- Supporting new and diverse talent and improving access to the industry; and
- Recognising and rewarding employees individual contributions and impact on the community and environment.

For information demonstrating the impact of our Corporate Responsibility in the year, the drivers resulting in the above priorities, and specific aims and measures around the strategy, please visit our Corporate Responsibility website.

Performance summary

The following information summarises the impact that the Company s operations have had on its people, customers, suppliers, community and environment during 2011.

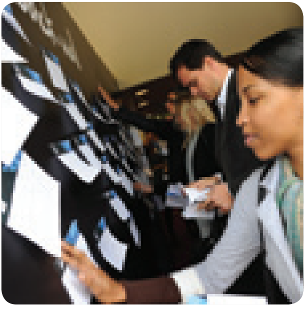
People

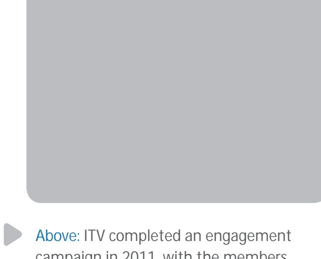
We have outlined in Priority 1 of the Transformation Plan, as well as in our Risks and Uncertainties section, that attracting and retaining talent is critical to our success. It is therefore in our interest to ensure that we provide the appropriate rewards and opportunities for development so that our people feel engaged with the Company. Insufficient employee engagement has been identified as a potential strategic risk.

We have again completed an engagement campaign in 2011, with the members of the Management Board visiting ITV locations and giving employees the opportunity to feed back their thoughts and concerns about the business. This engagement has continued through other forums such as the Company intranet, video booths and regular hard copy newsletters, as well as through briefings between managers and their teams by which employees can understand the financial and economic factors affecting the Company s performance and how their role contributes to the execution of our strategy. Participation in ITV s Employee Engagement Survey increased from 62% to 82% in 2011 while employee engagement has improved from 75% to 85%.

We have continued to invest in our people through training programmes for all employees as well as leadership development. 92% of managers benefited from formal training in 2011. The introduction of a new online performance management tool will continue to ensure clarity around capability and objective-setting as well as succession planning. More detailed information around leadership and succession planning can be found in the Governance section.

Our package of voluntary benefits, Relish, provides valuable cost savings for employees and also for the Company. Enrolment for 2012 Relish benefits was more popular than ever, with 53% of employees now participating in at least one Relish benefit. All eligible employees earning under £60,001 received a 3% increase in salary in January 2012, as well as an additional one-off award to the value of £250 as part of the annual pay review.





Above: ITV completed an engagement campaign in 2011, with the members of the Management Board visiting ITV locations and giving employees the opportunity to feed back their thoughts and concerns.

view our CR website @
www.itvplc.com

As in the previous year, the pay award for 2011 for eligible employees (earning above £60,000) was performance-related. We share the success of ITV through our all-employee annual bonus which paid out in 2011. The Company also operates an all-employee Save As You Earn scheme.

Diversity

The business case around diversity is compelling as it ensures we attract and retain the best talent. This is achieved through our inclusive Equal Opportunities policy. Our policy reflects the Equality Act 2010 and aims for equality around gender, marital or parental status, race, origin, nationality, religious belief, disability, age, sexual orientation, and gender reassignment. ITV is recognised as a positive employer, holding the two-tick disability symbol and being the only broadcaster to be part of Stonewall s top 100 Workplace Equality Index, for the second year running. ITV participates in major national and industry-specific diversity forums, working as a collective to share best practice and campaign for change.

Workplace profile (%)

	2011	2010
Female employees	**49.4**	49.9

All ITV programmes must comply with the Ofcom Broadcasting Code in relation to their content and scheduling. We observe the 9.00 pm watershed and alert viewers to material that may cause offence. Our in-house compliance team follow detailed compliance procedures, providing advice to commissioners and programme-makers both during production and during the process of reviewing programmes before broadcast. Our in-house viewer services team provide a responsive complaints handling service while viewers can also raise complaints directly with Ofcom. In 2011 Ofcom found 12 breaches of the code compared to six in 2010. We respond to any breach by assessing the causes and implementing any changes required to our practices and processes.

We continue to deliver access services across our family of broadcast channels beyond the targets set by Ofcom for subtitling, signing and audio description. On the ITV Player about 80% of programming is now subtitled, and plans to offer audio description and signing are progressing well. Signing continues to be provided by our award-winning in-house facility SignPost which offers online signing services, news, information, entertainment and education in and about sign language. As well as signing provision, SignPost has been recognised for its wider access and community work. Signed Stories, our website with books to see in sign language and subtitles, won a Plain English Campaign Media Award in December 2011 for the clarity and simplicity of all its written content. ITV BabySign won the Best Early Years Digital Content at the 2012 BETT awards. The free website helps parents teach sign language to babies before they are old enough to speak, improving early years communication and bonding.

Access services for ITV1 (% of programmes)

	Ofcom target	ITV 2011
Subtitling	90%	99%
Audio description	10%	20%
Signing	5%	6%

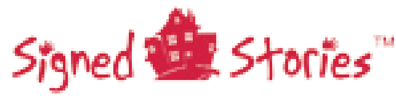
For more information on targets, achievements and services visit our Corporate Responsibility website.

Suppliers

We conduct business with a large variety of suppliers and endeavour to do business on terms that are considered fair and reasonable. To ensure we trade responsibly, we draw up contracts with suppliers which incorporate industry-standard environmental and H&S standards. It is in the Company s best interest to ensure we have transparent and effective relationships with suppliers, in particular those with whom we work regularly, such as suppliers of outsourced services and key suppliers of programming and broadcasting programme rights. Managing supplier relationships is a key part of our business strategy and is the responsibility of both the commissioning and commercial teams and our central procurement team.

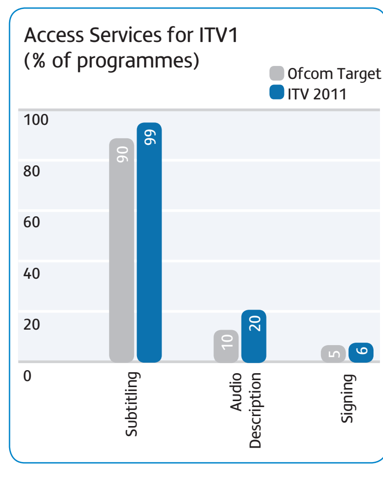
We have a variety of suppliers who are key to the business. A number of the Company s major suppliers are involved in the broadcast of ITV s family of channels and include Arqiva, Technicolor, SES Astra and BT. Other key suppliers include those who provide the technology for outside broadcast such as SIS. In 2011 ITV signed an agreement with Irdeto to provide an IT platform for the provision of pay TV capability. ITV has also engaged Mace Group to manage and deliver the move into MediaCity in Manchester.

Key suppliers of programming and broadcasting programme rights include ITN, who provide 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.



Top: Signed Stories won a Plain English Campaign Media Award in December 2011 for the clarity and simplicity of its written content.

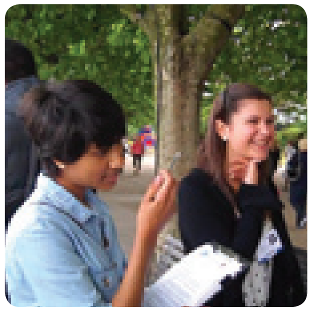
Bottom: Signing for ITV s programmes is provided by ITV s award-winning in-house facility SignPost.



Responsibility

continued

We hold a unique role in the community due to our ability within the regions to raise awareness of causes at a local level



Top: Hundreds of people turned out to support ITV s Walk4Life on Sunday 25 September. The event is part of a government initiative to raise awareness about healthy living.

Bottom: In summer 2011 100 young people joined our two week Work Inspiration programme.

Community and Charitable Giving

We hold a unique role within the community due to our ability within the regions to provide sponsorship for, and raise awareness of, causes at a local level. We are proud to carry out this wider social role and contribute towards a sustainable future. However, we balance this against short and medium-term business requirements, such as:

- Connecting audiences to the brand through regional community partnerships and initiatives which generate loyalty to ITV and provide insights to ensure content reflects its audiences;
- Enhancing reputation by using our air-time influence and reach to make a positive impact on society, as well as raising awareness of some of the positive activities we do for the community; and
- Attracting and retaining the best talent by ensuring the Company is accessible and supporting the next generation of talent from within the regions.

During 2011, our activities have ranged from charitable giving to donations to specific programmes and campaigns. In all, ITV has contributed to £1.5 million in cash (2010: £1.5 million) and £3.4 million in-kind (2010: £5.7 million). In addition through our call to action campaigns, such as Born to Shine, Malaria No More and Text Santa we have raised £6.4 million through text and phone lines. Text Santa was a major new charity initiative, launched as a dedicated on-air appeal over the Christmas period, raising awareness and money for those most vulnerable during the festive period. In all, we raised a total of £4.1 million, which will be split between our nine deserving charities: Carers UK, Crisis, Help the Hospices, Samaritans and WRVS, as well as children s hospital charities Great Ormond Street Hospital Children s Charity, Noah s Ark Appeal, Helping Hand, and Yorkhill Children s Foundation. We hope to repeat this in 2012.

ITV takes its role in inspiring and developing young people seriously. Offering programmes for 14 year olds and upwards, we offer structured training and experiences to help create a future sustainable workforce for the industry, with a heavy focus outside of London. As part of our responsibility we focus on improving access to the industry, aiming to remove negative perceptions and barriers around working in media. Particular successes include our Work Inspiration summer programme for 100 young people, Modern Apprenticeships, work experience for students in higher education, and positive action through our Enabling Talent programme for talented individuals with a disability.

More information on activity within the community, charitable giving, donations raised and the organisations which we support can be found on our Corporate Responsibility website.

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 may be occasions when an activity may fall within the broader definition of political expenditure contained within the Companies Act 2006. Shareholder authority for such expenditure was given at the 2011 Annual General Meeting. However, during 2011 the Group made no payments falling within this definition (2010: nil).

Environment

Our obligation to operate responsibly includes a consideration of our impact on the environment. Our production activities involve content production both in the studio and on location, and the running of such operations consumes large amounts of energy, producing carbon emissions. Our priority continues to be the reduction of carbon emissions to comply with the Carbon Reduction Commitment Energy Efficiency Scheme. In 2011 we took another step towards our goal of reducing carbon emissions by 15% by the end of 2012 (from the 2008 baseline), with the aim of reducing our impact on the environment and the amount of carbon credits the Company will have to purchase in summer 2012. This figure will be published on our Corporate Responsibility website. Statistics are outlined opposite.

We continue to engage with the investment community regarding our corporate responsibility performance. In 2011 ITV was once again included in the Dow Jones Sustainability World Index.

Environmental performance indicators [1]

	2011	2010	2009	2008
Total CO_2 emissions from business travel (tonnes)	**4,921**	5,774	6,831	5,867
Total CO_2 emissions (tonnes)[2]	**43,051**	44,427	46,383	50,471
Total waste (tonnes)	**1,724**	1,807	2,195	1,900
Total waste recycled	**85%**	60%	65%	N/A
Total water use (m^3)	**81,891**	87,017	86,656	93,175

[1] UK only, including landlord managed sites, assistance with data completion by Utilyx Ltd (independent energy consultants).
[2] Calculated in accordance with the WRI/WBCSD Greenhouse Gas Protocol methodology.

Our focus in 2012 will be to continue to look at new technology which will enable us to reduce carbon emissions, initially within our static production bases, alongside other activities which will contribute to a sustainable future. Narrative around the above performance indicators, our current activity and our planned changes can be found on our Corporate Responsibility website, www.itvplc.com.

Contact us at responsibility@itv.com.

Governance

Board of Directors

1. Archie Norman
Chairman

Appointment to the Board
1 January 2010

Age 57

Committee membership
Nomination (Chairman), Remuneration

Key areas of prior experience
Business turnaround and overseas investment

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

2. Adam Crozier
Chief Executive

Appointment to the Board
26 April 2010

Age 48

Committee membership
General Purpose

Key areas of prior experience
Business turnaround and change management

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

3. Ian Griffiths
Group Finance Director

Appointment to the Board
9 September 2008

Age 45

Committee membership
General Purpose

Key areas of prior experience
Corporate finance and financial restructuring

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

4. Mike Clasper CBE
Senior Independent Director

Appointment to the Board
3 January 2006

Age 58

Committee membership
Audit, Nomination, Remuneration

Key areas of prior experience
Business services, logistics and risk management

External appointments
- Chairman of Which? Ltd (2008)
- Chairman of HM Revenue & Customs (2008)
- Governor of RSC (2011)

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 of BAA plc (2001–2003)
- President of Global Home Care, Procter & Gamble (1999–2001)
- Chairman of the West London Consortium (2006–2011)

Qualifications MA

Left to right: John Ormerod, Ian Griffiths, Adam Crozier, Archie Norman, Lucy Neville-Rolfe, Mike Clasper and Andy Haste

7. John Ormerod
Non-executive Director

Appointment to the Board
18 January 2008

Age 63

Committee membership
Audit (Chairman), Nomination, Remuneration

Key areas of prior experience
Financial experience, developing strategy and growth

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

Previous experience
- Trustee of the Design Museum (2006–2012)
- Non-executive director and chairman of Merlin Claims Services Holdings Limited (2007–2010)
- Non-executive director of Negative Equity Protection Holdings Limited (2007–2009), Millen Group Limited (2007–2009) and BMS Associates Limited (2004–2008)

Corporate Governance

Dear Shareholder,

The Board of ITV believes that corporate governance is important in ensuring its effectiveness and that of the business. This governance report comprises the following sections:

- How the Board works;
- Effectiveness;
- Accountability;
- Relations with shareholders;
- Audit Committee Report; and
- Remuneration Report.

The main role of the Board is to work with the executive providing support and advice to complement and enhance the work undertaken. The Board consistently challenges processes, plans and actions to promote continuous and sustained improvement across the business.

The Board takes seriously the guidance set out in The UK Corporate Governance Code (the Code). During 2011 ITV plc complied with the requirements of the Code as set out in this report.

Archie Norman
Chairman
29 February 2012

How the Board works

Our role

The Board as a whole is collectively responsible for delivering the long-term success of the Company by:

- providing entrepreneurial leadership of the Company within a framework of prudent and effective controls which enable risk to be assessed and managed;
- supporting the executive team to formulate and execute the Company's long-term objectives and strategy, ensuring that the necessary financial and other resources are in place for the Company to meet its objectives, and reviewing management performance; and
- setting the Company's values and standards and ensuring that its obligations to its shareholders and others are understood and met.

There is a schedule of specific matters reserved to the Board for decision which is available on our website at www.itvplc.com.

Our meetings

The number of meetings held during the year and attendance of Directors is set out in the table on page 58. An annual schedule of matters the Board wishes to consider at each meeting and at each meeting of its committees is produced. Meetings are normally held at one of the London sites and at least once a year at one of the regional offices. In 2011 the Board met colleagues in Leeds. Board meetings are structured around the following areas:

- operational and functional updates;
- financial updates;
- strategy and risk;
- progress against Transformation Plan priorities;
- other reporting; and
- feedback from committees.

Senior executives and other colleagues are regularly invited to attend meetings for specific items. In addition to formal Board and Committee meetings the following meetings take place between:

- Board members and Management Board members
- Chairman and non-executive Directors (the Chief Executive is sometimes invited to attend)
- SID and non-executive Directors (without the Chairman present)

What we have done and what we are planning

Some of the things the Board has focused on during 2011 include:

- News strategy
- Pensions longevity swap
- Cash and counterparty limits
- Technology strategy and governance
- Regulatory strategy
- Bond buy-backs and other debt settlement
- Dividends, future capital structure and other debt management options

Some of the things the Board is planning for 2012 include:

- Pay strategy and Total Value proposition
- International content strategy
- Broadcasting strategy and brand
- Further review of news strategy
- Pensions investment strategy

Our Governance structure

The diagram below shows our governance structure.

Details of membership of the 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.

Who is on our Board and how we work as a team

Composition and appointments

Details of Board membership during 2011 is set out in the table on page 58. There were no changes to the Board during the year.

Andy Haste completed three years as a non-executive Director in August 2011. It was agreed that he should serve a further term subject to the Board succession planning framework. Mike Clasper completed six years as a non-executive Director in January 2012 and has been asked by the Board to continue as a Director for a further 12 month period.

At the AGM in May 2012 there will be resolutions to re-elect each of the Directors.

Non-executive Directors are expected to commit 18 to 20 days per annum to the Company and the Board is satisfied that each of the non-executive Directors commits sufficient time to the business of the Company. An outline of the terms of engagement for the non-executive Directors can be found on our website at www.itvplc.com.

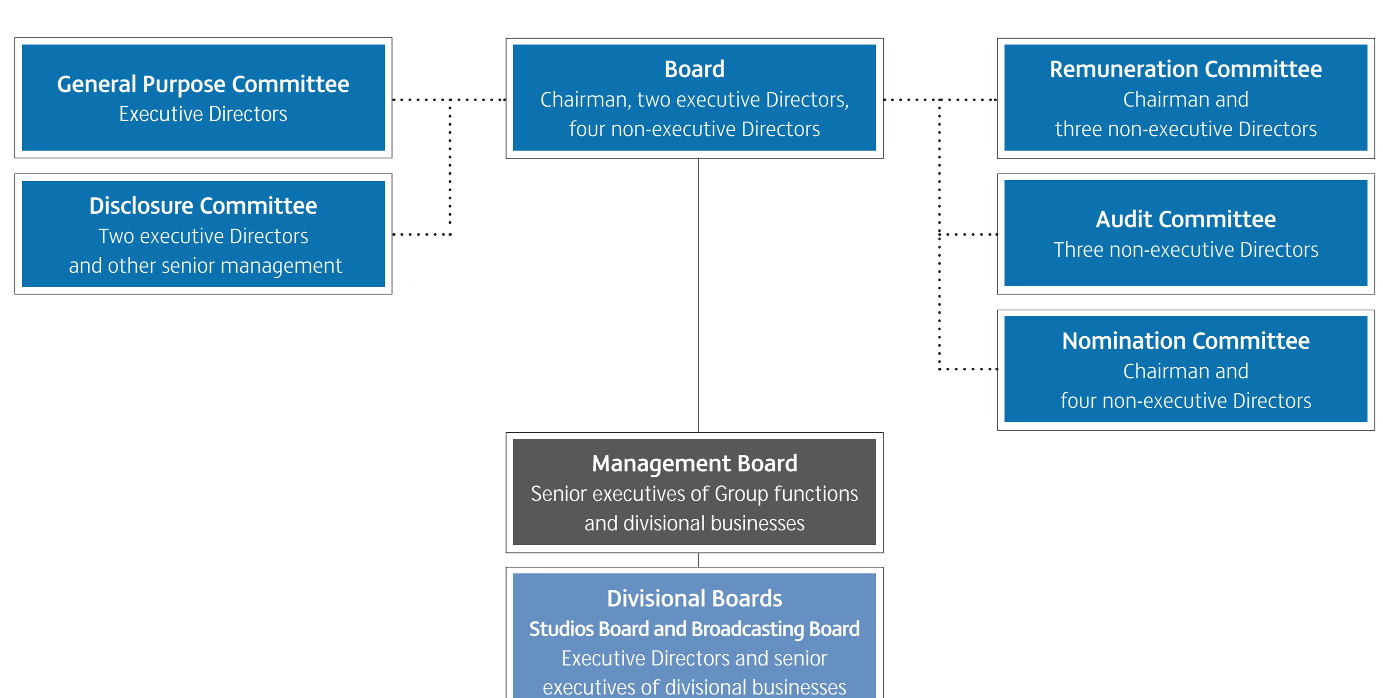
Skills and experience

Biographical details for each of the Directors are set out on pages 54 and 55.

There are job descriptions in place for each of the Chairman, the Chief Executive, and the Senior Independent Director which have been agreed by the Board.

The Board is still of the view that the non-executive Directors are independent in both character and judgement. They constructively challenge and help develop proposals on strategy, scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.

The Board works well together bringing strong, independent, balanced judgement, knowledge, and experience to the Board's deliberations. Each non-executive Director has appropriate skills and experience that their views carry significant weight in the Board's decision making.



Corporate Governance
continued

Board and Committee membership and attendance at meetings in 2011

				Attendance in 2011			
				Board	Nomination Committee	Remuneration Committee	Audit Committee
	Status	Notes	Date of appointment to the Board	**9**	**2**	**4**	**8**
Mike Clasper	Independent and SID	1	3 January 2006	9	2	4	7
Adam Crozier	Executive		26 April 2010	9	–	–	–
Ian Griffiths	Executive		9 September 2008	9	–	–	–
Andy Haste	Independent	2	11 August 2008	7	2	4	6
Lucy Neville-Rolfe	Independent	3	3 September 2010	8	1	–	–
Archie Norman	Independent	4	1 January 2010	9	2	4	–
John Ormerod	Independent		18 January 2008	9	2	4	8

Notes:
1 Missed one audit committee meeting relating to tax issues.
2 Missed two audit committee meetings and two Board meetings due to RSA meetings.
3 Missed one Board meeting and a nomination committee meeting due to a Tesco board meeting.
4 Independent on appointment to the Board.

Board Committees
The Board has delegated certain responsibilities to its committees. 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 composed 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 66.

Audit Committee: see the Audit Committee Report on page 62.

Nomination Committee: The Committee is composed of the non-executive Directors.

Full details of attendance at Committee meetings can be found in the table above.

The role of the Nomination Committee is to:

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

During the year the Committee undertook a review of talent and capability within the business and considered a detailed succession plan.

Disclosure Committee: the Committee is composed 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.

Corporate Governance
continued

Induction and continuing professional development

The Company has a policy and programme for induction and continuing professional development of Directors. 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:

Relations with shareholders

The Board attaches a high priority to effective communication with shareholders and we have regular and open dialogue with many of our institutional investors. The Board believes that continued engagement with our shareholders is beneficial to both ITV and its stakeholders as it helps to build a greater understanding of investors' views, opinions and concerns.

Adam Crozier, Ian Griffiths and our investor relations team meet with many institutional investors throughout the year to keep them updated on the Company's performance and the Transformation Plan. These range from one-to-one meetings to group presentations including the Full and Interim results and the AGM. Specifically, following the Full year and Interim results one-to-one meetings are held with our largest institutional investors.

The Company maintains a programme of engagement with the investment community, including the results presentations, briefings to Brokers and other sales forces and attendance at a small number of investor conferences. Presentations given to the investment community are available to download from the 'Investors' section of our website at www.itvplc.com.

We regularly seek feedback on the perception of the Company amongst shareholders and the investor community more broadly via our corporate brokers. Investor comments are fed back to the Board and its Committees regularly.

The Company considers annually whether it is appropriate to commission an investor audit. No audit was undertaken in 2011.

Private shareholders represent more than 95% of our shareholders and we aim to engage with them regularly. We encourage shareholders to register their email addresses to receive information from us in a timely manner. We have a continuous programme to find lost shareholders and return unclaimed dividends.

Annual General Meeting (AGM)

The AGM for 2012 will be held on 9 May 2012 (further details can be found on page 78). The Notice of Meeting sets out the resolutions being proposed. The Notice, together with any related documents, is made available to shareholders at www.itvplc.com, or is mailed to them, if they have elected to receive hard copies, at least 20 working days before the meeting. Last year all resolutions were passed with votes ranging from 86.94% to 99.92%.

The meeting is normally attended by approximately 200 shareholders. Shareholders are invited to meet with the Directors prior to and after the formal proceedings. At the meeting the Chairman and Chief Executive will review the Group's current trading which is followed by a question and answer session. Separate resolutions are proposed on each substantially separate issue and all resolutions are taken on a poll. The level of votes lodged on each resolution is made available on a regulatory information service and on the Company's website at www.itvplc.com as soon as possible after the meeting.

Shareholders who are not able to attend the meeting can vote online in advance at www.itvplc.com or by completing and returning a form of proxy.

Save in exceptional circumstances, all members of the Board will attend the AGM.

Corporate website

We maintain a corporate website at www.itvplc.com containing a wide range of information of interest to institutional and private investors including:

- Latest news and press releases;
- Annual reports and investor presentations; and
- Governance documents mentioned above.

Further information for shareholders is set out on page 136 and 137.

Audit Committee Report

Dear Shareholder,

On the following pages we set out the Audit Committee's Report for 2011. The report comprises four sections:

- How the Committee works;
- What we focused on in 2011;
- Internal Controls; and
- Our Auditors.

Our principal aims have been to ensure the integrity of the financial information provided to our stakeholders and to assist the Board to monitor and evaluate the internal control environment. Strong and effective risk management and control procedures underpin our ability to execute our Transformation Plan and implement our strategy. Good progress has been made and we will continue to monitor progress in particular as we implement new IT systems and seek to build a stronger content business internationally.

We have followed closely the public debate on audit, audit regulation and the work of audit committees. We support fully the aims of audit quality; challenging engagement by audit committees; and transparent reporting to stakeholders. We seek to achieve this through the work of this Committee making changes and improvements where required. While we are not yet convinced that a major additional regulatory compliance burden on companies is required to achieve this, we will engage with the current debate and respond appropriately to implement any new requirements.

Finally, we note that whilst we are satisfied with the work of our auditors KPMG and recommend their reappointment at the forthcoming AGM, in 2012 we plan to carry out a more thorough review and market appraisal to be considered in formulating the Committee's recommendation for the appointment of auditors at the 2013 AGM.

John Ormerod
Chairman, Audit Committee
29 February 2012

How the Committee works

Who is on the Committee?

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

- John Ormerod (Chairman)
- Mike Clasper
- Andy Haste

Full details of attendance at Committee meetings can be found in the table on page 58.

The Committee members have a wide range of business and financial experience between them which enables the Committee to fulfil its terms of reference in a robust and independent manner. The Committee considers that John Ormerod has recent and relevant financial experience for the purposes of the UK Corporate Governance Code (the Code). Biographical details of the members of the Committee including their qualifications and experience are set out on pages 54 and 55.

Members of the senior executive team and other senior management regularly attend meetings at the invitation of the Chairman of the Committee together with the Head of Internal Audit (Deloitte) and the external auditors (KPMG). The Committee as a whole meets privately with the internal and external auditors prior to meetings on a regular basis.

In addition, throughout the year the Chairman of the Committee meets informally and has open lines of communication with the Group Finance Director, Head of Internal Audit and the senior engagement team from the external auditors. This group generally meets ahead of each full Audit Committee meeting to prepare and identify key areas for consideration by the Committee.

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 under its terms of reference. The results of the Committee's work are reported to the Board.

What is our role?

The role of the Committee includes to:

- monitor the integrity of the published financial information of the Company;
- 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;
- review the quality and effectiveness of the external audit and the procedures and controls designed to ensure auditor independence; and
- consider and make recommendations to the Board in relation to the appointment, re-appointment, replacement, and remuneration of the Company's external auditors.

What we focused on in 2011

In 2011 the Committee met eight times.

The Committee receives detailed reports on all key judgements and continues to challenge auditor independence and fees.

Some of the key issues we considered during the year include:

- **Financial reporting:** the Committee reviewed the financial information published by the Company, including the annual financial statements and half year financial report. To assist its review the Committee received reports from management and from the auditors on compliance with accounting standards, key judgements in preparation of the financial statements and compliance of those statements with best practice and laid down disclosure standards. The Committee was pleased at the progress made in clarifying what are often complex explanations and disclosures in the new format 2010 financial statements. The Committee introduced a new process for verifying Interim Management Statements.

  In considering reports on 2011 the Committee has considered judgements applied in establishing provisions for taxation and pension obligations and accounting for multi-year broadcasting rights. Judgements associated with impairment and the application of the going concern basis were also considered but were less challenging as the Company's operating and financial performance has strengthened.

- **Risk management:** the Committee continued to consider the process for managing risk within the business. New risk management procedures were implemented in 2011 and the Committee has monitored progress made in embedding these procedures in the management processes.

- **Mergers and Acquisitions:** as part of the Transformation Plan the Company may wish to undertake mergers or acquisitions. The Committee reviewed and approved for recommendation to the Board, a reference guide setting out process and controls for any future activity. The Committee will review due diligence analysis for significant transactions.

- **Cash and Counterparty limits:** the Committee considered cash and counterparty limits in light of the level of cash held, rates that could be earned on the cash and the desire of the Board to maintain maximum liquidity and flexibility. The Committee recommended to the Board proposals for changes to the limits and periods of investment.

- **Technology governance:** as part of the Transformation Plan the Company is undertaking radical changes to its technology infrastructure. The Committee has focused on reviewing and advising on the governance structures for the various systems and processes. The Committee continued to monitor the implementation of the integrated finance processes and system.

- **Bribery and Fraud:** the Committee continued to review systems and controls for the prevention of bribery and fraud. The Committee reviewed a risk assessment and oversaw a project to ensure compliance with the Bribery Act, based on the Ministry of Justice guidance, to ensure that appropriate procedures were in place across the Group. Monitoring reviews are ongoing.

Annual Review

We conducted an annual review of our performance as part of the annual board evaluation process.

Internal controls

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 as shown in the diagram on page 57.

Audit Committee Report

continued

- **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 42 and 43.

- **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.

Our Auditors

Internal Auditors

The Group's internal audit activity is outsourced to Deloitte and report directly to the Committee. The Committee keeps under review the internal audit relationship with Deloitte and the procedures to ensure appropriate independence of the internal audit function is maintained. In particular, the Committee has approved guidelines in relation to other advisory and consultancy work that Deloitte may undertake for the Company. An evaluation exercise is undertaken annually to review performance.

During the year the Committee considered and approved the internal audit plan and reviewed internal audit reports, the actions taken to implement the recommendations made in the reports and the status of progress against previously agreed actions.

External Auditors

Independence, objectivity and fees

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. The policy is reviewed annually and 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. Generally, significant non-audit advisory and consulting assignments for which the auditors are qualified and which do not conflict with the Company's independence guidelines are subject to competitive tenders. There is a significant amount of work that is placed elsewhere that could have been undertaken by the auditors. 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.

Other than in exceptional circumstances management and the Committee do not expect non-audit fees to be materially in excess of fees for audit and audit related services. 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 section 2.1 on page 95. The significant engagements relate to VAT and corporate tax services, including tax restructuring advice in respect of overseas subsidiaries, and a one off VAT reclaim progressed on behalf of the ITV Pension Scheme.

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 as well as former employees working for the Company. The appointment by the Company of former senior employees of the external auditor would require approval of the Committee.

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. The Committee also reviews and discusses with the auditors the reports on KPMG and other major firms issued by the Audit Inspection Unit.

The Committee has noted that KPMG have been the Company's auditors since 2004 and while satisfied with their work considers it best practice periodically to undertake a more thorough review and market appraisal. The Committee plans to carry out such a review in 2012 to be taken into account in formulating the recommendation to the Board for the reappointment of auditors at the 2013 AGM.

Reappointment
During the year the Committee considered the 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 2011. The resolution was passed and KPMG Audit Plc was reappointed for a further year.

Approval

The Audit Committee Report was approved by the Board on 29 February 2012 and signed on its behalf by John Ormerod.

Remuneration Report

Dear Shareholder,

On the following pages we set out the Remuneration Report for 2011.

In order to successfully achieve the transformation of ITV into a lean, creatively dynamic and fit-for-purpose organisation, it is essential 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 Transformation Plan continues to drive those changes needed to deliver a path to sustainable growth in shareholder value over the medium-term.

We are using the incentives framework introduced in 2011 to reward delivery of business results and of the Transformation Plan.

We believe that the current incentive arrangements continue to support the Transformation Plan by placing an emphasis on the delivery of strategic change, co-operative endeavour and three to five-year outcomes aligned to shareholder value.

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;
- we have implemented only modest salary increases for each of the last two years;
- the Committee believes that the level of bonus payments for 2011 is a fair reflection of the Company performance during the year. It reflects the progress made against the Transformation Plan, reducing ITV's cost base and managing cash and working capital in 2011;
- the compulsory deferral period for part of the annual bonus is now three years and the Senior Executive Group is encouraged to hold long-term personal investment in ITV to create alignment with the shareholder experience; and
- benefits awarded to the Senior Executive Group are delivered within the same framework as for other ITV employees.

Andy Haste
Chairman, Remuneration Committee
29 February 2012

Contents

The report is presented in five sections:

- How the Committee works;
- Remuneration policy;
- Delivering remuneration policy;
- Non-executive Directors; and
- Detailed audited disclosures.

How the Committee works

Who is on the Committee

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

- Andy Haste (Chairman)
- Mike Clasper
- Archie Norman
- John Ormerod

Full details of attendance at Committee meetings can be found in the table on page 58.

Who advises the Committee

The Committee obtains advice from various sources in order to ensure it makes informed decisions. During 2011, the Committee undertook a formal review of its independent external advisers. As a result of this process Deloitte LLP were re-appointed. The Committee's main advisers are set out below. Adam Crozier, Chief Executive, is invited to attend the meetings of the Committee 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.
Deloitte LLP*	Independent advisers on remuneration policy and the external remuneration environment.
Hogan Lovells LLP	Share scheme matters.
DLA LLP	Employment advice.
PricewaterhouseCoopers	Salary benchmarking data.
Towers Watson	Executive surveys and benchmarking data.

* Deloitte are signatories to the Code of Conduct in relation to Executive Remuneration Consulting in the UK. 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.

What is our 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 executive Directors, senior executives making up the Management Board, and other senior executives earning £300,000 or more per annum, together the Senior Executive Group;
- approve the design of the Company's annual bonus arrangements and long-term incentive plans (LTIPs), 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 maintains an active dialogue with shareholder representatives.

What we did in 2011

The Committee met four times in 2011 and considered the following:

- reviewed base salaries for the Senior Executive Group with effect from 1 January 2011 using the same process as applied to other ITV employees;
- assessed the annual bonus outcomes and deferred annual bonus awards for 2010;
- set the business and personal performance targets for 2011 annual bonuses aligned with the business plan for the year and the Transformation Plan;
- determined the performance targets that would apply to the Performance Share Plan (PSP) awards made in 2011, in line with the approvals received from shareholders;
- reviewed the Remuneration Report for 2010, prior to its approval by the Board, and adoption by shareholders at the Annual General Meeting in May 2011;
- agreed remuneration packages for new appointments to the Senior Executive Group and termination arrangements for those individuals within the Senior Executive Group whose employment ceased; and
- conducted a formal process to review the independent external advisers to the Committee.

The Committee reports regularly to the Board on its work.

Annual Review

We conducted a review of our performance as part of the annual Board evaluation process.

Remuneration policy

The Company 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 developed a remuneration policy which balances these factors, while taking into account prevailing best practice and investor expectations.

A significant proportion of the remuneration package is tied to the achievement of stretching performance conditions which align remuneration with our strategy to create shareholder value and deliver the Transformation Plan.

The remuneration package is focused on rewarding sustained long-term performance and aligning executives with the shareholder experience.

Individuals should be rewarded for success and performance measured over clear timescales. Executives are encouraged to take action in line with the Transformation Plan, using good business management principles and appropriate risk management.

Steps are taken to prevent rewards for failure. Termination payments to Directors will only reflect contractual obligations.

When developing remuneration policy, the Committee obtains advice from the key advisers outlined on page 66. When determining remuneration for the Senior Executive Group and all employees of ITV, the Committee also considers any relevant environmental, governance and social issues.

Key features of the remuneration policy are set out in the table overleaf.

Remuneration Report

continued

Key features of the remuneration policy

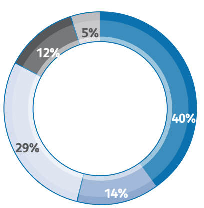
Element of remuneration	How this supports the strategy	Performance measures
Basic salary	Recognises the individual's skills and experience and provides a market competitive base salary.	• Reviewed annually from 1 January. • Benchmarked against companies of similar size and complexity.
Bonus and Deferred Bonus	Rewards performance against financial and non-financial targets, delivering value to shareholders and contributing to the transformation of ITV.	• 60% based on corporate financial targets. See page 30. • 40% based on individual contributions towards the Transformation Plan. • One-third paid in cash. • One-third compulsorily deferred and paid in shares after three years. • Up to one-third voluntarily deferred and paid in shares after three years, matched by an additional PSP award, with the balance in cash.
Performance Share Plan (PSP)	Rewards sustained long-term performance, supporting the creation of shareholder value aligned with shareholder interests.	• 50% based on cumulative adjusted EPS. • 25% on Family SOV (platform adjusted). • 25% on non-NAR growth. Measured against demanding targets. See page 30.
Pension and Benefits	Provides a market competitive package and an opportunity for executives to build up an income on retirement.	Benchmarked periodically.

Balance of remuneration

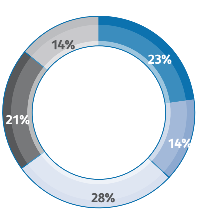
The balance between the fixed and variable elements of the total remuneration package (excluding pension) for executive Directors is shown in the charts below. The charts show the mix at both target and maximum performance levels.

The charts also show how the package is made up of a balance between cash pay and shares in ITV, over the short and longer term. Broadly there is a 40:60 mix between fixed and variable remuneration at target performance and a 23:77 mix if maximum performance is delivered. A high proportion of the remuneration package varies with performance.

Salary
} Cash bonus
Deferred share award
Long-term incentive (core PSP)
} Long-term incentive (matching PSP based on maximum voluntary deferral)



Fixed vs variable pay at target performance



Fixed vs variable pay at maximum performance

Alignment with shareholders

The Committee continues to recognise the importance of executive Directors becoming shareholders so as to align their interests with other shareholders. Shareholding guidelines are in place, which encourage executive Directors to build up a holding of ITV plc shares, 50% of the requirement within three years of appointment and the remainder within five years as follows:

	Percentage of base salary
Adam Crozier	200%
Ian Griffiths	150%

Other members of the Senior Executive Group are required to hold between 50% and 100% of their salary in line with their individual bonus opportunity.

Details of the executive Directors' current personal shareholdings are shown on page 76.

Remuneration Report

continued

Maximum Bonus opportunities

% of base salary	Cash	Compulsory Deferral	Voluntary Deferral	Total
Adam Crozier	60%	60%	60%	180%
Ian Griffiths	55%	55%	55%	165%

For 2012 the maximum Bonus opportunities will remain unchanged for Adam Crozier and Ian Griffiths at 180% and 165% of base salary respectively.

2011 Bonus outcomes

Performance targets for the Senior Executive Group in 2011 were set to ensure they support both the Transformation Plan and delivery of key operational outcomes. The Committee ensured that the maximum bonus opportunity could 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.

2011 Bonus performance measures

The majority of the bonus opportunity (60%) was based upon the achievement of corporate and financial targets, weighted to the area of the business for which the executive has primary responsibility. For Adam Crozier and Ian Griffiths the targets were set at a corporate level. Across the Senior Executive Group these targets include profit generation, profit to cash conversion, Family SOV (platform adjusted), online targets, revenue targets, content creation targets and delivery of agreed cost savings targets.

The remainder of the bonus opportunity (40%) was based upon the contribution that the executive makes toward the overall Transformation Plan through the delivery of specific targets.

ITV's financial performance in 2011 has been strong, as outlined in the Performance & Financials section. In light of performance during the year, the following payment levels against corporate financial targets for the executive Directors have been approved:

Target	Achieved	Bonus Payout
Profit generation (EBITA before exceptional items) maximum payment for 110% of		

Long-term incentives

Performance Share Plan awards

As part of the incentives framework introduced in 2011 to support the delivery of the Transformation Plan, changes were made to the terms of the long-term incentive awards to be made to the Senior Executive Group under the PSP. The same arrangements will be used in 2012.

Maximum opportunities

- aggregate PSP awards, combining core and matching elements, will not exceed 150% of base salary (unchanged from previous maximum); and
- if an individual voluntarily defers one-third of their annual Bonus into shares, they will receive a matching award of shares under the PSP (on a 1:1 basis subject to the performance conditions that apply to PSP awards).

Performance measures

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

- 50% on cumulative adjusted EPS. This represents the key financial metric of the business. The cumulative adjusted EPS targets that have been set are considered by the Committee to be appropriately demanding.
- 25% on Family SOV (platform adjusted). This is aligned with the strategic priorities of the business.
- 25% on non-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.

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

Further details of the performance conditions are available in the table on page 72.

Outstanding awards from earlier years

The PSP was the only LTIP used to make awards in 2009, 2010 and 2011.

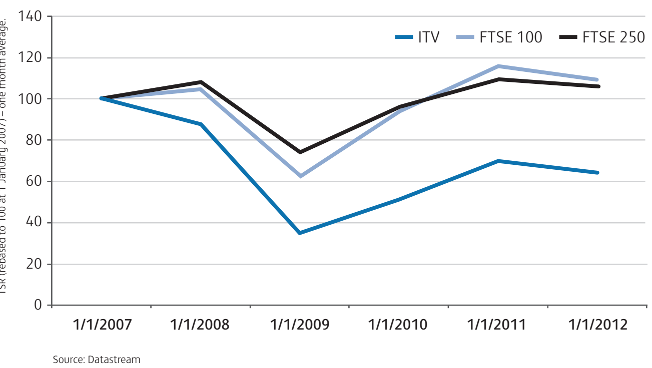
The table on page 72 outlines the key features and performance conditions of the plan.

Save As You Earn

The Company also operates an all-employee Save As You Earn scheme.

Performance graph

The graph below shows the TSR performance of the Company against the FTSE 100 and FTSE 250 index over the five-year period to 31 December 2011. 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 plan awards

	Performance Share Plan 2011 and 2012 (PSP)	Performance Share Plan 2009 and 2010 (PSP)
Award Level (plan maximum)	150% (Core Award and Matching Award).	150%
Co-investment requirements	• An award of up to 60% of base salary may be made as a match on voluntarily deferred bonus.	None
Performance period	• Three years.	• Three years.

Performance conditions

Performance Share Plan 2011 and 2012 (PSP):

- A Gateway condition of minimum cumulative adjusted EPS over three years must be reached before any portion of the award vests.
- 50% of an award vests in a range based on cumulative adjusted EPS over three years.
- 25% of an award vests in a range based on Family SOV growth.
- 25% of an award vests in a range based on Non-NAR growth.

2011 Award Strategic Targets	Threshold	Maximum
Gateway	21p	
Cumulative adjusted EPS	21p	24p
Family SOV growth	Maintain at 2010 levels	2%
Non-NAR growth	5%	10%

EPS cumulative years 2011 to 2013.

2012 Award Strategic Targets	Threshold	Maximum
Gateway	26.15p	
Cumulative adjusted EPS	26.15p	28.76p
Family SOV growth	Maintain at 2011 levels	2%
Non-NAR growth	5%	10%

EPS cumulative years 2012 to 2014.

Performance Share Plan 2009 and 2010 (PSP):

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

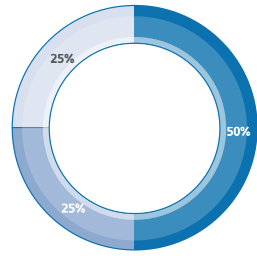
25% STRATEGIC – for awards made in 2010

- Measured in equal proportions against two targets:

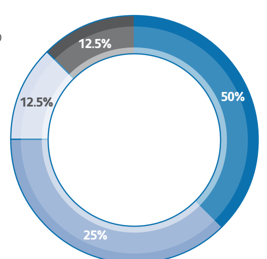
Strategic target	Threshold	Maximum
Family SOV growth	Maintain at 2009 levels	2%
Cumulative adjusted EPS	18p	20p

EPS cumulative years 2010 to 2012

EPS
SOV
Non-NAR



TSR: FTSE 250
TSR: Industry Peer Group
Strategic: EPS
Strategic:
SOCI for 2009
SOV for 2010



Vesting

Performance Share Plan 2011 and 2012 (PSP):

50% cumulative adjusted 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) between threshold and maximum.

Performance Share Plan 2009 and 2010 (PSP):

75% TSR

- Median and below – nil
- Upper quartile – 100%
- Vesting on a straight-line basis in between.

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.

Exercise period	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 prorating 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
Adam Crozier	26 April 2010	Rolling	12 months	12 months	None
Ian Griffiths	9 Sept 2008	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	2011 £000
Debenhams plc	53

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 on page 57. 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. There is no fee for membership of the Nomination Committee. The basic fee increased by £2,500 to £57,500 with effect from 1 January 2011. It has been agreed that the basic fee will increase by 2.5% to £58,938 from 1 January 2012. The annual fees payable in 2011 were as follows:

Non-executive Directors' fees	£
Board member	57,500
Additional fees for:	
Senior Independent Director	25,000
Audit Committee Chairman	20,000
Audit Committee member	5,000
Remuneration Committee Chairman	15,000
Remuneration Committee member	5,000

Note:
Details of committee membership can be found in the Governance section on page 58.

Share acquisition policy

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 76.

Chairman's fee and share award

The Chairman receives an annual fee of £300,000 and no further payment for membership of committees. He also received an award over 400,000 shares for each year (total 1.2 million shares) of his initial three-year appointment term to be released in three tranches over the initial term. The first tranche was released on 23 May 2011, the second tranche on 31 December 2011 and the third tranche will be released on 31 December 2012. He is not required to apply a percentage of his cash fee to acquire shares, as the Committee considers him to be sufficiently aligned with shareholders' interests with his current shareholding.

Remuneration Report
continued

Detailed audited disclosures

The following tables provide details of each of the Directors' emoluments, pension contributions, 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 2011 to 31 December 2011 were as follows:

	2011 £000	2010 £000
Emoluments	**2,964**	3,645
Gains on exercise of share options	**–**	35
Gains on exercise of restricted share awards	**943**	137
	3,907	3,817

Notes:
1 All share related gains are valued pre-tax on date of release to participant.
2 Gains on exercise of restricted share awards includes value of restricted shares awarded to Ian Griffiths in March 2010 and released 50% in 2010, and 50% in 2011. 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 was net of income tax. .
3 Further information is contained in the table below and on page 75.

Directors' emoluments

The Directors' emoluments for the year ended 31 December 2011 are set out in the table below.

Name of Director	Status	Basic salary/ Fees £000	Benefits in kind[2] £000	Pension contributions[3] £000	Short-term incentives (cash)[4] £000	**Total for the year ended 31 December 2011 £000**	Total for the year ended 31 December 2010 £000
Adam Crozier[1]	Executive	798	20	72	634	**1,524**	1,179
Ian Griffiths	Executive	438	14	64	312	**828**	689
Mike Clasper	Non-executive	93	–	–	–	**93**	90
Andy Haste	Non-executive	78	–	–	–	**78**	69
Lucy Neville-Rolfe	Non-executive	58	–	–	–	**58**	18
Archie Norman	Non-executive	300	–	–	–	**300**	300
John Ormerod	Non-executive	83	–	–	–	**83**	79
Past directors' emoluments (for comparative purposes)		–	–	–	–	**–**	1,221
Total emoluments		1,848	34	136	946	**2,964**	3,645

Notes:
1 The 2011 emoluments shown for Adam Crozier are for the full 12-month period ended 31 December 2011. The emoluments shown for 2010 are for the eight-month period from the date of his appointment on 26 April 2010 to 31 December 2010. For comparative purposes the full 2010 year equivalent would have been approximately £1.268 million.
2 This disclosure includes the cost of private medical insurance and car related benefits.
3 Pension contributions represent payments made into personal pension plans, or cash payments in lieu of pension, and are described further in the pension benefits section on page 69.
4 Short-term incentives:
– Executive Directors will receive a bonus for 2011 as detailed in the table below and shown in the table above:

	Percentage of maximum bonus opportunity earned	Total value of 2011 Bonus £	Value paid in cash (shown in the emoluments table above) £	Value compulsorily deferred into shares under the DSA £	Value voluntarily deferred into shares under the DSA £
Adam Crozier	88.26%	1,268,164	634,082	422,721	211,361
Ian Griffiths	86.26%	623,050	311,525	207,683	103,842

Directors' interests in share awards

Information given in the table below is for the period from 1 January 2011 to 31 December 2011.

Award date	At 1 January 2011	Awarded in year	Released in year	Lapsed in year	**At 31 Dec 2011**	Share price used for award (pence)	Exercise price (pence)	Date of release in 2011	Share price at date of release (pence)	Market value at date of release (pre-tax (£)[8]	Vesting date/ Exercise period
Adam Crozier											
Restricted Share Award											
26 April 2010[1]	397,272	–	397,272	–	**–**	70.48	Nil	26 April (50%) 26 Oct (50%)	74.66 61.90	148,304 122,972	–
Deferred Share Award Plan											
8 March 2011 Compulsory Deferral[2]	–	276,314	–	–	**276,314**	91.38	Nil	–	–	–	March 2014
8 March 2011 Voluntary Deferral[2]	–	276,314	–	–	**276,314**	91.38	Nil	–	–	–	March 2014
Nil-cost Option Award											
26 April 2010[3]	4,115,044	–	–	–	**4,115,044**	56.5	Nil	–	–	–	April 2013–April 2014
Performance Share Award											
8 March 2011 Core Award	–	786,196	–	–	**786,196**	91.38	Nil	–	–	–	March 2014–March 2015
8 March 2011 Matching Award	–	276,314	–	–	**276,314**	91.38	Nil	–	–	–	March 2014–March 2015
Ian Griffiths											
Deferred Share Award Plan											
26 March 2010[4]	191,862	–	191,862	–	**–**	59.89	Nil	31 Dec (100%)	68.15	130,754	–
8 March 2011 Compulsory Deferral[2]	–	203,478	–	–	**203,478**	91.38	Nil	–	–	–	8 March 2014
8 March 2011 Voluntary Deferral[2]	–	203,478	–	–	**203,478**	91.38	Nil	–	–	–	8 March 2014
Performance Share Plan											
1 June 2009[5]	1,188,812	–	–	–	**1,188,812**	35.75	Nil	–	–	–	June 2012–June 2013
26 March 2010[5]	933,820	–	–	–	**933,820**	56.89	Nil	–	–	–	March 2013–March 2014
8 March 2011 Core Award	–	431,140	–	–	**431,140**	91.38	Nil	–	–	–	March 2014–March 2015
8 March 2011 Matching Award	–	203,478	–	–	**203,478**	91.38	Nil	–	–	–	March 2014-March 2015
Turnaround Plan[6]											
2 October 2008	3,017,752	–	–	–	**3,017,750**	42.25	Nil	–	–	–	Dec 2011–Dec 2012
Archie Norman											
Restricted Share Award											
17 March 2010[7]	1,200,000	–	800,000	–	**400,000**	50.17	Nil	23 May (50%) 31 Dec (50%)	68.97 66.33	275,900 265,307	Dec 2012

Notes:

1 One-off award made on joining ITV over restricted shares with a value of £420,000 and released in three tranches of 198,636.
2 An award over restricted shares for 2010 performance.
3 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.
4 An award over 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 The portion of this 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.
6 The Turnaround Plan (the Plan) was introduced in 2007. No awards have been made under the Plan since 2008. An award in the form of nil-cost options was made to a number of key senior Executives with a maximum value of 550% of the individual's salary. Participants were required to acquire and retain a number of shares with a value up to 100% of annual base salary for the duration of the performance period to 31 December 2011. 75% of the awards were subject to performance over a five-year period. Up to 50% of the award subject to TSR (25% of the total award) was subject to performance over the three-year period to 31 December 2009. This condition was not met, and 25% of the total award lapsed. The balance of the award will be tested once the 2011 final year results have been published and will vest dependent on the performance conditions described below.
   - TSR: the balance of the award subject to TSR performance measured against a comparator group selected from the FTSE 100 (excluding certain industry sectors that are less relevant as a benchmark of performance). 25% of this portion of the award will vest for median performance and straight-line vesting will occur up to full vesting for upper quartile performance. The comparator companies are: 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.
   - Strategic performance targets: There are four strategic targets, each having an equal weighting. For achieving threshold performance, 25% of the award relating to each target will vest, with full vesting for achieving the maximum target. In between these points, awards vest on a straight-line basis. SOCI (ITV Family) – threshold 36.6% and maximum 38.5%; Revenue Growth – threshold 2% and maximum 5% per annum; Adjusted EPS – threshold 8p and maximum 12p; Share price – threshold £1.35 and maximum £2.25 measured as an average over any 28-day period within the final three years of the Plan.

   Any portion of the award that does not vest following the publication of the results for the year ended 31 December 2011, or that is not exercised by 31 December 2012, will lapse and the Plan will terminate.
7 One-off award made on joining ITV. The award releases in three tranches of 400,000 shares over the initial three-year appointment term. Whilst held under award, the shares cannot be sold or transferred.
8 The total market value of gains on share awards released during the year was £943,237 as shown in the Aggregate Directors' remuneration table on page 74.

Remuneration Report

continued

Directors' interests in shares

The figures set out below represent shareholdings in the ordinary share capital of ITV plc beneficially owned by Directors and their family interests.

There were no changes in Directors' interests in shares between the end of the financial year and 29 February 2012.

Director	**31 December 2011**	31 December 2010
Mike Clasper	**85,918**	68,693
Adam Crozier	**291,139**	97,126
Ian Griffiths	**640,960**	449,098
Andy Haste	**65,487**	49,261
Lucy Neville-Rolfe	**14,161**	3,615
Archie Norman	**971,584**	380,000
John Ormerod	**109,960**	94,628

Share price information

The market price of the ITV plc ordinary shares at 31 December 2011 was 68.15 pence and the range during the year was 51.65 pence (on 12 September 2011) to 93.45 pence (on 2 March 2011).

Approval

The Remuneration Report was approved by the Board on 29 February 2012 and signed on its behalf by Andy Haste.

Other Governance and Statutory Disclosures

Substantial shareholdings

As at 31 December 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).

	At 31 December 2011 Shares	%
Sky Holdings Ltd[1]	291,684,730	7.50
Blackrock, Inc.	194,694,218	5.01
Brandes Investment Partners, L.P.	194,304,930	4.99
AXA S.A.	170,580,317	4.39
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 135.

Following the year end a notification was received from Black Rock, Inc. that their interest had fallen to 4.98%.

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. There have been no movements in the authorised and issued share capital of the Company during the year.

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. Unless expressly specified to the contrary, the Articles may only be amended by special resolution of the shareholders. A copy of the Articles 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.

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 2012 Annual General Meeting, or 10 August 2012 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 2011 are set out on page 127. 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

No person holds securities in the Company carrying special rights with regard to control of the Company.

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 2011 was nil days (2010: nil).

Pensions

The Group operates a pension scheme which provides retirement and death benefits for employees of ITV plc. The ITV Pension Scheme (the Scheme) comprises three sections: A, B and C. Section A includes the defined contribution (DC) section of the Scheme. The DC section is open to new members. The majority of defined benefit (DB) sections were closed to new members in 2002 (with the last section closing on 1 August 2007) but are still open to future accrual.

ITV Pension Scheme Limited (the Trustee) manages the DB and DC assets of the Scheme, which are held under trust separately from those of the Group. The Trustee has four Committees: Investment, Audit and Operations, DC and Corporate Affairs. The Corporate Affairs Committee is convened as and when appropriate for dealing with any corporate activities that may arise.

The Trustee comprises nine Directors – the Trustee Chairman, together with four directors appointed by the Company and four directors nominated by the members. During 2011, one of the member nominated directors resigned and was replaced by a new director on completion of a selection process.

The Trustee board and each Committee have a business plan, which is reviewed and updated on an annual basis, together with the associated budget. The Trustee board also has a risk register, a conflicts of interest policy and a register of interests policy, all of which are reviewed at least annually.

Other Governance and Statutory Disclosures

continued

Trustee evaluations take place each year and are currently being further developed as part of a Trustee board effectiveness review. The Trustee directors receive regular training throughout the year; a minimum of two days' training is expected to be undertaken. Training requirements are identified by reference to any skills gaps and specific committee roles and training is delivered both by attendance at external courses and with targeted training to support specific agenda items. During 2011, those Trustee directors who had not completed the Pension Regulator's toolkit received training on the Regulator's Trustee Knowledge and Understanding scope guidance to assist with completion of the toolkit.

All advisers and suppliers are appointed through a rigorous tender process and are monitored through regular informal review meetings. There is a timetable for completing a formal review of advisers. No formal reviews were undertaken in 2011.

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 2011 and remain in force for the benefit of each of the Directors of ITV Pension Scheme Limited, a subsidiary 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 2012 Annual General Meeting.

Annual General Meeting

The Annual General Meeting will be held on Wednesday, 9 May 2012 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
29 February 2012

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

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.

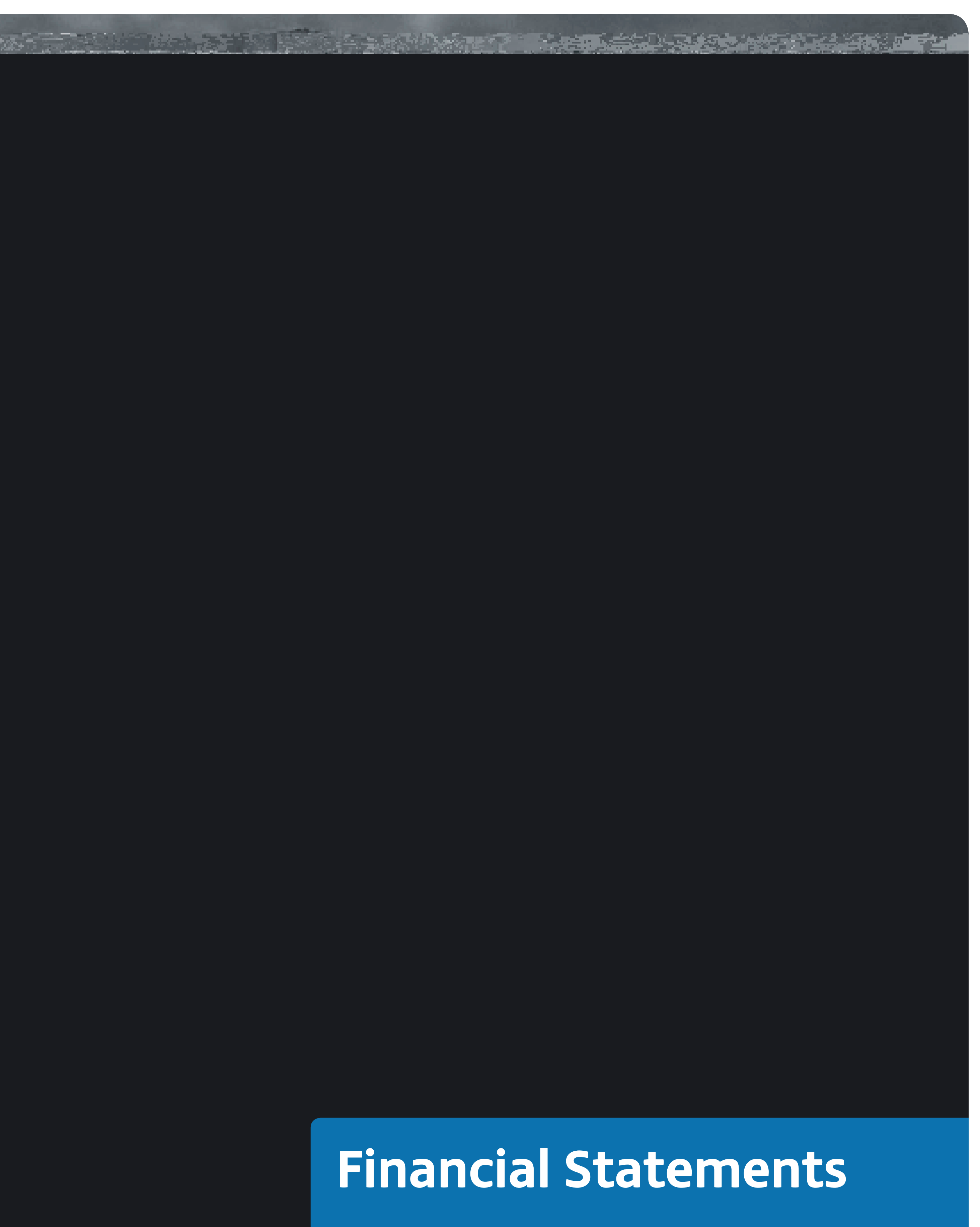
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, the names of whom are set out on pages 54 and 55, 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
29 February 2012



Financial Statements

Independent Auditor's 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 2011 set out on pages 84 to 134.

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 auditor's 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 auditor
As explained more fully in the Statement of Directors' Responsibilities set out on page 79, 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, and express an opinion on, 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 2011 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 Directors' 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 90, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Mark Summerfield (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountant
15 Canada Square
London, E14 5GL

29 February 2012

Introduction and Table of Contents

In this section...

In preparing these financial statements we continue to apply the principles outlined in the Financial Reporting Council's publication 'Louder than words' to make ITV's financial statements less complex and more relevant to shareholders. We have grouped notes in sections 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 this format is to provide readers with a clearer understanding of what drives financial performance of the Group. Text in boxes provides commentary on each section in plain English.

Keeping it simple...

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.

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Consolidated Income Statement

For the year ended 31 December:	Note	2011 £m	2010 £m
Revenue	2.1	**2,140**	2,064
Operating costs		**(1,736)**	(1,700)
Operating profit		**404**	364
Presented as:			
Earnings before interest, tax, amortisation (EBITA) before exceptional items	2.1	**462**	408
Operating exceptional items	2.2	**1**	19
Amortisation of intangible assets	3.3	**(59)**	(63)
Operating profit		**404**	364
Financing income	4.4	**196**	185
Financing costs	4.4	**(271)**	(260)
Net financing costs	4.4	**(75)**	(75)
Share of profits or (losses) of joint ventures and associated undertakings	2.1	**(2)**	(3)
Loss on sale and impairment of non-current assets (exceptional items)	2.2	**(3)**	(4)
Gain on sale and impairment of subsidiaries and investments (exceptional items)	2.2	**3**	4
Profit before tax		**327**	286
Taxation	2.3	**(79)**	(16)
Profit for the year		**248**	270
Profit attributable to:			
Owners of the Company		**247**	269
Non-controlling interests		**1**	1
Profit for the year		**248**	270
Earnings per share			
Basic earnings per share	2.4	**6.4p**	6.9p
Diluted earnings per share	2.4	**6.2p**	6.6p

Consolidated Statement of Comprehensive Income

For the year ended 31 December:	2011 £m	2010 £m
Profit for the year	**248**	270
Other comprehensive income:		
Foreign currency translation differences	**–**	3
Revaluation of available for sale financial assets	**3**	(3)
Actuarial (losses)/gains on defined benefit pension schemes	**(124)**	67
Income tax credit/(charge) on other comprehensive income	**30**	(22)
Other comprehensive (cost)/income for the year, net of income tax	**(91)**	45
Total comprehensive income for the year	**157**	315
Total comprehensive income attributable to:		
Owners of the Company	**156**	314
Non-controlling interests	**1**	1
Total comprehensive income for the year	**157**	315

Consolidated Statement of Financial Position

As at 31 December	Note	2011 £m	2010 £m
Non-current assets			
Property, plant and equipment	3.2	**167**	151
Intangible assets	3.3	**934**	969
Investments in joint ventures and associated undertakings		**3**	2
Available for sale financial assets		**2**	3
Held to maturity investments	4.1	**147**	148
Derivative financial instruments	4.3	**110**	89
Distribution rights	3.1.1	**11**	12
Net deferred tax asset	2.3	**65**	73
		1,439	1,447
Current assets			
Programme rights and other inventory	3.1.2	**285**	284
Trade and other receivables due within one year	3.1.4	**370**	442
Trade receivables due after more than one year	3.1.4	**26**	6
Trade and other receivables		**396**	448
Derivative financial instruments	4.3	**–**	69
Cash and cash equivalents	4.1	**801**	860
Assets held for sale	3.4	**–**	3
		1,482	1,664
Current liabilities			
Borrowings	4.2	**(9)**	(55)
Derivative financial instruments	4.3	**(1)**	(3)
Trade and other payables due within one year	3.1.5	**(639)**	(672)
Trade payables due after more than one year	3.1.6	**(45)**	(26)
Trade and other payables		**(684)**	(698)
Current tax liabilities		**(36)**	(65)
Provisions	3.5	**(24)**	(34)
		(754)	(855)
Net current assets		**728**	809
Non-current liabilities			
Borrowings	4.2	**(912)**	(1,223)
Derivative financial instruments	4.3	**(44)**	(39)
Defined benefit pension deficit	3.6	**(390)**	(313)
Other payables		**(3)**	(3)
Provisions	3.5	**(9)**	(15)
		(1,358)	(1,593)
Net assets		**809**	663
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	**300**	304
Translation reserve		**14**	14
Available for sale reserve		**8**	5
Retained losses		**(25)**	(171)
Total equity attributable to equity shareholders of the parent company		**806**	661
Non-controlling interests		**3**	2
Total equity		**809**	663

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 2011		**389**	**120**	**304**	**14**	**5**	**(171)**	**661**	**2**	**663**
Total comprehensive income for the year										
Profit		–	–	–	–	–	247	247	1	**248**
Other comprehensive income/(cost)										
Revaluation of available for sale financial assets		–	–	–	–	3	–	3	–	**3**
Actuarial losses on defined benefit pension schemes	3.6	–	–	–	–	–	(124)	(124)	–	**(124)**
Income tax on other comprehensive income	2.3	–	–	–	–	–	30	30	–	**30**
Total other comprehensive income/(cost)		–	–	–	–	3	(94)	(91)	–	**(91)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**3**	**153**	**156**	**1**	**157**
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Equity dividends		–	–	–	–	–	(16)	(16)	–	**(16)**
Equity portion of the convertible bond	4.1	–	–	(4)	–	–	4	–	–	**–**
Movements due to share-based compensation	4.7.7	–	–	–	–	–	11	11	–	**11**
Purchase of own shares via employees' benefit trust	4.7.7	–	–	–	–	–	(6)	(6)	–	**(6)**
Total contributions by and distributions to owners		–	–	(4)	–	–	(7)	(11)	–	**(11)**
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)	–	–	(7)	(11)	–	**(11)**
Balance at 31 December 2011	4.7	**389**	**120**	**300**	**14**	**8**	**(25)**	**806**	**3**	**809**

Consolidated Statement of Changes in Equity

		Attributable to equity shareholders of the parent company								
	Note	Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Available for sale reserve £m	Retained losses £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 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**

Consolidated Statement of Cash Flows

For the year ended 31 December:	Note	2011 £m	2011 £m	2010 £m	2010 £m
Cash flows from operating activities					
Profit before tax		**327**		286	
Gain on sale and impairment of subsidiaries and investments (exceptional items)	2.2	**(3)**		(4)	
Loss on sale and impairment of non-current assets (exceptional items)	2.2	**3**		4	
Share of (profits) or losses of joint ventures and associated undertakings		**2**		3	
Net financing costs	4.4	**75**		75	
Operating exceptional items	2.2	**(1)**		(19)	
Depreciation of property, plant and equipment	3.2	**26**		30	
Amortisation and impairment of intangible assets	3.3	**59**		63	
Share-based compensation	4.7	**11**		8	
Decrease in programme rights and other inventory, and distribution rights		**–**		108	
Decrease/(increase) in receivables		**52**		(8)	
Decrease in payables		**(34)**		(1)	
Movement in working capital	3.1	**18**		99	
Cash generated from operations before exceptional items			**517**		545
Cash flow relating to operating exceptional items:					
Net operating income	2.2	**1**		19	
Decrease in payables and provisions and the impact of the exceptional pension gain		**(5)**		(45)	
Cash outflow from exceptional items			**(4)**		(26)
Cash generated from operations			**513**		519
Defined benefit pension deficit funding		**(48)**		(30)	
Interest received		**48**		40	
Interest paid on bank and other loans		**(85)**		(100)	
Interest paid on finance leases		**(3)**		(4)	
Net taxation paid		**(68)**		(23)	
			(156)		(117)
Net cash inflow from operating activities			**357**		402
Cash flows from investing activities					
Acquisition of subsidiary undertakings, net of cash and cash equivalents acquired and debt repaid on acquisition	3.4	**(14)**		–	
Proceeds from sale of property, plant and equipment		**2**		7	
Acquisition of property, plant and equipment		**(35)**		(26)	
Acquisition of intangible assets		**(8)**		(2)	
Loans granted to associates and joint ventures		**(6)**		(6)	
Loans repaid by associates and joint ventures		**2**		9	
Proceeds from sale of subsidiaries, joint ventures and available for sale investments		**2**		69	
Net cash (outflow)/inflow from investing activities			**(57)**		51
Cash flows from financing activities					
Bank and other loans – amounts repaid		**(331)**		(155)	
Capital element of finance lease payments		**(5)**		(7)	
Purchase of own shares via employees' benefit trust		**(6)**		(6)	
Equity dividends paid		**(16)**		–	
Net cash outflow from financing activities			**(358)**		(168)
Net (decrease)/increase in cash and cash equivalents			**(58)**		285
Cash and cash equivalents at 1 January	4.1		**860**		582
Effects of exchange rate changes and fair value movements			**(1)**		(7)
Cash and cash equivalents at 31 December	4.1		**801**		860

Section 1 Basis of Preparation

In this section...

This section sets 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 2011 or later years. We explain how these changes 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. Where other bases are applied these 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 Group's continued generation of significant free cash flows for the year the Group reduced its current level of net indebtedness to a positive net cash position, 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 create further cash headroom. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group will 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, but not control or jointly control, the financial and operating decisions of an entity. 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 their 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 commitments 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 commitments have a charge. The carrying value of cash and cash equivalents is considered to approximate fair value.

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 judgements and estimates

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:

- Defined benefit pension schemes (note 3.6)
- Taxation (note 2.3)
- Provisions (note 3.5)
- Employee benefits (note 4.7)
- 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)

Section 1 Basis of Preparation

continued

New or amended EU endorsed accounting standards

The table below represents new or amended EU endorsed accounting standards relevant to the Group's results that are effective in 2011:

Accounting Standard	Requirement	Impact on financial statements
IFRS 7 Financial Instruments: Disclosures	IFRS 7 is amended to add an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity's exposure to risks arising from financial instruments.	The Group has reviewed their disclosure of financial instruments to ensure they are in compliance with the amendment to IFRS 7.
IAS 1 Presentation of Financial Statements	IAS 1 is amended to clarify that a reconciliation from opening to closing balances is required to be presented in the statement of changes in equity for each component of equity. IAS 1 is also amended to allow the analysis of the individual OCI line items by component of equity to be presented in the notes. Previously, such analysis could only be presented in the SOCIE.	The Group has reviewed their Statement of changes in equity to ensure they are in compliance with the amendment to IAS 1.

The Directors also 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

In this section…

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

Keeping it simple…

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 (EBITA) and before 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 comprises the sale of products and services to third parties. Selecting the appropriate timing and amount of revenue recognised requires judgement. The key area of judgement in respect of recognising revenue is the timing of recognition. 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. Revenue recognition criteria for the Group's 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 and acceptance by the customer
Programme rights	when contracted and available for exploitation
Participation revenues (interactive & 'red button' services)	as the service is provided

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 2011 and 31 December 2010 are therefore 'Broadcasting & Online' and 'ITV Studios', the results of which are outlined in the following table:

	Broadcasting & Online 2011 £m	ITV Studios 2011 £m	Consolidated 2011 £m
Total segment revenue	**1,820**	**612**	**2,432**
Intersegment revenue	**–**	**(292)**	**(292)**
Revenue from external customers	**1,820**	**320**	**2,140**
EBITA before exceptional items	**379**	**83**	**462**
Share of profits or (losses) of joint ventures and associated undertakings	**(2)**	**–**	**(2)**

	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)

Sales between segments are carried out on arm's 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.

Broadcasting & Online

This segment is responsible for commissioning and scheduling programmes on the ITV channels, marketing and programme publicity and online rights exploitation. Broadcasting & Online derives its revenue primarily from the sale of advertising airtime

Section 2 Results for the Year

continued

2.1 Profit before tax continued

and sponsorship. Other sources of revenue are from participation revenue, online advertising and the digital terrestrial multiplex, SDN.

ITV Studios

This segment generates revenue primarily from ITV Studios UK (a commercial programme production business), international production centres in the USA, Germany, Sweden, Australia and France and the distribution and exploitation businesses in ITV Studios Global Entertainment.

A significant portion of ITV Studios' revenue is generated when it creates ideas that are then produced and sold as programming to the 'Broadcasting & Online' segment, primarily for ITV1.

ITV Studios Global Entertainment sells programming, exploits merchandising and licensing worldwide, and is a distributor of DVD entertainment primarily in the United Kingdom.

EBITA before exceptional items

The Directors assess the performance of the reportable segments based on a measure of EBITA before exceptional items. The Directors use 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 from EBITA before exceptional items to profit before tax is provided as follows:

	2011 £m	2010 £m
EBITA before exceptional items	**462**	408
Operating income – exceptional items	**1**	19
Amortisation and impairment of intangible assets	**(59)**	(63)
Net financing costs	**(75)**	(75)
Share of profits or (losses) of joint ventures and associated undertakings	**(2)**	(3)
Loss on sale and impairment of non-current assets (exceptional items)	**(3)**	(4)
Gain/(loss) on sale and impairment of subsidiaries and investments (exceptional items)	**3**	4
Profit before tax	**327**	286

The Group's principal operations are in the United Kingdom. Its revenue from external customers in the United Kingdom is £1,900 million (2010: £1,865 million), and the total revenue from external customers in other countries is £240 million (2010: £199 million).

There are three media buying agencies acting on behalf of a number of customers that represent the Group's major customers. These agencies are the only customers which individually represent over 10% of the Group's revenues. Revenues of approximately £480 million (2010: £400 million), £239 million (2010: £270 million) and £221 million (2010: £196 million) were derived from these customers. These revenues are attributable to the 'Broadcasting & Online' segment.

Operating costs

Staff costs

Staff costs before exceptional items can be analysed as follows:

	2011 £m	2010 £m
Wages and salaries	**220**	212
Social security and other costs	**36**	32
Share-based compensation (see note 4.7)	**11**	8
Pension costs	**20**	17
	287	269

There are no Staff costs within exceptional items in 2011 (2010: £11 million).

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

	2011	2010
Broadcasting & Online	**2,271**	2,312
ITV Studios	**1,687**	1,635
	3,958	3,947

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

Depreciation

Depreciation in the year was £26 million (2010: £30 million), of which £15 million (2010: £19 million) relates to 'Broadcasting & Online' and £11 million (2010: £11 million) to 'ITV Studios'.

Operating leases

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

2011	Transponders	Property	Total
Within 1 year	**12**	**10**	**22**
Later than 1 year and not later than 5 years	**120**	**31**	**151**
Later than 5 years	**159**	**88**	**247**
	291	**129**	**420**

2010 (restated)	Total (Property)
Within 1 year	14
Later than 1 year and not later than 5 years	32
Later than 5 years	87
	133

The Group's operating leases relate to transponder assets and office and studio properties. During the year, the Group entered new transmission supply agreements that require the use of specific transponder assets for a period of up to 12 years with payments increasing over time, limited by specific RPI caps. These supply agreements are classified as operating leases, in accordance with the Group's policy on leases detailed in Section 3.2.

Property leases typically run for a period of between 3 and 15 years and may have an option to renew after that date. Lease payments are generally subject to market review every 5 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 property operating lease disclosures in 2010 have been restated principally because of revised estimations of break clauses in the lease contracts.

The total future minimum sublease payments expected to be received under non-cancellable subleases at the year end is £4 million (2010 restated: £6 million).

The total operating lease expenditure recognised during the year was £42 million (2010 restated: £12 million) and total sublease payments received was £4 million (2010 restated: £5 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 and its associates during the year are set out below:

	2011 £m	2010 £m
For the audit of the Group's annual accounts	**0.7**	0.7
For the audit of subsidiaries of the Group	**0.1**	0.2
Audit-related assurance services	**0.1**	0.2
Total Audit and Audit-Related assurance services	**0.9**	1.1
Taxation compliance services	**0.1**	0.1
Taxation advisory services	**0.7**	0.7
Non-Audit Services	**0.8**	0.8
	1.7	1.9

Fees payable to KPMG and associates for the auditing of accounts of any associate of the Group, internal audit services, 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, and any other assurance services were £nil during 2011 and 2010.

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

Keeping it simple...

Exceptional items are material and non-recurring items excluded from management's assessment of profit because by their nature they could distort the Group's underlying quality of earnings. These are excluded to reflect performance in a consistent manner and in line with how the business is managed and measured on a day-to-day basis.

Accounting policies

Exceptional items as described above are disclosed on the face of the income statement.

Subsequent revisions of estimates for items initially recognised as exceptional provisions are recorded as exceptional items in the year that the revision is made. Gains or losses on disposal of non-core assets are also considered exceptional due to their nature and impact on the Group's underlying quality of earnings.

Exceptional items

Operating and non-operating exceptional items are analysed as follows:

(Charge)/credit	Ref	2011 £m	2010 £m
Operating exceptional items:			
Reorganisation and restructuring costs	A	**–**	(17)
Onerous contract provisions		**–**	1
Onerous property provision	B	**1**	7
Pension scheme changes	C	**–**	28
Total net operating exceptional items		**1**	19
Non-operating exceptional items:			
Loss on sale and impairment of non-current assets	D	**(3)**	(4)
Gain on sale and impairment of subsidiaries and investments	E	**3**	4
Total non-operating exceptional items		**–**	–
Total exceptional items before tax		**1**	19

A – Reorganisation and restructuring costs

There were no exceptional reorganisation or restructuring costs in 2011 (2010: £17 million in relation to cost saving restructuring initiatives).

B – Onerous property provision

A £1 million credit (2010: £7 million credit) due to revised estimates for property provisions raised as exceptional items due to the large headcount reduction in 2009.

Section 2 Results for the Year

continued

2.2 Exceptional Items continued

C – Pension scheme changes (see note 3.6)

In 2010 operating exceptional gains of £28 million were recognised for service credits relating to introduction of a member option to change pension payments at retirement and one-off change to pension payments, and settlement gain in relation to the enhanced transfer value exercise.

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

In 2011 a £3 million (2010: £4 million) loss on sale and impairment of non-current assets was incurred primarily as a result of a detailed fixed asset review undertaken in preparation for moving premises in Manchester.

E – Gain on sale, net of impairment, of subsidiaries, joint ventures and associates

The £3 million gain principally relates to the sale of Screenvision Holdings (Europe) Limited. In 2010 the £4 million gain principally related to the sale of Screenvision US (Technicolor Cinema Advertising LLC).

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. The calculation of the Group's total tax charge involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until a resolution has been reached by the relevant tax authority.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year and any adjustment 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 require 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 in the income statement is analysed as follows:

	2011 £m	2010 £m
Current tax:		
Current tax charge before exceptional items	**(60)**	(64)
Current tax credit on exceptional items	**–**	3
	(60)	(61)
Adjustment for prior periods	**19**	–
	(41)	(61)
Deferred tax:		
Origination and reversal of temporary differences	**(38)**	5338

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continued

2.3 Taxation continued

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 2011 £m	Recognised in the income statement £m	Recognised in equity £m	**At 31 December 2011 £m**
Property, plant and equipment	2	(1)	–	**1**
Intangible assets	(65)	16	–	**(49)**
Programme rights	2	(1)	–	**1**
Pension scheme deficits	76	(35)	30	**71**
Tax losses	50	(18)	–	**32**
Interest-bearing loans and borrowings, and derivatives	(1)	–	–	**(1)**
Share-based compensation	7	1	–	**8**
Other	2	–	–	**2**
	73	(38)	30	**65**

	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 31 December 2011, total deferred tax assets are £115 million (2010: £139 million) and total deferred tax liabilities are £50 million (2010: £66 million).

The deferred tax balance relates 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 relate to timing differences on the IAS 19 pension deficit, additional contributions resulting from funding through the SDN pension partnership (not recognised as contributions under IAS 19) and 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.

Due to the change in the statutory tax rate, deferred tax is provided at 25% (2010: 27%), which is the rate that has been substantively enacted to apply from 1 April 2012. The impact of the change in the tax rate is £6 million (2010: nil), of which £3 million was recognised in the deferred tax charge and the remainder recognised in equity.

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 £101 million to the Group's defined benefit pension scheme. This comprises £59 million of employer contributions and £42 million, being the discounted value of the SDN pension partnership extension as described in the Financial and Performance Review.

A deferred tax asset of £558 million (2010: £602 million) in respect of capital losses of £2,230 million (2010: £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 (2010: £9 million) that time expire between 2017 and 2026 have not been recognised.

2.4 Earnings per share

Keeping it simple...

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 £247 million (2010: £269 million) divided by 3,883 million (2010: 3,884 million) being the weighted average number of shares in issue during the year.

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

Basic EPS is adjusted in order to more accurately show the business performance of the Group in a consistent manner and reflect how the business is managed and measured on a day-to-day basis. Adjusted EPS is adjusted for exceptional items, 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:

Earnings per share 2011

	Ref.	Basic £m	Diluted £m
Profit for the year attributable to equity shareholders of ITV plc		**247**	**255**
Weighted average number of ordinary shares in issue – million		**3,883**	**3,883**
Dilution due to share options		**–**	**36**
Dilution due to convertible bond	A	**–**	**192**
Total weighted average number of ordinary shares in issue – million		**3,883**	**4,111**
Earnings per ordinary share		**6.4p**	**6.2p**

Adjusted earnings per share 2011

	Ref.	Adjusted £m	Diluted £m
Profit for the year attributable to equity shareholders of ITV plc		**247**	**255**
Exceptional items	B	**(1)**	**(1)**
Profit for the year before exceptional items		**246**	**254**
Amortisation and impairment of acquired intangible assets	C	**35**	**35**
Adjustments to net financing costs	D	**18**	**18**
Other tax adjustments	E	**7**	**7**
Adjusted profit	F	**306**	**314**
Total weighted average number of ordinary shares in issue – million		**3,883**	**4,111**
Adjusted earnings per ordinary share		**7.9p**	**7.6p**

Earnings per share 2010

	Ref.	Basic £m	Diluted £m
Profit for the year attributable to equity shareholders of ITV plc		269	270
Weighted average number of ordinary shares in issue – million		3,884	3,884
Dilution due to share options		–	27
Dilution due to 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

Adjusted earnings per share 2010

	Ref.	Adjusted £m	Diluted £m
Profit for the year attributable to equity shareholders of ITV plc		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

Section 2 Results for the Year

continued

2.4 Earnings per share continued

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 exceptional items are not materially impacted by tax effects (2010: charge of £5 million).

C. Amortisation and impairment of acquired intangible assets of £47 million (2010: £48 million) is adjusted, including a related tax credit of £12 million (2010: £13 million). The rationale for adjustments to amortisation of intangibles is provided in the Financial and Performance Review.

D. Adjustments to net financing costs of £25 million (2010: £6 million) includes a related tax effect of a credit of £7 million (2010: credit of £2 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. This credit is the main reason why on a statutory basis the EPS for 2010 is higher than 2011.

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

In this section...

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

Keeping it simple...

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 ensures that the Group can meet its trading and financing obligations within its ordinary operating cycle.

Working capital is a driver of the 'profit to cash' conversion, a key performance indicator for the Group. The Group's target '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 the Group buys from producers to derive future revenues principally through licensing to broadcasters. These 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 either cumulative sales and programme genre, or based on forecast future sales. Certain film rights are expensed over a period of up to ten 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. Film rights, sports 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.

Section 3 Operating Assets and Liabilities

continued

3.1 Working capital continued

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.

Trade payables

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

The carrying value of trade payables is considered to 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 £18 million (2010: £99 million) derived as follows:

	2011 £m	2010 £m
Decrease in programme rights and other inventory and distribution rights	–	108
Decrease/(increase) in receivables	52	(8)
Decrease in payables	(34)	(1)
Working capital inflow	18	99

3.1.1 Distribution rights

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

	2011 £m	2010 £m
Cost:		
At 1 January	111	99
Additions	14	12
At 31 December	125	111
Charged to income statement:		
At 1 January	99	83
Expense for the year	15	16
At 31 December	114	99
Net book value	11	12

3.1.2 Programme rights and other inventory

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

	2011 £m	2010 £m
Acquired programming	122	170
Production	87	52
Commissions	36	36
Sports rights	36	21
Prepayments	2	4
Other	2	1
	285	284

Programme rights and other inventory written down in the year were £5 million (2010: £3 million). There have been no reversals relating to inventory previously written down to net realisable value (2010: £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:

	2011 £m	2010 £m
Within one year	396	396
Later than one year and not more than five years	599	315
More than five years	85	–
	1,080	711

Programme commitments increased in the year principally because of the signing of a new Champions League contract and the extension of the ITN news contract.

3.1.4 Trade and other receivables

Trade and other receivables can be analysed as follows:

	2011 £m	2010 £m
Due within one year:		
Trade receivables	271	354
Other receivables	22	14
Prepayments and accrued income	77	74
	370	442
Due after more than one year:		
Trade receivables	26	6
Total trade and other receivables	396	448

£297 million (2010: £360 million) of total trade receivables that are not impaired are aged as follows:

	2011 £m	2010 £m
Current	277	301
Up to 30 days overdue	4	7
Between 30 and 90 days overdue	5	1
Over 90 days overdue	11	51
	297	360

The table below shows the Group's net receivables relating to non-consolidated licensees in the 'Broadcasting & Online' segment, where the Group has both supplier and customer relationships.

	2011 £m	2010 £m
Trade receivables - current	9	12
Trade receivables - past due but not impaired	12	55
Other receivables	5	5
Trade and other payables	(4)	(49)
	22	23

As at 31 December 2011, trade receivables of £11 million (2010: £8 million) were provided against. Movements in the Group's provision for impairment of trade receivables can be shown as follows:

	2011 £m	2010 £m
At 1 January	8	8
Charged during the year	8	5
Receivables written off during the year as uncollectable (utilisation of provision)	(1)	(1)
Unused amounts reversed	(4)	(4)
At 31 December	11	8

The £11 million provision for doubtful debts is aged as £4 million due in more than 90 days, £2 million due between 31 and 90 days and £5 million due in up to 30 days from the reporting date.

3.1.5 Trade and other payables due within one year

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

	2011 £m	2010 £m
Trade payables	69	56
Social security	16	16
Other payables	183	183
Accruals and deferred income	371	417
	639	672

3.1.6 Trade payables due after more than one year

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

	2011 £m	2010 £m
Trade payables	45	26

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

3.2 Property, plant and equipment

Keeping it simple...

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 equipment used in broadcast transmission, programme production and 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 over time. 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. Certain service contracts involve the use of specific assets (e.g. transmission or studio equipment) and therefore contain an embedded lease.

Determining whether a lease is a finance lease requires judgement as to whether substantially all of the risks and benefits of ownership have been transferred to the Group. Estimates used by management in making this assessment include the useful economic life of assets, the fair value of the asset and the discount rate applied to the total payments required under the lease. Assets held under such leases are included within property, plant and equipment and depreciated on a straight-line basis over their estimated useful lives.

Section 3 Operating Assets and Liabilities

continued

3.2 Property, plant and equipment continued

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 opposite.

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[1]	3 to 20 years

[1] Equipment includes studio production and technology assets.

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 2010	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
Additions	–	5	–	39	–	44
Additions from acquisition	–	–	–	5	–	5
Reclassification	(1)	1	–	–	–	–
Reclassification from assets held for sale	–	1	–	–	–	1
Disposals and retirements	–	–	(2)	(64)	(1)	(67)
At 31 December 2011	**51**	**59**	**18**	**205**	**14**	**347**
Depreciation						
At 1 January 2010	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
Charge for the year	2	2	1	18	3	26
Accumulated depreciation from acquisition	–	–	–	5	–	5
Reclassification	(1)	1	–	–	–	–
Disposals and retirements	–	–	(2)	(61)	(1)	(64)
At 31 December 2011	**9**	**15**	**15**	**130**	**11**	**180**
Net book value						
At 31 December 2011	**42**	**44**	**3**	**75**	**3**	**167**
At 31 December 2010	44	40	4	57	6	151

Included within the book values above is expenditure of £27 million (2010: £9 million) on property, plant and equipment that are in the course of construction.

A review of tangible assets for obsolescence was undertaken in the period resulting in net impairments of £3 million to net book value, £67 million of cost and £64 million of accumulated depreciation.

Capital commitments

There are £10 million of capital commitments at 31 December 2011 (2010: £2 million).

3.3 Intangible assets

Keeping it simple...

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

These assets include brands, customer contracts and relationships, licences, software development, film libraries and goodwill. The cost of these assets is the amount that the Group has paid or, where there has been a business combination, the fair value of the specific intangible assets that could be sold separately or which arise from legal rights. In the case of goodwill, its cost is the amount the Group has paid in acquiring a business over and above the fair value of the individual assets and liabilities acquired. The value of goodwill is '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, reduces over the number of years the Group expects to use the asset, the useful economic life, via an annual amortisation charge to the income statement. 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 applied and the specific judgements and estimates made by the Directors 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 goodwill has been calculated using three different methods depending on the date the relevant business was purchased:

Method 1: All business combinations that have occurred since 1 January 2009 were accounted for using the acquisition method. Under this method, goodwill is measured as the fair value of the consideration paid (including the recognition of any non-controlling interests of the business being bought), less the fair value of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date. Subsequent adjustments to the fair value of net assets acquired can only be made within 12 months of the acquisition date, and only if fair values were determined provisionally at an earlier reporting date. 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 incurred in connection with those business combinations, such as legal fees, due diligence fees and other professional fees were expensed as incurred.

Method 2: All business combinations that occurred between 1 January 2004 and 31 December 2008 were accounted for using the purchase method in accordance with IFRS 3 'Business Combinations (2004)'. Goodwill on those 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 incurred in connection with those business combinations, such as legal fees, due diligence fees and other professional fees were 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 which 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 the Group has been required to value are brands, licences, customer relationships and contracts.

Section 3 Operating Assets and Liabilities

continued

3.3 Intangible assets continued

Each class of intangible asset's valuation method on initial recognition, amortisation method and estimated useful life is set out in the table below:

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 licence
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.

Determining the fair value of intangible assets arising on acquisition requires judgement. The Directors make estimates regarding the timing and amount of future cash flows derived from exploiting the assets being acquired. The Directors then estimate an appropriate discount rate to apply to the forecast cash flows. 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. Judgements are also made regarding whether and for how long licences will be renewed; 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.

Determining whether the carrying amount of intangible assets has any indication of impairment requires judgement. Any impairment is recognised in the income statement.

An impairment test is performed by assessing the recoverable amount of each asset, or for goodwill, the cash-generating unit (or group of cash-generating units) related to the goodwill. 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 present value of the future cash flows expected to arise from the asset. Growth assumptions derived from the Transformation Plan are not included in the estimated future cash flows used as the Group applies cautious assumptions 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 2010	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
Additions	14	–	–	–	10	–	24
Disposals	–	–	–	–	(2)	–	(2)
At 31 December 2011	**3,379**	**173**	**328**	**121**	**62**	**79**	**4,142**
Amortisation and impairment							
At 1 January 2010	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
Charge for the year	–	17	18	9	12	3	59
Disposals	–	–	–	–	(2)	–	(2)
At 31 December 2011	**2,654**	**127**	**287**	**65**	**37**	**38**	**3,208**
Net book value							
At 31 December 2011	**725**	**46**	**41**	**56**	**25**	**41**	**934**
At 31 December 2010	711	63	59	65	27	44	969

Goodwill has increased £14 million in 2011 following the acquisition of Channel Television Holdings Limited (see note 3.4).

Also included within the book values above is expenditure of £10 million (2010: £1 million) on software that is in the course of development.

Goodwill impairment tests

The following CGUs represent the carrying amounts of goodwill.

	2011 £m	2010 £m
Broadcasting & Online	**342**	328
SDN	**76**	76
ITV Studios	**307**	307
	725	711

There has been no impairment charge for the year (2010: 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% (2010: 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.

The discount rate has been revised for each CGU to reflect the latest market assumptions for the Risk-Free rate, the Equity Risk Premium and the net cost of debt. There is currently no reasonably possible change in discount rate that would reduce the headroom in any CGU to zero.

Broadcasting & Online

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 2011 (2010: nil). Management believes 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 flow projections for this CGU are based include: the share of the television advertising market; share of commercial impacts; programme and other costs; and the pre-tax market discount rate.

Section 3 Operating Assets and Liabilities

continued

3.3 Intangible assets continued

The key assumption in assessing the recoverable amount of Broadcasting & Online goodwill is the size of the television advertising market. In forming its assumptions about the television 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. Industry consensus is 0.1% for 2012 and 1.1% for 2013. Cautious assumptions of -5% were applied for both years to the industry consensus for the purposes of the impairment test, with no impairment identified. The impairment test also assumed that ITV renews its broadcasting licences in 2014.

A pre-tax market discount rate of 11.6% (2010: 11.8%) has been used in discounting the projected cash flows.

The Directors believe that currently no reasonably possible change in these assumptions would reduce the headroom in this CGU to zero.

SDN

Goodwill was recognised when the Group acquired SDN (the licence operator for DTT Multiplex A) in 2005. It represented the wider strategic benefits of the acquisition specific to the Group, 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 on the SDN goodwill during the course of 2011 (2010: nil).

The main assumptions on which the forecast cash flows are based are income to be earned from medium-term contracts, the market price of available multiplex video streams in the period up to and beyond digital switchover and the pre-tax market discount rate. 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.

A pre-tax market discount rate of 12.7% (2010: 11.8%) has been used in discounting the projected cash flows.

The Directors 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 for ITV Studios 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 2011 (2010: nil).

The key assumptions on which the forecast cash flows were based include revenue (including the ITV Studios share of ITV1 output), margin growth and the pre-tax market discount rate. 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.

A pre-tax market discount rate of 12.4% (2010: 11.8%) has been used in discounting the projected cash flows.

The Directors believe that currently no reasonably possible change in the income and availability assumptions would reduce the headroom in this CGU to zero.

3.4 Acquisitions, assets held for sale and disposals

Keeping it simple...

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 remeasured 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 remeasurement 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.

Acquisitions

On 22 November 2011 the Group acquired 100% of the ordinary shares in Channel Television Holdings Limited, holder of the Channel 3 licence in the Channel Islands, as part of the simplification of the Group's network arrangements. Consideration of £1 satisfied in cash was paid along with repayment of £14 million of loans to the vendor.

In the period from acquisition to 31 December 2011 the subsidiary contributed an immaterial amount of net profit to the consolidated net profit for the year. If the acquisition had occurred on 1 January 2011, Group revenue would have been £3 million higher and there would have been a decrease of £2 million to net profit after eliminating any transactions between the Company and the Group. The subsidiary was breaking even prior to acquisition, and it is expected to contribute favourably to future simplification of the Group's cost structure. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 January 2011.

Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities:

	Recognised values on acquisition £m
Acquiree's net assets at the acquisition date:	
Trade and other receivables	2
Borrowings	(14)
Trade and other payables	(1)
Current taxation liabilities	(1)
Net identifiable assets and (liabilities)	(14)
Consideration paid:	–
Goodwill on acquisition	14

Goodwill has arisen on the acquisition representing the operational benefits to the Group from simplifying its network arrangements.

The Group incurred immaterial acquisition related costs relating to professional advice which have been included in administrative expenses in the Group's Consolidated Income Statement.

Disposals

The Group disposed of its long leasehold interest in property at Bedford on 25 March 2011 for a total consideration of £2 million resulting in an immaterial gain on sale. This property was included within assets held for sale in 2010 and 2011 up to the point of sale.

In 2010 the following disposals took place:

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) was received resulting in a gain on disposal of £4 million. $5 million (£3 million) was contingent on contractual commitments which were subsequently met, and payment received, in January 2012.

The Group disposed of its long leasehold interest in properties at Birmingham and Bristol on 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 movement in assets held for sale since 1 January 2011 is summarised in the table below:

	2011 £m
At 1 January 2011	3
Disposal of properties held for sale	(2)
Property reclassified to non-current assets	(1)
At 31 December 2011	**–**

During the year the Group disposed of its long leasehold interest in property at Bedford, originally held for sale at £2 million (see disposals) and transferred property carried at £1 million to non-current assets as it is no longer being actively marketed for sale.

3.5 Provisions

Keeping it simple...

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 required. The main estimates relate to the cost of holding properties that are no longer in use by the Group, the likelihood of settling legal claims 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.

Section 3 Operating Assets and Liabilities

continued

3.5 Provisions continued

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 2011	20	5	8	16	49
Addition/(release)	5	2	(1)	–	6
Unwind of discount	–	–	–	–	–
Utilised	(15)	(5)	(1)	(1)	(22)
At 31 December 2011	**10**	**2**	**6**	**15**	**33**

Provisions of £24 million are classified as current liabilities (2010: £34 million).

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

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 £15 million primarily relate to potential liabilities that may arise as a result of Boxclever having been placed into administration, most of which relate to pension arrangements. On 21 December 2011, the Determinations Panel of The Pensions Regulator determined that Financial Support Directions ('FSD') should be issued against certain companies within the Group in relation to the Boxclever pension scheme. The Group immediately lodged an appeal against this decision with the Upper Tribunal. A FSD would require the Company to put in place financial support for the Boxclever scheme; however, it cannot be issued during the period of the appeal. The Directors obtained leading counsel's opinion and extensive legal advice and continue to believe that the provision held is adequate.

3.6 Pensions

Keeping it simple...

The Group has previously offered its employees the opportunity to participate in a number of defined benefit schemes; these are now closed to new members. The ITV Pension Scheme (the Scheme) consists of three sections, A, B and C. Section A of the Scheme is considerably larger than the other sections. The Group is required to disclose the net of its defined benefit pension assets and liabilities in the Statement of Financial Position. In the event of a net liability the Directors are obliged to determine how this deficit will be addressed.

The Group continues to offer employees defined contribution pension schemes and where taken up makes payments into this scheme on their behalf.

In this section we explain the accounting policies governing the Group's pension schemes, followed by analysis of the deficit on the defined benefit pension scheme and how this has been calculated. 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 are 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 schemes are measured by discounting the best estimate of future cash flows to be paid using the projected unit method. This method is an accrued benefits valuation method that makes 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.

An unfunded scheme in relation to previous Directors is accounted for under IAS 19. This is partly securitised by assets held outside of the ITV Pension scheme in the form of gilts and included within cash and cash equivalents.

The Group's pension schemes

Keeping it simple...

Under 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 Group. It is the member's responsibility to make investment decisions relating to their retirement benefits.

In a defined benefit scheme, members receive cash payments on retirement, the value of which is dependent on factors such as salary and length of service. The Group underwrites investment, mortality and inflation risks necessary to meet these obligations. In the event of poor returns the Group needs to address this through a combination of increased levels of contribution or by making adjustments to the schemes. 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 required to be put aside to cover future 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. It is the responsibility of the Trustee to manage and invest the assets of the schemes. The Trustee is required to act in the best interest of the members. The appointment of trustees is determined by the scheme's trust documentation.

In the 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 31 December 2011.

Defined contribution schemes

Total contributions recognised as an expense in relation to defined contribution schemes during 2011 were £8 million (2010: £6 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 latest triennial valuation of section A was completed as at 1 January 2008 by an independent actuary for the Trustees of the ITV Pension Scheme. The latest triennial valuations of sections B and C were completed as at 1 January 2010 and agreed in 2011. The next triennial valuation of section A as at 1 January 2011 is in progress. The Trustees are also carrying out actuarial valuation of sections B and C as at this date in order to bring the triennial reporting date for the three sections into line. The Group will monitor funding levels annually.

The defined benefit pension deficit

The defined benefit pension deficit at 31 December 2011 was £390 million (2010: £313 million).

The assets and liabilities of the schemes 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:

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Total defined benefit scheme obligations	**(3,036)**	(2,746)	(2,687)	(2,339)	(2,603)
Total defined benefit scheme assets	**2,646**	2,433	2,251	2,161	2,491
Net amount recognised within the consolidated statement of financial position	**(390)**	(313)	(436)	(178)	(112)

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Section 3 Operating Assets and Liabilities

continued

3.6 Pensions continued

Addressing the deficit

The statutory funding objective is that a funded 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 schemes. Normal employer contributions in 2012 for current service are expected to be in the region of £9 million (2011: £10 million) assuming current contribution rates continue as agreed with the Trustee. Based on the agreements currently in force, the following deficit funding payments are expected for forthcoming years.

In 2012 the Group expects to make deficit funding contributions of £71 million comprised as follows:

- annual deficit funding contribution to Section A of £35 million;
- total annual deficit funding contributions to Sections B and C of £5 million;
- an additional £5 million to Section A as in 2011 the Group did not implement initiatives which reduce the Scheme's deficit by at least £10 million, compared with the level had such initiatives not been implemented;
- £16 million, being 10% of the Group's EBITA before exceptional items that exceeds the £300 million threshold;
- £10 million of annual deficit contributions as a result of the SDN pension partnership. From 2013 onwards £11 million of annual deficit contributions will be paid. Under the partnership arrangements, the Group has committed to making a payment to the main Scheme of up to £200 million in 2022, if and to the extent that it remains in deficit at that time. These arrangements were extended during 2011 with the potential 2022 payment being increased by £50 million, from £150 million, and the annual payment being increased in proportion to this.

The Group estimates the average duration of its UK scheme's liabilities to be 15 years (2010: 15 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

Keeping it simple...

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' service in the current period. 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 remeasurement 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 schemes. 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 schemes whereas any benefits paid out by the schemes will lower the obligations of those schemes.

The movement in the present value of the Group's defined benefit obligation is analysed below:

	2011 £m	2010 £m
Defined benefit obligation at 1 January	**2,746**	2,687
Current service cost	**7**	5
Curtailment loss/(gain) (redundancies)	**–**	1
Operating exceptional past service credit (one-off change to pension payment)	**–**	(2)
Operating exceptional past service credit (introduction of pensions payment change option)	**–**	(25)
Settlement (enhanced transfer values)	**–**	(21)
Interest cost	**145**	149
Net actuarial loss	**268**	80
Contributions by scheme participants	**–**	2
Benefits paid	**(130)**	(130)
Defined benefit obligation at 31 December	**3,036**	2,746

The present value of the defined benefit obligation is analysed between wholly unfunded and funded defined benefit schemes in the table below:

	2011 £m	2010 £m
Defined benefit obligation in respect of funded schemes	**2,997**	2,709
Defined benefit obligation in respect of wholly unfunded schemes	**39**	37
Total defined benefit obligation	**3,036**	2,746

Keeping it simple...

Assumptions used to calculate the best estimate of future cash flows to be paid out by the schemes include: future salary levels, future pensionable salary levels, the estimate of increases in pension payments, the life expectancy 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 takes independent actuarial advice relating to the appropriateness of the assumptions.

The principal assumptions used in the schemes valuations at the year-end were:

	2011	2010
Discount rate for scheme liabilities	**4.7%**	5.4%
Inflation assumption	**3.0%**	3.4%
Rate of pensionable salary increases	**0.9%**	0.9%
Rate of increase in pension payment (LPI 5% pension increases)	**2.9%**	3.3%
Rate of increase to deferred pensions (CPI)	**2.3%**	2.9%

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 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:

	2011	2011	2010	2010
Retiring today at age	**60**	**65**	60	65
Males	**26.7**	**21.8**	26.6	21.7
Females	**30.0**	**25.0**	29.9	24.9
Retiring in 20 years at age	**60**	**65**	60	65
Males	**28.7**	**23.6**	28.6	23.5
Females	**32.1**	**26.9**	32.0	26.8

The tables above reflect published mortality investigation data in conjunction with the results of investigations into the mortality experience of scheme members.

Section 3 Operating Assets and Liabilities

continued

3.6 Pensions continued

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% (£230 million)
Rate of inflation	Increase/decrease by 0.5%	Increase/decrease by 5% (£150 million)
Life expectations	Increase by 1 year	Increase by 2% (£70 million)

The sensitivities opposite 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 schemes' liabilities and the schemes' 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 schemes' liabilities, but may also trigger an offsetting increase in the market value of certain assets so there is no net effect on the Group's liability.

Total defined benefit scheme assets

Keeping it simple...

The Pension scheme holds assets across a number of different classes, these being equities, bonds and other investments. These assets are managed by the Trustee, although the Trustee is required to consult with the Group on changes to their investment policy. Financial instruments are in place which provide protection against changes in market factors (interest rates and inflation) which could act to increase the pension deficit.

In 2011 the scheme obtained protection against the effect of increases in the life expectation of the majority of pensioner members by transacting a longevity swap. Under the swap, the trustees of the scheme agreed to make pre-determined payments in return for payments to meet the specified pension obligations as they fall due, irrespective of how long the members and their dependants live.

The difference in the present values of these two streams of payments is reflected in scheme assets and emerges as an actuarial loss on the 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 schemes to be managed and invested.

The movement in the fair value of the defined benefit scheme's assets is analysed below:

	2011 £m	2010 £m
Fair value of scheme assets at 1 January	**2,433**	2,251
Expected return on assets	**140**	136
Net actuarial gain	**144**	147
Employer contributions	**59**	47
Contributions by scheme participants	**–**	2
Settlement (enhanced transfer values)	**–**	(20)
Benefits and expenses paid	**(130)**	(130)
Fair value of scheme assets at 31 December	**2,646**	2,433

At 31 December 2011 the scheme's assets were invested in a diversified portfolio that consisted primarily of equity and debt securities. The fair value of the scheme's assets are shown below by major category:

	Market value 2011 £m	Market value 2010 £m
Market value of assets – equity-type assets	**745**	901
Market value of assets – bonds	**1,782**	1,242
Market value of assets – other	**119**	290
Total scheme assets	**2,646**	2,433

The Trustee entered a longevity swap during the year to remove the risk of increases in pension liabilities that would arise if a significant portion of the scheme's defined benefit pensioner population were to enjoy a longer life than currently expected. The recognition of the swap resulted in a reduction to the scheme's assets due to its classification as a negative plan asset and is included within "Market value of assets – other" in the table above.

Exposure through the different asset classes is obtained through a combination of executing swaps and investing in physical assets.

The Trustee has 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 Trustee manage by hedging broadly 60% of the overseas investments against currency movements.

The Trustee also holds 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 yield on bond investments with fixed interest rates can be derived exactly from their market value.

The expected return for each asset class is weighted based on the target asset allocation for 2012 to develop the expected long-term rate of return on assets assumption for the portfolio. The benchmark for 2012 is to hold broadly 47% equities and 53% bonds. The majority of the equities held by the schemes 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 the 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 the scheme's assets by major category and target allocations are set out below:

	Expected long-term rate of return 2012 % p.a.	**Planned asset allocation 2012 % of assets**	Expected long-term rate of return 2011 % p.a.	Planned asset allocation 2011 % of assets
Equity and property	**7.0**	**47**	7.8	47
Bonds	**2.8–4.5**	**53**	3.7–4.7	53

The actual return on the scheme's assets for the year ended 31 December 2011 was an increase of £284 million (2010: increase of £283 million).

Responsibility for deciding the investment strategy for the scheme's assets lies with the Trustee, although the Trustee is required to consult with the Group on changes in investment policies. It is recognised that the current asset allocation has moved away from the planned asset allocation, as a result of varying asset class performance and Trustee investment decisions. Rebalancing of the asset allocation is only carried out if equity type assets exceed the planned asset allocation by 3% and not if equity type assets fall below the planned asset allocation.

Amounts recognised through the income statement

Amounts recognised through the income statement in the various captions are as follows:

	2011 £m	2010 £m
Amount charged to operating costs:		
Current service cost	**(7)**	(5)
Curtailment (loss)/gain (redundancies)	**–**	(1)
	(7)	(6)
Amount credited to operating income – exceptional items:		
Past service credit (one-off change to pensions payment)	**–**	2
Past service credit (introduction of pensions payment change option)	**–**	25
Settlement gain (enhanced transfer values)	**–**	1
	–	28
Amount (charged)/credited to net financing costs:		
Expected return on pension scheme assets	**140**	136
Interest cost	**(145)**	(149)
	(5)	(13)
Total credited in the consolidated income statement	**(12)**	9

Amounts recognised through the consolidated statement of comprehensive income/(cost)

The amounts recognised through the consolidated statement of comprehensive income/(cost) are:

	2011 £m	2010 £m
Actuarial gains and (losses):		
Arising on scheme assets	**144**	147
Arising on scheme liabilities	**(268)**	(80)
	(124)	67

The £268 million actuarial loss on the scheme's liabilities was principally due to the fall in the discount rate partially offset by the reduction in the rate of market implied inflation.

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 £376 million (2010: £252 million loss). Included within actuarial gains and losses are experience adjustments as follows:

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Experience adjustments on scheme assets	**144**	147	48	(438)	15
Experience adjustments on scheme liabilities	**95**	(3)	–	–	(18)

Experience adjustments on the scheme's liabilities in 2011 arose primarily from the update of membership data as part of the ongoing 2011 triennial valuation process. For example, actual mortality experienced in the period since the last valuation compared to estimates.

Section 4 Capital Structure and Financing Costs

In this section...

This section outlines how the Group manages its capital and related financing costs.

The Directors 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 Directors consider the Group's 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 Board's focus during the year was on improving the efficiency of the balance sheet through a programme of bond buy-backs and improving the Group's credit rating.

In 2012 the Board will further review its policies on capital structure to support the Transformation Plan, any potential courses of action will take into account the Group's liquidity needs, flexibility to invest in the business, pension deficit initiatives and impact on credit ratings. The Board is mindful that equity capital cannot be easily flexed and in particular raising new equity would only ever 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.

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

4.1 Net cash/(debt)

Keeping it simple...

Net cash/(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 amortised cost adjustment which reflects the increase in coupon rates for specific bonds caused by the downgrade of ITV's credit status to sub-investment grade in August 2008.

Analysis of net cash/(debt)

The table below analyses movements in the components of net cash/(debt) during the year:

	1 January 2011 £m	Net cash flow and acquisitions £m	Currency and non-cash movements £m	**31 December 2011 £m**
Cash	761	(52)	(4)	**705**
Cash equivalents	99	(6)	3	**96**
Total cash and cash equivalents	860	(58)	(1)	**801**
Held to maturity investments	148	–	(1)	**147**
Loans and loan notes due within one year	(47)	47	–	**–**
Finance leases due within one year	(8)	8	(9)	**(9)**
Loans and loan notes due after one year	(1,170)	308	(6)	**(868)**
Finance leases due after one year	(53)	–	9	**(44)**
Total debt	(1,278)	363	(6)	**(921)**
Currency component of swaps held against Euro denominated bonds	98	(63)	(4)	**31**
Convertible bond equity component	(31)	–	4	**(27)**
Amortised cost adjustment	15	–	(1)	**14**
Net cash/(debt)	(188)	242	(9)	**45**

	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)
Total debt	(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)

Cash and cash equivalents

Included within cash equivalents is £48 million (2010: £53 million), the use of which is restricted to meeting finance lease commitments under programme sale and leaseback commitments, and gilts of £37 million (2010: £36 million) over which the unfunded pension commitments have a charge.

Held to maturity investments

In February 2009 a net £50 million was raised 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 2011 this gilt has a carrying value of £147 million.

Loans and loan notes due within one year

In October 2011 the €54 million Eurobond (£47 million) was repaid.

Loans and loan notes due after one year

All of the £110 million March 2013 bonds and £229 million of the 2015 bonds were repurchased during the year, including all of the £100 million tap issue to the 2015 series of bonds (2010: £50 million of the May 2013 loan and £42 million of the 2015 bonds were repurchased).

Currency components of swaps held against euro denominated bonds

In October 2011 cross currency interest rate swaps matched against the €54 million Eurobond matured resulting in the realisation of the currency element of the swaps totalling £63 million. As at 31 December 2011 the currency element of the cross currency interest rate swaps is a £31 million asset (2010: £98 million asset) and this offsets the exchange rate movement of the 2014 Euro denominated bonds.

Convertible bond

In November 2009 ITV issued a £135 million convertible Eurobond with a maturity date of November 2016 and a coupon of 4%. As the bond contains an option for the issuer to convert a portion of the debt into ITV's equity, the components are treated as separate instruments. The accounting policy for this compound instrument is detailed in note 4.2 (i.e. partly debt and partly equity).

The debt portion is £105 million (2010: £100 million) and is included within Loans and loan notes due after one year. The effective interest rate on the carrying value of the debt component is 9.4%. The equity component of £27 million (2010: £31 million) is shown separately.

Amortised cost adjustment

The purpose of the amortised cost adjustment is to exclude the impact of the coupon step-up on net debt. ITV's Standard & Poor's credit rating was lowered to BB+ in August 2008, resulting in a coupon step-up in the 2011, 2014 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 adjusted net financing costs as described in the Financial and Performance Review.

Section 4 Capital Structure and Financing Costs
continued

4.2 Borrowings and held to maturity investments

Keeping it simple...

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 financial instruments are complex in that they have variable rates of interest that are driven by the performance of an index, with fixed upper and lower limits on the cost to the Group. Some instruments require the Group to hold an investment of a lesser value with a fixed interest rate 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 less 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. Borrowings are referred to in this section using their redemption value when describing the terms and conditions.

The mechanism used to determine variable interest rates on a loan is analysed when the loan is initially taken out to determine if it is closely related to the loan. If the variable rate mechanism is closely related to the loan it is not valued separately but cash flow estimates are included in the effective interest rate on the loan. This assessment is not revisited unless the terms of the loan are changed significantly.

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 remeasured 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:

	Loans and loan notes £m	Finance leases £m	2011 £m
Current			
In 1 year or less, or on demand	–	9	9
Non-current			
In more than 1 year but not more than 2 years	–	8	8
In more than 2 years but not more than 5 years	407	34	441
In more than 5 years	461	2	463
	868	44	912
Total	868	53	921

	Loans and loan notes £m	Finance leases £m	2010 £m
Current			
In 1 year or less, or on demand	47	8	55
Non-current			
In more than 1 year but not more than 2 years	–	10	10
In more than 2 years but not more than 5 years	607	34	641
In more than 5 years	563	9	572
	1,170	53	1,223
Total	1,217	61	1,278

Current loans and loan notes due within one year

There are no loans repayable within one year. Loans repayable in one year or less in 2010 comprised the €54 million Eurobond (£47 million) which was repaid in full. This Eurobond had a coupon of 6.0%. After cross currency swaps the Group received a net £16 million in October 2011.

Loans and loan notes repayable between two and five years

Loans repayable between two and five years as at 31 December 2011 include an unsecured €188 million Eurobond (£126 million net of cross currency swaps) which has a coupon of 10.0% maturing in June 2014, an unsecured £154 million Eurobond

which has a coupon of 5.375% maturing in October 2015 and an unsecured £135 million convertible Eurobond which has a coupon of 4.0% maturing in November 2016.

Loans and loan notes repayable after five years

Loans repayable after five years include an unsecured £250 million Eurobond which has a coupon of 7.375% maturing in January 2017.

Also included 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 in section 4.1. Interest on the loan is fixed at 6.75% for the first three years until March 2012 with a variable rate thereafter, likely to be 13.55% depending in part on the performance of an interest rate algorithm. Interest on the loan is offset by 3.5% in respect of the £138 million gilts. The interest mechanism on these instruments was adjusted during 2010. The change was not significant and did not impact the accounting treatment. The lender has the option to issue a further £150 million loan that would carry an interest rate of 7.34%.

Fair value 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	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Held to maturity investments	Mar 2019	**147**	148	**166**	150

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	**2011 £m**	2010 £m	**2011 £m**	2010 £m
€54 million Eurobond (previously €118 million Eurobond)	Oct 2011	**–**	47	**–**	48
£110 million Eurobond	Mar 2013	**–**	110	**–**	109
€188 million Eurobond	June 2014	**149**	150	**171**	185
£154 million Eurobond (previously £383 million Eurobond)	Oct 2015	**153**	347	**150**	373
£135 million Convertible bond	Nov 2016	**105**	100	**167**	172
£250 million Eurobond	Jan 2017	**261**	263	**253**	258
£200 million loan	Mar 2019	**200**	200	**290**	269
		868	1,217	**1,030**	1,414

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

Movements in book values of the 2011 bonds are the result of scheduled repayments and the 2013 and 2015 bond buy-back programmes described in detail above.

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.

The fair value of the £200 million loan increased during the year as a result of lower interest rates, lower credit costs and higher expected variable rate coupons.

Finance leases

The following table analyses when finance lease liabilities are due for payment:

	2011			2010		
	Minimum lease payments £m	**Interest £m**	**Principal £m**	Minimum lease payments £m	Interest £m	Principal £m
In 1 year or less	**12**	**3**	**9**	11	3	8
In more than 1 year but not more than 5 years	**47**	**5**	**42**	50	6	44
In more than 5 years	**2**	**–**	**2**	10	1	9
	61	**8**	**53**	71	10	61

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 2011 was £3 million (2010: £6 million).

Section 4 Capital Structure and Financing Costs

continued

4.3 Derivative financial instruments

Keeping it simple...

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 remeasured 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 remeasured 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. Interest rate swap fair values exclude accrued interest.

	Assets £m	**2011 Liabilities £m**
Current		
Interest rate swaps – fair value through profit or loss	**–**	**(1)**
Non-current		
Interest rate swaps – fair value through profit or loss	**110**	**(44)**
	110	**(45)**

	Assets £m	2010 Liabilities £m
Current		
Interest rate swaps – fair value through profit or loss	69	(3)
Non-current		
Interest rate swaps – fair value through profit or loss	89	(39)
	158	(42)

Interest rate swap assets

The swap assets in relation to the €188 million 2014 Eurobond (see section 4.2) are as follows:

- Cross currency and interest swaps with a fair value of £39 million. The swaps receive a coupon of 10% and €188 million at maturity (to match the bond coupon and principal repayment due to bond holders) and pay 10.92% on a notional amount of £125.7 million and pays £125.7 million at maturity.

The remaining £71 million of Interest rate swap assets relate to a number of floating rate swaps matched against the 2015 and 2017 Eurobonds. The following swap assets are matched against the 2015 Eurobond:

- £162.5 million swap with a fair value of £19 million. This swap receives 5.375% (to match the bond coupon) and pays six-month sterling LIBOR plus 0.3%.
- A portfolio of swaps totalling £162.5 million fair valued at £16 million. These swaps receive 5.375% (to match the bond coupon) and pay a weighted average of three-month sterling LIBOR plus 1.45%.
- A further £120.5 million swap with a fair value at £3 million. This swap 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%.

The swap assets matched against the 2017 Eurobond are as follows:

- £125 million swap with a fair value of £26 million. This swap 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%.
- A further £125 million swap with a fair value at £7 million. This swap 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%.

Interest rate swap liabilities

Interest rate swap liabilities of £45 million as at 31 December 2011 relate to various fixed and floating rate swaps matched against the 2015 and 2017 Eurobonds. The following swap liabilities are matched against the 2015 Eurobond and mature in October 2015:

- £162.5 million swap fair valued at £20 million. The swap receives three-month sterling LIBOR and pays 4.35%. The bank has the right to cancel the swap.
- A further £162.5 million swap fair valued at £1 million. The swap 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.
- A portfolio of swaps totalling £162.5 million fair valued at £2 million. The swaps pay 5.375% and receive a weighted average of six-month sterling LIBOR plus 3.49% set in arrears.
- £120.5 million swap fair valued at £nil million, under which it receives six month LIBOR plus 3.605% and pays 5.375% set in arrears.

The following swap liabilities are matched against the 2017 Eurobond and mature in January 2017:

- £125 million swap valued at £19 million, under which it receives three-month sterling LIBOR and pays 4.31%. The bank has the right to cancel the swap.
- £125 million swap valued at £3 million, under which receives six-month sterling LIBOR plus 5.257% set in arrears and pays 7.375%.

4.4 Net financing costs

Keeping it simple...

This section details the interest income generated on the Group's financial assets and the interest expense incurred on borrowings and other financial assets and liabilities. In reporting 'adjusted profit', the Group adjusts net financing costs to exclude mark-to-market movements on swaps and foreign exchange, imputed pension interest and other financing costs. Mark-to-market movements reflect the value of these instruments at a point in time; it is variable and assumes cash is received at that date. 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:

	2011 £m	2010 £m
Financing income:		
Interest income	**22**	26
Expected return on defined benefit pension scheme assets	**140**	136
Change in fair value of instruments classified at fair value through profit or loss	**30**	11
Foreign exchange gain	**4**	12
	196	185
Financing costs:		
Interest expense on financial liabilities measured at amortised cost	**(82)**	(93)
Interest on defined benefit pension scheme obligations	**(145)**	(149)
Losses on early settlement	**(39)**	(10)
Other interest expense	**(5)**	(8)
	(271)	(260)
Net financing costs	**(75)**	(75)

Gains relating to changes in fair value of instruments of £30 million relate principally to interest rate swaps as a result of lower implied interest rates.

As detailed in the Financial and Performance Review, losses on early settlement of £39 million were incurred as a result of the extensive bond repurchase activity during 2011. The losses were primarily due to the repurchase of the 2015 £100 million bond tap. This bond was repurchased at no material difference to par value. The loss represents the accelerated amortisation to par value as they were issued in 2009 at a deep discount to nominal value, where the Group received £58.5 million in cash for £100 million nominal value.

Section 4 Capital Structure and Financing Costs

continued

4.5 Financial risk factors

Keeping it simple...

The Group's activities expose it to a variety of financial risks: market risks (including currency risk, interest rate risk and price 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 within its policies described below 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

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 seeks to match contractual and forecast foreign currency costs and revenues. For any material unmatched portion, the Group hedges using forward foreign exchange contracts for up to two years. The Group also utilises foreign exchange swaps to match foreign currency cash flow timing differences.

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 €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 2011, 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 £3 million (2010: £2 million) higher/lower. Equity would have been £8 million (2010: £13 million) higher/lower.

At 31 December 2011, 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 £4 million (2010: £3 million) higher/lower. Equity would have been £2 million (2010: £2 million) higher/lower.

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 changed during the year to 100% of its borrowings being at fixed rates (2010: between 40% and 60% of its borrowings at fixed rates). The change in policy was made to lock in low interest rates available. The Group utilises fixed and floating rate interest swaps and options in order to achieve the desired policy mix. These contracts match against underlying bonds or other interest bearing instruments.

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 2011, if interest rates had increased/decreased by 0.1%, post-tax profit for the year would have been unchanged (2010: £2 million lower/higher).

Price risk

Price risk is the risk that the Group's financial instruments change in value due to movements in market prices. This excludes movements in interest rate or foreign exchange. The Group is not exposed to any material price risk.

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.

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.

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 12 months require the approval of the Audit Committee.

Borrowings

ITV's credit ratings with Standard & Poor's and Moody's Investor Service are BB/Ba2 respectively and are 'sub-investment grade' with both agencies. The combination of ITV's lower credit rating and the deterioration in credit conditions adversely impacted the availability and cost of financing. Although ITV's credit ratings have since improved this did not change the cost of financing.

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 2011 the Group has available £125 million (2010: £125 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 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 2011	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	**(1,371)**	**(79)**	**(85)**	**(668)**	**(539)**
Held to maturity investments	**220**	**11**	**11**	**33**	**165**
Trade and other payables	**(684)**	**(639)**	**(28)**	**(16)**	**(1)**
Other payables – non-current	**(3)**	**–**	**(2)**	**(1)**	**–**
Derivative financial instruments					
Interest rate swaps	**89**	**12**	**11**	**59**	**7**
	(1,749)	**(695)**	**(93)**	**(593)**	**(368)**

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
	(2,140)	(725)	(95)	(820)	(500)

Held to maturity investments are included within the table above as 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.

Section 4 Capital Structure and Financing Costs

continued

4.6 Fair value hierarchy

Keeping it simple...

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'.

	Fair value 31 December 2011 £m	Level 1 31 December 2011 £m	Level 2 31 December 2011 £m	Level 3 31 December 2011 £m
Assets measured at fair value				
Available for sale financial instruments				
STV shares	**2**	**2**	**–**	**–**
Available for sale gilts	**37**	**37**	**–**	**–**
Financial assets at fair value through profit or loss				
Interest rate swaps	**110**	**–**	**110**	**–**
	149	**39**	**110**	**–**

	Fair value 31 December 2011 £m	Level 1 31 December 2011 £m	Level 2 31 December 2011 £m	Level 3 31 December 2011 £m
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Interest rate swaps	**(45)**	**–**	**(45)**	**–**
	(45)	**–**	**(45)**	**–**

	Fair value 31 December 2010 £m	Level 1 31 December 2010 £m	Level 2 31 December 2010 £m	Level 3 31 December 2010 £m
Assets measured at fair value				
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	–

	Fair value 31 December 2010 £m	Level 1 31 December 2010 £m	Level 2 31 December 2010 £m	Level 3 31 December 2010 £m
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Interest rate swaps	(42)	–	(42)	–
	(42)	–	(42)	–

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 continued

The table below summarises the movements in the number of share options outstanding for the Group and their weighted average exercise price:

	Number of options ('000) 2011	Weighted average exercise price (pence) 2011	Number of options ('000) 2010	Weighted average exercise price (pence) 2010
Outstanding at 1 January	**77,302**	**22.32**	101,989	63.94
Granted during the year – nil priced	**16,333**	**–**	25,792	–
Granted during the year – other	**2,370**	**73.58**	3,438	42.90
Forfeited during the year	**(3,069)**	**60.25**	(6,311)	21.63
Exercised during the year	**(3,951)**	**27.02**	(8,141)	1.79
Expired during the year	**(7,506)**	**75.86**	(39,465)	121.42
Outstanding at 31 December	**81,479**	**12.74**	77,302	22.32
Exercisable at 31 December	**21,115**	**19.13**	8,767	121.61

For those options exercised in the year, the average share price during 2011 was 69.35 pence (2010: 59.99 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)	Weighted average exercise price (pence) 2011	Number of options ('000) 2011	Weighted average remaining contractual life (years) 2011	Weighted average exercise price (pence) 2010	Number of options ('000) 2010	Weighted average remaining contractual life (years) 2010
Nil	**–**	**61,347**	**1.90**	–	50,161	2.54
20.00 – 49.99	**31.50**	**13,265**	**1.86**	31.56	15,238	2.83
50.00 – 69.99	**58.46**	**1,487**	**1.05**	54.69	3,643	1.62
70.00 – 99.99	**74.67**	**2,582**	**3.00**	85.03	1,046	1.03
100.00 – 109.99	**106.25**	**1,620**	**0.53**	105.99	1,878	1.44
110.00 – 119.99	**–**	**–**	**–**	112.30	2,183	0.94
120.00 – 149.99	**143.27**	**1,178**	**0.03**	136.40	2,584	0.90
250.00 – 299.99	**–**	**–**	**–**	280.00	569	0.05

Share schemes

Further details of the ITV share plans and awards can be found in the Remuneration Report.

Awards made under the Granada and Carlton Executive Share Option schemes have reached the end of their various performance periods, and have vested or lapsed accordingly. Details of the performance criteria that applied to these awards are set out 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. Although awards remain vested but unexercised under these schemes, they are not considered material for the purposes of disclosure in this note.

The awards made under the ITV Turnaround Plan and ITV Performance Share Plan grants prior to 2011 include awards that 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. The ITV SAYE scheme is an Inland Revenue Approved SAYE scheme.

Assumptions made relating to grants of share options during 2011 and 2010 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	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
ITV – three year	07 Apr 11	75.85	73.58	57.00%	3.25	–	2.02%	20.88
ITV – five year	07 Apr 11	75.85	73.58	47.00%	5.25	–	2.81%	22.95
Performance Share Plan								
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
ITV – three year	08 Mar 11	90.05	–	*	3.00	*	*	90.05
ITV – three year	11 Oct 11	62.65	–	*	3.00	*	*	62.65

* Awards do not include market based performance conditions; therefore, Monte Carlo or Black–Scholes model not required to calculate fair value.

The expected volatility for awards made in 2011 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 2011 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 2011	2,313,956	231,395	
	(301,231)	(30,123)	ITV Deferred Share Award Plan
	(1,336,462)	(133,646)	Restricted Share Awards
	(2,331,137)	(233,114)	ITV SAYE Scheme
	9,009,568	900,957	Shares purchased
31 December 2011	**7,354,694**	**735,469**	

The total number of shares held by the EBT at 31 December 2011 represents 0.19% (2010: 0.06%) of ITV's issued share capital. The market value of own shares held is £5 million (2010: £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

Keeping it simple...

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:

	2011 £m	2010 £m
Sales to joint ventures	**10**	13
Sales to associated undertakings	**1**	2
Purchases from joint ventures	**26**	21
Purchases from associated undertakings	**44**	50

The transactions with joint ventures primarily relate to sales and purchases 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 arm's length basis. None of the balances are secured.

The amounts owed by and to these related parties at the year-end were:

	2011 £m	2010 £m
Amounts owed by joint ventures	**–**	1
Amounts owed by associated undertakings	**7**	8
Amounts owed by pension scheme	**1**	1
Amounts owed to joint ventures	**–**	1
Amounts owed to associated undertakings	**1**	–

Amounts paid to the Group's retirement benefit plans are set out in section 3.6.

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:

	2011 £m	2010 £m
Short-term employee benefits	**6**	8
Post-employment benefits	**–**	1
Termination benefits	**–**	2
Share-based compensation	**6**	4
	12	15

Principal joint ventures, associated undertakings and investments

The Company indirectly held at 31 December 2011 the following holdings in significant joint ventures, associated undertakings and investments:

Name	Note	Interest in ordinary share capital 2011 %	Interest in ordinary share capital 2010 %	Principal activity
Freesat (UK) Limited	a	**50.00**	50.00	Provision of a standard and high definition enabled digital satellite proposition
Digital 3&4 Limited	a	**50.00**	50.00	Operates the Channel 3 and 4 digital terrestrial multiplex
YouView TV Limited	a	**14.30**	14.30	Internet connected television platform
Independent Television News Limited	b	**40.00**	40.00	Supply of news services to broadcasters in the UK and elsewhere
Mammoth Screen Limited	b	**25.00**	25.00	Production of television programmes
ISAN UK Limited	b	**25.00**	25.00	Operates voluntary numbering system for the identification of audiovisual works
STV Group plc[(1)]	c	**6.79**	6.91	Television broadcasting in central and north Scotland

(1) Incorporated and registered in Scotland.

a Joint venture.
b Associated undertaking.
c Available for sale financial asset.

5.2 Contingent liabilities

Keeping it simple...

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 are 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 effect on the Group's results or financial position.

5.3 Subsequent events

Keeping it simple...

Where the Group receives information in the period between 31 December 2011 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 2011. 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	2011 £m	2011 £m	2010 £m	2010 £m
Fixed assets:					
Investments in subsidiary undertakings	iii		**1,646**		1,646
Held to maturity investments			**147**		148
Derivative financial instruments			**110**		89
			1,903		1,883
Current assets:					
Amounts owed by subsidiary undertakings		**1,610**		9	
Derivative financial instruments		**–**		67	
Other debtors		**4**		–	
Cash at bank and in hand and short-term deposits		**620**		33	
		2,234		109	
Creditors – amounts falling due within one year:					
Borrowings	v	**–**		(47)	
Amounts owed to subsidiary undertakings		**(2,143)**		(111)	
Accruals and deferred income		**(13)**		(16)	
		(2,156)		(174)	
Net current assets/(liabilities)			**78**		(65)
Total assets less current liabilities			**1,981**		1,818
Creditors – amounts falling due after more than one year:					
Borrowings	v		**(868)**		(1,171)
Derivative financial instruments			**(44)**		(39)
			(912)		(1,210)
Net assets			**1,069**		608
Capital and reserves:					
Called up share capital	vi		**389**		389
Share premium	vii		**120**		120
Other reserves	vii		**63**		67
Profit and loss account	vii		**497**		32
Shareholders' funds – equity			**1,069**		608

The accounts were approved by the Board of Directors on 29 February 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.

The Company has taken advantage of the FRS 1 exception from the requirement to prepare and disclose a cash flow statement.

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 UITF 41 when it was adopted in prior years. 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

Two (2010: four) Directors of ITV plc were employees of the Company during the year, both of whom remain at the 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 xi. There was no movement on the balance of £1,646 million in 2011.

iv Amounts owed (to)/from subsidiary undertakings

The Company implemented a new inter-group banking policy in 2011 with certain 100% owned UK subsidiaries. The policy involves the daily closing cash position for participating subsidiaries whether positive or negative, being cleared to £nil via daily bank transfers to ITV plc. These daily transactions create a corresponding intercompany creditor or debtor which explains the increase in amounts owed to and from subsidiary undertakings in the Company balance sheet

v Borrowings

Current loans and loan notes due within one year

There are no loans repayable within one year. Loans repayable in one year or less in 2010 comprise the €54 million Eurobond (£47 million) which was repaid in full during 2011. This Eurobond had a coupon of 6.0%. After cross currency swaps the Company received £16 million in October 2011.

Notes to the ITV plc Company Financial Statements

continued

Loans repayable after more than one year

Loans repayable after more than one year as at 31 December 2011 include:

- an unsecured €188 million Eurobond (£126 million net of cross currency swaps) which has a coupon of 10.0% maturing in June 2014;
- an unsecured £154 million Eurobond which has a coupon of 5.375% maturing in October 2015;
- an unsecured £135 million convertible Eurobond which has a coupon of 4.0% maturing in November 2016;
- an unsecured £250 million Eurobond which has a coupon of 7.375% maturing in January 2017; and
- a £200 million covenant free loan raised in February 2009 with a maturity of March 2019. Interest on the loan is fixed at 6.75% for the first three years until March 2012 with a variable rate thereafter, depending in part on the performance of an interest rate algorithm.

vi Called up share capital

	Authorised 2011 £m	Authorised 2010 £m	Allotted, issued and fully paid 2011 £m	Allotted, issued and fully paid 2010 £m
Ordinary shares of 10 pence each				
Authorised:				
8,000,000,000 (2010: 8,000,000,000)	**800**	800		
Allotted, issued and fully paid:				
3,889,129,751 (2010: 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.

vii 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 2011	389	120	67	32	608
Retained profit for year for equity shareholders	–	–	–	466	466
Share-based compensation	–	–	–	11	11
External dividend paid	–	–	–	(16)	(16)
Equity portion of the convertible bond	–	–	(4)	4	–
At 31 December 2011	**389**	**120**	**63**	**497**	**1,069**

The profit after tax for the year dealt with in the accounts of ITV plc is £466 million (year ended 31 December 2010: loss of £101 million).

The profit and loss account reserves of £497 million at 31 December 2011 are all distributable.

The Company received dividends on 17 February 2011 of £75 million and on 24 June 2011 of £500 million from its subsidiary Carlton Communications Limited.

viii Contingent liabilities

Under a group registration, the Company is jointly and severally liable for VAT at 31 December 2011 of £35 million (31 December 2010: £39 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.

ix Capital and other commitments

There are no capital commitments at 31 December 2011 (2010: none).

x Related party transactions

Transactions with key management personnel

Key management consists of ITV plc Executive Directors.

Key management personnel compensation is as follows:

	2011 £m	2010 £m
Short-term employee benefits	**2**	3
Termination benefits	**–**	1
Share-based compensation	**2**	2
	4	6

xi Principal subsidiary undertakings and investments

Principal subsidiary undertakings

The principal subsidiary undertakings of the Company at 31 December 2011, all of which are wholly owned (directly or indirectly) and incorporated and registered in England and Wales except where stated, are:

Name	Principal activity
ITV Broadcasting Limited	Broadcast of television programmes
ITV Network Limited[1]	Scheduling and commissioning television programmes
ITV2 Limited	Operation of digital television channels
ITV Digital Channels Limited	Operation of digital television channels
ITV Breakfast Limited	Production and broadcast of breakfast time television under national Channel 3 licence
ITV Consumer Limited	Development of platforms, broadband, transactional and mobile services
SDN Limited	Operation of Freeview Multiplex A
ITV Studios Limited	Production of television programmes
ITV Studios, Inc.[2]	Production of television programmes
ITV Studios Germany GmbH[3] (formerly Granada Produktion für Film und Fernsehen GmbH)	Production of television programmes
Granada Media Australia Pty Limited[4]	Production of television programmes
12 Yard Productions (Investments) Limited	Production of television programmes
Imago TV Film und Fernsehproduktion GmbH[3, 5]	Production of television programmes
3sixtymedia Limited[6]	Supplier of facilities for television productions
ITV Global Entertainment Limited	Rights ownership and distribution of television programmes and films
Granada Ventures Limited	Production and distribution of video and DVD products
ITV Global Entertainment, Inc[2]	Distribution of television programmes
ITV Services Limited	Provision of services for other companies within the Group
Carlton Communications Limited	Holding company
Granada Limited	Holding company
ITV Scottish Limited Partnership[7]	Holding company

(1) Interest in company limited by guarantee.
(2) Incorporated and registered in the USA.
(3) Incorporated and registered in Germany.
(4) Incorporated and registered in Australia.
(5) 67.72% owned.
(6) 80% owned.
(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.

Notes to the ITV plc Company Financial Statements

continued

Principal joint ventures, associated undertakings and investments

The Company indirectly held at 31 December 2011 the following holdings in significant joint ventures, associated undertakings and investments:

Name	Note	**Interest in ordinary share capital 2011 %**	Interest in ordinary share capital 2010 %	Principal activity
Freesat (UK) Limited	a	**50.00**	50.00	Provision of a standard and high definition enabled digital satellite proposition
Digital 3&4 Limited	a	**50.00**	50.00	Operates the Channel 3 and 4 digital terrestrial multiplex
YouView TV Limited	a	**14.30**	14.30	Internet connected television platform
Independent Television News Limited	b	**40.00**	40.00	Supply of news services to broadcasters in the UK and elsewhere
Mammoth Screen Limited	b	**25.00**	25.00	Production of television programmes
ISAN UK Limited	b	**25.00**	25.00	Operates voluntary numbering system for the identification of audiovisual works
STV Group plc[1]	c	**6.79**	6.91	Television broadcasting in Scotland

(1) Incorporated and registered in Scotland.

a Joint venture.
b Associated undertaking.
c Available for sale financial asset.

xii 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	2,293	3.47	3,676.10	94.53
Individuals	63,429	95.94	158.04	4.06
Others	389	0.59	54.99	1.41
Totals		**100.00**		**100.00**
Size of holding:				
1 – 100	9,784	14.80	0.36	0.01
101 – 200	8,907	13.47	1.34	0.03
201 – 500	17,731	26.82	5.70	0.15
501 – 1,000	11,092	16.78	8.14	0.21
1,001 – 2,000	8,685	13.14	12.47	0.32
2,001 – 5,000	5,836	8.83	18.06	0.47
5,001 – 10,000	1,905	2.88	13.64	0.35
10,001 – 50,000	1,320	2.00	26.18	0.67
50,001 – 100,000	161	0.24	11.63	0.30
100,001 – 500,000	283	0.43	71.14	1.83
500,001 – 1,000,000	108	0.16	72.56	1.87
1,000,001 – 5,000,000	191	0.29	438.79	11.28
5,000,001 – 10,000,000	40	0.06	270.43	6.95
10,000,001 – 50,000,000	52	0.08	1,195.64	30.74
50,000,001 and above	16	0.02	1,743.03	44.82
Totals		**100.00**		**100.00**

Information as at 31 December 2011.

Shareholder Information

continued

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.

They can be contacted by telephone on **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; and
- 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:

Telephone: **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 the Company website at www.itvplc.com.

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.

Registered office

The London Television Centre
Upper Ground
London
SE1 9LT

Company registration number 4967001

Company website

Investor and shareholder related information can be found on the Company website at:

Financial calendar

Annual General Meeting	9 May 2012
Interim Management Statement	May 2012
Half year results announcement	July 2012

Unauthorised brokers (Boiler Room Scams)

Shareholders are advised to be 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 their Consumer Helpline 0845 606 1234 or by completing an online form at:

- 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.

Details of any sharedealing facilities that the Company endorses will only be included in Company mailings.

Keep in mind that it is very unlikely that an authorised firm that you have no relationship with would contact you out of the blue offering to buy or sell shares or offer other investment opportunities.

More detailed information can be found on the FSA website:

www.fsa.gov.uk/pages/register/use/protect_yourself

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

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Results					
Revenue	**2,140**	2,064	1,879	2,029	2,082
Earnings before interest, tax and amortisation (EBITA) before exceptional items	**462**	408	202	211	311
Amortisation of intangible assets	**(59)**	(63)	(59)	(66)	(56)
Impairment of intangible assets	**–**	–	–	(2,695)	(28)
Share of profits or (losses) of joint ventures and associated undertakings	**(2)**	(3)	(7)	(15)	2
Investment income	**–**	–	–	1	1
Exceptional items	**1**	19	(20)	(108)	(9)
Profit/(loss) before interest and tax	**402**	361	116	(2,672)	221
Net financing costs	**(75)**	(75)	(91)	(60)	(33)
Profit/(loss) before tax	**327**	286	25	(2,732)	188
Taxation (charge)/credit	**(79)**	(16)	69	178	(50)
Profit/(loss) after tax	**248**	270	94	(2,554)	138
Non-controlling interests	**(1)**	(1)	(3)	(2)	(1)
Profit/(loss) for the financial year	**247**	269	91	(2,556)	137
Basic earnings/(loss) per share	**6.4p**	6.9p	2.3p	(65.9)p	3.5p
Adjusted earnings per share	**7.9p**	6.4p	1.8p	1.8p	5.0p
Dividend per share	**1.6p**	–	–	0.675p	3.15p
Consolidated statement of financial position					
Share capital	**389**	389	389	389	389
Reserves	**417**	272	(44)	137	2,844
Total equity attributable to equity shareholders of the parent company	**806**	661	345	526	3,233
Non-controlling interests	**3**	2	1	8	6
Net assets	**809**	663	346	534	3,239
Represented by:					
Property, plant and equipment and intangible assets	**1,101**	1,120	1,191	1,360	4,084
Investments	**5**	5	6	71	89
Distribution rights	**11**	12	16	13	7
Inventory	**285**	284	388	516	440
Trade and other receivables (including assets held for sale and derivative financial instruments)	**475**	511	565	528	472
Deferred tax asset	**65**	73	50	–	–
Total assets	**1,942**	2,005	2,216	2,488	5,092
Net cash/(debt)	**45**	(188)	(612)	(730)	(668)
Deferred tax liability	**–**	–	–	(55)	(75)
Other liabilities	**(1,145)**	(1,105)	(1,182)	(1,085)	(1,079)
Provisions	**(33)**	(49)	(76)	(84)	(31)
	809	663	346	534	3,239

Cash and cash equivalents are included within net cash/(debt).

Glossary

Analogue switch off – termination in 2012 of the analogue terrestrial television signal in the regions in which it is still broadcast. BBC1, BBC2, ITV1, Channel 4 and Channel 5 are broadcast in analogue

Broadcasters' Audience Research Board (BARB) – organisation owned by broadcasters and advertisers and providing data on television viewing statistics in UK households

Catch up viewing – non-live viewing of recently broadcast television programmes, either via a recording device (often called a PVR or DTR) such as Sky+ or through a video on demand service such as ITV Player, BBC iPlayer, 4oD or Demand 5

Channel 3 licences – the 15 regional licences and one national licence awarded to transmit Channel 3 across the UK. All are owned by ITV with the exception of three of the regional licences, two of which are owned by STV, one by UTV

Contract Rights Renewal (CRR) – the remedy agreed by Carlton and Granada in 2003 as a pre-condition of the merger, which governs the way in which ITV1 airtime is sold by ITV to its advertising customers

Free-to-Air (FTA) television – viewing of television through devices not requiring monthly subscriptions such as the Freeview or Freesat services

High Definition (HD) – channels or services broadcast in substantially higher resolution than standard, providing improved picture quality

Impact or Commercial Impact – one Commercial Impact is defined as one viewer watching one 30-second television commercial

ITV Family – the ITV Family of channels which includes ITV1, ITV2, ITV3, ITV4, CITV, ITV Breakfast, CITV Breakfast and all associated +1 and HD equivalents. Viewing figures include the whole of the ITV network. Revenue figures include only ITV plc operated regions

Long form video views – video views are a measure of the total number of videos viewed across all platforms (such as itv.com, Virgin and mobile devices). A long form video is a programme that has been broadcast on television and is available to watch online and on demand in its entirety

Media sales – commission earned by ITV plc on sales of airtime on behalf of the non-consolidated licensees

Net Advertising Revenues (NAR) – the amount of money received by a broadcaster as payment for television spot advertising net of any commission paid to agencies

Network Programme Budget (NPB) – the budget spent on programming broadcast on the ITV1 channel, excluding spend on regional programming and ITV Breakfast

Non-consolidated licensees – the three regional channel 3 licences which ITV does not own. These licences are owned by STV and UTV and revenues received from these licences for ITV programming content are referred to as minority revenues

Non-NAR revenues – non-NAR revenues includes all ITV revenues, both internal and external, except net advertising revenues (NAR). This includes inter-segment revenues from the sale of ITV Studios shows to the ITV Network

Non-spot advertising revenues – advertising revenues received for services other than traditional television commercials. Includes sponsorship and product placement revenues

Ofcom – the regulator established to govern UK broadcasting as well as other areas of the media and telephony industry

Premium Rate Services (PRS) – revenue generated from votes and competitions run on broadcast content

Product placement – the inclusion of, or reference to, a product or service within a programme in return for payment or other valuable consideration to the programme maker or broadcaster

SDN – multiplex operator owned by ITV which operates one of the six digital terrestrial multiplex licences in the UK that make up Freeview

Share of Broadcast (SOB) – ITV's share of UK television advertising revenues (NAR), a measure of market share

Share of Commercial Impacts (SOCI) – the term used to define the share of total UK television commercial impacts which is delivered by one channel or group of channels. This measure excludes viewing of BBC channels as they do not generate commercial impacts. Unless stated otherwise, SOCI figures cited throughout this report are based on BARB data and are based on the universe of Adults (16+)

Share of Viewing (SOV) – the share of the total viewing audience during a defined period gained by a programme or channel. This measure includes viewing of BBC channels. Unless stated otherwise, SOV figures cited throughout this report are based on BARB data and are based on the universe of Individuals

Sub-demographics – subsets of individuals used for measuring particular audience types. For example, men, women, 16 to 34 year olds and housewives

Total Value exploitation – approach to commissioning and brand exploitation adopted by ITV which intends to maximise the lifetime revenues from our strongest brands

Video on Demand (VOD) – the ability to deliver video content to a customer's television set, computer or device when the customer requests it

YouView – a joint venture (with the BBC, Channel 4, Channel 5, British Telecom, TalkTalk, and Arqiva) to operate and promote a hybrid TV platform combining Freeview channels with catch up and on demand services. The YouView joint venture will set standards for the device, operate the user interface and back end services and promote the YouView brand. The joint venture will not manufacture or sell set-boxes directly and will not own or control content

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