ITV on track to deliver

Interim results for the six months to 30 June 2017

Peter Bazalgette, ITV Executive Chairman, said:

"ITV's performance in the first six months of the year is very much as we anticipated and our guidance for the full year remains unchanged.

"Total external revenue was down 3% with the decline in NAR partly offset by continued good growth in non-advertising revenues, which is a clear indication that our strategy of rebalancing the business is working. We are confident in the underlying strength of the business as we continue to invest both organically and through acquisitions.

"ITV Studios total revenues grew 7% to £697m including currency benefit. ITV Studios adjusted EBITA was down 9% at £110m. This was impacted by our ongoing investment in our US scripted business and the fact that the prior year includes the full benefit of the four year license deal for The Voice of China. We have a very strong pipeline of new and returning drama and formats and we are building momentum in our US scripted business. We continue to grow our global family of production companies and in H1 we further strengthened our international drama and format business with the acquisition of *Line of Duty* producer World Productions in the UK, Tetra Media Studio in France and Elk Production in Sweden.

"The Broadcast business remains robust despite the 8% decline in NAR caused by ongoing economic and political uncertainty with Broadcast & Online adjusted EBITA down 8% at £293m. On-screen we are performing well. To the end of May our ITV Family share of viewing grew although we ended the first half flat as June last year included the benefit of the Euros. ITV continues to deliver the mass audiences demanded by advertisers as well as delivering the key target demographics. ITV is the only channel to deliver a commercial audience over five million and Love Island demonstrates that young viewers engage in great TV content.

"Online, Pay & Interactive grew revenues by 5% to £112m with double digit growth across Online and Pay. Online viewing was again up strongly at 34%. We continue to grow our digital capabilities and invest in the ITV Hub, ITV Hub+, BritBox US, our SVOD joint venture with the BBC and Cirkus, our SVOD proposition in the Nordics and Germany.

"Looking ahead our guidance for 2017 remains unchanged. ITV Studios has already secured 85% of expected full year revenues, over £100m more than this time last year and is firmly on track to deliver good organic revenue growth. ITV Studios adjusted EBITA will be broadly flat year on year impacted by continued investment and the timing of programme deliveries. We anticipate further good growth in Online, Pay & Interactive driven by VOD and Pay. We expect ITV Family NAR in Q3 to be down around 4%, again impacted by wider economic uncertainty and over the full year we expect to outperform the TV advertising market.

"We see opportunities to continue to invest in growing an even stronger and more resilient business. The strength of our balance sheet and healthy cashflows allow us to do so while delivering sustainable returns to our shareholders.

"The Board has declared an interim dividend of 2.52p, an increase of 5%, reflecting our confidence in the underlying strength of the business.

"We are delighted that Carolyn McCall will be joining ITV as Chief Executive. Carolyn brings a strong track record in media, experience of an international operation, clear strategic acumen and a reputation for delivering value to shareholders. We look forward to her arrival on 8 January 2018."

H1 performance in line with our expectations

- Total external revenue down 3% at £1,458 million (2016: £1,503 million), with 6% growth in non-NAR partly offsetting the decline in NAR
- Total ITV Studios revenue up 7% at £697 million (2016: £651 million), including £42 million of currency benefit
- Online, Pay & Interactive up 5% at £112 million (2016: £107 million), with double digit growth across Online and Pay
- ITV Family NAR down 8% at £769 million (2016: £838 million)
- Adjusted EBITA down 8% at £403 million (2016: £438 million)
- ITV Studios adjusted EBITA down 9% at £110 million (2016: £121 million) impacted as expected by ongoing investment and the fact that the prior year includes the full benefit of the four year license deal for The Voice of China
- Broadcast & Online adjusted EBITA down 8% at £293 million (2016: £317 million)
- Adjusted EPS down 9% at 7.7p (2016: 8.5p)
- Statutory EPS down 16% at 5.1p (2016: 6.1p)

Confident in underlying strength of the business

- Broadcast business remains robust
  - ITV Family SOV flat, ITV2 SOCI for 16 to 34's up 15% and online viewing up 34%
- ITV Studios has a healthy pipeline of new and returning programmes
- Continuing to invest in our digital business in Broadcast and Studios

Strong balance sheet and healthy liquidity

- Flexibility and capacity to continue to invest across the business
- The Board has declared an interim dividend of 2.52p, an increase of 5%, reflecting our confidence in the underlying strength of the business

Outlook for 2017

- No change in full year guidance
- Confident that ITV Studios will deliver good organic revenue growth with adjusted EBITA broadly in line with last year, impacted by ongoing investment in drama and the timing of programme deliveries
- ITV Family NAR forecast to be down around 4% in Q3 and we expect to again outperform the TV ad market in 2017
- Online, Pay & Interactive will deliver good growth driven by a strong performance in Online and Pay
- Will deliver £25m overhead savings and a £25m reduction in the programme budget as previously announced

Half year results – adjusted and statutory

Six months to 30 June – on an adjusted basis	**2017 £m**	2016 £m	Change £m	Change %
Broadcast & Online revenue	**1,000**	1,061	(61)	(6)
ITV Studios revenue	**697**	651	46	7
Total revenue	**1,697**	1,712	(15)	(1)
Internal supply	**(239)**	(209)	30	14
Group external revenue	**1,458**	1,503	(45)	(3)
Broadcast & Online EBITA	**293**	317	(24)	(8)
ITV Studios EBITA	**110**	121	(11)	(9)
EBITA	**403**	438	(35)	(8)
Group EBITA margin	**28%**	29%	–	–
Profit before tax	**381**	425	(44)	(10)
EPS	**7.7p**	8.5p	(0.8p)	(9)
Ordinary dividend per share	**2.52p**	2.4p	0.12p	5

Management look at adjusted results as they reflect the way the business is managed and measured on a day-to-day basis. Adjusted EBITA is before exceptional items and includes the benefit of production tax credits. Adjusted profit before tax and adjusted EPS also remove the effect of amortisation and impairment of assets acquired through business combinations and investments and net financing costs. A full reconciliation between the adjusted and statutory results is provided later in the press release in the EPS section.

The statutory profit before tax and EPS from the Condensed Consolidated Income Statement are as follows:

Six months to 30 June	**2017 £m**	2016 £m	Change £m	Change %
Profit before tax	**259**	309	(50)	(16)
EPS	**5.1**	6.1p	(1.0p)	(16)
Diluted EPS	**5.1**	6.1p	(1.0p)	(16)

Statutory EPS declined by 16% to 5.1p (2016: 6.1p) primarily due to higher amortisation and impairment of acquired assets.

Financial performance

The strategy we set out a number of years ago was to rebalance the business and reduce our reliance on the UK and on spot advertising. The progress we have made against this strategy is clearly evident in our performance for the first half of 2017. Non-NAR grew 6%, partly offsetting an 8% decline in spot advertising revenue, to give external revenue down 3%. Adjusted EPS was down 9% in the first half impacted by advertising, ongoing investment in the business and the fact that the prior year includes the full benefit of the four year license deal for The Voice of China. Statutory EPS was down 16% year-on-year.

One of our key strengths is our high margins and healthy cashflows, which places us in a good position to continue to invest in growing an even stronger and more resilient business to meet the opportunities and challenges ahead.

We remain focused on balance sheet efficiency and working capital management. Our profit to cash ratio on a rolling 12-month basis remained strong at 91%. We ended the period with net debt of £1,074 million (31 December 2016: net debt of £637 million) after acquisitions and earnout payments within ITV Studios, the ordinary and special dividend payments and pension deficit contributions. At 30 June 2017, net debt to adjusted EBITDA on a 12-month rolling basis was 1.2x (30 June 2016: 0.9x).

Cost management remains a key priority and we are on track to deliver the previously announced £25 million reduction in overheads across the business in 2017. This together with our strong balance sheet and a more balanced business gives us the flexibility to continue to invest, while delivering sustainable returns to our shareholders. The Board has declared an interim dividend of 2.52p, an increase of 5%, reflecting our confidence in the underlying strength of the business.

Broadcast & Online

Broadcast & Online revenue declined by 6% to £1,000 million (2016: £1,061 million) with the decrease in NAR partly offset by good growth in Online, Pay & Interactive.

Continued economic and political uncertainty in the UK during the first half of 2017 led to an 8% decrease in ITV Family NAR to £769 million (2016: £838 million). The first quarter was down 9% and the second quarter was down 7%. Over the first half, including sponsorship, VOD and self-promotion, ITV total advertising was down 7%.

Advertising categories such as Retail, Finance and Food continued to see declines due to uncertainty on the economic outlook along with the weakening of the pound, causing inflationary pressure and leading advertisers to reduce advertising spend in order to maintain margins. Entertainment & Leisure are down impacted by the tough comparatives from the Euro Football Championship in 2016. Several categories have remained strong, increasing spend year-on-year, such as Cars & Car Dealers, Telecommunications and Supermarkets. Digital brands continue to spend heavily on television to build brand awareness.

On-screen we performed well. To the end of May our ITV Family share of viewing grew although we ended the first half flat as June last year included the benefit of the Euros. There were strong performances from drama including The Good Karma Hospital, Vera and The Loch, entertainment including Saturday Night Takeaway, The Voice and Britain's Got Talent, sport with The Six Nations Rugby Championships and ITV horse racing, along with an improvement in daytime and the soaps. As well as mass audiences, we also deliver more targeted demographics. ITV2, which is aimed at younger audiences, saw a 15% increase in SOCI for the 16-34s demographic driven by programmes such as Love Island, Family Guy and Celebrity Juice. ITV4, which targets male audiences, had a 5% increase in male SOCI helped by ITV's horse racing coverage, The French Open and the Isle of Man TT Races. We remain focused on our viewing performance and continuing to deliver both mass audiences and key demographics which are highly demanded by advertisers.

Online, Pay & Interactive revenue showed good growth, up 5% to £112 million (2016: £107 million) with double-digit growth in our online advertising and pay businesses. Audience demand for VOD remains strong, as does the demand for online advertising. Supported by our strong on-screen proposition we delivered a 31% increase in long-form video requests and a 34% increase in consumption on our OTT service the ITV Hub which now has 20 million registered users. Interactive revenue was down 5%, with reduced entries for daytime competitions.

As we build our digital business, we will continue to invest in the ITV Hub, ITV Hub+, BritBox US, our SVOD joint venture with the BBC and Cirkus, our SVOD proposition in the Nordics and Germany.

SDN external revenue, which is generated from license sales for DTT Multiplex A, increased 6% to £35 million (2016: £33 million). This was driven by the 16th stream which launched in May 2016.

Other commercial income includes revenue from programme sponsorship and revenue from STV plc for commission earned by ITV for airtime sales and for the delivery of ITV programming. This revenue was up 1% at £84 million (2016: £83 million) with new sponsorship around ITV horse racing and The Voice offset by a reduction in third party airtime sales commission and revenue primarily from UTV following ITV's acquisition of the business in February 2016.

Schedule costs were down 3% year-on-year at £532 million (2016: £547 million) with higher spend on entertainment offset by lower spend on sports rights, drama and factual. We continue to expect our total annual programming budget for the full year to be around £1,025 million which includes the previously announced £25 million year on year reduction as a result of no major sports tournament in 2017.

Other Broadcast costs were down 11% year-on-year at £175 million (2016: £197million) which includes a portion of the previously announced £25 million overhead savings and timing of other costs, including marketing, which this year will be more weighted towards the second half of the year.

Overall Broadcast & Online adjusted EBITA was down 8% at £293 million (2016: £317 million) with the good growth in Online, Pay & Interactive more than offset by the decline in the advertising market. This has led to a 1% reduction in the adjusted EBITA margin to 29% (2016: 30%).

As a result of the Digital Economy Bill which received Royal Assent in April, s73 will be repealed with effect from 31 July, which paves the way for the introduction of retransmission fees.

ITV Studios

ITV Studios total revenue saw good growth in the first half, up 7% to £697million (2016: £651 million) driven by Studios UK, ITV America and Global Entertainment as we continue to build scale in the key creative content markets and strengthen our international portfolio of programmes that return and travel. Total organic revenue, which excludes our current year acquisitions, was up 6%, and excluding foreign exchange movements, it was flat. We delivered good organic revenue and profit growth across the business except in Studios Rest of World (RoW) and specifically Talpa Media which was impacted by the inclusion of the full benefit of the four year license deal for The Voice of China in the prior year.

Reflecting our growth and increasing scale in key production markets in Europe and the US, 52% of ITV Studios total revenue in the first half was generated outside the UK. As our Studios business grows internationally, foreign currency movements have an increasing impact on our results. On a constant currency basis, which assumes exchange rates remained consistent with 2016, ITV Studios revenue for the period would have been £42 million lower and adjusted EBITA would have been £8 million lower as a result of a stronger US dollar and Euro during the period.

Studios UK revenue was up 5% to £306 million (2016: £292 million) driven by 13% growth in internal revenue. Programming sales to ITV Broadcast grew strongly and benefited from new drama deliveries including Unforgotten, Little Boy Blue, The Loch and Fearless along with new and returning entertainment programmes The Voice, The Voice Kids, Saturday Night Takeaway and Love Island. Off-ITV revenue declined by 13% driven by the timing of deliveries along with non-returning programmes such as Friday Night Dinner and Raised By Wolves. This was offset by new and returning deliveries including Poldark and Second Chance Summer for the BBC, Blind Date for Channel 5 and Bliss for Sky. For the full year we expect off-ITV revenue to be up year on year with new programmes for the second half including Living The Dream for Sky, The City & The City and Ordeal of Innocence for the BBC and Back for Channel 4.

ITV America's total revenue increased 49% to £143 million (2016: £96 million) with organic revenue, excluding foreign exchange, up 31%. This increase was driven by new and returning formats such as Big Star's Little Star, Sideserf, World Hip Hop Star, Car Spotters, American Grit, Alone, Forged In Fire and First 48 along with new scripted commission Sun Records and the third series of Good Witch. The second half of 2017 will see the delivery of two series of the successful entertainment format Hell's Kitchen USA, new scripted commissions Somewhere Between for ABC and a pilot of Snowpiercer for TNT along with unscripted commission Queer Eye for the Straight Guy for Netflix. We have a number of scripted titles in development which include Highland for TNT and both scripted and unscripted programmes for Netflix, Amazon and Facebook.

Studios RoW total revenue was down 14% to £159 million (2016: £184 million), with organic revenue, excluding foreign exchange, down 26%. The decline was primarily driven by Talpa Media as explained earlier. We saw good growth from producing Studios UK and Talpa Media formats across our RoW territories. First half deliveries included The Voice in Australia, The Chase in Australia and Germany and Bagges Hundar in Sweden which is based on the UK format For The Love of Dogs. We have a strong pipeline of new and returning formats in the second half, which includes The Voice and The Voice Kids, This Time Next Year, Love Island, 5 Gold Rings and Big Star's Little Star.

Global Entertainment revenue increased 13% in the period to £89 million (2016: £79 million), with revenue excluding foreign exchange up 4%. As we continue to grow our portfolio of programmes and formats to distribute internationally, first half revenue was supported by our strong programme slate including Poldark, Good Witch, Harlots, Fearless and Prime Suspect 1973. We have around 15 scripted programmes and five entertainment and factual entertainment formats sold to more than 100 countries. So far in 2017 we have sold 44 different formats internationally, nine of which are being produced by ourselves or other producers in three or more countries. We have also increased distribution of our content to OTT providers including Amazon, Netflix and Hulu in the UK and internationally.

Overall, ITV Studios adjusted EBITA decreased 9% to £110 million (2016: £121 million) with the adjusted EBITA margin reducing to 16% (2016: 19%). This is a result of the ongoing investment we are making in our US scripted creative business and the fact that the prior year includes the full benefit of the four year license deal for The Voice of China.

Acquisitions

In the first half of the year we have again strengthened our drama and formats business. In February 2017, we acquired a majority stake in Tetra Media Studio, the French television production group behind leading dramas including crime series Profilage and Les Hommes de l'Ombre. In April we acquired a 45% stake in Blumhouse Television, established by Jason Blum, the renowned film and television producer. In April we also acquired a majority stake in World Productions, the company behind Line of Duty. In June we acquired a majority stake in Elk Production, a Swedish entertainment production company.

EPS

Adjusted profit before tax, after the adjustments to add back amortisation and impairment and net financing costs, was £381 million (2016: £425 million).

Statutory EPS is adjusted to reflect the underlying performance of the business, providing a more meaningful comparison of how the business is managed and measured on a day-to-day basis. The table below reconciles our statutory to adjusted results. Adjustments include: all exceptional items, primarily acquisition-related costs such as employment linked consideration and professional fees for due diligence; amortisation and impairment of assets acquired through business combinations; net financing cost adjustments; and tax adjustments relating to these items. Amortisation of intangible assets that are required to run our business, including software licenses, is not adjusted for. The total adjusted tax charge for the first half was £71 million (2016: £85 million), corresponding to an effective tax rate on adjusted PBT of 19% (2016: 20%) which is broadly in line with the standard UK corporation tax rate of 19.25% (2016: 20%). We expect this effective tax rate to be sustainable in the medium term. Adjusted basic EPS was 7.7p (2016: 8.5p), down 9%.

Statutory EPS declined by 16% to 5.1p (2016: 6.1p) primarily due to higher amortisation and impairment of acquired assets.

Six months to 30 June 2017 – on a continuing basis	Statutory £m	Adjustments £m	Adjusted £m
EBITA	**395**	**8**	**403**
Exceptional items (operating)	(53)	53	–
Amortisation and impairment	(58)	55	(3)
Operating profit	**284**	**116**	**400**
Net financing costs	(23)	6	(17)
Share of losses and impairment on JV's and Associates	(2)	–	(2)
Profit before tax	**259**	**122**	**381**
Tax	(53)	(18)	(71)
Profit after tax	**206**	**104**	**310**
Non-controlling interests	(3)	–	(3)
Earnings	**203**	**104**	**307**
Shares (million), weighted average	4,010		4,010
EPS	5.1p		7.7p

Balance sheet and cash flow

One of ITV's strengths is its strong cashflows reflecting its continued tight management of working capital balances and our disciplined approach to cash and costs. In the year we generated £292 million (2016: £377 million) of adjusted operational cash from £403 million (2016: £438 million) of adjusted EBITA, which equates to a strong profit to cash ratio of 91% (2016: 86%) on a 12-month rolling basis. In the period we saw an increase in working capital relating to a build-up of programme stock, such as Victoria, Cold Feet, Next of Kin and Living the Dream which will reverse in the second half when they are delivered.

After payments for interest, tax and pension funding, our net cashflow was £151 million (2016: £269 million). Overall, after dividends (ordinary and special), acquisitions and acquisition related costs and pension deficit contributions, we ended the first half with net debt of £1,074 million, compared to net debt of £637 million at 31 December 2016 and net debt of £796 million at 30 June 2016. Our net cash generation is weighted towards the second half of 2017 due to the payment of the special dividend, payment of the Talpa earnout and content acquisitions, which were all paid in the first half of 2017.

We are financed using debt instruments and facilities with a range of maturities. Our balance sheet strength, together with our healthy free cash flow, enables us to continue to invest in opportunities to grow the business and make returns to our shareholders. We currently have two bonds – a €600 million Eurobond which matures in 2022 and a €500 million Eurobond which matures in 2023, having repaid the £161 million Eurobond as it matured on 5th January 2017.

We have a number of facilities in place to preserve our financial flexibility. We have a £630 million Revolving Credit Facility (RCF) in place until 2021 (with the option to extend to 2023). We also have a bilateral financing facility of £300 million, which is free of financial covenants and matures in 2021. This provides us with sufficient liquidity to meet the requirements of the business in the short to medium term. The RCF has the usual financial covenants for this type of financing. Of the total £930 million of facilities in place, £240 million was drawn down at 30 June 2017. Our policy is to maintain at least £250 million of available liquidity at any point.

We believe maintaining leverage below 1.5x net debt to adjusted EBITDA will optimise our cost of capital and maintain our investment grade credit. At 30 June 2017, net debt to adjusted EBITDA on a 12-month rolling basis was 1.2x (31 December 2016: 0.7x and 30 June 2016: 0.9x).

Our objective is to run an efficient balance sheet. Our priority is to invest to drive organic growth and make acquisitions in line with our strategic priorities. We will balance this investment with attractive returns to shareholders where we have surplus capital.

Dividend per share

The Board has declared an interim dividend of 2.52p, an increase of 5%, reflecting our confidence in the underlying strength of the business. The full year dividend will be set in line with the Board's commitment to a long-term sustainable dividend policy and for ordinary dividends to grow broadly in line with earnings, targeting dividend cover of around 2x adjusted earnings per share over the medium term.

Pension

The net pension deficit for the defined benefit schemes at 30 June 2017 was £343 million (31 December 2016: £328 million). The increase reflects a rise in pension liabilities following a decrease in corporate bond yields partly offset by a decrease in market expectations of long-term inflation. The overall increase in liabilities, and a small decrease in asset values, has more than offset the deficit funding contribution. The net pension deficit includes £39 million of gilts which are held by the Group as security for future unfunded pension payments of four former Granada executives, the liabilities of which are included in our pension obligations.

The last actuarial valuation was undertaken in 2014. On the basis adopted by the Trustee, the combined deficits as at 1 January 2014 amounted to £540 million and is estimated to be at a broadly similar level today. The Trustee is in the process of undertaking a full actuarial valuation of all sections of the Scheme as at 1 January 2017 which we expect to agree in late 2017 or early 2018. ITV currently makes annual deficit funding contributions of £80 million with the payments made evenly throughout the year.

2017 full year planning assumptions

- Total network programme budget is expected to be around £1,025 million as a result of no major sports tournament in 2017
- We are on track to deliver £25 million of overhead cost savings across the business
- Total investments of around £25 million, £15 million in profit and £10 million in JVs including BritBox US and US scripted
- Adjusted interest is expected to be around £40 million, reflecting the new €500 million Eurobond
- The adjusted effective tax rate is expected to be around 19%, sustainable over the medium term
- Around £50m of regular capex across the group and in addition there will be further capex relating to ITV's move out of the South Bank site, currently estimated to be around £30 million
- Profit to cash is expected to be 85-90%, reflecting our continued strong cash generation and investment in scripted content
- Total pension deficit funding is expected to be £80 million, unchanged
- The translation impact of foreign exchange, assuming rates remain at current levels, could benefit revenues by around £50 million and profit by around £10 million in the year
- Exceptional items are expected to be around £110 million in 2017, again as a result of the treatment of employment linked consideration for our acquisitions which is included within statutory EPS, but excluded from adjusted EPS as in our view it is part of capital consideration. The cash cost of exceptional items will be around £150 million, which is primarily around £130 million of acquisition related contingent consideration. The above guidance includes some exceptional costs relating to ITV's planned move out of the South Bank building.

Outlook

While the economic outlook remains uncertain, ITV is now a much more balanced and resilient business and our guidance for the full year remains unchanged.

ITV Studios has a strong pipeline of new and returning drama and entertainment and we are confident that it will deliver good organic growth over the full year. We have already secured over 85% of expected full year revenues, over £100 million more than this time last year. ITV Studios adjusted EBITA will be broadly in line with last year, impacted by ongoing investment in our US scripted business and the fact that the prior year includes the full benefit of the four year license deal for The Voice of China.

ITV NAR is expected to be down around 4% in Q3 impacted by wider economic uncertainty. Over the full year we again expect to outperform the television advertising market and Online, Pay & Interactive will deliver further good growth driven by a strong performance in Online and Pay.

As previously announced we will deliver £25 million of overhead savings and a £25 million reduction in the programme budget over the full year due to the absence of a major sports tournament. We have a strong slate of new and returning programmes for the remainder of the year and into next year including Victoria, Cold Feet, Liar, Next of Kin, Bad Move, Cannonball, I'm A Celebrity...Get Me Out Of Here!, X Factor and ITV's horse racing.

We see clear opportunities to continue to invest in growing an even stronger and more resilient business. Our strong balance sheet and healthy cashflows allows us to do so while delivering sustainable returns to our shareholders.

Notes to editors

1. Unless otherwise stated, all financial figures refer to the 6 month period ended 30 June 2017, with growth compared to the same period in 2016.

2. Group external revenue

Six months to 30 June	**2017 £m**	2016 £m	Change £m	Change %
ITV Family NAR	**769**	838	(69)	(8)
Non-NAR revenue	**928**	874	54	6
Internal Supply	**(239)**	(209)	30	14
Group external revenue	**1,458**	1,503	(45)	(3)

3. ITV Family NAR was down 8% in H1 as expected, with May down 7% and June down 18%. ITV Family NAR is forecast to be down around 4% in Q3 with July down 5%, August down 4%, September flat to down 5% and the 9 months to the end of September down around 7%. These revenues are pure NAR, excluding the benefit of sponsorship, online revenue and self-promotion. Figures for ITV plc and TV market NAR are based on ITV estimates and current forecasts. For the full year we again expect to outperform our estimate of the TV advertising market.

4. Broadcast & Online performance indicators

Broadcast & Online performance indicators	**2017**	2016	Change %
ITV Family SOV – weeks 1 to 26	**21.6%**	21.7%	–
ITV SOV – weeks 1 to 26	**15.5%**	15.7%	(1)
ITV Family SOCI – weeks 1 to 26	**34.5%**	34.6%	–
ITV SOCI – weeks 1 to 26	**24.3%**	24.4%	–
ITV adult impacts – weeks 1 to 26	**106bn**	108bn	(2)
Long form online viewing – 6 months to 30 June (hrs)	**151m**	113m	34
Total long form video requests (all platforms) – 6 months to 30 June	**665m**	506m	31

SOV data based on BARB/Advantage data and Share of Commercial Impacts (SOCI) data based on BARB/DDS data. SOV data is for individuals and SOCI data is for adults. ITV Family includes: ITV, ITV2, ITV3, ITV4, ITV Encore, ITVBe, CITV, ITV Breakfast, CITV Breakfast and associated "HD" and "+1" channels. Total long form video requests is measured across all platforms, based on data from comScore Digital Analytix, Virgin, BT, iTunes, Amazon Video, Netflix and Sky and include simulcast. Long form online viewing is the total number of hours ITV VOD content is viewed on ad funded platforms, based on data from comScore Digital Analytix. % change for performance indicators is calculated on unrounded figures.

5. The 2017 interim dividend will be paid on 27 November 2017. The ex-dividend date is 26 October 2017 and the record date is 27 October 2017.

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

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

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Strategy & Operations

ITV's performance in the first six months of the year is very much as we anticipated as we continue to strengthen the business creatively, commercially and financially and our guidance for the full year remains unchanged.

We measure performance through a range of metrics, most particularly through our alternative performance measures and KPIs, as well as statutory results, all of which are set out in more detail later in the report.

Total external revenue was down 3% to £1,458 million (2016: £1,503 million) in the first half, with the decline in net advertising revenue (NAR) partly offset by continued good growth in non-advertising revenues, a clear indication that our strategy of rebalancing the business is working. Total revenue from sources other than traditional spot advertising (non-NAR) were up 6% and 55% of total group revenues came from sources other than traditional spot advertising. Adjusted EBITA declined 8% to £403 million (2016: £438 million) and adjusted EPS declined 9% to 7.7p (2016: 8.5p) impacted by the 8% decline in NAR, the ongoing investment across the business and the timing of programme deliveries in ITV Studios, in particular the fact that the prior year includes the full benefit of the four year license deal for The Voice of China.

Statutory profit before tax declined by 16% to £259 million (2016: £309 million) and statutory EPS declined by 16% to 5.1p (2016: 6.1p) primarily due to higher amortisation and impairment of acquired assets which is explained in more detail in the Financial and Performance Review.

Our international production business, ITV Studios, is now a global player of scale and total ITV Studios revenues grew 7% to £697 million (2016: £651 million) including currency benefit. We have a strong creative pipeline of high quality programmes, particularly drama and entertainment, and we continue to perform well across the key genres that return and travel.

The Broadcast & Online business remains robust and continues to generate strong cashflows despite the decline in NAR caused by ongoing economic and political uncertainty. We performed well on-screen with share of viewing (SOV) flat across the ITV Family. Our overall viewing was strong across the key target demographics and we continued to deliver unrivalled audience reach for our advertisers. High margin Online, Pay & Interactive revenue was up 5% to £112 million (2016: £107 million) with double digit growth across Online and Pay revenues. Online viewing was again up strongly at 34%.

We continue to deliver on our strategy to diversify the business and grow new revenue streams, further reducing our reliance on UK spot advertising and making ITV a stronger and more resilient business. In doing this we remain focused on our three key priorities:

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

Grow an international content business

Build a global pay and distribution business

We have a strong balance sheet and our profit to cash conversion on a 12-month rolling basis remains high at 91%. At 30 June 2017 we had net debt of £1,074 million (31 December 2016: net debt of £637 million) and net debt to adjusted EBITDA on a 12-month rolling basis was 1.2x. Our net cash generation is weighted towards the second half of 2017 due to the payment in the first half of the special dividend, the first Talpa earnout and content acquisitions. We see clear opportunities to continue to invest both organically and through acquisitions and because of our strong financial position we can continue to invest in the business and deliver increasing returns to our shareholders.

The Board has declared an interim dividend of 2.52p, an increase of 5%, reflecting our confidence in the underlying strength of the business. The full year dividend will be set in line with the Board's commitment to a long-term sustainable dividend policy and for ordinary dividends to grow broadly in line with earnings, targeting dividend cover of around 2x adjusted earnings per share over the medium term.

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

The media environment in which we operate is constantly changing and our Broadcast business remains strong and is evolving to take advantage of the significant opportunities for growth. ITV through its free-to-air channels offers unique audience scale and reach as well as the key demographics demanded by advertisers. The ITV Hub, the digital home for all our channels and content, is growing rapidly, driven by the viewers' appetite for Video on Demand (VOD) and the quality of our content.

Broadcast & Online revenue was down 6% in the first half at £1,000 million (2016: £1,061 million). The 5% growth in Online, Pay & Interactive revenue to £112 million (2016: £107 million) was offset by the 8% decline in NAR caused by the continued economic and political uncertainty. Broadcast & Online EBITA was down 8% at £293 million (2016: £317 million).

Strengthened ITV's on-screen and online performance
On-screen we performed well. To the end of May our ITV Family SOV grew, although we ended the first half flat as June last year included the benefit of the Euros. We broadcast the most watched drama with Broadchurch, the most watched entertainment programme with Britain's Got Talent and the most watched Soap with Coronation Street. Our daytime schedule including programmes such as Good Morning Britain and This Morning, have grown their audiences and Coronation Street and Emmerdale, continue to perform well and are now the UK's two largest soaps. We have successfully aired a range of new dramas including Good Karma Hospital, Fearless, The Loch and Little Boy Blue, new entertainment shows The Voice, The Voice Kids, Keith and Paddy Picture Show and 5 Gold Rings and we continue to drive significant audiences with our returning brands such as Vera, Unforgotten, Ant & Dec's Saturday Night Takeaway, Britain's Got Talent and The Chase. Our sporting schedule has performed strongly with the Six Nations Rugby Championships and the launch of horse racing on ITV.

We continue to target the key demographics through our digital channels and online and have seen a very significant increase in our target demographics on ITV2 and ITV4. 16 to 34 share of commercial impacts (SOCI) on ITV2 was up 15% over the first 26 weeks helped by the phenomenal success of Love Island and male SOCI on ITV4 was up 5% helped by ITV's horse racing coverage, The French Open and the Isle of Man TT Races. ITV3 has not performed as well as we had hoped, impacted by the allocation of some of our programming exclusively to ITV Encore.

The ITV Hub
The ITV Hub continues to grow rapidly driven by viewing on connected televisions with long form video requests up 31% and online viewing consumption, which measures how long viewers are spending online, up 34%. It is available on 28 platforms, has 20 million registered users and the app has been downloaded over 25 million times.

The ITV Hub helps ITV reach valuable younger audiences with 75% of the UK's 16-24 year olds and 65% of the UK's 16-34 year olds registered. Younger audiences increasingly use it for simulcast viewing as well as catch up, with programmes such as Love Island delivering record viewing.

We are using the insight we gain from our registered users to develop more targeted advertising solutions and to increasingly drive viewing through personalisation and have recently launched personalised home pages for our viewers on the ITV Hub.

ITV's strong advertising proposition driven by our unique offering
While political and economic uncertainty has led advertisers to reduce their current spend on television advertising, television remains one of the most efficient and effective advertising medium for advertisers to achieve mass simultaneous reach.

As viewing and advertising becomes more fragmented, the scale of advertising that television, and particularly ITV, delivers becomes increasingly valuable. In the first half ITV delivered 100% of all commercial audiences over five million and 98% of all commercial audiences over three million. SOV provides an overall measure of viewing performance, but because advertisers are buying scale and breadth of audience, SOV is not necessarily a direct indicator of advertising performance.

Television provides a trusted, measured and transparent environment in which to advertise and Thinkbox estimates that the cost of advertising is 40% cheaper in real terms than it was 10 years ago.

We continue to maximise the value of our airtime and drive new revenue streams through sponsorship, interactivity and branded content. Utilising our strong brand and reputation, unique commercial relationships and high quality production capability we delivered a variety of marketing solutions for advertisers such as William Hill around ITV horse racing and Suzuki with Saturday Night Takeaway.

Remain responsive to a changing media environment
Traditional linear television viewing remains resilient despite significant changes in the market and in the availability and delivery of content. On average viewers watched 212 minutes of television a day in 2016, which is a similar level to 2015 of 216 minutes. The majority of viewing remains live at just under 80% as television continues to have the power to bring audiences together. VOD viewing continues to grow rapidly while PVR viewing has remained relatively constant over the last few years at around 12%. Younger people are watching less linear television than they used to but through delivering great content such as Britain's Got Talent, Saturday Night Take Away and Love Island, television reaches 90% of young people each week and remains their dominant choice of media.

Strategy & Operations

Developing ITV's digital broadcast assets
We are further developing our social media assets across our international portfolio of programmes as live television continues to demonstrate a growing relevance as viewers increasingly connect through social media. We now have around 160 YouTube branded channels and we expect to have around 30 programme apps across the year which together with the quality of our content is driving significant growth in viewer engagement.

Grow an international content business

Growing a scaled international content business is central to ITV as an integrated producer broadcaster. As ITV creates and owns more content, our channels provide a platform to showcase our programmes before distributing them across multiple platforms in the UK and internationally.

Growing demand for global content
The strong global demand for content from broadcasters and platform owners provides a significant opportunity for ITV Studios. To capitalise on this growth, we continue to develop, own and manage content rights in genres that return and travel internationally, namely drama, entertainment and factual entertainment and we have built a healthy pipeline of new and returning programmes.

International producer of scale
In the first half, total revenue grew 7% to £697 million (2016: £651 million) including currency benefit. Total organic revenue which excludes our current year acquisitions and foreign exchange was flat. As we expected adjusted EBITA was impacted by our ongoing investment in US drama and the fact that the prior year includes the full benefit of the four year license deal for The Voice of China and was down 9% at £110 million (2016: £121 million). In the first half Studios UK, ITV America and Global Entertainment all delivered good organic revenue and profit growth.

Over the full year we are on track to deliver good organic revenue growth and we have already secured 85% of expected full year revenues, over £100 million more than this time last year. Adjusted EBITA over the full year will be broadly flat on prior year impacted by continued investment and the timing of programme deliveries.

ITV Studios is becoming an increasingly scaled and international business with 52% of our revenue coming from outside the UK: we are the number one commercial producer in the UK and a leading producer in Europe and the US.

Building scale in creative markets
ITV Studios has three production divisions – Studios UK, ITV America and Studios Rest of World (RoW).

The US and UK are the dominant creative markets, with the US the largest exporter of scripted content and the UK the world leader in exported formats. Over the last few years we have built scale in these key markets, organically and through acquisitions and now have a significant portfolio of successful series and formats that travel.

Studios UK has performed well in the first half with revenue up 5% at £306 million (2016: £292 million). We continue to grow our sales to ITV which were up 13% with programmes such as The Voice, The Voice Kids, The Loch, Fearless, Little Boy Blue and Unforgotten. Our off-ITV revenues were down 13% in the first half driven by the timing of deliveries and some programmes not returning. Deliveries in the first half included Poldark for BBC, Blind Date for Channel 5 and Bliss for Sky. We expect off-ITV revenues to be up over the full year with new programmes such as City And The City for BBC, Living The Dream for Sky and Back for Channel 4 all delivering in the second half. We have strengthened our UK drama business with the acquisition in May of a majority stake in World Productions, the producer of Line of Duty.

ITV America grew revenue by 49% to £143 million (2016: £96 million). We have delivered two US dramas – the third series of Good Witch and Sun Records – and we have delivered a high volume of programmes from our portfolio of unscripted series including Pawn Stars, Cake Boss, Alone, Killing Fields, First 48 and Fixer Upper and new commissions including Sideserf, World Hip Hop Star and Big Star's Little Star .

Studios RoW has seen a decline in revenue of 14% to £159 million (2016: £184 million) as a result of the fact that the prior year includes the full benefit of the four year license deal for The Voice of China which has more than offset the good growth we have seen across our other production territories. We have production bases in Australia, Germany, France, the Netherlands and the Nordics where we produce original content as well local versions of ITV Studios UK and Talpa Media formats. Across these territories our first half deliveries included The Voice in Australia, The Chase in Australia and Germany and Bagges Hundar in Sweden. Talpa continues to develop new formats including A Whole New Beginning and Around The World With 80 Year Olds.

We have also strengthened our international business with a number of small acquisitions. In February we acquired a majority stake in Tetra Media Studio, a French scripted production company, in April we acquired a 45% stake in Blumhouse Television which finances and produces original scripted and unscripted 'dark' genre programming for global audiences, in May we entered into a joint venture with the US talent agent and production company, Circle of Confusion and in June we acquired Elk, a Swedish entertainment production company.

Investing in content with international appeal
To continue growing internationally we must keep expanding our portfolio of successful series and formats that return and can be distributed globally. We have a strong mix of programmes across genres and also across their content life cycle which balances our risk and financial exposure.

Demand for drama is growing strongly, as standout original content becomes brand defining for both broadcasters and OTT players. To capitalise on this we are investing in our global scripted business, particularly in the US, to build on the success of our UK drama business. In 2017 we have five drama commissions in the US – Sun Records for CMT, Good Witch for Hallmark, Somewhere Between for ABC, and two pilots for TNT – Snowpiercer and Highland.

With the acquisition of Talpa Media, we have significantly strengthened our global capability in entertainment and formats. Across the business we have grown a solid portfolio of high volume and high margin formats that travel internationally and which we produce in many production bases. These include The Voice, The Voice Kids, Love Island, Pawn Stars, Come Dine With Me, Hell's Kitchen, Four Weddings, Big Star's Little Star, The Chase, This Time Next Year and I'm A Celebrity...Get Me Out Of Here!.

Investing in our digital capabilities
Through building our digital assets and content we are increasingly able to engage with younger audiences.

While demand from traditional broadcasters continues to be strong we are also seeing increasing demand from OTT platforms for original long-form content, secondary rights and short form content. As well as distributing library content to OTT platforms through Global Entertainment, we are also producing and jointly commissioning a number of scripted and unscripted programmes such as Vanity Fair with Amazon and Robozuna and Queer Eye For A Straight Guy for Netflix. We currently have over 200 programme supply agreements in place with online platforms including Netflix, Amazon and Hulu.

Build a global pay and distribution business

The environment in which we operate is constantly evolving and we are seeing significant changes in digital media and consumer behaviour. ITV, as a creator, owner and distributor of sought after content, is well positioned to take advantage of the opportunities that arise from these changes as we seek to further monetise our content. We continue to explore and trial new ways, both free and pay, to distribute content to broadcasters and platform owners as well as directly to consumers.

Building our pay offering in the UK and internationally
As we look to build our pay offerings we are developing a range of subscription video on demand (SVOD) services to target direct to consumer pay revenues. We have launched our joint venture with the BBC, BritBox US, an ad-free SVOD service offering the most comprehensive collection of British content in the US.

Over the last few years we have also established a number of smaller pay propositions. We own a controlling stake in Cirkus, a best of British SVOD service in Sweden, Norway, Finland, Iceland and recently launched in Germany. We have also set up ITV Essentials, an online service for expats available in 13 countries and ITV Choice, a general entertainment channel for emerging markets available in over 100 countries.

We are continuing to develop the ITV Hub+, our ad-free subscription version of the ITV Hub. We have rolled it out onto more platforms, including most recently Amazon and we have added new functionality, such as download on iOS devices for offline viewing.

Looking ahead it is our intention to roll out our best of British SVOD services internationally through BritBox and our other SVOD services.

Further developing our pay revenues
ITV's pay revenues continue to grow well through licensing our channels and content across multiple platforms.

In the UK our pay business includes deals with Sky and Virgin Media for our HD digital channels and catch-up VOD, ITV Encore for Sky and a deal with Sky to make our content available through its connected platforms.

Strategy & Operations

Expanding our global distribution network
Global Entertainment, the distribution arm within ITV Studios, delivered revenue growth of 13% to £89 million (2016: £79 million) as we continue to drive value from our investment in creating and owning rights to quality content with international appeal.

We are using our strong cash flows not only to fund and create new content from ITV Studios, but also to invest in third-party producers and their content from all over the world.

Our content continues to sell well internationally to Broadcasters and OTT platforms and in particular, our scripted programmes with titles including Victoria, Poldark, Vera, Good Witch, The Murdoch Mysteries, Schitts Creek, Fearless and Harlots. Around 15 of our scripted programmes have been sold to more than 100 countries. Our entertainment and factual entertainment formats are highly demanded and includes programmes such as Come Dine With Me, The Voice, Hell's Kitchen, Four Weddings, Big Star's Little Star, This Time Next Year, The Job Interview and The Chase, with five of these programmes selling to more than 100 countries. So far in 2017 we have sold 44 different formats internationally, nine of which are being produced by ourselves or other producers in three or more countries.

Retransmission fees
As a result of the Digital Economy Bill which received Royal Assent in April, s73 will be repealed with effect from 31 July, which paves the way for the introduction of retransmission fees.

Outlook for 2017 and beyond
Looking ahead our guidance for the full year remains unchanged.

ITV Studios has a strong pipeline of new and returning drama and entertainment and we are confident that it will deliver good organic growth over the full year. We have already secured over 85% of expected full year revenues, over £100 million more than this time last year. ITV Studios adjusted EBITA will be broadly in line with last year, impacted by ongoing investment in our US scripted business and the timing of programme deliveries, in particular the fact that the prior year includes the full benefit of the four year license deal for The Voice of China.

ITV NAR is expected to be down around 4% in Q3 impacted by wider economic uncertainty. Over the full year we again expect to outperform the television advertising market and Online, Pay & Interactive will deliver further good growth driven by a strong performance in Online and Pay.

As previously announced we will deliver £25 million of overhead savings and a £25 million reduction in the programme budget over the full year due to the absence of a major sports tournament. We have a strong slate of new and returning programmes for the remainder of the year including Victoria, Cold Feet, Liar, Next of Kin, Bad Move, Cannonball, I'm A Celebrity…Get Me Out Of Here!, X Factor and ITV horse racing.

We see clear opportunities to continue to invest in growing an even stronger and more resilient business. Our strong balance sheet and healthy cashflows allows us to do so while delivering sustainable returns to our shareholders. The Board is committed to a long-term sustainable dividend policy and for ordinary dividends to grow broadly in line with earnings, targeting dividend cover of around 2x adjusted earnings per share over the medium term.

Following Adam Crozier's departure at the end of June, Carolyn McCall will be joining ITV as Chief Executive on 8 January 2018.

Alternative Performance Measures

The Interim Report includes both statutory and adjusted measures, the latter of which, in management's view, reflects the underlying performance of the business and provides a more meaningful comparison of how the business is managed and measured on a day-to-day basis.

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

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

Key adjustments for Adjusted EBITA, profit before tax and EPS
Adjusted EBITA is calculated by adding back exceptional items and high end production tax credits to EBITA. Further adjustments, which include amortisation and impairment of assets and net financing costs, are made to remove their effect from adjusted profit before tax and EPS. The tax effects of all these adjustments are reflected in the adjusted tax charge. These adjustments are detailed below.

Production tax credits

The ability to access tax credits, which are rebates based on production spend, is fundamental to our Studios business when assessing the viability of investment in green-lighting decisions, especially with regards to high-end drama. ITV reports tax credits generated in the US and other countries (e.g. Ireland, Hungary, Canada and South Africa) 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.

Exceptional items

This includes acquisition related costs (further detail below), reorganisation and restructuring costs, property costs and non-recurring legal costs. 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 gains or losses arising from events that are not considered part of the core operations of the business or are considered to be one-off in nature. We also adjust for the tax effect of these items.

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 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 after tax and adjusted EPS as, in our view, these items are part of the capital transaction. Pages 19 and 20 of the Financial and Performance Review explains this further.

Restructuring and reorganisation costs
These arise from Group-wide initiatives to reduce the ongoing cost base and improve efficiency in the business. They are non-recurring costs and because of their size and nature, are excluded from our adjusted measures.

Property costs
In 2018 ITV will relocate to a new property, Waterhouse Square in London, on a temporary basis while its South Bank site is redeveloped. Waterhouse Square is currently being refurbished and ITV is incurring rent when the property is vacant. These incremental one-off project costs are not in the normal course of business and are therefore excluded from our adjusted measures.

Amortisation and impairment

Amortisation and impairment of assets acquired through business combinations and investments is 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 and 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 on swaps and foreign exchange, imputed pension interest and other financial gains and losses, which do not reflect the relevant interest cash cost to the business.

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

Alternative Performance Measures

Reconciliation between statutory and adjusted results

Six months to 30 June – on a continuing basis	**2017 Statutory £m**	**2017 Adjustments £m**	**2017 Adjusted £m**	2016 Statutory £m	2016 Adjustments £m	2016 Adjusted £m
EBITA[1]	395	8	403	424	14	438
Exceptional items (operating)[2]	(53)	53	–	(54)	54	–
Amortisation and impairment[3]	(58)	55	(3)	(40)	37	(3)
Operating profit	**284**	**116**	**400**	330	105	435
Net financing costs[4]	(23)	6	(17)	(21)	11	(10)
Share of losses and impairment on JV's and Associates	(2)	–	(2)	–	–	–
Profit before tax	**259**	**122**	**381**	309	116	425
Tax[5]	(53)	(18)	(71)	(63)	(22)	(85)
Profit after tax	**206**	**104**	**310**	246	94	340
Non-controlling interests	(3)	–	(3)	–	–	–
Loss from discontinuing operations (net of tax)	–	–	–	(3)	3	–
Earnings	**203**	**104**	**307**	243	97	340
Shares (million), weighted average	4,010		4,010	4,011		4,011
EPS (p)	5.1p		7.7p	6.1p		8.5p

1. £8 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.
2. £53 million adjustment to operating exceptional items relates to £50 million of acquisition costs, primarily employment linked consideration, as well as £3 million of restructuring costs and property project costs.
3. £55 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 PBT.
4. £6 million adjustment is primarily for non-cash interest cost. This provides a more meaningful comparison of how the business is managed and funded on a day-to-day basis.
5. Tax adjustments are the tax effects of the adjustments made to reconcile PBT and adjusted PBT.

Other alternative performance measures

Total revenue

As an integrated producer broadcaster, we look at the total revenue generated in the business which includes internal revenue, which is the sale of ITV Studios programmes to Broadcast & Online. Our broadcast channels are a significant customer for ITV Studios and selling programmes to Broadcast & Online is an important part of our strategy as it ensures we own all the rights.

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

Six months to 30 June	**2017 £m**	2016 £m
External revenue (Statutory)	**1,458**	1,503
Internal supply	**239**	209
Total revenue (Adjusted)	**1,697**	1,712

Adjusted net debt

Net debt (as defined in Note 4.1) is adjusted for all our financial commitments. This better reflects how credit rating agencies look at our balance sheet. A reconciliation between net debt and adjusted net debt is provided below.

Six months to 30 June	**2017 £m**	2016 £m
Net debt	**(1,074)**	(796)
Expected contingent payments on acquisitions	**(257)**	(316)
Net pension deficit	**(343)**	(64)
Operating leases	**(404)**	(345)
Adjusted net debt	**(2,078)**	(1,521)
Adjusted net debt to adjusted EBITDA*	**2.4x**	1.6x
Net debt to adjusted EBITDA*	**1.2x**	0.9x

* On a 12-month rolling basis

Net pension deficit

This is our defined benefit pension deficit under IAS 19 adjusted for other pension assets, mainly gilts, over which the pension scheme holds a charge, held by the Group as security for future unfunded pension payments of four former Granada executives.

Profit to cash conversion

This is our measure of cash generation used for working capital management. It is calculated as adjusted cash flow as a proportion of adjusted EBITA. Profit to cash conversion is based on adjusted measures to reflect the cash generation of our underlying business after operating capex, excluding the effect of exceptional items, non-cash expenses such as depreciation and share based payments.

Key Performance Indicators

We have defined our Key Performance Indicators (KPIs) to align performance and accountability to our strategy.

Further detail on our financial performance and KPIs can be found in the Strategy & Operations section and the Financial and Performance Review.

Six months to 30 June	**2017**	2016	Absolute Change
Adjusted EBITA	**£403m**	£438m	£(35)m
Adjusted earnings per share	**7.7p**	8.5p	(0.8)p
Profit to cash ratio 12 months rolling	**91%**	86%	5%
ITV Family Share of Viewing (SOV) – weeks 1 – 26	**21.6%**	21.7%	(0.1)%
ITV Family Share of Commercial Impacts (SOCI) – weeks 1 – 26	**34.5%**	34.6%	(0.1)%
Total long-form video requests	**665m**	506m	160m
Non-NAR revenue	**£928m**	£874m	£54m

Note: Results are on a continuing basis

Four of our KPIs are only reported on a full year basis: ITV Family Share of Broadcast (SOB), percentage of ITV output from ITV Studios, number of new commissions for ITV Studios and employee engagement.

ITV SOB is not reported externally at the half year as it has become increasingly difficult to measure the total television market particularly in the short term, as all broadcasters have different definitions and include sources of revenue other than pure spot advertising. Over the full year we expect ITV Family NAR to outperform the total TV advertising market.

ITV Studios KPIs are not reported externally on a six monthly basis as they are materially impacted by phasing and therefore the full year number gives a more meaningful measurement of performance. Employee engagement is based on an annual survey with the next scheduled for 2018.

Financial and Performance Review

ITV's performance for the first six months of 2017 is as we anticipated and our guidance for the full year remains unchanged.

The strategy we set out a number of years ago was to rebalance the business and reduce our reliance on the UK and on spot advertising. The progress we have made against this strategy is clearly evident in our performance for the first half of 2017. Non-NAR grew 6%, partly offsetting an 8% decline in spot advertising revenue, to give external revenue down 3%. Adjusted EPS was down 9% in the first half impacted by advertising, ongoing investment in the business and the fact that the prior year includes the full benefit of the four year license deal for The Voice of China. Statutory EPS was down 16% year-on-year. One of our key strengths is our high margins and healthy cashflows which, together with our ongoing focus on costs, places us in a good position to continue to invest in growing an even stronger and more resilient business while delivering sustainable returns to our shareholders.

Six months to 30 June – on a continuing basis	**2017 £m**	2016 £m	Change £m	Change %
NAR	**769**	838	(69)	(8)
Total non-NAR	**928**	874	54	6
Total revenue	**1,697**	1,712	(15)	(1)
Internal supply	**(239)**	(209)	30	14
Group external revenue	**1,458**	1,503	(45)	(3)
Adjusted EBITA	**403**	438	(35)	(8)
Group adjusted EBITA margin	**28%**	29%		
Adjusted EPS	**7.7p**	8.5p	(0.8)	(9)
Adjusted diluted EPS	**7.6p**	8.4p	(0.8)	(10)
Dividend per share	**2.52p**	2.4p	0.12p	5
Net debt as at 31 December	**(1,074)**	(796)	(278)	

The statutory profit before tax and EPS from the Condensed Consolidated Income Statement are presented below. A full reconciliation between our statutory and adjusted results is included in the Alternative Performance Measures section.

Six months to 30 June	**2017 £m**	2016 £m	Change £m	Change %
Profit before tax	**259**	309	(50)	(16)
EPS	**5.1p**	6.1p	(1.0)p	(16)
Diluted EPS	**5.1p**	6.1p	(1.0)p	(16)

Total ITV revenue decreased 1% to £1,697 million (2016: £1,712 million), with external revenue down 3% at £1,458 million (2016: £1,503 million). NAR declined as expected by 8% to £769 million (2016: £838 million) which was partly offset by 6% growth in non-NAR revenue to £928 million (2016: £874 million). Non-NAR now accounts for 55% (2016: 51%) of total revenue.

Adjusted EBITA declined by 8% to £403 million (2016: £438 million) with the adjusted EBITA margin decreasing to 28% (2016: 29%), impacted by the decline in NAR, ongoing investment in the business and the fact that the prior year includes the full benefit of the four year license deal for The Voice of China. Adjusted EPS was down 9% to 7.7p (2016: 8.5p) while statutory EPS declined by 16% to 5.1p (2016: 6.1p). Statutory EPS declined due to higher amortisation and impairment which is explained over the following pages.

We remain focused on balance sheet efficiency and working capital management. Our profit to cash ratio on a rolling 12-month basis remained strong at 91%. We ended the period with net debt of £1,074 million (31 December 2016: net debt of £637 million) after acquisitions and earnout payments within ITV Studios, the ordinary and special dividend payments and pension deficit contributions. We believe maintaining leverage below 1.5x net debt to adjusted EBITDA will optimise our cost of capital and maintain our investment grade credit. At 30 June 2017, net debt to adjusted EBITDA on a 12-month rolling basis was 1.2x (31 December 2016: 0.7x and 30 June 2016: 0.9x).

Cost management remains a key priority and we are on track to deliver the previously announced £25 million reduction in overheads across the business in 2017. This together with our strong balance sheet and a more balanced business gives us the flexibility to continue to invest and make sustainable returns to shareholders.

The Board has declared an interim dividend of 2.52p, an increase of 5%, reflecting our confidence in the underlying strength of the business.

Broadcast & Online

Six months to 30 June – on a continuing basis	**2017 £m**	2016 £m	Change £m	Change %
NAR	**769**	838	(69)	(8)
Online, Pay & Interactive revenue	**112**	107	5	5
SDN external revenue	**35**	33	2	6
Other commercial income	**84**	83	1	1
Broadcast & Online non-NAR revenue	**231**	223	8	4
Total Broadcast & Online revenue	**1,000**	1,061	(61)	(6)
Total schedule costs	**(532)**	(547)	15	3
Other costs	**(175)**	(197)	22	11
Total Broadcast & Online adjusted EBITA	**293**	317	(24)	(8)
Adjusted EBITA margin	**29%**	30%		

Broadcast & Online revenue declined by 6% to £1,000 million (2016: £1,061 million) with the decrease in NAR partly offset by good growth in Online, Pay & Interactive.

Continued economic and political uncertainty in the UK during the first half of 2017 led to an 8% decrease in ITV Family NAR to £769 million (2016: £838 million). The first quarter was down 9% and the second quarter was down 7%. Over the first half, including sponsorship, VOD and self-promotion, ITV total advertising was down 7%.

Advertising categories such as Retail, Finance and Food continued to see declines due to uncertainty on the economic outlook along with the weakening of the pound causing inflationary pressure and leading advertisers to reduce advertising spend in order to maintain margins. Entertainment & Leisure are down impacted by the tough comparatives from the Euro Football Championship in 2016. Several categories have remained strong, increasing spend year-on-year, such as Cars & Car Dealers, Telecommunications and Supermarkets. Digital brands continue to spend heavily on television to build brand awareness.

On-screen we performed well. To the end of May our ITV Family share of viewing grew although we ended the first half flat as June last year included the benefit of the Euros. There were strong performances from drama including The Good Karma Hospital, Vera and The Loch, entertainment including Saturday Night Takeaway, The Voice and Britain's Got Talent, sport with The Six Nations Rugby Championships and ITV horse racing, along with an improvement in daytime and the soaps. As well as mass audiences, we also deliver more targeted demographics. ITV2, which is aimed at younger audiences, saw a 15% increase in SOCI for the 16-34s demographic driven by programmes such as Love Island, Family Guy and Celebrity Juice. ITV4, which targets male audiences, had a 5% increase in male SOCI helped by ITV's horse racing coverage, The French Open and the Isle of Man TT Races. We remain focused on our viewing performance and continuing to deliver both mass audiences and key demographics which are highly demanded by advertisers.

Online, Pay & Interactive revenue showed good growth, up 5% to £112 million (2016: £107 million) with double-digit growth in our online advertising and pay businesses. Audience demand for VOD remains strong, as does the demand for online advertising. Supported by our strong on-screen proposition we delivered a 31% increase in long-form video requests and a 34% increase in consumption on our OTT service the ITV Hub which now has 20 million registered users. Interactive revenue was down 5%, with reduced entries for daytime competitions.

As we build our digital business, we will continue to invest in the ITV Hub, ITV Hub+, BritBox US, our SVOD joint venture with the BBC and Cirkus, our SVOD proposition in the Nordics and Germany.

SDN external revenue, which is generated from licence sales for DTT Multiplex A, increased 6% to £35 million (2016: £33 million). This was driven by the 16th stream which launched in May 2016.

Other commercial income includes revenue from programme sponsorship and revenue from STV plc for commission earned by ITV for airtime sales and for the delivery of ITV programming. This revenue was up 1% at £84 million (2016: £83 million) with new sponsorship around ITV horse racing and The Voice offset by a reduction in third party airtime sales commission and revenue primarily from UTV following ITV's acquisition of the business in February 2016.

Financial and Performance Review

Schedule costs were down 3% year-on-year at £532 million (2016: £547 million) with higher spend on entertainment offset by lower spend on sports rights, drama and factual. We continue to expect our total annual programming budget for the full year to be around £1,025 million which includes the previously announced £25 million year on year reduction as a result of no major sports tournament in 2017.

Other Broadcast costs were down 11% year-on-year at £175 million (2016: £197million) which includes a portion of the previously announced £25 million overhead savings and timing of other costs, including marketing, which this year will be more weighted towards the second half of the year.

Overall Broadcast & Online adjusted EBITA was down 8% at £293 million (2016: £317 million) with the good growth in Online, Pay & Interactive more than offset by the decline in the advertising market. This has led to a 1% reduction in the adjusted EBITA margin to 29% (2016: 30%).

Looking to the second half of 2017, we expect ITV Family NAR to be down 5% in July, down 4% in August and in September to be flat to down 5%, equating to down around 4% in the third quarter. Over the full year we expect to again outperform the television advertising market. Online Pay & Interactive is on track to deliver good growth over the full year.

As a result of the Digital Economy Bill which received Royal Assent in April, s73 will be repealed with effect from 31 July, which paves the way for the introduction of retransmission fees.

ITV Studios

Six months to 30 June	2017 £m	2016 £m	Change £m	Change %
Studios UK	306	292	14	5
ITV America	143	96	47	49
Studios RoW	159	184	(25)	(14)
Global Entertainment	89	79	10	13
Total Studios revenue	697	651	46	7
Total Studios costs	(587)	(530)	(57)	(11)
Total Studios adjusted EBITA*	110	121	(11)	(9)
Studios adjusted EBITA margin	16%	19%		

* Includes the benefit of production tax credits.

Six months to 30 June	2017 £m	2016 £m	Change £m	Change %
Sales from ITV Studios to Broadcast & Online	239	209	30	14
External revenue	458	442	16	4
Total Studios revenue	697	651	46	7

ITV Studios total revenue saw good growth in the first half, up 7% to £697million (2016: £651 million) driven by Studios UK, ITV America and Global Entertainment as we continue to build scale in the key creative content markets and strengthen our international portfolio of programmes that return and travel. Total organic revenue, which excludes our current year acquisitions, was up 6%, and excluding foreign exchange movements, it was flat. We delivered good organic revenue and profit growth across the business except in Studios Rest of World (RoW) and specifically Talpa Media which was impacted by the inclusion of the full benefit of the four year license deal for The Voice of China in the prior year.

Reflecting our growth and increasing scale in key production markets in Europe and the US, 52% of ITV Studios total revenue in the first half was generated outside the UK. As our Studios business grows internationally, foreign currency movements have an increasing impact on our results. On a constant currency basis, which assumes exchange rates remained consistent with 2016, ITV Studios revenue for the period would have been £42 million lower and adjusted EBITA would have been £8 million lower as a result of a stronger US dollar and Euro during the period.

Studios UK revenue was up 5% to £306 million (2016: £292 million) driven by 13% growth in internal revenue. Programming sales to ITV Broadcast grew strongly and benefited from new drama deliveries including Unforgotten, Little Boy Blue, The Loch and Fearless along with new and returning entertainment programmes The Voice, The Voice Kids, Saturday Night Takeaway and Love Island. Off-ITV revenue declined by 13% driven by the timing of deliveries along with non-returning programmes such as Friday Night Dinner and Raised By Wolves. This was offset by new and returning deliveries including Poldark and Second Chance Summer for the BBC, Blind Date for Channel 5 and Bliss for Sky. For the full year we expect off-ITV revenue to be up year on year with new programmes for the second half including Living The Dream for Sky, The City & The City and Ordeal of Innocence for the BBC and Back for Channel 4.

ITV America's total revenue increased 49% to £143 million (2016: £96 million) with organic revenue, excluding foreign exchange, up 31%. This increase was driven by new and returning formats such as Big Star's Little Star, Sideserf, World Hip Hop Star, Car Spotters, American Grit, Alone, Forged In Fire and First 48 along with new scripted commission Sun Records and the third series of Good Witch. The second half of 2017 will see the delivery of two series of the successful entertainment format Hell's Kitchen USA, new scripted commissions Somewhere Between for ABC and a pilot of Snowpiercer for TNT along with unscripted commission Queer Eye for the Straight Guy for Netflix. We have a number of scripted titles in development which include Highland for TNT and both scripted and unscripted programmes for Netflix, Amazon and Facebook.

Studios RoW total revenue was down 14% to £159 million (2016: £184 million), with organic revenue, excluding foreign exchange, down 26%. The decline was primarily driven by Talpa Media as explained earlier. We saw good growth from producing Studios UK and Talpa Media formats across our RoW territories. First half deliveries included The Voice in Australia, The Chase in Australia and Germany and Bagges Hundar in Sweden which is based on the UK format For The Love of Dogs. We have a strong pipeline of new and returning formats in the second half which includes The Voice and The Voice Kids, This Time Next Year, Love Island, 5 Gold Rings and Big Star's Little Star.

Global Entertainment revenue increased 13% in the period to £89 million (2016: £79 million), with revenue excluding foreign exchange up 4%. As we continue to grow our portfolio of programmes and formats to distribute internationally, first half revenue was supported by our strong programme slate including Poldark, Good Witch, Harlots, Fearless and Prime Suspect 1973. We have around 15 scripted programmes and five entertainment and factual entertainment formats sold to more than 100 countries. So far in 2017 we have sold 44 different formats internationally, nine of which are being produced by ourselves or other producers in three or more countries. We have also increased distribution of our content to OTT providers including Amazon, Netflix and Hulu in the UK and internationally.

Overall, ITV Studios adjusted EBITA decreased 9% to £110 million (2016: £121 million) with the adjusted EBITA margin reducing to 16% (2016: 19%). This is a result of the ongoing investment we are making in our US scripted creative business and the fact that the prior year includes the full benefit of the four year license deal for The Voice of China.

For the first half of 2017 we invested £96 million in scripted content, which is £30 million higher than the prior year due to programmes such as Living The Dream, City & The City and Somewhere Between, as we continue to invest in drama across the business. We finance our larger-scale scripted projects through our strong underlying cashflows. The production cost is partly funded by the initial sale of the series to a broadcaster, while the deficit (the difference between the cost and what the broadcaster pays), is recovered through distribution revenue from selling the finished product globally to other broadcasters and platforms. We balance our financial exposure through building a portfolio of programmes, with successful international dramas offsetting the risk that we will not recover the full deficit on every show.

ITV Studios has continued to deliver many creative successes in the period and the second half of 2017 will see the delivery of many new and returning entertainment and drama programmes, and as a result we remain on track to deliver good organic revenue growth over the full year. ITV Studios currently has 85% of full year revenue already secured which is £100 million more than this time last year. Adjusted EBITA will be broadly flat year-on-year due to continued investment in our US scripted business and the fact that the prior year includes the full benefit of the four year license deal for The Voice of China.

Acquisitions

We continue to look at potential acquisitions and partnerships as we further build scale in our international content business. Since 2012 we have acquired a number of content businesses in the UK, US and creative 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 leading unscripted independent production company in the US.

In February 2017, we acquired a majority stake in Tetra Media Studio, the French television production group behind leading dramas including crime series Profilage, now in its seventh series, and Les Hommes de l'Ombre, the critically acclaimed political thriller.

In April we acquired a 45% stake in Blumhouse Television, established by Jason Blum, the renowned film and television producer, which finances and produces original scripted and unscripted 'dark' genre programming for global audiences, including The Jinx and Cold Case Files.

In April we also acquired a majority stake in World Productions, the company behind the critically acclaimed and multi-award winning Line of Duty.

In June we acquired a majority stake in Elk Production, one of the leading independent production companies in Sweden. The company produces original formats such as the award winning reality TV series Parneviks along with acquired formats including Ninja Warrior and Dessertmästarna.

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

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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, the most significant of which is for Talpa Media whereby the total maximum consideration, including the initial payment, is up to €1.1 billion which is contingent on Talpa Media continuing to deliver significant profit growth to 2022 as well as John de Mol's continued commitment to the business during this time. To date we have paid €600 million to John de Mol including €100 million for the first tranche of the earnout which was paid out in full in May 2017. Under the deal structure, because all future payments are directly related to John de Mol remaining with the business, these payments are treated as employment costs and therefore are part of our statutory results. However, we exclude them 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 capital consideration reflecting how we structure our transactions. This is consistent with our treatment of all costs of this type.

Acquisitions – 2012 to 2017 (undiscounted)

Company	Geography	Genre	Initial consideration (£m)	Additional consideration paid in 2017 (£m)	Expected future payments* (£m)	Total expected consideration** (£m)	Expected payment period	Total maximum consideration** (£m)
2017								
Various	Various	Content	33	–	15	48	2020-2024	253
Total for 2017			**33**	**–**	**15**	**48**		**253**
Total for 2012-2016		Content & Broadcast TV	860	88	242	1,190	2017-2021	1,911
Total			**893**	**88**	**257**	**1,238**		**2,164**

* Undiscounted and adjusted for foreign exchange. All future payments are performance related. Of the £257 million expected future payments, £103 million has been recorded on the balance sheet to date.

** Undiscounted and adjusted for foreign exchange, including the initial cash consideration and excluding working capital adjustments.

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

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 has reduced by £71 million since 31 December 2016 which is the net of the additional future payments relating to our 2017 acquisitions, the payment made to John de Mol for the first tranche of his earnout and future payments denominated in foreign currency. Of the £257 million of expected future payments, £103 million had been recorded on the balance sheet at 30 June 2017.

Net financing costs

Six months to 30 June	**2017 £m**	2016 £m
Financing costs directly attributable to loans and bonds	**(15)**	(10)
Cash-related net financing costs	**(2)**	–
Adjusted financing costs	**(17)**	(10)
Mark-to-market on swaps and foreign exchange	**–**	1
Imputed pension interest	**(4)**	(2)
Unrealised foreign exchange and other net financial losses	**(2)**	(10)
Net financing costs	**(23)**	(21)

Adjusted financing costs increased to £17 million (2016: £10 million) primarily due to the new €500m Eurobond issued in December 2016 and the two bilateral loans which we did not have in the first half of 2016.

Net financing costs were £2 million higher in 2017 at £23 million (2016: £21 million) with the increase in adjusted financing costs offset by a decrease in unrealised foreign exchange losses due to a reduction in the unhedged portion of the Eurobond year-on-year.

Profit before tax

Adjusted profit before tax, after amortisation and impairment of assets and financing costs, was down 10% to £381 million (2016: £425 million). Statutory profit before tax decreased by 16% at £259 million (2016: £309 million), primarily a result of higher amortisation and impairment of acquired assets.

Profit before tax (PBT)

Six months to 30 June – on a continuing basis	2017 £m	2016 £m
Profit before tax	259	309
Production tax credits	8	14
Total exceptional items	53	54
Amortisation and impairment of assets*	55	37
Adjustments to net financing costs	6	11
Adjusted profit before tax	**381**	**425**

* In respect of assets arising from business combinations and investments

Exceptional items

Six months to 30 June	2017 £m	2016 £m
Operating exceptional items:		
Acquisition related expenses	(50)	(54)
Restructuring and property related costs	(3)	–
Total exceptional items	**(53)**	**(54)**

Total exceptional items in the year were £53 million (2016: £54 million). Operating exceptional items principally relate to acquisition related expenses which are mainly performance based employment linked consideration. Restructuring and property related costs includes incremental one-off project costs associated with our planned London property move in 2018.

Tax

Adjusted tax charge

The total adjusted tax charge for the period was £71 million (2016: £85 million), corresponding to an effective tax rate on adjusted PBT of 19% (2016: 20%) which is broadly in line with the standard UK corporation tax rate of 19.25% (2016: 20%). We expect this effective tax rate to be sustainable in the medium term. 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 discussed earlier.

Six months to 30 June	2017 £m	2016 £m
Tax charge	(53)	(63)
Production tax credits	(8)	(14)
Charge for exceptional items	(3)	(1)
Charge in respect of amortisation and impairment*	(7)	(6)
Charge in respect of adjustments to net financing costs	(1)	(2)
Other tax adjustments	1	1
Adjusted tax charge	**(71)**	**(85)**
Effective tax rate on adjusted profits	**19%**	**20%**

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

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Cash tax
Cash tax paid in the period was £65 million (2016: £33 million), the majority of which is paid in the UK. The 2017 cash tax figure is net of £9 million of production tax credits received in the period. The cash tax paid is higher than the interim tax charge for 2017 of £53 million largely due to the phasing of cash tax payments in the UK and The Netherlands.

Tax strategy
ITV is a responsible business, and we take a responsible attitude to tax, recognising that it affects all of our stakeholders. In order 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 in order to minimise uncertainty

2. Pro-actively 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. 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, including through the operation of the Tax & Treasury Committee. The ITV Global Tax Strategy as published on the ITV plc website is compliant with the UK tax strategy publication requirement set out in Part 2 Schedule 19 Finance Act 2016.

EPS – adjusted and statutory

Overall, adjusted profit after tax was down 9% at £310 million (2016: £340 million), this is after non-controlling interests of £3 million (2016: £nil). Adjusted basic earnings per share was 7.7p (2016: 8.5p), down 9% which is marginally higher than the decrease in adjusted EBITA of 8% due to an increase in adjusted financing costs to £17 million (2016: £10 million). The weighted average number of shares was broadly in line at 4,010 million (2016: 4,011 million). Diluted adjusted EPS in 2017 was 7.6p (2016: 8.4p) reflecting a weighted average diluted number of shares of 4,019 million (2016: 4,031 million).

Statutory EPS declined by 16% to 5.1p (2016: 6.1p) primarily due to higher amortisation and impairment of acquired assets

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

Dividend per share

The Board has declared an interim dividend of 2.52p, an increase of 5%, reflecting our confidence in the underlying strength of the business. The full year dividend will be set in line with the Board's commitment to a long-term sustainable dividend policy and for ordinary dividends to grow broadly in line with earnings, targeting dividend cover of around 2x adjusted earnings per share over the medium term.

Cash generation

Profit to cash conversion

Six months to 30 June	2017 £m	2016 £m
Adjusted EBITA	403	438
Working capital movement	(114)	(60)
Depreciation	17	15
Share-based compensation and pension service costs	9	7
Acquisition of property, plant and equipment and intangible assets	(23)	(23)
Adjusted cash flow	292	377
Profit to cash ratio six months to 30 June	72%	86%
Profit to cash ratio 12 months rolling	91%	86%

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

One of ITV's key strengths is its healthy cashflows reflecting our ongoing tight management of working capital balances and our disciplined approach to cash and costs. This is particularly important when there is wider political and economic uncertainty and places us in a good position to continue to invest across the business and deliver sustainable returns to our shareholders.

In the period we generated £292 million (2016: £377 million) of operational cash from £403 million (2016: £438 million) of adjusted EBITA, which equates to a strong profit to cash ratio of 91% on a 12-month rolling basis (2016: 86%). In the period we saw an increase in working capital relating to a build-up of programme stock, such as Victoria, Cold Feet, Next of Kin and Living the Dream which will reverse in the second half when they are delivered.

To facilitate our working capital management, we have a £100 million non-recourse receivables purchase agreement (free of financial covenants). At 30 June 2017, £35 million of receivables were sold under the purchase agreement.

Free cash flow

Six months to 30 June	**2017 £m**	2016 £m
Adjusted cash flow	**292**	377
Net interest paid	**(20)**	(6)
Adjusted cash tax*	**(74)**	(55)
Pension funding	**(47)**	(47)
Free cash flow	**151**	269

* Adjusted cash tax of £74 million is total cash tax paid of £65 million excluding receipt of production tax credits, which are included within adjusted cashflow from operations, as these production tax credits relate directly to the production of programmes.

After payments for interest, tax and pension funding, our free cash flow remained healthy in the period, at £151 million (2016: £269 million).

Overall, after dividends (ordinary and special), acquisitions and acquisition related costs, pension and tax payments, we ended the first half with net debt of £1,074 million, compared to net debt of £637 million at 31 December 2016 and net debt of £796 million at 30 June 2016. Our net cash generation is weighted towards the second half of 2017 due to the payment in the first half of the special dividend, the Talpa earnout and content acquisitions.

Funding and liquidity

Debt structure and liquidity

Our balance sheet strength, together with our healthy free cash flow, enables us to continue to invest in opportunities to grow the business and to make sustainable returns to our shareholders. We have a number of facilities in place to preserve our financial flexibility. We have a £630 million Revolving Credit Facility (RCF) in place until 2021 (with the option to extend to 2023). We also have a bilateral financing facility of £300 million, which is free of financial covenants and matures in 2021. This provides us with sufficient liquidity to meet the requirements of the business in the short to medium term. The RCF has the usual financial covenants for this type of financing. Of the total £930 million of facilities in place, £240 million was drawn down at 30 June 2017. Our policy is to maintain at least £250 million of available liquidity at any point.

In January 2017 we repaid the £161 million Eurobond as it matured.

Leverage

Our objective is to run an efficient balance sheet. We believe maintaining leverage below 1.5x net debt to adjusted EBITDA will optimise our cost of capital and maintain our investment grade credit. At 30 June 2017, net debt to adjusted EBITDA on a 12-month rolling basis was 1.2x (31 December 2016: 0.7x and 30 June 2016: 0.9x). Our priority is to invest to drive organic growth and make acquisitions in line with our strategic priorities as we find the right opportunities to do so. We will balance this investment with additional returns to shareholders where we have surplus capital.

We also look at an adjusted measure of net debt, taking into consideration all of our other debt-like commitments including the expected, undiscounted contingent payments on acquisitions, the pension deficit under IAS 19, net of gilts held as security against a proportion of those liabilities and the undiscounted operating lease commitments which mainly relate to broadcast transmission contracts and property. This adjusted leverage measure better reflects how the credit rating agencies look at our balance sheet. This is important to monitor as our investment grade rating is a key criteria when considering our overall capital allocation. At 30 June 2017 adjusted net debt was £2,078 million (30 June 2016: £1,521 million) and adjusted net debt to adjusted EBITDA on a rolling 12-month basis was 2.4x (30 June 2016: 1.6x). A reconciliation of net debt to adjusted net debt is provided in the Alternative Performance Measures section on page 14.

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Net debt

At 30 June	2017 £m	2016 £m
Gross cash	123	181
Gross debt**	(1,197)	(977)
Net debt	(1,074)	(796)

Financing
We are financed using debt instruments and facilities with a range of maturities. Borrowings at 30 June 2017 were repayable as follows:

Amount repayable at 30 June 2017	£m	Maturity
£630 million Revolving Credit Facility	240	2021*
€600 million Eurobond	523	Sep 2022
€500 million Eurobond**	425	Dec 2023
Other loans	3	Various
Finance leases	6	Various
Total debt repayable on maturity	1,197	

* Option to extend to 2023
** Net of £15 million cross currency swaps

Ratings
We are rated investment grade by two ratings agencies: BBB- (stable 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, exposure to the economic cycle, as well as business and geographical diversity. Continuing to execute our strategy will strengthen our position against all these metrics.

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 transaction that is either a firm commitment for up to five years forward or a highly probable forecast for up to 18 months, depending 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 discussed and approved by the ITV plc Board and implemented by our internal Tax and Treasury Committee who oversee governance and approval of Tax and Treasury related policies and procedures within the business.

Foreign Exchange Sensitivity
The following table highlights ITV's sensitivity, on a full year basis, 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	±50-60	±8-10
Euro	±25-30	±3-4

Pensions

The net pension deficit for the defined benefit schemes at 30 June 2017 was £343 million (31 December 2016: £328 million). The increase reflects a rise in pension liabilities following a decrease in corporate bond yields partly offset by a decrease in market expectations of long-term inflation. The overall increase in liabilities, and a small decrease in asset values, has more than offset the deficit funding contribution. The net pension deficit includes £39 million of gilts which are held by the Group as security for future unfunded pension payments of four former Granada executives, the liabilities of which are included in our pension obligations.

Actuarial valuation

The last actuarial valuation was undertaken in 2014. On the basis adopted by the Trustee, the combined deficits as at 1 January 2014 amounted to £540 million and is estimated to be at a broadly similar level today.

The Trustee is in the process of undertaking a full actuarial valuation of all sections of the Scheme as at 1 January 2017 which we expect to agree in late 2017 or early 2018.

Deficit funding contributions

The Group continues to make deficit funding contributions in line with the agreed 2014 valuation in order to eliminate the deficits in each section.

The Group's deficit funding contributions in the first half of 2017 were £47 million (2016: £47 million). The total expected deficit funding contribution for 2017 is £80 million which is consistent with the contributions payable in 2016. Further details are included within Note 3.2.

Ian Griffiths
Chief Operating Officer and Group Finance Director

Risks & Uncertainties

ITV continues to apply the risk management framework outlined in the 2016 Annual Report and Accounts (pages 50-57).

When preparing the Interim results, the High Impact Low Likelihood (HILL) risks and Strategic risks as reported in the 2016 Annual Report and Accounts were reviewed to ensure they remained appropriate and adequate. No significant new risks were identified and there has been no change to the risk direction of any of the Strategic risks reported in the 2016 Annual Report. Below is a summary of the key risks.

High Impact Low Likelihood (HILL) risks

HILL risks are of low inherent likelihood but there would be major consequence were the risk to materialise. They are categorised according to risk theme.

Risk Theme	HILL Risks
Financial	ITV loses its credit status or lines of funding with existing lenders or there is an event that impacts financial arrangements/availability of credit.
	There is a major collapse in investment values or a material change in liabilities leading to an impact on the pension scheme deficit.
Operational	A significant event removes a number of the key management team from the business on a long-term or permanent basis.
	There is a sustained cyber/viral attack causing prolonged system denial or major reputational damage, for example the ability to broadcast our channels or the availability of the ITV Hub or ITV loses a significant volume of personal or sensitive data.
Reputation	An event with public interest that causes significant reputational and brand damage.
	There is a major health and safety incident that results in loss of human life.
	A major incident results in ITV being unable to continue with scheduled broadcasting for a sustained period.
	There is a significant or unexpected change in regulation or legislation.

Cyber/Viral attack

The Board reviews and monitors risks on an on-going basis and given the increase in cyber related incidents across the world, it is reviewing the current classification of a potential cyber/viral attack as a HILL risk. The Board will continue to monitor cyber risk and may update the classification as part of the Group's risk management framework.

Impact of exiting the European Union

As a result of the UK European Union membership referendum, macro uncertainty may have an impact on the overall health of the UK television advertising market.

Further, there could be wider changes in regulation or legislation within the markets in which we operate. While the potential changes and the impact of any such changes will remain unknown for a while, ITV could, for example, be affected by changes to:

- EU broadcasting legislation and/or rules around EU market access, for example potential barriers against UK companies selling programming to, or investing in, EU companies;
- indirect taxation, direct taxation or transfer pricing regulation;
- restrictions to free movement of our staff.

In addition, given the reciprocal nature of worldwide trade deals, there could also be knock on changes to UK legislation affecting broadcasting and intellectual property laws. For example, there may be pressure to weaken obligations to purchase original content made in the UK or to broaden exceptions from intellectual property protection.

The likelihood or extent of any impact is currently unknown but going forward we will closely monitor and evaluate any potential areas of risk.

Strategic risks

Strategic risks are those that would impact the successful execution of the strategy. They are categorised according to risk theme and mapped to ITV's strategic priorities.

Risk Theme	Strategic Risks	Strategic Priorities
The Market	There is a major decline in advertising revenue and ITV does not build sufficient non-NAR revenue streams to mitigate the financial impact of this decline.	Maximising, Growing, Building
	The television market moves significantly towards pay television as a preferred model, negatively impacting ITV's free-to-air revenue.	Maximising, Building
	A faster than expected shift to VOD or other new technologies, such as internet enabled TVs or online only services, causes a sustained loss of advertising revenue.	Maximising, Building
Organisation, Structure and Processes	ITV fails to evolve its organisational structure and culture to ensure that it is capable of delivering continued growth from the new businesses or revenue streams and fails to attract, develop and retain key creative, commercial and management talent with the skills required for the ongoing business.	Maximising, Growing, Building
	There is significant loss of programme rights or ITV fails to identify and obtain the optimal rights packages.	Maximising, Growing, Building
	ITV fails to create and own a sufficient number of hit programmes/formats across its international portfolio of content companies.	Maximising, Growing, Building
	ITV fails to properly resource, financially, creatively and operationally, the new growth businesses, in particular online and international content.	Maximising, Growing, Building
	ITV remains heavily reliant on legacy systems, which could potentially restrict the ability to grow the business. These systems and processes may not be appropriate for non-advertising revenue or international growth.	Maximising, Growing, Building
Technology	A significant high-profile incident or series of events e.g. a system failure, a technology issue, or a major regulatory breach that causes significant reputational and/or commercial damage.	Maximising, Growing, Building
	ITV fails to ensure appropriate business continuity planning and resilience within its core systems, processes, platforms and technology infrastructure.	Maximising, Growing, Building

Interim Condensed Financial Statements

In this section

Our objective is to make ITV's financial statements less complex, more relevant to shareholders 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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Condensed Consolidated Income Statement

For the six month period to 30 June	Note	**2017 £m**	2016 £m
Revenue	2.1	**1,458**	1,503
Operating costs		**(1,174)**	(1,173)
Operating profit		**284**	330
Presented as:			
Earnings before interest, tax and amortisation (EBITA) before exceptional items	2.1	**395**	424
Operating exceptional items		**(53)**	(54)
Amortisation and impairment		**(58)**	(40)
Operating profit		**284**	330
Financing income		**2**	2
Financing costs		**(25)**	(23)
Net financing costs		**(23)**	(21)
Share of losses of joint ventures and associated undertakings		**(2)**	–
Profit before tax		**259**	309
Taxation		**(53)**	(63)
Profit from continuing operations		**206**	246
Loss after tax for the period from discontinued operation		**–**	(3)
Profit for the period		**206**	243
Profit attributable to:			
Owners of the Company from continuing operations		**203**	243
Non-controlling interests		**3**	–
Profit for the period from continuing operations		**206**	243
Earnings per share			
Basic earnings per share	2.2	**5.1p**	6.1p
Diluted earnings per share	2.2	**5.1p**	6.1p
Earnings per share from continuing operations			
Basic earnings per share	2.2	**5.1p**	6.1p
Diluted earnings per share	2.2	**5.1p**	6.1p

Condensed Consolidated Statement of Comprehensive Income

For the six month period to 30 June	**2017 £m**	2016 £m
Profit for the period	**206**	243
Other comprehensive income:		
Items that are or may be reclassified to profit or loss		
Revaluation of available-for-sale financial assets	**(1)**	3
Net (loss)/gain on cash flow hedges	**(6)**	7
Exchange (loss)/gain on translation of foreign operations (net of hedging)	**(18)**	42
Items that will never be reclassified to profit or loss		
Remeasurement (losses)/gains on defined benefit pension schemes	**(59)**	67
Income tax credit/(charge) on items that will never be reclassified	**8**	(12)
Other comprehensive (loss)/income for the period, net of income tax	**(76)**	107
Total comprehensive income for the period	**130**	350
Total comprehensive income attributable to:		
Owners of the Company	**127**	350
Non-controlling interests	**3**	–
Total comprehensive income for the period	**130**	350

Condensed Consolidated Statement of Financial Position

	Note	30 June 2017 £m	31 December 2016 £m	30 June 2016 £m
Non-current assets				
Property, plant and equipment		241	244	240
Intangible assets		1,650	1,624	1,634
Investments in joint ventures, associates and equity investments		74	76	36
Derivative financial instruments	4.3	3	1	1
Distribution rights		35	31	55
Other pension asset	3.2	39	39	–
Deferred tax asset		22	17	–
		2,064	2,032	1,966
Current assets				
Programme rights and other inventory		485	406	370
Trade and other receivables due within one year		471	526	535
Trade and other receivables due after more than one year		45	39	36
Trade and other receivables		516	565	571
Current tax receivable		10	11	12
Derivative financial instruments	4.3	6	8	14
Assets held for sale		–	–	8
Cash and cash equivalents	4.1	123	561	181
		1,140	1,551	1,156
Current liabilities				
Borrowings	4.1	(243)	(165)	(231)
Derivative financial instruments	4.3	(1)	(3)	(6)
Trade and other payables due within one year		(862)	(960)	(775)
Trade payables due after more than one year		(48)	(57)	(57)
Trade and other payables		(910)	(1,017)	(832)
Current tax liabilities		(65)	(76)	(94)
Provisions		(19)	(19)	(27)
Liabilities held for sale		–	–	(2)
		(1,238)	(1,280)	(1,192)
Net current (liabilities)/assets		(98)	271	(36)
Non-current liabilities				
Borrowings	4.1	(969)	(1,035)	(746)
Derivative financial instruments	4.3	(1)	(9)	–
Defined benefit pension deficit	3.2	(382)	(367)	(64)
Deferred tax liabilities		(67)	(70)	(97)
Other payables		(66)	(63)	(105)
Provisions		(4)	(4)	(4)
		(1,489)	(1,548)	(1,016)
Net assets		477	755	914
Attributable to equity shareholders of the parent company				
Share capital		403	403	403
Share premium		174	174	174
Merger and other reserves		220	221	221
Translation reserve		55	79	84
Available-for-sale reserve		6	7	9
Retained earnings		(418)	(162)	(8)
Total equity attributable to equity shareholders of the parent company		440	722	883
Non-controlling interests		37	33	31
Total equity		477	755	914

Ian Griffiths
Chief Operating Officer and Group Finance Director

Condensed Consolidated Statement of Changes in Equity

	Attributable to equity shareholders of the parent company								
	Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Available-for-sale reserve £m	Retained earnings £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
Balance at 1 January 2017	403	174	221	79	7	(162)	722	33	755
Total comprehensive income for the period									
Profit for the period	–	–	–	–	–	203	203	3	206
Other comprehensive income/(loss)									
Revaluation of available-for-sale financial assets	–	–	–	–	(1)	–	(1)	–	(1)
Net loss on cash flow hedges	–	–	–	(6)	–	–	(6)	–	(6)
Exchange differences on translation of foreign operations (net of hedging)	–	–	–	(18)	–	–	(18)	–	(18)
Disposal of subsidiary	–	–	2	–	–	(2)	–	–	–
Remeasurement loss on defined benefit pension schemes	–	–	–	–	–	(59)	(59)	–	(59)
Income tax credit on other comprehensive income	–	–	–	–	–	8	8	–	8
Total other comprehensive income/(loss)	–	–	2	(24)	(1)	(53)	(76)	–	(76)
Total comprehensive income/(loss) for the period	–	–	2	(24)	(1)	150	127	3	130
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Equity dividends	–	–	–	–	–	(394)	(394)	(2)	(396)
Movements due to share-based compensation	–	–	–	–	–	6	6	–	6
Purchase of own shares via employees' benefit trust	–	–	–	–	–	(18)	(18)	–	(18)
Total transactions with owners	–	–	–	–	–	(406)	(406)	(2)	(408)
Changes in non-controlling interests	–	–	(3)	–	–	–	(3)	3	–
Balance at 30 June 2017	403	174	220	55	6	(418)	440	37	477

	Attributable to equity shareholders of the parent company								
	Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Available-for-sale reserve £m	Retained earnings £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
Balance at 1 January 2016	403	174	221	35	6	275	1,114	33	1,147
Total comprehensive income for the period									
Profit for the period	–	–	–	–	–	243	243	–	243
Other comprehensive income/(loss)									
Revaluation of available-for-sale financial assets	–	–	–	–	3	–	3	–	3
Net gain on cash flow hedges	–	–	–	7	–	–	7	–	7
Exchange differences on translation of foreign operations (net of hedging)	–	–	–	42	–	–	42	–	42
Remeasurement gains on defined benefit pension schemes	–	–	–	–	–	67	67	–	67
Income tax charge on other comprehensive income	–	–	–	–	–	(12)	(12)	–	(12)
Total other comprehensive income	–	–	–	49	3	55	107	–	107
Total comprehensive income for the period	–	–	–	49	3	298	350	–	350
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Equity dividends	–	–	–	–	–	(566)	(566)	(2)	(568)
Movements due to share-based compensation	–	–	–	–	–	7	7	–	7
Tax on items taken directly to equity	–	–	–	–	–	(2)	(2)	–	(2)
Purchase of own shares via employees' benefit trust	–	–	–	–	–	(20)	(20)	–	(20)
Total transactions with owners	–	–	–	–	–	(581)	(581)	(2)	(583)
Balance at 30 June 2016	403	174	221	84	9	(8)	883	31	914

Condensed Consolidated Statement of Cash Flows

For the six month period to 30 June	Note	£m	2017 £m	£m	2016 £m
Cash flows from operating activities					
Profit before tax	2.1		259		309
Share of losses of joint ventures and associated undertakings		2		–	
Net financing costs		23		21	
Operating exceptional items		53		54	
Depreciation of property, plant and equipment		17		15	
Amortisation and impairment		58		40	
Share-based compensation and pension service costs		9		7	
Adjustments to profit			162		137
Increase in programme rights and other inventory, and distribution rights		(80)		(20)	
Decrease/(increase) in receivables		33		(40)	
Decrease in payables		(68)		(7)	
Movement in working capital			(115)		(67)
Cash generated from operations before exceptional items			306		379
Cash flow relating to operating exceptional items:					
Operating exceptional items		(53)		(54)	
(Decrease)/increase in exceptional payables		(70)		17	
Decrease in exceptional prepayments and other receivables		20		29	
Cash outflow from exceptional items			(103)		(8)
Operating cash flow from discontinued operations			–		(5)
Cash generated from operations			203		366
Defined benefit pension deficit funding	3.2	(47)		(47)	
Interest received		21		9	
Interest paid on bank and other loans		(41)		(15)	
Net taxation paid		(65)		(33)	
			(132)		(86)
Net cash inflow from operating activities			71		280
Cash flows from investing activities					
Acquisition of subsidiary undertakings, net of cash acquired	3.1	(24)		(97)	
Acquisition of property, plant and equipment		(14)		(13)	
Acquisition of intangible assets		(12)		(10)	
Acquisition of investments		(15)		(3)	
Loans granted to associates and joint ventures		(2)		(3)	
Net cash outflow from investing activities			(67)		(126)
Cash flows from financing activities					
Bank and other loans – amounts repaid	4.1	(341)		(505)	
Bank and other loans – amounts raised	4.1	320		815	
Capital element of finance lease payments		(4)		(4)	
Equity dividends paid		(394)		(566)	
Dividend paid to minority interest		(2)		(2)	
Purchase of own shares via employees' benefit trust		(18)		(20)	
Net cash outflow from financing activities			(439)		(282)
Net decrease in cash and cash equivalents			(435)		(128)
Cash and cash equivalents at 1 January	4.1		561		294
Effects of exchange rate changes and fair value movements			(3)		15
Cash and cash equivalents at 30 June	4.1		123		181

Notes to the Interim Condensed Financial Statements
Section 1: Basis of Preparation

In this section

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

These condensed consolidated interim financial statements for the six months ended 30 June 2017 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, 'Interim financial reporting' as adopted by the European Union.

These condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which were prepared in accordance with IFRS as adopted by the European Union.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, income and expenses. Actual results may differ from these estimates. Except as described below, in preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2016.

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. Other than this, there is no significant seasonality or cyclicality affecting the interim results of the operations.

For the purposes of interim reporting, the defined benefit pension schemes' key assumptions and asset values have been reviewed to assess whether material net actuarial gains and losses have occurred during the period (see note 3.2).

During the six months ended 30 June 2017, management also reassessed its estimates in respect of provisions and considered the recoverable amount of goodwill and other intangible assets. No impairment of goodwill or other intangible assets was identified.

These interim financial statements and the comparative figures are not statutory accounts. The statutory accounts for the year ended 31 December 2016 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

At 30 June 2017 the Group was in a net debt position. The Group's strong balance sheet and continued generation of significant free cash flows has enabled further investment as well as the payment of a special dividend. See section 4 for details on capital structure and financing.

The Group continues to review forecasts of the television advertising market to determine the impact on ITV's liquidity position. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group will be able to operate within the level of its current available funding.

The Group also continues to focus on development of the non-advertising business, and evaluates the impact of further investment against the strategy and cash headroom of the business.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for at least twelve months from the date of this report. Accordingly, the Group continues to adopt the going concern basis in preparing its consolidated financial statements.

Section 1: Basis of Preparation continued

New or amended EU endorsed accounting standards

Details of new or revised accounting standards, interpretations or amendments which are effective for periods beginning on or after 1 January 2017 and which are considered to have an impact on the Group can be found in the annual financial statements for the year ended 31 December 2016.

IFRS 15 Revenue from Contracts with Customers is effective 1 January 2018. IFRS 15 will require the Group to identify distinct promises in contracts with customers that qualify as 'performance obligations'. The price receivable from customers must then be allocated between the performance obligations identified.

An initial assessment of the impact on the Group's performance has been performed on material revenue streams. The impact is not expected to be material for either Broadcast & Online or ITV Studios revenues.

The Directors anticipate adopting IFRS 15 on 1 January 2018. When IFRS 15 is adopted it can be applied either on a fully retrospective basis, requiring the restatement of the comparative periods presented in the financial statements, or with the cumulative retrospective impact of the standard applied as an adjustment to equity on the date of adoption. The Directors currently intend to apply the fully retrospective method.

IFRS 9 Financial Instruments is also effective 1 January 2018. Based on the initial assessment of the impact, the Directors are currently not expecting the application to significantly impact the Group's current accounting or hedging activities.

IFRS 16 Leases is effective 1 January 2019 and has not yet been endorsed by the EU. IFRS 16 will change lease accounting for lessees under operating leases. Such agreements will require recognition of an asset representing the right to use the leased item and a liability for future lease payments. Lease costs (such as property rent) will be recognised in the form of depreciation and interest, rather than operating cost. The detailed assessment of impact on the Group's performance is ongoing, the adoption is likely to have a material impact on the presentation of the Group's assets and liabilities.

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 and earnings per share.

2.1 Profit before tax

Keeping it simple

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

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

Segmental information

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

The Board considers the business primarily from an operating activity perspective. The reportable segments for the periods ended 30 June 2017 and 30 June 2016 are therefore Broadcast & Online and ITV Studios, the results of which are outlined in the following tables:

For the six month period to 30 June	Broadcast & Online 2017 £m	ITV Studios 2017 £m	Consolidated 2017 £m
Total segment revenue	1,000	697	1,697
Intersegment revenue	–	(239)	(239)
Revenue from external customers	1,000	458	1,458
Adjusted EBITA**	293	110	403

For the six month period to 30 June	Broadcast & Online 2016 £m	ITV Studios 2016 £m	Consolidated 2016 £m
Total segment revenue	1,065	651	1,716
Intersegment revenue	–	(209)	(209)
Revenue from external customers including discontinued operations	1,065	442	1,507
Less: Discontinued operations*	(4)	–	(4)
Revenue from external customers	1,061	442	1,503
Adjusted EBITA including discontinued operations	314	121	435
Adjusted EBITA from discontinued operations	3	–	3
Adjusted EBITA**	317	121	438

* Following the purchase of the 100% controlling interest in UTV Limited in February 2016, management concluded that the best prospect of delivering a strong and sustainable Irish broadcaster was to bring UTV Ireland under common ownership with TV3, and subsequently sold UTV Ireland Limited to Virgin Media, owner of TV3, on 11 July 2016 for €10 million.

** 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. This measure represents the continuing operations.

Section 2: Results for the Period continued

Adjusted EBITA

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

For the six month period to 30 June	2017 £m	2016 £m
Adjusted EBITA	**403**	438
Production tax credits	**(8)**	(14)
EBITA before exceptional items from continuing operations	**395**	424
Operating exceptional items	**(53)**	(54)
Amortisation and impairment	**(58)**	(40)
Net financing costs	**(23)**	(21)
Share of losses of joint ventures and associated undertakings	**(2)**	–
Profit before tax from continuing operations	**259**	309

A reconciliation of Profit before tax to Adjusted Profit before tax is included in the Finance and Performance Review.

2.2 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 £203 million (2016: £246 million) divided by 4,010 million (2016: 4,011 million) being the weighted average number of shares in issue during the period.

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 show the business performance of the Group in a consistent manner and reflect how the business is managed and measured on a day-to-day basis. Adjusted EPS reflects the impact of operating and non-operating exceptional items on Basic EPS. Other items excluded from Adjusted EPS include amortisation and impairment; net financing cost adjustments and the tax adjustments relating to these items. Each of these adjustments are 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	2017 £m	2016 £m
Profit for the period attributable to equity shareholders of ITV plc	**203**	243
Less: Loss for the period from discontinued operations	**–**	(3)
Profit for the period attributable to equity shareholders of ITV plc from continuing operations	**203**	246
Weighted average number of ordinary shares in issue – million	**4,010**	4,011
Earnings per ordinary share and from continuing operations	**5.1p**	6.1p
Loss per ordinary share from discontinued operations	**–**	–

Diluted earnings per share

For the six month period to 30 June	2017 £m	2016 £m
Profit for the period attributable to equity shareholders of ITV plc from continuing operations	**203**	246
Weighted average number of ordinary shares in issue – million	**4,010**	4,011
Dilution due to share options	**9**	20
Total weighted average number of ordinary shares in issue – million	**4,019**	4,031
Diluted earnings per ordinary share and from continuing operations	**5.1p**	6.1p
Diluted loss per ordinary share from discontinued operations	**–**	–

Adjusted earnings per share

For the six month period to 30 June	Ref.	2017 £m	2016 £m
Profit for the period attributable to equity shareholders of ITV plc		203	243
Exceptional items (net of tax)	A	50	53
Less: Loss after tax for the period from discontinued operations		–	(3)
Profit for the period before exceptional items from continuing operations		253	299
Amortisation and impairment	B	48	31
Adjustments to net financing costs	C	5	9
Other tax adjustments		1	1
Adjusted profit from continuing operations		307	340
Total weighted average number of ordinary shares in issue – million		4,010	4,011
Adjusted earnings per ordinary share and from continuing operations		7.7p	8.5p
Adjusted loss per ordinary share from discontinued operations		–	–

Diluted adjusted earnings per share

For the six month period to 30 June	2017 £m	2016 £m
Adjusted profit from continuing operations	307	340
Weighted average number of ordinary shares in issue – million	4,010	4,011
Dilution due to share options	9	20
Total weighted average number of ordinary shares in issue – million	4,019	4,031
Diluted adjusted earnings per ordinary share and from continuing operations	7.6p	8.4p
Diluted adjusted loss per ordinary share from discontinued operations	–	–

The rationale for determining the adjustments to profit is disclosed in the 31 December 2016 Annual Report and has not changed during the period. Details of the adjustments to earnings are as follows:

A. Exceptional items (net of tax) £50 million (2016: £53 million)
Operating and non-operating exceptional items of £53 million (2016: £54 million), net of a tax credit of £3 million (2016: £1 million) relate to £50 million of acquisition-related expenses, primarily performance-based, employment linked consideration and other items including restructuring costs and property project costs of £3 million.

B. Amortisation and impairment of £48 million (2016: £31 million)
Calculated as total amortisation and impairment of assets acquired through business combinations and investments of £55 million (2016: £37 million), which excludes amortisation and impairment of software licenses and development of £3 million (2016: £3 million), net of a related tax credit of £10 million (2016: £10 million). This is then adjusted to recognise a £3 million cash tax benefit arising from goodwill on US acquisitions, which for tax purposes is amortised over a 15-year period (2016: £4 million).

C. Adjustments to net financing costs £5 million (2016: £9 million)
Net financing costs are adjusted for mark-to-market movements on derivative instruments, foreign exchange and imputed pension interest charges of £6 million (2016: £11 million), net of a related tax credit of £1 million (2016: £2 million).

Dividends
Equity dividends are derived from the distributable reserves of the ITV plc Company and not from the consolidated Group, and therefore the consolidated retained loss presented on the condensed consolidated balance sheet does not represent a block to our dividend policy. The Board is committed to a long-term sustainable dividend policy and for ordinary dividends to grow broadly in line with earnings, targeting dividend cover of around 2x adjusted earnings per share over the medium term.

The Board has declared an interim dividend of 2.52p, an increase of 5%, reflecting our confidence in the underlying strength of the business.

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 acquisitions and pensions.

Liabilities relating to the Group's financing activities are addressed in section 4.

3.1 Acquisitions

Keeping it simple

The following section outlines what the Group has acquired in the period.

Most of the deals are structured so that a large part of the payment made to the sellers ('consideration') is determined based on future performance. This is done so that the Group can both align incentives for growth, while reducing risk so that total consideration reflects actual, not expected performance.

IFRS accounting standards require some of this consideration to be included in the purchase price used in determining goodwill ('contingent consideration'). Examples of contingent consideration include top-up payments and recoupable performance adjustments. Any remaining consideration is required to be recognised as a liability or expense outside of acquisition accounting (put option liabilities and employment-linked contingent payments known as 'earnout' payments).

The Group considers the income statement impact of all consideration to be capital in nature and therefore excludes it from adjusted profit. Therefore, for each acquisition below, the distinction between the types of consideration has been explained in detail.

Acquisitions

During the period, the Group made payments totalling £33 million for three acquisitions: Tetra Media Studios SAS, World Productions Limited and Elk Production AB, all of which have been included in the results of the ITV Studios operating segment. The Group also has a present right to convert its 75% preference shareholding in Tomorrow ITV Studios LLC into 75% common shares for £nil consideration.

The businesses fit with the strategy of strengthening the Group's existing position as a producer for major television networks in the UK and Europe.

Key terms:

Tetra Media Studios SAS

On 28 February 2017, the Group purchased 65.04% of the share capital of Tetra Media Studios SAS, a French television production group which specialises in drama, including flagship crime series Profilage, now in its seventh series, and political crime thriller Les Hommes de l'Ombre. The cash consideration of £20 million (€22.9 million) was paid on acquisition. A put and call option has been granted over the remaining 34.96% of share capital exercisable over the next seven years. In addition, a further payment, capped at €2 million, is payable in two years. The total maximum consideration is capped at €50 million. All future payments are dependent on future performance of the business and linked to ongoing employment.

World Productions Limited

On 30 April 2017, the Group purchased 92% of the share capital of World Productions Limited, a company which specialises in producing drama series with titles including Line of Duty, an award-winning British police crime drama, and Born to Kill, a British thriller television mini-series. The initial cash consideration of £8 million was paid on acquisition. A put and call option is held over the remaining 8% share capital, exercisable over the next seven years. The total future payments are capped at £4 million and are dependent on future performance of the business and linked to ongoing employment.

Elk Production AB

On 21 June 2017, the Group acquired 96% of the share capital of Elk Production AB for cash consideration of £5 million (SEK 51.9 million) paid on acquisition. Elk is one of the leading independent production companies in Sweden. Key acquired titles include Ninja Warrior, an obstacle course competition series, and Dessertmästarna, a dessert cooking competition, whilst original formats include Parneviks, an award winning reality TV show. A put and call option have been agreed for the non-controlling interest, exercisable over the next six years, with the total future payment capped at SEK 30 million. All future payments are dependent on future performance of the business and linked to ongoing employment.

Tomorrow ITV Studios LLC

On 1 April 2017, the Group has gained de facto control of Tomorrow ITV Studios LLC due to the right to convert its 75% preference share capital into 75% ordinary share capital for £nil consideration. The company produced Aquarius, a US period crime drama television series, which aired for two seasons on NBC in 2015 and 2016. A put and call option has been granted over the resultant 25% minority equity interest, exercisable in 2021. The future payment is capped at $200 million. A portion of the future payment is dependent on future performance of the business and linked to ongoing employment.

Acquisition accounting:

The total maximum additional consideration that the Group could pay as a result of these acquisitions is £192 million (undiscounted) if their performance exceeds expectations. Goodwill totalling £57 million arising on these acquisitions is not expected to be deductible for tax purposes and represents the value placed on the opportunity to grow the content produced by the Group.

While IFRS accounting standards considers future payments that are linked to ongoing employment as an expense, recorded over the applicable employment period, the Group considers these payments as capital in nature and therefore expenses in relation to these payments are excluded from adjusted profits as an exceptional item.

Acquisitions in 2016

In 2016 the Group completed the acquisition of UTV Limited, which has been included in the results of the Broadcast & Online operating segment. The business fits with the strategy of strengthening the Group's free-to-air business and enables it to run a more efficient network. The following section provides a summary of the acquisition.

UTV Limited

On 29 February 2016 the Group acquired a 100% controlling interest in UTV Limited which, together with its 100% subsidiary UTV Ireland Limited, owned the television assets of UTV Media plc. UTV is the market leading commercial broadcaster in Northern Ireland, broadcasting ITV content alongside high-quality local programming. The strategic rationale for the acquisition was to purchase the Northern Irish Channel 3 license.

UTV Limited launched a new dedicated channel for the Republic of Ireland in 2015 via its subsidiary UTV Ireland Limited. Management concluded that the best prospect of delivering a strong and sustainable Irish broadcaster was to bring UTV Ireland under common ownership with TV3. ITV therefore sold the company to Virgin Media, owner of TV3, on 30 November 2016, for consideration of €10million.

Key terms:

The Group purchased the businesses for cash consideration of £100 million.

UTV Limited acquisition accounting:

Intangibles, being the value placed on brands and licences, of £58 million were identified and goodwill was valued at £44 million. Goodwill represents the value placed on the opportunity to diversify and grow the business by the Group. The goodwill arising on acquisition is not expected to be deductible for tax purposes. Other fair value adjustments have been made to the opening balance sheet, though none of them are individually significant.

Section 3: Operating Assets and Liabilities continued

Effect of acquisitions

The acquisitions noted above had the following impact on the Group's assets and liabilities:

£m	2017 Total	2016 Total
Consideration transferred:		
Initial consideration (net of cash acquired) (Note A)	24	97
Total consideration	24	97
Fair value of net assets acquired:		
Property, plant and equipment	6	4
Intangible assets	12	58
Deferred tax liabilities	(3)	(11)
Deferred tax assets	2	–
Inventory	4	–
Trade and other receivables	17	5
Trade and other payables	(38)	(7)
Net assets held for sale	–	4
Fair value of net assets	–	53
Fair value of previously held preference shares (Note B)	29	–
Non-controlling interest measured at fair value (Note C)	4	–
Goodwill	57	44
Other information:		
Present value of the liability on options	2	–
Present value at acquisition of the earnout payment	13	–
Contributions to the Group's performance:		
From date of acquisition to June		
Revenue	6	11
Adjusted EBITA	(1)	3
Proforma – January to June		
Revenue	26	17
Adjusted EBITA	(1)	4

Note A: Consideration for all acquisitions is net of cash acquired and estimated debt and working capital settlements. Cash acquired during the period is £9 million (2016: £3 million).

Note B: The acquisition of Tomorrow Studios was effected by the right to convert of the Group's non-controlling preference shares into a controlling stake of ordinary shares. On change of control the IFRS accounting standards require the Group to fair value the previously held preference shares and include within the calculation of goodwill.

Note C: Non-controlling interest arises where the Group acquires less than 100% of the equity interest in a business, but obtains control.

3.2 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, 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 have been closed to future accrual in 2017. A curtailment loss was recognised in 2016 in relation to the closure. In 2016 on acquisition of UTV Limited the Group took over the UTV Defined Benefit Scheme.

What is a Defined Contribution scheme?
The 'Defined Contribution' scheme is where the Group makes fixed payments into a separate fund on behalf of those employees that have elected to participate 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. It is the members' responsibility to make investment decisions relating to their retirement benefits.

What is a Defined Benefit scheme?
In a 'Defined Benefit' scheme, members receive cash payments during retirement, the value of which is dependent on factors such as salary and length of service. The Group makes contributions to the scheme, a separate trustee-administered fund that is not consolidated in these financial statements, but is reflected on the consolidated statement of financial position within the defined benefit pension deficit line. It is the responsibility of the Trustee to manage and invest the assets of the Scheme and its funding position. The Trustee, appointed according to the terms of the Scheme's documentation, is required to act in the best interest of the members and is responsible for managing and investing the assets of the scheme and its funding position.

In the event of changes in the deficit position the Group needs to address this through a combination of increased levels of contribution or by making adjustments to the scheme. Schemes can be funded, where regular cash contributions are made by the employer into a fund which is invested, or unfunded, where no regular money or assets are required to be put aside to cover future payments.

The net pension deficit is presented consistently with definitions presented in the Group's 2016 Annual Report.

The net pension deficit at 30 June 2017 was £343 million, compared with a deficit of £328 million at 31 December 2016. The increase in deficit was primarily as a result of losses in asset values along with the increase in the gross liability offset by deficit funding payments of £47 million made in the period (30 June 2016: £47 million).

The gross liability increased primarily due to a decline in the discount rate from 2.6% at 31 December 2016 to 2.5% at 30 June 2017 caused by declining AA corporate bond yields. This was partially offset by a 0.1% decrease in the market expectation of long-term inflation rates.

	30 June 2017 £m	31 December 2016 £m
Total defined benefit scheme obligations	**(4,199)**	(4,200)
Total defined benefit scheme assets	**3,817**	3,833
Defined benefit pension deficit (IAS 19)	**(382)**	(367)
Other pension asset	**39**	39
Net pension deficit	**(343)**	(328)

Section 4: Capital Structure and 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 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 and do so in the context of its ability to continue as a going concern, to execute the strategy and to invest in opportunities to grow the business and enhance shareholder value.

A Tax and Treasury committee acting under delegated authority from the Board, approves certain financial transactions and monitors compliance with the Group's tax and treasury policies.

4.1 Net debt

Keeping it simple

Net debt is the Group's key measure used to evaluate total cash resources net of the current outstanding debt.

Adjusted net debt is also monitored by the Group and more closely reflects how credit agencies see the Group's gearing. To arrive at the adjusted net debt amount, we add our total undiscounted expected contingent payments on acquisitions, our net pension deficit and our undiscounted operating lease commitments. A full analysis and discussion of adjusted net debt is included in the Financial and Performance Review.

The tables below analyse movements in the components of net debt during the period:

	1 January 2017 £m	Net cash flow and acquisitions £m	Currency and non-cash movements £m	**30 June 2017 £m**
Cash	549	(432)	(2)	**115**
Cash equivalents	12	(4)	–	**8**
Total cash and cash equivalents	561	(436)	(2)	**123**
Loans and facilities due within one year	(161)	(81)	–	**(242)**
Finance leases due within one year	(4)	3	–	**(1)**
Loans and facilities due after one year	(1,035)	99	(28)	**(964)**
Finance leases due after one year	–	(5)	–	**(5)**
Total debt	(1,200)	16	(28)	**(1,212)**
Currency component of swaps held against euro denominated bonds	2	–	13	**15**
Net debt	(637)	(420)	(17)	**(1,074)**

Loans and facilities due within one year

The Group has £630 million of available funding through a Revolving Credit Facility ('RCF') with a group of relationship banks. During the period the Group drew down on the RCF to meet short-term funding requirements. At 30 June 2017 the Group had drawings of £240 million (31 December 2016: £nil). The maximum draw down of the RCF during the period was £320 million (2016: maximum draw down was £500 million).

The Group also had an unsecured £161 million Eurobond which matured in January 2017 and had a coupon of 6.125%.

Loans and loan notes due after one year

The Group had a £100 million bilateral loan facility which could be extended to June 2018 (31 December 2016: £100 million), but was repaid in full in June 2017.

The Group has issued the following Eurobonds:

- A seven-year €600 million Eurobond at a fixed coupon of 2.125% which matures in September 2022.
- A seven-year €500 million Eurobond at a fixed coupon of 2.0% which will mature in December 2023. The bond issued in December 2016 has been swapped back to sterling using a cross currency interest swap. The resulting fixed rate payable is c. 3.5%. The proceeds of the bond were for general corporate purposes including the repayment of the £161 million Eurobond which matured in January 2017 and settling acquisition related liabilities due in 2017.

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. It is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Fair value versus book value

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

		Book value		Fair value	
	Maturity	**30 June 2017 £m**	31 December 2016 £m	**30 June 2017 £m**	31 December 2016 £m
Loans due within one year					
Other short-term loans	Various	**2**	–	**2**	–
Revolving Credit Facility	Various	**240**	–	**240**	–
£161 million Eurobond	Jan 2017	**–**	161	**–**	162
		242	161	**242**	162
Loans due in more than one year					
Other long-term loans	Various	**1**	–	**1**	–
Bilateral loan facility	Jun 2018	**–**	100	**–**	100
€600 million Eurobond	Sept 2022	**523**	508	**547**	529
€500 million Eurobond	Dec 2023	**440**	427	**448**	431
		964	1,035	**996**	1,060

Section 4: Capital Structure and Financing Costs continued

4.3 Managing market risks: derivative financial instruments

Keeping it simple

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

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

Why do we need them?
The key market risks facing the Group are:

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

How do we use them?
The Group mainly employs four types of derivative financial instruments when managing its currency and interest rate risk:

- Foreign exchange swap contracts are derivative instruments used to hedge income statement translation risk arising from short term intercompany loans denominated in a foreign currency;
- Forward foreign exchange contracts are derivative instruments used to hedge transaction risk so they enable the sale or purchase of foreign currency at a known fixed rate on an agreed future date ;
- Interest rate swaps are derivative instruments that exchange a fixed rate of interest for a floating rate, or vice versa, or one type of floating rate for another, and are used to manage interest rate risk; 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.

The Group's policy on the various methods used to calculate their respective fair values is detailed in the 31 December 2016 Annual Report and summarised below.

Currency risk
As the Group expands its international operations, the performance of the business becomes increasingly sensitive to movements in foreign exchange rates, primarily with respect to the US dollar and the euro.

The Group's foreign exchange policy is to use forward foreign exchange contracts to hedge material non-functional currency denominated costs or revenue at the time of commitment for up to five years forward. The Group also hedges a proportion of highly probable non-functional currency denominated costs or revenue on a rolling 18-month basis.

The Group ensures that its net exposure to foreign currency denominated cash balances is kept to a minimal level by using foreign currency swaps to exchange balances back into sterling or by buying or selling foreign currencies at spot rates when necessary.

The Group also utilises foreign exchange swaps and cross-currency interest rate swaps both to manage foreign currency cash flow timing differences and to hedge foreign currency denominated monetary items. On issuing the 2023 Eurobond, the Group entered into a portfolio of cross-currency interest rate swaps, which swapped the euro principal and fixed rate coupons into sterling. As a result the Group makes sterling interest payments at a fixed rate.

The Group's net investments in overseas subsidiaries may be hedged where the currency exposure is considered to be material. The Group has designated a portion of its euro borrowings into a net investment hedge against its euro denominated assets following the acquisition of Talpa Media.

Interest rate risk

The Group's interest rate policy is to allow fixed rate gross debt to vary between 20% and 100% of total gross debt to accommodate floating rate borrowings under the revolving credit facility.

At 30 June 2017 the Group's fixed rate debt represented 80% of total gross debt (31 December 2016: 92%). Consequently a 1% movement in interest rates on floating rate debt would impact the 2017 post-tax profit for the period by less than £1 million.

Cash flow hedges

The Group applies hedge accounting for certain foreign currency commitments and highly probably cash flows where the underlying cash flows are payable within the next two to six years. In order to fix the sterling cash outflows associated with these cash flows – which are mainly denominated in Australian dollars or euros – the Group has taken out forward foreign exchange contracts and cross currency interest swaps for the same foreign currency amount and maturity date as the expected foreign currency cash flows.

The amount recognised in other comprehensive income during the period relates to the effective portion of the revaluation loss associated with these contracts. Any hedging relationships that are ineffective in managing the underlying exposure is taken to the income statement. There was less than £1 million (2016: £1 million) ineffectiveness taken to the income statement during the period. The cumulative gain or loss on cash flows which are realised during the period are recycled from equity to the income statement. A £15 million cumulative gain (2016: £1 million loss) was recycled to the income statement in the period.

Net investment hedges

The Group uses euro denominated debt to partially hedge against the change in the sterling value of its euro denominated net assets due to movements in foreign exchange rates. The fair value of debt in the net investment hedges was £173 million (31 December 2016: £168 million). A foreign exchange loss of £5 million (2016: £18 million) relating to the net investment hedges has been netted off within exchange gains or losses on translation of foreign operations as presented on the consolidated statement of comprehensive income for the period.

Interest rate swaps

On issuing the £161 million 2017 Eurobond, the Group entered into a portfolio of fixed to floating interest rate swaps and then subsequently overlaid a portfolio of floating to fixed interest rate swaps with the result that interest was 100% fixed on these borrowings. The timing of entering into these swaps locked in an interest benefit for the Group, resulting in a net mark-to-market gain on the portfolio. These swaps matured with the Eurobond in January 2017.

At 30 June 2017	**Assets £m**	**Liabilities £m**
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	**4**	**(1)**
Foreign exchange forward contracts and swaps – fair value through profit or loss	**2**	**–**
Non-current		
Cross currency interest swaps – cash flow hedges	**3**	**–**
Foreign exchange forward contracts and swaps – cash flow hedges	**–**	**(1)**
	9	**(2)**

At 31 December 2016	Assets £m	Liabilities £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	6	(1)
Foreign exchange forward contracts and swaps – fair value through profit or loss	2	(2)
Non-current		
Cross currency interest swaps – cash flow hedges	–	(6)
Foreign exchange forward contracts and swaps – cash flow hedges	1	(3)
	9	(12)

Commitments on acquisitions

Other payables include £103 million (31 December 2016: £158 million) of acquisition related liabilities, of which £50 million (31 December 2016: £110 million) is employment linked contingent consideration and £53 million (31 December 2016: £48 million) is payable to sellers under put options agreed on acquisition.

Section 4: Capital Structure and Financing Costs continued

4.4 Fair value hierarchy

Keeping it simple

The financial instruments included on the ITV condensed consolidated statement of financial position are measured at either fair value or amortised cost. The measurement of this fair value can in some cases be subjective, and can depend on the inputs used in the calculations. ITV generally uses external valuations using market inputs or market values (e.g. external share prices). The different valuation methods are called 'hierarchies' and are described below.

Level 1
Fair values are measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2
Fair values are measured using inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly.

Interest rate swaps and options are accounted for at their fair value based upon termination prices. Forward foreign exchange contracts are accounted for at the difference between the contract exchange rate and the quoted forward exchange rate at the reporting date.

Level 3
Fair values are measured using inputs for the asset or liability that are not based on observable market data.

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

30 June 2017	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 3.2)	39	39	–	–
Available-for-sale investments	3	–	–	3
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	7	–	7	–
	51	39	9	3
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Contingent consideration	(1)	–	–	(1)
Financial liabilities at fair value through reserves				
Cash flow hedges	(2)	–	(2)	–
	(3)	–	(2)	(1)

Available-for-sale investments and contingent consideration are the Group's only financial instruments classified as level 3 in the fair value hierarchy. As noted in the accounting policy disclosed in the December 2016 Annual Report, the key assumptions taken into consideration when measuring this acquisition related liability are the performance expectations of the acquisition and a discount rate that reflects the size and nature of the new business. There is no reasonable change in discount rate or performance targets that would give rise to a material change in the liability in these condensed consolidated financial statements.

Section 5: Other Notes

5.1 Related party transactions

Keeping it simple

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

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

Transactions with joint ventures and associated undertakings

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

	2017 £m	2016 £m
Sales to joint ventures	8	4
Sales to associated undertakings	6	2
Purchases from joint ventures	13	13
Purchases from associated undertakings	35	33

The transactions with joint ventures primarily relate to sales and purchases of digital multiplex services with Digital 3&4 Limited.

Sales to associated undertakings largely relate to advertising sold to DTV. Purchases from associated undertakings primarily relate to the purchase of news services from ITN.

All transactions with associated undertakings and joint ventures arise in the normal course of business on an arm's length basis. None of the balances are secured.

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

	30 June 2017 £m	31 December 2016 £m
Amounts owed by joint ventures	1	–
Amounts owed by associated undertakings	19	57
Amounts owed to joint ventures	3	–
Amounts owed to associated undertakings	5	–

Balances owed by associated undertakings largely relate to loan notes.

Transactions with key management personnel

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

For the six month period to 30 June	2017 £m	2016 £m
Short-term employee benefits	4	4
Share-based compensation	1	3
	5	7

Section 5: Other Notes continued

5.2 Contingent liabilities

Keeping it simple

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

The Group has initiated legal proceedings against the minority owners of Gurney Productions LLC for alleged breaches of contracts and their fiduciary duties, as well as self-dealing and fraudulent concealment. The minority owners dispute the allegations and they have counter-claimed for damages of at least $100 million. The action is at an early stage, however having taken legal advice the Directors believe this counter-claim is completely without merit.

There are contingent liabilities in respect of certain litigation and guarantees, broadcasting issues, and in respect of warranties given in connection with certain disposals of businesses. None of these items are expected to have a material effect on the Group's results or financial position.

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

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules , being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules , being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

For and on behalf of the Board:

Ian Griffiths
Chief Operating Officer and Group Finance Director

26 July 2017

Independent Review Report to ITV plc

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 which comprises Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement of Cash Flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

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

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

Directors' responsibilities

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

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

Our responsibility

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

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

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

Paul Sawdon
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL

26 July 2017