



ITV Interim Results 2018

Wednesday, 25th July 2018

Key Messages and Half Year Highlights

Dame Carolyn McCall
Chief Executive, ITV plc

Agenda

Hello everyone, good morning. Thank you for joining us for ITV's 2018 Interim Results. In terms of the format of this morning, I just want to say a few words upfront before Ian presents our operational and financial performance for the first half of the year. I am then going to take you through ITV's refreshed strategy, obviously a key focus of today. We will then have time for questions. Ian and I are joined here today by virtually all of our senior management team: Kelly Williams from Commercial; Kevin Lygo, of course; David Osborn, Julian Bellamy, Rufus Radcliffe; virtually all. I hope I have not missed anyone out.

Key Messages

Refreshed strategy

As you know, we have been undertaking a strategic refresh over the last few months to help us highlight the opportunities for ITV and also the challenges we need to address. This is very much a refresh, not a reboot as ITV is a strong business no longer solely reliant on UK advertising.

Solid foundations to execute strategy

The broadcast business remains robust, despite the current market uncertainty, and ITV Studios is a strong and scaled international production business. The linkage between the two, the integrated producer broadcaster or IPB – by which I mean our Broadcast business having access to the best talent and owning its key content – and Studios having access to our Broadcast shop window, is a significant competitive advantage.

Clear vision

However, the market is clearly changing as you all know. To reflect this, we have developed a clear vision and initiatives to drive growth to ensure ITV remains a structurally sound business.

Strong balance sheet and healthy liquidity

We have a solid balance sheet, which underpins our foundations. We believe that with our refreshed strategy, we will continue to generate significant cash with a strengthened, high-margin IPB, a growing studios business with a stable market-leading margin; and we will create a new scaled and profitable direct-to-consumer business, which will give us further growth.

Continued strong operating performance

As these highlights show, we have continued to deliver a strong operating performance in the first half, and we are executing the refreshed strategy from a position of strength.

I am going to now hand you over to Ian, who will go through in much more detail.

Half Year Financial and Operating Review

Ian Griffiths

Chief Financial Officer and Group Finance Director, ITV plc

Introductory Remarks

Half Year Review

Thanks, Carolyn, good morning everyone. The most important part of this session is the strategy update, so I will quickly run through the review of the last six months, which should be quite straightforward as we are very much on track to deliver what we committed to at the start of the year, which was a strong viewing performance, double-digit revenue growth in VOD, a **return to organic growth in Studios** and continued strong cash generation.

Revised reporting

You have already seen the financial headlines, so let us look at Broadcast in more detail. The first thing to say is we are now reporting performance differently, aligned to our refreshed strategy. Our reporting will now focus on total advertising, which includes NAR, VOD and sponsorship.

We have also split our Direct to Consumer revenue where we get paid by our viewers, and Carolyn will cover the rationale for this later. On the cost side, we are providing a bit more detail, and this is mainly being done to highlight the variable areas of our cost base, especially as we build our new revenue streams. I know everyone hates having to change their models, but in the appendix, we have restated the last three years along the new reporting lines.

Broadcast and Online Revenue

Looking at performance and focusing on the revenues first, we delivered 2% growth in total advertising as expected. Within this, spot revenues were broadly flat with growth in VOD, which is at 48%. This is not just Love Island and the football; our VOD revenues have been growing over 40% all year, and strong growth is continuing into the second half.

Our Direct to Consumer revenues are relatively small, but this is a real growth opportunity. In here today, we have voting, competitions, live events, Hub+ subscriptions and revenue from our pay-per-view boxing trial, all of which are up in the first half.

Other revenues now include payment from platforms, such as Sky and Virgin, and third-party commissions for services we provide to other broadcasters.

In total, Broadcast and Online revenues are up 3% in the first half to £1,045 million.

Broadcast and Online Costs

On the cost side, our spend on screen was weighted to the first half as planned, with the World Cup cost being mainly in June. This has meant a bit less drama and entertainment, but that has not impacted our viewing which has been strong all year. Our guidance for the full year schedule spend remains unchanged at £1,055 million to £1,060 million.

Marketing, competition prizes and online rights were included within the variable costs, as are the increasing bandwidth costs of our online business. Add to this the investments that we have made in pay-per-view and in rights for the Hub, you can see why these costs have increased.

Our infrastructure and overhead costs have also increased, partly driven by currency on our euro-denominated transmission contracts and partly increases in property costs for our new London buildings, as we previously flagged. There is also some phasing in here, which will unwind in H2. For the full year, other than for the currency and property, these costs will be back in line with prior years.

In the round, Broadcast has delivered £257 million of profit at a 25% margin. Profits are down 12% in the first half due to this phasing of schedule and overhead costs.

On-screen and Online Viewing

Operational highlight

However, the operational highlight of our first half has been our viewing, both on-screen and online.

Growing both volume and share of viewing

Our objective is to deliver the audiences demanded by advertisers, both in terms of scale and targeted demographics. The first chart shows that all of our channels have had a strong six months. We continue to be the home of scaled mass audiences, we have delivered 99% of all shows with a five-million audience, driven by sport, drama, entertainment and the soaps. Once again, with over 400 shows, we have delivered more five-million audiences than the previous year.

Delivering SOV growth in target demographics

Just as importantly, we are delivering a targeted demographic, whether that is SOV on the main channel, which is up 11%; 16-34s on ITV2, which is up 19%; or a male audience on ITV4 which is up 5%. All of these channels have increased share and SOCI for their key demographics.

At a family level, our overall share of viewing at 23.5% is now back to levels we last saw in 2005, with the main channel share of 17.2% higher than any time since 2009. The main channels also delivered a higher viewing share than BBC across peak. This will be the third year in a row we have grown share, and the 9% increase is the biggest gain we have ever delivered. We are not just growing share; we are also growing hours watched, which across the ITV family are at 5%, with 7% growth on the main channel.

This strong performance comes right across the schedule: our daytime shows from Good Morning Britain through to The Chase; our new and returning dramas such as Trauma, Innocent, Vera and Endeavour; the big entertainment shows; and of course, the phenomenal viewing on the football, where we averaged 7.3 million across all our games: higher than the BBC and any recent World Cup.

Online viewing up

It is this same great content that has driven the viewing on the Hub, where our consumption is up 33%. Most of this viewing is catch-up but increasingly, especially for younger viewers, it is simulcast, and our simulcast requests are up 40%. We are averaging nearly 300,000 simulcast views for every episode of Love Island, and the England-Croatia game had just under 1 million viewers, which is nearly three times higher than our previous peak.

Total Advertising Revenues

Across any device or screen, our viewing performance for the last six months has been strong. However, the advertising environment has remained pretty lacklustre.

The shape of the year has followed every other year where there is a big sporting event. June revenues up 22% has helped us deliver 2% growth in total advertising, compared to an overall market which we think is pretty flat. Against this context, we have gained share in spots and are growing VOD faster than any of our competitors.

By category, we are seeing a continuation of the trends we have discussed before. The high street, food and FMCG companies remain under pressure and are spending less. The tech-driven businesses and digital brands are spending more, and we estimate that online brand advertising was up 15% in the six months.

Our outlook across Q3 is for these trends to continue, and that may remain the case until confidence returns to UK business. However, if we keep delivering great audiences, we will keep gaining share and the business will remain in robust health.

ITV Studios

Growth from all production territories

Moving on to Studios, we said that **this year studios would return to good organic revenue growth and we are well on track to deliver that.** We have 16% growth in total revenues, 11% organic with growth across all of our production areas in the UK, US and rest of the world. There has been some **helpful phasing in the first half, which is why we should not carry this level of growth forward, but we are confident we will deliver good revenue growth for the full year.**

We delivered 6% growth in internal supply – i.e., to our own broadcast business – held by the return of Dancing On Ice and an extra episode of Coronation Street. Off ITV in the UK, we grew at 22%, helped by drama sales such as Bodyguard and Age Before Beauty to the BBC. The US grew 2%, 11% at constant currency, driven by the production of Fox's new entertainment show, The Four; the launch of a US version of This Time Next Year; plus the return of Alone and Queer Eye, which we make for Netflix. The full-year outturn for the US will depend on the timings of Hell's Kitchen deliveries in the second half.

The rest of the world continues to grow as we get better at monetising our formats. We now produce six versions of The Voice, having added France and Australia, and seven Love Islands. We sold 34 other formats to the overseas markets, nine of which we will be producing in our international businesses.

GE was down 2% year-on-year. However, it is flat if you exclude currency but there is some healthy good drama to come, such as Snowpiercer and Vanity Fair, so **we do expect growth over the full year.**

All of this adds up to £803 million of revenue, which at a 15% margin, comes through to £180 million of profit, up 7%.

On track to deliver good organic revenue growth

Looking at revenues in more detail, the first chart tracks the movement of revenue from last year to this. This 16% growth in revenue comes from over 4,000 hours of content, up 10%

across drama, entertainment and factual. Within these hours, the business has to manage churn and to do this you need scale and a healthy pipeline of new shows. In the last six months, we had to replace non-returning or phasing differences of £138 million or around 700 hours of content. The growth we delivered is then on top of that. The prior year acquisitions have helped, but it is healthy to see the organic growth split equally between returning and new shows.

This business may not fit neatly into a quarterly reporting timetable, but we have good visibility on our revenues. We do not invest capital in any production until we have a firm commission or a confirmed buyer, regardless of genre or whether we are selling to a broadcaster or an OTT platform.

We have nearly 90% of our 2018 target revenue secured, and that represents just under £100 million more revenue. Within this, we have 263 new or re-commissioned shows – 36 more than we had this time last year – all of which gives us comfort that the pipeline is in good shape and will deliver the good revenue growth we committed to the 2018.

When we do the Capital Markets Day, we will give more detail on the Studios business. As part of that, we will go through our revenues, explain the geographic mix – which is important now that 50% of the revenue is outside the UK – and we will talk a bit more about the returns we expect from different genres.

Scaled in unscripted, growing in scripted

This chart is a bit of a teaser. As you can see, the business is predominantly unscripted in terms of scale. However, the scripted area, especially driven by demand from OTT platforms, is likely to be the area of higher growth over the medium term. We will go into more detail on this in September.

Adjusted and Statutory Results

Adding Broadcast and Studios EBITA together gets us to £375 million, which is down 7%. Our financing costs are broadly flat and the tax rate has remained at 19%. This profit performance flows all the way down the results to adjusted EPS, which is down 8% at 7.1p.

On a statutory basis, our EPS is up 4% year-on-year. This is because our exceptional costs and amortisation charges are lower – primarily less P&L impact from earnouts – so our expectations of future cash payments have not changed.

Dividend commitment

As Carolyn will outline, even though headline EPS is down and we plan to invest, the Board is confident in the strength of the underlying business and as a result is committing to a full-year dividend of at least 8p for both this year and next.

Robust Balance Sheet Underpinned by Strong Cash Flows

To follow the theme of strong underlying operating performance, our cash generation continues to be a real strength. Profit-to-cash conversion after CapEx was 94% with operating cash generated up year on year. Free cash flow after tax and interest was £184 million, which is £33 million more cash generated in the period.

Our net debt is just over £1 billion at \$1,034 million with net debt to EBITDA of 1.2x. This still provides good flexibility again for investment-grade credit rating.

The balance sheet remains healthy with good access to liquidity through our facilities, of which £770 million were undrawn.

Finally, our pension schemes are reporting an accounting surplus of £86 million, but we are still in deficit on a funding basis. Actual cash contributions this year will be consistent with prior years at £80 million, reducing to around £75 million next year. Taking pensions and leases into account, our adjusted net debt to EBITDA is 1.7x compared to 2.4x this time last year.

Overall, the balance sheet is in good shape with a fair degree of flexibility, underpinned by continued strong cash generation.

Outlook

Planning assumptions remain unchanged

Finally, the outlook and planning assumptions, which for the rest of the year are in the appendix. The reason I am not running through them in detail is that there is no change from the guidance we provided at the start of the year. Even our £15 million to £20 million of investment is not changing, as we believe we can get real momentum behind our new plans by reprioritising our investment around data, technology and our advertising proposition.

As far as trading is concerned, we are well **set to deliver good organic revenue growth from Studios**, we see continued strong growth in VOD which will mean Q3 total advertising is likely to be broadly flat. That means for the nine months year-to-date, total advertising will be up around 1%. Our viewing performance on-screen and online has continued to be very strong which, as this may be my last set of results at ITV, is not a bad note to end on.

Thank you, back to Carolyn.

Strategic Update

Dame Carolyn McCall

Chief Executive, ITV plc

Agenda

Of course, it may not be his last set of results. Of course, we are very sorry to see Ian go, but of course he is going to be with us as long as we need him. Thank you, Ian.

This slide outlines what I am going to talk you through today. I am going to just spend a few minutes talking about what I found when I joined ITV and the market context. I will then take you through our refreshed strategy in response to that, and how we will measure our success.

Resilience of TV and ITV

ITV everywhere

Before I joined ITV, I heard an awful lot about the state of TV, that no one watches live TV anymore, young people are not watching TV, advertisers are moving all their spend to the tech giants, TV can not compete with the huge budgets of Netflix and Amazon.

There is, of course, no doubt that the media market is changing and how people choose to watch is changing; viewing is evolving and the pace of change is rapid. What I have found

very striking is just how resilient ITV is. Viewers in the UK watched 203 minutes of TV per day. While it is down on the previous year, it is a significant number.

TV is the single biggest video platform for 16-34s

This is despite all the new and disruptive launches over a five- to ten-year period. Live TV remains the preferred way of watching content, even for younger audiences. In fact, over 70% of all TV is still watched live. While 16-34s are watching less TV, our performance clearly demonstrates that if you deliver great content programmes – and it is not just Love Island, but of course Love Island, I'm a Celebrity, Survival of the Fittest, Saturday Night Takeaway – young audiences watch it, and they watch it in droves. There are millions across linear and online. Around 2 million 16-34's are currently watching Love Island six nights a week. That is one in two 16-34s, and TV is as big a platform for 16-34's as YouTube is. I bet most of you in this room did not know that. Those are amazing statistics; no one talks about them, and certainly not the media.

We have to more than ever keep delivering the great content that really engages them, and this is a key element of our refreshed strategy. Advertising on the tech giants continues to grow, but it is slowing and brand owners are challenging what some online advertising actually delivers. We are now starting to see many more questions being asked about unacceptable content, measurability and there has been a breakdown in trust.

Having met with over 50 advertisers and media buyers since I started six months ago, I believe TV is and will continue to be a key part of their marketing campaigns. Later in the presentation, I will demonstrate why.

We should also not forget that ITV is taking more than its share from the growth in online advertising with the ITV Hub delivering a high-quality, trusted and very transparent environment.

Integrated broadcaster model a strategic advantage

Netflix and Amazon are global players, and their budgets reflect this. ITV broadcasts only in the UK, and our £1.1 billion programme budget does an amazing job at delivering mass quality audiences with a reach well in excess of what anyone else can deliver. I know Kevin would always like more money, but we do not believe that we need to increase this to support the Broadcast business over the next three years. We are competing with these OTT players, but our integrated producer broadcaster model is, as I said, a strategic advantage backed by our strong creative pipeline of content, which we own and we control.

In the UK, the demand remains overwhelmingly for British content as that is what continues to drive very significant audiences, which are so valued by advertisers. In fact, 92 of the top 100 programme titles broadcast here all originated from the UK.

Growth in global content market

Globally, the demand for great content has never been higher both from established broadcasters and increasingly from OTT platforms. We expect this to continue with the global content market growing at around 5% per year over the medium term.

ITV's Vision – More than TV

There is no doubt in my mind that ITV has the resources and foundations to succeed and win in this changing environment. We have developed our new vision, 'More Than TV,' in

response to these changes and to build upon ITV's unique and winning combination of creativity and commercial strength. This video I hope brings that to life.

[VIDEO]

Outlook

So, ITV will be more than TV, it will be a structurally sound, integrated producer broadcaster where our ambition is to maintain total viewing and increase total advertising revenue. It will be a growing and profitable content business which drives returns, and it will create value by developing and nurturing strong direct consumer relationships, where people want to spend money on a range of content and experiences with a really trusted brand.

We will continue to be a cash generative and growing business delivering value for our shareholders. This is all about writing the next exciting chapter in ITV's story. We will compete where we can win: domestically where we intend to lead in broadcasting and in on-demand; and globally, a world-class Studios business.

ITV Strategy

In the future, we will focus on three key areas:

- Strengthening the Integrated Producer Broadcaster;
- Growing UK and global production;
- Creating a scale Direct to Consumer business.

What does this mean? How will this be different?

- We will deliver content to people however they want to watch it, making the Hub central to ITV and increasing its users and dwell time;
- We will invest in marketing to drive viewing, particularly among 'light viewers,' and extend reach for advertisers;
- We will continue to grow our Studios business, building on the success of the past or with more focus on driving value from the IPB and improving monetisation of our IP;
- We will be investing in data and tech across the business and leveraging this to drive new revenue streams from addressable advertising on Hub and directly from the consumer;
- Our commercial strategy will be more client-facing, and we will augment our potential for creative brand partnerships.

It is totally deliberate in this chart here that ITV is at the centre. These are not independent silos; they work together reinforcing each other, creating synergies and creating value. What sits at the core is best-in-class content, driving viewers and profit in every part of ITV.

Strategic Priority One – Strengthen Integrated Producer Broadcaster

Our first strategic priority: we will strengthen our core UK Integrated Producer Broadcaster business to ensure we can address the opportunities and challenges of structural change and provide strong, branded and data-rich relationships with our viewers and our advertisers. We are going to extend the benefits of the IPB and expand our leadership as the best partner for brands.

Our plans for the IPB have five key components:

- Investing in the hub, we want to make it a destination for viewers, not just a catch-up service which it is today;
- We are investing in the ITV brand to broaden the appeal of ITV to attract those light viewers who watch limited TV content;
- We are going to invest in data, analytics, insight and technology;
- We will ensure we understand and serve our viewers better with further engagement, viewing and monetisation. This will also help us serve our advertisers better, of course, driving effectiveness and expanding our portfolio of data-driven marketing solutions;
- The IPB will work more closely with Studios, maximizing the value of our investment in content.

Each of these initiatives is about growing total ad revenue, maintaining total viewing regardless of the changes in the market and driving the economics of our business.

ITV Hub

The Hub is going to be managed as a core part of our offering. Historically within ITV the Hub has been run as a standalone separate business, and as a result we were not getting the full value from it. It was not integrated into programming, for instance, or marketing. It was out of those decisions, and going forward it will be integrated into that. Our Director of Programming for digital channels, for instance, will lead on programming for the Hub as well. He will look at augmenting the programmes already on our channels with premium short-form video content, for example.

We are focused on improving the user experience with more personalisation, evolving the product and content offering and making it consistent, no matter where you watch it. This will deliver more engagement and viewing, particularly with younger demographics.

Over the next three years, our goal is to increase registered users from 25 million to 30 million. We are also going to be increasing our monthly active users. Registration is not enough; we need to increase reach, engagement and frequency.

The fantastic success of the World Cup and Love Island is what we will be building on here. This video shows how the Hub will work in future; it gives you an idea of the look and feel.

[VIDEO]

Reposition the ITV brand

The second part of our strategy to strengthen the Broadcast business is to reposition the brand. Research shows that we are not really credited for the amazing creativity and energy we have; we are seen as cosy and traditional by many people. We need to ensure we appeal across all platforms and demographics. There are many viewers who only watch a limited amount of ITV content a week. Advertisers want us to deliver mass audiences and grow reach, and therefore it is important we increase our engagement with these light viewers.

Our analysis indicates that there is an opportunity of targeting 15 million people who we believe we can win back more often. Through increased marketing investment off-screen, we

can target them consistently, drive brand reappraisal, increase viewing of our content across platforms and build deeper and better relationships. This will improve our reach of course, and that is a key commercial benefit.

Commercial ambition

ITV's overall proposition to advertisers remains strong. It is about to get stronger as we are in a position to offer advertisers the best of both worlds. ITV gives immediate scale, region, fame for advertisers that just can not be achieved anywhere else. It is a brilliant brand-building platform. It provides a safe trusted and transparent environment in which to advertise, and generates the highest return on investment of any media.

On the Hub, our focus will be on delivering a sophisticated, addressable advertising proposition. We are prioritising this over addressable in linear, because we believe this is where we will get better returns. Going forward, we will focus on advertising total, so ITV total advertising which includes our spot advertising revenues, VOD and sponsorship.

In addition, we will evolve our partnerships with agencies. We will create a client team to strengthen our direct relationship with advertisers. That is very important; they want that. They need us to understand their businesses and help them in a much tougher economy.

We will expand our creative team in commercial to fully leverage our creative power from right across ITV to deliver an innovative portfolio of marketing solutions across all our platforms.

360 monetisation – Love Island

Of course, the effective use of data is a key part of our commercial strategy. I wanted to give you a great example of the power of our creativity for advertisers and how we will do more of this going forward. We all know by now that Love Island was created by us, by our Studios division.

We now drive significant value through advertising and sponsorship, but also through licensing and merchandising partnerships in the UK. That is quite different. This has been really successful for our partners.

For example, the Ministry of Sound Love Island album went straight to number one, and the Chief Customer Officer of Misguided said literally two weeks ago, 'There is nothing that exists outside of the Instagram platform that touches on a daily basis our core customer with the depth, frequency and level of engagement like Love Island. It has worked brilliantly. Even on first day the show aired, our trade saw an increase of around 40% week-on-week, and its trajectory has been ratcheting up ever since.'

Superdrug reported profits about 16% up, and they directly attributed that to Love Island.

Through its great engagement and our relationships with viewers, we are also driving more value directly from the consumer through games, voting, competitions and merchandising. Its success in the UK has helped us to sell the programme internationally.

Love Island this year has delivered a £10 million incremental, non-spot revenue on last year, and we will be implementing this structured 360 approach to monetisation, using this framework. We will select the right programme brands going forward to be able to maximise

the commercial potential of that. I think something like I'm A Celebrity or The Voice would lend itself very well to this.

Data analytics

Gathering and using data will be a key focus of our IPB and Direct to Consumer business too. We already have a technology platform which we are developing, but we have a large amount of data sitting in many different parts of ITV. In order to be able to gain insight and value from this data, we need to bring it together into what we are calling a 'Centre of Data Excellence.'

This will create a richer view of consumers and viewers, and enable us to segment and slice the data to drive more value for advertisers with targeted and addressable advertising, also through the Direct to Consumer proposition.

However, we need the right skills and capabilities. We are in the process of appointing a Chief Technology Officer, who for the first time ever in ITV will be sitting on the management board, so on the top team. We are also very close to appointing a Chief Data Officer, who will lead a team of analysts and data scientists.

A couple of examples to demonstrate the value that this will bring: on the Hub, data will enable us to increase personalisation of the content and experience as you saw from the video: programme recommendations, onward journey recommendations. That dwell time of people on there is really important to us and to advertisers. It will enable more efficient re-engagement of inactive users and give marketing a laser-focused targeting ability to support the drive to get those light viewers.

Data enables improved ad monetisation, of course, delivering advertisers more tailored audiences, for example, creating audience segments for advertisers around viewing behaviour around the Hub. The capture and analysis of data will also help us build a scaled D2C – Direct to Consumer – business, with cross-promotion and direct marketing, for example. If we know someone watches The Chase on the Hub, we can recommend they play the game through the app, or potentially in the future attend a live Chase quiz event.

Investment and KPIs

We are going to be investing an additional £40 million pounds in our integrated producer broadcaster over the next three years across advertising, as I have outlined, marketing and the Hub.

Overall, our KPIs will be looking at total viewing and advertising across all our platforms, so ITV total advertising and total ITV viewing.

On viewing, we have an ambitious aim to maintain our total viewing across all our platforms. We will be tracking this going forward. It is not possible to provide guidance for advertising, given its cyclical nature. However, it is our strategic intention that we will grow our total ad revenue when NAR is broadly flat.

We will also measure and manage the business with specific KPIs for our viewing, the Hub and improving our brand health and light viewer engagement. These are all set out on this slide.

Our viewing metrics will evolve with the completion of BARB's Project Dovetail. We have established a number of targets over the next three years to ensure we deliver value from the investments we are making. We will deliver 30 million registered users on the Hub, deliver double-digit online revenue growth per year and grow our brand consideration score to 60%. So, that is the IPB.

Strategic Priority Two – Grow UK and Global Production

ITV Studios is a scaled international content business

The second strategic focus is Studios. Our aim is to be a leading creative force in global content production. ITV has grown its Studios business very successfully over the last seven years; it is in good shape. It is a scaled business delivering good growth at a stable margin and needs only modest organic investment over the next three years.

It is forecast to produce over 9,000 hours of content this year across 11 countries. It produces scripted and non-scripted content with over 200 hours of drama produced in 2017 and 62 different formats.

Grow UK and global production

So using our competitive advantage as an IPB, we will work more closely with the Broadcast business. You have probably all heard about 360-degree commissioning. It has been discussed a lot in the past, but this time we are putting some structure in place to support this and make sure it happens effectively:

- A 360 forum to facilitate easier and quicker decision-making on commissioning;
- A joint entertainment pilot scheme;
- A drama investment fund, which we have talked about in the past, to invest in new ideas in which we own all the rights.

The business has grown both organically and through acquisitions, and the portfolio of acquisitions continues to deliver a double-digit return on invested capital. Diversifying into Studios was the right strategy for ITV. We will continue to do this.

The demand for great content has never been stronger, so it is a growth opportunity. The core drivers of this business are creative talent creating hits, monetising them effectively and being disciplined and efficient. We are really focused on developing more hits as you would expect, and to do this we need to keep attracting and retaining our great talent. We will ensure we have the right creative and commercial environment to do this. Sounds easy; it is not that easy, not many people do it well.

Whilst we are happy with our current geographical portfolio, we will also consider selective value creating M&A and talent deals in both scripted and unscripted to obtain creative talent and IP. However, we have eliminated the option of doing any scaled US scripted acquisitions for the foreseeable future.

Many of you have highlighted your concerns about the scale of the risks involved, particularly in the US. I heard that from quite a number of you as I came around when I first started. I wanted to give you a bit of further insight into our US business to reassure you that we are in fact taking limited risk. As Ian said, we will give you much greater insight into this at the CMD, the Capital Markets Day, in September.

ITV America is primarily an unscripted volume business. It is a profitable business, producing content, but we do not tend to own the rights as is usual in the US production market. Now that we have full ownership of our US acquisitions, we are able to integrate them and restructure our US unscripted business to be more agile to respond to the challenges and opportunities in the US market. That is going on now. We are also delivering efficiencies through relocating teams, using shared functions across all our portfolio of labels in the US in the unscripted business.

Our scripted US business is very different; it is innovative and entrepreneurial. A great deal has been learnt in this market already, and as a result we are backing talent and IP for which the risks are minimal but with attractive rewards. An example of that is Marty Adelstein of Tomorrow Studios, who is producing *Snowpiercer* for us, a very significant drama for TNT; Jason Blum, who is producing *Sharp Objects* for HBO; and David Collins and Michael Williams, with whom we are producing *Queer Eye* that runs on Netflix. Going forward, we will be increasingly commercial in the way we monetise our performance and IP.

I am going to move off the US now. We are looking at further opportunities to license our brands and library, just generally through the Studios business and drive value through merchandising. We also see good opportunities for European scripted content with strong demand from broadcasters and OTT platforms for local content with global appeal. We have strengthened our portfolio in this area with last year's acquisitions of Tetra and Cattleya.

We have a strong pipeline of new and returning shows, and this slide gives you a sense of some of the fantastic scripted and unscripted content we create and own: *The Chase*, *I'm A Celebrity*, *Corrie*, *Victoria*, *Poldark* from Mammoth, *Saburra* and *Gomorra* from Cattleya, and *The Voice* from Talpa.

We will invest about £10 million in the Studios business over the next three years, building our creative talent, investing in our creative pipeline and our monetisation capabilities. This could include new revenue streams.

Targets to 2021

We have been very transparent, and I think this is the first time we have given you clear targets to show how we will measure the success of this business; they are there. Overall, we expect **our Studios business to deliver revenue growth of over 5% average CAGR** over the next three years, with our hours increasing to at least 10,000 organically by 2021.

The margin will be between 14% and 16% depending on the genre mix. We expect growth in both scripted and unscripted, as I said, but that growth will be faster in scripted.

Our KPIs will measure the performance of both businesses by looking at the quantity and also the quality of what we produce. So, that is the Studios business.

Strategic Priority 3 – Create Direct to Consumer

I am now going to move on to the third engine of future growth, the consumer. We are creating a new Direct to Consumer business. We see a real opportunity to tap further into consumers' willingness to pay for relevant content and to engage with ITV as a trusted brand.

Direct to Consumer today

Today, we have over 28 million consumer relationships across our business and around one in five of those are spending money with us already. Mostly, these are transactional

relationships. For example, a viewer entering one of our 130 competitions a year, making purchases in one of our show apps or actually attending live events.

Bigger opportunities

So, we are doing a bit of D2C at the moment some of the time, but it is below its full potential. With the right focus and a data-driven approach, we see bigger opportunities here to grow in large underlying markets. We have such a passionate fan base, who love what we do, and they really want to engage with us beyond the screen. Here is what I mean by about.

[VIDEO]

Investment and KPIs

You will see that clip quite a lot. The good news here is that opportunities to grow our consumer revenues will be strengthened by the same investments we are making in our IPB in marketing, in data with the establishment of that Centre of Excellence. The expanded reach, engagement and insight into viewers allied to new online functionality and enhanced data analytics will serve to grow the number of consumer relationships we can monetise, while also enhancing the average revenue per relationship.

In events, we are creating a dedicated team to develop new ideas. We are also looking at opportunities to extend This Morning live, which I actually went to in Birmingham. The kind of engagement of consumers there was visceral. You could see the potential to do that for other daytime shows like Lorraine, for instance, and also to extend that to regions.

Interactive business

In our interactive business, we have established a competition portal, and we are starting to use data-driven segmentation to increase our annual spend per user. We are looking at opportunities to develop new content and experiences around gaming, pay per view and merchandising.

We believe our investment in analytics will continue to drive insight, innovation and growth in all of these areas.

SVOD service proposition

In addition to all of this, we see an opportunity to create an SVOD service, a Subscription Video on Demand Service. We are going to do that in the UK on the back of our brand, our content and significant cross-promotion capability. Independent research has shown that around 25% of people who already subscribe to a service are very likely to subscribe to more SVOD services in the next two years. Additionally, it has shown that of those willing to take a service, over half of those people are very likely to subscribe because of quality British content. We are, of course, extremely well positioned to deliver that.

We already have a nascent SVOD business in the UK with ITV Hub+. We are seeing subscriptions up significantly, up over 500% on last year. Going forward, we will be investing in distribution, functionality and the ability to segment pricing and propositions to drive this further. UK consumers are clearly willing to pay for high-quality British content that they can watch on their terms, accessible anywhere, anytime and without ads.

We are actively reviewing what our SVOD proposition will be and we are obviously talking to potential partners. It is too early to give you any more details on that, and we will update you as soon as we can.

Therefore, specific D2C investment is approximately £10 million over the three years. The reason this is a low figure is much of the investment is already covered in Hub, data and the brand, which will drive these revenues and profits in D2C.

Targets to 2021

Our key target is to drive revenues to at least £100 million over three years. You may think that is not an ambitious target but it is at least £100 million, and we will obviously be going for more.

KPIs to measure performance

We will also deliver 10 million paying product relationships. We will measure our performance through specific KPIs, including total relationships, our percentage increase and monthly active users, our conversion rate to paying relationships and our Net Promoter Score.

In time, when data systems allow, we will measure our number of unique customer relationships and our ARPU. We will give you more details on these and all our KPIs in this area at the Capital Markets Day.

Delivering our Strategy

Finally, to deliver our strategy we need to do three things really well:

- We need to communicate and market ourselves really effectively to grow Hub and maintain total viewers, and we need to also communicate to the advertisers, the marketers because they need to also really understand what we are doing and believe. They believe already in the power of TV, and they want people to constantly tell them how good TV is.
- We need to be a lean and agile organisation with a culture that can constantly adapt to change. This is all about our people. It goes hand-in-hand with redesigning our organisation to be more creative, more digital and more commercial.
- We must of course ensure we continue to develop the skills and capabilities that we already have in Kevin and Julian's area to deliver world-class content. Of course, again, we need to ensure that we embed data analytics and technology right across the business.

Total Investments Offset by Cost Savings

Bringing all of this together in 2019, we will invest £40 million and over the course of the three years, we will invest a total of £60 million. This will be offset by £35 million to £40 million pounds of cost savings, which we will achieve without impacting the culture, the creative and commercial strength of the business.

As Ian said, we are already implementing the refreshed strategy today with no change to guidance for 2018. The net impact of the plan is £20 million to £25 million, which excludes any incremental revenue benefits. The revenue benefits we will deliver over the course of the plan are reflected in the targets we have set in online, the Hub, Studios and Direct to Consumer. We will more than cover the net impact that will be back-loaded.

Financial Targets

We also have Group financial targets, which as you would expect are around cash and costs. It is essential that we maintain our financial discipline and so as well as our cost savings, we will also maintain our profit-to-cash conversion at around 85%. In addition, we have a target which reflects our aim to continue to diversify the business by growing our non-ad revenues by at least 5% CAGR to ensure ITV remains robust and resilient.

We are now driving profit from three different pools: from advertisers, from broadcasters and platform owners, and now also from consumers.

Capital Allocation Framework*Investing to drive organic growth*

Seven years ago, ITV was funded by advertisers. As part of our refreshed strategy, we are investing to drive organic growth in the business.

Value-creating M&A in line with strategic priorities

We will look at selective, value-creating M&A in line with our strategic priorities. This will of course be disciplined, targeted M&A focused on value creation and returns above our cost of capital.

Dividend policy

The Board intends, as Ian has already said, to pay at least an 8p dividend per year for the period of investment in 2018 and 2019. This reflects the Board's confidence in the business and in the refreshed strategy, as well as the continued strong cash generation. Over the medium term, the Board intends that the dividend will go broadly in line with earnings.

Objective to maintain investment-grade credit

As we allocate capital to invest in the business and deliver returns to shareholders, our objective is to maintain an investment-grade credit, which remains important to us.

Summary

In summary, we have today announced a clear vision – More than TV – and initiatives for how we can and will compete in a changing environment. Implementing the strategy and creating value requires a relentless focus on delivery. We are clear about what we need to do and how we will measure success, and ITV is strong on delivery.

We have already started investing in technology and bringing in key capabilities to the business. Through the strategy, we will create a resilient and growing business – as I said, an integrated producer broadcaster – where our ambition is to maintain total viewing despite changes in the market and increase total ad revenue, to be a growing and profitable content business driving returns. We will create value by developing and nurturing strong direct consumer relationships. We will have a business that will deliver attractive, sustainable returns to shareholders.

I am really confident that with the energy, enthusiasm and focus of all the people I have met at ITV – and I have met numerous numbers of people – we can deliver on our refreshed strategy. We have the Capital Markets Day planned for 19th September, 2018. We are really looking forward to sharing a deeper dive into the strategy, our priorities and therefore all our

businesses then. Thank you very much for listening, and we are very happy to take your questions.

Q&A

Laurie Davison (Deutsche Bank): The first question, is £60 million enough? We have seen peers like Time Warner spend \$200 million on data analytics, short-form content. We have seen RTL spend €700 million on MTNs, programmatic. We have seen ProSieben spend somewhere in the region of €200 million to €300 million on their ad tech stack. You have talked about perpetual change. Is this going to be a perpetual investment, is the first question?

Carolyn McCall: No, I do not think that is right, Laurie. I think the £60 million, as I said, is kind of operational investment, so it is investment that we are putting into the business. It does not include acquisitions. I am not saying we are going to go on any kind of acquisition spree as I think ProSieben did in their time. They focused on technology businesses. We are not doing that but, of course, it does not exclude acquisitions. You will know that we bid for Videology, for instance. That is not included in the £60 million, and that was about addressable advertising and about Hub.

We believe the £60 million in the next three years is the right level of investment for where we are today, for what we need to do today. Comparing us to AT&T – another massive conglomerate – and global companies, we are global in our Studios business. We are a UK provider of content to UK viewers, so we are a domestic company when it comes to our channels. It is like comparing two quite different organisations when you talk about AT&T and us. I am not sure everyone actually thinks what ProSieben and RTL have done is absolutely the right thing. I do not know, you would be in a better position to judge that. We know that we will get returns on that £60 million, and that is the way we prefer to view it.

Laurie Davison: The second question is over the offset in cost savings. Where are those coming from? To what extent can you continue to sort of grind out cost savings, because have been doing an awful lot for an awfully long time now?

Carolyn McCall: Yes, that is absolutely right. ITV has taken over £200 million out of the business in terms of cost. Ian has driven that and has been very effective at doing that. The really important thing is the engagement. I have never seen engagement scores as high as ITV. They are between 80%, 90%. Every company today has to have a continuous cost programme. I do not think it stops. Everybody is dealing with cyclical, tougher environments. Any company that I talk to, if you talk to any CEO, they are all looking at cost. That is about efficiency, it can be about a whole range of different things.

We are realigning our priorities around what you have heard today. As a result of that, we are going to really have to look at where we put our resources and where we just do things well. However, there are some things we want to be best-in-class in the UK, and content is one of them, data and analytics is one of them. We have tried to explain the 'how' we do that, but we will go into much more detail in the future. Communication is one of them; we are an entertainment and communication business.

It will be realigning around those priorities, but it will include process and efficiency and reorganising ourselves, redesigning ourselves to be future-facing.

William Packer (Exane BNP Paribas): Three questions from me: firstly, in terms of cooperation with some of your PSB peers – speculation in the press and trade press around more aggressive cooperation compared to what we heard about today – is it right to think of the Hub is going to be standalone and maybe a bit of cooperation in SVOD, but beyond that pretty limited, based on today's presentation?

Secondly, one thing we did not hear about today was around your work with your pay TV stakeholders. Could you update us as to where you stand there? Retransmission fees has been a long-term discussion.

Finally, on capital allocation, I think I am right in understanding that you have ruled out US scripted acquisitions. You have said you only buy things where the ROIC is ahead of the WACC. Could you help us understand what kind of things you are looking at?

Carolyn McCall: On the PSB cooperation point, can I just be clear? Hub is being totally integrated into what we do. It is just part of what we do now; it is not a standalone, it is not completely separate. The Direct to Consumer business of that will be a business, but that is a commercial business. However, the programming, the marketing, everything else is totally integrated into the whole. That is one of the big differences of this strategy.

On the PSB cooperation, I can not really be drawn on that. We have just said we are talking to a number of different partners and we are not going to disclose who we are talking to because it is premature, basically.

William Packer: Just to clarify, is that SVOD only, or could that be a wider cooperation?

Carolyn McCall: It is a good question. The focus in the media has definitely been on SVOD, but I think broadcasters will be cooperating more on many different levels. The PSB broadcasters will definitely be cooperating more. Kelly has done quite a lot of work in the advertising space, for instance, on that. I think data, for instance; there is a whole range of things – just making sure people realise the myths that abound around TV are kind of dispelled. I think we will work together on that, so yes.

Capital allocation, Ian?

Ian Griffiths: I think we were very clear both in mine and in Carolyn's presentation that we will continue to look at ways of investing to strengthen, in particular the Studios business, through the balance sheet. We will continue to do that, whether it is talent deals or M&A in a very disciplined, very focused way that we see creating value and delivering a good return on our capital.

Carolyn McCall: Pay TV: we are working well with Virgin, and we have a good relationship. There is nothing more really to say about that, but it is a very constructive, good relationship with Virgin at the moment.

Ian Whittaker (Liberum): Three questions: first of all, in terms of VOD, previously what you had was revenue growth lagged audience growth. Now, it is the complete opposite. In fact, revenue growth there is significantly ahead of viewing growth. Could you just talk about what exactly is driving that in terms of is it pricing, is there something else that is particularly happening?

Longer term, you have probably got around 6% share of the VOD market in the UK at the moment. Do you have a view of where you would like to be in a couple of years' time?

The second thing is in terms of addressable TV, can you talk about where you are in addressable TV at the moment? Are any plans that you can share with us over what you plan to do there over the next 12 months? The third thing is when we have a steady-state company, when we have the investment out of the way and so forth, what do you think the earnings growth could be on a company that has flat TV NAR? I do not know if you have a view on that.

Carolyn McCall: I think the thing to say about the viewing and the revenue growth, so just remember we do not put as many ads on Hub as we do on the channels, so therefore it does sell at a premium because there is less inventory on Hub.

I think the other thing is that increasingly the agencies are seeing Hub as a real growth medium and a more targeted medium because of the demographic profile of Hub and that has actually fuelled some of the growth in VOD. We have an internal target on share but it is not one that we are disclosing at the moment, but I think increasingly we will start talking to you more about that. I think on addressable, it is probably better. We can do some addressable on Hub today. We want to accelerate that, so that is what this is all about. We have run some addressable campaigns on Hub already, but we want to do that at a more sophisticated level and a much more augmented level. I think perhaps the Capital Markets Day would be the best place to go into some detail on that. We will give you some more information on that there.

Ian Griffiths: Yes. Also, I think, as we went through today, addressable on VOD is the immediate priority. That is very clearly where we are putting some capital behind.

In terms of the steady-state earnings growth, as he runs the spreadsheet through his head, I think we have been very clear how you can look at our Studios business going forward. **We have given 5% compound revenue growth on average over the next three years and we think the margin on that is going to be in the range of 14% to 16%. I do not think we could be clearer on how that business is going to perform.** Your assumption of a flat advertising or spot market or whatever you said, Ian, we have committed to double-digit growth in our online pay and interactive business, we have committed to growing our Direct to Consumer revenues from £65 million last year to at least £100 million, and Carolyn has just pushed that on a bit more.

When you look at the cost side, yes, there is going to be an increase in variable costs, because some of these things directly have costs going to them. So, the Hub, as it grows, we have more bandwidth costs, but a lot of our broadcast costs, including transmission infrastructure, remain incredibly fixed, and we have said we do not need to spend more on screen than the £1.1 billion we guided to the last time we were here. A large part of our cost base would stay incredibly fixed. If you run all that through, you can work out what that does to the bottom line earnings.

Joe Barnett-Lamb (Credit Suisse): Firstly, on Direct to Consumer, obviously that grew fairly substantially in H1 year on year. Can you talk a bit about what drove that in that period? I think you said there was the pay-per-view boxing. Will all of that recur going

forward? Also, with regards to incremental revenues there going forward, how shall we think about margins for the growth that you are providing there?

A second question: on Studios, obviously substantial growth in H1 and 11% underlying. You touched on phasing but did not really go into the detail of anything specific, what was causing the phasing there, so could you give us a little bit more detail please? Thank you.

Ian Griffiths: Yes. D2C growth in H1. The two key drivers of that are competition entries. For those of you who were here this time last year, we had a relatively tough first half around our competitions last year, largely because there was a lot of live news that interrupted our calls to action, and those on-screen moments really do drive engagement into our competitions. We have had a much more stable level of calls to action this year and as a result our competition has grown, also helped by the fact we have launched a competitions portal, which is also driving more traffic. All of those: that is really good.

The pay-per-view boxing is very much at this stage seen as a trial. We invested over the last 12 months in building this platform – a live-view box office – which allows us to engage directly with viewers to pay to watch exclusive content. We had the rights to the World Boxing Series. We have been through that, and one of the things we will be looking at is evaluating whether that is something else we explore, or can we use that platform for other ways of driving engagement directly with our viewers to bring in more revenues? Whether that recurs or not, I cannot answer that question today, but it is certainly an area we will be focusing on and looking at growth.

The margins on revenues from events and competitions are interactive and will vary, and for some of these, like the boxing, there is virtually no margin at this stage, because we deliberately took that as a decision to invest in this to see whether we could deliver something like that, because it was very new to ITV. We have never had that direct viewer engagement. The margin on there is therefore very low. As we have talked about before, the margin on our competitions is high, so it will depend on exactly how the revenues evolve, but our objective is to create a fast-growth, profitable and profit-enhancing direct-to-consumer business.

On the Studios phasing, as we have talked about before, we recognise Studios revenue when we deliver content to the customer, the broadcaster or the OTC platform. They are notorious, as is our in-house team, Kevin, for changing their minds about when they want that content. That does impact when we recognise revenues. In the second half of this year, we have some big shows, in particular in the US. Snowpiercer is the biggest drama we have ever done but, as I said, we know we will make money on that because TNT are buying the US rights and Netflix are buying the global rights, but whether we get that delivered in the second half of the year, today we do not know. Hell's Kitchen: we do not know when Fox will want those shows. Therefore, there are some big things that in the second half of the year may impact the ultimate delivery of our results. In the round, we have 90% of our target revenues secured. It is up £100 million on what we had this time last year, so we are very confident by the time we get to the end of the year we will have delivered good organic growth in our Studios business for 2018.

Lisa Yang (Goldman Sachs): My first question is regarding your relationship with Amazon and Netflix. I am just wondering how you see that evolving going forward, given on the one

hand there are costs involved for Studios but on the other hand they compete for potentially your viewers but also for your future SVOD service.

Secondly, regarding BritBox, I am just wondering when is the right time to roll it out internationally and what could be the magnitude of additional investments related to that.

The final question is regarding all the new KPIs that you laid out today and how is management going to be incentivised based on those KPIs and new targets. Thanks.

Carolyn McCall: Okay. Ian and I will both answer these because they are fairly generic in a way, except for the KPI question. The Amazon and Netflix relationship: I think the first thing to say is that we look at it in two completely different ways. One is if you are in the Studios business, they are a client. They are big customers and they will sell to them, regardless of ITV. So, they will sell content or they will be commissioned for content by them, which they will be very happy to do. That is fantastic. That is a really good thing for our Studios business.

When it comes to ITV, the IPB, the broadcaster and the integrated producer, I think we are having one conversation with them now in a way we have not had before. We have a clear kind of strategic view of what we want to do with Netflix, what we want to sell to them, out of the IPB and also with Amazon. We are on the Amazon platform, we have a very good relationship with them, as we do with Netflix. We just have to be clear about the rights that we might sell to them when they are big programmes for ITV in the UK. It is about the UK rights and how we would negotiate those going forward. I think that is quite a big shift for us and all I would say is it is just a strategic approach to dealing with all the platforms, whether that is Netflix, Amazon, Sky, Virgin. We just have a much more strategic look at it and have one conversation with them, because we have multi-level touch points with them, because we do lots of different things with them. We sell to them, we buy from them, etc. That is Amazon and Netflix.

Ian Griffiths: BritBox in the US has gone exceptionally well. We have over 250,000 paying subscribers in the US in less than a year after launch and we have achieved that with an investment of low single-digit millions. The momentum behind it, not least following the roll-out into Canada, is really, really positive, so one of the things we will be looking at in due course is what are the next steps for developing that outside of the US and Canada. As you can tell from the investment in the US, which is the biggest market we are likely to go into, it is not a massive use of our capital, so we can do that in a low-risk way and it is really interesting – to Carolyn's point – not just in the UK, the demand for British content is incredibly strong globally. That puts us in a really good position.

On the KPIs, the share awards that have been put in place already for the team to incentivise the team over the medium term at this stage do not have any targets. We consulted with shareholders saying we were going to do this, and the remco have been waiting for the announcement of the strategy and the refresh to then put the targets around that. There is no doubt that our incentives will be aligned to what we are talking about today. I do not know exactly what that will look like but we will work that through in due course.

Carolyn McCall: They will be aligned around the KPIs, which are the key drivers of the businesses.

Julien Roch (Barclays): The first question is on Studio. Would it be possible to have an idea of how much the SVOD platforms, so Netflix and Amazon, are as a percentage of revenue? I think you are now saying that Netflix is your largest client, but overall SVOD, are they 5%, 10%, 15% of studio revenue? That is my first question.

The second is going back on the relationship with the other PSB. So, you are going to launch an SVOD service in the UK, so it seems you have decided to go alone and that the marsupial from Australia has not been resurrected. So, why have you decided to go alone and not with the other PSB, is my second question.

The third one is, can we have some more colour on sponsorship growth in the first half? Is it a steady business? What is going on there? Thank you.

Carolyn McCall: We have never actually disclosed who our largest customer is in Studios and we have always said Netflix will be in the top five, and we do not actually go down into that detail of what percentage of our revenue would be the fangs, as we call them.

Ian Griffiths: If you look at what we have coming up, we have Snowpiercer, Bodyguard, Somewhere Between, which Netflix are working with us on. We have Vanity Fair, which is going to be coming up in the second half of the year, which we are really excited about. We will broadcast that in the UK. In the US, Amazon will have. And we have done Harlots with Hulu. So, we will work with the OTT platforms and, as Carolyn said, in particular outside of the UK. They are driving the demand for that type of content, which is good for us as a producer of it.

Carolyn McCall: Yes. I think on SVOD, what we have said is we have that strategic intention because actually we know there is a gap in the market and there is demand for British content and that people are willing to pay. Kangaroo was a long time ago and the world has changed. That is not to say that we are not talking to PSBs as well as other players. We have just said we are talking to a range of players. I think what is encouraging is that the thing that stopped Kangaroo becoming a reality was regulation, because we are highly regulated, and what is encouraging I think is Sharon White from Ofcom's comments recently that positively encouraged the PSBs to collaborate, cooperate and get together on certain aspects of their businesses. I think that is really encouraging. I think that is a real step forward actually from a regulator: very enlightened. Do you want to do sponsorship growth?

Ian Griffiths: I will do sponsorship growth. The June revenues were up 22%. Spot revenues were strong. VOD revenue was strong. But also in there was World Cup sponsorship, which has helped push that up to the 22% number. Sponsorship is a big commitment for advertisers but actually, we have some very unique properties, so things like Coronation Street: not purely sponsorship but we have done deals with Costa and Coop which are probably the biggest product placement deals in the UK, because they wanted to be in Coronation Street. We have the big entertainment shows which we can do things around. Carolyn talked about Love Island, which is a combination of sponsorship and merchandising and licensing. To be honest, Julien, we do not really mind which line of our P&L account it comes in. It comes into our advertising line and that is a number we are going to focus on going forward.

Richard Eary (UBS): Firstly, you have obviously given a lot more colour in terms of scripted and non-scripted within the Studios business. Can you just talk about profitability between

those two lines and how you think that is going to evolve going forward, given that obviously it seems that the decision is still to invest heavily in that scripted line? The second thing is on the cost savings and the investment that you have given, whether you can give us some splits across the three units. You have given investment but obviously on the cost savings it would be helpful.

Ian Griffiths: In terms of the genre mix, this is something, as I said, we will come back to in terms of talking about the returns we expect from the different genre at the Capital Markets Day, because it is relatively complex and we do not have time to go through the detail here. Scripted is – it is interesting you use the phrase ‘investment.’ Maybe I did not get the point across when I was going through it. We do put capital behind scripted projects but only when we have someone to buy it. It impacts our working capital because we make the show before we deliver it to the customer, who then pays us for it, but we only start using our capital when we have the risk taken away.

So, TNT and Netflix signed up to Snowpiercer, which is the biggest thing we have ever done. Then we started producing it. So, we do not actually invest masses of our capital without knowing what risk we are taking in Studios. Yes, the numbers on scripted can be big. You hear these stories of \$25 million pilots. But no one spends that amount of money unless they have a view of the risk they are taking. We do this, as Carolyn said in her script, in a very low-risk way. You make your money in scripted when you have a returning series. We will make money in year one on Snowpiercer because of the deal we have done with Netflix. If Snow Piercer is a success with TNT and it comes back for five series, we will make a significant return.

Carolyn McCall: Yes. It is disproportionately more.

Ian Griffiths: The returns step up as the show becomes more successful. On non-scripted – and you can get into micro-detail here – very often we will not make much of a margin in year one of a non-scripted show, on a new show, because we will invest as much of the budget as possible to make the show as strong as possible to give it every chance of returning. This is because when it returns, as we have seen with Love Island, you then have a format. That format can travel. You can sell the finished tapes to different countries or you can sell the format and get it made locally. Both of those bring in incremental profit and returns. That model, that process, how we manage the risk, is something we want to go through in much more detail at Capital Markets Day in September.

Patrick Wellington (Morgan Stanley): Hi. It is Patrick Wellington at Morgan Stanley. I have a couple of things, firstly on Studios acquisitions. You were very careful about how you described what you were not going to buy. I think it was US scaled scripted acquisitions.

Carolyn McCall: Yes.

Patrick Wellington: So, Endemol Shine is still on the cards then?

Carolyn McCall: We would never comment on specific opportunities. Our focus really is on returns, so anything we might do in M&A will always be returns focused and value enhancing.

Patrick Wellington: I suppose my question was more about the scale. Would you consider something of that sort of size? One of the targets in the previous management was moving to 50% non-NAR revenues, which was achieved, but arguably 75% of the profits are still NAR.

So, do you at all in your strategy feel the need for a big step forward to sort of move away from NAR-based profitability?

Carolyn McCall: I think it depends entirely on the acquisition and if it is on strategy and whether it is going to be at the right value for us, the right price, the right value. It really will depend on the acquisition, whether it is small, medium or large. I think that is the key thing for us. Diversifying is important, I think. It remains important. You can see that the Direct to Consumer business is a further way of putting in a pillar which is nothing to do with advertising revenues, it is entirely to do with the different profit pool and that is an important step. But I think you would not be going for an acquisition just simply to diversify. It would be about creating value.

Patrick Wellington: Many of us have come from the Informa meeting, which was a £3 billion business a few years ago, thrown a lot of equity at it, it is now an £11 billion market cap business. I mean, you would at least say of that management that they are not afraid of scale and big acquisitions. Would you put yourself in that category? You do not need to do it but you are not afraid of scaling up the whole of ITV?

Carolyn McCall: Honestly, I think for the right thing, we would not fear it. For the right thing. But I would have to emphasise that we would be incredibly disciplined and it would be for the right value and it would have to create value for ITV. It is not just about scale for scale's sake.

Patrick Wellington: Just quickly on retransmission, I know this is an old one, but I think people have the view that you have kind of given up on getting any money out of Virgin and it is all going to be a nice sort of cosy, holistic relationship.

Carolyn McCall: Who said that, then?

Patrick Wellington: Well, that is what we would like to hear. In the context of what is happening with UKTV this week, does that tell us anything about Virgin's willingness to actually hand over money and your future negotiations?

Carolyn McCall: No. I think the thing with Virgin and ITV is that again, it is important to both parties, I think, to have a commercial agreement. We believe utterly that we need to be paid fairly for our content. That is a fundamental principle for ITV. We believe also that having that commercial agreement should remain confidential, and as long as both parties are happy, no one should really worry about the commercial agreement, because actually we would not do something that was not good for ITV and they are not going to do something that they think is bad for Virgin. My approach to this is very much, do this behind closed doors. It is a commercial agreement. It is sensitive, but actually, we believe utterly in value for our content. They have their own principles. We need to come to an agreement, because actually it does not benefit anybody; it does not benefit the viewer to have what has happened with UKTV. There has been a huge amount of noise and actually the person poorest for it is the viewer. I do not want that and I hope Virgin would not want that. So, we are at the moment in constructive talks. We remain completely open and I hope that will be that.

Patrick Wellington: So, we should not rule out an unexplained surge in those other broadcast revenues?

Carolyn McCall: Really, do not count your chickens. I would just remain calm about that.

Thank you all very much. Thanks for coming.

[END OF TRANSCRIPT]