

Financial background of BSkyB and ITV

Introduction

1. This appendix sets out further details of BSkyB and ITV's financial backgrounds. Paragraphs 11 to 19 discuss the costs of ITV's potential strategic options and views on its ability to raise debt.

BSkyB

2. Table 1 sets out summary financial information on BSkyB for the two years ended 30 June 2007.

TABLE 1 Summary financial information on BSkyB

	<i>£m</i>	
	<i>2006/07</i>	<i>2005/06</i>
Revenue	4,551	4,148
Programming costs	-1,539	-1,599
Marketing	-734	-622
Subscriber mgmt	-618	-468
Transmission and related	-402	-234
Administration	<u>-443</u>	<u>-348</u>
	-2,197	-1,672
Operating profit	815	877

Source: BSkyB.

Breakdown of revenues and costs

3. Tables 2 and 3 set out a further breakdown of these figures for the financial year ended 30 June 2007.
4. Table 2 sets out a split of BSkyB's revenues for the year ended 30 June 2007.

TABLE 2 **Split of revenues, year ended 30 June 2007**

	2006/07 £m	Approx %
DTH subscribers	3,406	74
Advertising	352	8
Cable subscribers	208	5
Sky Bet (net of payouts)	47	1
Installation, hardware, and service	212	5
Other	<u>326</u>	<u>7</u>
Total	4,551	100

Source: BSkyB.

5. The 'Other' category includes revenues from Sky Active, Sky Card, Sky Mobile TV, technical platform services and Easynet Enterprise.

6. Table 3 sets out a split of BSkyB's programming costs for the year ended 30 June 2007.

TABLE 3 **Split of programming costs, year ended 30 June 2007**

	2006/07 £m	Approx %
Sports	842	55
Movies	285	19
Third party channels	293	19
News and entertainment	184	12
Credit	<u>-65</u>	<u>-5</u>
Total	1,539	100

Source: BSkyB.

Note: In the year ended 30 June 2007, BSkyB recognised a £65 million credit, arising from certain contractual rights under one of its channel distribution agreements.

ITV

7. Table 4 sets out summary financial information on ITV for the two years ended 31 December 2006.

TABLE 4 **Summary financial information on ITV**

	<i>£m</i>	
	<i>Years ended 31 December</i>	
	<i>2006</i>	<i>2005</i>
		<i>(restated)</i>
Broadcasting revenue	1,665	1,783
Content revenue	652	672
Less internal	<u>-370</u> 282	<u>-432</u> 240
Other	<u>234</u>	<u>173</u>
Total revenue	2,181	2,196
Programming costs	-1,070	-1,051
Other operating costs	<u>- 736</u>	<u>- 685</u>
Operating profit	<u>375</u>	<u>460</u>
Operating cash flow	371	484
<i>Balance sheet</i>		
Shareholders' funds	3,156	3,293
Net debt	734	481

Source: ITV.

Breakdown of revenues and costs

8. Tables 5 and 6 set out a further financial breakdown for the year ended 31 December 2006. Table 5 sets out a split of ITV's broadcasting revenue.

TABLE 5 **ITV split of broadcasting revenues**

	<i>2006</i>	<i>Approx</i>
	<i>£m</i>	<i>%</i>
ITV1 NAR	1,281	78
ITV2, 3, 4, News, CITV, M&M NAR	157	9
GMTV NAR	<u>56</u>	<u>3</u>
Total ITV plc NAR	1,494	90
Sponsorship	53	3
Media sales/Other income	<u>118</u>	<u>7</u>
Total	1,665	100

Source: ITV.

Note: NAR = net advertising revenue.

9. Table 6 sets out a split of ITV's programming costs for the year ended 31 December 2006.

TABLE 6 **Split of programming costs (ITV)**

	2006 £m	Approx %
Commissions	548	54
Sports	156	15
Acquired	39	4
ITN News and Weather	40	4
Regional news and non-news	<u>119</u>	<u>12</u>
Total ITV1	902	89
ITV2, 3, 4, News, CITV, M&M	75	7
GMTV	<u>36</u>	<u>4</u>
Total	1,013	100

Source: ITV.

Note: In addition, ITV spent approximately £57 million on producing content sold principally to SMG, UTV and Channel TV.

10. Of the figure given above for commissions, ITV internally-commissioned programmes cost approximately £370 million.

Costs of ITV's potential strategic options

11. In order to assess the extent to which ITV may need to raise funds over the next two to three years, we considered the level of expenditure which it may potentially undertake.
12. On September 12, ITV announced a plan for its future strategy focusing on content-led growth. [✂]
13. [✂]
14. [✂]

ITV's ability to raise additional debt

15. ITV told us that at present rating agencies Moody's and Standard & Poor's rate ITV at 'Baa3' and 'BBB-' respectively, the lowest 'investment grade' rating in each case. [✂]

16. We received evidence from Standard & Poor's and Moody's and both of these credit rating agencies stated that ITV's credit ratings are at the lower bounds of investment grade. Issues which were likely to have Standard & Poor's re-evaluate its rating include:

(a) a higher than expected deterioration of ITV's operating performance;

(b) any change in dividend or share buyback policy;

(c) any 'mid-sized' acquisition funded by debt, especially if not cash generative; and

(d) any change in financial status, eg level of debt, EBITDA, cash flow.

17. BSkyB provided us with an analysis prepared by Merrill Lynch for BSkyB of ITV's ability to fund acquisitions up to the end of 2009. The conclusions of this paper were that ITV had the ability to raise substantial sums through debt, pre-emptive rights issues and non-pre-emptive equity placings, and even greater sums if it lowered its credit-rating requirements. We considered this analysis and received comments on it from ITV's financial advisers.

18. [REDACTED]¹

19. [REDACTED]

¹[REDACTED]