

Rebalanced ITV delivers continued good growth

Interim results for the six months to 30 June 2016

Rebalanced business driving another strong performance in H1

- Total external revenue up 11% to £1,503m (2015: £1,356m)
- Double-digit growth in total Non-NAR revenue, up 26% to £874m (2015: £693m)
- ITV Studios total revenue up 31% to £651m (2015: £496m)
- Online, Pay & Interactive revenue up 26% to £107m (2015: £85m)
- Net Advertising Revenue flat at £838m (2015: £838m)

Double digit growth in adjusted EBITA and EPS

- Adjusted EBITA up 10% to £438m (2015: £400m)
- ITV Studios adjusted EBITA up 42% to £121m (2015: £85m)
- Broadcast & Online adjusted EBITA up 1% to £317m (2015: £315m)
- Adjusted PBT up 9% to £425m (2015: £391m)
- Adjusted EPS up 10% to 8.5p (2015: 7.7p)

Strong balance sheet, healthy liquidity

- Flexibility and capacity to continue to invest across the business
- Reflecting strong cash flows and the Board's confidence in the business, it has declared a 2.4p interim dividend, up 26%, in line with our policy

Outlook for 2016 and beyond

- ITV Studios on track to deliver double-digit total revenue and adjusted EBITA growth over the full year, primarily driven by acquisitions we have made
- Confident in delivering continued double-digit revenue growth in Online, Pay & Interactive
- ITV Family NAR expected to be down around 1% for the 9 months to the end of September and we expect to outperform the market again in 2016
- Targeting £25m of overhead cost savings for 2017
- We have a strong balance sheet and continue to see clear opportunities to invest behind the strategy in the UK and internationally

Adam Crozier, ITV plc Chief Executive, said:

"Our strategy of rebalancing and strengthening ITV and building a global production business of scale continues to deliver with double-digit revenue and adjusted EBITA growth in the first half of the year.

Revenue grew by 11% to £1.5bn, driven by non advertising revenue, with total ITV Studios up 31% to £651m, primarily from our acquisitions. Online, Pay & Interactive also continued to grow strongly up 26% to £107m. Adjusted EBITA in the period rose 10% to £438m.

On screen we've performed strongly with Share of Viewing on our main channel up 7% while at the same time long form video consumption increased by 50%.

Against a backdrop of wider economic uncertainty following the EU referendum we have put in place a robust plan to allow us to meet the opportunities and challenges ahead. As part of this we are targeting a £25 million reduction in overheads for 2017.

Looking forward to the full year, we expect to deliver double-digit revenue and EBITA growth in ITV Studios as the acquisitions continue to deliver and double-digit revenue growth in Online, Pay & Interactive. We anticipate NAR to be down around 1% in the first nine months of the year and we again expect to outperform the UK television market over 2016 as a whole.

Our strategy of strengthening and rebalancing the business is clearly working and remains the right one for ITV. We have a strong balance sheet and the capacity to continue to invest behind our strategy, while at the same time delivering returns to our shareholders.

Reflecting ITV's strong performance the Board has proposed an interim dividend of 2.4p, up 26%, in line with our policy."

Half year results

| Six months to 30 June – on an adjusted and continuing basis | 2016 £m | 2015 £m | Change £m | Change % |
|---|--------------|--------------|--------------|-------------|
| Broadcast & Online revenue | 1,061 | 1,035 | 26 | 3 |
| ITV Studios revenue | 651 | 496 | 155 | 31 |
| Total revenue | 1,712 | 1,531 | 181 | 12 |
| Internal supply | (209) | (175) | 34 | 19 |
| Group external revenue | 1,503 | 1,356 | 147 | 11 |
| Broadcast & Online EBITA | 317 | 315 | 2 | 1 |
| ITV Studios EBITA | 121 | 85 | 36 | 42 |
| EBITA | 438 | 400 | 38 | 10 |
| Group EBITA margin | 29% | 29% | – | – |
| Profit before tax | 425 | 391 | 34 | 9 |
| EPS | 8.5p | 7.7p | 0.8p | 10 |
| Ordinary dividend per share | 2.4p | 1.9p | 0.5p | 26 |

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 EBITA'). Adjusted profit before tax and EPS primarily remove the effect of amortisation of intangible assets acquired through business combinations and acquisition related costs. A full reconciliation between the adjusted and statutory results is provided in the financial review.

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

| Six months to 30 June | 2016 £m | 2015 £m | Change £m | Change % |
|-----------------------|------------|------------|--------------|-------------|
| Profit before tax | 309 | 327 | (18) | (6) |
| EPS | 6.1p | 6.4p | (0.3p) | (5) |
| Diluted EPS | 6.1p | 6.4p | (0.3p) | (5) |

Statutory EPS declined by 5% to 6.1p (2015: 6.4p) primarily as a result of including the Talpa acquisition for a full six months for two reasons. Firstly, Talpa significantly increased employment linked consideration, which is included within reported earnings but as in 2015 this is excluded from adjusted EPS as in our view these costs are part of capital consideration. Secondly due to higher amortisation of the related Talpa acquired intangible assets.

Financial performance

We delivered another strong performance in the first half with double-digit revenue and adjusted EPS growth even with flat television advertising. Total external revenue increased 11% to £1,503 million driven by non-NAR revenues with total ITV Studios revenues up 31% at £651 million (2015: £496 million) and Online, Pay & Interactive up 26% to £107 million (2015: £85 million).

This revenue growth together with our continued focus on cash and costs, has delivered another period of double-digit profit growth with adjusted EBITA up 10% to £438 million (2015: £400 million) and we maintained our margin at 29%. Adjusted EPS rose 10% to 8.5p (2015: 7.7p).

We have a strong balance sheet and the business remains highly cash generative. Profit to cash conversion over the first half was 86% and free cash flow was up 9% to £269 million. We ended the period with net debt of £796 million after acquisitions of £97 million, dividend payments of £566 million (including the 10p special dividend) and pension deficit contributions of £47 million. At 30 June 2016 our reported net debt to adjusted EBITDA was 0.9x.

Reflecting ITV's fundamental strength the Board has proposed an interim dividend of 2.4p, up 26% (2015: 1.9p), in line with its policy of delivering dividend cover of 2 to 2.5x adjusted EPS.

Broadcast & Online

Broadcast & Online delivered 3% revenue growth to £1,061 million (2015: £1,035 million) driven by 26% growth in Online, Pay & Interactive.

Against a backdrop of uncertainty driven by the EU referendum, ITV Family NAR in the period was flat at £838 million (including UTV), ahead of the television advertising market. As expected, quarterly advertising growth has fluctuated year on year reflecting the timing of major events. Category performance has been mixed. Retail and Finance have seen declines with supermarkets and traditional banking decreasing spend across the first half of 2016, while many other sectors have seen good growth, including Entertainment and Leisure and Cars.

ITV Family SOV increased by 3% in the period. This reflects a 7% increase in ITV main channel SOV which benefited from sporting events such as the Six Nations Rugby and the Euro Football Championships and strong performances from drama including The Durrells, Marcella and Vera along with an improved daytime schedule. ITV again maintained its leading position as the only commercial broadcaster able to consistently deliver both mass audiences and the key demographics. In the first half ITV delivered 98% of all commercial audiences over 5 million and 94% of all audiences over 3 million.

Online, Pay & Interactive revenue continued to show strong growth, up 26% to £107 million (2015: £85 million) reflecting further growth in both our online advertising and pay businesses. Audience demand for VOD continues to grow supported by the ITV Hub, which helped drive a 14% increase in long form video requests and a 50% increase in consumption reflecting the fact that people are viewing for longer. Live simulcast viewing online continues to see high demand and in the first half represented 20% of online viewing, compared to 15% in H1 2015.

Schedule costs were up 8% in the first half to £547 million (2015: £507 million) due to increased sports costs for the Euro Football Championships and the Six Nations Rugby and higher spend on drama. Other costs in Broadcast were down 8% year on year primarily due to lower transmission costs and we will continue to maintain a tight control on costs.

Overall Broadcast & Online adjusted EBITA was up 1% at £317 million with the continued growth in our higher margin revenue helping to offset higher schedule costs due to phasing, even with a broadly flat advertising market.

ITV Studios

ITV Studios total revenue grew strongly in the first half, up 31% to £651 million (2015: £496 million) primarily driven by the UK and our acquisitions, as we continue to build scale in creative content markets and strengthen our international portfolio of programmes that return and travel. Total organic revenue, which excludes our current and prior year acquisitions as well as foreign exchange movements, was down 4%, driven predominantly by ITV America which has been impacted by the timing of some key shows. In the first half we benefited from a full six months of Talpa Media, Twofour Group and Mammoth Screen.

Reflecting our growth and increasing scale in key production markets in Europe and the US, 50% 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 2015, ITV Studios revenue for the first six months of 2016 would have been £14 million lower and adjusted EBITA would have been £3 million lower as a result of a stronger US dollar and Euro in the period.

Total Studios UK revenue was up 40% in the first six months to £292 million (2015: £208 million) reflecting 19% growth in internal revenue and 152% increase in external revenue driven by organic growth in drama in particular and the acquisition of Twofour Group and Mammoth Screen.

Total revenue in ITV America for the first half was down 34% to £96 million (2015: £145 million). This was predominantly a result of the phasing of deliveries for Hell's Kitchen and Duck Dynasty along with the non-returning scripted commission Texas Rising. Our acquisitions continue to do well with new and returning deliveries Alone, Killing Fields and Pawn Stars.

Studios RoW showed strong growth in total revenue, up 156% to £184 million (2015: £72 million) as we have benefited from the acquisition of Talpa Media on 30 April 2015. Talpa continues to perform strongly and in the first half had the full benefit of a four year licensing agreement for The Voice in China.

Global Entertainment revenue increased 11% in the period to £79 million (2015: £71 million) as we continued to grow our portfolio of programmes and formats to distribute internationally.

Reflecting the strong revenue growth in ITV Studios, adjusted EBITA increased 42% to £121 million (2015: £85 million). The adjusted EBITA margin increased to 19% (2015: 17%) driven by our revenue mix in the first half, but over the full year we expect will be more in line with 2015.

Acquisitions

On 29 February 2016 the Group acquired a 100% controlling interest in UTV Limited, which owns the television assets of UTV Media plc, for £100 million. This further strengthens ITV's free to air business and enables it to run a more efficient network. On 11 July 2016, ITV agreed to sell UTV Ireland, which is not part of the ITV Network, for €10 million subject to regulatory approval.

EPS

Adjusted profit before tax was up 9% at £425 million (2015: £391 million). The total adjusted tax charge was £85 million (2015: £81 million), corresponding to an effective tax rate on adjusted PBT of 20% (2015: 21%) which is in line with the standard UK corporation tax rate of 20% (2015: 20.25%). Adjusted basic earnings per share was 8.5p (2015: 7.7p), up 10%.

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. Adjustments include: all exceptional items, primarily acquisition-related costs such as employment linked consideration and professional fees for due diligence; impairment of intangible assets; amortisation of intangible assets acquired through business combinations including formats and customer contracts; net financing cost adjustments; and tax adjustments relating to these items. Amortisation of intangible assets that are required to run our business, including software licences, is not adjusted for.

Statutory EPS declined by 5% to 6.1p (2015: 6.4p) primarily as a result of including the Talpa acquisition for a full six months for two reasons. Firstly, Talpa significantly increased employment linked consideration, which is included within reported earnings but as in 2015 this is excluded from adjusted EPS as in our view these costs are part of capital consideration. Secondly it declined due to higher amortisation of the related Talpa acquired intangible assets.

Balance sheet and cash flow

ITV remains highly cash generative reflecting our continued tight management of working capital balances. In the period we generated £377 million (2015: £388 million) of operational cash from £438 million (2015: £400 million) of adjusted EBITA, which equates to a strong profit to cash ratio of 86%.

After payments for interest, cash tax and pension funding, our free cash flow also remained strong in the period, up 9% to £269 million (2015: £246 million).

Overall, after £566 million of dividends and £97 million of acquisition related costs as well as pension deficit contributions of £47 million, we ended the first half with net debt of £796 million, compared to net debt of £319 million at 31 December 2015 and net debt of £540 million at 30 June 2015.

Our balance sheet strength, together with our strong free cash flow, enables us to continue to invest in opportunities to grow the business and make returns to our shareholders. To preserve our financial flexibility we have put a number of new facilities in place. We have a £525 million Revolving Credit Facility in place until 2019 provided by a number of core relationship banks. We also have two bilateral loans in place until 2017 totalling £250 million. This, along with a five year £300 million bilateral financing facility and a £75 million invoice discounting facility, both of which are free of financial covenants, provides us with sufficient liquidity to meet the requirements of the business in the medium to long-term. Of the total £1,150 million facilities now in place £315 million was drawn down at 30 June 2016. Our policy is to maintain at least £250 million of available liquidity at any point.

Our objective is to run an efficient balance sheet and to balance investment for further growth with attractive returns to shareholders. Over time, we will continue to look to increase our balance sheet leverage and we believe maintaining leverage below 1.5x reported net debt to adjusted EBITDA will optimise our cost of capital, allow us to make returns to our shareholders in line with our policy and enable us to retain flexibility to continue to invest for further growth. As at 30 June 2016, reported net debt to adjusted EBITDA was 0.9x.

Dividend per share

The Board's dividend policy is to deliver at least 20% growth in the full year ordinary to 2016 to achieve a more normal dividend cover of between 2.0 and 2.5x adjusted earnings per share. In line with this policy, the Board has declared an interim dividend for 2016 of 2.4p, up 26%. The interim dividend is expected to be approximately a third of the full year dividend.

Pension

The aggregate IAS 19 deficit of the defined benefit schemes at 30 June 2016 was £64 million (31 December 2015: £176 million). The reduction is due to substantial gains in asset values as a result of ITV's significant holding in long-dated UK gilts and deficit funding contributions of £47 million. These more than offset the increase in pension liabilities as a result of falling discount rates. Pensions continue to be paid from the Scheme based on actual requirements.

The last actuarial valuation was undertaken in 2014 and 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 similar level today. Following completion of the valuation, the Group has agreed to make deficit funding contributions in order to eliminate the deficits in each section. From 2016 ITV will pay deficit funding contributions of around £80 million per year, a £10 million reduction on 2015. These payments are now made more evenly throughout the year, with £47 million paid in the first half.

2016 full year planning assumptions

- Total network programme budget is expected to be around £1,050 million
- Adjusted interest is expected to be around £25 million, reflecting a full year of the €600 million Eurobond
- Adjusted effective tax rate is expected to be 20%, similar to H1 2016 – lower than previous guidance
- Capex is expected to be £50 to £55 million across the group
- Profit to cash conversion is expected to be around 85-90%, reflecting our continued strong cash generation and investment in scripted content
- Total pension deficit funding will be £80 million and will be paid more evenly over the year
- Ordinary dividend will be in line with our cover policy of 2 to 2.5x adjusted EPS
- The translation impact of foreign exchange, assuming rates remain at current levels, could be £74 million more revenue and £13 million more profit
- Exceptional items are expected to be around £115 million in 2016, 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. This has increased from our previous guidance as it includes our estimate of the impact of foreign exchange rates on employment linked consideration. This guidance excludes one-off costs that may be incurred in relation to delivering our £25 million targeted overhead costs savings for 2017.

Outlook

ITV NAR is expected to be down around 1% in the nine months to the end of September and we again expect to outperform the television advertising market over the full year.

On screen we are performing well and we remain focused on delivering both mass audiences and the key demographics. However, we expect our viewing performance over the summer to be impacted by the Olympic Games on the BBC. We expect Online, Pay & Interactive to deliver double-digit revenue growth over the full year as it continues to perform strongly. ITV Studios is on track to deliver double-digit revenue and adjusted EBITA growth over the full year, driven by the acquisitions we have made. Over the medium term we are confident in delivering good growth in our global network of content creation and distribution, organically and through acquisitions, although the short term performance will continue to be lumpy.

Whilst the economic outlook remains uncertain we continue to see clear opportunities to invest across the business, both in the UK and Internationally. We are targeting £25 million of cost savings in 2017 to ensure we are well positioned to meet the opportunities and challenges ahead.

We have a clear strategy in place to rebalance and strengthen the business which remains the right one for ITV. We have a strong balance sheet and the capacity to continue to invest behind our strategy, while at the same time delivering returns to our shareholders.

Notes to editors

1. Unless otherwise stated, all financial figures refer to the 6 months ended 30 June 2016, with growth compared to the same period in 2015.

2. Total External Revenue

| Six months to 30 June (£m) on a continuing basis | 2016 | 2015 | % |
|--|--------------|--------------|-----------|
| ITV Family NAR | 838 | 838 | – |
| Non-NAR revenue | 874 | 693 | 26 |
| Internal supply | (209) | (175) | 19 |
| Total external revenue | 1,503 | 1,356 | 11 |

3. ITV Family NAR was flat in H1, with May flat and June up 19%. ITV Family NAR is forecast to be up 6% in July, down 7% in August and down 5 to 10% in September. These revenues are pure NAR, excluding the benefit of sponsorship and online revenue. From March 2016, ITV Family NAR includes advertising revenue from the UTV Channel 3 licence (excluding UTV Ireland). Figures for ITV plc and TV market NAR are based on ITV estimates and current forecasts.

4. Broadcast & Online performance indicators

| Broadcast & Online performance indicators | 2016 | 2015 | % |
|--|--------------|-------|-----|
| ITV SOV – weeks 1 to 26 | 15.7% | 14.7% | 7 |
| ITV Family SOV – weeks 1 to 26 | 21.7% | 21.1% | 3 |
| ITV adult impacts – weeks 1 to 26 | 108bn | 105bn | 3 |
| ITV SOCI – weeks 1 to 26 | 24.4% | 23.9% | 2 |
| ITV Family SOCI – weeks 1 to 26 | 34.7% | 35.0% | (1) |
| Long form video consumption – 6 months to 30 June (hrs) | 112m | 75m | 50 |
| Total long form video requests – 6 months to 30 June | 481m | 422m | 14 |

SOV data based on BARB/AdvantEdge 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. % change for performance indicators is calculated on unrounded figures. Total long form video requests is measured across all platforms, based on data from ComScore Digital Analytix, Virgin, BT, iTunes, Amazon Prime Instant Video and Sky and include simulcast. Long form video consumption is the total number of hours ITV VOD content is viewed on ad funded platforms, based on data from ComScore Digital Analytix.

5. The 2016 interim dividend will be paid on 28 November 2016. The ex-dividend date is 27 October 2016 and the record date is 28 October 2016.

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, and (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

Our strategy of rebalancing and strengthening ITV creatively, commercially and financially has again delivered a strong performance in the first half of 2016 with double-digit revenue, adjusted EBITA and EPS growth even with flat television advertising. Total external revenue increased 11% to £1,503 million (2015: £1,356 million) driven by non-NAR revenues with total ITV Studios revenues up 31% to £651 million (2015: £496 million) and Online, Pay & Interactive up 26% to £107 million (2015: £85 million). This revenue growth, together with our continued focus on cash and costs has delivered another period of double-digit profit growth. Adjusted EBITA grew 10% to £438 million (2015: £400 million) and adjusted EPS grew 10% to 8.5p (2015: 7.7p). Reported EPS decreased 5% to 6.1p (2015: 6.4p) primarily due to higher operating exceptional items and amortisation of acquired intangibles which is explained in more detail in the Financial and Performance Review.

We are committed to our original vision of ITV as an owner and producer of world class content that travels. We have a clear strategy in place to deliver this and we remain focused on delivering against our three strategic priorities:



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



Grow international content business



Build a global pay and distribution business

We have a strong balance sheet and the business remains highly cash generative. Profit to cash conversion over the first half was 86% and we ended the period with net debt of £796 million after acquisitions of £97 million, dividend payments of £566 million and pension deficit contributions of £47 million. We see clear opportunities for investment across all parts of ITV and because of our strong financial position we can continue to invest in the business and deliver returns to shareholders.

Reflecting ITV's strong performance the Board has proposed an interim dividend of 2.4p, up 26% (2015: 1.9p), in line with its policy of delivering dividend cover of 2 to 2.5x adjusted EPS.

Against a backdrop of wider economic uncertainty following the EU referendum we have put in place a robust plan, including targeting a £25 million reduction in overheads for 2017. This, together with our strong balance sheet, our clear strategy and a more balanced business, gives us the flexibility to meet the opportunities and challenges ahead.

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

While the media environment in which we operate is constantly changing, our Broadcast business remains strong and adaptable with significant opportunities for growth. The traditional broadcast market is robust with overall commercial viewing up in the first half of the year, with ITV viewing and advertising share up within this, and with television advertising continuing to be the marketing platform of choice.

Broadcast & Online revenue was up 3% in the first half to £1,061 million (2015: £1,035 million) driven by continued strong growth in high margin Online, Pay & Interactive revenues up 26% to £107 million (2015: £85 million). Adjusted EBITA was up 1% at £317 million (2015: £315 million) even with flat NAR and schedule costs weighted to the first half around the Euro Football Championships.

Strengthened ITV's on screen viewing performance

ITV has had a strong start to the year with ITV Share of Viewing (SOV) up 7% and ITV Family SOV up 3% over the first 26 weeks. We broadcast the most watched entertainment show in Britain's Got Talent, the most watched soap in Coronation Street, the most watched sporting event in England vs. Iceland during the 2016 Euro Football Championships, the largest documentary with Ant & Dec Met the Prince, and the most watched current affairs programme with our coverage of the EU Referendum Debate. Our daytime schedule including This Morning and Loose Women has improved, we have successfully launched a range of new dramas including The Durrells and Marcella and the Six Nations Rugby performed strongly. We also continue to drive significant audiences with our returning brands such as Vera, Britain's Got Talent, Ant & Dec's Saturday Night Takeaway and The Chase.

We continue to target the key demographics through our digital channels and have seen a very significant increase in our younger audiences with 16-34 SOV up 21% on ITV2 helped by the successful launch of American Dad and Family Guy and the return of Love Island.

ITV's strong advertising position driven by our unique offering

Television remains the most efficient and effective advertising medium for advertisers to achieve mass simultaneous reach and as viewing and advertising becomes more fragmented, the scale of advertising that television and particularly ITV delivers becomes increasingly valuable. The cost of television advertising is similar to 2004 levels and compared to many other advertising media it remains good value, especially given the reach and scale it delivers.

ITV continues to maintain its leading position as the only commercial broadcaster able to consistently deliver mass audiences, as well as more targeted demographics across the family of channels and the ITV Hub. In the first half ITV delivered 98% of all commercial audiences over 5 million and 94% of all audiences over 3 million. This has helped ITV to again outperform the TV advertising market over the first half of the year. 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.

Remain responsive to a changing media environment

The market in which we operate is constantly changing but traditional linear television viewing remains resilient despite significant changes in the availability and delivery of content. The majority of television viewing is live at an estimated 81% in 2015 as television continues to have the power to bring audiences together. Broadcaster and other VOD is growing rapidly, although it is a gradual process and still only accounts for 7% of total viewing.

Three attributes lie at the heart of ITV's successful Broadcast proposition: it's first-class distribution and reach across all platforms; owning the rights to high-quality, must have content for all key audiences; and providing advertisers with creative access to the biggest and most effective marketing platform in the UK.

Grow international content business

Growing a scaled international content business is central to our strategy 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 global demand for content

The strong global demand for content from broadcasters and platform owners provides a significant opportunity for ITV Studios. We estimate that the global content market is growing at about 5% per annum and to continue to capitalise on this, our strategy remains to develop, own and manage content rights in genres that return and travel internationally, namely drama, entertainment and factual entertainment.

Fast growing, international producer of scale

In the first half, revenue grew strongly with total Studios revenue up 31% at £651 million (2015: £496 million) and adjusted EBITA up 42% at £121 million (2015: £85 million), primarily driven by the acquisitions we have made.

ITV Studios is becoming an increasingly international business, with 50% of total Studios revenues in the first half of 2016 generated from outside the UK.

Strategy & Operations

Building scale in creative markets

ITV Studios has three production divisions – ITV Studios UK, ITV America and ITV 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 we now have a significant portfolio of successful series and formats that travel.

ITV Studios UK performed strongly in the first half with overall revenues up 40% at £292 million (2015: £208 million), and with good growth in sales to ITV and to other UK broadcasters. We have doubled our off-ITV revenues as we have continued to strengthen and grow the business. Off-ITV our deliveries have included Poldark, Mum and Moorside for the BBC, The Jump, Raised by Wolves and Friday Night Dinner for Channel 4 and Agatha Raisin for Sky. We are also focused on growing ITV Studios UK's share of original content commissions on ITV main channel, with Tutankamun, Beowulf, Jekyll & Hyde and Houdini & Doyle all delivered in the first half of 2016.

ITV America's revenue was down year on year by 34% at £96 million (2015: £145 million) predominantly as a result of the phasing of deliveries for Hell's Kitchen and Duck Dynasty along with the non-returning scripted commission Texas Rising. However we have delivered the second series of two US dramas and we have also benefited from the delivery of a high volume of programmes from our stable portfolio of unscripted series including Pawn Stars, American Restoration, Alone and First 48 and new commissions including American Grit, Killing Fields and Married by Mom and Dad. We have a strong pipeline of new ideas and the timing of some deliveries will reverse and have a positive impact into the second half of the year or 2017.

We have seen very significant growth across ITV Studios RoW with revenues up 156% to £184 million (2015: £72 million), where our production bases in Australia, Germany, France, the Netherlands and the Nordics produce original content as well as local versions of ITV Studios formats. This division benefited from the significant acquisition of Talpa Media last year which continues to perform strongly and has had the benefit of a four-year licensing agreement for The Voice in China. We have also delivered a number of new and returning commissions, including The Voice and The Voice Kids in the UK and USA, The Chase in Australia and Norway, I'm A Celebrity.....Get Me Out Of Here! in Australia, The Price of Beauty and Manuela in Sweden.

Investing in content with international appeal

To continue to become more international we must keep on expanding our portfolio of successful series and formats that return and that 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. We continue to invest in our creative pipeline of ideas to ensure that we are adding to our catalogue of programmes every year.

Demand for drama is growing strongly as standout, original content becomes brand defining for both broadcasters and OTT players. We are looking to expand our global scripted business and develop a strong portfolio of international and returning drama. In the first half we delivered the second series of both Aquarius and The Good Witch, which has been recommissioned for a third series. Reflecting the Group's strong financial position and cash generation, we are now able to finance larger-scale scripted projects through working capital.

We also continue to perform well internationally in the entertainment and factual entertainment genres. In response to continued demand from networks, we have grown a solid portfolio of high volume, high margin formats including The Voice and The Voice Kids, Pawn Stars, Come Dine with Me, I'm A Celebrity.....Get Me Out Of Here!, Hell's Kitchen, Keeping The Nation Alive and The Chase.

ITV Studios is now a global business and going forward we aim to utilise our scale to grow our market share and expand the number of networks and OTT players we work with, particularly in the US. With a strong portfolio of new and returning programmes we will build further scale and creative capability internationally, both organically and through partnerships and acquisitions, as we continue to reduce our reliance on the UK market.

Build a global pay and distribution business

As a creator, owner and distributor of high-value sought after content ITV is well positioned to exploit the opportunities that arise from the changes in digital media and consumer behaviour. ITV is continually exploring and experimenting with new ways to distribute our content to broadcasters and platform owners, both free and pay, while also seeking new opportunities to extend the reach of our content for the consumer.

Capitalising on growing demand for VOD through the ITV Hub

ITV's online business is growing strongly. Changes in technology and the growing base of connected devices are driving rapid growth in audiences' appetite for video on demand (VOD) and in turn fuelling demand from advertisers for VOD inventory.

The ITV Hub, which launched last year, was a major step forward in the quality, innovation and ease of use of ITV's online services. It is now available on 29 platforms, the app has been downloaded 22 million times and it has 15 million registered users. It drives very significant volumes of viewers both for simulcast and catch-up. Long-form video requests continue to grow strongly up 14% driven by mobile and connected televisions. Online consumption, which is the measure of how long viewers are spending online, increased 50% in the first half.

The ITV Hub also helps ITV reach the valuable younger audiences. 50% of the UK's 16 to 24 year old population are registered users of the ITV Hub as younger audiences increasingly use it for simulcast viewing as well as catch up. Programmes such as the very successful Love Island on ITV2, delivered record VOD viewing via The ITV Hub.

To drive viewing and enhance engagement with our content, we are further developing programme apps which continue to grow in popularity. Our digital engagement has grown significantly, delivering 13 million votes across our entertainment shows, such as Britain's Got Talent and Love Island.

The ITV Hub is much more than a catch up TV service, featuring live channels as well as previews or premiers such as Marcella and The Secret. We also commissioned our first original content for The Hub around the Euro Football Championships.

Further developing our pay offering in the UK and internationally

ITV's pay revenues again grew strongly in the first half of the year as we continue to earn revenue from pay television through licensing our channels and content across multiple platforms.

In the UK, our pay business includes deals with Sky and Virgin for our HD digital channels and catch-up VOD, ITV Encore for Sky, an advertising free subscription version of the ITV Hub on iOS and a deal to make ITV's content available through Sky's connected platforms. We also recently concluded a deal with Vodafone to carry ITV channels and VOD for their customers.

Outside the UK we have established a number of smaller pay propositions including Cirkus, a 'Best of British' subscription VOD service in the Nordics and Iceland along with ITV Essentials, an online service for expats and ITV Choice, a general entertainment channel for emerging markets. In May 2016 we acquired a controlling stake in Cirkus to accelerate its growth and launch in new markets.

As we look to increase ITV brand loyalty, we are increasing our exposure to new types of content including short form content, younger focused long form content and new types of distribution. We recently announced an investment with Sky in Ginx TV, an eSports channel for the UK and international markets. We have also agreed an exclusive UK partnership with AwesomenessTV which will see ITV2 and the ITV Hub acquire exclusive UK rights to the global youth brand's long-form premium series. ITV will also co-produce with AwesomenessTV youth focused original series for the UK and international markets. We are also widening our digital reach and growing rapidly on YouTube with 31 channels across a range of our biggest UK programme brands and we have seen usage increase over 500% in the first half of the year with 428 million YouTube views.

Looking ahead we will further develop our pay offerings both in the UK and internationally, exploring opportunities for both pay channels and subscription VOD (SVOD) as we seek to further monetise our content. We will do this through a mixed economy of organic growth, partnerships and acquisitions.

Strategy & Operations

We are continuing to drive the debate around the implementation of retransmission fees in the UK to ensure we are fairly compensated for our investment in content for the main channels when it is carried on pay TV platforms. We see the recent publication of the Digital Economy Bill proposing the repeal of s73 as an important first step in achieving retransmission fees.

Expanding our global distribution network

In the first half Global Entertainment, the distribution arm of ITV Studios, delivered revenue growth of 11% to £79 million (2015: £71 million) as we continue to drive value from the investment we have made in creating and owning the rights to quality content with international appeal.

As we continue to invest in growing ITV Studios, we are building a strong and balanced portfolio of scripted and unscripted programmes in the key genres of drama, entertainment and factual entertainment. We are using our strong cash flows not only to create and fund new content but also to acquire third party rights.

Our content continues to sell well internationally. Our scripted programmes such as Victoria, Poldark, Endeavour, Jekyll & Hyde, Mr Selfridge and Aquarius are selling to over 100 countries. Our entertainment and factual entertainment programmes also continue to sell well including titles such as Come Dine With Me, The Voice, The Voice Kids, The Chase, Hell's Kitchen and Thunderbirds Are Go!

Outlook for 2016 and beyond

ITV NAR is expected to be down around 1% in the nine months to the end of September, down around 3% in the third quarter, and we again expect to outperform the market over the full year. On screen we are performing well and we remain focused on delivering both mass audiences and the key demographics. We have a strong slate of new and returning programmes for the remainder of the year and into next year including Victoria, Cold Feet, Lethal Weapon, Tutankhamun, I'm A Celebrity.....Get Me Out Of Here!, X Factor, Horse Racing and Six Nations Rugby. However, over the summer we expect our viewing performance to be impacted by the Olympic Games on the BBC.

We expect Online, Pay & Interactive to deliver double-digit revenue growth over the full year as it continues to perform strongly. ITV Studios is on track to deliver double-digit total revenue and adjusted EBITA growth over the full year, primarily driven by the acquisitions we have made. Over the medium term we are confident in delivering good growth in our global network of content creation and distribution, organically and through acquisitions, although the short term performance will continue to be lumpy.

While the economic outlook remains uncertain we continue to see clear opportunities to invest across the business, both in the UK and Internationally. We are targeting £25 million of cost savings in 2017 to ensure we are well positioned to meet the opportunities and challenges ahead.

We have a clear strategy in place to rebalance and strengthen the business which remains the right one for ITV. We have a strong balance sheet and will continue to invest behind the strategy, while at the same time delivering returns to our shareholders.

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 | 2016 | 2015 | Absolute Change |
|---|-------|-------|-----------------|
| Adjusted EBITA | £438m | £400m | £38m |
| Adjusted earnings per share | 8.5p | 7.7p | 0.8p |
| Profit to cash ratio 12 months rolling | 86% | 92% | (6%) |
| ITV Family Share of Viewing (SOV) – weeks 1 – 26 | 21.7% | 21.1% | 0.6% |
| ITV Family Share of Commercial Impacts (SOC) – weeks 1 – 26 | 34.7% | 35.0% | (0.3%) |
| Total long-form video requests | 481m | 422m | 59m |
| Non-NAR revenue | £874m | £693m | £181m |

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. Based on our current estimate, we believe ITV is ahead of the market at the half year, and we expect to remain ahead of the market over the full year.

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 undertaken in the summer but our interim activities suggest that engagement remains strong.

Financial and Performance Review

ITV delivered another strong performance in the first six months of 2016 with double-digit revenue, adjusted EBITA and adjusted EPS growth.

Reflecting our continued investment in quality content, we delivered 11% revenue growth and again reported a period of double-digit growth in adjusted EBITA and adjusted EPS. We remain highly cash generative which, together with our continued focus on costs, places us in a strong position to continue to invest in opportunities to grow the business and deliver returns to shareholders.

| Six months to 30 June – on a continuing basis | 2016 £m | 2015 £m | Change £m | Change % |
|---|--------------|------------|--------------|-------------|
| NAR | 838 | 838 | – | – |
| Total non-NAR | 874 | 693 | 181 | 26 |
| Total revenue | 1,712 | 1,531 | 181 | 12 |
| Internal supply | (209) | (175) | 34 | 19 |
| Group external revenue | 1,503 | 1,356 | 147 | 11 |
| Adjusted EBITA | 438 | 400 | 38 | 10 |
| Group adjusted EBITA margin | 29% | 29% | – | – |
| Adjusted EPS | 8.5p | 7.7p | 0.8p | 10 |
| Adjusted diluted EPS | 8.4p | 7.6p | 0.8p | 10 |
| Dividend per share | 2.4p | 1.9p | 0.5p | 26 |
| Net debt as at 30 June | 796 | 540 | 256 | – |

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

| Six months to 30 June | 2016 £m | 2015 £m | Change £m | Change % |
|-----------------------|------------|------------|--------------|-------------|
| Profit before tax | 309 | 327 | (18) | (6) |
| EPS | 6.1p | 6.4p | (0.3p) | (5) |
| Diluted EPS | 6.1p | 6.4p | (0.3p) | (5) |

Total ITV revenue increased 12% to £1,712 million (2015: £1,531 million), with external revenue up 11% at £1,503 million (2015: £1,356 million). NAR was flat in the period at £838 million with 26% growth in non-NAR revenue to £874 million (2015: £693 million). In the first half non-NAR accounted for 51% (2015: 45%) of total revenue.

Reflecting the growth in high margin Online, Pay & Interactive revenue combined with the growth in ITV Studios and our continued focus on costs, adjusted EBITA was up 10% to £438 million (2015: £400 million), with the adjusted EBITA margin being maintained at 29%. Adjusted EPS in the first half grew 10% to 8.5p (2015: 7.7p) while statutory EPS declined by 5% to 6.1p (2015: 6.4p). Statutory EPS declined primarily because of higher employment linked consideration for our acquisitions which is included within reported earnings but as disclosed last year excluded from adjusted EPS as in our view these costs are part of capital consideration, and higher amortisation of acquired intangible assets with a full six months for Talpa. This is explained over the following pages.

We remain focused on balance sheet efficiency and working capital management. Our profit to cash ratio remained strong at 86% and we ended the period with net debt of £796 million (31 December 2015: net debt of £319 million) after acquisitions, the ordinary and special dividend payments and pension deficit contributions. This is in line with our objective of gradually increasing our balance sheet leverage over time whilst maintaining the financial flexibility to continue to invest in the business.

Against a backdrop of wider economic uncertainty following the EU referendum we have put in place a robust plan, including targeting a £25 million reduction in overheads for 2017. This together with our strong balance sheet, our clear strategy and a more balanced business gives us the flexibility to meet the opportunities and challenges ahead.

The Financial and Performance Review focuses on the adjusted results, which, in management's view, 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 key adjustments are to reflect production tax credits in EBITA before exceptional items ('adjusted EBITA') and remove the effect of certain items from adjusted profit before tax and EPS. These include all exceptional items primarily acquisition-related costs such as: employment linked consideration and professional fees for due diligence; impairment of intangible assets; amortisation of intangible assets acquired through business combinations including formats and customer contracts; net financing cost adjustments; and tax adjustments relating to these items. A full reconciliation between our adjusted and statutory results is provided on page 20.

Broadcast & Online

| Six months to 30 June – on a continuing basis | 2016 £m | 2015 £m | Change £m | Change % |
|--|--------------|------------|--------------|-------------|
| NAR | 838 | 838 | – | – |
| Online, Pay & Interactive revenue | 107 | 85 | 22 | 26 |
| SDN external revenue | 33 | 31 | 2 | 6 |
| Other commercial income | 83 | 81 | 2 | 2 |
| Broadcast & Online non-NAR revenue | 223 | 197 | 26 | 13 |
| Total Broadcast & Online revenue | 1,061 | 1,035 | 26 | 3 |
| Total schedule costs | (547) | (507) | (40) | (8) |
| Other costs | (197) | (213) | 16 | 8 |
| Total Broadcast & Online adjusted EBITA | 317 | 315 | 2 | 1 |
| Adjusted EBITA margin | 30% | 30% | | |

Broadcast & Online delivered 3% revenue growth to £1,061 million (2015: £1,035 million) driven by 26% growth in Online, Pay & Interactive.

Against a backdrop of uncertainty driven by the EU referendum, ITV Family NAR in the period was flat at £838 million (including UTV), ahead of the television advertising market. Advertising categories such as Retail and Finance have seen declines with supermarkets and traditional banking decreasing spend across the first half of 2016. Excluding supermarkets, Retail was up 4% year on year. Several sectors have seen strong growth, including Entertainment and Leisure, in particular bookmakers for the Euro Football Championships, along with Cars and Cosmetics and Toiletries.

As expected, quarterly advertising growth has fluctuated year on year reflecting the timing of major events. The first and second quarter were both flat with strong comparatives in Q1 2015, with a weaker April and May being offset by a strong June as a result of the Euro Football Championships.

ITV Family SOV increased by 3% in the period. This reflects a 7% increase in ITV main channel SOV which benefited from sporting events such as the Six Nations Rugby and the Euro Football Championships, strong performances from drama including The Durrells, Marcella and Vera along with an improved daytime schedule. ITV2, which provides more targeted audiences saw a 21% increase in the share of viewing for the 16-34s demographic with programmes such as Love Island, Family Guy and American Dad. We remain focused on strengthening our viewing performance and continuing to deliver both mass audiences and key demographics.

Online, Pay & Interactive revenue continued to show strong growth, up 26% to £107 million (2015: £85 million) reflecting further growth in our online advertising and pay businesses. Audience demand for VOD continues to grow and there remains strong demand for online advertising which, supported by the ITV Hub, helped drive a 14% increase in long form video requests and a 50% increase in consumption. Interactive revenue grew 17% in the period.

SDN external revenue, which is generated from licence sales for DTT Multiplex A, increased 6% to £33 million (2015: £31 million). This was driven by the 15th stream which was launched in August 2015.

Other commercial income was marginally up year on year at £83 million (2015: £81 million) as a result of new sponsorship for the Six Nations Rugby. Other commercial income includes revenue from programme sponsorship, media sales, which relates to commission earned by ITV on sales of airtime for the non-consolidated licensees, as well as minority revenue from these licensees for ITV content.

Financial and Performance Review

Schedule costs were up 8% in the first half to £547 million (2015: £507 million) due to increased sports costs for the Euro Football Championships and the Six Nations Rugby and higher spend on drama. Looking ahead to the full year we continue to expect our total annual programme budget to be around £1,050 million with new and returning drama and entertainment shows in the second half.

Other costs in Broadcast were down 8% year on year primarily due to lower transmission costs and we will continue to maintain a tight control on costs.

Overall Broadcast & Online adjusted EBITA was up 1% at £317 million with the continued growth in our higher margin revenue helping to offset higher schedule costs, even with a broadly flat advertising market.

Looking to the second half, ITV Family NAR is expected to be down around 3% in the third quarter, down around 1% over the nine months, and we expect to outperform the market over the full year while Online, Pay & Interactive is on track to deliver double-digit revenue growth over the full year.

ITV Studios

| Six months to 30 June | 2016 £m | 2015 £m | Change £m | Change % |
|--------------------------------------|------------|------------|--------------|-------------|
| Studios UK | 292 | 208 | 84 | 40 |
| ITV America | 96 | 145 | (49) | (34) |
| Studios RoW | 184 | 72 | 112 | 156 |
| Global Entertainment | 79 | 71 | 8 | 11 |
| Total Studios revenue | 651 | 496 | 155 | 31 |
| Total Studios costs | (530) | (411) | (119) | (29) |
| Total Studios adjusted EBITA* | 121 | 85 | 36 | 42 |
| Studios adjusted EBITA margin | 19% | 17% | | |

* Includes the benefit of production tax credits.

| Six months to 30 June | 2016 £m | 2015 £m | Change £m | Change % |
|--|------------|------------|--------------|-------------|
| Sales from ITV Studios to Broadcast & Online | 209 | 175 | 34 | 19 |
| External revenue | 442 | 321 | 121 | 38 |
| Total Studios revenue | 651 | 496 | 155 | 31 |

ITV Studios total revenue grew strongly in the first half, up 31% to £651 million (2015: £496 million) primarily driven by the UK and our acquisitions, as we continue to build scale in creative content markets and strengthen our international portfolio of programmes that return and travel. Total organic revenue, which excludes our current and prior year acquisitions as well as foreign exchange movements, was down 4%, driven primarily by ITV America which has been impacted by the timing of some key shows. In the first half we benefited from a full six months of Talpa Media, Twofour Group and Mammoth Screen.

Reflecting our growth and increasing scale in key production markets in Europe and the US, 50% 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 2015, ITV Studios revenue for the first six months of 2016 would have been £14 million lower and adjusted EBITA would have been £3 million lower as a result of a stronger US dollar and Euro in the period.

Total Studios UK revenue was up 40% in the first six months to £292 million (2015: £208 million) reflecting 19% growth in internal revenue and 152% increase in external revenue driven by organic growth from our dramas and the acquisition of TwoFour Group and Mammoth Screen. Programming sales to Broadcast benefited from new drama deliveries including Beowulf, Tutankhamun and Houdini & Doyle along with returning entertainment programmes Saturday Night Takeaway and Love Island. Off-ITV revenue grew strongly with successful deliveries including The Jump, Friday Night Dinner and Raised by Wolves all for Channel 4, Poldark and Moorside for BBC and Agatha Raisin for Sky.

ITV America had total revenue down in the first half by 34% to £96 million (2015: £145 million). This was predominantly a result of the phasing of deliveries for Hell's Kitchen (returning in 2017) and Duck Dynasty (expected in the second half of 2016) along with the non-returning scripted commission Texas Rising. Our acquisitions continue to do well with new and returning deliveries Alone, Killing Fields and Pawn Stars. In the first half both our returning scripted dramas, The Good Witch and Aquarius, aired in the US.

Studios RoW also showed strong growth in total revenue, up 156% to £184 million (2015: £72 million). We have benefited from Talpa Media, which we acquired on 30 April 2015, significantly strengthening our position as a leading international producer. Talpa continues to perform strongly and in the first half had the benefit of a four-year licensing agreement for The Voice in China. First half deliveries from Studios RoW include I'm A Celebrity... Get Me Out Of Here! in Australia, The Chase in Australia and Norway and Keeping the Nation Safe in Denmark.

Global Entertainment revenue increased 11% in the period to £79 million (2015: £71 million) as we continued to grow our portfolio of programmes and formats to distribute internationally. First half revenue growth was supported by our strong programme slate including Mr Selfridge, Hell's Kitchen, Coronation Street, Thunderbirds Are Go!, The Good Witch and Aquarius.

Reflecting its strong revenue growth ITV Studios' adjusted EBITA increased 42% to £121 million (2015: £85 million). The adjusted EBITA margin increased to 19% (2015: 17%) driven by our revenue mix in the first half, but over the full year will be more in line with 2015.

ITV Studios has continued to deliver many creative successes in the period through its ongoing investment in the creative pipeline, building upon the existing strong portfolio of programmes and formats. We remain on track to deliver double-digit total revenue growth and adjusted EBITA growth over the full year driven by our acquisitions.

Acquisitions

On 29 February 2016 the Group acquired a 100% controlling interest in UTV Limited, which owns the television assets of UTV Media plc, for £100 million. This further strengthens ITV's free to air business and enables us to run a more efficient network. On 11 July 2016, ITV agreed to sell UTV Ireland which is not part of the ITV Network for €10 million, subject to regulatory approval.

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 strengthen our creative talent pool and build our reputation as a leading European producer and the largest unscripted independent production company in the US.

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. 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. Where consideration paid or contingent consideration payable in the future is employment linked, it is treated as an expense in our statutory results rather than as capital. All consideration of this type is excluded from adjusted profit after tax and adjusted EPS as, in our view, these items are part of capital consideration.

Financial and Performance Review

Acquisitions – 2012 to 2016 (undiscounted)

| Company | Geography | Genre | Initial consideration (£m) | Additional consideration paid in 2016 (£m) | Expected future payments* (£m) | Total expected consideration** (£m) | Expected payment period | Total maximum consideration** (£m) |
|-----------------------|--------------|--------------|----------------------------|--|--------------------------------|-------------------------------------|-------------------------|------------------------------------|
| 2016 | | | | | | | | |
| UTV | UK & Ireland | Broadcast TV | 100 | – | – | 100 | | 100 |
| Total for 2016 | | | 100 | – | – | 100 | | 100 |
| Total for 2012-2015 | | Content | 760 | 3 | 316 | 1,079 | 2016-2021 | 1,835 |
| Total | | | 860 | 3 | 316 | 1,179 | | 1,935 |

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

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

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 through the income statement. At 31 December 2015, our expected future payments were £303 million. The increase is as a result of changes in our estimates and foreign exchange.

Total expected consideration for all acquisitions since 2012 has increased by £116 million since 31 December 2015, primarily as a result of our acquisition of UTV Limited.

Net financing costs

| Six months to 30 June | 2016 £m | 2015 £m |
|--|-------------|-------------|
| Financing costs directly attributable to loans and bonds | (10) | (3) |
| Cash-related net financing costs | – | (1) |
| Cash-related financing costs | (10) | (4) |
| Adjusted financing costs | (10) | (4) |
| Mark-to-market on swaps and foreign exchange | 1 | (2) |
| Imputed pension interest | (2) | (5) |
| Unrealised foreign exchange and other net financial losses | (10) | – |
| Net financing costs | (21) | (11) |

Adjusted financing costs increased to £10 million (2015: £4 million), due to increased borrowing costs associated with the acquisition of Talpa and to fund the payment of the 2015 special dividend in May. Over the full year we expect adjusted financing costs to be around £25 million.

Net financing costs are adjusted to reflect the underlying funding costs of the business providing a more meaningful comparison of how the business is managed and funded on a day-to-day basis. These adjustments include mark-to-market on swaps and foreign exchange, imputed pension interest and other financial losses. The financial losses in 2016 relate to unrealised foreign exchange losses on the unhedged portion of the Eurobond.

Profit before tax

Adjusted profit before tax, after financing costs, was up 9% at £425 million (2015: £391 million). Profit before tax is adjusted to reflect the impact of production tax credits, net exceptional items, amortisation of intangible assets and the adjustments to net financing costs, to reflect the underlying performance of the business. Statutory profit before tax decreased by 6%, largely as a result of the exceptional items described below and a full six months amortisation of the intangible assets acquired in the purchase of Talpa, particularly The Voice.

Profit before tax (PBT)

| Six months to 30 June – on a continuing basis | 2016 £m | 2015 £m |
|---|------------|------------|
| Profit before tax | 309 | 327 |
| Production tax credits | 14 | 5 |
| Exceptional items (net) | 54 | 30 |
| Amortisation and impairment of intangible assets* | 37 | 22 |
| Adjustments to net financing costs | 11 | 7 |
| Adjusted profit before tax | 425 | 391 |

* In respect of intangible assets arising from business combinations.

Production tax credits are recognised in adjusted PBT as in our view they relate directly to the production of programmes and reflect the way the business is managed and measured on a day-to-day basis. The ability to access these tax credits is fundamental when assessing the viability of investment decisions in high-end drama. ITV considers these to be part of the overall cost of production rather than a corporate tax item. In 2016 significant tax credits were available to us because of our investment in high-end drama in the UK, for example Victoria and Poldark.

Exceptional items are set out in the table below. Operating exceptional items largely relate to acquisition related expenses which are predominantly performance based employment linked consideration, in particular regarding Talpa as discussed above. Over the full year we expect exceptional items to be around £115 million which excludes one-off costs that may be incurred in relation to our £25 million targeted overhead cost savings for 2017.

Exceptional items

| Six months to 30 June | 2016 £m | 2015 £m |
|--------------------------------------|-------------|-------------|
| Operating exceptional items: | | |
| Acquisition related expenses | (54) | (31) |
| Non-operating exceptional items: | | |
| | – | 1 |
| Total exceptional items (net) | (54) | (30) |

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

Tax

The total adjusted tax charge for the period was £85 million (2015: £81 million), corresponding to an effective tax rate on adjusted PBT of 20% (2015: 21%) which is in line with the standard UK corporation tax rate of 20% (2015: 20.25%). The adjustments made to reconcile the tax charge with the adjusted tax charge are the tax effects of the adjustments made earlier to reconcile PBT and adjusted PBT.

| Six months to 30 June | 2016 £m | 2015 £m |
|---|-------------|-------------|
| Tax charge | (63) | (68) |
| Production tax credits | (14) | (5) |
| Charge for exceptional items | (1) | (1) |
| Charge in respect of amortisation of intangible assets* | (6) | (5) |
| Charge in respect of adjustments to net financing costs | (2) | (1) |
| Other tax adjustments | 1 | (1) |
| Adjusted tax charge | (85) | (81) |
| Effective tax rate on adjusted profits | 20% | 21% |

* In respect of intangible assets arising from business combinations. Also reflects the cash tax benefit of tax deductions for US goodwill. In 2015 this was included in Other tax adjustments.

Financial and Performance Review

Cash tax paid in the year was £33 million (2015: £68 million), the majority of which is paid in the UK. The 2016 cash figure is net of £22 million production tax credits received in the period. The cash tax paid is lower than the interim tax charge for 2016 largely due to the tax treatment of allowable pension contributions and the timing of cash tax refunds including production tax credits.

ITV is a responsible business, and we take a responsible attitude to tax, recognising that it affects all of our stakeholders. We seek at all times to comply with the law in each of the jurisdictions in which we operate, and to build open and transparent relationships with those jurisdictions' tax authorities. Our tax strategy is in line with that of the business and its commercial activities, and within our overall governance structure, the governance of tax and tax risk is given a high priority by the Board and Audit Committee, including through the operation of the Tax & Treasury Committee.

EPS

Overall, adjusted profit after tax was up 10% at £340 million (2015: £310 million). Adjusted basic earnings per share was 8.5p (2015: 7.7p), up 10%. The weighted average number of shares was slightly higher than 2015 at 4,011 million (2015: 4,004 million). Diluted adjusted EPS in the first half was 8.4p (2015: 7.6p) reflecting a weighted average diluted number of shares of 4,031 million (2015: 4,034 million).

The table below reconciles basic to adjusted EPS and the adjustments are explained in the previous sections.

| Six months to 30 June 2016 | Reported £m | Adjustments £m | Adjusted £m |
|--|----------------|-------------------|----------------|
| EBITA* | 424 | 14 | 438 |
| Exceptional items (operating) | (54) | 54 | – |
| Amortisation and impairment of intangible assets | (40) | 37 | (3) |
| Operating profit | 330 | 105 | 435 |
| Net financing costs | (21) | 11 | (10) |
| Profit before tax | 309 | 116 | 425 |
| Tax | (63) | (22) | (85) |
| Profit after tax | 246 | 94 | 340 |
| Loss from discontinuing operations (net of tax) | (3) | 3 | – |
| Earnings | 243 | 97 | 340 |
| Shares (million), weighted average | 4,011 | | 4,011 |
| EPS (p) | 6.1p | | 8.5p |

* £14 million adjustment relates to production tax credits.

Dividend per share

The Board's dividend policy was to deliver at least 20% growth in the full year ordinary dividend to 2016 to achieve a more normal dividend cover of between 2.0 and 2.5x adjusted earnings per share. In line with this policy, the Board has declared an interim dividend for 2016 of 2.4p, up 26%. The interim dividend is expected to be roughly a third of the full year dividend.

Cash generation

Profit to cash conversion

| Six months to 30 June | 2016 £m | 2015 £m |
|---|-------------|------------|
| Adjusted EBITA | 438 | 400 |
| (Increase)/Decrease in programme rights and other inventory distribution rights | (20) | 24 |
| (Increase)/Decrease in receivables | (40) | 7 |
| Decrease/(Increase) in Production tax credits | 7 | (5) |
| Decrease in payables | (7) | (34) |
| Working capital movement | (60) | (8) |
| Depreciation | 15 | 13 |
| Share-based compensation and pension service costs | 7 | 8 |
| Cash flow generated from operations before exceptional items | 400 | 413 |
| Acquisition of property, plant and equipment and intangible assets | (23) | (25) |
| Adjusted cash flow | 377 | 388 |
| Profit to cash ratio six months to 30 June | 86% | 97% |
| Profit to cash ratio 12 months rolling | 86% | 92% |

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

ITV remains highly cash generative reflecting our continued tight management of working capital balances. In the period we generated £377 million (2015: £388 million) of operational cash from £438 million (2015: £400 million) of adjusted EBITA, which equates to a strong profit to cash ratio of 86%. The ratio has declined slightly from the prior period as a result of an increase in programme rights as we continue to invest in our creative pipeline, an increase in receivables because of the strong advertising performance in June and the four-year licensing agreement for The Voice in China for which the majority of revenue is recognised up front.

Free cash flow

| Six months to 30 June | 2016 £m | 2015 £m |
|-----------------------|------------|------------|
| Adjusted cash flow | 377 | 388 |
| Net interest paid | (6) | (8) |
| Adjusted cash tax | (55) | (68) |
| Pension funding | (47) | (66) |
| Free cash flow | 269 | 246 |

Note: Adjusted cash tax is total cash tax paid excluding receipt of production tax credits which are included within adjusted cashflow.

After payments for interest, cash tax and pension funding, our free cash flow also remained strong in the period, up 9% to £269 million (2015: £246 million).

Overall, after £566 million of dividends (ordinary and special) and £97 million of acquisition related costs as well as pension deficit contributions of £47 million, we ended the first half with net debt of £796 million, compared to net debt of £319 million at 31 December 2015 and net debt of £540 million at 30 June 2015.

Funding and liquidity

Debt structure and liquidity

Our balance sheet strength, together with our strong free cash flow, enables us to continue to invest in opportunities to grow the business and make returns to our shareholders. To preserve our financial flexibility we have put a number of facilities in place. We have a £525 million Revolving Credit Facility in place until 2019 provided by a number of core relationship banks. We also have two bilateral loans in place until 2017 totalling £250 million (may be extended until 2018 at ITV's option). This, along with a £300 million bilateral financing facility and a £75 million invoice discounting facility, both of which are free of financial covenants, provides us with sufficient liquidity to meet the requirements of the business in the medium to long-term. Of the total £1,150 million facilities in place, £315 million was drawn down at 30 June 2016.

Our policy is to maintain at least £250 million of available liquidity at any point.

Financial and Performance Review

Leverage

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.

Over time we will continue to look to increase our balance sheet leverage and we believe maintaining leverage below 1.5x reported net debt to adjusted EBITDA will optimise our cost of capital, allow us to make returns to our shareholders in line with our policy and enable us to retain flexibility to continue to invest in the business. As at 30 June 2016, reported net debt to adjusted EBITDA on a rolling 12 month basis was 0.9x.

We also look at an adjusted measure of net debt, taking into consideration all of our financial commitments which reflects how credit rating agencies look at our balance sheet. At 30 June 2016 adjusted net debt was £1,521 million (30 June 2015: £1,447 million) reflecting an increase in expected contingent payments on acquisitions as a result of the acquisitions we have made over the last 12 months, a lower pension deficit under IAS 19 and undiscounted operating lease commitments which mainly relate to broadcast transmission contracts and property. As at 30 June 2016 adjusted net debt to adjusted EBITDA was 1.6x.

| | 2016 £m | 2015 £m |
|--|----------------|----------------|
| Net debt at 30 June | (796) | (540) |
| Expected contingent payments on acquisitions | (316) | (287) |
| Pension deficit (IAS 19R) | (64) | (285) |
| Operating leases | (345) | (335) |
| Adjusted net debt at 30 June | (1,521) | (1,447) |
| Adjusted net debt to adjusted EBITDA* | 1.6x | 1.7x |

* On a rolling 12 month basis.

Financing

We are financed using debt instruments and facilities with a range of maturities. Borrowings at 30 June 2016 were repayable as follows:

| Amount repayable | £m | Maturity |
|---|------------|---------------|
| £161 million Eurobond | 161 | Jan 2017 |
| £525 million Revolving Credit Facility | 65 | Various |
| £150 million Bilateral Loan | 150 | Mar 2017/2018 |
| £100 million Bilateral Loan | 100 | Jun 2017/2018 |
| €600 million Eurobond | 495 | Sep 2022 |
| Finance leases | 6 | Various |
| Total debt repayable on maturity | 977 | |

Ratings

We are rated investment grade by two ratings agencies: BBB- by Standard and Poor's and Baa3 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 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 re-translation 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.

Pensions

IAS 19

The aggregate IAS 19 deficit of the defined benefit schemes at 30 June 2016 was £64 million (31 December 2015: £176 million). The reduction is due to substantial gains in asset values as a result of ITV's significant holding in long-dated UK gilts and deficit funding contributions of £47 million. These more than offset the increase in pension liabilities as a result of falling discount rates. Pensions continue to be paid from the Scheme based on actual requirements.

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 similar level today.

Deficit funding contributions

Following completion of the actuarial valuations, the Group has agreed to make deficit funding contributions in order to eliminate the deficits in each section. From 1 January 2016 the contributions are paid on the following basis:

Section A – £5.0 million per month until 31 May 2021

Section B – £0.15 million per month until 28 February 2023

Section C – £0.3 million per month until 31 July 2021

In addition to these contributions, payments are made into Section A as a result of the SDN and LTC Pension Funding Partnership. The total expected contribution for 2016 is £80 million, a £10 million reduction in deficit funding contributions payable in 2015, which will be paid more evenly throughout the year.

The Group's deficit funding contributions in the first half of 2016 were £47 million (2015: £66 million).

Ian Griffiths

Group Finance Director

Risks & Uncertainties

ITV continues to apply the risk management framework outlined in the 2015 Annual Report and Accounts (pages 46-51).

When preparing the Interim results the High Impact Low Likelihood (HILL) risks and Strategic risks as reported in the 2015 Annual Report and Accounts were reviewed to ensure they remained appropriate and adequate. No significant new risks were identified. ITV is currently reviewing its risk identification and monitoring processes. Below is a summary of the key risks.

The outcome of the EU referendum has created some uncertainty in the markets in which we operate. There are several areas of our business that could be affected by issues such as: business and consumer confidence, access to the EU single market and free movement of our staff. The extent of any impact is currently unknown but going forward we will closely monitor and evaluate any potential areas of risk.

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 | <p>ITV loses its credit status or lines of funding with existing lenders or there is a collapse of a major bank impacting financial arrangements/availability of credit.</p> <p>There is a major collapse in investment values leading to a material impact on the pension scheme deficit.</p> |
| Operational | <p>A significant event removes a number of the key management team from the business on a long-term or permanent basis.</p> |
| Reputation | <p>An event with public interest that causes significant reputational and brand damage.</p> <p>There is a major health and safety incident that results in a significant loss of human life.</p> <p>A major incident results in ITV being unable to continue with scheduled broadcasting for a sustained period.</p> <p>There is a significant or unexpected change in regulation or legislation.</p> |



Maximising

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



Growing

Grow international content business



































Building

Build a global pay and distribution business

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 offset the financial impact of this decline. |    |
| | The television market moves significantly towards pay television as a preferred model, negatively impacting ITV's free-to-air revenue. |   |
| | A faster than expected shift to Video on Demand (VOD) or other new technologies causes a sustained loss of advertising revenue. |    |
| 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. |    |
| | There is significant loss of programme rights or ITV fails to identify and obtain the optimal rights packages. |    |
| | ITV fails to create and own a sufficient number of hit programmes/formats across its international portfolio of content companies. |    |
| | ITV fails to resource, financially, creatively and operationally, the new growth businesses, in particular online and international content. |    |
| | 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. |    |
| Technology | 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. |    |
| | A significant high profile incident or series of events such as transmission incidents or a major regulatory breach causes significant reputational and/or commercial damage. |    |
| | ITV fails to ensure appropriate business continuity planning and resilience within its core systems, processes, platforms and technology infrastructure. |    |

Condensed Consolidated Interim 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 Year', '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 | 2016 £m | 2015 £m |
|---|------|--------------|------------|
| Revenue | 2.1 | 1,503 | 1,356 |
| Operating costs | | (1,173) | (1,019) |
| Operating profit | | 330 | 337 |
| Presented as | | | |
| Earnings before interest, tax, amortisation (EBITA) before exceptional items | 2.1 | 424 | 395 |
| Operating exceptional items | | (54) | (31) |
| Amortisation of intangible assets | | (40) | (27) |
| Operating profit | | 330 | 337 |
| Financing income | | 2 | 3 |
| Financing costs | | (23) | (14) |
| Net financing costs | | (21) | (11) |
| Share of profit/(losses) of joint ventures and associated undertakings | | – | – |
| Gain on sale and impairment of subsidiaries and investments (exceptional items) | | – | 1 |
| Profit before tax | | 309 | 327 |
| Taxation | | (63) | (68) |
| Profit from continuing operations | | 246 | 259 |
| Loss after tax for the period from discontinuing operation | 2.3 | (3) | – |
| Profit for the period | | 243 | 259 |
| Profit attributable to | | | |
| Owners of the Company | | 243 | 257 |
| Non-controlling interests | | – | 2 |
| Profit for the period | | 243 | 259 |
| Earnings per share | | | |
| Basic earnings per share | 2.2 | 6.1p | 6.4p |
| Diluted earnings per share | 2.2 | 6.1p | 6.4p |
| Earnings per share from continuing operations | | | |
| Basic earnings per share | 2.2 | 6.1p | 6.4p |
| Diluted earnings per share | 2.2 | 6.1p | 6.4p |

Condensed Consolidated Statement of Comprehensive Income

| For the six month period to 30 June | 2016 £m | 2015 £m |
|---|------------|------------|
| Profit for the period | 243 | 259 |
| Other comprehensive income/(expense) | | |
| Items that are or may be reclassified to profit or loss | | |
| Revaluation of available for sale financial assets | 3 | – |
| Exchange differences on translation of foreign operations (net of hedging) | 42 | (3) |
| Net gain/(loss) on cash flow hedges | 7 | (6) |
| Items that will never be reclassified to profit or loss | | |
| Remeasurement of gains on defined benefit pension schemes | 67 | – |
| Income tax charge on items that will never be reclassified | (12) | 3 |
| Other comprehensive income/(expense) for the period, net of income tax | 107 | (6) |
| Total comprehensive income for the period | 350 | 253 |
| Total comprehensive income attributable to | | |
| Owners of the Company | 350 | 251 |
| Non-controlling interests | – | 2 |
| Total comprehensive income for the period | 350 | 253 |

Condensed Consolidated Statement of Financial Position

| | Note | 30 June 2016 £m | 31 December 2015 £m | 30 June 2015 £m |
|---|------|--------------------|------------------------|--------------------|
| Non-current assets | | | | |
| Property, plant and equipment | | 240 | 239 | 251 |
| Intangible assets | 3.1 | 1,634 | 1,500 | 1,503 |
| Investments in joint ventures, associates and equity investments | | 36 | 30 | 19 |
| Derivative financial instruments | 4.3 | 1 | 8 | 12 |
| Distribution rights | | 55 | 29 | 14 |
| Deferred tax asset | | – | – | 38 |
| | | 1,966 | 1,806 | 1,837 |
| Current assets | | | | |
| Programme rights and other inventory | | 370 | 373 | 369 |
| Trade and other receivables due within one year | | 535 | 531 | 492 |
| Trade and other receivables due after more than one year | | 36 | 33 | 74 |
| Trade and other receivables | | 571 | 564 | 566 |
| Current tax receivable | | 12 | 13 | – |
| Derivative financial instruments | 4.3 | 14 | 1 | 4 |
| Cash and cash equivalents | 4.1 | 181 | 294 | 201 |
| Assets held for sale | 3.2 | 8 | – | – |
| | | 1,156 | 1,245 | 1,140 |
| Current liabilities | | | | |
| Borrowings | 4.2 | (231) | (11) | (574) |
| Derivative financial instruments | 4.3 | (6) | (5) | (10) |
| Trade and other payables due within one year | | (775) | (786) | (798) |
| Trade payables due after more than one year | | (57) | (48) | (31) |
| Trade and other payables | | (832) | (834) | (829) |
| Current tax liabilities | | (94) | (69) | (52) |
| Provisions | 3.3 | (27) | (28) | (15) |
| Liabilities held for sale | 3.2 | (2) | – | – |
| | | (1,192) | (947) | (1,480) |
| Net current (liabilities)/assets | | (36) | 298 | (340) |
| Non-current liabilities | | | | |
| Borrowings | 4.2 | (746) | (602) | (167) |
| Derivative financial instruments | 4.3 | – | (6) | (12) |
| Defined benefit pension deficit | 3.4 | (64) | (176) | (285) |
| Deferred tax liabilities | | (97) | (79) | (65) |
| Other payables | | (105) | (89) | (54) |
| Provisions | 3.3 | (4) | (5) | (5) |
| | | (1,016) | (957) | (588) |
| Net assets | | 914 | 1,147 | 909 |
| Attributable to equity shareholders of the parent company | | | | |
| Share capital | | 403 | 403 | 403 |
| Share premium | | 174 | 174 | 174 |
| Merger and other reserves | | 221 | 221 | 228 |
| Translation reserve | | 84 | 35 | 16 |
| Available for sale reserve | | 9 | 6 | 7 |
| Retained (losses)/earnings | | (8) | 275 | 30 |
| Total equity attributable to equity shareholders of the parent company | | 883 | 1,114 | 858 |
| Non-controlling interests | | 31 | 33 | 51 |
| Total equity | | 914 | 1,147 | 909 |

Condensed Consolidated Statement of Changes in Equity

| | Attributable to equity shareholders of the parent company | | | | | | Total £m | Non- controlling interests £m | Total equity £m |
|--|---|------------------------|--|------------------------------|--|--|-------------|--|-----------------------|
| | Share capital £m | Share premium £m | Merger and other reserves ^(a) £m | Translation reserve £m | Available for sale reserve £m | Retained profits/ (losses) £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/ (expense) | | | | | | | | | |
| 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 of gains on defined benefit pension schemes | – | – | – | – | – | 67 | 67 | – | 67 |
| Income tax 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 | | | | | | | | | |
| 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 contributions by and distributions to owners | – | – | – | – | – | (581) | (581) | (2) | (583) |
| Total transactions with owners | – | – | – | – | – | (581) | (581) | (2) | (583) |
| Changes in non-controlling interests | – | – | – | – | – | – | – | – | – |
| Balance at 30 June 2016 | 403 | 174 | 221 | 84 | 9 | (8) | 883 | 31 | 914 |

(a) Movements reported in merger and other reserves include put option for the acquisition of non-controlling interests.

Condensed Consolidated Statement of Changes in Equity

| | Attributable to equity shareholders of the parent company | | | | | | Total £m | Non- controlling interests £m | Total equity £m |
|--|---|------------------------|--|------------------------------|--|--|-------------|--|-----------------------|
| | Share capital £m | Share premium £m | Merger and other reserves ^(a) £m | Translation reserve £m | Available for sale reserve £m | Retained profits/ (losses) £m | | | |
| Balance at 1 January 2015 | 403 | 174 | 228 | 25 | 7 | 177 | 1,014 | 50 | 1,064 |
| Total comprehensive income for the period | | | | | | | | | |
| Profit for the period | – | – | – | – | – | 257 | 257 | 2 | 259 |
| Other comprehensive income/ (expense) | | | | | | | | | |
| Net loss on cash flow hedges | – | – | – | (6) | – | – | (6) | – | (6) |
| Exchange differences on translation of foreign operations (net of hedging) | – | – | – | (3) | – | – | (3) | – | (3) |
| Income tax on other comprehensive income | – | – | – | – | – | 3 | 3 | – | 3 |
| Total other comprehensive income | – | – | – | (9) | – | 3 | (6) | – | (6) |
| Total comprehensive income for the period | – | – | – | (9) | – | 260 | 251 | 2 | 253 |
| Transactions with owners, recorded directly in equity | | | | | | | | | |
| Equity dividends | – | – | – | – | – | (383) | (383) | (1) | (384) |
| Movements due to share-based compensation | – | – | – | – | – | 7 | 7 | – | 7 |
| Purchase of own shares via employees' benefit trust | – | – | – | – | – | (31) | (31) | – | (31) |
| Total contributions by and distributions to owners | – | – | – | – | – | (407) | (407) | (1) | (408) |
| Total transactions with owners | – | – | – | – | – | (407) | (407) | (1) | (408) |
| Changes in non-controlling interests | – | – | – | – | – | – | – | – | – |
| Balance at 30 June 2015 | 403 | 174 | 228 | 16 | 7 | 30 | 858 | 51 | 909 |

(a) Movements reported in merger and other reserves include put option for the acquisition of non-controlling interests.

Condensed Consolidated Statement of Cash Flows

| For the six month period to 30 June | Note | £m | 2016 £m | £m | 2015* £m |
|---|------|-------|------------|-------|-------------|
| Cash flows from operating activities | | | | | |
| Profit before tax | 2.1 | | 309 | | 327 |
| Gain on sale and impairment of subsidiaries and investments (exceptional items) | | – | | (1) | |
| Share of losses of joint ventures and associated undertakings | | – | | – | |
| Net financing costs | | 21 | | 11 | |
| Operating exceptional items | | 54 | | 31 | |
| Depreciation of property, plant and equipment | | 15 | | 13 | |
| Amortisation and impairment of intangible assets | | 40 | | 27 | |
| Share-based compensation and pension service costs | | 7 | | 8 | |
| Adjustments to profit | | | 137 | | 89 |
| (Increase) /decrease in programme rights and other inventory, and distribution rights | | (20) | | 24 | |
| (Increase) /decrease in receivables | | (40) | | 7 | |
| Decrease in payables | | (7) | | (34) | |
| Movement in working capital | | | (67) | | (3) |
| Cash generated from operations before exceptional items | | | 379 | | 413 |
| Cash flow relating to operating exceptional items | | | | | |
| Operating exceptional items | | (54) | | (31) | |
| Prepaid employment linked consideration | 3.1 | – | | (109) | |
| Increase in payables and provisions | | 17 | | 14 | |
| Decrease in other receivables | | 29 | | 10 | |
| Cash outflow from exceptional items | | | (8) | | (116) |
| Cash flow from discontinued operation | 2.3 | | (5) | | – |
| Cash generated from operations | | | 366 | | 297 |
| Defined benefit pension deficit funding | 3.3 | (47) | | (66) | |
| Interest received | | 9 | | 33 | |
| Interest paid on bank and other loans | | (15) | | (41) | |
| Net taxation paid | | (33) | | (68) | |
| | | | (86) | | (142) |
| Net cash inflow from operating activities | | | 280 | | 155 |
| Cash flows from investing activities | | | | | |
| Acquisition of subsidiary undertakings, net of cash acquired | 3.1 | (97) | | (407) | |
| Prepaid employment linked consideration | 3.1 | – | | 109 | |
| Net consideration paid | | (97) | | (298) | |
| Acquisition of investments | | (3) | | (2) | |
| Acquisition of property, plant and equipment | | (13) | | (16) | |
| Acquisition of intangible assets | | (10) | | (9) | |
| Loans granted to associates and joint ventures | | (3) | | (2) | |
| Proceeds from sale of subsidiaries, joint ventures and available for sale investments | | – | | 1 | |
| Net cash (outflow) from investing activities | | | (126) | | (326) |
| Cash flows from financing activities | | | | | |
| Bank and other loans – amounts repaid | 4.1 | (505) | | – | |
| Bank and other loans – amounts raised | 4.1 | 815 | | 493 | |
| Capital element of finance lease payments | | (4) | | (6) | |
| Equity dividends paid | | (566) | | (383) | |
| Dividends paid to minority interest | | (2) | | (1) | |
| Purchase of own shares via employees' benefit trust | | (20) | | (31) | |
| Net cash (outflow) / inflow from financing activities | | | (282) | | 72 |
| Net decrease in cash and cash equivalents | | | (128) | | (99) |
| Cash and cash equivalents at 1 January | 4.1 | 294 | | | 297 |
| Effects of exchange rate changes and fair value movements | | 15 | | | 3 |
| Cash and cash equivalents at 30 June | 4.1 | 181 | | | 201 |

* Prepaid employment linked consideration was presented in cash flows from investing activities in June 2015 but has been re-presented in cash flows from exceptional items in accordance with the disclosure in the Annual Report for December 2015.

Section 1: Basis of Preparation

In this section



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

These condensed consolidated interim financial statements for the six months ended 30 June 2016 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.

The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2015, 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 expense. 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 2015.

Revenues are impacted by underlying economic conditions, the cyclical demand for advertising, seasonality of programme sales 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 cyclicity 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 3.4).

During the six months ended 30 June 2016, management also reassessed its estimates in respect of provisions (see note 3.3) and considered the recoverable amount of goodwill. No impairment of goodwill was identified.

These interim financial statements are not statutory accounts. The statutory accounts for the year ended 31 December 2015 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 2016 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 acquisitions 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 funding.

The Group also continues to focus on development of the non-advertising business, and evaluates the impact of further investment in acquisitions 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.

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 2016 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 2015.

No new or revised accounting standards, interpretations or amendments endorsed by the EU since the year ended 31 December 2015, are considered to have an impact on the Group.

Section 2: Results for the Year

In this section



This section focuses on the results and performance of the Group. On the following pages you will find disclosures explaining the Group's results for the period, segmental information, earnings per share and discontinued operations.

2.1 Profit before tax

Keeping it simple



Earnings before interest, tax, amortisation (EBITA) and before exceptional items remains the Group's key profit indicator. This reflects the way the business is managed and how the Directors assess the performance of the Group. This section therefore also shows each division's contribution to total revenue and EBITA.

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 therefore also shows each division's contribution to total revenue and 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 years ended 30 June 2016 and 30 June 2015 are therefore Broadcast & Online and ITV Studios, the results of which are outlined in the following tables:

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

| | Broadcast & Online 2015 £m | ITV Studios 2015 £m | Consolidated 2015 £m |
|---|-------------------------------------|---------------------------|----------------------------|
| For the six month period to 30 June | | | |
| Total segment revenue | 1,035 | 496 | 1,531 |
| Intersegment revenue | – | (175) | (175) |
| Revenue from external customers | 1,035 | 321 | 1,356 |
| Discontinued operation | – | – | – |
| Revenue from external customers from continuing operations | 1,035 | 321 | 1,356 |
| Adjusted EBITA* | 315 | 85 | 400 |
| Adjusted EBITA from discontinuing operation* | – | – | – |
| Adjusted EBITA from continuing operations* | 315 | 85 | 400 |

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

A reconciliation of EBITA before exceptional items to profit before tax is provided as follows:

| For the six month period to 30 June | 2016 £m | 2015 £m |
|---|------------|------------|
| Adjusted EBITA | 438 | 400 |
| Production tax credits | (14) | (5) |
| EBITA before exceptional items from continuing operations | 424 | 395 |
| Operating exceptional items | (54) | (31) |
| Amortisation and impairment of intangible assets | (40) | (27) |
| Net financing costs | (21) | (11) |
| Gain on sale and impairment of subsidiaries and investments (exceptional items) | – | 1 |
| Profit before tax from continuing operations | 309 | 327 |

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 year attributable to equity shareholders of £246 million (2015: £257 million) divided by 4,011 million (2015: 4,004 million) being the weighted average number of shares in issue during the year.

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 of intangible assets acquired through business combinations; 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 EPS and adjusted EPS, together with the diluted impact on each, is set out below:

Earnings per share 2016

| For the six month period to 30 June | Basic £m | Diluted £m |
|--|-------------|---------------|
| Profit for the period attributable to equity shareholders of ITV plc | 243 | 243 |
| Loss for the period from discontinued operation | 3 | 3 |
| Profit for the period attributable to equity shareholders of ITV plc from continuing operations | 246 | 246 |
| Weighted average number of ordinary shares in issue – million | 4,011 | 4,011 |
| Dilution due to share options | – | 20 |
| Total weighted average number of ordinary shares in issue – million | 4,011 | 4,031 |
| Earnings per ordinary share from continuing operations | 6.1p | 6.1p |
| Earnings per ordinary share from discontinued operations | – | – |
| Earnings per ordinary share | 6.1p | 6.1p |

Section 2: Results for the Year

Adjusted earnings per share 2016

| For the six month period to 30 June | Ref. | Adjusted £m | Diluted £m |
|--|------|----------------|---------------|
| Profit for the period attributable to equity shareholders of ITV plc | | 243 | 243 |
| Exceptional items (net of tax) | A | 53 | 53 |
| Loss after tax for the period from discontinued operations | | 3 | 3 |
| Profit for the period before exceptional items from continuing operations | | 299 | 299 |
| Amortisation and impairment of acquired intangible assets | B | 31 | 31 |
| Adjustments to net financing costs | C | 9 | 9 |
| Other tax adjustments | | 1 | 1 |
| Adjusted profit from continuing operations | | 340 | 340 |
| Total weighted average number of ordinary shares in issue – million | | 4,011 | 4,031 |
| Adjusted earnings per ordinary share from continuing operations | | 8.5p | 8.4p |
| Adjusted earnings per ordinary share from discontinued operations | | – | – |
| Adjusted earnings per ordinary share | | 8.5p | 8.4p |

Earnings per share 2015

| For the six month period to 30 June | | Basic £m | Diluted £m |
|--|--|-------------|---------------|
| Profit for the period attributable to equity shareholders of ITV plc | | 257 | 257 |
| Profit/(loss) for the period from discontinued operations | | – | – |
| Profit for the period attributable to equity shareholders of ITV plc from continuing operations | | 257 | 257 |
| Weighted average number of ordinary shares in issue – million | | 4,004 | 4,004 |
| Dilution due to share options | | – | 30 |
| Total weighted average number of ordinary shares in issue – million | | 4,004 | 4,034 |
| Earnings per ordinary share from continuing operations | | 6.4p | 6.4p |
| Earnings per ordinary share from discontinued operations | | – | – |
| Earnings per ordinary share | | 6.4p | 6.4p |

Adjusted earnings per share 2015

| For the six month period to 30 June | Ref. | Adjusted £m | Diluted £m |
|--|------|----------------|---------------|
| Profit for the period attributable to equity shareholders of ITV plc | | 257 | 257 |
| Exceptional items (net of tax) | A | 24 | 24 |
| Profit/(loss) after tax for the period from discontinued operations | | – | – |
| Profit for the period before exceptional items from continuing operations | | 281 | 281 |
| Amortisation and impairment of acquired intangible assets | B | 17 | 17 |
| Adjustments to net financing costs | C | 6 | 6 |
| Other tax adjustments | | 4 | 4 |
| Adjusted profit from continuing operations | | 308 | 308 |
| Total weighted average number of ordinary shares in issue – million | | 4,004 | 4,034 |
| Adjusted earnings per ordinary share from continuing operations | | 7.7p | 7.6p |
| Adjusted earnings per ordinary share from discontinued operations | | – | – |
| Adjusted earnings per ordinary share | | 7.7p | 7.6p |

The rationale for determining the adjustments to profit is disclosed in the 31 December 2015 Annual Report and has not changed during the period. Details of the adjustments to earnings are as follows:

A. Exceptional items (net of tax) £53 million (2015: £24 million)

Operating and non-operating exceptional items of £54 million (2015: £30 million), net of a tax credit of £1 million (2015: £6 million) relate primarily to performance-based, employment linked consideration mainly in relation to Talpa Media, and professional fees (mainly financial and legal due diligence)

B. Amortisation and impairment of acquired intangible assets of £31 million (2015: £17 million)

Calculated as total amortisation and impairment of £40 million (2015: £27 million), less amortisation of software licences and development of £3 million (2015: £5 million), net of related tax credit of £10 million (2015: £5 million). This is then adjusted to recognise a £4 million cash tax benefit arising from goodwill on US acquisitions, which for tax purposes is amortised over a 15 year period (2015: £4 million shown within other tax adjustments)

C. Adjustments to net financing costs £9 million (2015: £6 million)

Net financing costs are adjusted for mark-to-market movements on derivative instruments, foreign exchange and imputed pension interest charges of £11 million (2015: £7 million) net of related tax credit of £2 million (2015: £1 million)

Section 2: Results for the Year

2.3 Discontinued operation

Keeping it simple



A discontinued operation is a distinct component of the business that has been or is in the process of being disposed.

Management agreed to sell UTV Ireland Limited to Virgin Media on 11 July 2016 for €10 million. It is therefore classified on the balance sheet as a disposal group held-for-sale. The sale is subject to Irish regulatory approval, which is expected to take some months. See section 3.1 for further details.

Results of discontinued operation

| For the six month period to 30 June | 2016 £m | 2015 £m |
|---|------------|------------|
| Revenue | 4 | – |
| Expenses | (7) | – |
| Operating loss | (3) | – |
| Taxation | – | – |
| Loss after tax | (3) | – |
| Gain on sale of discontinued operation | – | – |
| Tax on gain on sale of discontinued operation | – | – |
| Loss for the period | (3) | – |
| Earnings per share | | |
| Basic earnings per share | – | – |
| Diluted earnings per share | – | – |

Cash flows from (used in) discontinued operation

| For the six month period to 30 June | 2016 £m | 2015 £m |
|---------------------------------------|------------|------------|
| Net cash used in operating activities | (3) | – |
| Net cash from investing activities | (2) | – |
| Net cash flow for the period | (5) | – |

Effect of disposal on the financial position of the Group

| For the six month period to 30 June | Note | 2016 £m |
|---------------------------------------|------|------------|
| Property, plant and equipment | 3.2 | – |
| Trade and other receivables | 3.2 | (2) |
| Trade and other payables | 3.2 | – |
| Net assets and liabilities | | (2) |
| Consideration received in cash | | – |
| Cash and cash equivalents disposed of | | – |
| Net cash outflow | | (2) |

Section 3: Operating Assets and Liabilities

In this section



This section focuses on 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, disposal group held for sale, provisions and pensions.

3.1 Acquisitions

Keeping it simple



The following section describes the businesses which were acquired by the Group in the period.

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

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 it is excluded from adjusted profit. As a result, each acquisition, the distinction between the types of consideration has been explained in detail below.

Acquisitions

During the period, the Group completed one acquisition 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, owns 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 licence leaving just two of the 15 licences outside the control of ITV plc.

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 commenced discussion with Virgin Media, owner of TV3 and on 11 July 2016 the sale was agreed, subject to regulatory approval, for consideration of €10million (£8.5 million). Further details are included in sections 2.3 and 3.2.

Key terms:

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

Provisional 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

Acquisitions in 2015

In 2015 the Group made four acquisitions, all of which are included in the the results of ITV Studios operating segment.

Talpa Media B.V.

On 30 April 2015 the Group acquired 100% controlling interests in Talpa Media B.V. and its subsidiaries. Talpa Media is the entertainment show producer behind The Voice, The Voice Kids, I Love My Country, Dating In The Dark and Dance Dance Dance.

Key terms:

Cash consideration of £362 million (€500 million) was paid at acquisition and the maximum total consideration for 100% of the business, including the initial payment, is £796 million (€1,100 million, undiscounted).

The deal structure allows for a further £434 million (€600 million) payable after two, five and eight years, on the achievement of stretching performance targets for the business in the years following acquisition. For these amounts to be payable in the future, the deal requires the seller to remain with the business during the earnout period. Further, if the seller leaves within the first two years following acquisition, a significant portion of the initial consideration would be refunded to ITV.

Structuring the deal in this way helped manage risks in terms of initial capital outlay and created a joint incentive between ITV and the seller to grow the business. However, IFRS requires any payment that links a seller to remaining in the business as an employment cost. 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.

Acquisition accounting:

Intangibles, being the value placed on formats, brands, customer contracts, non-compete arrangements and libraries, of £276 million (€382 million) were identified and goodwill was valued at £41 million (€57 million). Goodwill represents the value placed on the opportunity to diversify and grow the content and formats produced by the Group and 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.

Twofour Group

On 24 June 2015 the Group acquired Boom Supervisory Limited, the holding company of Twofour Group. Twofour Group owns 51% of Mainstreet Pictures. Twofour Group is an independent production business with a range of scripted and unscripted programmes including The Jump, Educating Series (Educating Essex, Educating Yorkshire), Hotel Inspector, Taking New York and Ibiza Weekender.

Key terms:

The Group purchased the Twofour Group for a cash consideration of £55 million, subsequently the sellers subscribed to 25% of the share capital of the acquiring company. A put and call option has been granted over this 25% in Twofour Group; these options both being exercisable over the next three to five years. The transaction has been accounted for on an anticipated acquisition basis and a non-controlling interest has not been recognised. The maximum total consideration for 100% of the business, including the initial payment, is £280 million (undiscounted). These payments are dependent on future performance of the business and linked to ongoing employment. 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.

Acquisition accounting:

Intangibles, being the value placed on formats, brands, customer contracts, non-compete arrangements and libraries, of £18 million were identified and goodwill was valued at £50 million. Goodwill represents the value placed on the opportunity to diversify and grow the content and formats and is not expected to be deductible for tax purposes.

Other 2015 acquisitions

The Group made an initial payment of £15 million for two smaller acquisitions, Cats on the Roof Media Ltd and Mammoth Screen Ltd. The maximum additional consideration that the Group could pay is £66 million (undiscounted). Goodwill totalling £11 million in respect of these acquisitions was recognised and is not expected to be deductible for tax purposes.

Effect of acquisitions

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

| £m | 2016 | 2015 | | | |
|--|--|--|---------------|-------|--------------|
| | UTV | Talpa Media | Twofour Group | Other | 2015 Total * |
| Consideration transferred | | | | | |
| Initial consideration (net of cash acquired) (Note A) | 97 | 347 | 49 | 10 | 406 |
| Less: consideration classified as prepaid employment linked consideration (Note B) | – | (109) | – | – | (109) |
| Total consideration | 97 | 238 | 49 | 10 | 297 |
| Fair value of net assets acquired | | | | | |
| Property, plant and equipment | 4 | 2 | 4 | – | 6 |
| Intangible assets | 58 | 276 | 18 | 3 | 297 |
| Deferred tax liabilities | (11) | (66) | (5) | – | (71) |
| Trade and other receivables | 5 | 78 | 15 | 8 | 101 |
| Trade and other payables | (7) | (93) | (33) | (12) | (138) |
| Net assets held for sale | 4 | – | – | – | – |
| Fair value of net assets | 53 | 197 | (1) | (1) | 195 |
| Goodwill | 44 | 41 | 50 | 11 | 102 |
| Other information | | | | | |
| Present value of the liability on options | – | – | – | – | – |
| Present value at acquisition of the earnout payment (Note C) | – | 186 | 10 | 27 | 223 |
| Contributions to the Group's performance | From date of acquisition to June 2016 | From date of acquisition to December 2015 | | | |
| Revenue (Note F) | 11 | 121 | 42 | 22 | 185 |
| EBITA before exceptional (Notes D, F) | 3 | 25 | 2 | 2 | 29 |
| Pro-forma contributions to the Group's performance | January to June 2016 | January to December 2015 | | | |
| Revenue (Note G) | 17 | 193 | 80 | 33 | 306 |
| EBITA before exceptional (Notes E, G) | 4 | 45 | 3 | 1 | 49 |

* Reflects acquisitions and contributions across 12 months

Note A: Consideration for all acquisitions is net of cash acquired and estimated debt and working capital settlements. Cash acquired during the year is £4 million (2015: Talpa £22 million, Twofour £6 million and Other £5 million).

Note B: Total consideration is net of employment linked consideration of £nil (2015: £109 million). IFRS 3 (R) requires the employment linked consideration to be treated as remuneration. This amount is repayable to the Group should the seller terminate the service agreement within the first two years following completion. The remaining balance is shown within trade and other receivables and is expensed over two years.

Note C: This represents the present value of earnouts as at acquisition.

Note D: Adjusting for exceptional costs relating to employment linked consideration reduces the contribution to the Group's profit after tax for the period from the date of acquisition to a loss of £1 million (2015: £35 million for Talpa, a profit of £1 million for Twofour and £nil on other acquisitions).

Note E: Adjusting for exceptional costs relating to employment linked consideration reduces the contribution to the Group's profit after tax for the period on a proforma basis to £2 million (2015 full year: £38 million for Talpa, a profit of £1 million for Twofour and a loss of £1 million on other acquisitions).

Note F: Results from both the continuing and discontinuing operations of UTV are Revenues of £7 million, EBITA £nil and Loss after tax of £1 million. There were no discontinued operations in the prior year.

Note G: Proforma results from January to June, for both the continuing and discontinuing operations of UTV are Revenues of £11 million, EBITA loss of £1 million and Loss after tax of £2 million. There were no discontinued operations in the prior year.

Section 3: Operating Assets and Liabilities

3.2 Disposal group

Keeping it simple



Management agreed to sell UTV Ireland Limited to Virgin Media on 11 July 2016 for €10 million. The sale is subject to Irish regulatory approval, which is likely to take several months.

IFRS accounting standards require the business to be classified as a disposal group held for sale as it is in the process of being disposed. See section 3.1 for further details.

As at 30 June 2016, the disposal group comprised assets of £8 million less liabilities of £2 million detailed as follows:

| For the six month period to 30 June | 2016 £m |
|-------------------------------------|------------|
| Property, plant and equipment | 4 |
| Trade and other receivables | 4 |
| Trade and other payables | (2) |
| Net assets held for sale | 6 |

3.3 Provisions

Keeping it simple



A provision is recognised by the Group where an obligation exists relating to events in the past and it is probable that cash will be paid to settle it.

A provision is made where the Group is not certain how much cash will be required to settle a liability, so an estimate is required. The main estimates relate to the cost of holding properties that are no longer in use by the Group, the likelihood of settling legal claims and contracts the Group has entered into that are now unprofitable.

Provisions

The movements in provisions during the period are as follows:

| | Contract provisions £m | Property provisions £m | Legal & other provisions £m | Total £m |
|------------------------|------------------------------|------------------------------|-----------------------------------|-------------|
| Contract provision | | | | |
| At 1 January 2016 | 6 | 2 | 25 | 33 |
| Release | – | (1) | – | (1) |
| Additions | – | 1 | – | 1 |
| Utilised | (2) | – | – | (2) |
| At 30 June 2016 | 4 | 2 | 25 | 31 |

Provisions of £27 million are classified as current liabilities (December 2015: £28 million).

Contract provisions comprise onerous commitments on transmission infrastructure that are expected to be utilised over the remaining contract period and onerous technology services contract which will not be utilised.

Legal and other provisions of £25 million (2015: £25 million) primarily relate to potential liabilities that may arise as a result of Boxclever having been placed into administrative receivership, most of which relate to pension arrangements. In 2011 the Determinations Panel of the Pensions Regulator determined that Financial Support Directions (FSDs) should be issued against certain Group companies, which would require the Group to put in place financial support for the Boxclever Scheme. The Group is challenging this in the Upper Tribunal. The reference process is ongoing and aside from procedural issues there were no substantive case developments in the period. The Directors have obtained leading counsel's opinion and extensive legal advice in connection with the proceedings and continue to believe that the provision held is appropriate.

3.4 Pensions

Keeping it simple



The Group has 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.

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 manages the necessary investment, mortality and inflation risks in order to meet these obligations. In the event of poor returns the Group needs to address this through a combination of increased levels of contribution or by making adjustments to the 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 Group makes contributions to the scheme, a separate trustee-administered fund that is not consolidated in these financial statements, but is reflected on the defined benefit pension deficit line on the consolidated statement of financial position. 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.

The IAS 19 deficit at 30 June 2016 was £64 million compared with a deficit of £176 million at 31 December 2015, the fall was primarily as a result of large gains in asset values outperforming the increase in the gross liability and deficit funding payments of £47 million made in the period.

The gross liability increased primarily due to a decline in the discount rate from 3.80% at 31 December 2015 to 2.95% at 30 June 2016 caused by declining AA corporate bond yields. This was partially offset by a 0.25% improvement in the inflation assumption for past service. Please refer to the Financial and Performance Review for commentary on asset value performance.

| | June 2016 £m | December 2015 £m |
|--|--------------------|------------------------|
| Total defined benefit scheme obligations | (3,956) | (3,446) |
| Total defined benefit scheme assets | 3,892 | 3,270 |
| Net pension deficit | (64) | (176) |

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 outstanding debt net of the current cash resources.

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 IAS 19 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 table below analyses movements in the components of net debt during the period:

| | 1 January 2016 £m | Net cash flow £m | Currency and non-cash movements £m | 30 June 2016 £m |
|--|----------------------|---------------------|---|--------------------|
| Cash | 238 | (116) | 5 | 127 |
| Cash equivalents | 56 | (5) | 3 | 54 |
| Total cash and cash equivalents | 294 | (121) | 8 | 181 |
| Loans and facilities due within one year | (5) | (60) | (161) | (226) |
| Finance leases due within one year | (6) | 4 | (3) | (5) |
| Loans and facilities due after one year | (598) | (250) | 103 | (745) |
| Finance leases due after one year | (4) | – | 3 | (1) |
| Total debt | (613) | (306) | (58) | (977) |
| Net debt | (319) | (427) | (50) | (796) |

Cash and cash equivalents

Included within cash equivalents is £6 million (30 June 2015: £11 million), the use of which is restricted to meeting finance lease commitments under programme sale and leasebacks and gilts of £41 million (30 June 2015: £38 million) in respect of which a charging deed was executed on the unfunded pension commitments of four former Granada executives. Legal action is ongoing to try and remove the charge.

Loans and facilities due within one year

The Revolving Credit Facility ('RCF') was used to meet short-term funding requirements during the period. At 30 June 2016 the Group had drawings of £65 million under the Revolving Credit Facility ('RCF').

The maximum draw down of the RCF during the period was £500 million in May to fund the special dividend. The maximum draw down on the RCF during the first half of 2015 was €500 million (£362 million) in April to fund the acquisition of Talpa Media.

An unsecured £161 million Eurobond matures in January 2017 and has a coupon of 6.125%.

Loans and facilities due after one year

In June the Group secured two new bilateral loans; the first for £150 million, matures in March 2017 and the second for £100 million, in June 2017. Both loans may be extended for a further 12 months at ITV's option. The loans were fully drawn down at 30 June 2016.

A seven year €600 million Eurobond at a fixed coupon of 2.125% will mature in September 2022.

In June 2016, the Group increased the size of its existing £175m bilateral loan facility by £125m. The facility is free of financial covenants and is available for use until 30 June 2021. At the Group's option draw downs under the facility can be refinanced under the same economic terms in bond format. Both formats will be deliverable by the lender under market standard credit hedging contracts. The facility was undrawn at 30 June 2016.

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. Here, fair value is the amount the Group would pay 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

| | | Book value | | Fair value | |
|--|---------------|--------------------|-------------------|--------------------|-------------------|
| | Maturity | 30 June 2016 £m | 31 Dec 2015 £m | 30 June 2016 £m | 31 Dec 2015 £m |
| Loans due within one year | | | | | |
| Other short-terms loans | Various | – | 5 | – | 5 |
| £525 million Revolving credit facility | Various | 65 | – | 65 | – |
| £161 million Eurobond | Jan 2017 | 161 | 161 | 164 | 168 |
| Loans due in more than one year | | | | | |
| £150 million bilateral loan | Mar 2017/2018 | 150 | – | 150 | – |
| £100 million bilateral loan | Jun 2017/2018 | 100 | – | 100 | – |
| €600 million Eurobond | Sept 2022 | 495 | 437 | 514 | 445 |
| | | 971 | 603 | 993 | 618 |

Section 4: Capital Structure and Financing Costs

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 an underlying variable.

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 three types of derivative financial instruments when managing its currency and interest rate risk:

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

The Group's policy on the various methods used to calculate their respective fair values is detailed in the 31 December 2015 financial statements 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 both to manage foreign currency cash flow timing differences and to hedge foreign currency denominated monetary items.

The Group's net investments in overseas subsidiaries may be hedged where the currency exposure is considered to be material. In 2015 the Group 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 2016 the Group's fixed rate debt represented 68% (December 2015: 99%) of total debt. Consequently a 1% movement in interest rates would have a £1 million impact on the post-tax profit for the year.

Interest rate swaps

On issuing the 2017 Eurobond, the Group entered into and then subsequently overlaid a portfolio of interest rate swaps with the result that it is now 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.

Cash flow hedges

The Group applies hedge accounting for certain foreign currency firm commitments and highly probable cash flows where the underlying cash flows are payable within the next two years. In order to fix the sterling cash outflow associated with the commitments which are mainly denominated in AUD and euros – the Group has taken out forward foreign exchange contracts for the same foreign currency amounts and maturity dates as the expected foreign currency outflow. The amount recognised in other comprehensive income during the period all relates to the effective portion of the revaluation loss associated with these contracts. There was less than £1 million (2015: £1 million) ineffectiveness taken to the income statement and £1 million cumulative loss (2015: £6 million) recycled to the income statement in the year.

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 a net investment hedge was £158 million (2015: £141 million). A foreign exchange loss of £18 million (2015: £2 million) relating to the net investment hedges has been netted off within exchange differences on translation of foreign operations as presented on the consolidated statement of comprehensive income in the period.

Section 4: Capital Structure and Financing Costs

The following table shows the fair value of derivative financial instruments analysed by type of contract. Interest rate swap fair values exclude accrued interest.

| June 2016 | Assets £m | Liabilities £m |
|---|--------------|-------------------|
| Current | | |
| Cash flow hedges | 3 | – |
| Forward foreign exchange contracts and swaps – fair value through profit and loss | 5 | (3) |
| Interest rate swaps – fair value through profit and loss | 6 | (3) |
| Non-current | | |
| Cash flow hedges | 1 | – |
| | | |
| December 2015 | Assets £m | Liabilities £m |
| Current | | |
| Cash flow hedges | – | (4) |
| Forward foreign exchange contracts and swaps – fair value through profit and loss | 1 | (1) |
| Non-current | | |
| Interest rate swaps – fair value through profit or loss | 8 | (6) |
| | 9 | (11) |

4.4 Fair value hierarchy

Keeping it simple



The financial instruments included on the ITV statement of financial position are measured at either fair value or amortised cost. The measurement of this fair value can in some cases be subjective, and can depend on the inputs used in the calculations. ITV generally uses external valuations using market inputs or market values (e.g. external share prices). 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 on the Group Statement of Financial Position at 'fair value'.

| | Fair value 30 June 2016 £m | Level 1 30 June 2016 £m | Level 2 30 June 2016 £m | Level 3 30 June 2016 £m |
|---|----------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Assets measured at fair value | | | | |
| Available for sale financial instruments | | | | |
| Available for sale gilts (see note 4.1) | 41 | 41 | – | – |
| Available for sale investments | 12 | – | – | 12 |
| Financial assets at fair value through profit or loss | | | | |
| Foreign exchange forward contracts and swaps | 5 | – | 5 | – |
| Interest rate swaps | 6 | – | 6 | – |
| Financial assets at fair value through reserves | | | | |
| Cash flow hedges | 4 | – | 4 | – |
| Liabilities measured at fair value | | | | |
| Financial liabilities at fair value through profit and loss | | | | |
| Contingent consideration | (1) | – | – | (1) |
| Foreign exchange forward contracts and swaps | (3) | – | (3) | – |
| Interest rate swaps | (3) | – | (3) | – |

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 2015 financial statements, 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 at the half year.

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 year and any associated period end trading balances.

Related party transactions

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

| | 2016 £m | 2015 £m |
|--|------------|------------|
| For the six month period to 30 June | | |
| Sales to joint ventures | 4 | 4 |
| Sales to associated undertakings | 2 | 4 |
| Purchases from joint ventures | 13 | 13 |
| Purchases from associated undertakings | 33 | 35 |

There have been no significant changes to the nature of related parties disclosed in the full consolidated financial statements for the Group as at and for the year ended 31 December 2015.

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

The purchases from associated undertakings primarily relate to the purchase of news services from ITN.

All transactions arose in the normal course of business on an arm's length basis. None of the balances are secured.

There have been no other significant related party transactions in the six month period ended 30 June 2016.

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

| | 2016 £m | 2015 £m |
|---|------------|------------|
| For the six month period to 30 June | | |
| Amounts owed by joint ventures | 4 | 3 |
| Amounts owed by associated undertakings | 58 | 41 |
| Amounts owed to joint ventures | 2 | – |
| Amounts owed to associated undertakings | – | 5 |
| Amounts owed by pension scheme | 1 | 1 |

Balances owed by associated undertakings largely relate to production funding advanced to Tomorrow ITV Studios.

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 for the period is as follows:

| | 2016 £m | 2015 £m |
|-------------------------------------|------------|------------|
| For the six month period to 30 June | | |
| Short-term employee benefits | 4 | 4 |
| Share-based compensation | 3 | 3 |
| | 7 | 7 |

5.2 Contingent liabilities

Keeping it simple



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

There has been no material change in the Group's contingent liabilities since 31 December 2015 and the disclosures in those annual financial statements remain appropriate at 30 June 2016.



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 consolidated 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 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 consolidated 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 and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year 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.

Sir Peter Bazalgette was appointed non-executive Chairman on 12 May 2016 following the resignation of Archie Norman. Anna Manz was appointed as non-executive Director from 1 February 2016. Further details were included in the ITV plc 2015 Annual Report. A list of current Directors is maintained on the ITV plc website: www.itvplc.com

For and on behalf of the Board:

Ian Griffiths

Group Finance Director

27 July 2016

Independent Review Report to ITV plc

Introduction

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 2016 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. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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 Disclosure and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("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.

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 note 1, annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 Interim Financial Reporting 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.

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

Conclusion

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 2016 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Paul Sawdon

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

27 July 2016