

ITV Interim results for the period ending 30 June 2021

Carolyn McCall, ITV Chief Executive, said:

"Our H1 results demonstrate that ITV is emerging from the worst effects of the pandemic. We've continued to implement our key strategic priorities and have further strengthened the business. Total external revenue was up 27% driven by 26% growth in ITV Studios revenue and a 29% increase in total advertising revenue within which total video on demand advertising was up 55%.

"We are now a more flexible, more efficient and more digital business. We have successfully completed the first phase of our More Than TV strategy and look forward to building on this platform to accelerate our transformation to a digitally led media and entertainment company.

"We are optimistic about the future, despite the ongoing pandemic risk on our advertising and ITV Studios revenues. We know that the dividend is important to our shareholders and we intend to re-commence a progressive dividend policy based on a notional dividend of 5p per share which we expect to grow over time. The first dividend under the new policy would be a final dividend of 3.3p per share proposed at the full year results in respect of 2021."

ITV has delivered a strong financial performance in H1

- Total external revenue was up 27% at £1,548 million (30 June 2020: £1,218 million)
 - ITV Studios total revenue was up 26% at £798 million (30 June 2020: £632 million), with the substantial majority of programmes back in production and also benefitting from a number of programmes and licences being delivered earlier than expected. This was up 5% on 2019¹. ITV Studios external revenue was up 31% at £523 million
 - Total Media & Entertainment (M&E) revenue was up 25% at £1,028 million (30 June 2020: £822 million), with total advertising revenue (TAR) up 29% within which video on demand advertising (AVOD) was up 55%. Total M&E revenue was up 4% on 2019¹
- Adjusted group EBITA² was up 98% at £327 million (30 June 2020: £165 million). This was driven by: the strong recovery in the advertising market; resumption of productions; and tight cost control delivering £21 million of savings, of which £15 million are permanent
- Adjusted EPS was up 103% at 5.9p (30 June 2020: 2.9p). This compares to 6.2p in 2019
- Reported EBITA³ was £316 million (30 June 2020: £159 million). Statutory profit before tax was £133 million (30 June 2020: £15 million) and statutory EPS was 2.4p (30 June 2020: 0.5p)

Operational update

- ITV Studios:
 - Significant new and returning programme commissions in UK and internationally, including
 - Scripted: labels within ITV Studios produced six of the top 10 rated dramas in the UK including Line of Duty, Pembroke Murders and Unforgotten; Physical and Cowboy Bebop in US and Summertime in Italy
 - Unscripted: The Cabins and Dancing On Ice in UK; Love Island in UK, Spain, Germany and Netherlands; and The Chase in the UK, US, Germany and Australia
 - Challenges remain in delivering programmes under COVID-19 restrictions, particularly multi-location shoots
- M&E:
 - Advertising has rebounded strongly
 - TAR in H1 was up 29% with May up 87% and June up 115% compared to the same period in 2020
 - June 2021 delivered the largest advertising revenues for the month of June for ITV in its history, benefitting from the easing of restrictions and the Euros
 - Total TAR for June and July 2021 is expected to be 16% higher than the same period in 2018 when ITV broadcast the Football World Cup and series 4 of Love Island
 - Strong growth in VOD advertising, up 55% in H1 compared to the same period in 2020, even after double digit growth over the full year 2020
 - Viewing:
 - Total ITV viewing was down 6% in H1 against tough comparatives and the easing of lockdown restrictions but we saw strong ratings from programmes including Unforgotten, Saturday Night TakeAway, The Masked Singer, Euro 2020 and the start of Love Island
 - Hub viewing was up 6%, in spite of tough comparatives of Winter Love Island in 2020. Dwell time was up 4% and simulcast viewing was up 20%
 - Registered users for the ITV Hub were up 7% at 34.6 million and monthly active users (MAU) were up 7%
 - ITV main channel share of viewing (SOV) was up from 16.9% to 17.4%; ITV Family SOV was up from 22.6% to 22.7%

Driving positive change through our Social purpose priorities

- ITV's multiple campaigns continue to raise awareness and drive positive change, including Eat Them To Defeat Them, Britain Get Talking and the launch of our ITV2 partnership with CALM aimed specifically at mental wellness for younger people

¹ On a like-for-like basis reflecting the reallocation of gaming, live events and merchandising revenue from M&E to ITV Studios in 2021

² Reconciliation between adjusted and statutory results is provided in the APM section

³ Statutory operating profit before interest, tax, amortisation and exceptional items

- ITV's emissions reduction targets to become a Net Zero Carbon business by 2030 have been signed off by the Science Based Targets Initiative
- ITV's Diversity Acceleration Plan Report demonstrated the progress made across our commitments, including improving representation on-screen and career progression opportunities

ITV continues to make significant progress in delivering its More Than TV Strategy

- ITV Studios: further growing and diversifying ITV Studios internationally
 - We have a strong scripted pipeline including Vera; The Bay; Noughts and Crosses series 2; Holding; Snowpiercer; Balthazar; Romulus series 2; and Gomorrah
 - We are globalising our formats with seven programmes in three or more countries including Love Island in 21, The Chase format in 17 and Let Love Rule in 6 countries
 - We are on track to double our revenues from streaming platforms in 2021 compared to 2020
 - We have further strengthened our creative talent with three new labels
 - Cattleya Producciones in Spain, Windlight Pictures in Germany and Rollercoaster Television in UK
- M&E: the restructure of M&E is now fully operational
 - Linear broadcast continues to deliver mass audiences with 93% of all commercial audiences over 5 million
 - We are accelerating our Hub strategy to drive AVOD
 - Increasing the depth and strength of content with more series drops and expanding the library
 - We have an AVOD-led commissioning strategy for ITV2, ITVBe and CITV to increase appeal to younger and lighter viewers and drive AVOD
 - We are further improving the design and functionality of the Hub across platforms with around 70% of our MAUs now viewing through the redesigned Hub, with increased personalisation and curatable content rails
 - We continue to successfully roll out Planet V to a very positive response from agencies and advertisers
 - 65% of all campaigns are now self served by agencies with 650 people fully trained
 - We continue to build strong relationships in the UK and internationally and have successfully renewed our deal with Sky
 - We have over three million global subscriptions, up over 15%
 - BritBox UK continues to grow with around 555,000 subscriptions, up over 10%, and an exciting pipeline of original content in H2 and 2022 including Spitting Image 2, Magpie Murders, Crime and Wedding of the Century
 - BritBox International is performing strongly in the US, Canada and Australia with two million total subscriptions, up around 18%. South Africa will launch in August and further rollout to other countries will follow
 - Hub+ has 452,000 subscribers, up 10%

Financial position remains robust

- Reported net debt of £467 million (31 December 2020: £545 million) is before the final earnout payment for Talpa of €298 million (c. £256 million) which will be paid in August 2021
- Reported net debt to adjusted EBITDA leverage on a 12-month rolling basis of 0.6x (31 December 2020: 0.9x). On a pro-forma basis including the Talpa earnout payment, net debt to adjusted EBITDA would be 0.9x
- Profit to cash conversion on a 12-month rolling basis of 72%, reflecting the unwind of the favourable working capital position in 2020 as expected. Taking 2020 and 2021 together we continue to expect profit to cash conversion of 80 to 85% over the two years
- Total liquidity of £1,482 million, comprising total cash of £704 million (includes restricted cash of £50 million) and committed undrawn facilities of £778 million

Outlook

- ITV Studios is performing strongly as it successfully manages the challenges presented by COVID-19 and UK isolation policies
- The comparatives are tougher in H2 but we are encouraged by the advertising outlook with July expected to be up 68% and August up 17% to 20% compared to the same period in 2020. It is too early to give a range for September given the current uncertainty but we expect it to be positive
- We are on track to deliver our £30 million permanent cost savings target over the full year
- The Board recognises the importance of the ordinary dividend for ITV shareholders. Given the current uncertainty the Board will not declare an interim dividend in respect of the current year. However, assuming the economy continues to recover, the Board intends to propose a final dividend of 3.3p for the full year 2021, based on two thirds of a notional full year dividend of 5p. The Board intends to grow the ordinary dividend over time whilst balancing further investment behind our strategy and our commitment to investment grade metrics
- With the significant strategic progress we have made, we are now entering the next phase of our More Than TV Strategy
 - We will further strengthen and diversify ITV Studios by genre and customer to take advantage of the strong demand for global content
 - In M&E we will have one content budget allowing us to optimise our windowing strategy to create the best experience for viewers and the best value for advertisers and ITV. This will balance our ability to deliver mass audiences and increase on-demand viewing. Our streaming strategy will be AVOD led with a very compelling subscription video on demand proposition. Therefore positioning us well to respond to the evolving viewing and advertising environment
 - We will continue to invest in data, tech and analytics to enable further platform integration and a more seamless viewer experience
 - We will hold two investor seminars in the Autumn provide a deeper dive into ITV Studios and M&E

Results presentation webcast and live Q&A:

ITV's Interim Results Presentation webcast is now available to view in the Results Centre of our corporate website www.itvplc.com/investors/results-centre.

A live Q&A will be held for investors and analysts at 9.30am today. The Q&A will be streamed via the following link: www.investis-live.com/itv/60f971270ed69a0a007aded2/2021ir. You are now able to pre-register to join.

If you would like to ask a question, you will be able to do so via the following Conference Call details:

- United Kingdom: 0800 640 6441
- United Kingdom (Local): 020 3936 2999
- All other locations: +44 203 936 2999
- Participant access code: 367614 – Participants will be greeted by an operator who will register their details.

Notes to editors

1. Unless otherwise stated, all financial figures refer to the 6 months ended 30 June 2021, with the change compared to the same period in 2020.
2. Group financial performance

6 months to 30 June	2021 £m	2020 £m	Change £m	Change %
ITV Studios total revenue	798	632	166	26
Total advertising revenue	866	671	195	29
M&E non-advertising revenue	162	151	11	7
M&E total revenue	1,028	822	206	25
Total group revenue	1,826	1,454	372	26
Internal supply	(278)	(236)	(42)	(18)
Group external revenue	1,548	1,218	330	27
<i>Total non-advertising revenue</i>	<i>960</i>	<i>783</i>	<i>177</i>	<i>23</i>
Group adjusted EBITA	327	165	162	98
Group adjusted EBITA margin	21%	14%	–	–
Reported EBITA	316	159	157	99
Adjusted EPS	5.9p	2.9p	3.0p	103
Statutory EPS	2.4p	0.5p	1.9p	380
Reported net debt as at 30 June	(467)	(783)	316	40

3. Total advertising, which includes ITV Family NAR, AVOD and sponsorship was up 87% in May, up 115% in June, up 89% in Q2 and is forecast to be up 68% in July and up 17% to 20% in August. It is too early to give a range for September given the current uncertainty but we expect it to be positive. Figures for ITV plc are based on ITV estimates and current forecasts.

4. M&E key performance indicators

6 months to 30 June	2021	2020	Change %
ITV Total viewing (hrs)	8.1bn	8.5bn	(6)
ITV Family Share of Viewing (SOV)	22.7%	22.6%	–
Online viewing (hrs)	283m	266m	6
ITV Hub registered user accounts	34.6m	32.2m	7

- 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 a TV set, therefore, includes catch up and Hub on television where the viewing relates to a programme watched the C7 consolidated catch-up window.
- 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. In 2021, it also includes the viewing of newly launched short-form content on the ITV Hub, there are no comparatives in 2020. All data is 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. 2021 full year planning assumptions

The following planning assumptions for 2021 are based on our current best view but may change depending on how events unfold over the remainder of the year.

Profit and Loss impact:

- Total schedule costs are estimated to be around £1.1 billion
- Total essential investment of around £25 million in 2021, which will remain in the cost base going forward
- Total BritBox UK venture losses are expected to be around the same level as 2020 and will decline thereafter
- Overhead cost savings are expected to be around £30 million in 2021. In addition we will deliver £8 million temporary savings
- Adjusted financing costs are expected to be around £36 million, which is in line with 2020
- The adjusted effective tax rate for 2021 and 2022 is expected to be between 18% and 19%, and then move to around 25% over the medium term as a result of the increase in the UK statutory rate to 25% from April 2023
- The translation impact of foreign exchange, assuming rates remain at current levels, could have an adverse impact of around £38 million on revenue and around £5 million on EBITA
- Exceptional items are expected to be around £150 million, mainly due to acquisition related expenses, restructuring and reorganisation costs, and reducing our transponder capacity. This includes an additional £108m in relation to the final earnout payment for Talpa compared to our previous guidance

Cash impact

- Payment of £75 million of VAT deferred from 2020
- Total capex is expected to be around £75 million as we further invest in our digital transformation
- The cash cost of exceptionals are expected to be around £310 million, largely relating to accrued earnouts which includes the final earnout payment for Talpa
- Profit to cash conversion is expected to be around 30% in 2021, as the favourable working capital position in 2020 unwinds. Taking 2020 and 2021 together, cash conversion is expected to be 80% to 85% over the two year period in line with historic levels
- Total pension deficit funding contribution for 2021 is expected to be £74 million
- The Board expects to propose a final dividend of 3.3p at the full year, based on two-thirds of a notional 5.0p full year dividend in respect of the current financial year

6. This announcement contains certain statements that are or may be forward looking statements. Words such as "targets", "expects", "aim", "anticipate", "intend", or the negative of these terms and other similar expressions of future performance or results, and their negatives, are intended to identify such forward-looking statements. These forward-looking statements are based upon current expectations and assumptions regarding anticipated developments and other factors affecting ITV. Although ITV believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. 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. They are not historical facts, nor are they guarantees of future performance; actual results may differ materially from those expressed or implied by these forward-looking statements. 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) the general economic, business, political, regulatory and social conditions in the key markets in which the Group operates, including the duration and severity of COVID-19 impacts on ITV's colleagues, business, partners and customers, (ii) a significant event impacting ITV's liquidity or ability to operate and deliver effectively in any area of our business, (iii) a major change in the UK advertising market or consumer demand, (iv) significant change in regulation or legislation, (v) a significant change in demand for global content, and (vi) a material change in the Group strategy to respond to these and other factors. Certain of these factors are discussed in more detail elsewhere in this announcement and in ITV's 2020 Annual Report and Accounts including, without limitation, in ITV's approach to risk management.

Forward-looking statements speak only as of the date they are made and, except as required by applicable law or regulation, ITV undertakes no obligation to update any forward-looking statements, whether written or oral that may be made from time to time, whether as a result of new information, future events or otherwise. Nothing in this statement should be construed as a profit forecast.

7. The financial information set out above does not constitute the Company's statutory accounts for the period ended 30 June 2021. Statutory accounts for 2020 have been delivered to the registrar of companies, and those for 2021 will be delivered in due course. KPMG 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 delivered a strong performance in the first half of 2021. While the COVID-19 pandemic continued to present challenges and uncertainties, we delivered growth in all areas of the business and have seen the benefit from the mitigations and actions we put in place when the pandemic first began in 2020. Within ITV Studios, the substantial majority of our programmes are back in production and, in our Media & Entertainment (M&E) division, total advertising revenues have rebounded strongly.

We remained focused on tightly managing our costs and cash flow during the period, and this enabled us to continue to invest in our key priorities and make good progress in executing our strategy. Within ITV Studios we have continued to grow in the UK and internationally; develop our creative pipeline of new scripted and unscripted shows; diversify our customer base and strengthen our creative talent. Within M&E, we have accelerated our video on demand (VOD) strategy; continued the successful rollout of Planet V (our programmatic addressable advertising platform); extended the distribution and content on BritBox UK, and the international rollout of BritBox in South Africa is on track. And we are continuing to digitally transform the business both internally and externally.

As a public service broadcaster and a responsible business, ITV has an important role to play, particularly in the UK. ITV has a unique ability to drive meaningful change across our social purpose priorities, and we can use our position to shape culture for good. We relaunched our mental health campaign Britain Get Talking and launched ITV2 X CALM, aimed at improving the mental health of young people; we have continued our health campaign, Eat Them To Defeat Them; we have made good progress against our Diversity targets, and our emissions reduction targets to become a Net Zero Carbon business by 2030 have been signed off by the Science-Based Targets Initiative.

While there remain some uncertainties due to the COVID-19 pandemic, we are encouraged by the easing of restrictions and global vaccine rollout. As we deliver our strategy, we are increasingly well-positioned to respond to the evolving viewing and advertising environment and take advantage of the strong demand for global content.

Strategy

We 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. This remains the right strategic vision for ITV and we will continue to accelerate its delivery. We are focused on three critical priorities which are not independent, but work together to reinforce each other, to create synergies and deliver value:

- Growing our UK and global production business
- Transforming our M&E business (Broadcast and Streaming)
- Expanding our direct to consumer relationships

These are supported by embedding data, analytics and tech across the business; ensuring we own and manage rights efficiently; continuing to build upon our strong partnerships in the UK and internationally; and delivering our social purpose strategy.

We have a clear vision, and clear priorities, each supported by a number of initiatives, enabling us to 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.

Being an integrated producer broadcaster gives us a competitive advantage. It provides ITV Studios with a bedrock of core commissions and a formidable promotional engine for its content; it enables cross-promotion and 360-degree monetisation of ITV Studios content across our business models; secures access to great content for ITV's channels, advertiser-funded video on demand (AVOD) and subscription video on demand (SVOD) businesses; and all this helps attract and retain the best creative talent in the industry.

With the significant progress we have made to date in delivering against our strategic priorities, we are now entering the next phase of our More Than TV strategy.

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 set out and defined in this report.

While the macro environment remained impacted by the COVID-19 pandemic during the first half of 2021, ITV delivered a strong performance, with financial results ahead of expectations. Total ITV revenue increased by 26% to £1,826 million (2020: £1,454 million), with external revenue up 27% at £1,548 million (2020: £1,218 million). Total advertising revenue was up 29% to £866 million (2020: £671 million) and total non-advertising revenue was up 23% to £960 million (2020: £783 million), of which ITV Studios was up 26% at £798 million (2020: £632 million). All our revenue lines achieved increases compared to the same period in 2019 which was pre the COVID-19 pandemic (2019 total ITV revenue: £1,749 million).

We delivered £21 million of overhead cost savings in the period, of which £15 million were permanent and £6 million were temporary savings. The permanent savings include headcount savings from reorganisational changes, particularly in M&E; contract renegotiations; M&E infrastructure savings; and a permanent reduction in some discretionary spend. The temporary savings were mainly due to a natural decrease in non-essential spend such as travel and entertainment in the period due to ongoing government restrictions. We remain on track to deliver £30 million of permanent overhead savings over the full year. Our permanent essential investments to support our strategic priorities were £9 million in the period.

Adjusted EBITA increased by 98% to £327 million (2020: £165 million), with a 53% increase in ITV Studios adjusted EBITA and a 125% increase in M&E adjusted EBITA. While the margin of the M&E division has recovered, the ITV Studios margin remains impacted by ongoing fixed costs, particularly those associated with social distancing guidelines and health and safety protocols. While adjusted EBITA in the first half of 2021 is in line with the same period in 2019, the weighting between the two divisions is different, this is explained further in the ITV Studios and M&E section.

Adjusted financing costs were marginally up in the period at £19 million (2020: £18 million) and our adjusted tax rate was 20% (2020: 20%). Adjusted EPS increased by 103% to 5.9p (2020: 2.9p), and was behind adjusted EPS in 2019, of 6.2p.

Operating and Performance Review continued

Reported EBITA (which is statutory operating profit before interest, tax, amortisation and exceptional items) was £316 million, up 99% (2020: £159 million) which was in line with the increase in adjusted EBITA. Operating exceptional items were £130 million (2020: £89 million) and include acquisition-related costs, the largest item being an increase in the Talpa earnout of £108 million, along with an onerous contract provision within M&E of £16 million (see note 3.2 of the financial statements for further detail). Statutory net financing costs were £27 million which was up year-on-year (2020: £23 million) due to higher interest payable on our exceptional acquisition-related expenses. Our reported effective tax rate was 24% (2020: 0%), and statutory EPS rose from 0.5p to 2.4p year-on-year, this was 50% lower than statutory EPS in 2019 of 4.8p. See the Finance Review for further detail.

We have good access to liquidity. At 30 June 2021, we had cash and committed undrawn facilities totalling £1,482 million, including total cash of £704 million (includes restricted cash of £50 million). Our profit to cash conversion on a 12-month rolling basis was 72% (2020: 138%). At 30 June 2021 our reported net debt was £467 million (31 December 2020: £545 million, 30 June 2020: £783 million) and is before earnout payments, the majority of which is the final earnout for Talpa of £298 million (c.£256 million) which will be paid in the second half of 2021. Our reported net debt to adjusted EBITDA on a 12-month rolling basis was 0.6x (31 December 2020: 0.9x, 30 June 2020: 1.3x). On a proforma basis including the Talpa earnout payment, net debt to adjusted EBITDA would be 0.9x.

We continue to maintain tight control over cash flow and costs. 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 in line with our strategic priorities and balance this investment with the returns to shareholders.

The Board recognises the importance of the ordinary dividend for ITV shareholders. Given the current uncertainty, the Board will not declare an interim dividend in respect of the current year. However, assuming the economy continues to recover, the Board intends to propose a final dividend of 3.3p for the full year 2021, based on two-thirds of a notional full-year dividend of 5.0p. The Board intends to grow the ordinary dividend over time whilst balancing further investment behind our strategy and our commitment to investment grade metrics.

Social Purpose

During the period, 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, Climate Action, and Giving Back.

Better Health

Mental health – Our flagship mental health campaign, Britain Get Talking, continued with two new campaigns encouraging audiences to keep in touch and highlighted the importance of a quality conversation. The message 'the better we talk, the better we feel' was incorporated in the second campaign which ran across April and May, and got 3.5 million people to act.

We also launched a new partnership between ITV2 and CALM, aimed at getting one million young people to take action to feel better able to cope with life's ups and downs.

Physical health – Our healthy eating campaign, Eat Them to Defeat Them, ran for a third consecutive year in April with 500,000 children participating in schools, and millions more reached by the on-air campaign.

Diversity and Inclusion

In July 2020, we launched our Diversity Acceleration Plan with five commitments to diversity and inclusion both on and off-screen, and to create more opportunities for those from Black, Asian, Minority Ethnic and other diverse backgrounds. In July 2021 we published our progress in delivering against the plan¹, which included a 33% increase in available lead roles filled by Black, Asian and Minority Ethnic talent on screen; the creation of over 60 opportunities for underrepresented groups as part of our Step Up 60 programme; hiring over 40 apprentices, and launching a production trainee scheme within ITV Studios. In addition, we have introduced mandatory race and inclusion training for all colleagues, on-screen presenters and commentators, and ensured that all leaders and managers have attended inclusive leadership and race fluency training.

ITV remains committed to its other diversity targets and activities, particularly on doubling the representation of our workforce with a disability and improving socioeconomic diversity which will be a particular focus for the year ahead and into 2022. As a signatory of the Creative Diversity Network's Doubling Disability initiative, we are working with other broadcasters to ensure we actively employ people with a disability in off-screen production roles. We will also be launching our commitment to Disabled representation on screen, as well as rolling out Disability Awareness training across all leaders and line managers.

In the second half of 2021, we will promote Black History Month on and off-screen, and run an Invisible Disabilities campaign to raise awareness of this subject using ITV talent.

Climate Action

Net Zero by 2030 - In 2020 we published our climate action targets including becoming a Net Zero Carbon emissions business by 2030. Business areas across ITV are currently implementing carbon reduction strategies as we plan to reduce our scope 1 and 2 emissions by 46% and Scope 3 emissions by 28% over the next decade. Our targets have been approved by the Science Based Targets Initiative. We will also be targeting zero waste by 2030, a 100% sustainable supply chain, and 100% of colleagues to be trained in sustainability.

Carbon Reporting - We have implemented a new data platform with Ecometrica for the collection of our Greenhouse Gases (GHG) emissions data. This will provide ITV with greater accuracy of our carbon footprint.

ITV Home Planet – We launched a 'Green Scenes' TV advertising break 'takeover' in Coronation Street for World Environment Day. This was part of ITV's commercial initiative to help our viewers reduce their carbon footprint in their everyday lives by connecting them with credible brands that offer sustainable solutions and products.

1. Diversity Acceleration Plan 2021 Report is available on our website: <https://www.itv.com/inclusion/articles/diversity-acceleration-plan>

Operating and Performance Review continued

In the second half of the year, ITV will be involved in COP26 (UN Climate Change Conference to be held in Glasgow) to demonstrate the power of broadcasting in helping to deliver climate action. In addition, on 1 November, ITV main channel will be dedicated to climate action, with the theme running across our content during the day, and special programming created to raise awareness and inspire positive behaviour change.

Giving Back

Colleague volunteering - we have launched a new mentoring scheme with Creative Access, focusing on encouraging aspiring and emerging talent from underrepresented backgrounds into the TV industry. 150 ITV mentors are paired with mentees interested in getting into TV or growing their careers. We have also partnered with Media Trust and Screenskills, providing 24 ITV mentors, and are working with Education and Employers charity to enable ITV colleagues to talk in schools across the country to inspire teenagers into thinking about a television career.

Soccer Aid for UNICEF returns in September for ITV's biggest ever campaign. Alongside the celebrity and sporting legend football match, there will be multiple supporting shows in the lead-up to the game.

ITV Studios

ITV Studios is the largest commercial producer in the UK; one of the largest producers in Europe; and one of the largest independent unscripted producers in the US. With a library containing thousands of hours of content, it is also one of the largest distributors in the UK.

Growing UK and global productions is central to ITV's More Than TV strategy, with ITV Studios aiming to be a leading creative force in the creation and ownership of intellectual property (IP), global content production and distribution. We have built an increasingly diversified business and scale in the key creative markets around the world that drive revenues from creating and producing programmes and formats that return and travel. We have done this by focusing on the following key areas: strengthening creative talent; growing scripted; creating and globalising our formats; and diversifying our customer base.

While the majority of programmes are back in production, challenges remain in delivering programmes under COVID-19 restrictions, particularly those requiring filming in multiple locations. We have strict procedures and protocols to minimise health and safety risks to our talent, participants, colleagues and crew, which have enabled us to continue to produce globally including scripted titles such as *Physical* in the US and *Summertime* in Italy, and large scale entertainment formats such as *I'm A Celebrity...Get Me Out Of Here!*, *Love Island* and *The Voice*.

Strengthening creative talent

A key part of ITV Studios investment strategy is to strengthen and retain our creative talent and we continued to do this successfully during the first half of 2021. In the UK we have announced that global hit format creators James Fox and Dom Waugh (*House of Games*, *All Together Now*, *Pointless*, *The Million Pound Drop*) will join to launch a new entertainment label, *Rollercoaster Television* to create and produce new formats for the UK and global markets.

In Europe, award-winning executive producer, Moritz Polter (*Das Boot*, *Freud*) joined ITV Studios International to set up a new high-end scripted label in Germany called *Windlight Pictures*. In addition, renowned television executive and producer Arturo Díaz (*Las Chicas de Cable*, *Élite* and *Memorias de Idhún*), joined *Cattleya* to launch ITV's first Spanish scripted label, *Cattleya Producciones*. These deals enable ITV Studios to further meet the demand for premium European drama around the world.

In the US, *ITV America* and *Blumhouse Television* have entered into an exclusive overall deal for unscripted programming. *Blumhouse* will have a dedicated team working in collaboration with *ITV America* to create an entirely new slate of projects, develop new concepts and IP, as well as amplifying existing *ITV* IP and formats. The first project derived from the partnership is horror competition format, *Escape the Maze* (working title). In addition, *ITV America* has extended its partnership with Jimmy Kimmel's company, *Kimmelot*, and currently has titles in production at *Discovery*, *FOX* and *Hulu*.

All our recent talent partnerships, including the drama labels launched in the US last year, are establishing their teams and building strong development slates with many having projects underway with broadcasters, networks and streaming platforms globally.

Growing scripted

While *ITV Studios* is predominantly unscripted in terms of scale, scripted is an area of higher growth driven by demand from the over-the-top (OTT) platforms for original series and library titles. Part of our strategy within *ITV Studios* is to build a global scripted business of scale. We have boosted this through the recent talent deals mentioned above and will look at further investments in other key scripted markets.

Many of our scripted labels are creating and producing high-quality content with global appeal for free to air (FTA) and OTT platforms. This includes in the UK: *Mammoth Screen*, creators of *The Serpent*, *McDonald & Dodds*, and *Noughts & Crosses*; and *World Productions* creators of *Line of Duty*, *The Pembroke Murders*, *Vigil* and *Bodyguard*. In the first half of 2021, six of the top ten highest-rated dramas on UK television were produced by labels within *ITV Studios UK*. Our international scripted businesses *Cattleya* in Italy and *Tetra Media Studio* in France, also create and produce long-running and new critically acclaimed foreign-language dramas, including *Paris Police 1900* and *Balthazar* in France; and *Gomorra*, *Suburra*, and *Romulus* in Italy. *ITV Studios America* is seeing good momentum in its creative pipeline, and, with the output from recent talent deals starting to come through, this is helping to rebalance revenues within the *ITV Studios US* business from unscripted to scripted.

Diversifying customer base particularly with local and international OTT platforms

The increasing demand for content from OTT platforms presents a significant opportunity for *ITV Studios* to diversify its customer base and grow revenues. In the US, we have strengthened our relationships with OTT platforms, having both scripted and unscripted development projects and commissions in place with all the major platforms. A third of US scripted revenues came from OTT's in 2020. Our UK and International Studios (aside from Italy) remain more reliant on local broadcasters, so going forward they will harness the strength and position of the *ITV Studios* group and key creative talent, particularly from recent talent deals, to develop relationships with these platforms.

Operating and Performance Review continued

Original hours supplied to OTT platforms increased by 84% in the first half of 2021, with scripted and unscripted programmes including The Serpent (internationally), Snowpiercer (internationally), Cowboy Bebop, Summertime and Generation 56K all for Netflix, Physical for Apple TV+, and Love Island Netherlands for Videoland. New commissions for future broadcast by OTTs include Why Didn't They Ask Evans for BritBox US and Canada, Spy Amongst Friends for BritBox UK, Queer Eye for Netflix, 10 Year Old Tom for HBO Max, and The Offenders for BBC/Amazon along with several other titles in progress with Disney+, Netflix, Hulu and Amazon. We are on track to double our revenues from OTT platforms in 2021.

Whilst diversifying our customer base with OTTs is extremely important for ITV Studios, producing more content for, and distributing more content to OTT platforms will impact our working capital going forward due to the upfront cash requirements and the extended payment profile from the OTTs. In addition, it limits the ability for us to maximise margins on high-value scripted titles as the OTT platforms invariably want worldwide rights for original commissions.

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

Our Global Formats business includes a large portfolio of some of the world's most successful entertainment and factual entertainment formats, many of which are made globally through ITV Studios' production bases. We are very focused on developing, managing and exploiting our global formats to maximise IP revenues. We have a portfolio of world-class brands which we continue to protect and strengthen each year, including (number of countries the format has been sold to, to date, is included in brackets); The Voice (70+ countries), Love Island (21 countries), The Chase (17 countries), Beat The Chasers (5 countries), Let Love Rule (6 countries), I'm A Celebrity...Get Me Out Of Here! (13 countries) and Come Dine With Me (40+ countries).

We have several new formats recently commissioned in our UK and US production bases that have the potential to be future global hits. These include The Void, Moneyball, Bling and Ready To Mingle, all of which will air on ITV in the second half of 2021, and Rat In The Kitchen, a UK format that had its first commission in the US to be produced by ITV America.

Building on the success of key franchises, we are also focusing on expanding our production hubs, driving further sales of formats by supporting productions in a cost-effective and safe environment (e.g. Love Island, I'm A Celebrity...Get Me Out Of Here!). In 2021 across our Global Formats business we sold 35 (2020: 32) different formats internationally, 7 of which were sold to three or more countries (2020: 6).

Through our Global Distribution business, we focused on exploiting our extensive library of global scripted and unscripted content assets and maximising the value of primary and secondary windows with FTA, Pay TV, SVOD and AVOD customers. We are investing in ITV Studios produced content and selective third-party content (including a new natural history series A Year on Planet Earth, and international spy drama Harry Palmer: The Ipcress File).

ITV Studios financial performance

	2021 £m	2020 £m	Change £m	Change %
Six months to 30 June				
ITV Studios UK	295	263	32	12
ITV Studios US	160	88	72	82
ITV Studios International	194	165	29	18
Global Formats and Distribution*	149	116	33	28
Total ITV Studios revenue	798	632	166	26
Total ITV Studios costs	(703)	(570)	(133)	(23)
Total ITV Studios adjusted EBITA**	95	62	33	53
ITV Studios adjusted EBITA margin	12%	10%		

* 2020 comparatives for Global Formats and Distribution has been restated to reflect the reclassification of gaming, live events and merchandising revenues from the M&E business. The impact is a £2 million increase to 2020 revenue, there is no impact on adjusted EBITA.

** Includes the benefit of production tax credits.

	2021 £m	2020 £m	Change £m	Change %
Six months to 30 June				
Sales from ITV Studios to M&E	275	233	42	18
External revenue	523	399	124	31
Total ITV Studios revenue	798	632	166	26

	2021 £m	2020 £m	Change £m	Change %
Six months to 30 June				
Scripted	249	154	95	62
Unscripted	398	368	30	8
Core ITV* and Other	151	110	41	37
Total ITV Studios revenue	798	632	166	26

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

ITV Studios saw strong revenue growth in the first half of 2021, with total revenue up 26% in 2021 to £798 million (2020: £632 million), and external revenue up 31% to £523 million (2020: £399 million), driven predominantly by ITV Studios US, and our Global Formats and Distribution business. Total organic revenue at constant currency was up 29% (our definition of constant currency assumes exchange rates remain consistent with 2020), with an £18 million unfavourable impact from foreign exchange in the period. When compared to the same period in 2019 which was pre the COVID-19 pandemic, on a like-for-like basis, total ITV Studios revenue was up 5% (2019: £761 million) and external revenue was up 7% (2019: £490 million).

Operating and Performance Review continued

While ITV Studios revenue increased during the period, the number of hours delivered decreased by 11% to 3,202 hours (2020: 3,616). This was due to the mix of productions that were delivered, with a significant increase in high-value, lower volume scripted productions compared to the prior period, and also a reduction in some high volume unscripted titles in the Netherlands and France. Scripted revenue was up 62% to £249 million (2020: £154 million), with unscripted revenue up 8% to £398 million (2020: £368 million) in the period. There was a 37% increase in Core ITV revenues to £151 million (2020: £110 million) which primarily relates to the volume of soaps and daytime programming returning to normal following the pause in production in 2020.

Reflecting our presence in key global production markets, 58% of ITV Studios' revenue was generated outside the UK (2020: 55%). This was higher than the prior period and reflects our strong growth in US revenues. Further detail on the year-on-year movement in revenue is included in the sections that follow.

ITV Studios adjusted EBITA was up 53% year-on-year at £95 million (2020: £62 million), with the adjusted EBITA margin at 12% (2020: 10%) and a £2 million unfavourable impact from foreign exchange. During the period, there were investments of £5 million in line with our strategic priorities which was more than offset by overhead cost savings of £9 million (£4 million of which are temporary and £5 million permanent). The ITV Studios margin is still being impacted by costs associated with social distancing guidelines and health and safety protocols in productions. To help mitigate this we are looking at our property footprint, using technology and data to drive cost and revenue efficiencies, taking steps to digitalise processes and using remote editing more routinely, particularly to reduce travel costs. For example, post-production for this year's series of Love Island UK is taking place in the UK having previously been done on location in Majorca.

Compared to the same period in 2019, on a like-for-like basis, adjusted EBITA in the first half of 2021 was down 19% (2019: £118 million) which is partly due to the costs associated with COVID-19 as previously mentioned, along with 2019 including a number of high margin, multi-year deal renewals for The Voice.

ITV Studios UK

As the largest commercial producer of content in the UK, ITV Studios UK is made up of nearly 30 production labels, with a diverse range of scripted and unscripted titles for broadcasters and OTT platforms. The business is built upon many long-running and recurring titles, the majority of which are sold to the M&E business for transmission on ITV's family of channels, ITV Hub and BritBox UK. The core portfolio includes daytime programmes such as Good Morning Britain, This Morning, Loose Women; the soaps: Coronation Street and Emmerdale; and entertainment programmes such as The Voice, Love Island and I'm A Celebrity...Get Me Out Of Here!

For the first six months of 2021, ITV Studios UK revenue was up 12% to £295 million (2020: £263 million), and also up 12% on an organic basis, driven by internal sales and the delivery of programmes that were delayed in 2020. Internal sales to M&E was up 18% in the period, driven by more episodes of the soaps, which were reduced in Q2 2020 due to the pause in production; dramas such as Grace, McDonald & Dodds and Unforgotten; and entertainment shows such as The Cabins, The Void and Beat The Chasers.

Internal deliveries expected in the second half of 2021 include new and returning drama and entertainment programmes: The Tower, Karen Pirie, The Long Call, The Bay, Vera, Endeavour, Love Island, Ready To Mingle, and Walk The Line – a new global format from Syco Entertainment which is being produced in partnership with Lifted Entertainment (part of ITV Studios UK) and will be broadcast on ITV main channel.

Off-ITV revenue (productions for non-ITV channels in the UK) was flat year-on-year, with new and returning programmes including Line of Duty, Vigil and The Graham Norton Show all for the BBC; and Countdown for Channel 4. Deliveries expected in the second half of 2021 should include Showtrial, The Offenders and Shetland all for the BBC; 24 Hours in A&E for Channel 4, and Why Didn't they Ask Evans for BritBox US & Canada.

While the majority of our productions in the UK have resumed, there remain challenges in operating under COVID-19 restrictions and with current UK isolation policies.

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 SVOD platform. It has a good foundation of core programmes, including unscripted titles with multiple seasons and a high volume of episodes, and premium scripted content, 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. This diversity of content and customer base enabled ITV Studios US to mitigate some of the impact seen from the pandemic.

ITV Studios US total revenue grew by 82% to £160 million (2020: £88 million) and by 100% to £176 million when adjusted for the unfavourable foreign exchange impact. Within ITV Studios America (scripted), the increase was predominantly driven by the deliveries of Physical to Apple TV+, Snowpiercer S2 to Netflix, a licensing deal for Cowboy Bebop, and Good Witch S7 to Hallmark. ITV America (unscripted) saw the delivery of new titles including The Chase for ABC and Assembly Required for History, along with returning titles such as Crank Yankers for Comedy Central, Love & Marriage for OWN, and Forged In Fire and Alone, both for History.

In the second half of 2021, deliveries from ITV Studios America will include the part delivery of the third season of Snowpiercer for TNT and Let The Right One In which is a pilot for Showtime. Within ITV America, deliveries expected include Love Island S3 for CBS, Queer Eye for Netflix, Rat In The Kitchen for TBS and The Chase S2 for ABC.

The development and commissioning pipeline for ITV Studios US is strong. Both ITV Studios America and ITV America have numerous projects under development with existing and emerging SVOD platforms, ITV America additionally has over ten commissions currently in production with all the major streamers, many of which have the potential for multiple series.

Operating and Performance Review continued

ITV Studios International

ITV Studios International has production bases in Australia, Germany, France, Spain, Italy, the Netherlands and the Nordics, where we produce original scripted and unscripted content, as well as local versions of key formats developed through our Global Formats business. Growing our European scripted business allows us to benefit from the increasing demand for locally produced content with global appeal, and we have several scripted projects in development with Amazon, Netflix and Disney+.

Revenue within ITV Studios International increased by 18% to £194 million (2020: £165 million) in the first half of 2021, and by 16% to £192 million when adjusted for the favourable impact of foreign currency. Growth was driven by deliveries including Summertime S2 and Generation 56k for Netflix; The Voice in France and Netherlands; Love Island in Germany, Spain and the Netherlands; and The Chase in Australia and Finland.

Deliveries expected in the second half of 2021 should include the final season of Gomorrah in Italy; Balthazar S4 and Vise le Coeur in France; Love Island in Australia and Finland, and Let Love Rule in Germany and the Netherlands.

Global Formats and Distribution

Global Formats and Distribution revenues were up strongly by 28% year-on-year to £149 million (2020: £116 million), and by 32% to £153 million when adjusted for the unfavourable impact of foreign currency. Much of this increase was driven by our Global Distribution business which benefited from the international distribution of Snowpiercer and The Serpent to Netflix, and the distribution of new scripted titles Line of Duty S6, Vigil and Grace. Finished tapes sales of unscripted formats were also strong, including The Voice, The Chase and Come Dine With Me, all delivering across multiple different territories.

The second half of 2021, should see an increased pipeline of new content for Global Distribution including Showtrial, Karen Pirie, and The Tower, along with returning scripted titles such as Vera, Endeavour and The Bay.

Our Global Formats business has continued to strengthen its portfolio of successful entertainment and factual entertainment formats, with many new titles developed and commissioned during the period. In addition to those mentioned earlier, further new formats include Sitting On A Fortune, Cooking With The Stars, and Unbeatable.

As part of the creation of the M&E division, revenue from the monetisation of our brands and IP has moved from Direct to Consumer to Global Formats. This relates primarily to gaming, live events and merchandising revenues which we aim to grow through increasing the number of people who pay for an ITV product as well as increasing spend per customer. In the first half of 2021, we had 6.8 million paying relationships which had decreased by 17% on the prior period (2020: 8.2 million). This was largely due to fewer live events due to the ongoing government restrictions, a decline in gaming and merchandising revenue from the absence of winter Love Island, and the impact from a lower volume of competition entrants compared to the strong growth in 2020.

Media & Entertainment (M&E)

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 from our family of channels, has grown rapidly over several years, 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 IP. This is through SVOD, competitions and voting. Data and technology are key to evolving our M&E business and driving revenue growth.

To better reflect and serve changing viewing habits, the Broadcast business was restructured effective from 1 April 2021, creating the Media and Entertainment (M&E) division. It has two business units – Broadcast and Streaming. The Broadcast business is the home of ITV main channel, ITV3 and ITV4, and continues to deliver ITV's USP of mass simultaneous reach. The Streaming business focuses on streaming, providing content that appeals to audiences who do most or all of their viewing on-demand, and serving it to them in whatever way they want to access it.

COVID-19 accelerated some of the changes we were already seeing in the viewing and advertising landscape, presenting both challenges and opportunities. Our strategy is designed to mitigate the long-term impact of changing viewing patterns, and we are accelerating the pace of implementation.

Continuing to deliver unrivalled audiences with high-quality programming

In the first half of 2021, ITV continued to inform and entertain the nation, providing audiences with high-quality programming across the full range of genres. ITV main channel's share of viewing (SOV) increased by 3% in the period to 17.4% (2020: 16.9%), benefiting from the UEFA European Football Championships (Euros) in June and strong drama viewing. ITV Family SOV was broadly flat year-on-year at 22.7% (2020: 22.6%) driven predominantly by a decline in ITV2 (refer to further detail on this below). ITV main channel share of commercial impacts (SOCI) was 26.3% (2020: 26.2%) and ITV Family SOCI declined 1% to 35.0% (2020: 35.5%), impacted by; the absence of Britain's Got Talent from the schedule; good viewing on Channel 4 (mainly Gogglebox) and Channel 5 (The Drowning, Intruder and Royal Family documentaries), and the strong 2020 viewing comparatives.

While we had a strong schedule of drama, entertainment programmes and sport, including the Euros, total viewing (which combines live viewing of ITV channels, recorded and VOD) for the first six months of 2021 declined by 6%. Total ITV viewing was up +1% in Q1 2021, however, Q2 was impacted by the easing of lockdown restrictions against the tough comparatives of Q2 2020, and the continued government COVID-19 updates and the strong news output on the BBC. In addition, ITV's peak schedule continued to see an impact from COVID-19, with some key programming cancelled or delayed until later in the year.

Total broadcaster TV viewing (live and catch up viewing to broadcast channels including TV VOD) declined by 7% in the period, which was marginally behind ITV's total viewing decline due to 2019 having strong viewing comparatives on the BBC. Total TV set viewing, which includes unmatched viewing (content that cannot be matched to broadcast TV such as SVOD, YouTube, games consoles) declined by 3%. This was less than the decline in broadcast TV viewing and was driven by an increase in viewing on SVOD platforms during the period (Source: BARB).

Operating and Performance Review continued

Online viewing (which measures the total number of hours viewers are spending online) on the ITV Hub was up 6% year-on-year, benefitting from strong drama viewing and the Euros. The first half of 2021 saw the highest ever number of streams for drama viewing on the ITV Hub. Dwell time, which measures the average time spent viewing per session across all platforms, was up 4% in the first half, with monthly active users (MAUs) up 7%. Simulcast viewing hours were up 20%, as more viewers used the ITV Hub as a destination for live viewing via connected TVs and streaming devices, particularly for coverage of the Euros during the period.

The growth of the ITV Hub is a key part of our strategy and we are accelerating our actions to drive video on demand (VOD) viewing. We have a number of initiatives focused on improving the user experience, functionality and content, further details of which are included in the ITV Hub section.

On ITV main channel, Coronation Street and Emmerdale maintained their position as the UK's two largest soaps. We successfully aired a range of new programmes, including six of the top ten most-watched new dramas such as The Pembroke Murders, Unforgotten and Finding Alice; the top two most-watched entertainment shows, being The Masked Singer and Saturday Night Takeaway; the most-watched current affairs programme, The Harry & Megan interview; and successful factual programming including Kate Garraway: Finding Derek and Bradley & Barney Walsh: Breaking Dad. During the day, our daytime shows continued to do well with This Morning and Loose Women both growing share year-on-year. We had a return of live sport, including the Rugby Six Nations Championships, horse racing, and the Euros, which drove significant live audiences, with the England v Scotland match in June peaking at 19.9 million viewers. Our news programming continued to perform well, with our weekday afternoon and early evening bulletins increasing their share year-on-year. Viewing however, was impacted by the decision to cancel this year's series of Britain's Got Talent due to the risks to filming under COVID-19 restrictions, and the delay in delivery of several programmes, particularly scripted, arising from the pause in production in ITV Studios and other indies.

We continue to target the demographics most highly demanded by advertisers – particularly young and male audiences – through our family of channels and online.

On ITV2, SOV and SOCI for 16-34s were down 19% and 13% respectively, with the absence of a winter Love Island having a significant impact on viewing. Despite this, ITV2 remained the most-watched digital channel for 16-34s for the fifth year in a row. This was helped by new entertainment series, The Cabins, which has been recommissioned for a second series, the first few episodes of the summer series of Love Island, along with several box-office films. As part of the M&E restructure, ITV2, ITVBe and CITV are included within the Streaming business as content on these channels is consumed by younger audiences whose viewing behaviour is more on-demand led. More detail on the commissioning strategy for these channels is included in the ITV Hub section.

On ITV3, ABC1 adults SOV was down 2% in the period, due to the strong viewing in 2020. During the first half of 2021, our classic dramas continued to appeal to audiences looking for quality content to watch with programmes such as Downton Abbey, Midsomer Murders, Vera and Lewis all driving strong audiences.

On ITV4, Male SOV was down 7% and was impacted by the strong comparatives which saw increased viewing for films and horse racing.

We have a strong schedule on the ITV Family of channels for the rest of 2021 with new and returning dramas including Anne, The Long Call, Angela Black, Stephen, The Larkins, Manhunt, and Vera; and new and returning entertainment including Moneyball, Walk The Line, Cooking With The Stars, Ready To Mingle, Love Island, and I'm A Celebrity...Get Me Out Of Here!. Our sporting schedule includes the FA Cup and England football World Cup Qualifiers.

While there remains a risk that some programmes due to broadcast during the second half of the year may be delayed due to continued COVID-19 restrictions, being an integrated producer broadcaster puts us in a unique position enabling us to work with ITV Studios to develop filming plans on key programmes, and to source additional library content for our channels.

Spontaneous consideration amongst all adults and light viewers was down 4.4 percentage points and 4.0 percentage points respectively year-on-year, mainly impacted by the continued growth in SVOD brands. We remain one of the top three brands within all TV channels and platforms in the UK, demonstrating the high quality of our content and the positive impact of our marketing investment.

Growing and enhancing our AVOD and SVOD propositions

Our advertising video on demand (AVOD) proposition is the ITV Hub in the UK and our subscription video on demand (SVOD) propositions are ITV Hub+, BritBox UK, BritBox International in the US, Canada and Australia, and Cirkus in the Nordics, Germany, Austria and Switzerland.

ITV Hub

The ITV Hub has 34.6 million registered user accounts (2020: 32.2 million) and is available on 28 consumer-facing platforms.

Investment in the ITV Hub is a key part of the More Than TV strategy. Over the last few years, we have enhanced and improved the ITV Hub user experience and content to make it a destination for viewers, not just a catch-up service: redesigning the interface to improve the overall user experience; increasing personalisation with recommendations and curated content rails; worked to improve prominence, and extended distribution.

During the first half of 2021 we have rolled out the redesigned interface across connected TVs including Amazon Fire and Samsung TV. Around 70% of our MAUs now view through the redesigned ITV Hub. We have strengthened the content offering with an extended catch-up window; increased the number of drama series available in full on the ITV Hub when the first episode launches on linear – such as Finding Alice, The Bay and Marcella; increased the volume of short-form content, and improved the curation of content using our vast archive. During the Euros, for the first time ever, we put all episodes of Coronation Street and Emmerdale for the week ahead on the ITV Hub, giving audiences the option to watch at their convenience. Our newly redesigned ITV News website is now available through Facebook News and Apple News, and it recently won National News Site of the Year with The Drum. Across the full year, we expect our investment to drive an increase in online viewing and monthly active users.

Operating and Performance Review continued

ITV Hub+

The ITV Hub+ offers an ad-free subscription version of the ITV Hub with content download capability. The number of subscriptions¹ at the end of June 2021 was c452,000 which was an increase on the prior period (2020: c390,000). Despite this, Hub+ subscriptions were below the comparative period in 2019 which was over 500,000 at the end of June. Growth has been impacted by ongoing travel restrictions due to the COVID-19 pandemic which has resulted in people not requiring download functionality or portability, and this has continued to impact our ability to drive new subscriptions. We continued our process of improvement on ITV Hub+ and embedded Google Play billing in the app. In the second half of 2021, we would expect the return of key entertainment shows such as Love Island to positively impact our Hub+ subscriptions and we will focus on creating more upselling opportunities for ITV Hub+ within the ITV Hub.

BritBox

BritBox UK continued to grow during the period with subscriptions increasing by over 10% to c.555,000 at 30 June 2021 from 500,000 in January 2021 despite the loosening of lockdown restrictions in Q2. Churn rates are improving as the subscription base matures, and app ratings for both iOS and Android have increased to over 4 stars. The distribution of BritBox UK has been extended and is now available on Amazon Prime Video Channels, which makes it accessible in over 90% of VOD homes. During the period BritBox UK saw its first original scripted and first original factual commissions, *The Beast Must Die* and *Secrets of the Krays* respectively. There is a strong pipeline of originals in the second half of 2021 and into 2022, with the second series of *Spitting Image* and scripted originals including *Magpie Murders*, *Crime and Marlow*, along with the recommission of *Sanditon* for two series with BritBox as the UK streaming partner. We will continue to experiment with windowing and trialling new content such as the drama, *Professor T*, which was available on BritBox six weeks before broadcast on ITV main channel.

Our international BritBox joint venture with the BBC is currently available in the US, Canada, and Australia, and provides an ad-free SVOD service offering the most comprehensive collection of British content available in those territories. Subscriptions have grown strongly, and we now have two million BritBox subscriptions internationally. We are planning a phased rollout of BritBox in up to 25 countries, with South Africa on track to launch in August. Our funding for the next phase of the rollout will be from our share of BritBox US cash flows, which is a profitable service, and we will undertake a full business case review for each territory before deciding to launch.

Across all our SVOD services (including Hub+) we now have over three million subscriptions globally.

Strong linear and online advertising proposition

We have seen a resurgence in total advertising spend since March, with advertisers across the majority of categories increasing spend year on year. Our Commercial team is continuing to deepen our strategic relationships with our clients and working more collaboratively with them. There continue to be no late booking penalties for advertisers and no charges for making amendments to existing campaigns to give advertisers as much flexibility as possible.

We are also delivering more innovative and bespoke partnerships including product placement, ad-funded programming and commercial partnerships where we can use the power of our brands to help advertisers engage with audiences in different ways. This is made possible and more valuable by being an IPB, with editorial, commercial, creative and production working together to provide valuable opportunities for advertisers.

During the period we had several product placement deals, including Purple Bricks in *Coronation Street* and Tiktok in *Saturday Night Takeaway*. In July we have an advertiser-funded programme for our new prime-time entertainment show, *Cooking With The Stars*, with M&S helping to fund the production, with promotion across ITV, in store and online, with extensive products and merchandise available for purchase. In addition, the summer version of *Love Island* will have a record number of commercial partnerships, engaging in programme sponsorship, brand licenses, in-store branding and product placement, including Just Eat, Boots, JD Sports, Spotify and I Saw It First.

Television remains an efficient and effective medium for advertisers to achieve mass reach and in the first half of 2021, ITV delivered 92% of all commercial audiences over three million and 93% over five million. As viewing and advertising become more fragmented, the scale and reach of advertising that television, and particularly ITV, delivers becomes increasingly valuable. We provide a safe, trusted, measured and transparent environment in which to advertise, and television generates the highest return on investment of any media. With the proven return on investment which television offers, our Commercial team has several initiatives in place particularly to attract new advertisers to ITV. These include the following which has helped attract 160 new brands to ITV in H1:

- *ITV AdVentures Ignite*, aimed at encouraging digitally native brands to advertise on television for the first time. During the period this included online mortgage comparison site Dashly. And Butternut Box a subscription service dog food brand will return to ITV after a successful on-air campaign in 2020.
- *ITV AdVentures Invest* is ITV's Media for Equity programme which launched during the first half of 2021 and involves ITV taking minority stakes in early-stage digital and direct-to-consumer businesses, in return for advertising inventory across ITV's channels and the ITV Hub. The initiative serves as an innovative opportunity for these businesses to build scale through TV advertising, alongside a strategic media partner. Menswear brand, SPOKE; and location service, what3words were our first investments and we have several more in the pipeline for 2021.
- *ITV Backing Business*, which makes it as flexible as possible for British businesses to advertise on television, with ITV providing them with marketing support, seminars and a wealth of resources to help them return to growth. The team worked with brands during the period, including Weleda, HiHi, Very Lazy and Seabrook Crisps.
- *ITV Home Planet*, ITV's initiative for sustainable brands to encourage viewers to reduce their carbon footprint. Brands that advertised in the period included Quorn (meat substitute brand) and WWF. There was a 'Green Scenes' advertising break takeover in *Coronation Street* to mark World Environment Day, demonstrating brands progress in sustainability, and how small changes can make a big difference. Brands involved included Volkswagen, Ribena and Sainsbury's. We are expecting further planned advertising break takeovers across Climate Action week and during the COP26 meeting later in the year.

1. Subscriptions – entitled users of ITV SVOD services, which includes those who pay ITV directly, those who are paid for by an operator, and free trialists.

Operating and Performance Review continued

Online video advertising on the ITV Hub delivers targeted demographics in a high-quality, trusted and measured environment for advertisers. The demand for advertising during the period was strong, up 55%, and we saw a 250% increase in the number of VOD only campaigns year on year. Planet V, our scaled programmatic addressable advertising platform, has been rolled out to the majority of large agencies, with around 90% of all customer orders now managed on the platform, and 65% of all campaign bookings being self-served. It is now the UK's second-largest programmatic video advertising platform.

Planet V is designed and deployed as a self-service platform for advertisers and agencies, enabling them to plan and buy ITV Hub inventory seamlessly and cost-effectively, create bespoke audiences, add their first-party data and monitor their campaigns via a custom built user interface. There are 10,000+ data points for targeting within Planet V, which enables our Commercial business to offer 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 2020 we invested in InfoSum, a data and identity infrastructure company, to augment Planet V's first-party data capabilities. We are currently piloting data match campaigns across multiple categories, intending to go live in early 2022. This allows for smarter targeting and measurement across ITV's premium video inventory, providing the capability to build new and more powerful audience segments, at scale, unique to each advertiser.

To provide more insight into the effectiveness of television advertising, ITV has joined Channel 4 and Sky to launch a new total television advertising measurement system in the UK. CFlight (designed by NBCU in the US) is a post-campaign online evaluation tool, using combined linear television and Broadcaster VOD (BVOD) data to show advertisers and media agencies what the overall advertising exposure is for television advertising, including reach and frequency metrics. This will give advertisers and agencies a unique view of the coverage achieved by their commercial campaigns across both linear and BVOD. We expect this to be available later in 2021.

M&E financial performance

	2021 £m	2020 £m	Change £m	Change %
Six months to 30 June				
Total advertising revenue	866	671	195	29
Direct to Consumer*	39	41	(2)	(5)
SDN	37	36	1	3
Other revenue	86	74	12	16
M&E non-advertising revenue	162	151	11	7
Total M&E revenue	1,028	822	206	25
Network schedule costs	(522)	(464)	(58)	(13)
Variable costs	(81)	(73)	(8)	(11)
M&E infrastructure and overheads	(193)	(182)	(11)	(6)
Total M&E costs	(796)	(719)	(77)	(11)
Total M&E adjusted EBITA**	232	103	129	125
Total adjusted EBITA margin	23%	13%		
BritBox UK venture loss***	(31)	(23)	(8)	(35)
Adjusted EBITA M&E (ex BritBox UK)	263	126	137	109
Adjusted EBITA margin (ex BritBox UK)	26%	15%		

* 2020 comparatives for DTC has been restated to reflect the reclassification of gaming, live events and merchandising revenues to ITV Studios. The impact is a £2 million decrease to 2020 DTC revenue, there is no impact on adjusted EBITA.

** There are no adjusting items within M&E 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.

M&E total revenue was up 25% in the half-year at £1,028 million (2020: £822 million). This increase was predominantly driven by total advertising revenue which was up 29% to £866 million (2020: £671 million). Within this VOD advertising revenue was up 55%. M&E non-advertising revenues were up 7% for the six months to £162 million (2020: £151 million) with growth across most areas. Further detail on the year-on-year movement in revenue is detailed below.

When compared to the same period in 2019, M&E revenue on a like-for-like basis, was up 4% (2019: £988 million) predominantly due to the increase in TAR (2019: £849 million) and growth in Other Revenue (2019: £68 million) driven by BritBox UK subscriptions.

Total costs within M&E were up 11%, primarily driven by increased schedule costs, which were up 13% to £522 million (2020: £464 million) due to increased programming compared to the prior year which was significantly impacted by the pandemic. 2021 included the rescheduled Euros, a normal schedule of the soaps which were reduced in Q2 2020 due to the pause in production, and several scripted titles that had been delayed into 2021. It is expected that the full-year schedule costs in 2021 will be around £1.1 billion as previously announced. Variable costs were up 11% at £81 million (2020: £73 million), mainly driven by increased marketing for our content, which was significantly reduced in the prior year, along with higher content and marketing costs for BritBox UK, which had two originals during the period, and additional costs associated with our creative partnerships. M&E infrastructure and overhead costs increased by 6% to £193 million (2020: £182 million), due to the provision for the 2021 staff bonus, which was cancelled in 2020, higher share costs associated with our share schemes, along with investments of £4 million in data, the ITV Hub, ITV Hub+ and technology in line with our strategic priorities. This was partly offset by £12 million of cost savings made across M&E (£2 million of which are temporary and £10 million are permanent).

The net investment in BritBox UK in the period was £22 million (2020: £19 million) with venture losses of £31 million (2020: £23 million), both of which were in line with expectations.

Operating and Performance Review continued

M&E adjusted EBITA (excluding BritBox UK) was up 109% to £263 million (2020: £126 million), with a margin of 26% (2020: 15%). Total M&E adjusted EBITA (including BritBox) was up 125% to £232 million (2020: £103 million), with a 23% margin (2020: 13%). Total M&E adjusted EBITA in 2021 grew 11% compared to the same period in 2019 on a like-for-like basis, (2019: £209 million), with the margin up two percentage points (2019: 21%), predominantly due to the impact of higher TAR in the period.

Total advertising revenue (TAR)

The start of 2021 saw TAR down 6% in Q1 due to strong comparatives, and the impact of full UK lockdown restrictions in January and February 2021. From March onwards, advertising trends were positive, with a rebound in demand from advertisers resulting in Q2 being up 89% and the first half of 2021 up 29%. TAR in June was +115%, which was the largest outturn for that month in ITV's history, benefitting from the easing of restrictions and the Euros. Most advertising categories increased their spend during the period, with categories such as Retail, Entertainment & Leisure – particularly gaming, and Publishing and Broadcasting seeing a significant rise year on year. Airlines and Travel remains the hardest-hit category due to ongoing travel restrictions in the UK and globally in the period.

Spend from online brands (excluding gambling) also increased significantly during the period, up 37%, with additional spend by food delivery brands, global online platforms and online-only retailers, who have benefited from more people being at home.

VOD advertising revenue on the ITV Hub was up 55% in the period with continued strong demand from advertisers, particularly around the Euros and drama.

While the comparatives in the second half of 2021 are tougher, we are encouraged by the advertising outlook, with strong demand in July for the final matches of the Euros and the return of Love Island, and Airlines and Travel have benefited from a reduction in travel restrictions. We expect July to be up 68% and August to be up 17% to 20% compared to the same period in 2020. It is too early to give a range for September given the current uncertainty but we expect it to be positive. This assumes there is no change to current UK government COVID-19 restrictions.

Direct to Consumer

Direct to Consumer (DTC) generates revenue directly from the customer and includes ITV Hub+ and competitions. DTC revenue does not include BritBox UK (which is included within Other Revenue) or BritBox US/Australia (which is included within JVs and Associates). With the creation of the M&E division, 2021 gaming, live events and merchandising revenues related to our IP has moved to Global Formats and Distribution within ITV Studios. The 2020 comparative has been restated, decreasing revenue by £2 million, but with no impact on adjusted EBITA.

In the first half of 2021, DTC revenue decreased by 5% to £39 million (2020: £41 million) predominantly driven by a decrease in competitions revenue which had strong comparatives due to; more people viewing our programmes, particularly daytime, and entering competitions at the peak of the pandemic; and the absence of Britain's Got Talent and winter Love Island from the schedule in 2021. Our competitions portal, ITV Win, continues to do well, with an increasing proportion of competitions revenue being generated through it.

SDN

SDN generates revenue by licensing multiplex capacity to broadcast channels, radio stations and data providers on digital terrestrial television (DTT) or Freeview.

SDN customers include ITV and third parties, with external revenue (non-ITV) increasing marginally by 3% in the year to £37 million (2020: £36 million), mainly due to the two new video streams which were launched in Q1 2020.

SDN's current multiplex licence expires towards the end of 2022. The Government consulted on the future of the SDN licence (as well as most of those held by Arqiva, the BBC and Channel 4) last year. We are now awaiting the outcome of that process. The consultation indicated that the Government is seeking to renew the licence and not to hold an open competition, though the period of the possible renewal is not yet determined. The Government recognises the need to ensure that Ofcom can undertake the renewal of these licences sufficiently in advance of their expiry in 2022, and is aiming for the amended legislation to come into force during 2021.

In 2022 and 2023, some long-standing contracts which were agreed at the peak of the DTT capacity market ten years ago will come to an end, which we expect to revert to current market rates.

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 16% year-on-year to £86 million (2020: £74 million) predominantly due to BritBox UK which has seen good growth during the last year particularly due to the pandemic. There was also an increase in third-party commission due to the corresponding increase in NAR during the first half of 2021.

We continue to build strong partnerships in the UK and internationally and during the period have renewed our deal with Sky. In addition, ITV, together with the BBC and C4, have brought together Digital UK and Freesat into a single, public service broadcaster (PSB) owned venture. It will benefit from a more streamlined approach to technological innovation and product development, helping to ensure viewers continue to have access to a range of high quality, free-to-view TV services in the UK.

Operating and Performance Review continued

Regulation

Public service broadcasting - Ofcom has published its final statement on the future of public service broadcasting, including recommendations to the Government as to how the system might be maintained and strengthened. Ofcom has concluded that there is now an urgent need for a new framework to support an effective transition to public service media (PSM), straddling online and broadcast TV. We remain fully engaged with Ofcom and the government on this, particularly in relation to the need for reform of the rules governing prominence, inclusion and fair value for PSBs on all major platforms, particularly online. The government intends to publish a Media White Paper by the end of 2021.

High Fat Salt and Sugar (HFSS) - The Government has published its statement confirming the introduction of a 9pm watershed ban on TV and VOD advertising of HFSS products, and a prohibition on most paid-for online HFSS advertising at all times. Small and medium-sized enterprises (SME) food and drink companies and owned media (e.g. own company websites and social accounts) are exempt. Subject to the passage of the Health and Social Care Bill through Parliament, the ban will come into effect on 1 January 2023. Whilst we remain fully engaged with this process - and continue to believe that there is a strong, evidence-based case for alternatives to the pre 9pm ban - the proposed TV ban will negatively impact ITV.

Gambling review - The Government has completed a call for evidence in relation to gambling, ahead of the launch of either a full review of the Gambling Act 2005, or a White Paper, which is expected during 2021. The call for evidence was very broad, encompassing the industry as a whole, and advertising may form part of any eventual process of reform.

Outlook

We are encouraged by the easing of lockdown restrictions in the UK and globally. ITV Studios is performing strongly as it successfully manages the challenges presented by COVID-19. The advertising outlook remains positive but comparatives are tougher in H2. TAR is expected to be up 68% in July, with August up 17% to 20% compared to the same period in 2020. It is too early to give a range for September given the current uncertainty but we expect it to be positive.

The Board recognises the importance of the ordinary dividend for ITV shareholders. Given the current uncertainty, the Board will not declare an interim dividend in respect of the current year. However, assuming the economy continues to recover, the Board intends to propose a final dividend of 3.3p for the full year 2021, based on two-thirds of a notional full-year dividend of 5.0p. The Board intends to grow the ordinary dividend over time whilst balancing further investment behind our strategy and our commitment to investment grade metrics.

Given the significant progress we have made, we are now entering the next phase of our More Than TV Strategy. We will further strengthen and diversify ITV Studios by genre and customer to take advantage of the strong demand for global content. In M&E we will have one content budget allowing us to optimise our windowing strategy to create the best experience for viewers and the best value for advertisers and ITV. This will balance our ability to deliver mass audiences and increase on-demand viewing. Our streaming strategy will be AVOD led with a very compelling SVOD proposition, therefore positioning us well to respond to the evolving viewing and advertising environment. We will also continue to invest in data, tech and analytics to enable further platform integration and a more seamless viewing experience.

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 2020 Annual Report and Accounts pages 24 to 27.

The severe impact of COVID-19 on our business, particularly in 2020, has adversely affected the delivery of our KPI targets. Further detail on this can be found in the Operating and Performance Review.

Strategy	KPIs for measuring performance		Targets – over 3 years to the end of 2021
1 Grow UK and Global Production		- Total Studios revenue growth - ITV Studios adjusted EBITA margin¹ - Total production hours	- Total Studios revenue to grow at least 5% average CAGR - Adjusted EBITA margin¹ of 14% to 16% - Production hours to grow to 10,000
2 Transform Media & Entertainment	Advertising Marketing and Viewing Hub	- Total advertising revenue - ITV Family SOV % - Total ITV viewing² - Brand consideration - Online revenue growth - Online viewers - Registered users	- Increase brand consideration to 60% for adults - Double-digit online revenue growth per annum - Grow ITV Hub registered users to 30 million Strategic ambition - To grow total advertising in a flat NAR market - ITV Family SOV to be above 21% - To maintain total viewing compared to the 2015-2018 average of 16.8 billion hours
3 Expand Direct to Consumer		- Direct to Consumer revenue - Paying product relationships	- Grow Direct to Consumer revenue to at least £100 million (ex BritBox UK) - Grow paying product relationships to 10 million
Group Financial KPIs		- Adjusted EPS¹ - Total non-advertising revenues - Cost savings - Profit to cash conversion	- Grow total non-advertising revenues by at least 5% CAGR - Deliver £100 million of cumulative cost savings by 2022³ - Maintain profit to cash conversion at around 85%

Our KPIs for the first six months of 2021 are set out below.

Six months to 30 June	2021	2020	Change
Adjusted EPS	5.9p	2.9p	103%
Total non-advertising revenues	£960m	£783m	23%
Cost savings ³	£21m	£51m	(59)%
Profit to cash conversion 12-month rolling	72%	138%	–
Total Studios revenue growth	26%	(17)%	–
ITV Studios adjusted EBITA margin	12%	10%	2ppt
Total production hours	3,202	3,616	(11)%
Total advertising revenue	£866m	£671m	29%
Online advertising revenue growth	55%	(3)%	–
Total ITV Viewing (hours)	8.1bn	8.5bn	(6)%
ITV Family SOV	22.7%	22.6%	–
Online viewing (hours)	283m	266m	6%
ITV Hub registered user accounts	34.6m	32.2m	7%
Brand consideration	48%	52%	(4)ppt
Direct to Consumer revenue ⁴	£39m	£41m	(5)%
Paying product relationships	6.8m	8.2m	(17)%

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

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

3. This is our revised permanent cost savings target announced in March 2021, it was increased from our original target set in 2018 of £55 million - £60 million. In the first half of 2021, we delivered £15 million of permanent cost savings and £6 million of temporary savings.

4. 2020 comparatives for DTC has been restated to reflect the reclassification of gaming, live events and merchandising revenues to ITV Studios. The impact is a £2 million decrease to 2020 DTC revenue

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, they 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 Reported 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 adjusted 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 ITV 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. 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.

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 directly related to acquisition-related costs, impairment of sports rights, reorganisation and restructuring costs, onerous contracts, the impact of COVID-19, and other items such as non-routine legal costs (e.g. legal costs related to items which are themselves considered to be exceptional items). We also adjust for the tax effect of these items. Further detail is included in note 2.2.

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 in 2020 as a result of COVID-19 and include; costs associated with the 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.

Impairment of sports rights

COVID-19 impacted our planned 2020-21 sporting schedule. This combined with the consequential impact on TAR, changing forecasts of audience mix and revenues for certain sporting events resulted in a material impairment to our sports rights in 2020.

Onerous contracts

A contract is considered onerous when the unavoidable costs of the contract exceed the revenues associated with it. In the first half of 2021, we had a significant onerous transmission contract relating to committed costs of transmission capacity on a satellite transponder that is no longer used in the M&E business. There are no revenues associated with this capacity as there are no channels on the relevant satellite transponder.

Alternative Performance Measures continued

Amortisation and impairment

Amortisation and any initial 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, exceptional interest on acquisitions, 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.

Reconciliation between statutory and adjusted results

Six months to 30 June	2021 Statutory £m	2021 Adjustments £m	2021 Adjusted £m	2020 Statutory £m	2020 Adjustments £m	2020 Adjusted £m
EBITA ¹	316	11	327	159	6	165
Exceptional items (operating) ²	(130)	130	–	(89)	89	–
Amortisation and impairment ³	(30)	19	(11)	(37)	28	(9)
Operating profit	156	160	316	33	123	156
Net financing costs ⁴	(27)	8	(19)	(23)	5	(18)
Share of profits on JVs and associates	4	–	4	5	–	5
Profit before tax	133	168	301	15	128	143
Tax ⁵	(32)	(28)	(60)	–	(29)	(29)
Profit after tax	101	140	241	15	99	114
Non-controlling interests	(3)	–	(3)	4	–	4
Earnings	98	140	238	19	99	118
Shares (million), weighted average	4,005		4,005	4,001		4,001
EPS (p)	2.4p		5.9p	0.5p		2.9p
Diluted EPS (p)⁶	2.4p		5.9p	0.5p		2.9p

- £11 million (2020: £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 of £130 million (2020: £89 million) largely relate to the acquisition-related costs and includes a £108 million adjustment to the earnout payment in relation to Talpa following the final determination. Refer to the Finance Review.
- £19 million (2020: £28 million) adjustment relates to amortisation and impairment of assets acquired through business combinations and investments. We include only amortisation on purchased intangibles, such as software within adjusted profit before tax.
- £8 million (2020: £5 million) adjustment is £2 million for non-cash interest cost and £6 million exceptional interest payable on the Talpa exceptional acquisition-related expense. 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 profit before tax and adjusted profit before tax. A full reconciliation is included in the Finance Review.
- Weighted average diluted number of shares in the period was 4,046 million (2020: 4,020 million).

Other Alternative Performance Measures

Total revenue

As an integrated producer broadcaster, we look at the total revenue generated by the business including internal revenue, which is the sale of ITV Studios programmes to M&E. ITV Studios selling programmes to the M&E business 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	2021 £m	2020 £m
External revenue (Reported)	1,548	1,218
Internal supply	278	236
Total revenue (Adjusted)	1,826	1,454

Net pension deficit/surplus

This is our defined benefit pension scheme 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. See note 3.3 of the financial statements.

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.

Alternative Performance Measures continued

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 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.

Covenant net debt and covenant liquidity

Covenant net debt is our leverage as defined in our revolving credit facility (RCF) agreement. This calculation is materially different to how we define reported net debt and is relevant in demonstrating we have met the required RCF financial covenants at our reporting date.

	30 June 2021 £m	31 December 2020 £m
Reported net debt (including IFRS 16 lease liabilities)	(467)	(545)
Impact of IFRS 16 lease liabilities	94	105
Long-term trade payables	(59)	(54)
Other pension assets	60	62
Covenant net debt	(372)	(432)
Covenant net debt to adjusted EBITDA*	0.5x	0.7x
Cash and cash equivalents	654	668
Undrawn RCF	630	630
Undrawn CDS facility	148	199
Covenant liquidity**	1,432	1,497

* Adjusted EBITDA is defined per the facility agreement. The Finance Review includes further detail on our covenant ratios.

** Covenant liquidity is defined as cash and cash equivalents plus undrawn committed facilities.

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. This enables focus on the key measures that we report on and use across the business. See earlier sections for further detail.

Six months to 30 June	2021 £m	2020 £m	Change £m	Change %
ITV Studios total revenue*	798	632	166	26
Total advertising revenue	866	671	195	29
M&E non-advertising revenue	162	151	11	7
M&E total revenue*	1,028	822	206	25
Total non-advertising revenue	960	783	177	23
Total group revenue	1,826	1,454	372	26
Internal supply	(278)	(236)	(42)	(18)
Group external revenue	1,548	1,218	330	27
Group adjusted EBITA	327	165	162	98
Group adjusted EBITA margin	21%	14%		
Reported EBITA**	316	159	157	99
Adjusted EPS	5.9p	2.9p	3.0p	103
Statutory EPS	2.4p	0.5p	1.9p	380
Reported net debt as at 30 June	(467)	(783)	316	40

* 2020 comparatives for M&E has been restated has to reflect the reclassification of gaming, live events and merchandising revenues to ITV Studios. The impact is a £2 million decrease to 2020 M&E revenue and a £2 million increase to ITV Studios revenue, there is no impact on adjusted EBITA

** Defined as statutory operating profit before interest, tax, amortisation and exceptional items

Exceptional items

Six months to 30 June	2021 £m	2020 £m
Acquisition-related expenses	(110)	(10)
Restructuring and reorganisation costs	(5)	(3)
COVID-19 related costs	–	(9)
Sports rights impairment reversal/(impairment)	2	(34)
Pension-related costs	–	(31)
Transponder onerous contract	(16)	–
Other costs	(1)	(2)
Operating exceptional items	(130)	(89)
Exceptional finance costs	(6)	–
Total exceptional items	(136)	(89)

Operating exceptional items in the period were £130 million (2020: £89 million). Acquisition-related expenses of £110 million are predominantly performance based, employment-linked consideration to former owners. The increase year-on-year reflects an additional amount due to Talpa of £108 million following the final determination of the second earnout.

Restructuring and reorganisation costs of £5 million relate to one-off restructuring projects stemming from the Group-wide commitment to reduce the overhead cost base and reorganisation costs to deliver the strategy. In 2021 these costs largely relate to the M&E restructure and other business transformation projects.

COVID-19 related costs are direct incremental costs incurred exclusively as a result of the pandemic. In 2020 the £9 million of costs incurred was due to the closure of ITV Studios productions and the subsequent restart in a safe environment along with additional costs incurred to maintain the production of Daytime programming during the Government imposed lockdown.

Impairment of sports rights relates to the impact of COVID-19 on the planned sporting schedule across 2020 and 2021, and the consequential impact on TAR, along with changing forecasts of audience mix and revenues for certain sporting events. At 30 June 2020, the Group recognised a provision for these sporting events of £34 million. The £2 million credit in 2021 is due to the reversal of part of the impairment which has resulted from improved TAR forecasts in the period under review.

Pension-related costs in 2020 represented an estimate for the settlement of the Box Clever case of £31 million. Further detail is included in note 3.2 of the financial statements.

Transponder onerous contract relates to satellite transponder capacity no longer required. In 2020, we commenced a review of the efficiency of our satellite transponder capacity usage, aimed at reducing our capacity requirements. This allowed us to reorganise and clear all channels from one transponder in the second half of 2020 which we were no longer utilising in our M&E business. In the first half of 2021 we have cleared a second transponder and as such, we are including £16 million as an onerous contract provision.

Other costs include other legal costs in relation to legal matters which are considered to be outside the normal course of business.

Exceptional finance costs of £6 million is principally interest accrued on exceptional acquisition-related expenses.

Finance Review continued

Net financing costs

Six months to 30 June	2021 £m	2020 £m
Financing costs directly attributable to loans and bonds	(13)	(14)
Cash-related net financing costs	(6)	(4)
Adjusted financing costs	(19)	(18)
Imputed pension interest	–	(1)
Exceptional interest	(6)	–
Other net financial losses and unrealised foreign exchange	(2)	(4)
Net financing costs	(27)	(23)

Adjusted financing costs were marginally up year-on-year at £19 million (2020: £18 million). Net financing costs were £27 million, which was up year-on-year (2020: £23 million) and largely due to interest payable on exceptional earnout costs relating to acquisition-related expenses.

JVs and associates

Our share of profits from JVs and associates in the period was £4 million (2020: profit of £5 million). This was the net profit arising from our investments, such as BritBox US and Canada, Bedrock Entertainment and Blumhouse Television.

Profit before tax

Statutory profit before tax increased significantly year-on-year to £133 million (2020: £15 million). Production tax credits increased to £11 million (2020: £6 million) as a result of more high-value dramas compared to the same period in 2020 when productions were paused. Adjusted profit before tax was up 110% to £301 million (2020: £143 million).

Profit before tax (PBT) and adjusted PBT

Six months to 30 June	2021 £m	2020 £m
Profit before tax	133	15
Production tax credits	11	6
Exceptional items	130	89
Amortisation and impairment*	19	28
Adjustments to net financing costs	8	5
Adjusted profit before tax	301	143

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

Tax

Adjusted tax charge

The total adjusted tax charge for the period was £60 million (2020: £29 million), corresponding to an effective tax rate on adjusted PBT of 20% (2020: 20%), which is marginally higher than the standard UK corporation tax rate of 19% (2020: 19%). We expect the adjusted effective tax rate to be between 18% and 19% in 2021 and 2022, and then move to around 25% over the medium term as a result of the increase in the UK statutory rate to 25% from April 2023.

On a reported basis, the tax charge is £32 million (2020: £nil) and corresponds to an effective tax rate of 24% (2020: 0%). This rate in 2021 is higher than in previous years due to the exceptional Talpa earnout cost and prior-year tax adjustments. The adjustments made to reconcile the tax charge with the adjusted tax charge are the tax effects of the adjustments made to reconcile PBT and adjusted PBT, as detailed in the table above.

Six months to 30 June	2021 £m	2020 £m
Tax charge	(32)	–
Production tax credits	(11)	(6)
Charge for exceptional items	(4)	(16)
Charge in respect of amortisation and impairment*	(4)	(7)
Charge in respect of adjustments to net financing costs	(2)	(1)
Other tax adjustments	(7)	1
Adjusted tax charge	(60)	(29)
Effective tax rate on adjusted profits	20%	20%

* 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 £41 million (2020: £49 million) and is net of £6 million of production tax credits received (2020: £12 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 change to in-year payments in 2020 where additional payments were made.

Finance Review continued

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

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 (ARC). The ITV Global Tax Strategy, approved by the Board and ARC in September 2020, and 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 up 111% to £241 million (2020: £114 million). Non-controlling interest was a share of profit of £3 million (2020: £4 million share of losses) which is the net result from the non-ITV owned share in entities such as Tomorrow ITV Studios, Cattleya, Tetra Media and BritBox UK.

Adjusted basic EPS was up 103% to 5.9p in the period (2020: 2.9p), this compares to 6.2p in 2019. The weighted average number of shares increased year-on-year to 4,005 million (2020: 4,001 million). Diluted adjusted EPS in the period was 5.9p (2020: 2.9p) reflecting a weighted average diluted number of shares of 4,046 million (2020: 4,020 million).

Statutory EPS increased by 380% to 2.4p (2020: 0.5p). Compared to the same period in 2019, statutory EPS declined by 50% (2019: 4.8p) due to higher operating exceptional costs in 2021.

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

Dividend per share

The Board recognises the importance of the ordinary dividend for ITV shareholders. Given the current uncertainty, the Board will not declare an interim dividend in respect of the current year. However, assuming the economy continues to recover, the Board intends to propose a final dividend of 3.3p for the full year 2021, based on two-thirds of a notional full-year dividend of 5.0p. The Board intends to grow the ordinary dividend over time whilst balancing further investment behind our strategy and our commitment to investment grade metrics.

Acquisitions

Since 2012, we have acquired a number of content businesses in the UK, US and locations across Europe, 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.

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 IP, 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.

Finance Review continued

The following table 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.

Acquisitions – between 2012 and 2021 (undiscounted)

Company	Geography	Genre	Initial consideration £m	Additional consideration paid £m	Expected future payments* £m	Total expected consideration** £m	Expected payment period***
Total for 2012–2021	Various	Content & Broadcast TV	959	205	331	1,495	2021-2026

* 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 £2.4 billion.

*** £265 million is expected to be paid in 2021.

Acquisition-related liabilities or performance-based employment-linked earnouts are amounts estimated to be payable to previous owners. The estimated future payments of £331 million are sensitive to forecast profits as they are based on a multiple of earnings. The range of reasonably possible outcomes for the liability is between £323 million and £381 million. 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 £331 million have increased by £104 million since 31 December 2020, mainly due to an increase in expected future payments on certain acquisitions (primarily an increase in the Talpa earnout following the determination of the payable by an independent arbiter), and the associated impact of foreign exchange. This was partly offset by payments made in the period. At 30 June 2021, £316 million of expected future payments had been recorded on the balance sheet, with the balance of £15 million to be accrued over the period in which the sellers are required to remain with the business.

Following the determination of the second earnout payable on the Talpa acquisition by the independent arbiter, €298 million (c.£256 million) is included within expected future payments. This amount is due to be paid during August 2021.

There were no material acquisitions in the first half of 2021. However, during the period we agreed several talent deals within ITV Studios UK and ITV Studios International to strengthen our creative talent pool.

Cash generation

Profit to cash conversion

	2021 £m	2020 £m
Six months to 30 June		
Adjusted EBITA	327	165
Working capital movement	(128)	289
Adjustment for production tax credits	(5)	6
Depreciation	28	28
Share-based compensation	3	–
Acquisition of property, plant and equipment and intangible assets*	(28)	(36)
Lease liability payments (including lease interest)	(14)	(11)
Adjusted cash flow	183	441
Profit to cash ratio six months to 30 June	56%	267%
Profit to cash ratio 12-months rolling	72%	138%

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

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 in scripted content and BritBox UK, through having a disciplined approach to cash and costs. This has been particularly important during the COVID-19 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 £183 million of operational cash (2020: £441 million) from £327 million of adjusted EBITA (2020: £165 million), resulting in a profit to cash ratio of 56% (2020: 267%) for the first six months of 2021. The year-on-year movement is the unwind of the working capital benefit from 2020, which had a large working capital inflow arising from a reduction in programme stock (where we delivered programmes but were unable to continue producing due to the COVID-19 pandemic) and the timing of VAT payments which were deferred to the first half of 2021 (see further detail below). Across a 12-month rolling basis this equates to a profit to cash ratio of 72% (2020: 138%).

Free cash flow

	2021 £m	2020 £m
Six months to 30 June		
Adjusted cash flow	183	441
Net interest paid (excluding lease interest)	(21)	(6)
Adjusted cash tax*	(47)	(61)
Pension funding	(44)	(29)
Free cash flow	71	345

* Adjusted cash tax of £47 million is total cash tax paid of £41 million plus receipt of production tax credits of £6 million, which are included within adjusted cash flow from operations, as these production tax credits relate directly to the production of programmes

Finance Review continued

Our free cash flow after payments for interest, cash tax and pension funding was £71 million (2020: £345 million). As agreed with the tax authorities and our pension trustees in 2020, we deferred £90 million of payments out of 2020, with £75 million of VAT payments paid in the first half of 2021 and £15 million of pension contributions payable across 2022 – 2025.

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 and has access to appropriate short-term borrowing facilities and a policy to maintain a minimum of £250 million of cash and undrawn committed facilities available at all times. We have two committed facilities in place to maintain our financial flexibility, which includes a £630 million Revolving Credit Facility (RCF) maturing in December 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. As a precautionary measure, during the first half of 2020, we 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. At 30 June 2021, ITV's financial position was well within its covenants.

We also have a bilateral financing facility of £300 million, which is free of financial covenants and matures on 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. At 30 June 2021, the £630 million RCF was undrawn and £148 million of the £300 million bilateral facility was available, which with cash of £704 million (including restricted cash of £50 million), provided total liquidity of £1,482 million (31 December 2020: £1,497 million).

After acquisitions and acquisition-related costs, pension and tax payments, we ended the period with reported net debt of £467 million (31 December 2020: £545 million, 30 June 2020: £783 million). This is before earnout payments of £265 million which we anticipate paying in the second half of 2021.

Reported net debt

	2021 £m	2020 £m
At 30 June		
Gross cash*	704	435
Gross debt (including IFRS 16 lease liabilities)	(1,171)	(1,218)
Reported net debt	(467)	(783)

* Gross cash includes £50 million of restricted cash in relation to the LTVC Pension Funding Partnership (2020: £50 million of restricted cash).

Financing – gross debt

We are financed using debt instruments and facilities with a range of maturities. Borrowings at 30 June 2021 were repayable as follows:

	£m	Maturity
Amount repayable as at 30 June 2021		
£630 million Revolving Credit Facility	–	Dec 2023
€600 million Eurobond*	549	Sep 2026
€335 million Eurobond	287	Sep 2022
€259 million Eurobond	222	Dec 2023
Other loans	19	Various
Total debt repayable on maturity**	1,077	

* Includes £35 million cross-currency interest rate swaps

** Excludes £94 million of IFRS 16 lease liabilities

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 2021 reported net debt to adjusted EBITDA on a 12-month basis was 0.6x (31 December 2020: 0.9x and 30 June 2020: 1.3x). On a pro-forma basis including the Talpa earnout payment, net debt to adjusted EBITDA would be 0.9x. Our priority remains to invest in our key assets and value drivers 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. 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.

Finance Review continued

Contract assets and liabilities

In the first half of 2021, contract assets increased by £59 million and contract liabilities increased by £67 million compared to 31 December 2020. Both increases were driven predominantly by ITV Studios, where contract assets rose by £54 million reflecting higher production volumes and deliveries scheduled for the second half of the year. ITV Studios contract liabilities increased by £50 million primarily for the same reason and, where applicable, reflects production milestone payments received in advance of delivery from our customers.

Pensions

The net pension deficit for the defined benefit schemes at 30 June 2021 was £10 million (31 December 2020: £26 million deficit). The movement in the period was driven by a decrease in liabilities caused by an increase in the corporate bond yields and our deficit funding contributions, offset by an increase in inflation. Pension assets have decreased due to a rise in gilt yields in the period.

The net pension assets include £60 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 of 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 of 1 January 2017 amounted to £470 million.

The Trustee is in the process of undertaking a full actuarial valuation of the ITV pension scheme as at 1 January 2020, which we expect to agree this year.

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 2021 were £44 million. Deficit funding contributions for the full year will be £74 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. The contract provided that the cash collateral would not leave the Group but would be maintained in a restricted bank account. The Trustee agreed to accept a letter of credit as an alternative to the 2019, 2020 and 2021 collateral instalments with the result that £152 million cash collateral did not become due in March 2021. 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.

Planning assumptions for full year 2021

The following planning assumptions for 2021 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 £1.1 billion
- Total essential investment of around £25 million which will remain in the cost base going forward
- Total BritBox UK venture losses are expected to be around the same level as 2020 and will decline thereafter
- Permanent overhead cost savings are expected to be around £30 million in 2021. We will deliver around £100 million of annualised permanent overhead cost savings by the end of 2022 (from 2019). In addition, we will deliver £8 million temporary savings in the year
- Adjusted financing costs are expected to be around £36 million in line with 2020
- The adjusted effective tax rate is expected to be between 18% and 19% in 2021 and 2022, and then move to around 25% over the medium term due to the increase in the UK corporation tax rate from April 2023
- The translation impact of foreign exchange, assuming rates remain at current levels, could have an adverse impact of around £38 million on revenue and around £5 million on EBITA
- Exceptional items are expected to be around £150 million, mainly due to acquisition-related expenses, restructuring and reorganisation costs, and reducing our transponder capacity. This includes £108 million in relation to the final earnout payment for Talpa

Cash impact

- Payment of £75 million of VAT deferred from 2020
- Total capex is expected to be around £75 million as we further invest in our digital transformation
- The cash cost of exceptionals is expected to be around £310 million, largely relating to accrued earnouts which includes the final earnout payment for Talpa
- Profit to cash conversion is expected to be around 30% in 2021, as the favourable working capital position in 2020 unwinds. Taking 2020 and 2021 together, cash conversion is expected to be 80% to 85% over the two years in line with historic levels
- Total pension deficit funding contribution for 2021 is £74 million
- The Board expects to propose a final dividend of 3.3p at the full year, based on two-thirds of a notional 5.0p full-year dividend in respect of the current financial year. This will be paid in the first half of 2022.

Finance Review continued

Foreign exchange sensitivity

The following table highlights ITV Studios' 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	±32-40	± 2-3
Euro	±35-42	± 6-7

Chris Kennedy
Group Chief Financial Officer

Risks and Uncertainties

Risk management

ITV's risk landscape is increasingly complex. This is being driven by industry specific trends; broadening regulator, media and societal expectations with regard to the activities we undertake; and an increased level of transformational change required within our business to implement our strategy.

In H1 2021, we have continued to implement improvements to our enterprise risk management framework with the key objectives of:

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

Key changes to principal risks

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. The Directors have performed a robust assessment of the principal and emerging risks and uncertainties faced by the Group and based on this the Directors consider that principal risks and uncertainties faced by the Group remain substantially the same as those set out on pages 72 to 85 of our Annual Report and Accounts for the year ended 31 December 2020.

The Board recognises that the pace of change within the industry, and within our own business to implement our More Than TV strategy may continue to impact the principal risks facing our company.

Furthermore, whilst we have seen an encouraging recovery in TV advertising within the UK, the continued economic and operational uncertainty caused by the COVID-19 pandemic still represents a risk to our advertising revenues in the UK and our ability to produce and sell our programmes internationally. We are currently managing these risks through our COVID-19 crisis management structure, whilst closely monitoring the economic and medical situation globally, to ensure we can respond in a timely manner to continue protecting our colleagues and our business.

The principal risks and the direction of travel have been summarised below:

External/Strategic

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

Change

- Commissioning pipeline risk (trending upwards)
- Insufficient VOD product 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 (trending upwards)

Refer to our 2020 annual report and accounts for further detail on our Risk Framework. Available at <https://www.itvplc.com/investors/results-centre/reports-and-results-archive/2020>

Unaudited Condensed Interim 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

Independent Review Report

Condensed Consolidated Income Statement

For the six month period to 30 June	Note	2021 £m	2020 £m
Revenue	2.1	1,548	1,218
Operating costs		(1,392)	(1,185)
Operating profit		156	33
Presented as:			
Earnings before interest, tax and amortisation (EBITA) before exceptional items	2.1	316	159
Operating exceptional items	2.2	(130)	(89)
Amortisation and impairment		(30)	(37)
Operating profit		156	33
Financing income		2	2
Financing costs		(29)	(25)
Net financing costs		(27)	(23)
Share of profits of joint ventures and associated undertakings		4	5
Profit before tax		133	15
Taxation		(32)	–
Profit for the period		101	15
Profit attributable to:			
Owners of the Company		98	19
Non-controlling interests		3	(4)
Profit for the period		101	15
Earnings per share			
Basic earnings per share	2.3	2.4p	0.5p
Diluted earnings per share	2.3	2.4p	0.5p

Condensed Consolidated Statement of Comprehensive Income

For the six month period to 30 June	2021 £m	2020 £m
Profit for the period	101	15
Other comprehensive income:		
Items that are or may be reclassified to profit or loss		
Revaluation of financial assets	(2)	5
Net gain / (loss) on cash flow hedges and cost of hedging	9	(8)
Exchange differences on translation of foreign operations (net of hedging)	4	13
Items that will never be reclassified to profit or loss		
Remeasurement (losses) / gain on defined benefit pension schemes	(27)	80
Income tax credit / (charge) on items that will never be reclassified	16	(15)
Other comprehensive income for the period, net of income tax	–	75
Total comprehensive income for the period	101	90
Total comprehensive income attributable to:		
Owners of the Company	101	94
Non-controlling interests	–	(4)
Total comprehensive income for the period	101	90

Condensed Consolidated Statement of Financial Position

	Note	30 June 2021 £m	31 December 2020 £m
Non-current assets			
Property, plant and equipment		267	285
Intangible assets		1,509	1,545
Investments in joint ventures, associates and equity investments		85	77
Derivative financial instruments	4.3	1	2
Distribution rights		25	18
Contract assets		13	7
Defined benefit pension surplus	3.3	24	22
Other pension asset	3.3	60	62
Deferred tax asset		51	34
		2,035	2,052
Current assets			
Programme rights and other inventory		311	308
Trade and other receivables due within one year		532	458
Trade and other receivables due after more than one year		20	46
Trade and other receivables		552	504
Contract assets		468	409
Current tax receivable		11	6
Derivative financial instruments	4.3	5	6
Restricted cash*	4.1	50	50
Cash and cash equivalents*	4.1	654	618
		2,051	1,901
Current liabilities			
Borrowings	4.2	(9)	(7)
Lease liabilities		(16)	(22)
Derivative financial instruments	4.3	(3)	(7)
Trade and other payables due within one year	3.1	(993)	(959)
Trade payables due after more than one year	3.1	(59)	(54)
Trade and other payables		(1,052)	(1,013)
Contract liabilities		(338)	(271)
Current tax liabilities		(22)	(25)
Provisions	3.2	(58)	(59)
		(1,498)	(1,404)
Net current assets		553	497
Non-current liabilities			
Borrowings	4.2	(1,033)	(1,078)
Lease liabilities		(78)	(83)
Derivative financial instruments	4.3	(37)	(24)
Defined benefit pension deficit	3.3	(94)	(110)
Deferred tax liabilities		(12)	(20)
Other payables	3.1	(54)	(61)
Provisions	3.2	(27)	(22)
		(1,335)	(1,398)
Net assets		1,253	1,151
Attributable to equity shareholders of the parent company			
Share capital		403	403
Share premium		174	174
Merger and other reserves		224	224
Translation reserve		23	7
Fair value reserve		16	18
Retained earnings	4.5	379	296
Total equity attributable to equity shareholders of the parent company		1,219	1,122
Non-controlling interests		34	29
Total equity		1,253	1,151

* In 2021 £50 million of cash, the use of which is restricted to meeting the commitments under the asset-backed pension agreements has been represented as restricted cash. The comparative balances for 31 December 2020 have also been represented.

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 2021	403	174	224	7	18	296	1,122	29	1,151
Total comprehensive income for the period									
Profit for the period	–	–	–	–	–	98	98	3	101
Other comprehensive income/(loss)									
Revaluation of financial assets	–	–	–	–	(2)	–	(2)	–	(2)
Net gain on cash flow hedges and cost of hedging	–	–	–	9	–	–	9	–	9
Exchange differences on translation of foreign operations (net of hedging)	–	–	–	7	–	–	7	(3)	4
Remeasurement loss on defined benefit pension schemes	–	–	–	–	–	(27)	(27)	–	(27)
Income tax credit on other comprehensive income	–	–	–	–	–	16	16	–	16
Total other comprehensive income / (loss)	–	–	–	16	(2)	(11)	3	(3)	–
Total comprehensive income for the period	–	–	–	16	(2)	87	101	–	101
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Movements due to share-based compensation	–	–	–	–	–	3	3	–	3
Tax on items taken directly to equity	–	–	–	–	–	(2)	(2)	–	(2)
Total transactions with owners	–	–	–	–	–	1	1	–	1
Changes in non-controlling interests	–	–	–	–	–	(5)	(5)	5	–
Balance at 30 June 2021	403	174	224	23	16	379	1,219	34	1,253

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 2020	403	174	224	32	14	1	848	30	878
Total comprehensive income for the period									
Profit / (loss) for the period	–	–	–	–	–	19	19	(4)	15
Other comprehensive income/(loss)									
Revaluation of financial assets	–	–	–	–	5	–	5	–	5
Net loss on cash flow hedges and costs 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	–	–	–	5	5	65	75	–	75
Total comprehensive income for the period	–	–	–	5	5	84	94	(4)	90
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Equity dividends	–	–	–	–	–	–	–	–	–
Movements due to share-based compensation	–	–	–	–	–	–	–	–	–
Tax on items taken directly to equity	–	–	–	–	–	–	–	–	–
Purchase of own shares via employees' benefit trust	–	–	–	–	–	–	–	–	–
Total transactions with owners	–	–	–	–	–	–	–	–	–
Changes in non-controlling interests	–	–	(3)	–	–	(5)	(8)	4	(4)
Balance at 30 June 2020	403	174	221	37	19	80	934	30	964

Condensed Consolidated Statement of Cash Flows

For the six month period to 30 June	Note	£m	2021 £m	£m	2020 £m
Cash flows from operating activities					
Profit before tax	2.1		133		15
Share of profits of joint ventures and associated undertakings		(4)		(5)	
Net financing costs		27		23	
Operating exceptional items	2.2	130		89	
Depreciation of property, plant and equipment		28		28	
Amortisation and impairment		30		37	
Share-based compensation and pension service costs		3		–	
Adjustments to profit			214		172
(Increase) / decrease in inventory and distribution rights		(10)		44	
(Increase) / decrease in contract assets		(73)		80	
(Increase) / decrease in receivables		(53)		4	
Increase in contract liabilities		71		96	
Decrease in payables		(63)		(35)	
Movement in working capital			(128)		189
Cash generated from operations before exceptional items			219		376
Cash flow relating to operating exceptional items:					
Operating exceptional items	2.2	(130)		(89)	
Increase in exceptional payables		108		42	
Decrease in exceptional prepayments and other receivables		–		3	
Cash outflow from exceptional items			(22)		(44)
Cash generated from operations			197		332
Defined benefit pension deficit funding	3.3	(44)		(29)	
Net interest paid on bank, other loans and lease liabilities*		(23)		(6)	
Net taxation paid		(41)		(49)	
			(108)		(84)
Net cash inflow from operating activities			89		248
Cash flows from investing activities					
Acquisition of property, plant and equipment		(16)		(20)	
Acquisition of intangible assets		(12)		(16)	
Acquisition of investments		(10)		(9)	
Loans granted to associates and joint ventures		(1)		(1)	
Loans repaid by associates and joint ventures		–		2	
Return on capital from wind up of investments		1		–	
Net cash outflow from investing activities			(38)		(44)
Cash flows from financing activities					
Bank and other loans – amounts repaid		(13)		(216)	
Bank and other loans – amounts raised		16		210	
Payment of lease liabilities		(12)		(11)	
Equity dividends paid		–		–	
Acquisition of non-controlling interests		(1)		(2)	
Purchase of own shares via employees' benefit trust		–		–	
Net cash outflow from financing activities			(10)		(19)
Net increase in cash and cash equivalents			41		185
Cash and cash equivalents at 1 January**	4.1		618		196
Effects of exchange rate changes and fair value movements			(5)		4
Cash and cash equivalents at 30 June**	4.1		654		385

* Included in Interest paid on bank, other loans and lease liabilities is £2 million relating to lease liabilities (2020: £2 million).

** In 2021 £50 million of cash, the use of which is restricted to meeting the commitments under the asset-backed pension agreements has been represented as restricted cash. The comparative balances for all periods have also been represented.

Notes to the 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 financial statements.

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted international accounting standards, with future changes being subject to endorsement by the UK Endorsement Board. ITV plc transitioned to UK-adopted international accounting standards in its consolidated financial statements on 1 January 2021. There was no impact or changes in accounting policies from the transition. This condensed consolidated interim financial report for the half-year reporting period ended 30 June 2021 has been prepared in accordance with the UK-adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. The interim report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual audited financial statements within the annual report and accounts for the year ended 31 December 2020, which has been prepared in accordance with both "international accounting standards in conformity with the requirements of the Companies Act 2006" and "international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union", and any public announcements made by ITV Plc during the interim reporting period.

The preparation of condensed consolidated 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 were 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 cyclicalities affecting the interim results of the operations.

These condensed consolidated financial statements are not statutory accounts. The statutory accounts for the year ended 31 December 2020 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

As at 30 June 2021, the Group was in a reported net debt position of £467 million (31 December 2020: £545 million).

The Group had £654 million of unrestricted cash (31 December 2020: £618 million), a £630 million (31 December 2020: £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 £148 million was available at 30 June 2021 (31 December 2020: £199 million), providing £1,432 million (31 December 2020: £1,447 million) of liquidity. 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 that 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 tests at June 2020, December 2020 and June 2021. During this period two replacement covenants apply: a covenant net debt cap of £1.8 billion and a minimum covenant liquidity requirement of £250 million, which are tested quarterly. As at 30 June 2021, the Group had covenant net debt of £372 million (31 December 2020: £432 million) and covenant liquidity of £1,482 million (31 December 2020: £1,497 million). The leverage and interest cover tests will be tested again on 31 December 2021.

The Directors will continue to monitor the changing impact of COVID-19 and the Group's performance against the forecasts. Management continue to manage costs and cash appropriately. The Directors recognise the importance of the dividend to our shareholders and intend to restore dividend payments as soon as circumstances permit. The Directors will balance shareholder returns with our commitment to maintain investment grade metrics over the medium term, to continue to invest behind the strategy and with the ongoing uncertainty with COVID-19. In the period to date, no dividend payments were made (2020: £nil). The Directors do not currently intend to pay any dividends during the second half of 2021.

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 these condensed consolidated financial statements and therefore have prepared the condensed consolidated financial statements on a going concern basis.

Notes to the Condensed Financial Statements

Section 1: Basis of Preparation continued

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. Additional detail on the judgements applied by Management are set out in the accounting policies section of the relevant notes in these condensed consolidated financial statements or the ITV plc annual report and accounts for the year ended 31 December 2020:

- Acquisition-related liabilities (note 3.1)
- Defined benefit pension (note 3.3)
- Provisions related to Box Clever (note 3.2)
- Impairment of intangible assets

A summary of the key sources of estimation uncertainty is detailed below. Additional detail on the estimates, underlying assumptions and related sensitivities (where applicable) is given in the relevant notes.

Defined benefit pension and acquisition-related liabilities are 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.

In determining the estimate for the Box Clever provision, management has provided for the initial offer made to the Pensions Regulator (tPR), which is the Directors' and Management's current best estimate (see note 3.2).

In addition to the above, there are a number of areas which involve a high degree of estimation and are significant to the financial statements but are not expected to have a material impact on them in the next 12 months. These areas include the reviews of the carrying value of goodwill and intangible assets, onerous contracts, and impairment assessments in relation to sports rights, and taxation. More detail on each of these items is given in the relevant notes.

New or amended Accounting standards

The amendments to accounting standards that are effective for annual periods beginning on 1 January 2021 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 2021 and their impact on the Group is listed below:

Accounting standard	Requirement	Impact on financial statements
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (issued on 27 August 2020)	The IASB issued amendments to IFRS 9, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures, that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates.	No material change to the Group's financial position or performance. Further details are provided in Section 4.1.
Amendments to IFRS 17 and Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)	The amendments defer the date of initial application of IFRS 17 by two years to annual periods beginning on or after 1 January 2023 and change the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments, so that entities will be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023 instead of 1 January 2021.	No material change to the Group's financial position or performance.

Notes to the 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.

In October 2020, the Group announced a restructure of its Broadcast segment to better reflect and serve the changing viewing habits. As part of the restructure, which came into effect from 1 April 2021, Broadcast has been renamed Media & Entertainment ('M&E') with two business streams. These are Broadcast, which includes the ITV linear channels and Streaming, which focuses on digital products such as the ITV Hub⁺, Britbox and other direct to consumer revenues.

As part of the restructure, revenue of £2 million (30 June 2020: £2 million) and adjusted EBITA of £1 million (30 June 2020: £nil) for Gaming, Live Events and Merchandising has been transferred from M&E to ITV Studios and is now reported within Global Formats and Distribution, as this revenue stream better aligned with ITV Studios. The comparative information has been re-presented to reflect this change.

The results for the year aggregate these classes of revenue into the following categories:

	2021 £m	Re-presented 2020 £m
ITV Studios UK	295	263
ITV Studios US	160	88
ITV Studios International	194	165
Global Formats and Distribution ³	149	116
Total ITV Studios¹	798	632
Total advertising revenue ('TAR')	866	671
Direct to consumer ³	39	41
SDN	37	36
Other	86	74
Total Media & Entertainment	1,028	822
Total revenue²	1,826	1,454

¹ Studios UK, ITV Studios US and Studios International revenues are mainly programme production. Global Formats and Distribution revenue is from programme distribution rights and format licences

² Includes internal supply as discussed in the APMs.

³ 2020 revenue is re-presented to reflect the change in composition of the operating segments following the reorganisation of M&E mentioned above.

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	2021 £m	2020 £m	2021 £m	2020 £m
	Products and services transferred at a point in time		Products and services transferred over time	
Total advertising revenue, Interactive, Subscription, SDN	868	683	157	138
Programme production, programme distribution rights	410	288	63	57
Format licenses	46	48	4	4
Total external revenue	1,324	1,019	224	199

Notes to the Condensed Financial Statements

Section 2: Results for the Period continued

Segmental information

The M&E restructure does not change how the business is managed and reported to the Board of Directors. The reportable segments for the period ended 30 June 2021 are 'ITV Studios' and 'Media & Entertainment'.

This section shows each division's contribution to total revenue and adjusted EBITA.

	ITV Studios 2021 £m	Media & Entertainment 2021 £m	Consolidated 2021 £m
For the six month period 30 June			
Total segment revenue	798	1,028	1,826
Intersegment revenue	(275)	(3)	(278)
Revenue from external customers	523	1,025	1,548
Adjusted EBITA¹	95	232	327
	ITV Studios 2020 £m	Media & Entertainment 2020 £m	Consolidated 2020 £m
For the six month period to 30 June			
Total segment revenue	632	822	1,454
Intersegment revenue	(233)	(3)	(236)
Revenue from external customers²	399	819	1,218
Adjusted EBITA^{1,2}	62	103	165

¹ 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.

² Comparative information has been restated to reflect the restructure of the Media & Entertainment segment as discussed above.

Adjusted EBITA

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

	2021 £m	2020 £m
For the six month period to 30 June		
Adjusted EBITA	327	165
Production tax credits	(11)	(6)
EBITA before exceptional items	316	159
Operating exceptional items	(130)	(89)
Amortisation and impairment	(30)	(37)
Net financing costs	(27)	(23)
Share of profits of joint ventures and associated undertakings	4	5
Profit before tax	133	15

A reconciliation of Profit before tax to Adjusted profit before tax is included in the Alternative Performance Measures.

Notes to the 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 (Charge)/credit	Ref.	2021 £m	2020 £m
Operating exceptional items:			
Acquisition-related	A	(110)	(10)
Restructuring and reorganisation	B	(5)	(3)
COVID-19	C	–	(9)
Sports rights	D	2	(34)
Pension-related	E	–	(31)
Transponder onerous contract	F	(16)	–
Other	G	(1)	(2)
Total operating exceptional items		(130)	(89)
Tax on operating exceptional items		4	16
Total operating exceptional items net of tax		(126)	(73)
Net financing exceptional items:			
Acquisition-related	H	(6)	–
Total net financing exceptional items		(6)	–
Tax on net financing exceptional items		1	–
Total exceptional items net of tax		(131)	(73)

A – Acquisition-related

Acquisition-related expenses of £110 million (2020: £10 million) relate to performance-based, employment-linked payments to former owners and professional fees (mainly financial due diligence and legal costs in respect of potential acquisitions during the year). On 23 July 2021, the final determination of the second earnout on the Talpa acquisition was received, resulting in an additional amount payable of €125 million (£108 million) due to the inclusion of the insured receivable in the calculation of the earnout.

B – Restructuring and reorganisation costs

Restructuring and reorganisation costs of £5 million (2020: £3 million) relate to one-off significant restructuring projects of the business. Significant projects in the period to 30 June 2021 include the finalisation of the Media & Entertainment restructure which commenced in the latter half of 2020, and a Board-approved whole business transformation plan which commenced in 2021.

C – COVID-19 related costs

Costs directly related to the COVID-19 pandemic have been recognised as exceptional items. These included £9 million in 2020 related to the costs incurred in productions shutting down and restarting in a safe environment and additional one-off costs to maintain production during the lockdown for certain daytime shows. In the prior year, £18 million of sports rights impairments were reported as COVID-19 related costs and £16 million was reported in 'Other exceptional costs'. In our full year reporting as at 31 December 2020, the two elements of sports rights impairment were reported as one exceptional item 'sports rights'. The comparative balances for 30 June 2020 have been reclassified to be consistent with the full year reporting.

D – Sports rights

The Group has reversed £2 million of the impairment that was previously recognised for certain sporting events that were impacted by COVID-19 pandemic and the underlying market movements. The reversal of impairment resulted from improved TAR forecasts in the period under review. The 30 June 2020 charge has been reclassified from COVID-19 related costs (£18 million) and Other (£16 million).

E – Pension-related

Included in pension related in the prior year, was an estimate of the settlement in relation to the Box Clever case of £31 million. Further details are provided in note 3.2.

F – Transponder onerous contract

Following a review of our transponder capacity usage in the second half of 2020, we have cleared a second transponder and accordingly have provided for an onerous contract of £16 million.

G – Other

Included in other are legal costs in relation to litigation outside the normal course of business.

Notes to the Condensed Financial Statements

Section 2: Results for the Period continued

H – Acquisition-related (net financing exceptional item)

Exceptional finance costs of £6 million relate principally to interest accrued on exceptional acquisition-related expenses.

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 £98 million (2020: £19 million) divided by 4,005 million (2020: 4,001 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	2021	2020
Profit for the period attributable to equity shareholders of ITV plc (£m)	98	19
Weighted average number of ordinary shares in issue – million	4,005	4,001
Earnings per ordinary share	2.4p	0.5p

Diluted earnings per share

For the six month period to 30 June	2021	2020
Profit for the period attributable to equity shareholders of ITV plc (£m)	98	19
Weighted average number of ordinary shares in issue – million	4,005	4,001
Dilution due to share options – million	41	19
Total weighted average number of ordinary shares in issue – million	4,046	4,020
Diluted earnings per ordinary share	2.4p	0.5p

Adjusted earnings per share

For the six month period to 30 June	Ref.	2021 £m	2020 £m
Profit for the period attributable to equity shareholders of ITV plc		98	19
Exceptional items (net of tax)	A	126	73
Profit for the period before exceptional items		224	92
Amortisation and impairment	B	15	21
Net financing costs	C	6	4
Other tax adjustments	D	(7)	1
Adjusted profit		238	118
Weighted average number of ordinary shares in issue – million		4,005	4,001
Adjusted earnings per ordinary share		5.9p	2.9p

Notes to the Condensed Financial Statements

Section 2: Results for the Period continued

Diluted adjusted earnings per share

For the six month period to 30 June	2021	2020
Adjusted profit (£m)	238	118
Weighted average number of ordinary shares in issue – million	4,005	4,001
Dilution due to share options – million	41	19
Total weighted average number of ordinary shares in issue – million	4,046	4,020
Diluted adjusted earnings per ordinary share	5.9p	2.9p

The rationale for determining the adjustments to profit is disclosed in the 31 December 2020 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) £126 million (2020: £73 million)

- operating exceptional items of £130 million (2020: £89 million), see details in note 2.2.
- net of a related tax credit of £4 million (2020: £16 million).

B. Amortisation and impairment of £15 million (2020: £21 million)

- amortisation and impairment of assets acquired through business combinations and investments of £30 million (2020: £37 million), excluding amortisation and impairment of software licenses and development of £11 million (2020: £9 million).
- net of a related tax credit of £4 million (2020: £7million).

C. Net financing cost £6 million (2020: £4 million)

- exceptional finance costs of £8 million (2020: £5 million) includes £6 million relating to the interest accrued on acquisition-related exceptional expenses and unrealised foreign exchange losses and imputed pension interest charges.
- net of a related tax credit of £2 million (2020: £1 million).

D. Other tax adjustments a charge of £7 million (2020: credit of £1 million)

- other tax adjustments relate to prior year adjustments in relation to consortium relief from one of our associates.

Notes to the 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 trade and other payables, provisions and pensions. Liabilities relating to the Group's financing activities are addressed in section 4.

3.1 Trade and other payables

Keeping it simple

Working capital represents the assets and liabilities the Group generates through its trading activity. The Group therefore defines working capital as distribution rights, programme rights, trade and other receivables, trade and other payables and contract assets and liabilities. Careful management of working capital ensures that the Group can meet its trading and financing obligations within its ordinary operating cycle.

Trade payables are recognised at the value of the invoice received from a supplier. The carrying value of current and non-current trade payables is considered to approximate fair value.

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

	30 June 2021 £m	31 December 2020 £m
Trade payables	52	54
VAT and social security	38	132
Other payables	240	237
Acquisition-related liabilities – employment-linked contingent consideration	268	157
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	6	6
Accruals	389	373
	993	959

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

	30 June 2021 £m	31 December 2020 £m
Trade payables	59	54
Other payables	12	15
Acquisition-related liabilities – employment-linked contingent consideration	3	7
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	39	39
	54	61
Total trade and other payables due after more than one year	113	115

Trade payables due after more than one year, relate primarily to film creditors of £34 million (31 December 2020: £35 million) and royalties of £25 million (31 December 2020: £19 million).

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 (see note 2.2), are accrued over the period the sellers are required to remain with the business. Those amounts not linked to employment are estimated and recognised at acquisition at their time discounted value, with the unwind of the discount recorded as part of finance costs.

Acquisition related liabilities at 30 June 2021 were £316 million (31 December 2020: £209 million) which represents the amount accrued to date at their time discounted value. This is lower than the total estimated future payments as the liability does not include amounts related to performance in periods not yet passed. The total estimated future payments of £331 million (31 December 2020: £227 million) are sensitive to forecast profits as they are based on a multiple of earnings. The range of reasonably possible outcomes for the liability is between £323 million and £381 million.

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 of €298 million (c£256 million) in respect of the 2017, 2018 and 2019 years is payable in August 2021 following determination of the earnout calculation for that period by the independent arbiter. The final payment will not fall due given that John de Mol did not exercise his option to extend the earnout to 2022. The other significant earnouts included within our expected future payments include Tomorrow Studios and Cattleya and are expected to be settled between 2021 and 2026.

All earnouts 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.

Notes to the Condensed Financial Statements

Section 3: Operating Assets and Liabilities continued

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.

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 2021	37	3	41	81
Additions	16	–	3	19
Utilised	(12)	–	–	(12)
Released	(2)	–	–	(2)
Foreign exchange differences	(1)	–	–	(1)
At 30 June 2021	38	3	44	85

Provisions of £58 million are classified as current liabilities (31 December 2020: £59 million). Unwind of the discount is £nil (2020: £nil).

Contract provisions of £38 million (31 December 2020: £37 million) represent liabilities in respect of onerous contracts in relation to individual sports rights of £7 million (31 December 2020: £18 million) and transmission capacity supply contract of £31 million (31 December 2020: £19 million).

The provision for sports rights is sensitive to the changes in the sporting schedule and consequential impact on TAR. As a result of the impact of COVID-19 and consequential changes to the sporting schedule, along with resulting changing forecasts of audience mix and revenues for certain sporting events, the Group recognised a provision for the sporting events directly impacted by these changes in 2020. In calculating the provision, management 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. The provision held at 30 June 2021 is £7 million (31 December 2020: £18 million). £9 million (31 December 2020: £11 million) has been utilised during the year and £2 million (31 December 2020: £8 million) was released.

The further onerous contract for the transmission supply contract of £16 million (31 December 2020: £19 million) has been recognised in the current year as the capacity on the satellite transponder is no longer used by the Group. The total provision for onerous contracts at 30 June 2021 is £31 million (31 December 2020: £19 million). £3 million of the provision was utilised during the year (31 December 2020: £2 million). Management have applied judgement in their assessment that the individual element of the contract is separable from the remaining elements of the contract which are not considered onerous. The capacity on the satellite transponder is no longer used by the M&E business and is therefore not generating revenues. The contracted future commitment has therefore been recognised as a provision as there are no future economic benefits expected.

- Property provisions primarily relate to expected dilapidation costs at rental properties.
- Legal and Other provisions of £44 million (31 December 2020: £41 million) includes a provision of £31 million for the potential liability that may arise as a result of the Box Clever Financial Support Directions ('FSDs') being issued by the Pensions Regulator ('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, certain companies within ITV were issued with FSDs by tPR on 17 March 2020. An FSD does not set out what form any financial support should take, nor its amount, and those issues have not yet been resolved as part of the legal process.

The legislation provides that any contribution that ITV may make must be considered reasonable and have regard to the Group's financial circumstances. If an agreement is reached with 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 was 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 and remains management's best estimate of the deficit. 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.

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. It remains management's best estimate of the provision. That proposal has not been accepted but the Company and tPR are in discussions to try to resolve the matter on a consensual basis.

During the period a provision of £3 million (31 December 2020: £nil) was recognised for other ongoing litigation.

Notes to the Condensed Financial Statements

Section 3: Operating Assets and Liabilities continued

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?

The Group's obligation in respect of the Defined Benefit Scheme is calculated by estimating the amount of future retirement benefit that eligible employees ('beneficiaries') have earned during their services. That benefit payable in the future is discounted to today's value and then the fair value of scheme assets is deducted to measure the defined benefit pension position.

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. Details on each scheme are provided below.

The liabilities of the Schemes are measured by discounting the best estimate of future cash flows to be paid using the 'projected unit' method. These calculations are complex and are performed by a qualified actuary. There are many judgements and estimates necessary to calculate the Group's estimated liabilities, the main assumptions are set out later in this section. Movements in assumptions during the year are called 'actuarial gains and losses' and these are recognised in the period in which they arise through the statement of comprehensive income.

The accounting defined benefit pension surplus or 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 or deficit (IAS 19) figure is calculated as at the balance sheet date, and the actuarial valuation deficit is calculated per the last triennial valuation.

The latest triennial valuation of the ITV Pension Scheme was undertaken as at 1 January 2017 by an independent actuary appointed by the Trustee of the Scheme and agreed in early 2018. The combined funding deficits of the ITV Pension Scheme as at 1 January 2017 amounted to £470 million.

The Trustee is in the process of undertaking a full actuarial valuation of the ITV Pension Scheme as at 1 January 2020, which we expect to agree during 2021. This valuation will drive subsequent contribution rates.

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 IAS 19 deficit does not drive the deficit funding contribution.

An unfunded scheme in relation to former beneficiaries who accrued benefits in excess of the maximum allowed for tax purposes is accounted for under IAS 19 and the Group is responsible for meeting the pension obligations as they fall due. For the four former Granada executives within the unfunded scheme, there is additional security in the form of a charge over £60 million of securitised gilts held by the Group, which are classified as other pension assets to reflect the Group's net pension deficit.

Due to the size of the UTV Pension Scheme, the Directors present the results and position of the UTV Scheme within this note combined with the existing ITV Schemes. The latest triennial valuation was undertaken as at 30 June 2017. The Trustee is in the process of undertaking a full actuarial valuation as at 30 June 2020, which we expect to agree during 2021.

The principal employer of the ITV Pension Scheme is ITV Services Limited, the unfunded scheme is Granada Group Limited and the UTV Scheme is UTV Limited.

The pension surplus/deficit is presented consistently with definitions presented in the Group's 2020 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 on the UTV Scheme as at 30 June 2021.

Notes to the Condensed Financial Statements

Section 3: Operating Assets and Liabilities continued

The defined benefit pension deficit

Net pension deficit of £10 million at 30 June 2021 (31 December 2020: deficit of £26 million) is stated after including the unfunded scheme security asset of £60 million (31 December 2020: £62 million). The totals recognised 30 June 2021 and 31 December 2020 are:

	30 June 2021 £m	31 December 2020 £m
Total defined benefit scheme obligations	(3,844)	(4,120)
Total defined benefit scheme assets	3,774	4,032
Defined benefit pension deficit (IAS 19)	(70)	(88)
Presented as:		
Defined benefit pension surplus	24	22
Defined benefit pension deficit	(94)	(110)
Defined benefit pension deficit (IAS 19)	(70)	(88)
Other pension asset	60	62
Net pension deficit	(10)	(26)

The net pension deficit at 30 June 2021 was £10 million, compared with a deficit of £26 million at 31 December 2020. The movement is as a result of an increase in the corporate bond yields which have decreased the liabilities, offset by an increase in market implied inflation which have increased the liabilities, an increase in the gilt yields which have decreased the value of the assets, and deficit funding payments of £44 million made in the period.

Addressing the defined benefit pension deficit

The total expected deficit funding contribution for 2021 is around £74 million (31 December 2020: £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 the six months to 30 June 2021, a payment of £14 million (included in the deficit funding payment above of £44 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 2021 collateral instalment with the result that £200 million becomes due in March 2022. 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 by March 2022, 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 continue to be reviewed in 2021.

Notes to the 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 2021 has been on the liquidity of the Group and, therefore, the Board has decided not to pay an interim dividend in light of continued economic uncertainty.

4.1 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 reported net debt and covenant net debt is included in the Operating and Performance Review. The tables below analyse movements in the components of reported net debt during the year:

	1 January 2021 £m	Net cash flow £m	Currency and non-cash movements £m	30 June 2021 £m
Loans and facilities due within one year	(7)	(2)	–	(9)
Loans and facilities due after one year	(1,078)	–	45	(1,033)
Total loans and facilities	(1,085)	(2)	45	(1,042)
Cross currency interest rate swaps held against euro denominated borrowings	(23)	–	(12)	(35)
Lease liabilities	(105)	14	(3)	(94)
Total debt	(1,213)	12	30	(1,171)
Restricted cash	50	–	–	50
Cash	296	93	(5)	384
Cash equivalents	322	(52)	–	270
Total cash and cash equivalents	618	41	(5)	654
Reported net debt	(545)	53	25	(467)

Restricted cash

Restricted cash relates to £50 million (31 December 2020: £50 million) cash held in a separate account, the use of which is restricted to meeting the commitments under the asset-backed pension agreements. See note 3.3 for further details on the asset-backed pension arrangements.

Loans and facilities due within one year

The Group has a £630 million Revolving Credit Facility ("RCF") to meet any short-term funding requirements. At 30 June 2021, the Group had drawings of £nil under the RCF (31 December 2020: £nil), leaving £630 million available to draw down. The maximum draw down of the RCF during the year was £nil (31 December 2020: £210 million).

Notes to the 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

The Group has the following available facilities:

- A £300 million bilateral loan facility maturing on 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 2021, £152 million (31 December 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. See note 3.3 for details.
- As noted above, the Group has £630 million of committed funding through a Revolving Credit Facility ('RCF') with a group of relationship banks which is available until December 2023. 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 first half of 2020, 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 30 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 2021.
- The Group has £100 million available under an uncommitted non-recourse receivables purchase agreement. As at 30 June 2021 £100 million was available under the agreement (31 December 2020: £100 million).

Having completed an assessment around the business, the material contracts impacted by the interest benchmark reform are as follows:

- £630 million committed and Revolving Credit Facility (RCF) expiring in December 2023 (undrawn);
- £100 million non-recourse receivables purchase agreement (undrawn); and
- £300 million committed bilateral facility expiring in June 2026 (current £152 million drawings).

There is currently no outstanding exposure with regard to the change on the undrawn facilities. The £152 million drawn on the £300 million committed bilateral are also not exposed to LIBOR as this is at a fixed rate until June 2022.

The transition to a SONIA based alternative has already been updated within the documentation for the RCF (effective immediately), and action will be taken on each of the other agreements to ensure any necessary changes are dealt with prior to the year end and IBOR transition date.

There is no change to the Group's risk management strategy or hedging relationships as a result of the interest rate benchmark reform, as there are no exposures being currently managed that are directly affected by it, and no hedge relationships through which it is being managed.

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 4.4.

Fair value versus book value

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

	Maturity	Book value		Fair value	
		30 June	31 December	30 June	31 December
		2021	2020	2021	2020
		£m	£m	£m	£m
Loans due within one year					
Other short-term loans *	Various	9	7	9	7
Loans due in more than one year					
€335 (previously €600) million Eurobond	Sep 2022	287	299	293	308
€259 (previously €500) million Eurobond	Dec 2023	222	232	232	240
€600 million Eurobond	Sep 2026	514	537	538	553
Other long-term loans *	Various	10	10	10	10
		1,033	1,078	1,073	1,111
		1,042	1,085	1,082	1,118

* Fair value is an approximation of the carrying value

Notes to the Condensed Financial Statements

Section 4: Capital Structure & Financing Costs continued

4.3 Managing financial market risks: derivative instruments

Keeping it simple

What is a derivative?

A derivative is a type of financial instrument 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 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 and revaluation 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 revaluation of non-functional currency monetary assets and liabilities ('income statement risk'); and
 - ii. Transaction risk: that is the risk that currency fluctuations will cause volatility in 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 a Group entity.
- 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 principally arising from intercompany loans denominated in a foreign currency;
- Forward foreign exchange contracts are derivative instruments used to hedge transaction risk by 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.

Forward foreign exchange contracts and cross-currency interest rate swaps are designated as cash flow hedges of highly probable future cash flows. All of these hedges were effective during the period.

The Group's policy on the various methods used to calculate the fair values of derivatives is detailed in the 31 December 2020 Annual Report and Accounts.

The Group held certain derivative instruments:

At 30 June 2021	Assets £m	Liabilities £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	4	(2)
Foreign exchange forward contracts and swaps – fair value through profit or loss	1	(1)
Non-current		
Cross currency interest swaps – cash flow hedges	–	(35)
Foreign exchange forward contracts and swaps – cash flow hedges	1	(2)
	6	(40)
At 31 December 2020	Assets £m	Liabilities £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	4	(2)
Foreign exchange forward contracts and swaps – fair value through profit or loss	2	(5)
Non-current		
Cross-currency interest swaps – cash flow hedges	–	(23)
Foreign exchange forward contracts and swaps – cash flow hedges	2	(1)
	8	(31)

Notes to the Condensed Financial Statements

Section 4: Capital Structure & Financing Costs continued

4.4 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. gilt prices, foreign exchange rates and interest rates). 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'. There were no transfers between levels during the period.

30 June 2021	Fair value £m	Level 1 £m	Level 2 £m	Level 3 £m
Assets measured at fair value				
Available-for-sale financial instruments				
Other pension assets – gilts (see note 3.3)	60	60	–	–
Equity investments	3	–	–	3
Financial assets at fair value through profit or loss				
Foreign exchange forward contracts and swaps	1	–	1	–
Financial assets at fair value through reserves				
Cash flow hedges	5	–	5	–
	69	60	6	3
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Foreign exchange forward contracts and swaps	(1)	–	(1)	–
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	(45)	–	–	(45)
Financial liabilities at fair value through reserves				
Cash flow hedges	(39)	–	(39)	–
	(85)	–	(40)	(45)
31 December 2020	Fair value £m	Level 1 £m	Level 2 £m	Level 3 £m
Assets measured at fair value				
Financial instruments				
Other pension assets – gilts (see note 3.3)	62	62	–	–
Equity investments	1	–	–	1
Financial assets at fair value through profit or loss				
Foreign exchange forward contracts and swaps	2	–	2	–
Financial assets at fair value through reserves				
Cash flow hedges	6	–	6	–
	71	62	8	1
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Foreign exchange forward contracts and swaps	(5)	–	(5)	–
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	(45)	–	–	(45)
Financial liabilities at fair value through reserves				
Cash flow hedges	(26)	–	(26)	–
	(76)	–	(31)	(45)

The accounting policies for how we value level 3 instruments are disclosed in the December 2020 Annual Report and Accounts.

Notes to the Condensed Financial Statements

Section 4: Capital Structure & Financing Costs continued

4.5 Retained Earnings

Keeping it simple

This section outlines retained earnings, presented in the Condensed 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 2021 attributable to owners of ITV plc (the Company) of £98 million (year to 31 December 2020: £285 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 £3 million (year to 31 December 2020: £6 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 Condensed Financial Statements

Section 5: Other Notes

5.1 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 2021.

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. In addition, the determination of employment tax status of some individuals contracted by ITV is complex and a future liability could arise in relation to this. None of these items are expected to have a material effect on the Group's results or financial position.

5.2 Subsequent events

Keeping it simple

Where the Group receives information in the period between 30 June 2021 and the date of this report about conditions related to certain events that existed at 30 June 2021, we update our disclosures that relate to those conditions in light of the new information. Such events can be categorised as adjusting or non-adjusting depending on whether the condition existed at 30 June 2021. If non-adjusting events are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, for each material category of non-adjusting event after the reporting period we disclose in this section the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

On 8 July 2021, ITV Broadcasting Limited and BBC Free to View (Satellite) Limited transferred the entire issued share capital of Freesat (UK) Limited ("Freesat") for a nominal sum to Digital UK Trading Limited (a wholly-owned subsidiary of Digital UK Limited, an existing joint venture between ITV Network Limited, the BBC and Channel 4 which facilitates the provision of Freeview TV services).

Immediately prior to completion, ITV and the BBC capitalised circa £23 million of shareholder loans owed to each by Freesat. ITV now has an outstanding balance of £5 million. The entire shareholder loan was fully provided for in previous years and therefore this transaction has no impact to the reported results.

This transaction has been reported to the market under Listing Rule 11.1.10 due to the fact that the BBC is deemed to be a related party of ITV plc under the Listing Rules.

On 23 July 2021, the final determination on the second Talpa earnout was received from the independent arbiter. This determination is binding and the earnout is payable within 10 working days following receipt. As this gives further information on a liability at 30 June 2021, it is an adjusting post balance sheet event and the liability has been updated accordingly.

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;
- 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.

For and on behalf of the Board:

Chris Kennedy
Group Chief Financial Officer
27 July 2021

Independent review report to ITV plc

Report on the unaudited condensed interim financial statements

Our conclusion

We have reviewed ITV plc's condensed interim financial statements (the "interim financial statements") in the ITV plc Interim Results 2021 of ITV plc for the 6 month period ended 30 June 2021 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the Condensed Consolidated Statement of Financial Position as at 30 June 2021
- the Condensed Consolidated Income Statement and Condensed Consolidated Statement of Comprehensive Income for the period then ended
- the Condensed Consolidated Statement of Cash Flows for the period then ended
- the Condensed Consolidated Statement of Changes in Equity for the period then ended and
- the explanatory notes to the interim financial statements

The interim financial statements included in the ITV plc Interim Results 2021 of ITV plc have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The ITV plc Interim Results 2021, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the ITV plc Interim Results 2021 in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the ITV plc Interim Results 2021 based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

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 United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, 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.

We have read the other information contained in the ITV plc Interim Results 2021 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.