



## ITV plc - Interim results for the period ending 30 June 2020

### Carolyn McCall, ITV Chief Executive, said:

"This has been one of the most challenging times in the history of ITV. I am really proud of the way that our colleagues have responded to the COVID-19 pandemic and helped demonstrate the enduring value of ITV as a Public Service Broadcaster. ITV continues to inform and entertain the nation throughout this crisis, across our six channels including 10 hours of live broadcast every weekday as well as increased content on ITV Hub and BritBox.

"While our two main sources of revenue – production and advertising – were down significantly in the first half of the year and the outlook remains uncertain, today we are seeing an upward trajectory with productions restarting and advertisers returning to take advantage of our highly effective mass reach and addressable advertising platform, in a brand safe environment.

"We have made good progress in our digital transformation. The majority of our colleagues are working seamlessly at home thanks to the investment we have made in technology and systems and this has helped us continue to deliver on our strategic objectives. The success of the Hub investment plan contributed to driving online viewing up 13% and monthly active users up 15% in H1. We continue to successfully roll out Planet V with around 35% of our VOD inventory now delivered through this platform, which is on track to be live with most of the major agencies by the end of the year. BritBox is ahead of target on subscribers in the UK and we have announced plans to roll out BritBox internationally.

"The future is still uncertain due to the pandemic but the action we have taken to manage and mitigate the impact of COVID-19 puts us in a good position to continue to invest in our strategy of transforming ITV into a digitally led media and entertainment company."

### ITV has taken swift and decisive action to manage and mitigate the impact of COVID-19

- o Focused on our colleagues and their safety
- o Cost savings:
  - o We have implemented measures to reduce overhead costs by £60 million in total in 2020 as previously announced which are largely temporary savings
  - o We have delivered £51 million of these overhead cost savings in H1
  - o We continue to look at ways to permanently reduce our cost base, and as previously guided, in addition we are targeting a further £25 million to £30 million of permanent overhead cost savings by 2022
  - o We expect the programme budget to be around £960 million in 2020
- o Cash management:
  - o We have taken action to tightly manage our cashflow, for example with agreements to defer £90 million of pension contributions and tax payments out of H1
  - o Due to successful cost and working capital management we are able to resume our essential capex broadly in line with our original guidance of around £85 million to £95 million in 2020
- o We have continued to amplify ITV's social purpose, raising awareness and inspiring positive change such as Britain Get Talking, Eat Them to Defeat Them and the Black Voices campaign

### Operational and financial performance has been materially impacted by COVID-19 in H1

- o In mid-March ITV Studios paused the majority of its productions globally as a result of the restrictions on working practises, driving a 17% decline in total ITV Studios revenues in H1 to £630 million (2019: £758 million)
- o ITV Total viewing was up 4% and ITV Family light viewing was up 8% in spite of the strong growth in streaming, with online viewing up 13% and dwell time up 11%
- o ITV Family SOV was down 4% in H1 to 22.6% impacted by the volume of BBC's news output
- o Significant decline in the demand for advertising across most advertising categories with total advertising revenue down 43% in Q2 and down 21% in H1, despite good momentum in Q1 with TAR up 2%
- o 17% decline in total Broadcast revenue to £824 million (2019: £991 million)
- o 17% decline in total external revenue to £1,218 million (2019: £1,476 million)
- o 50% decline in adjusted EBITA to £165 million (2019: £327 million) and 53% decline in adjusted EPS to 2.9p (2019: 6.2p)
- o 49% decline in statutory EBITA to £159 million (2019: £310 million) and 90% decline in statutory EPS to 0.5p (2019: 4.8p)

### Operational update

- o Our production teams have been innovative and as a result ITV restarted production in June with Coronation Street and Emmerdale and a small number of productions internationally
- o Of the 230 productions that were impacted or paused by the lockdown, around 70% have been delivered or are back in production as of today. The impact on the rest of the year and 2021 will depend on how quickly COVID restrictions are reduced. We do expect some increased costs of production as a result of COVID measures
- o We are seeing good demand for library content
- o ITV Commercial continues to work very closely with advertisers and agencies to create effective marketing solutions and we saw advertising trends improve in July and August with ITV TAR down 23% July, with some FMCG and retail, publishing and broadcasting, cars and interior furnishing categories beginning to spend more
- o The Direct to Consumer business is performing well with 390k Hub+ subscribers, good growth in BritBox subscriptions in both the UK and the US, and increased demand for ITV's competitions
- o The majority of ITV's colleagues continue to work seamlessly from home although we are bringing staff back from furlough as we restart productions and now have fewer than 300 colleagues on furlough
- o We have planned a phased approach to re-entering the office safely which we will implement as appropriate in-line with government guidelines

### Continuing to execute our strategy in spite of the COVID-19 disruption

- o Delivering the Hub acceleration plan, by strengthening its content and user experience, with the extended catch-up window and Hub redesign, which has driven a strong viewing performance
- o Successfully rolling out Planet V with 100% of VOD inventory expected to be executed via Planet V by the end of the year
- o We have extended the distribution of BritBox UK which is now available to 60% of streaming households and further strengthened its content offering. The first original, Spitting Image, will be available in the autumn and we have recently announced four other originals

- The international roll out of BritBox is on track with Australia due to launch in Q4 and we intend to expand the service in up to 25 countries worldwide

#### ITV has good access to liquidity and its financial position remains robust

- Reported net debt of £783 million at 30 June 2020 (31 December 2019: £893 million, 30 June 2019: £1,195 million)
- Reported net debt to adjusted EBITDA leverage of 1.3x on a rolling 12 month basis (31 December 2019: 1.1x, 30 June 2019: 1.5x)
- Total liquidity at 30 June 2020 was £1,214 million (31 December 2019: £1,101 million, 30 June 2019: £825 million) comprising:
  - £385 million of unrestricted cash
  - £630 million undrawn Revolving Credit Facility (RCF) expiring on 15 December 2023. As at 30 June 2020 ITV's financial position was well within its banking covenants, but as a precautionary measure we have agreed with our banking group to replace the leverage and interest cover covenants in the RCF with a cap on covenant net debt at £1.8bn and a minimum covenant liquidity requirement of £250 million until 30 December 2021
  - £300 million bilateral facility expiring in June 2026 of which £199 million is available
  - No bond repayments due until September 2022
- The Board has decided not to pay an interim dividend in light of continued economic uncertainty. The Board recognises the importance of the dividend to our shareholders and intends to restore future dividend payments as soon as circumstances permit

#### Outlook

- Productions are now restarting and with the efforts of our Commercial sales team, we are having more positive conversations with advertisers and seeing some signs of improvement in advertising
- Given the level of uncertainty for both ITV Studios and Broadcast it is not possible to provide financial guidance for Q3 or the remainder of the year
- The Board continues to monitor performance against a wide range of scenarios as well as internal and external analysis to inform its planning and decision making and will continue to manage our costs and cash appropriately.

#### Notes to editors

1. Unless otherwise stated, all financial figures refer to the 6 months ended 30 June 2020 and 30 June 2019, with the change compared to the same period in 2019.
2. Group financial performance

Six months to 30 June	2020 £m	2019 £m	Change £m	Change %
Total advertising revenue	671	849	(178)	(21)
Broadcast non-advertising revenue	153	142	11	8
<b>Broadcast total revenue</b>	<b>824</b>	<b>991</b>	<b>(167)</b>	<b>(17)</b>
<b>ITV Studios total revenue</b>	<b>630</b>	<b>758</b>	<b>(128)</b>	<b>(17)</b>
Total non-advertising revenue	783	900	(117)	(13)
<b>Total group revenue</b>	<b>1,454</b>	<b>1,749</b>	<b>(295)</b>	<b>(17)</b>
Internal supply	(236)	(273)	37	14
<b>Group external revenue</b>	<b>1,218</b>	<b>1,476</b>	<b>(258)</b>	<b>(17)</b>
<b>Group adjusted EBITA</b>	<b>165</b>	<b>327</b>	<b>(162)</b>	<b>(50)</b>
Group adjusted EBITA margin	14%	22%		
<b>Statutory EBITA</b>	<b>159</b>	<b>310</b>	<b>(151)</b>	<b>(49)</b>
<b>Adjusted EPS</b>	<b>2.9p</b>	<b>6.2p</b>	<b>(3.3)p</b>	<b>(53)</b>
<b>Statutory EPS</b>	<b>0.5p</b>	<b>4.8p</b>	<b>(4.3)p</b>	<b>(90)</b>
Dividend per share	-	2.6p	(2.6)p	-
Reported net debt as at 30 June*	(783)	(1,195)	412	34

\* including IFRS 16 liabilities

3. Total advertising was down 21% in H1, with Q1 up 2%, April down 42%, May down 46% and June down 42%. July was down 23%. Advertising from April onwards has been severely impacted by COVID-19 and as the situation remains uncertain, we are not in a position today to give guidance for August and September. These revenues include spot advertising, online, sponsorship and other advertising revenues and excludes self-promotion.
4. Broadcast key performance indicators

Six months to 30 June	2020	2019	Change %
ITV Total viewing (hrs)	8.5bn	8.2bn	4
ITV Family Share of Viewing (SOV)	22.6%	23.6%	(4)
Long form online viewing (hrs)	266m	236m	13
ITV Hub registered user accounts	32.2m	29.6m	9

- ITV Total viewing is the total number of hours spent watching ITV channels live, recorded broadcast channels within 28 days, third party VOD platforms, ITV Hub on owned and operated ad funded platforms and ITV Hub+.
- SOV data based on BARB/AdvantEdge. SOV data is for individuals and is based on 7 days (C7). ITV Family includes: ITV, ITV2, ITV3, ITV4, ITV Encore, ITVBe, CITV, ITV Breakfast, CITV Breakfast and associated "HD" and "+1" channels. All viewing on TV set, therefore includes catch up and Hub on television.
- Long form online viewing is the total number of hours ITV VOD content is viewed on owned and operated ad funded platforms, and Hub+ viewing on owned and operated platforms, based on data from Crocus.

- A registered user account is an individual viewer who has signed up to the ITV Hub using one email address. The individual has to have been active within the last 3 years to remain a registered user.
- % change for performance indicators is calculated on unrounded numbers.

5. This announcement contains certain statements that are or may be forward looking with respect to the financial condition, results or operations and business of ITV. By their nature forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward looking statements. These factors include, but are not limited to (i) a major deterioration in the current outlook for UK advertising and consumer demand, (ii) significant change in regulation or legislation, (iii) failure to identify and obtain, or significant loss of, optimal programme rights, (iv) the loss or failure of transmission facilities or core systems and (v) a significant change in demand for global content.

Undue reliance should not be placed on forward looking statements which speak only as of the date of this document. The Group accepts no obligation to revise publicly or update these forward looking statements or adjust them to future events or developments, whether as a result of new information, future events or otherwise, except to the extent legally required.

6. The financial information set out above does not constitute the Company's statutory accounts for the year ended 30 June 2020 but is derived from those accounts. Statutory accounts for 2019 have been delivered to the registrar of companies, and those for 2020 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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# Operating and Performance Review

ITV's operational and financial performance in the first half of 2020 has been materially impacted by the COVID-19 pandemic. While we saw good momentum in the business in the first quarter of 2020, from mid-March onwards, government imposed lock downs and containment measures in the UK and internationally have negatively impacted our productions and caused a significant decline in the demand for advertising.

ITV took swift and decisive action to manage and mitigate the impact of COVID-19. Our overriding priority was our colleagues and we took steps to help protect their health, safety and wellbeing. We implemented measures to reduce and suspend costs and tightly manage our cashflow, having regard to the needs of our viewers, customers, suppliers and colleagues. We have continued to inform and entertain the nation across our six linear channels, as well as with increased content on the ITV Hub and BritBox.

Despite the disruption caused by COVID-19, ITV has made good progress in executing the strategy as we have continued to invest in our key priorities. We are delivering the ITV Hub acceleration plan; rolling out Planet V (our programmatic addressable advertising platform) to agencies; have extended the distribution and content on BritBox UK, with the international roll out of BritBox to Australia on track; and we have augmented our data and analytics team.

While the future is still uncertain due to the pandemic, we have restarted many of our productions and we are having more positive conversations with advertisers and are seeing some signs of improvement in advertising demand. The actions we have taken in response to the pandemic, along with the resilience of our colleagues, strength of our Broadcast business and diversity of ITV Studios, has all helped to mitigate some of the impact of COVID-19, and puts us in a good position to continue to invest in our strategy.

The Board takes ITV's responsibility as a public service broadcaster very seriously. The Company has a unique ability to drive meaningful change across our social purpose priorities, and now more than ever we can use our position to shape culture for good. During the pandemic, we have continued to amplify ITV's social purpose, raising awareness and inspiring positive change through the massive reach of our platforms. We worked closely with the UK Government to integrate public health messages in our broadcasting; we continued our mental health campaign Britain Get Talking; and launched the diversity campaign Black Voices. Our purpose of connecting millions of people every day has assumed an even greater importance during this COVID-19 pandemic as we have informed, entertained and provided companionship to viewers throughout this period.

## Strategy

Our aim to be a digitally led media and entertainment company that creates and brings our brilliant content to audiences wherever, whenever and however they choose remains the right strategic vision for ITV even in view of the challenges created by COVID-19 but we need to continue to deliver it with pace. We are focused on three priorities:

- Transforming our Broadcast business
- Growing our UK and global production business
- Expanding our strong direct to consumer relationships

We have a clear vision, and clear priorities each supported by a number of initiatives for how we can compete in a changing environment. We have strong foundations; our integrated producer broadcaster (IPB) model, world-class content, strong advertiser and customer relationships, a powerful brand, talented commercial and creative colleagues and sufficient financial flexibility to invest.

We keep all our risks under continuous review and, in addition to the risks and impact posed by the COVID-19 pandemic (detailed below), the Company continues to monitor the potential implications of the UK's departure from the European Union. Workstreams are in place across the business to identify, manage and mitigate the impact across advertising, broadcast licensing, tax, data, copyright and IP. The most significant risk related to Brexit, continues to be the impact on the wider advertising market. See the Risks and Uncertainties section for further detail.

## Group financial overview

We measure performance through a range of metrics, particularly through our alternative performance measures and KPIs, as well as statutory results, all of which are detailed in this report.

The COVID-19 pandemic has significantly impacted our two main sources of revenue – production and advertising – which were both down in the first half of 2020. Total ITV revenue decreased by 17% to £1,454 million (2019: £1,749 million), with external revenue down 17% at £1,218 million (2019: £1,476 million). Total advertising revenue was down 21% to £671 million (2019: £849 million) and total non-advertising revenue down 13% to £783 million (2019: £900 million), of which ITV Studios was down 17% at £630 million (2019: £758 million).

We delivered £51 million of overhead cost savings in the period, and are targeting £60 million of overhead savings over the full year including a reduction in executive and non-executive director pay of 20% and a suspension of cash bonuses. These are largely temporary savings, with £10 million of the full year savings being permanent. We have taken advantage of governments' furlough schemes in the UK and internationally where appropriate, but have continued to top up our colleagues' earnings to 100% of pre-COVID pay. Our essential investments to support our strategic priorities were £8 million in the period. Adjusted EBITA declined 50% to £165 million (2019: £327 million), with a 47% decline in ITV Studios adjusted EBITA and a 51% decline in Broadcast & Online adjusted EBITA. The margins of both businesses have been significantly impacted by the decline in revenue, ongoing fixed costs and our essential investments to support the delivery of our strategic priorities.

Adjusted financing costs were down £2 million year-on-year at £18 million and our adjusted tax rate was 20% (2019: 19%). Adjusted EPS declined 53% to 2.9p (2019: 6.2p).

Statutory EBITA was £159 million, down 49% (2019: £310 million). Total exceptional items were £89 million (2019: £35 million) which includes £27 million of costs in relation COVID-19. Statutory financing costs were £23 million over the period which was up year-on-year due to foreign exchange losses in the period (2019: £16 million), and our reported effective tax rate was nil (2019 14%). Statutory profit after tax fell by 92% to £15 million (2019: £190 million) and statutory EPS decreased by 90% to 0.5p (2019: 4.8p). See the Finance Review for further detail of our Group financial performance.

We have good access to liquidity. At 30 June 2020 we had cash and committed undrawn facilities totalling £1,214 million, including unrestricted cash of £385 million. Our profit to cash conversion on a 12-month rolling basis was 138% (2019: 89%). At 30 June 2020 our reported net debt (including IFRS16 liabilities) was £783 million (31 December 2019: £893 million, 30 June 2019: £1,195 million) and our adjusted net debt was

# Operating and Performance Review continued

£1,008 million (31 December 2019: £1,210 million, 30 June 2019: £1,507 million). Our reported net debt (including IFRS 16 liabilities) to adjusted EBITDA was 1.3x (31 December 2019: 1.1x, 30 June 2019: 1.5x) and adjusted net debt to adjusted EBITDA, which better reflects how credit agencies look at us, was 1.6x (31 December 2019: 1.5x, 30 June 2019: 1.9x).

We continue to maintain tight control over cashflow and costs whilst continuing to pay our suppliers on the agreed terms. Our objective is to run an efficient balance sheet and manage our financial metrics appropriately, consistent with investment grade metrics over the medium term. Our priority remains to invest in our key assets and value drivers to drive organic growth in line with our strategic priorities and balance this investment with cash returns to shareholders.

## Impact of COVID-19 on trading and management actions

The global restrictions on working practices since mid-March caused the majority of productions in the UK and internationally to be paused. The closure of shops, factories and entertainment facilities, and halt to all travel led to a reduction in the demand for advertising across virtually all advertiser categories.

ITV quickly developed a COVID-19 response governance structure, coordinated by a crisis management office to address the unprecedented challenges, operational uncertainty and risks posed by the pandemic. At the height of the lockdown, this involved additional frequent Board calls, daily calls with the Management Board, along with operational and finance leaders from across the business, to make key decisions to mitigate the impact of the pandemic. We managed the risks associated with COVID-19 across five fronts;

- Situational analysis: Regular engagement with Government and external advisors to understand how the crisis is playing out medically, politically and economically
- Colleagues and communications: Putting in place processes to protect and support our colleagues and the wider community
- Cash and costs: Modelling our financial position across a range of scenarios (informed by situational analysis), developing cost mitigations (with defined trigger points), regular reforecasting and cash monitoring
- Revenue: Developing and implementing plans to continue identifying opportunities and mitigate against negative sales impacts
- Technology and operations: Invoking existing business continuity plans to ensure critical operations continue through the crisis

The severity of COVID-19 and the uncertainty it posed meant that we needed to take a series of measures to increase our resilience, manage the business for the long term and protect the interest of all our stakeholders. These measures are set out below. For further detail on the risks arising from the pandemic, see the Risks and Uncertainties section.

### Colleagues

As the impact of COVID-19 heightened globally during March, protecting the health, safety and wellbeing of our colleagues was our overriding priority. The majority of our colleagues transitioned seamlessly to home working, benefiting from the investment we have made in technology and systems. Those colleagues who needed to continue to work on site were subject to robust safety protocols. Our aim was to try and protect as many jobs as possible, which we have achieved. Where it was not possible for some to continue in work, we used Government furlough schemes in the UK and internationally where appropriate for those colleagues, the majority of whom worked within ITV Studios and are now starting to return to work as we resume productions.

ITV is strongly committed to supporting the physical and mental wellbeing of our colleagues at all times. We have leveraged existing tools to support the mental wellbeing of our colleagues during this time, and also launched new ones, such as Big White Wall, a mental health peer-to-peer platform accessible to all staff. To enable our colleagues to remain feeling connected to and engaged with the wider business, purpose and aims, we have held weekly CEO vodcasts covering a range of topics and including management from across the business. We have also moved all face to face workshops and many events online and provided training to line managers on managing remote teams. We regularly review our support programmes with colleagues to ensure we are providing practical, useful and easily accessed support.

As country restrictions ease we have planned a phased approach to resuming production and re-entering the office safely which we will implement as appropriate in-line with Government guidelines. We have also introduced new processes to manage the increased health and safety risks of our colleagues who may be returning to the office or working on our productions.

We continue to foster the Company's business relationships with customers and suppliers and ensure that we and our colleagues operate the business in an ethical and responsible way, including continuing to pay all suppliers on time.

### ITV Studios

In March, around 230 of our productions were either impacted, or had to be paused in order to protect the health and safety of our talent and crew. We ensured that for those which were paused, this happened systematically to enable productions to resume as easily as possible, and to minimise the costs of disruption. In the UK, by taking the necessary health and safety measures, and the innovation and dedication of our production teams, we were able to keep producing Daytime. We were also able to continue some programmes during lockdown such as The Graham Norton Show, The Martin Lewis Money Show and Saturday Night Takeaway, and we made Isolation Stories a four-part drama written, filmed and edited during the UK lockdown. Differing country restrictions also enabled us to continue filming in some of our international locations, including the Netherlands, Germany and Sweden. Outside of production, the teams were very much focused on the development of the creative pipeline during this time, and we also had a number of programmes in post-production globally being edited remotely, a significant proportion of which were delivered in the first half.

ITV has worked closely with the UK Government and the industry to develop a set of protocols to minimise COVID-19 health and safety risks during content production. We have undertaken risk assessments on all productions which have or are due to resume and are developing procedures outlining how the protocols should be applied on each production globally. This has enabled us to successfully resume production on some of our key programmes, including Coronation Street and Emmerdale, in the UK, and The Voice in Australia, Balthazar in France, and Suburra and Summertime in Italy. There remain operational challenges with producing content, particularly on large entertainment and reality shows along with dramas due to travel restrictions and social distancing rules, however we are working hard on this. Currently, around 70% of the 230 productions that were impacted or paused by the lockdown have either been delivered or have restarted. We anticipate restarting further

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productions in the coming weeks but the health and safety of our people remains our priority. Further production restarts also remain dependent on country or local specific regulations which may change at short notice. Inevitably we do expect some increased costs of production as a result of social distancing and other COVID-19 measures. The impact on 2020 and 2021 will depend on how quickly COVID restrictions are reduced.

During the pandemic demand has remained high for our content globally, particularly from the subscription video on demand (SVOD) services who have been less financially impacted than FTA broadcasters. The strength of our catalogue has led to our distribution business seeing good global demand for our library content as networks and platforms try to fill gaps in their schedule left by the delay in productions. ITV Studios' position in the international market, with its diversity in content production, and strength in relationships with broadcasters, distribution networks and platform owners has been critical during this time and demonstrates the resilience of our business in mitigating some of the negative impact caused by the pandemic.

## Broadcast

A key priority at the start of the pandemic was to keep ITV on air and the ITV Hub and BritBox fully operational. We were able to ensure our critical broadcast operations were not significantly disrupted and have continued to successfully broadcast programmes throughout. We have broadcast over ten hours of live programming every weekday with our Daytime and News programmes and have played a key part in providing our viewers with accurate and trustworthy information during the pandemic.

*Schedule* – While we want to protect our investment in our broadcast schedule, it has been impacted by the external decisions to cancel or postpone the majority of sporting tournaments, live entertainment and big audience shows including the UEFA European Football Championship, horse racing, Love Island, Britain's Got Talent finals and Soccer Aid. There has also been a delay in the delivery of a number of programmes, particularly scripted, arising from the pause in production in ITV Studios and other indies. There is a risk that some programmes, currently due to broadcast later in the year, may not be completed. However, being an integrated producer broadcaster puts us in a unique position and we are able to work with ITV Studios to develop plans to resume filming on key programmes, and to source additional library content for our channels. We have also been able to delay the transmission of some content which was delivered pre-COVID 19, and will look to broadcast this in the second half of the year building a strong schedule for the autumn.

*Advertising* - The demand for advertising has been severely impacted by the pandemic. As the Government imposed lockdown and containment measures were implemented during March, the closing down of non-essential retail, entertainment and leisure facilities, and the restriction in travel caused an almost immediate decline in advertising, with most categories reducing, or stopping their advertising spend. Total advertising in Q2 was down 43% and down 21% across the first half of 2020, the most severe decline in the history of ITV.

Our Commercial team worked very closely with our advertisers and agencies to create relevant and innovative marketing and advertising opportunities. With weekly emails and frequent webinars, they were able to use our breadth of experience, creativity and our unique platform, to bring new campaigns and new brands to television. These new brands were also encouraged by the significant deflation in the cost of television advertising during the period, with the rise in linear TV viewing making our station average price 50%-60% cheaper than before the pandemic. ITV Creative also remained operational producing the campaigns for advertisers. In July and August we are seeing signs of advertising trends improving with ITV TAR down 23% in July and some FMCG, retail, cars, publishing and broadcasting, and interior furnishing categories beginning to spend more. The challenge for our Commercial team will be to retain the new brands that have come to ITV and bring back other advertisers to television as the outlook improves.

*Viewing* – ITV viewing in the first half of 2020 has also benefited from the pandemic and lockdown restrictions in the UK, with people watching more linear television and streaming more content. Total ITV viewing (which combines live viewing of ITV channels, recorded and VOD) was up 4%, with ITV main channel share of commercial impacts (SOCI) up 1% to 26.2% (2019: 25.9%). ITV main channel's share of viewing (SOV) and ITV Family SOV however both declined in the period, down 2% to 16.9% (2019: 17.2%) and down 4% to 22.6% (2019: 23.6%) respectively.

Our Daytime linear viewing has been strong, with most of our Daytime shows having their strongest viewing in years, including Good Morning Britain, This Morning and Loose Women. Online viewing has also benefited, up 13% with dwell time up 11%. However, during peak hours, our share of linear viewing has been impacted by the news output of the BBC; fewer episodes of Coronation Street and Emmerdale which were reduced to three episodes per week; lower volumes of new content following the pause in production; and the significant increase in viewing on SVOD platforms, particularly amongst 16-34 year old viewers.

It is too early to say whether these behaviours will persist after the pandemic and whether the continued growth in the number of SVOD platforms may lead to a further decline in linear viewing and advertising revenue. Our strategy is designed to mitigate against the long term impact of changing viewing patterns, and we are increasing the pace of implementation of our strategic initiatives such as accelerating the functionality and content available on the ITV Hub, rolling out our addressable advertising platform, Planet V, and enhancing the content and distribution of BritBox UK. This is aimed at ensuring our viewers can watch our content however, whenever and wherever they want, and that our advertisers can benefit from both our mass simultaneous reach, and a more targeted proposition in a brand safe, trusted and measured environment.

*Direct to Consumer* – Our SVOD platforms have been positively impacted by COVID-19 and we have seen good growth in BritBox subscriptions in the UK and in the US. Interactive has also seen good growth as people have taken part in more of our competitions, but our live events have been impacted by the social distancing restrictions.

See ITV Studios and Broadcast sections on the following pages for further detail on the operational and financial performance of ITV Studios and Broadcast.

## Cash and Costs

In response to the uncertainty and challenges to our revenue streams presented by COVID-19, ITV took swift action to preserve cash, reduce costs and manage working capital in the business.

# Operating and Performance Review continued

Across March to May, these actions included:

- Measures to reduce overhead costs by £60 million in 2020, most of which is due to suspending expenditure so is a temporary saving – achieving this through reductions in Executive Directors and Management Board salaries along with the fees of the Board from April to the end of October, recruitment and pay freezes across the business, cancelling the 2020 bonus for the entire company, furloughing colleagues as appropriate, reducing non-essential travel and other expenses. Of the £60 million of savings, £10 million will be permanent savings.
- A reduction in the programme budget by at least £100 million
- Agreements with ITV pension trustees and tax authorities to delay at least £150 million of payments out of the first half of 2020 and into the second half of 2020 and 2021
- Withdrawal of the 2019 final dividend and intention to pay 8p for the full year 2020 withdrawn

We continue to look at ways to permanently reduce our cost base and as previously guided we are targeting a further £25m to £30m of overhead cost savings by 2022. The Board continues to monitor performance against a wide range of scenarios as well as internal and external analysis to inform its planning and decision making and will continue to manage our costs and cash appropriately.

## Balance sheet and Liquidity

As at 30 June 2020, reported net debt (including IFRS16 liability) was £783 million (31 December 2019: £893 million), with reported net debt to adjusted EBITDA leverage of 1.3x (31 December 2019: 1.1x).

ITV has good access to liquidity which includes:

- £385 million of unrestricted cash
- £630 million undrawn Revolving Credit Facility (RCF) expiring on 15 December 2023
- £300 million bilateral facility expiring in June 2026 of which £199 million is available
- No bond repayments until September 2022

The bilateral facility and our bonds remain free of financial covenants. The RCF has leverage and interest cover covenants. As at 30 June 2020, ITV's financial position was well within its covenants, but as a precautionary measure we have agreed with our banking group to replace the leverage and interest cover covenants in the RCF with a cap on covenant net debt at £1.8 billion and a minimum covenant liquidity requirement (cash plus undrawn committed funding lines) of £250 million until 30 December 2021. In addition, ITV has agreed not to pay a dividend in the period of the amendment. ITV has the right to restore its covenants to their previous levels should it so choose in which case the dividend restriction would fall away.

Our priority remains to invest in our key assets and value drivers to deliver organic growth in line with our strategic priorities and balance this investment with the returns to shareholders. The Board recognises the importance of the dividend to our shareholders and intends to restore future dividend payments as soon as circumstances permit.

A range of scenarios and risks, including those arising from the COVID-19 pandemic, has been modelled and considered when preparing the financial statements for the six months to 30 June 2020 on a going concern basis, see Section 1 of the financial statements.

## **Social Purpose**

The Board takes its responsibility as a public service broadcaster very seriously. ITV has a unique ability to drive meaningful change, and now more than ever we can use our position to shape culture for good. During the pandemic, we have continued to amplify ITV's social purpose, raising awareness and inspiring positive change through the massive reach of our platforms, delivering against our four social purpose priorities: Better Health, Diversity and Inclusion, Environment, and Giving Back.

### Better Health

*Mental health* – Our mental health campaign Britain Get Talking relaunched just before lockdown, to encourage people to stay connected during the pandemic. Two thirds of the UK public saw the campaign and 6.4 million people took action as a result, reaching out to friends, family and neighbours. We ran special ads for Mental Health Awareness Week and Loneliness Awareness Week, working with our partners Mind and YoungMinds and with the DCMS.

*Physical health* – Our healthy eating campaign, Eat Them to Defeat Them, ran across February to April, encouraging children to eat vegetables, reaching 88% of households with primary-school aged kids. Nearly 425,000 children took part in school activities, with 50% of those children saying the campaign had got them to eat more vegetables.

ITV has been working with Public Health England and the Government on encouraging healthy and safe behaviours during the pandemic, including bespoke campaigns for ITV2 and ITV4 to encourage people to stay at home, along with a hand-washing campaign coinciding with the easing of lockdown restrictions.

### Diversity and Inclusion

We have launched our Diversity Acceleration Plan across ITV on and off screen, to create more opportunities for those from Black, Asian, minority ethnic and other diverse backgrounds. The plan includes five key areas of action that will be delivered over the next 12 months, including;

i) increasing diversity on ITV's Management Board and senior leadership teams; ii) commissioning to ensure ITV better represents contemporary British life on screen within the next 12 months; iii) improving diversity and career progression in TV production; iv) recruitment – taking positive action at entry level as well as middle and senior leadership; and v) educating and developing ourselves so everyone understands racism and their role in creating an inclusive culture. We have also launched the diversity campaign Black Voices in the period.

ITV remains committed to its other diversity targets and activities – particularly on doubling representation of our workforce with a disability and improving social mobility.

# Operating and Performance Review continued

ITV has been ranked ninth in the June 2020 edition of the Tortoise Responsibility 100 Index, which reviews the social and environmental impact of the FTSE 100. ITV is the top media company overall, equalling its rank in the last quarter. The Index shows ITV to be one of only nine FTSE 100 companies to report on Ethnic diversity at senior management level and one of just three to report on the Ethnicity pay gap, placing ITV first for equality in the index.

## Environment

Our focus is to reduce carbon emissions and waste and source responsibly, and we have now launched our environmental targets. Using 2019 as a baseline, they are:

- **Energy:** reduce our global greenhouse gas emissions from our operations and energy use by 46% by 2030, reduce greenhouse gas emissions in our global value chain by 28% by 2030, and power our global business with 100% renewable energy by 2025. We expect our emissions target to be approved by the Science Based Target initiative by the end of 2020
- **Waste:** Become a Zero Waste business in the UK, defined as 90% waste reused or recycled, by 2030, and zero single use plastic in our operations, productions and supply chain by 2025
- **Sourcing:** run a 100% sustainable supply chain by working with our suppliers to improve their environmental performance by 2030
- **Culture:** achieve 100% albert certification for all programmes produced and commissioned, mandatory climate crisis training for all our staff

We're defining the roadmaps for these targets, and building ownership for delivery into every business area.

## Giving Back

During the pandemic we have enriched national moments with 'Paused for Applause' on the main channel each Thursday at 8pm, and through this, a dedicated NHS Day, and donations from the virtual Grand National, we helped raise over £3.6 million for NHS Charities Together. Soccer Aid was postponed from June but is expected to take place later in the year.

## ITV Studios


ITV Studios is the number one commercial producer in the UK, one of the largest producers in Europe and one of the largest independent unscripted producers in the US. It is a scaled business that, up until the COVID-19 disruption, has delivered growth at a stable margin over the medium term. Growing UK and global production is central to ITV's strategy and our aim is to be a leading creative force in global content production. As ITV creates and owns more content, our channels in the UK provide a platform to showcase our programmes before distributing them across multiple platforms in the UK and internationally. We have built significant scale in key creative markets around the world, creating and producing programmes and formats that return and travel.

The international distribution and commercial business of ITV Studios was reorganised from an operational perspective at the start of 2020 in order to strengthen its position as a creator, producer and distributor of world-leading programmes. The new structure focuses on three centres of excellence (The Creative Network, Global Entertainment and Global Distribution), which work closely together and with ITV Studios' world-class international production business. As a result, from the end of 2019 ITV Studios has reported three production businesses; ITV Studios UK, ITV Studios US and ITV Studios International (previously Rest of World). Global Entertainment, which manages our formats, and Global Distribution, which manages our library content are reported as Global Formats and Distribution.

	2020 £m	2019 £m	Change £m	Change %
Six months to 30 June				
ITV Studios UK	263	331	(68)	(21)
ITV Studios US	88	79	9	11
ITV Studios International	165	223	(58)	(26)
Global Formats and Distribution	114	125	(11)	(9)
<b>Total ITV Studios revenue*</b>	<b>630</b>	<b>758</b>	<b>(128)</b>	<b>(17)</b>
Total ITV Studios costs	(568)	(642)	74	12
<b>Total ITV Studios adjusted EBITA**</b>	<b>62</b>	<b>116</b>	<b>(54)</b>	<b>(47)</b>
ITV Studios adjusted EBITA margin	10%	15%		

\* In line with the reorganisation of the business, 2019 comparatives have been reclassified.

\*\* Includes the benefit of production tax credits.

	2020 £m	2019 £m	Change £m	Change %
Six months to 30 June				
Sales from ITV Studios to  Broadcast and DTC	233	271	(38)	(14)
External revenue	397	487	(90)	(18)
<b>Total ITV Studios revenue</b>	<b>630</b>	<b>758</b>	<b>(128)</b>	<b>(17)</b>

	2020 £m	2019 £m	Change £m	Change %
Six months to 30 June				
Scripted	154	173	(19)	(11)
Unscripted	366	439	(73)	(17)
Core ITV* and Other	110	146	(36)	(25)
<b>Total ITV Studios revenue</b>	<b>630</b>	<b>758</b>	<b>(128)</b>	<b>(17)</b>

\* Core ITV includes the soaps and Daytime shows produced by ITV Studios for ITV main channel.



# Operating and Performance Review continued

## Financial Performance

ITV Studios started 2020 with good momentum, expecting a good slate of programme deliveries over the full year and to see revenue growth. The COVID-19 pandemic changed this outlook, causing around 230 of ITV Studios productions to be impacted, or paused globally as a result of country lockdowns and restrictions on working practises. The resulting delay in production and delivery of a number of our programmes has caused ITV Studios total revenue to decline by 17% in the first half of 2020 to £630 million (2019: £758 million), with external revenue down 18% to £397 million (2019: £487 million). ITV Studios US was the only area to show revenue growth in the period, benefiting from an increase in revenues from over-the-top (OTT) platforms. Total organic revenue at constant currency, was down 17%. There was a £1 million unfavourable impact from foreign exchange in the period. Due to the pause in productions, the number of hours delivered in the first half of 2020 was down 6% year-on-year.

Reflecting our presence in key global production markets, 55% of Studios revenue was generated outside the UK, broadly in line with the prior year (2019: 54%).

Adjusted EBITA was down 47% year-on-year at £62 million (2019: £116 million), with the adjusted EBITA margin at 10% (2019: 15%) and nil impact from foreign exchange. While ITV Studios is a largely variable cost business, the decline in margin reflects the lost revenue and ongoing fixed costs in the business which more than offset £26m of overhead cost savings delivered in the first half. Over the full year we expect the margin to be impacted by costs associated with social distancing guidelines and health and safety protocols. Going forward we will improve the use of technology and data to drive cost and revenue efficiencies, taking steps to digitalise processes and use remote editing more routinely.

## Resilient and diverse production businesses

Performance in our different production territories can be impacted by phasing and we manage this risk through our portfolio. COVID-19 impacted the production business differently due to restrictions varying by country, and different customer bases. Through the resilience and diversity of each territory, we were able to mitigate some of the negative impact caused by the pandemic and, despite programme productions being paused and therefore delayed, we have had no programmes cancelled by broadcasters, networks or OTT platforms.

While the majority of our productions were paused from mid-March, the teams focused on creative development, growing the creative pipeline and remote post production. We did not cut development spend during this time, ensuring that ITV Studios is in a good position for recovery. Our scale means that we are able to manage risks when restarting productions, and the safeguards we now have in place mean that we will be more resilient should a second wave occur. Our priority for the rest of the year is to safely resume as many of our global productions as possible.

## ITV Studios UK

For the first six months of 2020, total ITV Studios UK revenue was down 21% to £263 million (2019: £331 million), and also down 21% on an organic basis, with sales to Broadcast and Direct to Consumer down 14% across the period. While the first quarter of 2020 benefited from the return of Saturday Night Takeaway and the new winter series of Love Island, Q2 was impacted by the delay and cancellation of productions, including a lower number of episodes of Coronation Street and Emmerdale delivered to Broadcast, no summer series of Love Island and less drama deliveries, with 2019 including A Confession and Wild Bill. ITV Studios UK's share of original content on ITV main channel was up at 68% (2019: 65%), however this is based on a lower available network programme budget year-on-year.

Off-ITV revenues in the UK decreased by 22%, with the first half impacted by the delay of planned deliveries such as Back S2 and 24 Hours in Police Custody, combined with strong comparatives from the delivery of 2019 commissions, including Poldark, Line of Duty and Gold Digger.

Despite the pause in production on a number of programmes in the UK, by taking the necessary health and safety measures, and with the innovation and dedication of our production teams, we were able to continue to produce our Daytime shows such as Good Morning Britain, This Morning and Loose Women. We were also able to continue producing programmes during lockdown such as The Graham Norton Show, The Martin Lewis Money Show and the last two episodes of Saturday Night Takeaway, and we made Isolation Stories a four-part drama written, filmed and edited during the UK lockdown. We also delivered content filmed prior to COVID-19 including The Bay, Cold Feet and Beat The Chasers for ITV, Big Flower Fight for Netflix and Save Me for Sky Atlantic.

The second half of 2020 should see the restart in production of the live finals of The Voice, new quiz show Winning Combination, and returning factual series 24 Hours in A&E.

## ITV Studios US

ITV Studios US is a scaled production business, providing content to all the major networks and cable channels in the US, along with every major OTT platform. It has a good foundation of core programmes, including unscripted titles with multiple seasons and a high volume of episodes, which, combined with the output from our investment in scripted content over the last few years, has enabled the business to grow its presence significantly in a highly competitive market. The diversity of content and customer base has enabled ITV Studios US to mitigate some of the impact seen from the pandemic. In addition, around 20 programmes were remotely post produced during this time, many of which were delivered in the first half of 2020.

ITV Studios US total revenue grew by 11% to £88 million (2019: £79 million) and 9% to £86 million when adjusted for the favourable foreign exchange impact, benefitting from the delivery of a number of programmes filmed prior to COVID-19. Within ITV Studios America (scripted), the increase was predominantly driven the delivery of Snowpiercer S1 to Netflix, along with Good Witch for Hallmark, which has been renewed for a seventh season. ITV America (unscripted) saw the delivery of new titles Cannonball S1 to NBC and USA, Crank Yankers S1 to Comedy Central and Becoming to Disney+, along with core unscripted titles; Marriage Bootcamp, First 48 and Mama June, all delivering in the period.

In the second half of 2020, it is likely that larger scripted programmes being filmed outside of the US, such as Cowboy Bebop and One Piece, will be able to resume production and start pre-production. Physical for Apple TV and Ten Year Old Tom for HBO Max are expected to begin production in the second half and will deliver in 2021. Deliveries expected by the end of 2020 include Snowpiercer S2 – with some episodes remotely post produced during the US lockdown, Love Island for CBS and Forged in Fire for History.

# Operating and Performance Review continued

## ITV Studios International

ITV Studios International has production bases in Australia, Germany, France, the Netherlands, across the Nordics, Italy and the Middle East, where we produce original content as well as local versions of key formats from the Global Formats and Distribution business. Revenue decreased by 26% to £165 million (2019: £223 million), and by 24% to £168 million when adjusted for the impact of foreign currency. The decline in revenue is driven by strong comparatives, with 2019 including the delivery of Gomorrah by Cattleya, Dancing on Ice in Germany, Utopia in the Netherlands, and Saturday Night Takeaway in Australia, along with the pause in production across most territories with content slipping into the second half of the year. During the pandemic, we were able to finish some programmes such as The Voice finals in France and we continued filming two daily talk shows in the Netherlands and finished The Voice Kids in the Netherlands.

Productions across our international bases have resumed, with some shows in Sweden, Germany and the Netherlands continuing during the pandemic, with restrictions varying by country. Many of our large entertainment franchises are being filmed but with no audience, and we have restarted our scripted productions in France and Italy including Balthazar S3, Suburra S3 and Summertime S2. We have a good diversity of shows in our portfolio across multiple territories and we continue to strengthen the depth of our offering.

Deliveries expected in the second half of 2020 include scripted titles Paris Police 1900 for TFI, Masantonio for Mediaset, and Suburra S3 for Netflix, and unscripted titles including, The Voice Kids in France, The Voice in Germany and Australia, Love Island in Germany and The Chase in Australia.

## Continued strong global demand for content

The demand for quality content from broadcasters and platform owners remains strong which provides a significant opportunity for ITV Studios. While there is a great deal of uncertainty, our view today is that the global content market will continue to grow at around 3% - 5% per annum over the medium term, with some genres, such as drama, growing more rapidly. While some free to air broadcasters may be challenged by COVID-19 and their exposure to advertising, we have continued to see strong demand from SVOD services who have been less financially impacted. With increased competition from SVOD platforms, broadcasters and platforms, are looking for channel defining content, along with demand for both local adaptations of proven entertainment formats and standout original scripted content.

We have built a healthy pipeline of returning programmes, which we will continue to nurture and develop. To continue to build upon our strong creative pipeline and capitalise on growth, our investments within ITV Studios over the next few years are focused on: strengthening our creative talent; growing our scripted business; building our monetisation capabilities to further globalise and maximise the value of our key formats and brands; and further building our relationships with OTT platforms.

## Diversifying our customer base particularly OTT platforms

In the US, we have diversified our customer relationships as we have significantly strengthened our relationships with OTT platforms and have development projects with all the main OTT platforms. Our UK and International Studios businesses remain more reliant on local broadcasters, and going forward they will harness the strength and position of the ITV Studios group to develop their relationships with these platforms. In the first half of 2020 we produced a number of scripted and unscripted programmes with OTT platforms, including the fifth season of Queer Eye and Big Flower Fight for Netflix, as well as international rights for Snowpiercer on Netflix, Love Island France for Amazon – the first reality show on the service, Hot Drop for Quibi – which we are an investor in, and Becoming for Disney+. Original hours supplied to OTTs increased by 22% in the period.

## Strengthening creative talent

A key part of ITV Studios investment strategy is to strengthen and retain our creative talent and we have continued in H1 as ITV Studios America entered into a number of new partnerships. This included a partnership between Tomorrow Studios and Nick Weidenfeld to launch Work Friends, the first primetime television animation label in ITV Studios America. The label has secured its first commission for HBO Max called 10-Year-Old-Tom. In addition, Tomorrow Studios has partnered with French producer of The Bureau, Eric Rochant, to create a global spy drama. ITV Studios America also invested in a new entertainment label run by acclaimed producer Tony To (Band of Brothers) and Dan Sackheim (True Detective) called Bedrock Entertainment. ITV America has partnered with production label Nobody's Hero, created by Christopher Potts and Jonty Nash, format creators behind Netflix reality series Nailed It! and Sugar Rush, to develop and produce reality shows and work alongside the ITV team. These investments all aim to further build and strengthen our US business and establish ITV Studios US as a leading independent television studio in the highly competitive US market.

## Growing scripted

While ITV Studios is predominantly unscripted in terms of scale, scripted, especially driven by demand from the OTT platforms, is becoming an area of higher growth and we are seeing increasing demand from platforms internationally for original long-form and secondary rights.

Doing more scripted deals and deals with OTT platforms will impact our working capital going forward due to the upfront cash requirements and the extended payment profile from the OTTs.

We balance our financial exposure through building a portfolio of programmes across genres and across their content life cycle, with successful international dramas offsetting the risk that we will not recover the full deficit on every show. This efficiently uses the rights windows of our content to maximise monetisation opportunities.

## Globalising and maximising the value of key formats and monetising our strong pipeline of programmes

Global Formats and Distribution revenues was down 9% year-on-year to £114 million (2019: £125 million), with nil impact from foreign exchange. There was good growth within our Global Distribution business, which was offset by a decline within Global Formats, impacted by a number of multi-year deals secured for The Voice in 2019, and other unrepeatable 2019 format licencing deals.

A key strength of our Global Formats business is the large portfolio of successful entertainment and factual entertainment formats that return and travel, which we are strengthening each year. This includes programmes such as The Voice, Love Island, The Chase, Beat The Chasers, Dancing on Ice, Five Gold Rings, Catchpoint, and Come Dine With Me, all of which have sold well internationally and through ITV Studios' own production bases. We have a number of new formats which have been developed, including UK format Rat in the Kitchen, and Let Love Rule which is an ITVS Netherlands format that has started to travel and will be produced locally by ITVS Sweden.

# Operating and Performance Review continued

We are very focused on maximising the value of our formats and brands internationally. There are exciting opportunities to licence our brands and library content and drive value through merchandising using our significant capabilities across our network of labels and our global relationships. During the first half we acquired the non-scripted formats catalogue from Elk Entertainment, which includes the formats and IP of 65 titles developed prior to ITV Studios acquiring Elk Productions in 2017 (now ITVS Sweden), as we look to continue building our creative strength and monetisation capabilities.

Global Distribution is a strong and expanding business driven by our strong pipeline of high-end scripted programmes, and our valuable library of over 46,000 hours of content which we sell to a vast network of broadcasters and the global OTTs platforms. During the pandemic there was high demand from our content globally as networks and platforms tried to fill gaps in their schedule left by the delay in productions. Classic British titles such as Marple, Vera, Endeavour, Victoria and Poldark sold well in the first half, with many territories relicensing old seasons of programmes. We also benefitted from the international distribution of Snowpiercer to Netflix; Bodyguard entering its second window rights; the distribution of natural history titles such as Wild Tokyo and India's Wild Karnataka; and dramas such as Noughts & Crosses, Harlots and World on Fire.

In the second half of 2020, the pipeline of new content for Global Distribution will be dependent on how quickly productions can restart. However we have a healthy slate of content currently in production that we are pre-selling, including Little Birds for Sky Atlantic and Romulus made by Cattleya, and we will have the international distribution of Vigil, Snowpiercer S2 and Line of Duty S6. We will also have finished tapes sales for unscripted titles including Love Island, I'm A Celebrity...Get Me Out Of Here! Come Dine With Me, and The Voice all delivering across a number of different territories.

Our distribution business also continues to sell an increasing amount of content to BritBox in the UK and US, and this benefited revenues during the period.

## ITV Broadcast

ITV, through our family of free-to-air channels and platforms, offers unique audience scale and reach, as well as more targeted demographics demanded by advertisers. The ITV Hub, the online home for content on our family of channels, is growing rapidly, driven by viewers' appetite for our content on catch up, VOD and simulcast. Through our Direct to Consumer business we are building relationships with consumers who are increasingly willing to pay to engage with our brands, content and intellectual property (IP). This is through SVOD, competitions, voting, live events, gaming and merchandising. Data and technology are key to evolving our broadcast business and driving revenue growth and new revenue streams.

	2020	2019	Change	Change
	£m	£m	£m	%
Six months to 30 June				
<b>Total advertising revenue</b>	<b>671</b>	849	(178)	(21)
Direct to Consumer	43	40	3	8
SDN	36	34	2	6
Other revenue	74	68	6	9
<b>Broadcast non-advertising revenue</b>	<b>153</b>	142	11	8
<b>Total Broadcast revenue</b>	<b>824</b>	991	(167)	(17)
Network schedule costs	(464)	(541)	77	14
Variable costs	(75)	(59)	(16)	(27)
Broadcast infrastructure and overheads	(182)	(180)	(2)	(1)
<b>Total Broadcast costs</b>	<b>(721)</b>	(780)	(59)	8
<b>Total Broadcast adjusted EBITA*</b>	<b>103</b>	211	(108)	(51)
Total adjusted EBITA margin	13%	21%		
BritBox UK venture loss**	(23)	(3)	(20)	-
<b>Adjusted EBITA Broadcast (ex BritBox UK)</b>	<b>126</b>	214	(88)	(41)
Adjusted EBITA margin (ex BritBox UK)	15%	22%		

\* There are no adjusting items within Broadcast EBITA

\*\* BritBox UK venture loss includes the cost of advertising on ITV, and the acquisition of programmes from ITV Studios. The venture loss better reflects the stand alone performance of BritBox.

## Financial Performance

Broadcast total revenue was down 17% in the half year at £824 million (2019: £991 million). This decline was entirely driven by a decrease in total advertising revenue which was down 21% to £671 million (2019: £849 million) in the period, with video on demand (VOD) revenues down 3%. At the start of 2020 there was good momentum in total advertising with revenues in Q1 up 2%, preceded by two quarters of growth in the second half of 2019. However, the COVID-19 pandemic had a severe negative impact on advertising demand in Q2. The announcement of the UK Government imposed lockdown and containment measures in March, the closure of non-essential retail, entertainment and leisure facilities, and the restriction in travel caused an almost immediate decline in advertising, with many brands reducing, or stopping their advertising spend completely. Total advertising in Q2 2020 was down 43%, the most severe decline in the history of ITV.

Most advertising categories decreased their spend in Q2, with categories such as Airlines and Travel, Cars, and Interior Furnishings being the hardest hit as travel restrictions were imposed and shops and showrooms were closed. While spend from online brands (excluding gambling) also declined in the period, they declined less than most categories and we did see increased spend from social network, OTT and food delivery brands, who benefited from people being at home. Government, Charities and Other, and Publishing and Broadcasting were the only categories to grow spend across the period.

As lockdown restrictions ease, we have started to see signs of advertising trends improving, in July and August, with July total advertising down 23% and some FMCG and Retail, Publishing and Broadcasting, Cars, and Interior Furnishings categories beginning to spend more.

# Operating and Performance Review continued

Direct to Consumer revenue grew 8% to £43 million (2019: £40 million) with growth driven by Interactive revenues. Our competitors have seen strong engagement over the period, corresponding with the increase in viewing of our Daytime shows, along with the return of Saturday Night Takeaway.

Other revenue increased by 9% to £74 million (2019: £68 million) and includes revenue from BritBox UK subscriptions, which has seen good growth since its launch in 2019 and has benefited during the pandemic.

Total costs within Broadcast were down 8%, primarily driven by lower schedule costs which were down £77 million to £464 million due to the cancellation of programming impacted by the pandemic, such as the UEFA European Football Championship and Love Island. Variable costs were up 27% at £75 million, and include costs such as marketing and content in relation to BritBox UK, higher bandwidth and rights costs for the ITV Hub, and higher interactive costs associated with the increase in revenue in the period. Broadcast infrastructure and overhead costs increased by 1% to £182 million, with additional overhead costs associated BritBox UK and Planet V (our addressable advertising platform), and investments in data, the ITV Hub, ITV Hub+ and technology in line with our strategic priorities. This was partially offset by £25 million of cost savings made across Broadcast.

Broadcast adjusted EBITA (excluding BritBox UK) declined 41% to £126 million (2019: £214 million), with a margin of 15%. Total Broadcast adjusted EBITA (including BritBox) was £103 million (2019: £211 million), with a 13% margin.

## Viewing

ITV viewing in the first half of 2020 has also been impacted by the pandemic and lockdown restrictions in the UK as discussed earlier. Linear television viewing has remained resilient during this period, particularly during the daytime, despite the significant growth in viewing on SVOD platforms and with the launch of new services such as Disney+. In the UK, in Q1 2020 approximately 53% of UK households subscribed to at least one of Netflix, Amazon or Now TV (Q1 2019: 47%) (Source: BARB).

On average the number of minutes of television viewers watched per day in the first half of 2020 was 203 minutes (total broadcast TV including catch-up), up 7% on the previous year (2019: 190 minutes), this is the first time growth has been seen in total broadcast TV viewing since 2011. Younger viewers are watching less linear television than they used to, but through delivering great content such as Saturday Night Takeaway, Britain's Got Talent, Dancing On Ice and Love Island, we are able to reach them both on linear and online. Television still reaches 88% of young people each week and remains their dominant choice of media. We also launched The Rundown at the end of 2019, which is a news service for 14-17 year olds available daily on Instagram, Snapchat and Facebook, and effectively links them to our content on linear television and the ITV Hub. The service has seen good engagement over the pandemic (Source: BARB).

During Q1, ITV successfully aired a range of new and returning programmes, dramas including White House Farm, Flesh & Blood and McDonald & Dodds – which were four of the top six most watched new dramas on any channel; entertainment shows, including Saturday Night Takeaway and The Masked Singer – the most watched new entertainment show; and successful factual entertainment, including Bradley Walsh and Son and Tyson Fury: The Gypsy King. We continued to drive significant audiences with our returning brands such as Vera, Midsomer Murders, Endeavour, Britain's Got Talent, The Voice UK and Dancing On Ice. Our news programming performed well, as did our sporting schedule prior to lockdown restrictions, with the Six Nations Rugby Championships and horse racing. ITV main channel SOV was flat in Q1, with SOV from mid-March onwards being impacted by the news output of the BBC.

Q2 viewing was impacted by the decision to cancel or postpone the majority of sporting tournaments, live entertainment and big audience shows including the Euros, horse racing, Love Island, Britain's Got Talent finals and Soccer Aid. The delay in the delivery of a number of programmes, particularly scripted, arising from the pause in production in ITV Studios and other Indies also had an impact on viewing particularly with reduced episodes of Coronation Street and Emmerdale each week. We were, however, able to broadcast programmes which had been filmed in innovative ways during lockdown, including The Martin Lewis Money Show, our drama Isolation Stories, the virtual Grand National and Grow Your Own At Home With Alan Titchmarsh, all of which performed very well. In addition, we broadcast programmes delivered pre-COVID-19, including the drama Quiz, and entertainment programmes Gordon Gino and Fred, Beat The Chasers and Alan Carr's Epic Gameshow, which all performed strongly.

We continue to target the demographics most highly demanded by advertisers – particularly young and male audiences – through our family of channels and online, and we have seen share growth in the first half of 2020 in our target demographics on ITV3, ITV4, while ITV2 has been significantly impacted by the reduction in commissions in Q2.

On ITV3 ABC1 adults SOV was up 6% in the period due to the strong slate of classic dramas which appealed to the increased number of people at home looking for quality content to watch. Programmes included Downton Abbey, Midsomer Murders and Vera, as well as repeats of Emmerdale and Coronation Street. On ITV4, Male SOV was up 4%, although it was impacted by the loss of sport in the schedule such as Tour de France, French Open and the Isle of Man TT. The return of live sport with snooker and horse racing in June helped to mitigate this viewing decline.

On ITV2, Q1 SOV and SOCI for 16-34s was up 30% and 24% respectively, helped by the winter series of Love Island which averaged 4.0 million viewers (including non-TV viewing) across the series, with an average of 1.5 million 16-34s viewing on a TV set. This, along with Love Island: Aftersun, Ibiza Weekender, and a number of films, helped ITV2 become the most watched digital channel across prime time for the first time ever and remain as the most watched digital channel for the 16-34s. Across the first half however, ITV2 SOV for 16-34s declined by 17% to 5.4% (2019: 6.5%), with SOCI down 16% to 8.6% (2019: 10.2%), with the cancellation of the summer series of Love Island and less new content, having a significant impact on the schedule.

The summer schedule will be challenging for ITV with the absence of the European Football Championships and Love Island. We will broadcast a broad selection of curated programme repeats and we have chosen to delay the transmission of some new content, delivered pre-COVID 19, to the second half of the year. This includes: new dramas such as Des, The Sister and Honour: new and returning entertainment shows such as Who Wants to Be a Millionaire, The Cube and Don't Rock the Boat; as well as the finals of The Voice and Britain's Got Talent, which are likely to be filmed without an audience.

# Operating and Performance Review continued

There is a risk that some programmes due to broadcast later in the year and in the first half of 2021, may not be completed in time. However being an integrated producer broadcaster puts us in a unique position and we are able to work with ITV Studios to develop plans to resume filming on key programmes, and to source additional library content for our channels.

ITV Family viewing volumes for light viewers, our brand target, was up 8%, despite the strong growth in streaming over the period. Spontaneous consideration amongst light viewers was down two percentage points year-on-year, this decline being less than that of the BBC and Channel 4 and demonstrates the high-quality of our content and the positive impact of our marketing investment.

## ITV Hub

The ITV Hub grew rapidly in the first half of 2020 as we continued to deliver the Hub acceleration plan and benefiting from increased viewership of catch-up and simulcast content during the pandemic. The ITV Hub is available on 28 platforms and is pre-installed on the majority of connected televisions currently sold in the UK.

Online viewing, which measures the total number of hours viewers are spending online, was up 13%, driven by viewing on connected TVs and through streaming devices. Dwell time, which measures the average time spent viewing per session across all platforms, was up 11% in the half. The ITV Hub now has over 32 million registered user accounts (30 June 2019: 29 million), and monthly active users was up 15%. Total simulcast viewing hours was up 42% year-on-year, driven by more viewing on connected TVs and media streaming devices.

The growth in online viewing and registered users has been driven by our great content and good user experience, supported and enhanced by a process of continued improvement and the investment in the ITV Hub over the last 18 months. Our 2020 investment in the ITV Hub has been focused on redesigning the interface on all platforms to further improve the overall user experience, increasing personalisation and prominence to make it a destination for viewing our content, and integrating BritBox UK, making the transition to the service seamless. We have also redesigned the ITV News online site. We are strengthening the content available through trialling an extended catch-up window for content during the summer. During the lockdown period we showed the 1996 European Football Championship and the 2003 Rugby World Cup for those viewers missing sport, both of which performed strongly. Our focus for the rest of the year will be to further accelerate the ITV Hub redesign, strengthen its user experience – including offering a 'start-again' option on ITV.com in preparation for launching on connected TVs and linear TV in 2021, and offer increased content and distribution.

The ITV Hub helps ITV reach valuable younger audiences – over 80% of the UK's 16-34 year olds are registered. Younger viewers increasingly use the ITV Hub for simulcast viewing, as well as catch up content, and, in our drive to increase engagement, we will be producing short-form content particularly targeted at this demographic which will be available on the ITV Hub, ITV.com and mobile by the end of the year.

## Strong advertising proposition

While the COVID-19 pandemic and uncertain outlook has led advertisers to reduce their total advertising spend, our Commercial team continued to work very closely with advertisers and agencies to create relevant and innovative marketing and advertising opportunities, helping brands to market themselves in a way that was socially responsible and reflective of the environment. The team has hosted weekly webinars for over 3,000 customers and sent weekly updates to all our customers during this time. We also removed the late booking penalty for advertisers, along with no charges for making amendments to existing campaigns, in order to give advertisers as much flexibility as possible in this uncertain time. ITV Creative remained operational and was able to help advertisers film and produce campaigns. Some of the innovative campaigns we were involved in include BT providing technology tips, The People's Ad Break, Waitrose Pick for Britain, and Just Eat taking over an ad break to support Britain Get Talking, our mental health campaign.

Television remains one of the most efficient and effective mediums for advertisers to achieve mass simultaneous reach. In the first half 2020, ITV delivered 96% of all commercial audiences over five million and 94% of all commercial audiences over three million. As viewing and advertising becomes more fragmented, the scale and reach of advertising that television, and particularly ITV, delivers becomes increasingly valuable. We provide a safe, trusted and transparent environment in which to advertise, and television generates the highest return on investment of any media. With the significant increase in television viewing volumes during the pandemic, there has been huge price deflation in cost of television advertising, becoming 50%-60% cheaper than before the pandemic. With the proven return on investment which television offers, this has encouraged some digital brands to advertise on television for the first time, including car insurance brand By Miles, pregnancy app Peanut, and Bionic, a comparison site for businesses. The challenge for our Commercial team will be to retain the advertising spend of these brands and bring back other advertisers to television as the outlook improves. The focus going forward will be to continue to build deep strategic relationships with our advertisers. The Commercial team has a number of initiatives underway to help drive this including ITV Adventures, aimed at targeting digital brands, and ITV Backing Business, making it as flexible as possible for British businesses to advertise on television, providing them with marketing support and a wealth of resources to help them return to growth. Giving advertisers more flexibility to book late will, however, make it harder for us to give future guidance to the market for TAR.

VOD advertising revenue on the ITV Hub declined by 3% in H1, a much lower decline than that of television advertising, partly due to significant demand in Q1, which saw VOD advertising revenue up 26%, primarily due to the winter series of Love Island. Advertising on the ITV Hub delivers more targeted demographics in a high-quality, trusted and measured environment for online advertisers, and we are in the process of rolling out Planet V, our scaled programmatic addressable advertising platform to agencies. This platform puts the buying in advertisers' hands, enabling them, from their own terminals, to buy ITV Hub inventory seamlessly and cost effectively, build their own audiences, add their own data and monitor their own campaigns. Our Commercial business is therefore able to offer our clients the best of both worlds, mass audiences with simultaneous reach on linear channels, and addressable targeting at scale around our premium inventory on the ITV Hub. In July, around 35% of VOD inventory was delivered through Planet V, 100% will be delivered by the end of the year. Planet V is expected to be live with most of the major agencies by the end of Q4.

## Direct to Consumer

Direct to Consumer generates revenue directly from the customer, and includes ITV Hub+, competitions, merchandise, live events and gaming. In the first half of 2020, total revenue increased by 8% to £43 million (2019: £40 million) predominantly due an increase in competitions revenues.

# Operating and Performance Review continued

Direct to Consumer revenue does not include BritBox UK (which is included within Other Revenue) or US (which is included within JVs and Associates).

Our SVOD propositions include BritBox UK, BritBox in the US and Canada, and Cirkus in the Nordics, Germany, Austria and Switzerland.

BritBox UK has seen a good growth in subscriptions in the period, and as expected, the lockdown restrictions increased the number of customers signing up for the free trial period. We have continued to see strong subscriber appeal with customers converting to become a paying subscriber at the end of the free trial in line with our expectations. Distribution of BritBox UK was extended during the period, with the service now available on around 20 million devices and to 60% of streaming households. We are continuing to explore opportunities to expand the distribution of BritBox UK and are working with a number of platforms to enable this. Following Channel 4 content becoming available in April, we expect the first original commission, Spitting Image, to launch on the service in the second half of 2020, with Film4 content also arriving in the autumn. BritBox has also commissioned four original dramas that are expected to launch on the service across 2021 and 2022, although this will be dependent on when productions resume.

ITV Hub+ offers an ad-free subscription version of the ITV Hub with content download capability and EU portability, although, following the UK's departure from the European Union, this may not be available once trading arrangements are agreed at end of 2020. The number of subscribers was c390,000 at the end of June 2020, down from c407,000 in June 2019. This was predominantly due to the absence of Love Island, lower volumes of new content reflecting the change in the schedule, and travel restrictions resulting in people not requiring downloading for EU portability. Our activities in the second half of 2020 will focus on incorporating the programme download functionality on Android devices and integrating in-app purchases on Amazon.

Our joint venture (JV) with the BBC, BritBox US, provides an ad-free SVOD service offering the most comprehensive collection of British content available in the US and Canada. Subscribers have continued to grow strongly, currently exceeding 1.2 million, and the service is profitable. We will launch BritBox in Australia in the second half of 2020, and we are planning a phased roll out of BritBox internationally to up to 25 countries. These are countries we have identified where research indicates we could launch the service profitably, managing our SVOD rights more effectively and drive more value from them. Our funding for the next phase of the roll out will be from our share of BritBox US cashflows, and we will undertake a full business case review for each territory before making the decision to launch.

A significant portion of our Direct to Consumer revenues comes from competitions. As detailed earlier, our competitions have performed strongly across the schedule during the pandemic, particularly in daytime, corresponding with the increase in viewers, and in key programming such as Saturday Night Takeaway. Our rebranded competitions portal, ITV Win, has seen a significant increase in traffic, with the same number of unique users in the first half of 2020 as the whole of 2019. We will continue to extend the offering and marketing around ITV Win in the second half of the year.

All our live events were closed in line with government restrictions in March. Events such as the Coronation Street set tour and Emmerdale village tour and studio experience are linked to our production sets and therefore are likely to remain closed until social distancing guidelines are eased further. Our branded Ninja Warrior Experiences around the UK are managed by third parties and it is likely that these sites will be up and running in Q3. We were due to launch an I'm A Celebrity...Get Me Out Of Here! leisure attraction in the UK during 2020, however, it is likely that this will be delayed until 2021. These initiatives help build relationships directly with our viewers and, while the current environment has impacted our ability to generate revenues, we will continue to have a focused approach to opportunities in this area.

We aim to grow ITV's Direct to Consumer revenues through increasing the number of people who pay for an ITV product as well as increasing spend per customer. In the first half of 2020, we had 8.2 million paying relationships which had decreased by 1% on the prior year (2019: 8.3 million). This was largely due to less live events, as detailed above, and lower merchandise sales.

## SDN

SDN generates revenue by licensing multiplex capacity to broadcast channels, radio stations and data providers on digital terrestrial television or Freeview. Currently, the SDN platform utilises the radio spectrum licensed to it to provide capacity for 18 broadcast channels and a number of data and radio services.

SDN customers include ITV and third parties, with external revenue (non-ITV) increasing by £2 million in the period, driven by the launch of two new video streams in January. The contracts for these video streams were agreed prior to COVID-19, and we expect future renewals to be impacted by the more subdued economic environment.

SDN's multiplex licence expires in 2022 and we are fully engaged with both Government and Ofcom in relation to the possible renewal or extension of the licence.

## Other revenue

Other revenue includes revenue from platforms, such as Sky and Virgin, and third-party commissions, e.g. for services we provide to STV, along with subscription revenue for BritBox UK. This is up 9% year-on-year predominantly due to BritBox UK which launched at the end of 2019.

## Digital transformation

We continue to invest in our data and technology capabilities which enables us to drive viewing – scaling our recommendation model and optimising our marketing spend; drive consumer revenues with our SVOD subscriber acquisition and churn models; and grow our addressable advertising opportunities. During the period we appointed a Chief Data Officer, a Director of Technology for Direct to Consumer, and a Director of Addressable Advertising. Going forward, as we continue to digitally transform ITV we will use data and technology to strengthen our consumer facing products, make our processes more agile and efficient in our content supply chain, such as scheduling and rights management, and ensure that our core central functions colleagues have the right tools to drive the best ways of working.

# Operating and Performance Review continued

## Regulation

In March 2019, the UK Government consulted on further possible advertising and marketing restrictions for food and drink high in fat, salt or sugar (HFSS) to combat childhood obesity which could include a ban on TV advertising of such products before 9pm. This was part of the Government's Second Chapter in its Obesity strategy.

On 27 July 2020, the Government announced a package of measures to reduce obesity including a ban on HFSS advertising on both TV and online before 9pm, with a consultation on a total ban on such advertising online. At the present time we cannot quantify the impact of the announcement. There is much we do not yet know about how the Government's plans will work and nothing is likely to be implemented until 2023. As you would expect, we are discussing this with government.

The Company continues to keep the potential implications of Brexit, following the UK's exit from the European Union on 31 January 2020, under review. Workstreams are in place across the business to identify, manage and mitigate the impact across advertising, broadcast licensing, tax, data, copyright and IP. The most significant short to medium term risk is the likely impact on the wider advertising market.

## Outlook

ITV has had to take difficult decisions to deal with the COVID-19 crisis but our actions have put us in a position to continue to invest in, and make good progress in delivering our strategy to transform ITV into a digitally led media and entertainment company. We are clear about what we need to do and it requires a relentless focus on delivery to build a stronger, more diversified and structurally sound business. We have strong foundations in place and the strategy further positions ITV to take advantage of the evolving viewing and advertising trends.

Today we are seeing productions restart and advertisers return to take advantage of our highly effective mass reach and addressable advertising platform in a brand safe environment. Of the 230 productions that were impacted or paused by the lockdown, around 70% have been delivered or are back in production as of today. We anticipate restarting further productions in the coming weeks but given the continued level of uncertainty for both ITV Studios and Broadcast it is not possible to provide financial guidance for Q3 or the remainder of the year.

We continue to monitor the risks associated with COVID-19 and a wide range of possible scenarios. We have developed and are implementing plans to address the risks posed by the possible scenarios in the short term, including a second wave of the pandemic, and over the medium term and will take further actions as necessary to manage our costs and cash tightly.

# Key Performance Indicators

We define our KPIs to align our performance and accountability to our strategic priorities. As we continue to evolve our strategy, our KPIs may be redefined to ensure they remain appropriate to our business and our priorities. In 2018, we set targets or strategic ambitions for our KPIs for three years to 2021 (where appropriate to do so).

Our KPIs, KPI targets and how they align with our strategy are detailed below. Full definitions of our KPIs are included in the 2019 Annual Report and Accounts pages 26 to 29.

Strategy	KPIs for measuring performance	Targets – over 3 years to the end of 2021
<b>1</b> <b>Strengthen</b> Integrated producer broadcaster	<b>Advertising</b> <ul style="list-style-type: none"> <li>Total advertising revenue</li> </ul> <b>Marketing and Viewing</b> <ul style="list-style-type: none"> <li>ITV Family SOV %</li> <li>Total ITV viewing<sup>1</sup></li> <li>Brand consideration</li> </ul> <b>Hub</b> <ul style="list-style-type: none"> <li>Online revenue growth</li> <li>Online viewers</li> <li>Registered users</li> </ul>	<ul style="list-style-type: none"> <li>Increase brand consideration to 60% for adults</li> <li>Double digit online revenue growth per annum</li> <li>Grow ITV Hub registered users to 30 million</li> </ul> <b>Strategic ambition</b> <ul style="list-style-type: none"> <li>To grow total advertising in a flat NAR market</li> <li>ITV Family SOV to be above 21%</li> <li>To maintain total viewing compared to the 2015-2018 average of 16.8 billion hours</li> </ul>
<b>2</b> <b>Grow</b> UK and Global Production	<ul style="list-style-type: none"> <li>Total Studios revenue growth</li> <li>Studios adjusted EBITA margin<sup>2</sup></li> <li>Total production hours</li> </ul>	<ul style="list-style-type: none"> <li>Total Studios revenue to grow at least 5% average CAGR</li> <li>Adjusted EBITA margin<sup>2</sup> of 14% to 16%</li> <li>Production hours to grow to 10,000</li> </ul>
<b>3</b> <b>Create</b> Direct to Consumer	<ul style="list-style-type: none"> <li>Direct to Consumer revenue</li> <li>Paying product relationships</li> </ul>	<ul style="list-style-type: none"> <li>Grow Direct to Consumer revenue to at least £100 million (ex BritBox UK)</li> <li>Grow paying product relationships to 10 million</li> </ul>
<b>Group Financial KPIs</b>	<ul style="list-style-type: none"> <li>Adjusted EPS<sup>2</sup></li> <li>Total non-advertising revenues</li> <li>Cost savings</li> <li>Profit to cash conversion</li> </ul>	<ul style="list-style-type: none"> <li>Grow total non-advertising revenues by at least 5% CAGR</li> <li>Deliver £55 to £60 million of cost savings by 2022<sup>3</sup></li> <li>Maintain profit to cash conversion at around 85%</li> </ul>

1. External source: BARB, Crocus and third-party platforms.

2. A full reconciliation between our adjusted and statutory results is provided in the APMs.

3. This target is our target for permanent cost savings as announced in 2018 and includes £10m of permanent savings to be delivered in 2020. In 2020 we have announced an additional £50 million of cost reductions to help mitigate the impact of COVID-19 which are temporary. Therefore we have a total cost reduction target of £60 million in 2020, of which we delivered £51 million in H1.

Our KPIs for the first six months of 2020 are set out below. All KPIs have been impacted by COVID-19. Further detail on this, and on our financial performance can be found in the Operating and Performance Review and the Finance Review.

Six months to 30 June	2020	2019	Change
Adjusted EPS	<b>2.9p</b>	6.2p	(53)%
Total non-advertising revenues	<b>£783m</b>	£900m	(13)%
Cost savings <sup>3</sup>	<b>£51m</b>	£10m	-
Profit to cash conversion 12-month rolling	<b>138%</b>	89%	-
Total Studios revenue growth	<b>(17)%</b>	(6)%	-
Studios adjusted EBITA margin	<b>10%</b>	15%	-
Total production hours	<b>3,616</b>	3,865	(6)%
Total advertising revenue	<b>£671m</b>	£849m	(21)%
Online revenue growth	<b>(3)%</b>	18%	-
Total ITV Viewing (hours)	<b>8.5bn</b>	8.2bn	4%
ITV Family SOV	<b>22.6%</b>	23.6%	(4)%
Online viewing (hours)	<b>266m</b>	236m	13%
ITV Hub registered user accounts	<b>32.2m</b>	29.3m	9%
Brand consideration	<b>52%</b>	54%	(4)%
Direct to Consumer revenue	<b>£43m</b>	£40m	8%
Paying product relationships	<b>8.2m</b>	8.3m	(1)%



# Alternative Performance Measures

The Interim Report includes both statutory and adjusted measures (Alternative Performance Measures or APMs), the latter of which, in management's view, reflect the underlying performance of the business and provide a more meaningful comparison of how the business is managed and measured on a day-to-day basis.

Our APMs and KPIs are aligned with our strategy and business segments and together are used to measure the performance of our business and form the basis of the performance measures for remuneration.

Adjusted results exclude certain items because, if included, these items could distort the understanding of our performance for the period and the comparability between periods.

The Audit and Risk Committee has oversight of ITV's APMs and actively reviews, revises and approves the policy for classifying adjustments and exceptional items. Further detail is included below.

## Key adjustments for adjusted EBITA, profit before tax and EPS

Adjusted EBITA is calculated by adding back exceptional items and high-end production tax credits to EBITA. Further adjustments, which include the gain/loss on the sale of non-current assets, amortisation and impairment of assets acquired through business combinations and investments, and certain net financing costs, are made to remove their effect from adjusted profit before tax and EPS. The tax effects of all these adjustments are reflected in the adjusted tax charge. These adjustments are detailed below.

### Production tax credits

The ability to access tax credits, which are rebates based on production spend, is fundamental to our Studios business when assessing the viability of investment in green-lighting decisions, especially with regards to high-end drama. ITV reports tax credits generated in the US and other countries (e.g. Norway, New Zealand, Italy, Canada and Spain) within cost of sales, whereas in the UK tax credits for high-end drama must be classified as a corporation tax item. However, in our view all tax credits relate directly to the production of programmes. Therefore, to align treatment, regardless of production location, and to reflect the way the business is managed and measured on a day-to-day basis, these are recognised in adjusted EBITA. Our cash measures, including profit to cash conversion and free cash flow are also adjusted for the impact of production tax credits. Further detail on this is included in the Tax section of the Financial Review.

### Exceptional items

These items are excluded to reflect performance in a consistent manner and are in line with how the business is managed and measured on a day-to-day basis. They are typically material gains or losses arising from events that are not considered part of the core operations of the business, though they may cross several accounting periods. These include, but are not limited to, costs related to the impact of COVID-19, acquisition-related costs, reorganisation and restructuring costs, non-routine legal costs, and impairment of sports rights. We also adjust for the tax effect of these items. Note 2.2 to the financial information includes further detail.

### Acquisition-related costs

We structure our acquisitions with earnouts or put and call options, to allow part of the consideration to be based on the future performance of the business as well as to lock in and incentivise creative talent. Where consideration paid or contingent consideration payable in the future is employment-linked, it is treated as an expense (under accounting rules) and therefore part of our statutory results. However, we exclude all consideration of this type from adjusted EBITA, adjusted profit after tax and adjusted EPS as, in our view, these items are part of the capital transaction and do not form part of the Group's core operations. The Finance Review explains this further. Acquisition-related costs, including legal and advisory fees on completed deals or significant deals that do not complete, are also treated as an expense (under accounting rules) and therefore on a statutory basis form part of our reported results. In our view, these items also form part of the capital transaction or are one-off and material in nature and are therefore excluded from our adjusted measures.

### Restructuring and reorganisation costs

Where there has been a material change in the organisational structure of a business area or a material initiative, these costs are highlighted and are excluded from our adjusted measures. These costs arise from significant initiatives to reduce the ongoing cost base and improve efficiency in the business to enable the delivery of our strategic priorities. We consider each project individually to determine whether its size and nature warrant separate disclosure.

### COVID-19 related costs

These are direct incremental costs incurred exclusively as a result of COVID-19 and include; impairments mainly in relation to sports rights, costs associated with closure of ITV Studios productions and their subsequent restart in a safe environment, and additional costs incurred to maintain the production of Daytime and News programming during the Government imposed lockdown.

### Amortisation and impairment

Amortisation and impairment of assets acquired through business combinations and investments are not included within adjusted earnings. As these costs are acquisition-related, and in line with our treatment of other acquisition-related costs, we consider them to be capital in nature as they do not reflect the underlying trading performance of the Group. Amortisation of software licences and development is included within our adjusted results as management consider these assets to be core to supporting the operations of the business.

### Net financing costs

Net financing costs are adjusted to reflect the underlying cash cost of interest for the business, providing a more meaningful comparison of how the business is managed and funded on a day-to-day basis. The adjustments made remove the impact of mark-to-market gains or losses on swaps and foreign exchange, one-off fees and premiums relating to the buyback of bonds, imputed pension interest and other financial gains and losses that do not reflect the relevant interest cash cost to the business and are not yet realised balances.

A full reconciliation between our adjusted and statutory results is provided on the following page.

# Alternative Performance Measures continued

## Reconciliation between statutory and adjusted results

Six months to 30 June	2020 Statutory £m	2020 Adjustments £m	2020 Adjusted £m	2019 Statutory £m	2019 Adjustments £m	2019 Adjusted £m
EBITA <sup>1</sup>	159	6	165	310	17	327
Exceptional items (operating) <sup>2</sup>	(89)	89	–	(35)	35	–
Amortisation and impairment <sup>3</sup>	(37)	28	(9)	(35)	31	(4)
<b>Operating profit</b>	<b>33</b>	<b>123</b>	<b>156</b>	<b>240</b>	<b>83</b>	<b>323</b>
Net financing costs <sup>4</sup>	(23)	5	(18)	(16)	(4)	(20)
Share of profits on JVs and Associates	5	–	5	(2)	–	(2)
<b>Profit before tax</b>	<b>15</b>	<b>128</b>	<b>143</b>	<b>222</b>	<b>79</b>	<b>301</b>
Tax <sup>5</sup>	–	(29)	(29)	(32)	(22)	(54)
<b>Profit after tax</b>	<b>15</b>	<b>99</b>	<b>114</b>	<b>190</b>	<b>57</b>	<b>247</b>
Non-controlling interests	4	–	4	1	–	1
<b>Earnings</b>	<b>19</b>	<b>99</b>	<b>118</b>	<b>191</b>	<b>57</b>	<b>248</b>
Shares (million), weighted average	4,001		4,001	3,999		3,999
<b>EPS (p)</b>	<b>0.5p</b>		<b>2.9p</b>	<b>4.8p</b>		<b>6.2p</b>
<b>Diluted EPS (p)</b>	<b>0.5p</b>		<b>2.9p</b>	<b>4.8p</b>		<b>6.2p</b>

- £6 million adjustment relates to production tax credits which we consider to be a contribution to production costs and working capital in nature rather than a corporate tax item.
- Exceptional items largely relate to COVID-19 related costs, Other costs and acquisition costs (primarily employment linked consideration). Further detail is included in the Finance Review.
- £28 million adjustment relates to amortisation and impairment of assets acquired through business combinations and investments. We include only amortisation of purchased intangibles, such as software, within adjusted profit before tax.
- £5 million adjustment is primarily for non-cash interest cost. This provides a more meaningful comparison of how the business is managed and funded on a day-to-day basis.
- Tax adjustments are the tax effects of the adjustments made to reconcile statutory profit before tax and adjusted profit before tax. A full reconciliation is included in the Finance Review.

## Other Alternative Performance Measures

### Total revenue

As an integrated producer broadcaster, we look at the total revenue generated in the business including internal revenue, which is the sale of ITV Studios programmes to Broadcast and Direct to Consumer. ITV Studios selling programmes to the Broadcast and Direct to Consumer businesses is an important part of our strategy as an integrated producer broadcaster and it ensures we own all the rights to the content.

A reconciliation between external revenue and total revenue is provided below.

Six months to 30 June	2020 £m	2019 £m
External revenue (Reported)	1,218	1,476
Internal supply	236	273
<b>Total revenue (Adjusted)</b>	<b>1,454</b>	<b>1,749</b>

### Adjusted net debt

Reported net debt (as defined in note 4.1 to the financial statements) is adjusted for all our financial commitments, which better reflects how credit rating agencies look at our balance sheet. A reconciliation between reported net debt (which has been calculated including IFRS 16 lease liabilities) and adjusted net debt is provided below:

	30 June 2020 £m	31 December 2019 £m
Net debt (excluding IFRS 16 lease liabilities)	(675)	(804)
IFRS 16 lease liabilities	(108)	(89)
<b>Reported net debt (including IFRS 16 lease liabilities)</b>	<b>(783)</b>	<b>(893)</b>
Expected contingent payments on acquisitions	(251)	(230)
Net pension surplus/(deficit)	26	(87)
<b>Adjusted net debt</b>	<b>(1,008)</b>	<b>(1,210)</b>
<b>Adjusted net debt to adjusted EBITDA*</b>	<b>1.6x</b>	<b>1.5x</b>
<b>Reported net debt (including IFRS 16 lease liabilities) to adjusted EBITDA*</b>	<b>1.3x</b>	<b>1.1x</b>

\* On a 12-month rolling basis.

## Alternative Performance Measures continued

### Covenant net debt and covenant liquidity

The covenant net debt as defined excludes the impact of IFRS 16, includes long term trade and other payables and is net of other pension assets held for the unfunded pension scheme. A reconciliation between reported net debt (which has been calculated including IFRS 16 lease liabilities) and the covenant net debt is provided below:

	30 June 2020 £m	31 December 2019 £m
<b>Reported net debt (including IFRS 16 lease liabilities)</b>	<b>(783)</b>	<b>(893)</b>
Impact of IFRS 16	108	89
Long term trade and other payables	(67)	(61)
Other pension assets	63	58
<b>Covenant net debt</b>	<b>(679)</b>	<b>(807)</b>
<b>Covenant net debt to adjusted EBITDA*</b>	<b>1.2x</b>	<b>1.1x</b>
Cash and cash equivalents	435	246
Undrawn RCF	630	630
Undrawn CDS facility	199	300
<b>Covenant liquidity**</b>	<b>1,264</b>	<b>1,176</b>

\* On a 12-month rolling basis and as defined per the covenant terms.

\*\* Total liquidity is defined as: unrestricted cash and cash equivalents plus undrawn committed lines

### Net pension deficit/surplus

This is our defined benefit pension surplus or deficit under IAS 19 adjusted for other pension assets, mainly gilts, which are held by the Group as security for future unfunded pension payments for four Granada executives and over which that pension scheme holds a charge. A full reconciliation is included within note 3.3 to the financial information.

### Profit to cash conversion

This is the measure of our effectiveness of cash generation used for working capital management. It is calculated as our adjusted cash flow as a proportion of adjusted EBITA. Adjusted cash flow, which reflects the cash generation of our underlying business, is calculated on our statutory cash generated from operations and adjusted for exceptional items, net of capex on property, plant and equipment and intangible assets, and including the cash impact of high-end production tax credits.

Prior to 2020, any movements in our non-recourse receivables purchase agreement were included in our profit to cash conversion calculation. As detailed in our 2019 Annual Report and Accounts, from 2020 onwards, any movements in our non-recourse receivables purchase agreement will subsequently be excluded from our profit to cash conversion calculation. At 30 June 2019 the amount sold under the purchase agreement, and therefore included in our profit to cash conversion was £70 million.

### Adjusted free cash flow

This is our measure of adjusted free cash flow after we have met our financial obligations. It takes our adjusted cash flow (see above) and removes the impact of net interest, adjusted cash tax (which is total tax paid adjusted to exclude the receipt of production tax credits) and pension funding. A full reconciliation is included in the Finance Review.

# Finance Review

This Finance Review focuses on the more technical aspects of our financial results while the operating and financial performance has been discussed within the Operating and Performance Review. Our Alternative Performance Measures (APMs) section, explains the adjustments we make to our statutory results to enable focus on the key measures that we report on internally and use as KPIs across the business. See earlier sections for further detail.

Our adjusted and statutory results detailed below, have been significantly impacted by COVID-19. The Operating and Performance Review includes further detail on how this has impacted the operational and financial performance of our two businesses, ITV Studios and ITV Broadcast.

## Exceptional items

Six months to 30 June	2020 £m	2019 £m
Acquisition-related expenses	(10)	(24)
Restructuring and reorganisation costs	(3)	(8)
COVID-19 related costs	(27)	-
Other costs	(49)	(3)
<b>Total exceptional items</b>	<b>(89)</b>	<b>(35)</b>

Total exceptional items in the period were £89 million (2019: £35 million). Operating exceptional items principally relate to COVID-19 related costs and Other costs. COVID-19 related costs of £27 million include direct incremental costs incurred exclusively as a result of COVID-19, the largest cost being £18 million in relation to sports rights as a result of reviewing significant sporting events and their revised net realisable value in light of schedule changes due to the pandemic. £9 million of COVID-19 related costs is due to the closure of ITV Studios productions and the subsequent restart in a safe environment, and additional costs incurred to maintain the production of Daytime programming during the Government imposed lockdown.

Other costs include an estimate for the settlement of the Box Clever case (see Note 3.2 of the financial statements for further detail), impairment to sports rights that are not COVID-19 related, and other legal costs in relation to litigation outside the normal course of business.

Acquisition-related expenses of £10 million are predominantly performance based, employment-linked consideration to former owners.

Restructuring and reorganisation costs of £3 million relate to one-off restructuring projects stemming from the Group-wide commitment to reduce the overhead cost base and those costs associated with the delivery of the strategy. A further £3 million of costs is expected to be incurred by the year end.

## Net financing costs

Six months to 30 June	2020 £m	2019 £m
Financing costs directly attributable to loans and bonds	(14)	(15)
Cash-related net financing costs	(4)	(5)
<b>Adjusted financing costs</b>	<b>(18)</b>	<b>(20)</b>
Imputed pension interest	(1)	(1)
Other net financial losses and unrealised foreign exchange	(4)	5
<b>Net financing costs</b>	<b>(23)</b>	<b>(16)</b>

Adjusted financing costs were marginally down year-on-year at £18 million (2019: £20 million) reflecting lower levels of net debt in the period. Net financing costs were £23 million, which was up year-on-year (2019: £16 million) and largely due to foreign exchange losses in the period.

## JVs and associates

Our share of profits from JVs and associates in the period was £5 million (2019: loss of £2 million). This was the net profit arising from our investments, such as BritBox US and Canada, Circle of Confusion and Blumhouse Television.

## Profit before tax

Statutory profit before tax decreased by 93% to £15 million (2019: £222 million) in the period. Production tax credits decreased to £6 million in the period (2019: £17 million) as a result of less high value dramas due to the pause in productions. Adjusted profit before tax, after amortisation and impairment of assets and financing costs, was down 52% to £143 million (2019: £301 million).

## Profit before tax (PBT)

Six months to 30 June	2020 £m	2019 £m
Profit before tax	15	222
Production tax credits	6	17
Exceptional items	89	35
Amortisation and impairment*	28	31
Adjustments to net financing costs	5	(4)
<b>Adjusted profit before tax</b>	<b>143</b>	<b>301</b>

\* In respect of assets arising from business combinations and investments.

# Finance Review continued

## Tax

### Adjusted tax charge

The total adjusted tax charge for the period was £29 million (2019: £54 million), corresponding to an effective tax rate on adjusted profit before tax (PBT) of 20% (2019: 18%), which is slightly higher than the standard UK corporation tax rate of 19% (2019: 19%). We expect the effective tax rate to be 18% over the full year, and between 18% to 19% over the medium term. On a reported basis, the tax charge is £nil (2019: £32 million tax charge) and corresponds to an effective tax rate of 0% (2019: 14%), this is due to the current year tax charge being fully offset by production tax credits in the period. The adjustments made to reconcile the tax credit with the adjusted tax charge are the tax effects of the adjustments made to reconcile PBT and adjusted PBT, as discussed earlier.

Six months to 30 June	2020 £m	2019 £m
Tax charge	-	(32)
Production tax credits	(6)	(17)
Charge for exceptional items	(16)	(2)
Charge in respect of amortisation and impairment*	(7)	(5)
Charge in respect of adjustments to net financing costs	(1)	1
Other tax adjustments	1	1
<b>Adjusted tax charge</b>	<b>(29)</b>	<b>(54)</b>
<b>Effective tax rate on adjusted profits</b>	<b>20%</b>	<b>18%</b>

\* In respect of intangible assets arising from business combinations and investments. Also reflects the cash tax benefit of tax deductions for US goodwill.

### Cash tax

Cash tax paid in the period was £49 million (2019: £63 million) and is net of £12 million of production tax credits received (2019: £5 million). The majority of the cash tax payments were made in the UK. The cash tax paid is lower compared to the previous year due to the timing of tax credit receipts and reduced payments on account resulting from a reduced profit forecast.

### Tax strategy

ITV is a responsible business, and we take a responsible attitude to tax, recognising that it affects all of our stakeholders. To allow those stakeholders to understand our approach to tax, we have published our Global Tax Strategy, which is available on our corporate website.

[www.itvplc.com/investors/governance/policies](http://www.itvplc.com/investors/governance/policies)

We have four key strategic tax objectives:

1. Engage with tax authorities in an open and transparent way to minimise uncertainty
2. Proactively partner with the business to provide clear, timely, relevant and business focused advice across all aspects of tax
3. Take an appropriate and balanced approach when considering how to structure tax sensitive transactions
4. Manage ITV's tax risk by operating effective tax governance and understanding our tax control framework with a view to continuously adjusting our approach to be compliant with our tax obligations

Our tax strategy is aligned with that of the business and its commercial activities, and establishes a clear Group-wide approach based on openness and transparency in all aspects of tax reporting and compliance, wherever the Company and its subsidiaries operate. The strategy confirms that ITV does not engage in or condone tax evasion or the facilitation of tax evasion in any form, and that we have in place reasonable procedures to prevent the facilitation of tax evasion. Within our overall governance structure, the governance of tax and tax risk is given a high priority by the Board and Audit and Risk Committee. The ITV Global Tax Strategy, as published on the ITV plc website, is compliant with the UK tax strategy publication requirement set out in Part 2 Schedule 19 of the Finance Act 2016.

### EPS – adjusted and statutory

Overall, adjusted profit after tax was down 54% to £114 million (2019: £247 million). After non-controlling interests of £4 million (2019: £(1) million), adjusted basic EPS was 2.9p (2019: 6.2p), down 53%, which is broadly in line with the decrease in adjusted EBITA of 50%. The weighted average number of shares increased year-on-year to 4,001 million (2019: 3,999 million). Diluted adjusted EPS in the period was 2.9p (2019: 6.2p) reflecting a weighted average diluted number of shares of 4,020 million (2019: 4,015 million).

Statutory EPS declined by 90% to 0.5p (2019: 4.8p), which is larger than the decline in adjusted EPS, predominantly due to the increase in exceptional costs in the period, as explained earlier.

A full reconciliation between statutory and adjusted EPS is included within the Alternative Performance Measures section.

### Dividend per share

The Board has decided not to pay an interim dividend in light of the continued economic uncertainty and the need to retain adequate liquidity to ensure ongoing resilience and the ability to respond appropriately to the uncertainty, while continuing to invest in the delivery of our strategy. The Board recognises the importance of the dividend to our shareholders and intends to restore future dividend payments as soon as circumstances permit.

### Acquisitions

Since 2012, we have acquired a number of content businesses in the UK, US and creative locations across Europe and the Middle East, developing a strong portfolio of programmes that return and travel. As we have grown in size and expanded our network relationships and distribution capability, this has helped to renew and strengthen our creative talent and build our reputation as a leading European producer and distributor and a leading unscripted independent production company in the US.

# Finance Review continued

As part of our strategy, we will consider selective value creating M&A and talent deals in both scripted and unscripted to obtain further creative talent and IP.

We have strict criteria for evaluating potential acquisitions. Financially, we assess ownership of intellectual property, earnings growth and valuation based on return on capital employed and discounted cash flow. Strategically, we ensure an acquisition target has a strong creative track record and pipeline in content genres that return and travel, namely drama, entertainment and factual, as well as retention and succession planning for key individuals in the business.

We generally structure our deals with earnouts or with put and call options in place for the remainder of the equity, capping the maximum consideration payable by basing a significant part of the consideration on future performance. In this way, not only can we lock-in creative talent and ensure our incentives are aligned, but we also reduce our risk by only paying for the actual, not expected, performance delivered over time. We believe this is the right way to structure our deals as we should not pay upfront for future performance and should incentivise and reward delivery by the business over time.

The majority of earnouts or put and call options are dependent on the seller remaining within the business. Where future payments are directly related to the seller remaining with the business, these payments are treated as employment costs and, therefore, are part of our statutory results. However, we exclude these payments from adjusted profits and adjusted EPS as an exceptional item, as in our view, for the reasons set out above, these items are part of the capital consideration reflecting how we structure our transactions and do not form part of the core operations.

## Acquisitions – between 2012 and 2020 (undiscounted)

Company	Geography	Genre	Initial consideration £m	Additional consideration paid £m	Expected future payments* £m	Total expected consideration** £m	Expected payment period
<b>Total for 2012–2020</b>	<b>Various</b>	<b>Content &amp; Broadcast TV</b>	<b>957</b>	<b>193</b>	<b>251</b>	<b>1,401</b>	<b>2020-2026</b>

\* Undiscounted and adjusted for foreign exchange. All future payments are performance related.

\*\* Undiscounted and adjusted for foreign exchange, including the initial cash consideration and excluding working capital adjustments. Total maximum consideration which was potentially payable at the time of acquisition was £2.4bn.

The table above sets out the initial consideration payable on our acquisitions, additional consideration subsequently paid, our expected future payments based on our current view of performance and the total expected consideration payable, which is only payable if exceptional compound earnings growth is delivered.

Acquisition-related liabilities or performance-based employment-linked earnouts are amounts estimated to be payable to previous owners. The estimated future payments of £251 million are sensitive to forecast profits as they are based on a multiple of earnings. The estimated future payments, treated as employment costs, are accrued over the period the sellers are required to remain with the business, and those not linked to employment are recognised at acquisition at their time discounted value.

We closely monitor the forecast performance of each acquisition and, where there has been a change in expectations, we adjust our view of potential future commitments. Expected future payments of £251 million have increased by £21 million since 31 December 2019, mainly due to an increase in expected future payments on certain acquisitions and the associated impact of foreign exchange. At 30 June 2020, £225 million of expected future payments had been recorded on the balance sheet, with the balance of £26 million to be accrued over the period in which the sellers are required to remain with the business.

A large proportion of the expected future payments relate to our best estimate of the final payment we will make in relation to the acquisition of Talpa. The amount payable will depend on the average EBITDA from 2017 to 2019 being between €75 million and €100 million. Contractually the payment is capped at €400 million if the average EBITDA for 2017-2019 is €100 million or more. See Note 4.6 of the financial statements for further detail.

There were no significant acquisitions during the first half of 2020. However, during the half year we agreed a number of partnerships within ITV Studios US to strengthen our creative talent.

## Cash generation

### Profit to cash conversion

	2020 £m	2019 £m
Six months to 30 June		
<b>Adjusted EBITA</b>	<b>165</b>	<b>327</b>
Working capital movement	<b>289</b>	<b>(43)</b>
Adjustment for production tax credits	<b>6</b>	<b>(12)</b>
Depreciation	<b>28</b>	<b>29</b>
Share-based compensation and pension service costs	-	5
Acquisition of property, plant and equipment and intangible assets	<b>(36)</b>	<b>(31)</b>
Capex relating to redevelopment of new London headquarters	-	1
Lease liability payments	<b>(11)</b>	<b>(16)</b>
<b>Adjusted cash flow</b>	<b>441</b>	<b>260</b>
<b>Profit to cash ratio six months to 30 June</b>	<b>267%</b>	<b>80%</b>
<b>Profit to cash ratio 12-months rolling</b>	<b>138%</b>	<b>89%</b>

Note: Except where disclosed, management views the acquisition of operating property, plant and equipment and intangibles as business as usual capex, necessary to the ongoing investment in the business.



# Finance Review continued

One of ITV's strengths is its cash generation reflecting our ongoing tight management of working capital balances. We manage risk when making all investment decisions, particularly into scripted content and BritBox UK, through having a disciplined approach to cash and costs. This is particularly important during the current COVID pandemic. Remaining focused on cash and costs means we are in a good position to continue to invest across the business in line with our strategic priorities.

In the period, we generated £441 million of operational cash (2019: £260 million) from £165 million of adjusted EBITA (2019: £327 million), resulting in a profit to cash ratio of 267% (2019: 80%) for the first six months of 2020. This increase was driven by a large working capital inflow arising from a reduction in programme stock (where we delivered programmes but were unable to continue producing) and the timing of VAT payments which have been deferred (see further detail below). Across a 12-month rolling basis this equates to a strong profit to cash ratio of 138% (2018: 89%). This working capital benefit is expected to unwind over the 12 months to 30 June 2021.

To facilitate our working capital management, we have a £100 million non-recourse receivables purchase agreement (free of financial covenants), which gives us the flexibility to access additional liquidity when required. At 30 June, nil receivables were sold under the purchase agreement (2019: £70 million). Prior to 2020, any movements in our non-recourse receivables purchase agreement were included in our profit to cash conversion calculation. As detailed in our 2019 Annual Report and Accounts, from 2020 onwards, any movements in our non-recourse receivables purchase agreement is excluded from our profit to cash conversion calculation.

## Free cash flow

	2020 £m	2019 £m
Six months to 30 June		
Adjusted cash flow	441	260
Net interest paid	(6)	(11)
Adjusted cash tax*	(61)	(68)
Pension funding	(29)	(44)
<b>Free cash flow</b>	<b>345</b>	<b>137</b>

\* Adjusted cash tax of £61 million is total cash tax paid of £49 million plus receipt of production tax credits of £12 million, which are included within adjusted cash flow from operations, as these production tax credits relate directly to the production of programmes

Our free cash flow after payments for interest, cash tax and pension funding remained healthy in the period at £345 million (2019: £137 million). As agreed with the tax authorities and our pension trustees, we have deferred £90 million of payments out of H1, with £75 million of VAT payments payable in 2021 and £15 million of pension contributions payable across 2022 – 2025.

Overall, after acquisitions and acquisition-related costs, pension and tax payments, we ended the period with reported net debt (including IFRS 16 lease liabilities) of £783 million (31 December 2019: £893 million, 30 June 2019: £1,195 million).

## Funding and liquidity

### Debt structure and liquidity

The Group's financing policy is to manage its liquidity and funding risk for the medium to long-term. ITV uses debt instruments with a range of maturities to ensure access to appropriate short-term borrowing facilities with a minimum of £250 million of cash and undrawn committed facilities available at all times. We have a number of facilities in place to preserve our financial flexibility, which includes a £630 million Revolving Credit Facility (RCF) in place until 2023. The RCF has leverage and interest cover covenants which require us to maintain a covenant net debt to adjusted EBITDA ratio of below 3.5x and interest cover (adjusted EBITDA to net finance charges) above 3.0x. At 30 June 2020, ITV's financial position was well within its covenants, but as a precautionary measure we have agreed with our banking group to replace the leverage and interest cover covenants in the RCF with a cap on covenant net debt at £1.8 billion and a minimum covenant liquidity requirement (cash plus undrawn committed funding lines) of £250 million until 30 December 2021. In addition, ITV has agreed not to pay a dividend in the period of the amendment. ITV has the right to restore its original covenants at any time should it so choose, in which case the dividend restriction would fall away.

We also have a bilateral financing facility of £300 million, which is free of financial covenants. In March 2020, the Group extended the maturity of its existing £300 million bilateral loan facility by 5 years to 30 June 2026.

This provides us with sufficient liquidity to meet the requirements of the business in the short to medium term under a variety of scenarios, including a severe but plausible downside scenario (low case). At 30 June 2020, the £630 million RCF was undrawn and £199 million of the £300 million bilateral facility was available.

## Reported net debt

	2020 £m	2019 £m
At 30 June		
Gross cash*	435	85
Gross debt (including IFRS 16 lease liabilities)	(1,218)	(1,280)
<b>Reported net debt</b>	<b>(783)</b>	<b>(1,195)</b>

\* Gross cash includes £50 million of restricted cash in relation to the LTVC Pension Funding Partnership.

# Finance Review continued

## Financing – gross debt

We are financed using debt instruments and facilities with a range of maturities. Borrowings at 30 June 2020 were repayable as follows:

Amount repayable as at 30 June 2020	£m	Maturity
£630 million Revolving Credit Facility	-	Dec 2023
€600 million Eurobond*	546	Sep 2026
€335 million Eurobond	304	Sep 2022
€259 million Eurobond	235	Dec 2023
Other loans	10	Various
<b>Total debt repayable on maturity*</b>	<b>1,095</b>	

\* Net of £15 million cross-currency swaps.

## Capital allocation and leverage

Our objective is to run an efficient balance sheet and manage our financial metrics appropriately, consistent with our commitment to investment grade metrics over the medium term. At 30 June 2020 reported net debt (including IFRS 16 liabilities) to adjusted EBITDA on a 12 month basis was 1.3x (31 December 2019: 1.1x and 30 June 2019: 1.5x).

We also use an adjusted measure of net debt, taking into consideration all of our other debt-like commitments including the expected, undiscounted contingent payments on acquisitions and the net pension deficit. This adjusted leverage metric better reflects how the credit rating agencies look at our balance sheet. At 30 June 2020 adjusted net debt was £1,008 million (31 December: £1,210 million, 30 June 2020: £1,507 million) and adjusted net debt to adjusted EBITDA on a 12 month rolling basis was 1.6x (31 December 2019: 1.5x, 30 June 2019: 1.9x). A reconciliation of reported net debt to adjusted net debt is provided in the Alternative Performance Measures.

Our priority remains to invest in our key assets and value drivers to drive growth in line with our strategic priorities and balance this investment with the returns to shareholders.

## Credit ratings

We continue to be rated investment grade by both ratings agencies: BBB- (negative outlook) by Standard and Poor's and Baa3 (stable outlook) by Moody's Investor Services. These ratings were reiterated in Q2. The factors that are taken into account in assessing our credit rating include our degree of operational gearing and exposure to the economic cycle, as well as business and geographical diversity.

## Foreign exchange

As ITV continues to grow internationally, we are increasingly exposed to foreign exchange on our overseas operations. We do not hedge our exposure to revenues and profits generated overseas, as this is seen as an inherent risk. We may elect to hedge our overseas net assets, where material. To date, we have hedged a significant portion of the euro net assets arising from the Talpa Media acquisition.

ITV is also exposed to foreign exchange risk on transactions we undertake in a foreign currency. Our policy is to hedge a portion of any known or forecast transaction where there is an underlying cash exposure for the full tenor of that exposure, to a maximum of five years forward, where the portion hedged depends on the level of certainty we have on the final size of the transaction.

Finally, ITV is exposed to foreign exchange risk on the retranslation of foreign currency loans and deposits. Our policy is to hedge such exposures where there is an expectation that any changes in the value of these items will result in a realised cash movement over the short to medium term.

The foreign exchange and interest rate hedging strategy is set out in our Treasury policies which are approved by the ITV plc Board.

## Foreign exchange sensitivity

The following table highlights ITV's sensitivity, on a full year basis (using internal forecasts), to translation resulting from a 10% appreciation/depreciation in sterling against the US dollar and euro, assuming all other variables are held constant. An appreciation in sterling has a negative effect on revenue and adjusted EBITA; a depreciation has a positive effect.

Currency	Revenue £m	Adjusted EBITA £m
US dollar	±38-48	± 4-6
Euro	±29-36	± 3-5

## Pensions

The net pension surplus for the defined benefit schemes at 30 June 2020 was £26 million (31 December 2019: £87 million deficit). The movement was driven by a decrease in the corporate bond yields, offset by a reduction in gilt yields, along with our deficit funding contributions made in the period.

The net pension assets include £63 million of gilts, which are held by the Group as security for future unfunded pension payments to four former Granada executives, the liabilities of which are included in our pension obligations.

A full reconciliation is included within note 3.3 in the notes to the financial statements.

## Actuarial valuation

The last triennial actuarial valuation was undertaken in 2017. On the basis agreed with the Trustee, the combined deficits of the ITV defined benefit pension scheme as at 1 January 2017 amounted to £470 million.

The Trustee is in the process of undertaking a full actuarial valuation of all sections of the Scheme as at 1 January 2020, which we expect to agree during 2021.



# Finance Review continued

## **Deficit funding contributions**

The Group continues to make deficit funding contributions in line with the most recent actuarial valuation in order to eliminate the deficits in each section. The accounting deficit does not drive the deficit funding contribution.

The Group's deficit funding contributions in the first half of 2020 were £29 million. We have agreed with the pension Trustees to delay around £15 million, which will be deferred across 2022 to 2025 (subject to the new funding schedule which will be finalised as part of the Triennial valuation). As a result, the total expected deficit funding contribution for 2020 will be around £59 million. Further details are included within Note 3.3 of the financial statements.

## **SDN pension funding partnership**

In 2010, ITV established a Pension Funding Partnership (PFP) with the Trustee backed by the asset of SDN which resulted in the assets of Section A of the defined benefit pension scheme being increased by £200 million. The Group is contracted to provide additional collateral to support the original value of the structure at the rate of £50.7 million each year from March 2019 to March 2022. This cash collateral would not leave the Group but would be maintained in a restricted bank account. The Trustee agreed to accept a bank guarantee as an alternative to the 2019 and 2020 collateral instalment with the result that £101 million cash collateral did not become due in March 2020. The PFP is currently being reviewed as we look to replace it with an alternative asset to SDN. If the asset in the SDN PFP structure is not replaced, the Group will pay to the pension scheme the lower of any deficit calculated on the funding basis in 2022 or £200 million.

# Finance Review continued

## Planning assumptions for full year 2020

The following planning assumptions for 2020 are based on our current best view but may change depending on how events unfold over the rest of the year.

### Profit and Loss impact

- Total schedule costs are estimated to be around £960 million
- Total essential investment of around £18 million
- Total BritBox UK venture losses of £55 million to £60 million
- Cost savings expected to be around £60 million, of which £10 million are permanent
- Adjusted interest is expected to be around £40 million
- The adjusted effective tax rate for 2020 is expected to be around 18% and remain between 18% to 19% over the medium term
- Exceptional items are expected to be around £110 million, mainly due to COVID-19 related and Other costs and acquisition related expenses

### Cash impact

- Cash tax will reflect six quarters of UK corporation tax payments, rather than the standard four quarters. This is a one-off phasing impact and will return to four quarters in 2021. VAT payments of £75 million have been deferred into 2021 in agreement with the tax authorities.
- Total capex is expected to be around £85 million to £95 million which includes investment in our addressable advertising platform and our US property moves
- The cash cost of exceptional items are expected to be around £250 million, largely relating to accrued earnouts, including the final earnout payment for Talpa
- Profit to cash conversion is expected to be around 75%
- Total pension deficit funding contribution for 2020 is expected to be around £59 million, benefitting from the contribution deferral agreed with the Trustee

## Going Concern

The management and Board of ITV plc continue to closely monitor the evolving COVID-19 situation. The impact of Covid-19 on business performance and the Group's liquidity position experienced during the lockdown period has been incorporated into the Directors' consideration in assessing the appropriateness of the Board's adoption of the going concern assumption used in the preparation of the Group's condensed consolidated interim financial statements.

The Directors have prepared forecasts for a range of cash flow scenarios, focused on mid, high, and low cases, from the date of approval of these condensed consolidated interim financial statements for the period up to 31 December 2021. The key assumptions in the modelled scenarios relate to the speed of recovery of the advertising market and the rate and scale of production restarts for ITV Studios. All scenarios assumed a level of second wave 'local' lockdowns and continued structural change to viewing and advertising habits. The Board continues to monitor performance against the scenarios as well as internal and external analysis to inform its planning and decision making and will continue to manage our costs and cash appropriately.

For further details on the reasons why the Directors believe that these condensed consolidated interim financial statements should be prepared on a going concern basis see Section 1: Basis of preparation in the financial statements.

### Chris Kennedy

Group Chief Financial Officer

# Risks and Uncertainties

## Risk management

ITV's risk landscape is increasingly complex. This is being driven by both sectoral specific trends and operational uncertainties arising from the COVID-19 pandemic.

We began enhancing our risk management framework in 2019 and have continued to introduce improvements to support our key objectives:

- protecting our viewers, colleagues, talent and programme participants
- achieving our strategic goals; and
- creating value for our shareholders

We have detailed risk identification, assessment and reporting processes in place. This provides us with the necessary insight to continually monitor and improve the effectiveness of our mitigation and internal control activities.

## Key changes to principal risks

The Directors have performed a robust assessment of the principal and emerging risks and uncertainties faced by the Group. Based on this we have made the following changes to the principal risks stated in the Annual Report and Accounts for the year ended 31 December 2019:

- We have included a new risk relating to the COVID-19 pandemic (Covid-19 risk), which reflects the uncertainties (caused by the pandemic itself but also government responses and interventions) affecting our business. The details of this risk and our resulting response are summarised below.
- We have included a new risk relating to regulatory and policy change (Regulatory and Policy Change Risk), which is driven primarily by the uncertainty around the long term regulatory regime for Public Service Broadcasters (PSB), the possible introduction of advertising restrictions related to HFSS and resulting from Brexit. The details of this risk and our response are summarised on the following pages.
- We have removed the risk relating to legal disputes. Although this remains a risk for ITV, we do not believe that any dispute represents a significant or long term threat to the business. We have strong contractual processes and work closely with our third parties to mitigate the risk of a dispute arising. We also engage external counsel and have insurance in place to manage the financial impact of potential disputes. Disputes remain a business risk and continue to be tracked and mitigated through our internal risk management processes, however, in light of the management processes we have in place, this is no longer considered a principal risk.

## COVID-19 Risk

The COVID-19 pandemic has resulted in unprecedented challenges for organisations globally and, as with most businesses in all territories in which we operate, ITV has been negatively impacted. The pandemic and related government responses and interventions have resulted in operational uncertainty and have heightened many of our existing risks. We have developed a COVID-19 response governance structure to respond to these risks, which is coordinated by a crisis management office. We are managing the risks associated with COVID-19 across five fronts as detailed on page 5 of the Operating and Performance Review.

The COVID-19 Governance structure and crisis management office remains operational, reporting into the Management and PLC Boards on a regular basis. The group has also focused on developing plans to manage ongoing risks as we move through the stages of the crisis and prepare for further COVID-19 outbreaks.

The key uncertainties and areas of increased risk as a result of COVID-19 and specific actions being taken are as follows (with further detail on the actions we have taken and are taking to address the related risks provided in the Operating and Performance Review section):

### Health and safety

Protecting the health of our colleagues, talent, contractors and participants remains our primary priority. During the pandemic we have implemented new processes to manage the increased health and safety risks. We smoothly transitioned to home working for the majority of staff and developed robust safety protocols for those continuing to work on site. We have also leveraged existing tools in order to support our colleagues manage their mental wellbeing during this difficult time, including launching a new mental health peer-to-peer platform. This activity is being overseen by a dedicated health and wellbeing working group.

### Content production

In March 2020 ITV Studios rapidly paused filming on the majority of its programmes globally, in order to protect the health and safety of our talent and crew. Following this, we have worked with the UK Government and the industry to develop a set of protocols to minimise COVID-19 health and safety risks during content production. We have undertaken risk assessments on all productions which have or are due to resume and are developing procedures outlining how the protocols should be applied on each production globally. We have also created an awareness programme, in order to provide relevant colleagues training and guidance on how to operate the protocols during production. This process has allowed us to successfully resume production on many of our key programmes, including Coronation Street and Emmerdale, in the UK, and The Voice, in Australia. We have also been very focused on development of new content and have successfully produced a number of "lockdown" programmes during this time.

## Risks and Uncertainties continued

There remain operational challenges with producing content, including travel restrictions and social distancing rules. The risk of a second outbreak of the COVID-19 pandemic in any of the territories we operate may result in further production pauses. However, depending on the severity of another outbreak and the resulting country specific government interventions, we may be able to rapidly flex our existing protocols to continue safely filming during this time.

### **Studios market**

There continues to be a high demand for content globally. We expect the impact of the COVID-19 crisis to vary by customer type and by territory. We continue to invest in top creative talent, to develop content which can travel internationally, and review our customer mix to optimise monetisation of this content.

### **Commissioning Pipeline**

Our critical broadcast operations have not been significantly disrupted by the pandemic and we have continued to successfully broadcast programmes throughout these challenging times. Our Daytime and News programmes have been transmitted live every day and have played a key part in providing our viewers with accurate and trustworthy information during the pandemic. However, the impact of COVID-19 on content production has led to short term pressure on our broadcast schedule. There is a risk that some programmes, currently due to broadcast later in the year, may not be completed. However, we are working with existing suppliers to develop plans to resume filming on key entertainment programmes and engaging with producers and distributors, including ITV Studios, to source additional stock content for our channels.

### **Viewer habits**

ITV viewing has increased during COVID-19 (in particular for Daytime and News). However, there has also been a significant increase in video on demand (VOD) viewing due to lockdown restrictions. There is uncertainty around the extent to which these behaviours will persist after the pandemic and if this would result in a further decline in linear viewing, leading to a further reduction in advertising revenue. However, changing viewer habits also brings more opportunity. Our strategy is designed to mitigate against the long term impact of this risk and, as noted in the Operating and Performance Review, we have increased the pace of implementation of our strategic initiatives and made significant progress even during the pandemic.

### **Advertising market**

As detailed in the Operating and Performance Review, our advertising revenues have declined during the COVID-19 pandemic. This decline is in line with the market trends observed across Europe for the industry and we are now starting to see signs of improvement. However, there remains a risk that a protracted economic downturn or a second COVID-19 outbreak could result in continued reduced advertiser spend. Certain categories of advertisers (such as travel and traditional retail) have been severely impacted by the COVID-19 pandemic and this could continue for a prolonged period. In order to mitigate this risk we are progressing plans to enhance our long term advertising proposition. This includes developing our addressable advertising capabilities, through the Planet V initiative. During the crisis, we have worked very closely but remotely with advertisers and media agencies to continue to demonstrate the effectiveness of advertising on ITV. We are targeting a wide range of advertisers, including digitally native brands which have been less impacted by the pandemic, and have seen a number of brands advertise on TV for the first time during the pandemic.

### **Cyber Security**

The transition to home working for the majority of our colleagues and an increase in malicious cyber activity has meant cyber security risk has increased. In order to mitigate against this we have implemented enhanced technical controls, including upgrading our authentication and malware detection software. We have also initiated a new cyber awareness programme, in order to educate colleagues on the specific security risks associated with remote working, increased phishing activity and video-conferencing.

### **Long term cash position**

In order to respond to the ongoing uncertainty and challenges to our revenue streams during the crisis, we have taken extensive measures to preserve cash, reduce and suspend costs and manage working capital. Further detail of our financial mitigations is provided in Operating and Performance Review, the Finance Review and Going Concern sections of this report.

### **Regulatory and policy change risk**

In February 2020, Ofcom published the findings of their Small Screen: Big Debate Public Service Broadcaster (PSBs) review. The review demonstrated the value delivered by PSB's to audiences through trustworthy news and programming, which has been particularly important during the COVID-19 pandemic. However, there remains uncertainty surrounding the reform of the PSB regulatory regime, which could have a significant impact on our business. We continue to closely engage with the Government, DCMS, Ofcom and the industry on this issue and reiterate the importance of the regime for UK audiences and wider society.

# Risks and Uncertainties continued

We continue to remain up to date with government guidance and our obligations with respect to COVID-19 and develop operational processes to adhere to this guidance. There is uncertainty regarding how respective governments may respond longer term and what regulation may be enacted, however we continue to monitor this area and engage within governments in line with our broader regulatory horizon scanning processes. As outlined on page 14, the Government has announced a ban on HFSS food and drink advertising on TV before 9pm, as well as a ban on all online advertising of HFSS food and drink. The detailed measures and scope of advertisers included in the ban are not yet finalised and therefore the impact on ITV remains uncertain. Furthermore, the Government has indicated that they would look to have the ban in place by the end of 2022, however the timings are not confirmed. Once we have further information with regard to the detail of the ban, we will perform an assessment of the impact and appropriate mitigations we can put in place. Further changes to and/or new advertising regulation on other sectors, may have a negative impact on the revenue we are able to generate from certain advertisers. We actively monitor the regulatory landscape and continue to participate in formal consultations and engage with the government to outline ITV's position on this topic.

There remains uncertainty associated with Brexit following the UK's exit from the European Union on 31 January 2020. Our Brexit working group continues to monitor potential implications during the Brexit transition period and develop plans to mitigate the impact of Brexit on our operations.

## **Principal Risks**

Other than the changes and details set out above, the Directors consider that principal risks and uncertainties faced by the Group remain substantially the same as those set out on pages 66 to 79 of our Annual Report and Accounts for the year ended 31 December 2019. The principal risks and the direction of travel have been summarised below:

### **External/Strategic**

- COVID-19 Impact (new)
- Changing viewer habits (trending upwards)
- Advertising market changes (trending upwards)
- Evolving demand in the content market (trending upwards)
- Pension deficit increase (static)
- Platform relationship risks (trending upwards)
- Regulatory and policy risk (new)

### **Change**

- Commissioning pipeline risk (trending upwards)
- Insufficient BritBox growth (trending upwards)
- Strategic delivery and digital transformation risk (trending upwards)
- Insufficient cultural change (trending upwards)

### **Operational**

- Duty of care/health and safety incident (trending upwards)
- Legal and regulatory non-compliance (static)
- Cyber attack or data breach (trending upwards)
- Recruitment and retention of talent (static)
- Leadership and ways of working (static)

Refer to our 2019 annual report and accounts for further detail on our Risk Framework. Available at [itvplc.com/investors/results-centre/reports-and-results-archive/2019](https://www.itvplc.com/investors/results-centre/reports-and-results-archive/2019)

# Interim Condensed Financial Statements

## In this section

Our objective is to make ITV's financial statements less complex, more relevant to shareholders and other stakeholders and provide readers with a clearer understanding of what drives financial performance of the Group. We have grouped notes under five key headings: 'Basis of Preparation', 'Results for the Period', 'Operating Assets and Liabilities', 'Capital Structure and Financing Costs' and 'Other Notes'. The aim of the text in boxes is to provide commentary on each section, or note, in plain English.

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### Responsibility Statement of the Directors in Respect of the Half-Yearly Financial Report

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### Independent Review Report

# Condensed Consolidated Income Statement

For the six month period to 30 June	Note	2020 £m	2019 £m
<b>Revenue</b>	2.1	<b>1,218</b>	1,476
Operating costs		<b>(1,185)</b>	(1,236)
<b>Operating profit</b>		<b>33</b>	240
<b>Presented as:</b>			
Earnings before interest, tax and amortisation (EBITA) and before exceptional items	2.1	<b>159</b>	310
Operating exceptional items	2.2	<b>(89)</b>	(35)
Amortisation and impairment		<b>(37)</b>	(35)
Operating profit		<b>33</b>	240
Financing income		<b>2</b>	2
Financing costs		<b>(25)</b>	(18)
<b>Net financing costs</b>		<b>(23)</b>	(16)
Share of gains / (losses) of joint ventures and associated undertakings		<b>5</b>	(2)
<b>Profit before tax</b>		<b>15</b>	222
Taxation		<b>–</b>	(32)
<b>Profit for the period</b>		<b>15</b>	190
<b>Profit attributable to:</b>			
Owners of the Company		<b>19</b>	191
Non-controlling interests		<b>(4)</b>	(1)
<b>Profit for the period</b>		<b>15</b>	190
<b>Earnings per share</b>			
Basic earnings per share	2.3	<b>0.5p</b>	4.8p
Diluted earnings per share	2.3	<b>0.5p</b>	4.8p

# Condensed Consolidated Statement of Comprehensive Income

For the six month period to 30 June	2020	2019
	£m	£m
<b>Profit for the period</b>	<b>15</b>	<b>190</b>
<b>Other comprehensive income:</b>		
<b>Items that are or may be reclassified to profit or loss</b>		
Revaluation of financial assets	5	2
Net loss on cash flow hedges and cost of hedging	(8)	–
Exchange differences on translation of foreign operations (net of hedging)	13	(6)
<b>Items that will never be reclassified to profit or loss</b>		
Remeasurement gains / (losses) on defined benefit pension schemes	80	(123)
Income tax (charge) / credit on items that will never be reclassified	(15)	21
<b>Other comprehensive income / (loss) for the period, net of income tax</b>	<b>75</b>	<b>(106)</b>
<b>Total comprehensive income for the period</b>	<b>90</b>	<b>84</b>
<b>Total comprehensive income attributable to:</b>		
Owners of the Company	94	86
Non-controlling interests	(4)	(2)
<b>Total comprehensive income for the period</b>	<b>90</b>	<b>84</b>



# Condensed Consolidated Statement of Financial Position

	Note	30 June 2020 £m	31 December 2019 £m	30 June 2019 £m
<b>Non-current assets</b>				
Property, plant and equipment		286	269	293
Intangible assets		1,601	1,592	1,620
Investments in joint ventures, associates and equity investments		70	52	51
Derivative financial instruments	4.4	3	–	25
Distribution rights		20	22	32
Contract assets	2.1	8	3	–
Defined benefit pension surplus	3.3	17	17	17
Other pension asset	3.3	63	58	51
Deferred tax asset		36	47	47
		<b>2,104</b>	<b>2,060</b>	<b>2,136</b>
<b>Current assets</b>				
Programme rights and other inventory		281	323	271
Trade and other receivables due within one year		421	413	381
Trade and other receivables due after more than one year		63	63	60
Trade and other receivables		484	476	441
Contract assets	2.1	373	442	479
Current tax receivable		9	15	27
Derivative financial instruments	4.4	5	6	4
Cash and cash equivalents	4.1	435	246	85
Asset held for sale		–	–	81
		<b>1,587</b>	<b>1,508</b>	<b>1,388</b>
<b>Current liabilities</b>				
Borrowings	4.1	(4)	(10)	(201)
Lease liabilities	4.3	(17)	(25)	(20)
Derivative financial instruments	4.4	(6)	(5)	(4)
Trade and other payables due within one year		(859)	(917)	(767)
Trade payables due after more than one year		(67)	(61)	(42)
Trade and other payables		(926)	(978)	(809)
Contract liabilities	2.1	(327)	(219)	(287)
Current tax liabilities		(37)	(81)	(97)
Provisions	3.2	(57)	(2)	(15)
		<b>(1,374)</b>	<b>(1,320)</b>	<b>(1,433)</b>
<b>Net current assets / (liabilities)</b>		<b>213</b>	<b>188</b>	<b>(45)</b>
<b>Non-current liabilities</b>				
Borrowings	4.1	(1,091)	(1,016)	(989)
Lease liabilities	4.3	(91)	(64)	(93)
Derivative financial instruments	4.4	(16)	(43)	(2)
Defined benefit pension deficit	3.3	(54)	(162)	(181)
Deferred tax liabilities		(24)	(29)	(52)
Other payables		(59)	(51)	(49)
Provisions	3.2	(18)	(5)	(5)
		<b>(1,353)</b>	<b>(1,370)</b>	<b>(1,371)</b>
<b>Net assets</b>		<b>964</b>	<b>878</b>	<b>720</b>
<b>Attributable to equity shareholders of the parent company</b>				
Share capital		403	403	403
Share premium		174	174	174
Merger and other reserves		221	224	224
Translation reserve		37	32	55
Fair value reserve		19	14	7
Retained earnings	4.6	80	1	(168)
<b>Total equity attributable to equity shareholders of the parent company</b>		<b>934</b>	<b>848</b>	<b>695</b>
Non-controlling interests		30	30	25
<b>Total equity</b>		<b>964</b>	<b>878</b>	<b>720</b>

**Chris Kennedy**

Group Chief Financial Officer

# Condensed Consolidated Statement of Changes in Equity

	Attributable to equity shareholders of the parent company						Total £m	Non- controlling interests £m	Total equity £m
	Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Fair value reserve £m	Retained earnings £m			
Balance at 1 January 2020	403	174	224	32	14	1	848	30	878
<b>Total comprehensive income for the period</b>									
Profit / (loss) for the period	–	–	–	–	–	19	19	(4)	15
<b>Other comprehensive income/(loss)</b>									
Revaluation of financial assets	–	–	–	–	5	–	5	–	5
Net loss on cash flow hedges and cost of hedging	–	–	–	(8)	–	–	(8)	–	(8)
Exchange differences on translation of foreign operations (net of hedging)	–	–	–	13	–	–	13	–	13
Remeasurement gain on defined benefit pension schemes	–	–	–	–	–	80	80	–	80
Income tax charge on other comprehensive income	–	–	–	–	–	(15)	(15)	–	(15)
Total other comprehensive income / (loss)	–	–	–	5	5	65	75	–	75
<b>Total comprehensive income for the period</b>	–	–	–	5	5	84	94	(4)	90
<b>Transactions with owners, recorded directly in equity</b>									
<b>Contributions by and distributions to owners</b>									
Equity dividends	–	–	–	–	–	–	–	–	–
Movements due to share-based compensation	–	–	–	–	–	–	–	–	–
Tax on items taken directly to equity	–	–	–	–	–	–	–	–	–
Purchase of own shares via employees' benefit trust	–	–	–	–	–	–	–	–	–
<b>Total transactions with owners</b>	–	–	–	–	–	–	–	–	–
Changes in non-controlling interests	–	–	(3)	–	–	(5)	(8)	4	(4)
<b>Balance at 30 June 2020</b>	<b>403</b>	<b>174</b>	<b>221</b>	<b>37</b>	<b>19</b>	<b>80</b>	<b>934</b>	<b>30</b>	<b>964</b>

# Condensed Consolidated Statement of Changes in Equity continued

	Attributable to equity shareholders of the parent company						Total £m	Non- controlling interests £m	Total equity £m
	Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Fair value reserve £m	Retained earnings £m			
Balance at 1 January 2019	403	174	206	60	5	(33)	815	34	849
<b>Total comprehensive income for the period</b>									
Profit for the period	–	–	–	–	–	191	191	(1)	190
<b>Other comprehensive income/(loss)</b>									
Revaluation of financial assets	–	–	–	–	2	–	2	–	2
Exchange differences on translation of foreign operations (net of hedging)	–	–	–	(5)	–	–	(5)	(1)	(6)
Remeasurement gain on defined benefit pension schemes	–	–	–	–	–	(123)	(123)	–	(123)
Income tax charge on other comprehensive income	–	–	–	–	–	21	21	–	21
Total other comprehensive income	–	–	–	(5)	2	(102)	(105)	(1)	(106)
<b>Total comprehensive income for the period</b>	–	–	–	(5)	2	89	86	(2)	84
<b>Transactions with owners, recorded directly in equity</b>									
<b>Contributions by and distributions to owners</b>									
Equity dividends	–	–	–	–	–	(216)	(216)	–	(216)
Movements due to share-based compensation	–	–	–	–	–	5	5	–	5
Purchase of own shares via employees' benefit trust	–	–	–	–	–	(2)	(2)	–	(2)
<b>Total transactions with owners</b>	–	–	–	–	–	(213)	(213)	–	(213)
Changes in non-controlling interests	–	–	18	–	–	(11)	7	(7)	–
<b>Balance at 30 June 2019</b>	<b>403</b>	<b>174</b>	<b>224</b>	<b>55</b>	<b>7</b>	<b>(168)</b>	<b>695</b>	<b>25</b>	<b>720</b>

# Condensed Consolidation Statement of Cash Flows

For the six month period to 30 June	Note	£m	2020 £m	£m	2019 £m
<b>Cash flows from operating activities</b>					
Profit before tax	2.1		15		222
Share of (gains) / losses of joint ventures and associated undertakings		(5)		2	
Net financing costs		23		16	
Operating exceptional items	2.2	89		35	
Depreciation of property, plant and equipment		28		29	
Amortisation and impairment		37		35	
Share-based compensation and pension service costs		-		5	
Adjustments to profit			172		122
Decrease in inventory and distribution rights		44		25	
Decrease / (increase) in contract assets		80		(10)	
Decrease / (increase) in receivables		4		(13)	
Increase in contract liabilities		96		32	
Decrease in payables		(35)		(77)	
Movement in working capital			189		(43)
<b>Cash generated from operations before exceptional items</b>			<b>376</b>		<b>301</b>
Cash flow relating to operating exceptional items:					
Operating exceptional items		(89)		(35)	
Increase in exceptional payables		42		23	
Decrease in exceptional prepayments and other receivables		3		-	
Cash outflow from exceptional items			(44)		(12)
<b>Cash generated from operations</b>					
Defined benefit pension deficit funding	3.2	(29)		(44)	
Interest paid on bank and other loans		(6)		(11)	
Net taxation paid		(49)		(63)	
			(84)		(118)
<b>Net cash inflow from operating activities</b>			<b>248</b>		<b>171</b>
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment		(20)		(13)	
Acquisition of intangible assets		(16)		(18)	
Acquisition of investments		(9)		(12)	
Loans granted to associates and joint ventures		(1)		(3)	
Loans repaid by associates and joint ventures		2		-	
<b>Net cash outflow from investing activities</b>			<b>(44)</b>		<b>(46)</b>
<b>Cash flows from financing activities</b>					
Bank and other loans – amounts repaid		(216)		(420)	
Bank and other loans – amounts raised		210		567	
Payment of lease liabilities		(11)		(16)	
Equity dividends paid		-		(216)	
Acquisition of non-controlling interests	4.4	(2)		(41)	
Purchase of own shares via employees' benefit trust		-		(2)	
<b>Net cash outflow from financing activities</b>			<b>(19)</b>		<b>(128)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>			<b>185</b>		<b>(3)</b>
<b>Cash and cash equivalents at 1 January</b>	4.1		<b>246</b>		<b>95</b>
Effects of exchange rate changes and fair value movements			4		(7)
<b>Cash and cash equivalents at 30 June</b>	4.1		<b>435</b>		<b>85</b>

# Notes to the Interim Condensed Financial Statements

## Section 1: Basis of Preparation

### In this section

This section lays out the accounting conventions and accounting policies used in preparing these condensed consolidated interim financial statements.

These condensed consolidated interim financial statements for the six months ended 30 June 2020 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 'Interim financial reporting' as adopted by the European Union.

These condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2019, which were prepared in accordance with IFRS as adopted by the European Union.

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Revenues are impacted by underlying economic conditions, the cyclical demand for advertising, seasonality of programme sales, significant licensing deals and the timing of delivery of ITV Studios' programmes. Major events, including sporting events, will impact the seasonality of schedule costs and the mix of programme spend between sport and other genres, especially drama and entertainment. In 2020 the interim results have been significantly impacted by the effects of the COVID-19 pandemic and the related government-imposed lockdown and restrictions. Other than this, there is no significant seasonality or cyclicity affecting the interim results of the operations.

These condensed consolidated interim financial statements and the comparative figures are not statutory accounts. The statutory accounts for the year ended 31 December 2019 have been reported on by the Company's auditors and delivered to the Registrar of Companies. The auditors' report was: (i) unqualified; (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

### Going concern

The management and Board of ITV plc continue to closely monitor the evolving COVID-19 situation. The impact of COVID-19 on business performance and the Group's liquidity position experienced during the lockdown period has been incorporated into the directors' consideration in assessing the appropriateness of the Board's adoption of the going concern assumption used in the preparation of the Group's condensed consolidated interim financial statements.

These condensed consolidated interim financial statements are prepared on a going concern basis which the Directors believe to be appropriate for the following reasons:

As at 30 June 2020 the Group had £385 million of unrestricted cash, a £630 million committed and undrawn Revolving Credit Facility expiring in December 2023 and a £300 million committed bilateral facility expiring in June 2026, of which £199 million was available. In addition, bond repayments only commence in September 2022 and there are no financial covenants in relation to the bonds in issue although there are cross default provisions.

The Revolving Credit Facility (RCF) is subject to leverage and interest cover semi-annual covenant tests which require the Group to maintain a leverage ratio of below 3.5x and interest cover above 3.0x (as defined in the RCF documentation), however, as a precautionary measure, the Group was granted replacement covenants for the next three tests i.e. June 2020, December 2020 and June 2021. During this period two replacement covenants will apply: a covenant net debt cap of £1.8 billion and a minimum covenant liquidity requirement of £250 million, which will be tested quarterly. As at 30 June 2020, the Group had covenant net debt of £679 million and covenant liquidity of £1,264 million. The leverage and interest cover tests will be tested again on 31 December 2021.

The lockdown measures enforced by governments led to a halt to most travel and enforced closure of retailers, factories and entertainment facilities, which have had a knock-on effect on advertising revenues and ITV Studios' ability to film productions. Considering the significant impact on the business, management is monitoring its covenant liquidity position more closely and has implemented measures to reduce and suspend the incurrence of costs and to tightly manage cash flow. The 2020 programming spend is expected to reduce by at least £150 million compared to the budgeted spend. Further, management has also taken steps to reduce discretionary spend by £60 million in 2020, of which £51 million has been delivered in the first half of the year. The Board decided that it was prudent not to propose the final dividend of £216 million for the year ended 31 December 2019 and to withdraw its previously announced intention to pay an 8p full year dividend for 2020. The Board has also withdrawn the 2020 annual bonus entitlement for all employees, reduced salaries for the Executive and Management Board until October 2020 and cut the fees of the non-executive directors. These decisions of the Board have been modelled in both the base case and severe but plausible downside scenarios below.

# Notes to the Interim Condensed Financial Statements

## Section 1: Basis of Preparation continued

The Directors have prepared forecasts for a range of cash flow scenarios, focused on mid, high, and low cases, for the period to 31 December 2021 from the date of approval of these condensed consolidated interim financial statements. The key assumptions in the modelled scenarios relate to the speed of recovery of the advertising market and the rate and scale of production restarts for ITV Studios. All scenarios assume a level of second wave 'local' lockdowns and continued structural change to viewing and advertising habits. The Board closely monitors performance against the scenarios as well as internal and external analysis to inform its planning and decision making and will continue to manage our costs and cash appropriately.

The base (mid) case scenario, which assumes further productions restart in August 2020, in addition to those already restarted in July, and that the advertising market continues to show early signs of recovery during Q3 2020, clearly indicates to the Directors that the Group will be able to meet its obligations as they fall due and operate within its available committed facilities with significant headroom on covenant tests. In a severe but plausible downside scenario (the low case scenario prepared) the Directors have assumed recovery to be slower than that assumed in the base case scenario, with only a modest recovery in advertising in Q4 2020 (resulting in a -17.5% year on year decline for 2020) and 7.5% year on year growth in 2021. This low case scenario also assumes that production of programmes will recommence throughout the second half of 2020 and 2021, however, margins will remain depressed below pre Covid-19 margins of 14%/15%. The plausible downside scenario further assumes settlement of the Talpa earn out and an early impact from the proposed ban of high fat sugar and salt products (HFSS) advertising pre 9pm. A range of mitigating factors that are in management's control, including a reduction in programme and scheduling costs and restructuring initiatives, has been assumed to manage costs and continue to preserve cash.

The Board considered sensitivity to further downside scenarios to the plausible downside case including acquisition-related items, pension contributions, and a more severe impact in 2021 from the UK Government's proposed restrictions on the advertising of HFSS products on TV and online. The impact of these further downside scenarios was also considered.

In the severe but plausible downside scenario (low case), the Group suffers significant loss of revenue and profits but is able to operate within its financial covenants and has adequate covenant liquidity available to it throughout the period of review, up to 31 December 2021 when the leverage and interest cover covenants will apply. In this scenario £75 million is drawn under the RCF as at 31 December 2021 and significant headroom exists on covenants. The Board considered further sensitivities to the plausible downside scenario and concluded that the Group would still be able to meet its obligations as they fall due.

Consequently, the Directors are confident that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the condensed consolidated financial statements and therefore have prepared the condensed consolidated financial statements on a going concern basis.

### 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 material judgement or complexity are set out below and in more detail in the related notes where appropriate:

- Revenue recognition
- Impairment reviews (note 3.1)
- Provisions (note 3.2)
- Defined benefit pension (note 3.3)
- Acquisition-related liabilities (note 4.6)
- Contingent liabilities (note 5.2)

Defined benefit pension and acquisition-related liabilities are also most sensitive to estimation, where the assumptions applied could have a material impact on the financial statements in the next 12 months. Details of the estimation sensitivity are disclosed in the related notes. For the purposes of interim reporting, the defined benefit pension schemes' key assumptions and asset values have been reviewed to assess whether material net actuarial gains and losses have occurred during the period (see note 3.3).

In determining the estimate for the Box Clever provision, management has provided for the initial offer made to The Pensions Regulator (TPR), which is believed to be the best estimate at this time (see note 3.2).

In addition to the above, the areas involving a high degree of estimation that are significant to the financial statements, but not expected to have a material impact on them in the next 12 months, are set out below:

- Taxation
- Business combinations

During the six months ended 30 June 2020, management also considered the recoverable amount of goodwill and other intangible assets. No impairment of goodwill or other intangible assets was identified.

Other key estimates assessed as at 30 June 2020 were the carrying value of sports rights and impairment of current and non-current assets resulting from the COVID-19 pandemic and its economic effects (see note 3.1).

# Notes to the Interim Condensed Financial Statements

## Section 1: Basis of Preparation continued

### **New or amended EU endorsed accounting standards**

The amendments to accounting standards that are effective for annual periods beginning on 1 January 2020 did not have a significant impact on the Group's results.

Further details of new or revised accounting standards, interpretations or amendments which are effective for periods beginning on or after 1 January 2020 and their impact on the Group can be found in the ITV plc annual report and accounts for the year ended 31 December 2019.

# Notes to the Interim Condensed Financial Statements

## Section 2: Results for the Period

### 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 period, segmental information, exceptional items and earnings per share.

### 2.1 Profit before tax

#### Keeping it simple

Adjusted earnings before interest, tax and amortisation (adjusted EBITA) is the Group's key profit indicator. This reflects the way the business is managed and how the Directors assess the performance of the Group.

The Group has two divisions, or operating segments, namely 'ITV Studios' and 'Broadcast', the performance of which are managed and assessed separately by management. This section also shows each division's contribution to total revenue and adjusted EBITA.

#### Segmental information

Operating segments, which have not been aggregated, are determined in a manner that is consistent with how the business is managed and reported to the Board of Directors. The Board is regarded as the chief operating decision maker.

The Board considers the business primarily from an operating activity perspective. The reportable segments for the periods ended 30 June 2020 and 30 June 2019 are therefore Studios and Broadcast, the results of which are outlined in the following tables:

	ITV Studios 2020 £m	Broadcast 2020 £ m	Consolidated 2020 £m
For the six month period 30 June			
Total segment revenue	630	824	1,454
Intersegment revenue	(233)	(3)	(236)
<b>Revenue from external customers</b>	<b>397</b>	<b>821</b>	<b>1,218</b>
<b>Adjusted EBITA*</b>	<b>62</b>	<b>103</b>	<b>165</b>

	ITV Studios 2019 £m	Broadcast 2019 £m	Consolidated 2019 £m
For the six month period to 30 June			
Total segment revenue	758	991	1,749
Intersegment revenue	(271)	(2)	(273)
<b>Revenue from external customers</b>	<b>487</b>	<b>989</b>	<b>1,476</b>
<b>Adjusted EBITA*</b>	<b>116</b>	<b>211</b>	<b>327</b>

\*Adjusted EBITA is before exceptional items and includes the benefit of production tax credits. It is shown after the elimination of intersegment revenue and costs.

#### Disaggregation of revenue

In the following table, revenue is disaggregated by major service lines and primary geographical market. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments.

	2020 £m	2019 £m
For the six month period to 30 June		
ITV Studios UK	263	331
ITV Studios US	88	79
ITV Studios International	165	223
Global Formats and Distribution	114	125
<b>Total ITV Studios revenue**</b>	<b>630</b>	<b>758</b>

\*\* Studios UK, ITV Studios US and Studios International revenues are mainly related to programme production. Global Formats and Distribution revenue is from programme distribution rights and format licences.



# Notes to the Interim Condensed Financial Statements

## Section 2: Results for the Period continued

For the six month period to 30 June	2020 £m	2019 £m
Total advertising revenue	671	849
Direct to Consumer	43	40
SDN	36	34
Other	74	68
<b>Total Broadcast revenue</b>	<b>824</b>	<b>991</b>

### Timing of revenue recognition

The following table includes classes of revenue from contracts disaggregated by the timing of recognition:

For the six month period to 30 June	2020 £m	2019 £m	2020 £m	2019 £m
			Products and services transferred at a point in time	Products and services transferred over time
Total advertising revenue, DTC, SDN	683	852	138	137
Programme production, programme distribution rights	288	372	57	53
Format licenses	48	55	4	8
<b>Total external revenue</b>	<b>1,019</b>	<b>1,279</b>	<b>199</b>	<b>198</b>

### Contract balances

Contract assets (accrued income) primarily relate to the Group's right to consideration for work completed but not billed at the reporting date. Contract liabilities (deferred income) primarily relate to the consideration received from customers in advance of transferring a good or service. The following table provides the balances at the end of the period:

	30 June 2020 £m	31 December 2019 £m
Contract assets	381	445
Contract liabilities	(327)	(219)

Of the opening balance of contract liabilities, £98 million has been recognised as revenue for the six months ended 30 June 2020.

### Adjusted EBITA

A reconciliation from adjusted EBITA to profit before tax is provided as follows:

For the six month period to 30 June	2020 £m	2019* £m
<b>Adjusted EBITA</b>	<b>165</b>	<b>327</b>
Production tax credits	(6)	(17)
<b>EBITA before exceptional items</b>	<b>159</b>	<b>310</b>
Operating exceptional items	(89)	(35)
Amortisation and impairment	(37)	(35)
Net financing costs	(23)	(16)
Share of gains / (losses) of joint ventures and associated undertakings	5	(2)
<b>Profit before tax</b>	<b>15</b>	<b>222</b>

A reconciliation of Profit before tax to Adjusted profit before tax is included in the Operating and Financial Review.

# Notes to the Interim Condensed Financial Statements

## Section 2: Results for the Period continued

### 2.2 Exceptional items

#### Keeping it simple

Exceptional items are excluded from management's assessment of profit because by their size or nature they would distort the Group's underlying quality of earnings. They are typically gains or losses arising from events that are not considered part of the core operations of the business. These items are excluded to reflect performance in a consistent manner and are in line with how the business is managed and measured on a day-to-day basis.

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

For the six month period to 30 June 2020 (Charge)/credit	Ref.	2020 £m	2019 £m
<b>Operating exceptional items:</b>			
Acquisition-related	A	(10)	(24)
Restructuring and reorganisation	B	(3)	(8)
COVID-19	C	(27)	–
Other	D	(49)	(3)
<b>Total operating exceptional items</b>		<b>(89)</b>	<b>(35)</b>
Tax on operating exceptional items		16	2
<b>Total operating exceptional items net of tax</b>		<b>(73)</b>	<b>(33)</b>
<b>Total exceptional items net of tax</b>		<b>(73)</b>	<b>(33)</b>

#### A – Acquisition-related

Acquisition-related expenses of £10 million (2019: £24 million) are predominately performance-based, employment-linked consideration to former owners

#### B – Restructuring and reorganisation costs

Restructuring and reorganisation costs of £3 million (2019: £8 million) relate primarily to the restructuring project addressing the Group-wide commitment to reduce the overhead cost base. A further £3 million is expected to be spent before the year end. The restructuring plan includes multiple projects which will achieve a further £25-30 million of costs savings by 2022, as previously guided.

#### C – COVID-19 related costs

The items the Group has treated as exceptional resulting from COVID-19 are those which are directly related to the pandemic. These include impairments of £18 million in relation to sports rights as a result of reviewing significant sporting events and the revised net realisable value in light of schedule changes due to COVID-19, and expenditure of £9 million related to productions shutting down and restarting in a safe environment and costs to maintain production during the lockdown for certain daytime shows.

#### D – Other costs

Included in other costs is an estimate of the settlement in relation to the Box Clever case (£31 million) (see Note 3.2), impairments to sports rights that are not related to COVID-19 (£16 million) and other legal costs in relation to litigation outside the normal course of business.

# Notes to the Interim Condensed Financial Statements

## Section 2: Results for the Period continued

### 2.3 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 period attributable to equity shareholders of £19 million (2019: £191 million) divided by 4,001 million (2019: 3,999 million) being the weighted average number of shares in issue during the period, which excludes EBT shares held in trust.

**Diluted EPS** reflects any commitments made by the Group to issue shares in the future and so it includes the impact of share options.

**Adjusted EPS** is presented in order to present 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 reflects the impact of operating and non-operating exceptional items on Basic EPS. Other items excluded from Adjusted EPS are amortisation and impairment of assets acquired through business combinations and investments; net financing cost adjustments and the tax adjustments relating to these items. Each of these adjustments is explained in detail in the section below.

The calculation of Basic EPS and Adjusted EPS, together with the diluted impact on each, is set out below:

#### Earnings per share

For the six month period to 30 June	2020	2019
<b>Profit for the period attributable to equity shareholders of ITV plc (£m)</b>	<b>19</b>	191
Weighted average number of ordinary shares in issue – million	<b>4,001</b>	3,999
<b>Earnings per ordinary share</b>	<b>0.5p</b>	4.8p

#### Diluted earnings per share

For the six month period to 30 June	2020	2019
<b>Profit for the period attributable to equity shareholders of ITV plc (£m)</b>	<b>19</b>	191
Weighted average number of ordinary shares in issue – million	<b>4,001</b>	3,999
Dilution due to share options – million	<b>19</b>	16
<b>Total weighted average number of ordinary shares in issue – million</b>	<b>4,020</b>	4,015
<b>Diluted earnings per ordinary share</b>	<b>0.5p</b>	4.8p

# Notes to the Interim Condensed Financial Statements

## Section 2: Results for the Period continued

### Adjusted earnings per share

For the six month period to 30 June	Ref.	2020 £m	2019 £m
Profit for the period attributable to equity shareholders of ITV plc		19	191
Exceptional items (net of tax)	A	73	33
<b>Profit for the period before exceptional items</b>		<b>92</b>	<b>224</b>
Amortisation and impairment	B	21	26
Net financing cost / (income)	C	4	(3)
Other tax adjustments		1	–
<b>Adjusted profit</b>		<b>118</b>	<b>247</b>
Total weighted average number of ordinary shares in issue – million		4,001	3,999
<b>Adjusted earnings per ordinary share</b>		<b>2.9p</b>	<b>6.2p</b>

### Diluted adjusted earnings per share

For the six month period to 30 June	2020	2019
<b>Adjusted profit (£m)</b>	<b>118</b>	<b>247</b>
Weighted average number of ordinary shares in issue – million	4,001	3,999
Dilution due to share options – million	118	16
<b>Total weighted average number of ordinary shares in issue – million</b>	<b>4,020</b>	<b>4,015</b>
<b>Diluted adjusted earnings per ordinary share</b>	<b>2.9p</b>	<b>6.2p</b>

The rationale for determining the adjustments to profit is disclosed in the 31 December 2019 Annual Report and Accounts and has not changed during the period. Details of the adjustments to earnings are as follows:

#### A. Exceptional items (net of tax) £73 million (2019: £33 million)

- operating exceptional items of £89 million (2019: £35 million) relating to: £10 million of acquisition-related expenses, primarily performance-based, employment linked consideration; £3 million of restructuring and reorganisation costs; £27 million (2019: £nil) COVID-19 related, and other of £49 million (2019: £3 million) which comprises predominantly an estimate of the settlement in relation to the Box Clever case and an impairment of a sports right.
- net of a related tax credit of £16 million (2019: £2 million).

#### B. Amortisation and impairment of £21 million (2019: £26 million)

- amortisation and impairment of assets acquired through business combinations and investments of £37 million (2019: £31 million), excluding amortisation and impairment of software licenses and development of £9 million (2019: £4 million),
- net of a related tax credit of £7 million (2019: £5 million).

#### C. Net financing cost £4 million (2019: income £3 million)

- unrealised foreign exchange losses and imputed pension interest charges of £5 million (2019: income £4 million),
- net of a related tax credit of £1 million (2019: charge of £1 million)

# Notes to the Interim Condensed Financial Statements

## 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. On the following pages there are notes covering provisions and pensions. Liabilities relating to the Group's financing activities are addressed in section 4.

### 3.1 Impairment review

#### Keeping it simple

In the light of the uncertainty caused by the COVID-19 outbreak, the Group has tested goodwill and other assets for impairment as at 30 June 2020.

There is a wide range of potential outcomes regarding the possible future performance of each of ITV Group's cash-generating units, Broadcast, ITV Studios and SDN. The Directors, however, do not consider that any reasonably possible changes in the key assumptions would cause the value in use of the Group's cash-generating units to fall below their carrying values.

Other non-current and current assets were also reviewed for impairment in light of the disruption caused by COVID-19 as at 30 June 2020. Impairments identified have been treated as exceptional items discussed in detail in note 2.2.

### 3.2 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 likelihood of settling legal and other claims, and contracts the Group has entered into in respect of future events that are now unprofitable.

#### Provisions

The table below presents movements in provisions during the period:

	Contract provisions £m	Property provisions £m	Legal and Other provisions £m	Total £m
At 1 January 2020	2	2	3	7
Additions	37	-	31	68
<b>At 30 June 2020</b>	<b>39</b>	<b>2</b>	<b>34</b>	<b>75</b>

Provisions of £57 million are classified as current liabilities (31 December 2019: £2 million)

Contract provisions in the six months to 30 June 2020 of £37 million represent liabilities in respect of onerous contracts in relation to individual sports rights. As a result of the impact of COVID-19 on the planned sporting schedule and the consequential impact on TAR, along with changing forecasts of audience mix and revenues for certain sporting events, the Group has recognised a provision for the sporting events directly impacted by these changes. In calculating the provision, management has made estimates and used assumptions in determining the nature, amount and timing of potential outflows including the commercial impacts of the target audience that will be generated by those rights, scheduling of the events and revenue forecasts. A provision is recognised for rights where the estimated revenues are less than the obligation held.

Property provisions primarily relate to expected dilapidation costs at rental properties.

Legal and Other provisions totalling £34 million (31 December 2019: £3 million) includes a provision for the potential liability that may arise as a result of the Box Clever Financial Support Directions (FSD) being issued by the TPR.

The Box Clever Pension Scheme ('the Scheme') was managed from its establishment by an independent trustee and the Group has not had any commercial connection with the Box Clever business since it went into administrative receivership in 2003. After court proceedings in the Upper Tribunal and Court of Appeal were dismissed, certain companies within ITV were issued with FSDs by the TPR on 17 March 2020. An FSD does not set out what form any financial support should take, nor its amount, and no issues as to the quantum and form of any liability have yet been addressed or resolved as part of the legal process. The legislation provides that any contribution that ITV may make must be considered reasonable and affordable. If an agreement is reached with the TPR there may not be an immediate cash flow impact. If an agreement cannot be reached then settlement may be protracted and subject to further legal proceedings over several years.

At 2003, the Scheme is estimated to have had a deficit on a buyout basis of £25 million. The most recent estimate of the deficit in the Box Clever Group Pension Scheme is £110 million as at 30 April 2020. This estimate was calculated on a buyout basis, using membership data and benefits currently being provided in that Scheme, and based on membership data as of February 2020. Both of these valuations were of the whole Scheme, encompassing liabilities in respect of former employees of Granada's joint venture partner, Thorn, as well as former employees of the Group. Given the significant number of undecided issues as to the quantum and form of financial support, the Group will strongly contest any attempt to impose liability in an amount the Directors consider unreasonable.

# Notes to the Interim Condensed Financial Statements

## Section 3: Operating Assets and Liabilities continued

The Directors continue to believe there are many important factors which need to be taken into account in any decision and therefore there remains a great deal of uncertainty around the quantum and form of financial support to be provided. The provision of £31 million is based on our proposal issued to the regulator on 31 July 2020 and represents the IAS 19 valuation, using market conditions at 30 April 2020.

### 3.3 Pensions

#### Keeping it simple

In this note we explain the accounting policies governing the Group's pension scheme, followed by analysis of the components of the net defined benefit pension deficit/surplus, including assumptions made, and where the related movements have been recognised in the financial statements.

#### What are the Group's pension schemes?

There are two types of pension schemes. A 'Defined Contribution' scheme that is open to ITV employees, and a number of 'Defined Benefit' schemes that have been closed to new members since 2006 and closed to future accrual in 2017. In 2016, on acquisition of UTV Limited, the Group took over the UTV Defined Benefit Scheme, which closed to future accrual at the end of March 2019.

#### What is a Defined Contribution scheme?

A Defined Contribution scheme is where the Group makes fixed payments into a separate fund on behalf of those employees participating in saving for their retirement. ITV has no further obligation to the participating employee and the risks and rewards associated with this type of scheme are assumed by the members rather than the Group. Although the Trustee of the scheme makes available a range of investment options, it is the members' responsibility to make investment decisions relating to their retirement benefits.

The Group also meets its auto-enrolment requirements to eligible members of the workforce either by a section of the ITV DC Plan or through a separate arrangement provided by The People's Pension.

#### What is a Defined Benefit scheme?

In a Defined Benefit scheme, members receive payments during retirement, the value of which is known in advance, dependent on factors such as salary and length of service. The Group makes contributions to the scheme, a separate trustee-administered fund that is not consolidated in these financial statements but is reflected on the defined benefit pension surplus/deficit line on the consolidated statement of financial position.

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 but in some cases security is required.

Unless otherwise stated, references to Defined Benefit Schemes ('the Schemes') within this note refer to the ITV Pension Scheme, the unfunded scheme and the UTV Scheme combined.

It is the responsibility of the Trustee to manage and invest the assets of the Scheme and its funding position. The Trustee, appointed according to the terms of the scheme's documentation, is required to act in the best interest of the members. The Group liaises with the Trustee of the ITV Pension (Defined Benefit) Scheme regularly and monitors the management of the pension schemes and underlying risks.

In the event of increases to liabilities or poor investment returns in the Defined Benefit schemes, the Group may need to address this through a combination of increased levels of contribution or by making adjustments to the scheme which help to manage the liabilities.

The accounting defined benefit pension surplus/deficit (IAS 19) is different from the actuarial valuation deficit as they are calculated on the basis of different assumptions, such as discount rate. The accounting defined benefit pension surplus/deficit (IAS 19) figure is calculated as at the balance sheet date, and the actuarial deficit was calculated for the last triennial valuation as of 1 January 2017 for the ITV Pension Scheme and 30 June 2017 for the UTV Pension Scheme.

The 1 January 2017 actuarial valuation was agreed in 2018. On the basis agreed with the Trustee, the combined deficits of the ITV Pension Scheme as at 1 January 2017 amounted to £470 million.

For the four former Granada executives within the unfunded scheme, there is additional security compared with the ITV main scheme, in the form of a charge over gilts held by the Group. Therefore, the £63 million (31 December 2019: £58 million) securitised gilts have been classified as other pension assets to reflect the Group's net pension deficit.

The net pension surplus/deficit is presented consistently with definitions presented in the Group's 2019 Annual Report and Accounts. The Group has determined that it has an unconditional right to a refund of any surplus if the Schemes are run off until the last member dies. On this basis the Group has recognised an accounting surplus as at 30 June 2020.

# Notes to the Interim Condensed Financial Statements

## Section 3: Operating Assets and Liabilities continued

### The defined benefit pension deficit

Net pension surplus of £26 million at 30 June 2020 (31 December 2019: deficit of £87 million) is stated after including the unfunded scheme security asset of £63 million (31 December 2019: £58 million). The totals recognised in the current and previous year are:

	30 June 2020 £m	31 December 2019 £m
Total defined benefit scheme obligations	<b>(4,282)</b>	(4,037)
Total defined benefit scheme assets	<b>4,245</b>	3,892
<b>Defined benefit pension deficit (IAS 19)</b>	<b>(37)</b>	(145)
Presented as:		
Defined benefit pension surplus	<b>17</b>	17
Defined benefit pension deficit	<b>(54)</b>	(162)
Defined benefit pension (deficit) (IAS 19)	<b>(37)</b>	(145)
Other pension asset	<b>63</b>	58
<b>Net pension surplus/(deficit)</b>	<b>26</b>	(87)

The net pension surplus at 30 June 2020 was £26 million, compared with a deficit of £87 million at 31 December 2019. The movement is as a result of a decrease in the corporate bond yields which have increased the liabilities, offset by a fall in the gilt yields which have increased the value of the assets, and deficit funding payments of £29 million made in the period. We have taken action to tightly manage cash flow during COVID-19 and have agreed with the Trustee to defer pension contributions of £15 million from H1 2020 to 2022 onwards.

#### Addressing the defined benefit pension deficit

The total expected deficit funding contribution for 2020 after the deferral made earlier in the period is around £59 million.

The Group has two asset-backed pension funding agreements with the Trustees and, in addition, makes annual payments of £11 million for 12 years from 2011, and also £3 million per annum, increasing by 5% per annum until 2038 respectively. In 2020, a payment of £14 million (included in the deficit funding payment of £29 million) was made as a result of those agreements which are explained in detail below.

#### SDN Pension funding partnership

In 2010, ITV established a Pension Funding Partnership (PFP) with the Trustees backed by SDN which resulted in the assets of Section A of the defined benefit pension scheme being increased by £200 million. The Group is contracted to provide additional collateral to support the original value of the structure at the rate of £50.7 million each year from March 2019 to March 2022. The Trustee agreed to accept a letter of credit as an alternative to the 2020 collateral instalment with the result that £152.1 million becomes due in March 2021, however if required we would look to agree with the Trustee a similar approach in respect of that payment. The pension funding agreement is currently being reviewed as the Group looks to replace it with an alternative asset. If the asset in the SDN structure is not replaced, the Group will pay to the pension scheme the lower of any deficit calculated on the funding basis in 2022 or £200 million.

#### London Television Centre pension funding partnership

In 2014, ITV established a Pension Funding Partnership with the Trustees backed by the London Television Centre which resulted in the assets of Section A of the defined benefit pension scheme being increased by £50 million. In November 2019 the London Television Centre was sold. £50 million of the proceeds has been held in a restricted bank account as a replacement asset in the pension funding arrangement.

These structures are being reviewed in 2020.

# Notes to the Interim Condensed Financial Statements

## Section 4: Capital Structure & Financing Costs

### In this section

This section outlines how the Group manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets.

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. Maintaining capital discipline and balance sheet efficiency remains important to the Group. Any potential courses of action in relation to this will take into account the Group's liquidity needs, flexibility to invest in the business, pension deficit initiatives and impact on credit ratings.

The Directors consider the Group's capital structure and dividend policy at least twice a year ahead of announcing results. The Directors take into account the available realised distributable reserves from which a dividend would be paid in addition to liquidity and solvency of the Group. The Directors also consider the capital structure and dividend policy in the context of the Group's ability to continue as a going concern, to execute the strategy and to invest in opportunities to grow the business and enhance shareholder value. The ITV plc Board oversees governance and approves tax and treasury related policies and procedures with the business. The emphasis throughout the six months to 30 June 2020 has been on the liquidity of the Group and, therefore, the Board has withdrawn the 2019 final dividend and decided not to pay an interim dividend in light of continued economic uncertainty.

### 4.1 Reported net debt

#### Keeping it simple

Reported net debt is the Group's key measure used to evaluate total cash resources net of the current outstanding debt including our discounted lease liabilities. A full analysis and discussion of adjusted net debt and covenant net debt is included in the Operating and Performance Review.

The table below analyses movements in the components of reported net debt during the period:

	1 January 2020 £m	Net cash flow £m	Acquisitions £m	Currency and non-cash movements £m	30 June 2020 £m
Cash	93	5	–	(12)	86
Cash equivalents	153	178	–	18	349
<b>Total cash and cash equivalents</b>	<b>246</b>	<b>183</b>	<b>–</b>	<b>6</b>	<b>435</b>
Loans and facilities due within one year	(10)	6	–	–	(4)
Loans and facilities due after one year	(1,016)	–	–	(75)	(1,091)
<b>Total debt</b>	<b>(1,026)</b>	<b>6</b>	<b>–</b>	<b>(75)</b>	<b>(1,095)</b>
Cross currency interest rate swaps held against euro denominated borrowings	(24)	–	–	9	(15)
<b>Net debt</b>	<b>(804)</b>	<b>188</b>	<b>–</b>	<b>(59)</b>	<b>(675)</b>
Lease liabilities	(89)	11	–	(30)	(108)
<b>Reported net debt including lease liabilities</b>	<b>(893)</b>	<b>199</b>	<b>–</b>	<b>(89)</b>	<b>(783)</b>

#### Cash and cash equivalents

Included within cash equivalents is £50 million (31 December 2019: £75 million), the use of which is restricted and (31 December 2019: £50 million) relates to meeting our commitments under the asset-backed pension agreements.

#### Loans and facilities due within one year

At various times during H1, the Group drew down on the £630 million Revolving Credit Facility ('RCF') to meet short-term funding requirements. However, at 30 June 2020 the Group had drawings of £nil (31 December 2019: £nil). The maximum draw down of the RCF during H1 was £210 million (year to 31 December 2019: maximum draw down was £400 million).



# Notes to the Interim Condensed Financial Statements

## Section 4: Capital Structure & Financing Costs

### continued

#### Loans and loan notes due after one year

The Group has in issue the following Eurobonds:

- €335 million at a fixed coupon of 2.125%, which matures in September 2022
- €259 million at a fixed coupon of 2.0%, which matures in December 2023
- €600 million at a fixed coupon of 1.375%, which matures in September 2026

The €600 million bond issued in September 2019 has been swapped back to sterling using a number of cross-currency interest rate swaps. The resulting fixed rate payable in sterling is c. 2.9%

#### Available facilities

We have taken a series of steps to strengthen the Group's liquidity:

- In March 2020 the Group extended the maturity of its existing £300 million bilateral loan facility by 5 years to 30 June 2026. Utilisation requests are subject to the lender's ability to source ITV Credit Default Swaps (CDS) in the market at the time the utilisation request is made. The facility remains free of financial covenants and at 30 June 2020 £101 million of the facility was utilised as a letter of credit to support the Group's asset-backed pension scheme arrangement currently in place in respect of the defined benefit pension scheme.
- The Group has £630 million of committed funding through a Revolving Credit Facility ('RCF') with a group of relationship banks. The RCF documentation defines a leverage covenant (which has to be maintained at less than 3.5x) and an interest cover covenant (which has to be maintained at greater than 3.0x). Both are tested at 30 June and 31 December each year. During the course of H1, as a precautionary measure, these financial covenants were replaced with two new covenants requiring covenant net debt to be maintained below £1,800 million and covenant liquidity (defined as cash and cash equivalents plus unused committed credit lines) to be maintained at greater than £250 million. Both of these financial covenants are tested on a quarterly basis from 30 June 2020 through to 31 December 2021 when the testing of the leverage and interest cover financial covenant tests will be reinstated and the two new but temporary covenants fall away. All financial covenants were met and the facility remains available at 30 June 2020.
- The Group has £100 million available under a non-recourse receivables purchase agreement. As at 30 June 2020 £100 million was available under the agreement (31 December 2019: £nil).

## 4.2 Borrowings

### Keeping it simple

The Group borrows money from financial institutions in the form of bonds, bank facilities and other financial instruments. The Group is required to disclose the fair value of its debt instruments. The fair value is the amount the Group would pay a third party to transfer the liability. This estimation of fair value is consistent with instruments valued under level 1 in note 4.5.

#### Fair value versus book value

The tables below provide fair value information for the Group's borrowings:

	Maturity	Book value		Fair value	
		30 June	30 June	30 June	30 June
		2020	2019	2020	2019
		£m	£m	£m	£m
<b>Loans due within one year</b>					
£630 million Revolving Credit Facility	Various	–	190	–	190
Other short-term loans	Various	4	11	4	11
<b>Loans due in more than one year</b>					
€335 (previously €600) million Eurobond	Sep 2022	304	535	311	560
€259 (previously €500) million Eurobond	Dec 2023	235	447	239	468
€600 million Eurobond	Sep 2026	546	–	526	–
Other long-term loans	Various	6	7	6	7
		<b>1,095</b>	1,190	<b>1,086</b>	1,236

# Notes to the Interim Condensed Financial Statements

## Section 4: Capital Structure & Financing Costs

### continued

#### 4.3 Lease liabilities

##### Keeping it simple

Lease liabilities, representing the discounted future lease payments and right of use assets, are recognised in the Statement of Financial Position. Lease costs are recognised in the form of depreciation and interest rather than as an operating cost.

	30 June 2020 £m	30 June 2019 £m
Short-term lease liabilities	17	20
Long-term lease liabilities	91	93
<b>Total lease liabilities</b>	<b>108</b>	<b>113</b>

#### 4.4 Managing market risks: derivative financial instruments

##### Keeping it simple

###### What is a derivative?

A derivative is a type of financial instrument typically used to manage risk. A derivative's value changes over time in response to underlying variables such as exchange rates or interest rates and is entered into for a fixed period. A hedge is where a derivative is used to manage an underlying financial exposure.

The Group is exposed to certain financial market risks. In accordance with Board-approved policies, which are set out in this note, the Group manages these risks by using derivative financial instruments to hedge the underlying financial exposures.

###### Why do we need them?

The key financial market risks facing the Group are:

- Currency risk arising from:
  - i. Translation risk: that is the risk in the period of adverse currency fluctuations in the translation of foreign currency profits, assets and liabilities ('balance sheet risk') and non-functional currency monetary assets and liabilities ('income statement risk') and
  - ii. Transaction risk: that is the risk that currency fluctuations will have a negative effect on the value of the Group's non-functional currency trading cash flows. A non-functional currency transaction is a transaction in any currency other than the reporting currency of the subsidiary
- Interest rate risk to the Group arises from significant changes in interest rates on borrowings issued at or swapped to floating rates

###### How do we use them?

The Group mainly employs three types of derivative financial instruments when managing its currency and interest rate risk:

- Foreign exchange swap contracts are derivative instruments used to hedge income statement translation risk arising from short-term intercompany loans denominated in a foreign currency
- Forward foreign exchange contracts are derivative instruments used to hedge transaction risk so they enable the sale or purchase of foreign currency at a known fixed rate on an agreed future date and
- Cross-currency interest rate swaps are derivative instruments used to exchange the principal and interest coupons in a debt instrument from one currency to another

Analysis of the derivatives used by the Group to hedge its exposure and the various methods used to calculate their respective fair values are detailed in this section.

The Group's policy on the various methods used to calculate their respective fair values is detailed in the 31 December 2019 Annual Report and Accounts and summarised below.

# Notes to the Interim Condensed Financial Statements

## Section 4: Capital Structure & Financing Costs

### continued

The Group held certain derivative instruments at 30 June 2020:

At 30 June 2020	Assets £m	Liabilities £m
<b>Current</b>		
Foreign exchange forward contracts and swaps – cash flow hedges	2	(3)
Foreign exchange forward contracts and swaps – fair value through profit or loss	3	(3)
<b>Non-current</b>		
Cross currency interest swaps – cash flow hedges	–	(15)
Foreign exchange forward contracts and swaps – cash flow hedges	3	(1)
	<b>8</b>	<b>(22)</b>
<hr/>		
At 30 June 2019	Assets £m	Liabilities £m
<b>Current</b>		
Foreign exchange forward contracts and swaps – cash flow hedges	2	(3)
Foreign exchange forward contracts and swaps – fair value through profit or loss	2	(1)
<b>Non-current</b>		
Cross currency interest swaps – cash flow hedges	25	(1)
Foreign exchange forward contracts and swaps – cash flow hedges	–	(1)
	<b>29</b>	<b>(6)</b>

# Notes to the Interim Condensed Financial Statements

## Section 4: Capital Structure & Financing Costs

### continued

#### 4.5 Fair value hierarchy

##### Keeping it simple

The financial instruments included in the ITV condensed consolidated 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). The different valuation methods are called 'hierarchies' and are described below.

##### Level 1

Fair values are measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

##### Level 2

Fair values are measured using inputs, other than quoted prices included within Level 1, which are observable for the asset or liability either directly or indirectly.

##### Level 3

Fair values are measured using inputs for the asset or liability that are not based on observable market data.

The table below sets out the financial instruments included in the Group's condensed consolidated statement of financial position at 'fair value'.

30 June 2020	Fair value £m	Level 1 £m	Level 2 £m	Level 3 £m
<b>Assets measured at fair value</b>				
Available-for-sale financial instruments				
Other pension assets – gilts (see note 3.2)	63	63	–	–
Equity investments	9	–	–	9
Financial assets at fair value through profit or loss				
Foreign exchange forward contracts and swaps	3	–	3	–
Financial assets at fair value through reserves				
Cash flow hedges	5	–	5	–
<b>Liabilities measured at fair value</b>				
Financial liabilities at fair value through profit or loss				
Foreign exchange forward contracts and swaps	(3)	–	(3)	–
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	(40)	–	–	(40)
Financial liabilities at fair value through reserves				
Cash flow hedges	(19)	–	(19)	–

The accounting policies for how we value level 3 instruments are disclosed in the December 2019 Annual Report and Accounts.

# Notes to the Interim Condensed Financial Statements

## Section 4: Capital Structure & Financing Costs

### continued

#### 4.6 Commitments on acquisitions

##### Keeping it simple

Acquisition-related liabilities or performance-based employment-linked earnouts are the estimated amounts payable to previous owners. The estimated future payments, treated as exceptional employment costs, are accrued over the period the sellers are required to remain with the business. Those amounts not linked to employment are recognised at acquisition at their time discounted value, with the unwind of the discount recorded as part of operating finance costs.

The total estimated future payments under the earnouts are £251 million (31 December 2019: £230 million). Of the estimated future amount of £251 million, the acquisition related liabilities accrued as at 30 June 2020 as a result of performance to that date were £225 million (31 December 2019: £197 million). The range of reasonably possible outcomes for the liability at 30 June 2020 is between £158 million and £459 million (31 December 2019: £145 million and £414 million). To arrive at ITV's current best estimate of the accrued liability at 30 June 2020, total future payments and the possible range of outcomes for the liability, the Directors have taken into account the views of external advisors. The liabilities are expected to be settled between 2020 and 2025.

The most material payable is to the previous owner of the shares in Talpa Media B.V (now known as ITV Studios Holding B.V.), purchased in 2015 for the initial cash consideration of €500 million (£362 million) with further payments dependent on Talpa's future performance, up to a maximum consideration, including the initial payment, of €1.1 billion across three earnouts. The first earnout was paid in 2017 (€100 million), the second earnout (in respect of the 2017, 2018 and 2019 years) is payable following determination of the earnout calculation for that period and is expected to be paid within the next 12 months. The final payment will not fall due given that John de Mol (the previous owner) did not exercise his option to extend the earnout to 2022. The other significant earnouts included within expected future payments include Tomorrow Studios and Cattleya.

All earnout liabilities are sensitive to forecast profits as they are based on a multiple of earnings and judgement is required where there may be adjustments to forecasted profits or when earnouts are negotiated, hence the reason for the range noted above. In the case of Talpa's earnout, the outcome of the ongoing review in relation to funds received for the insured trade receivable could have a material impact. The treatment of this receipt could increase the earnout by £150 million, which would be within the range noted above (see note 5.2).

#### 4.7 Retained Earnings

##### Keeping it simple

This section outlines retained earnings, presented in the Consolidated Statement in Changes in Equity, which are not explained elsewhere in the financial statements.

The retained earnings reserve comprises profit for the six months to 30 June 2020 attributable to owners of ITV plc (the Company) of £19 million (year to 31 December 2019: £473 million) and other items recognised directly through equity as presented in the consolidated statement of changes in equity. Other items include the credit for the Group's share-based compensation schemes of less than £1 million (year to 31 December 2019: £10 million).

Dividends are distributed based on the realised distributable reserves (within retained earnings) of the Company and not based on the Group's retained earnings.

# Notes to the Interim Condensed Financial Statements

## Section 5: Other Notes

### 5.1 Related party transactions

#### Keeping it simple

The related parties identified by the Directors include joint ventures, associated undertakings, available-for-sale investments and key management personnel.

To enable users of our financial statements to form a view on the effects of related party relationships on the Group, we disclose the Group's transactions with those related parties during the period and any associated period end trading balances.

#### Transactions with joint ventures and associated undertakings

Transactions with joint ventures and associated undertakings during the period were:

For the six month period to 30 June	2020 £m	2019 £m
Sales to joint ventures	13	3
Sales to associated undertakings	3	8
Purchases from joint ventures	14	14
Purchases from associated undertakings	33	33

The transactions with joint ventures primarily relate to sales and purchases of digital multiplex services with Digital 3&4 Limited and distribution revenue from BritBox LLC. Sales to associated undertakings largely relate to airtime sales to DTV Services Limited. Purchases from associated undertakings primarily relate to the purchase of news services from ITN Limited.

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 period end were:

	30 June 2020 £m	31 December 2019 £m
Amounts owed by joint ventures	22	14
Amounts owed by associated undertakings	8	7
Amounts owed to joint ventures	–	1
Amounts owed to associated undertakings	5	5

Amounts owed by joint ventures primarily relate to trading with BritBox LLC. Balances owed by associated undertakings largely relate to loan notes. Balances owed to associated undertakings primarily relate to trading with ITN Limited.

Key management consists of ITV plc Executive and Non-executive Directors and the ITV Management Board. Key management personnel compensation is as follows:

For the six month period to 30 June	2020 £m	2019 £m
Short-term employee benefits	3	7
Share-based compensation	–	4
	3	11

# Notes to the Interim Condensed Financial Statements

## Section 5: Other Notes continued

### 5.2 Contingent assets and liabilities

#### Keeping it simple

A contingent asset or liability is an item that is not sufficiently certain to qualify for recognition as an asset or a provision where uncertainty may exist regarding the outcome of future events.

#### Contingent Assets

In 2017 Talpa Media took back the licence for The Voice of China due to a breach of the agreement by the customer, Talent, for not fulfilling their payment obligations. During 2018 and 2019 £27 million has been received in relation to the amount due. However, those receipts are currently the subject of an ongoing review. As a result, the provision for bad debt, originally recognised as an exceptional cost in 2017, was reinstated in 2019.

Whilst the Directors remain confident of recovering the amounts due, accounting standards set very specific requirements for the recognition of an asset. As the review of the receipts remains in progress, as well as discussions with the credit insurers, the Group is not able to demonstrate sufficient certainty to be able to recognise a receivable at 30 June 2020.

#### Contingent liabilities

There are contingent liabilities in respect of certain litigation and guarantees, broadcasting issues, 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.

# Responsibility Statement of the Directors in Respect of the Half-Yearly Financial Report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- the interim management report includes a fair review of the information required by:
  - (a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - (b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

DTR7.3 of the Disclosure Guidance and Transparency Rules came into effective for ITV plc on 1 January 2020. No material transactions over a 12 month rolling period with any of our related parties has taken place or is forecast to take place in the current year. We have maintained adequate procedures, systems and controls to enable the Directors to identify and assess the transactions with our related parties against the new rules.

For and on behalf of the Board:

**Chris Kennedy**  
Group Chief Financial Officer

6 August 2020



# Independent Review Report to ITV plc

## Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 which comprises Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement of Cash Flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in Section 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

## Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

## The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

**Paul Sawdon**  
**for and on behalf of KPMG LLP**

*Chartered Accountants*  
15 Canada Square  
London  
E14 5GL

6 August 2020

