



Launching our new strategy from a position of strength

Interim results for the six months to 30 June 2018

Carolyn McCall, ITV Chief Executive, said:

"We have delivered a strong operating performance with fantastic viewing figures both on-screen and online. Total advertising revenue was up by 2% with 48% growth in online revenues. ITV Family share of viewing was up 9% in the period with outstanding contributions from Love Island and the World Cup.

"Our hugely talented and creative people in the UK and internationally provided a popular and award winning slate of programmes for ITV, other broadcasters and platform owners. This is reflected in the rise in ITV Studios revenue of 16%, with growth in all our production areas. I'm pleased to say that there is a really healthy pipeline of new and returning programmes.

"There's never been a better time to be a creative entertainment company with viewers' appetite higher than ever for quality content and this is set to grow by around 5% globally over the medium term. ITV is well placed to take advantage of this opportunity and our strategy refresh which will enable us to drive profit from three separate sources – advertisers, broadcasters/platforms and consumers.

"ITV will be more than TV – it will be a structurally sound integrated producer broadcaster where we aim 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 deliver this strategy by building greater capability in data, analytics and technology as well as developing the great creative and commercial talent ITV already has. Executing the strategy will enable us to continue to deliver sustainable returns to our shareholders."

Strong operating performance in an uncertain economic environment

- Total external revenue up 8% at £1,593 million (2017: £1,469 million) with non-advertising revenues up 14% at £958m (2017: £837 million)
- Total ITV Studios revenue up 16% at £803 million (2017: £692 million), including £12 million of unfavourable currency impact
- ITV total advertising revenue up 2% as expected, with 48% growth in Online
- ITV Studios adjusted EBITA up 7% at £118 million (2017: £110 million)
- Broadcast & Online EBITA down 12% to £257 million (2017: £293 million) reflecting the timing of the Football World Cup as previously guided
- Adjusted EBITA down 7% at £375 million (2017: £403 million)
- Adjusted EPS down 8% at 7.1p (2017: 7.7p)
- Statutory EPS up 4% at 5.3p (2017: 5.1p)

Exceptional viewing performance and strong creative pipeline

- Strong on-screen and online viewing performance
 - ITV Family SOV up 9%, ITV2 SOCI for 16 to 34's up 19% and online viewing up 33%
- ITV Studios has a healthy pipeline of new and returning programmes

Refreshed strategy for the future

- Building on strong foundations
- Strategy to address the opportunities and challenges of the competitive media landscape
- Clear vision to deliver growth and make ITV more resilient:
 - Strengthen the integrated producer broadcaster
 - Grow UK and Global Productions
 - Create Direct to Consumer business
- Focus on brand, data, creativity and capabilities
- Highlighted £60 million of investments over the period to 2021, with no change in 2018 guidance and £40 million of investment in 2019
- Targeting £35 to £40 million cost savings from 2019 to 2021, with £15 million in 2019
- Over the three years to the end of 2021 we will deliver:
 - Double digit online revenue growth per annum
 - Total ITV Studios revenues of at least 5% average CAGR at an EBITA margin of 14% to 16%
 - Growth in Direct to Consumer revenues to at least £100m

Strong balance sheet and healthy liquidity

- Strong profit to cash conversion of 94%
- 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 2.6p interim dividend, up 3%
- Committed to at least 8p full year dividend in 2018 and 2019, through the period of investment

Outlook for 2018

- Confident that ITV Studios will deliver good organic revenue growth
- Strong double digit online revenue growth
- Total advertising forecast to be up 1% for the nine months to the end of September, with Q3 broadly flat against a backdrop of continued economic uncertainty

Strategy Update

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 will 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. However the market is clearly changing and to reflect this we have developed a clear vision and initiatives to drive growth to ensure ITV remains a structurally sound business.

We have developed our new vision 'More than TV' to build upon ITV's unique and winning combination of creativity and commercial strength.

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.

In the future, we'll focus on three key areas – Strengthening the integrated producer broadcaster (IPB); Growing UK and Global production, and creating a scaled Direct to Consumer business.

In 2019 we will invest £40 million across the business in the new strategy and over the course of the three years we will invest a total of £60 million. This will be offset by £35 to £40 million of cost savings which we will achieve without impacting the culture and creative and commercial strength of the business. In 2020 and 2021 the in year investments will be totally offset by cost savings.

The net impact over the plan is £20 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 as follows: for Online to deliver double digit revenue growth per year, average 5% CAGR in Total ITV Studios revenues over the 3 years at a margin of 14 to 16%; and to grow Direct to Consumer revenues to at least £100 million by 2021. These revenue benefits will more than cover the net impact, but will be back end loaded.

Operating and Financial Performance

We have delivered a strong operational performance in an uncertain market environment. On-screen, our share of viewing has again grown, increasing for the third consecutive year, up 9%, and the ITV Hub continues to deliver strong viewing, up 33%. Total advertising revenue grew 2% as expected which includes online revenue up 48%, and total ITV Studios revenue increased 16% including the unfavourable impact of currency. We have a strong creative pipeline of high-quality programmes, particularly drama and entertainment, and we continue to perform well across the key genres that return and travel.

This provides the strong foundations on which to build and we have today announced a new strategy with clear priorities and initiatives which we believe will deliver growth and strengthen ITV to ensure it is well positioned to address the opportunities and challenges of a competitive media landscape.

| Six months to 30 June | 2018 £m | 2017 £m | Change £m | Change % |
|-----------------------------|----------------|------------|---------------|-------------|
| Broadcast & Online | 1,045 | 1,016 | 29 | 3 |
| ITV Studios | 803 | 692 | 111 | 16 |
| Total revenue* | 1,848 | 1,708 | 140 | 8 |
| Internal supply | (255) | (239) | 16 | 7 |
| Group external revenue | 1,593 | 1,469 | 124 | 8 |
| Group adjusted EBITA | 375 | 403 | (28) | (7) |
| Group adjusted EBITA margin | 24% | 27% | | |
| Adjusted EPS | 7.1p | 7.7p | (0.6p) | (8) |
| Statutory EPS | 5.3p | 5.1p | 0.2p | 4 |
| Dividend per share | 2.60p | 2.52p | 0.08p | 3 |
| Net debt | (1,034) | (1,074) | 40 | 4 |

| Six months to 30 June | 2018 £m | 2017 £m | Change £m | Change % |
|-------------------------------|--------------|------------|--------------|-------------|
| Total advertising revenue | 890 | 871 | 19 | 2 |
| Total non-advertising revenue | 958 | 837 | 121 | 14 |
| Total revenue* | 1,848 | 1,708 | 140 | 8 |
| Internal supply | (255) | (239) | 16 | 7 |
| Group external revenue | 1,593 | 1,469 | 124 | 8 |

* IFRS 15 'Revenue from Contracts with Customers' was effective from 1 January 2018. Please see Section 1 of the Notes to the accounts for further details.

Total ITV revenue increased 8% to £1,848 million, with external revenue also up 8% at £1,593 million. Total non-advertising revenue grew 14% to £958 million. Total non-advertising now accounts for 52% of total revenue.

Adjusted EBITA declined 7% to £375 million (2017: £403 million) and adjusted EPS declined 8% to 7.1p (2017: 7.7p) with the 7% growth in ITV Studios EBITA offset by the 12% decline in Broadcast & Online EBITA. Broadcast & Online EBITA was impacted by higher schedule costs due to the World Cup.

Adjusted financing costs were broadly in line year on year and our adjusted tax rate at 19% has also not changed. Adjusted EPS declined by 8% to 7.1p. Statutory profit before tax grew by 2% to £265 million (2017: £259 million) and statutory EPS was up 4% to 5.3p as the decline in earnings was offset by a reduction in exceptional items, and amortisation and impairments, which is explained over the following pages.

We have a strong balance sheet and the business continues to be highly cash generative. Our profit to cash conversion remains high at 94% and we ended the period with net debt of £1,034 million (31 December 2017: £912 million). 1.2x net debt to adjusted EBITDA provides headroom against our investment grade rating.

This places us in a good position to continue to invest in growing a stronger, more resilient business with the implementation of our refreshed strategy, while also continuing to deliver sustainable returns to our shareholders.

For the period of investment in 2018 and 2019 the Board intends to pay at least an 8p dividend per year. This reflects the Board's confidence in the business and in the new strategy as well as the continued strong cash generation. The Board expects that over the medium term the dividend will grow broadly in line with earnings.

Consistent with this, the Board has declared an interim dividend of 2.6p which is up 3% on 2017.

We measure performance through a range of metrics, particularly through our alternative performance measures and KPIs, all of which are set out in this report. These have been reviewed and aligned to the refreshed strategy.

Broadcast & Online

Financial performance

Broadcast & Online total revenue was up 3% in the period at £1,045 million (2017: £1,016 million).

We have changed the way we report our Broadcast & Online revenues to focus on total advertising which includes ITV Family NAR, VOD, sponsorship and other advertising revenues. We have also split out our Direct to Consumer revenues to reflect our strategic priorities going forward.

We delivered 2% growth in total advertising revenue at £890 million (2017: £871 million) with online revenue up 48%.

Advertising categories such as Retail, FMCG, Finance, and Airlines, Travel and Holidays continued to see declines in advertising due to the uncertain economic outlook, leading advertisers to reduce spend to maintain margins. Within Retail, we have seen spending decline on both the high street and the supermarkets. Entertainment & Leisure was up, in particular around the World Cup. Telecommunications and Computing increased their spend around product launches and digital brands continue to spend heavily on television to build brand awareness.

We have provided more detail on our costs to highlight the variable areas of our cost base, especially as we grow new revenue streams. Total costs were up £65 million, over half of this is driven by higher schedule costs weighted towards H1 with the phasing of the World Cup. Variable costs increased with significant growth in online, and investment on the Hub, Hub+ and ITV Box Office (our pay-per-view channel used to show boxing matches). Broadcast infrastructure and overheads increased with foreign exchange movements on our Euro denominated transmission contracts, and property costs from our new London property buildings.

Overall Broadcast & Online adjusted EBITA declined 12% to £257million (2017: £293 million) which has led to a four percentage point reduction in the adjusted EBITA margin to 25% (2017: 29%).

| Six months to 30 June | 2018 £m | 2017 £m | Change £m | Change % |
|-----------------------------------------|--------------|------------|--------------|-------------|
| Total advertising revenue | 890 | 871 | 19 | 2 |
| Direct to consumer | 41 | 29 | 12 | 41 |
| SDN | 36 | 35 | 1 | 3 |
| Other revenue | 78 | 81 | (3) | (4) |
| Non-Advertising revenue | 155 | 145 | 10 | 7 |
| Total Broadcast & Online revenue | 1,045 | 1,016 | 29 | 3 |
| Network schedule costs | (567) | (532) | (35) | (7) |
| Variable Costs | (57) | (43) | (14) | (33) |
| Broadcast infrastructure and overheads | (164) | (148) | (16) | (11) |
| Total Broadcast & Online adjusted EBITA | 257 | 293 | (36) | (12) |
| Adjusted EBITA margin | 25% | 29% | | |

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Viewing

On-screen we performed strongly with viewing up for the third consecutive year.

ITV Family SOV grew 9% with a strong performance across the schedule. This level of growth is the biggest in ITV's recent history and never before has ITV delivered three years of consecutive growth. Our ITV Family SOV is now the highest it has been for 10 years. Daytime shows including Good Morning Britain, This Morning and The Chase grew their audiences, and Coronation Street and Emmerdale continue to perform well and are now the UK's two largest soaps. We launched the sixth weekly episode of Coronation Street in September 2017, which has further strengthened its performance. We successfully aired a range of new dramas including Trauma, Innocent, and Girlfriends; entertainment shows, including Dancing on Ice and Survival of the Fittest; and successful factual, including The Queen's Green Planet. We continued to drive significant audiences with our returning brands such as Vera – which had its most successful series to date – Endeavour, The Durrells, Good Karma Hospital, Ant & Dec's Saturday Night Takeaway, Britain's Got Talent and The Real Full Monty. Our news programming continues to perform well, as does our sporting schedule with the World Cup, the Six Nations Rugby Championships and horse racing. ITV's coverage of England's semi-final against Croatia hit a peak of 26.6 million viewers. The match average of 24.3 million was bigger than the audiences for the Olympic Opening and Closing Ceremonies in 2012. While overall our schedule is performing very strongly, not all of our programmes performed as we had hoped so some, for example Next of Kin, will not return.

We continue to target the demographics most highly demanded by advertisers – particularly young and male audiences – through our digital channels and online, and have seen a significant increase in our target demographics on ITV2 and ITV4. Our 16-34s share of commercial impacts (SOCl) on ITV2 was up 19% helped by the phenomenal success of Love Island, achieving the second highest audience on a digital channel since records go back, as well as Survival of the Fittest, Celebrity Juice, Family Guy and American Dad. Male SOCl on ITV4 was up 8% helped by ITV's coverage of horse racing, The French Open and Tour de France. ITV3's viewing performance improved in the period due to the strong performance of dramas such as Midsomer Murders, Vera, Lewis and Endeavour. Following the closure of ITV Encore at the end of April 2018 the content has moved back to ITV3, adding to the strength of the schedule and improving viewing. ABC1 adults SOCl on ITV3 was up 6% making it the most popular digital channel for this demographic.

ITV Hub

The ITV Hub, the digital home for all our channels and content, is growing rapidly. This is driven by our viewers appetite to watch content any time, any where, be it catch up or increasingly, simulcast, and the quality of our content. The ITV Hub is now available on 28 platforms and is pre-installed on over 90% of all connected televisions sold in the UK.

Long-form video requests were up 23% and online viewing consumption, which measures how long viewers are spending online, was up 33% driven by viewing on mobile and connected televisions. The ITV Hub has now been the fastest-growing public service broadcaster online service for over three years. This comes from an improved user experience and great content. The ITV Hub now has 25 million registered users.

The ITV Hub helps ITV reach valuable younger audiences – 75% of the UK's 16–24 year olds are registered. Younger viewers increasingly use the ITV Hub for simulcast viewing, as well as catch up, with programmes such as the World Cup delivering record viewing with 0.9 million simulcast viewers for England's semi-final against Croatia. Love Island has achieved an average audience of 0.3 million via simulcast per episode, which is more than the linear audiences on most digital channels. In the first six months of 2018 simulcast requests are up 41% year on year.

Direct to Consumer

Direct to Consumer generates revenue directly from the customer, and includes competitions, voting, live events, SVOD and our pay per view boxing trial. Total revenue is currently small but up year on year. Growing a Direct to Consumer business will be a key focus of our new strategy.

Our competitions have performed well across the schedule. Interactive has further benefited from the continued growth of the competition portal. Programme related app downloads have been strong in the first half of the year, encouraging engagement and driving linear viewing. The Love Island app has seen exceptional downloads at 2 million, and 10 million votes have been cast via the app.

The trial of ITV Box Office launched in 2017 as a direct to consumer pay per view offering which focused initially on boxing. We also have a number of live events based around our key brands. For example, we have the Emmerdale Studios Experience, which showcases the process of creating an episode of the soap, and This Morning Live, a shopping and lifestyle festival. These both build relationships directly with our viewers.

As at 30 June 2018, ITV Hub+ subscribers, including subscribers via Amazon, had increased to 286k subscribers. The total number of subscribers is up over 500% year-on-year. The increase in subscribers has been driven by increased marketing, great content and EU portability. We expect subscribers to be seasonal, and the number of subscribers to vary during the year. The growth in subscribers increasingly gives us confidence that we have a role to play in SVOD.

In March 2017, we launched our US joint venture with the BBC Studios, BritBox, (with AMC Networks taking a minority share), an ad-free SVOD service offering the most comprehensive collection of British content in the US. A version of the service also launched in Canada in February 2018. Having exceeded 250,000 subscribers in less than a year from launch, the service is on track to double that number in its second year. Revenues from Britbox are not included in Direct to Consumer as it is accounted for as a joint venture.

SDN

SDN generates revenue by licensing capacity to broadcast channels, radio stations and data providers on digital terrestrial television or Freeview. It holds a licence with capacity for 16 broadcast channels, including ITV services and third-party channels. SDN external revenue grew 3% in the period.

Other revenue

Other revenue includes revenue from platforms, such as Sky and Virgin, and third party commissions, e.g. for services we provide to STV. This is down year on year due to the closure of Encore at the end of April 2018.

ITV continues to license its channels and content across multiple platforms, including our HD digital channels and catch-up VOD on Sky and Virgin Media set top boxes and all our live channels and catch up VOD across their connected platforms.

ITV Studios

Financial performance

ITV Studios total revenues grew 16% to £803 million (2017: £692 million) including an unfavourable currency impact, with growth across all our production businesses as we continue to build our capability in key creative markets. Total organic revenue, which excludes our 2017 acquisitions and currency, was up 11%. Revenue growth was driven by a significant increase in hours delivered, up 10% to over 4,000 hours.

| Six months to 30 June | 2018 £m | 2017 £m | Change £m | Change % |
|---------------------------------------|------------|------------|--------------|-------------|
| Studios UK | 328 | 306 | 22 | 7 |
| ITV America | 141 | 138 | 3 | 2 |
| Studios RoW | 247 | 159 | 88 | 55 |
| Global Entertainment | 87 | 89 | (2) | (2) |
| Total Studios revenue* | 803 | 692 | 111 | 16 |
| Total Studios costs | (685) | (582) | (103) | 18 |
| Total Studios adjusted EBITA** | 118 | 110 | 8 | 7 |
| Studios adjusted EBITA margin | 15% | 16% | | |

* IFRS 15 'Revenue from Contracts with Customers' was effective from 1 January 2018. Please see Section 1 of the Notes to the accounts for further details

** Includes the benefit of production tax credits.

| Six months to 30 June | 2018 £m | 2017 £m | Change £m | Change % |
|----------------------------------------------|------------|------------|--------------|-------------|
| Sales from ITV Studios to Broadcast & Online | 254 | 239 | 15 | 6 |
| External revenue | 549 | 453 | 96 | 21 |
| Total Studios revenue | 803 | 692 | 111 | 16 |

| Six months to 30 June | 2018 £m | 2017 £m | Change £m | Change % |
|------------------------------|------------|------------|--------------|-------------|
| Scripted | 142 | 114 | 28 | 25 |
| Unscripted | 511 | 448 | 63 | 14 |
| Heartland ITV and Other | 150 | 130 | 20 | 15 |
| Total Studios revenue | 803 | 692 | 111 | 16 |

Reflecting our growth in key production markets in Europe and the US, 57% of Studios revenue was generated outside the UK (2017: 52%). ITV is the number one commercial producer in the UK and a leading producer in Europe and the US. As our Studios business grows internationally, foreign currency movements could have a larger impact on our results.

Adjusted EBITA was up 7% year-on-year at £118 million. Adjusted EBITA margin declined by one percentage points to 15%, impacted by revenue mix on new and returning shows.

In the first half of 2018, the unfavourable foreign currency impact was £12 million on revenue and £1 million on adjusted EBITA.

Building scale in key creative markets

ITV Studios has three production divisions – Studios UK, ITV America and Studios Rest of World (RoW) all of which grew in the first half.

The UK performed well with total revenue up 7% at £328 million (2017: £306 million). We continue to grow our sales to ITV, which were up 6% with deliveries including The Voice, Love Island, Dancing on Ice and an extra episode of Coronation Street. ITV Studios' UK share of original content on ITV main channel has remained flat year on year at 66%. Our off-ITV revenues in the UK grew 22% with deliveries including Poldark, Bodyguard and Age Before Beauty for BBC, Friday Night Dinner for Channel 4, and Blind Date for Channel 5.

ITV America total revenue grew 2% to £141 million (2017: £138 million) including the unfavourable foreign exchange impact and non-return of Duck Dynasty, and an absence of deliveries of Pawn Stars, American Grit and Hell's Kitchen. The growth was driven by two series of The Four, Four Weddings and Mama June deliveries. At constant currency, ITV America was up 11%.

Studios RoW has production bases in Australia, Germany, France, the Netherlands, the Nordics and Italy where we produce original content as well as local versions of ITV Studios UK and Talpa formats. Revenue grew 55% to £247 million (2017: £159 million) including foreign exchange and acquisitions, driven particularly by good growth in France due to The Voice of France and The Voice Kids. Across the territories, our entertainment and format deliveries included I'm A Celebrity ...Get Me Out of Here!, The Voice and Love Island in Australia,

I'm A Celebrity ...Get Me Out of Here!, Quiz Dual and The Chase in Germany, and This Time Next Year in Finland. The business also benefited from the 2017 acquisitions of Tetra Media, Cattleya and Elk.

Demand for drama is growing strongly and we have made real progress in building a European scripted business with the acquisition of Cattleya and Tetra. These, along with our existing European businesses, enable us to benefit from the increasing demand for locally produced content with global appeal.

Talpa continues to develop its formats including The Voice Senior, Dance Dance Dance, The Big Picture, 5 Gold Rings, The Perfect Picture, Design Dream, and House of Talent. Our international scale now enables ITV to make all these other formats, and in particular The Voice, in all our international production territories and therefore earn the production revenue as well as the format fee.

Investing in content with international appeal

We are continuing to expand our portfolio of successful formats and series that return and can be distributed internationally.

We continue to strengthen our global capability in entertainment formats. Across the business, we have grown a strong portfolio of high volume and high margin formats that travel internationally and that we produce locally. For example, during 2018 we will produce Love Island in all seven countries in which the format has been sold, The Voice in six countries, and Four Weddings in four countries.

Expanding our global distribution business

Global Entertainment, the distribution arm within ITV Studios, reported revenue decline of 2% to £87 million (2017: £89 million), due to timing of deals including the delivery of Harlots across H1 and H2. Excluding currency, revenue was flat year on year. With a good drama deliveries slate in the second half, Global Entertainment is expected to deliver growth over the full year. Global Entertainment's pipeline of new deliveries is strengthening with projects such as Vanity Fair and Snowpiercer expected for the second half of 2018 and into 2019. As well as funding and creating new content from ITV Studios, we also invest in third-party producers and their content from all over the world.

Our content continues to sell well internationally to both broadcasters and OTT platforms and in particular our scripted programmes with titles including Somewhere Between, Good Witch, Schitt's Creek, Poldark, Shetland, and Harlots. Over 15 of our scripted programmes have been sold to more than 100 countries. Our entertainment and factual entertainment formats are highly demanded and include programmes such as The Voice, Love Island, The Chase, Big Star's Little Star, This Time Next Year, Five Gold Rings, Come Dine With Me and Four Weddings. In the six month period to 30 June 2018, we sold 34 different formats internationally, 9 of which are being produced by ourselves or other producers in three or more countries including Four Weddings, Come Dine with Me and The Voice.

Half year results – adjusted and statutory

| Six months to 30 June | 2018 Statutory £m | 2018 Adjustments £m | 2018 Adjusted £m |
|-----------------------------------------------------|-------------------------|---------------------------|------------------------|
| EBITA | 367 | 8 | 375 |
| Exceptional items (operating) | (41) | 41 | – |
| Amortisation and impairment | (41) | 38 | (3) |
| Operating profit | 285 | 87 | 372 |
| Net financing costs | (18) | 3 | (15) |
| Share of losses on JVs and Associates | (3) | – | (3) |
| Gain on sale of non-current assets and subsidiaries | | | |
| (non-operating exceptional items) | 1 | (1) | – |
| Profit before tax | 265 | 89 | 354 |
| Tax | (52) | (16) | (68) |
| Profit after tax | 213 | 73 | 286 |
| Non-controlling interests | (1) | – | (1) |
| Earnings | 212 | 73 | 285 |
| Shares (million), weighted average | 3,998 | | 3,998 |
| EPS (p) | 5.3p | | 7.1p |
| Diluted EPS (p) | 5.3p | | 7.1p |

Exceptional items

Total exceptional items in the period were £40 million (2017: £53 million). Operating exceptional items principally relate to acquisition-related expenses, which are mainly performance based employment-linked consideration. These costs are down year-on-year following the €100m payment under the Talpa earnout in 2017. Our expected payments on all future earnouts is explained in the Operating and Financial Review. Property-related costs of £14 million primarily related to temporary rent, dual running costs and relocation costs as a result of our London property move in 2018. We will continue to incur exceptional rental costs over the next four or five years until we return to our new offices at The London Television Centre. Further details can be found in the Operating and Financial Review.

The cash cost of exceptionals in the period was £47 million (2017: £106 million).

EPS – adjusted and statutory

Overall, adjusted profit after tax was down 8% at £286 million (2017: £310 million). After non-controlling interests of £1 million (2017: £3 million), adjusted basic earnings per share was 7.1p (2017: 7.7p), down 8%, which is broadly consistent with the decrease in adjusted EBITA of 7%. The weighted average number of shares declined to 3,998 million (2017: 4,010 million) because ITV bought shares during 2017 on behalf of the Employee Benefit Trust and, in line with accounting standards, shares held by the Trust are not included in the EPS share count. Diluted adjusted EPS in 2018 was 7.1p (2017: 7.6p) reflecting a weighted average diluted number of shares of 4,009 million (2017: 4,019 million). The weighted average diluted number of shares was down year-on-year because of a decrease in the number of shares expected to vest in ITV's long term incentive plans in the future.

Statutory EPS grew by 4% to 5.3p (2017: 5.1p) with the decline in earnings more than offset by a reduction in exceptional items, amortisation and impairments, and net financing costs.

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

Dividend per share

ITV continues to deliver a strong operational performance in an uncertain market environment. In addition, we have announced a new strategy which we believe will strengthen ITV to ensure it is well positioned to address the opportunities and challenges of a competitive media landscape.

For the period of investment in 2018 and 2019 the Board intends to pay at least an 8p dividend per year. This reflects the Board's confidence in the business and in the new strategy as well as the continued strong cash generation. The Board expects that over the medium term the dividend will grow broadly in line with earnings.

Consistent with this the Board has declared an interim dividend of 2.6p which is up 3% on 2017.

Balance Sheet and Cash flow

One of ITV's key strengths is its healthy cash flows reflecting our ongoing tight management of working capital balances and our disciplined approach to cash and costs. This is particularly important when there is wider political and economic uncertainty. Remaining focused on cash and costs means we are in a good position to continue to invest across the business in line with our new strategic priorities and continue to deliver sustainable returns to our shareholders.

In the period, we generated £295 million (2017: £292 million) of operational cash from £375 million (2017: £403 million) of adjusted EBITA, which equates to a strong profit to cash ratio of 94% after capex on a rolling 12-month basis (2017: 91%). In the period, we saw an increase in working capital. This was due the decrease in stock and receivables more than offset by a decrease in payables across the Group.

To facilitate our working capital management, we have a £100 million non-recourse receivables purchase agreement (free of financial covenants), which gives us the flexibility to access additional liquidity when required. At the 30 June, £70 million of receivables were sold under the purchase agreement (31 December 2017: £90 million).

Our free cash flow after payments for interest, cash tax and pension funding remained healthy in the period, up 22% to £184 million (2017: £151 million).

Overall, after dividends, acquisitions and acquisition-related costs, pension and tax payments, we ended the period with net debt of £1,034 million, compared with net debt of £912 million at 31 December 2017 and net debt of £1,074 million at 30 June 2017.

We have a number of facilities in place to preserve our financial flexibility. We have a £630 million Revolving Credit Facility (RCF) in place until 2022 (with the option to extend to 2023). We also have a bilateral financing facility of £300 million, which is free of financial covenants and matures in 2021. This provides us with sufficient liquidity to meet the requirements of the business in the short to medium term. The RCF has the usual financial covenants for this type of financing. Of the total £930 million of facilities in place, £160 million was drawn down at 30 June 2018. Our policy is to maintain at least £250 million of available liquidity at any point.

Our objective is to run an efficient balance sheet. We have always believed that maintaining leverage at around 1.5x net debt to adjusted EBITDA will optimise our cost of capital and maintain our investment grade credit. At 30 June 2018 reported net debt to adjusted EBITDA on a rolling 12 month basis was 1.2x (31 December 2017: 1.0x and 30 June 2017: 1.2x). Our priority remains to invest to drive organic growth and we have made acquisitions where we have found the right opportunities. We will continue to look at opportunities under the new strategy. We will balance this investment with attractive returns to shareholders. Our investment decisions are based upon value creation and returns analysis. Our returns analysis looks at the 360 degree value creation and the long-term future value of our investments in both Broadcast and Studios.

In light of changes from IFRS 16 'Leases' which will come into effect in 2019, we may look to revisit the 1.5x net debt to adjusted EBITDA guidance. We will work with the ratings agencies as part of this process, but wherever we conclude on this our commitment to investment grade will underpin the outcome.

Pensions

The net pension surplus for the defined benefit schemes at 30 June 2018 was £86 million (31 December 2017: £83 million deficit). This is primarily as a result of a decrease in the gross liabilities together with deficit funding payments of £47 million made in the period.

The gross liabilities reduced principally due to an increase in corporate yields. This was further improved by a decrease in the market expectation of long-term inflation rates.

The net pension surplus includes £42 million of gilts, which are held by the Group as security for future unfunded pension payments of four former Granada executives, the liabilities of which are included in our pension obligations.

A full reconciliation is included within note 3.2.

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

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

The Group's deficit funding contributions in the first half of 2018 were £47 million. The total expected deficit funding contribution for 2018 will be consistent with prior years. Further details are included within Note 3.2.

In 2019, we expect deficit funding contributions of around £75 million.

Outlook

Looking ahead our guidance for the full year remains unchanged.

We have today announced a new strategy with clear priorities and initiatives which we believe will deliver growth and strengthen ITV to ensure it is well positioned to address the opportunities and challenges of a competitive media landscape. We are starting to implement our strategy immediately and in 2018 will be investing in technology and people to bring in the capabilities we need to execute the plan. Our previous investment target of £15 to £20 million for 2018 gives us the capacity to do this within our current guidance.

ITV Studios has a strong pipeline of new and returning drama and entertainment shows, including Alone, Queer Eye, Suburra, The Hunt, Milk & Honey and House of Talent. We are confident that we will deliver good organic growth over the full year and we have already secured almost 90% of our target revenues and that represents nearly £100 million more revenue than we had this time last year. Within that we have 263 new or recommissioned shows, which is 36 more than this time last year.

Total advertising is expected to be up 1% over the nine months with Q3 broadly flat against a backdrop of wider market uncertainty. Within that we expect to again deliver double digit revenue growth in Online.

On screen we have a strong slate of new and returning programmes for the remainder of the year including Vanity Fair, Strangers, X Factor, I'm A Celebrity...Get Me Out of Here!, Jonathan Ross and Don't Hate the Playaz.

In the first half of the year the Government announced the Second Chapter in its Obesity strategy. As part of that there will be a consultation on the possibility of introducing a 9pm watershed on TV advertising of HFSS products and similar protection for children viewing adverts online which will commence before the end of the year. The government has committed to explore options to ensure that any restrictions are proportionate. We are fully engaged in this process and believe that there is a strong, evidence based, case for alternatives to a pre-9pm ban.

2018 full year planning assumptions

Profit and Loss impact:

- Total schedule costs are expected to be £1,055 million to £1,060 million
- Total investment of around £15-£20 million which includes initial investment in line with the new strategy
- Adjusted interest is expected to be around £35 million, which is broadly unchanged from 2017
- The adjusted effective tax rate is 19%, which is unchanged and expected to be sustainable over the medium term
- The translation impact of foreign exchange, assuming rates remain at current levels, could have a £20 million negative impact on revenue and £nil million impact on profit
- Exceptional items are expected to be around £85 million, mainly due to acquisition accounting and the London Property redevelopment project.

Cash impact

- Total capex is expected to be around £100 million, comprising of £60 million of regular capex to support the business and £40 million relating to the redevelopment of our London site
- The cash cost of exceptionals will be around £85 million, largely relating to accrued earnouts
- Profit to cash is expected to be around 85%, reflecting our continued strong cash generation and investment in Studios working capital
- Total pension deficit funding contribution for 2018 will be consistent with prior years.

2019 full year planning assumptions

- Total schedule costs are expected to be £1.1 billion and will be held for three years to 2021 at roughly this level
- Total investment of around £40 million in line with new strategy priorities
- £15 million cost savings to fund strategic priorities
- £15-20 million exceptional costs of change to deliver cost savings in 2019. Total exceptional costs of change could be up to £30 million over the three years
- Total pension deficit funding is expected to be around £75 million

Notes to editors

1. Unless otherwise stated, all financial figures refer to the 6 month period ended 30 June 2018, with growth compared to the same period in 2017.

2. Group external revenue

| Six months to 30 June | 2018 £m | 2017 £m | Change £m | Change % |
|------------------------|--------------|------------|--------------|-------------|
| Broadcast & Online | 1,045 | 1,016 | 29 | 3 |
| Studios | 803 | 692 | 111 | 16 |
| Internal Supply | (255) | (239) | 16 | 7 |
| Group external revenue | 1,593 | 1,469 | 124 | 8 |

3. Total advertising was up 2% in H1 as expected, with May up 1% and June up 22%. Total advertising is forecast to be broadly flat in Q3 with July up 9%, August down 7%, and September down 0 to 5% and the 9 months to the end of September up around 1%. These revenues include spot advertising, online, sponsorship and other advertising revenues and excludes self-promotion. Figures for ITV plc are based on ITV estimates and current forecasts.

4. Key performance indicators

| Six months to 30 June | 2018 | 2017 | Change % |
|-----------------------------------------------------------------------------|--------------|-------|-------------|
| ITV Family SOV – six months to 30 June | 23.5% | 21.6% | 9 |
| ITV Family SOCI – six months to 30 June | 36.7% | 34.5% | 6 |
| ITV adult impacts – six months to 30 June | 110bn | 106bn | 5 |
| Long form online viewing – six months to 30 June (hrs) | 209m | 158m | 33 |
| Total long form video requests (all platforms) – 6 months to 30 June | 847m | 690m | 23 |

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

At the full year we will report in line with our new KPI's

5. The 2018 interim dividend will be paid on 3 December 2018. The ex-dividend date is 25 October 2018 and the record date is 26 October 2018.

6. Capital Markets Day will be held on 19th September 2018

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

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

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Strategy Update

ITV's Vision is to be...More Than TV

We have undertaken a strategic refresh to help us highlight the opportunities for ITV and also the challenges we will need to address. This is a refresh as ITV is a strong business, no longer solely reliant on UK advertising. 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 – our integrated producer broadcaster (IPB), is a significant competitive advantage. But the market is clearly changing and to reflect this we have developed a clear vision and initiatives to drive growth and make ITV a more resilient and a structurally sound business.

We believe that with our refreshed strategy we will continue to generate significant cash and deliver sustainable returns to shareholders. This will come from a strengthened high margin IPB, a growing and stable margin Studios business and by us creating a new scaled and profitable Direct to Consumer business. We have delivered a strong operating performance in the first half which means we are executing the refreshed strategy from a position of strength, with a solid balance sheet which underpins this.

Market context

Television remains resilient but there is of course no doubt that the media market is changing and how people choose to view is evolving. And the pace of change is rapid.

People watch 203 minutes of TV per day and while it's down on the previous year, it's still a significant number. Live television remains the preferred way of watching content, even for younger audiences – in fact over 70% of all television is still watched live. And while 16 to 34's are watching less TV – our performance clearly demonstrates that if you deliver great content, programmes such as Love Island, I'm A Celebrity and Survival of the Fittest, young audiences watch it in their millions across linear and online. It is our challenge to keep delivering the great content that really engages this audience and all our audiences.

Advertising on the tech giants continues to grow, but brand owners are challenging what some online advertising actually delivers and we are now starting to see more questions being asked about unacceptable content, measurability and trust. TV is and we believe will continue to be a key part of all marketing campaigns. ITV is also taking more than its share from the growth in online advertising with the ITV Hub delivering a high quality, trusted and measured environment.

Netflix and Amazon are global players and their budgets reflect this. ITV broadcasts just in the UK and our £1.1bn programme spend does a fantastic job at delivering mass quality audiences, with a reach well in excess of what anyone else can achieve. And we do not believe we need to increase this spend to support our Broadcast business over the next three years. We are competing with these OTT players but our integrated producer broadcaster model is a strategic advantage backed by our strong creative pipeline of content which we own and 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 – 92 out of the top 100 programme titles broadcast in the UK all originated locally. And 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.

We believe that ITV has the resources and foundations to succeed and win in this changing environment.

ITV's vision – More than TV

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.

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;
- 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, and
- we will continue to be a cash generative and growing business delivering value for our shareholders.

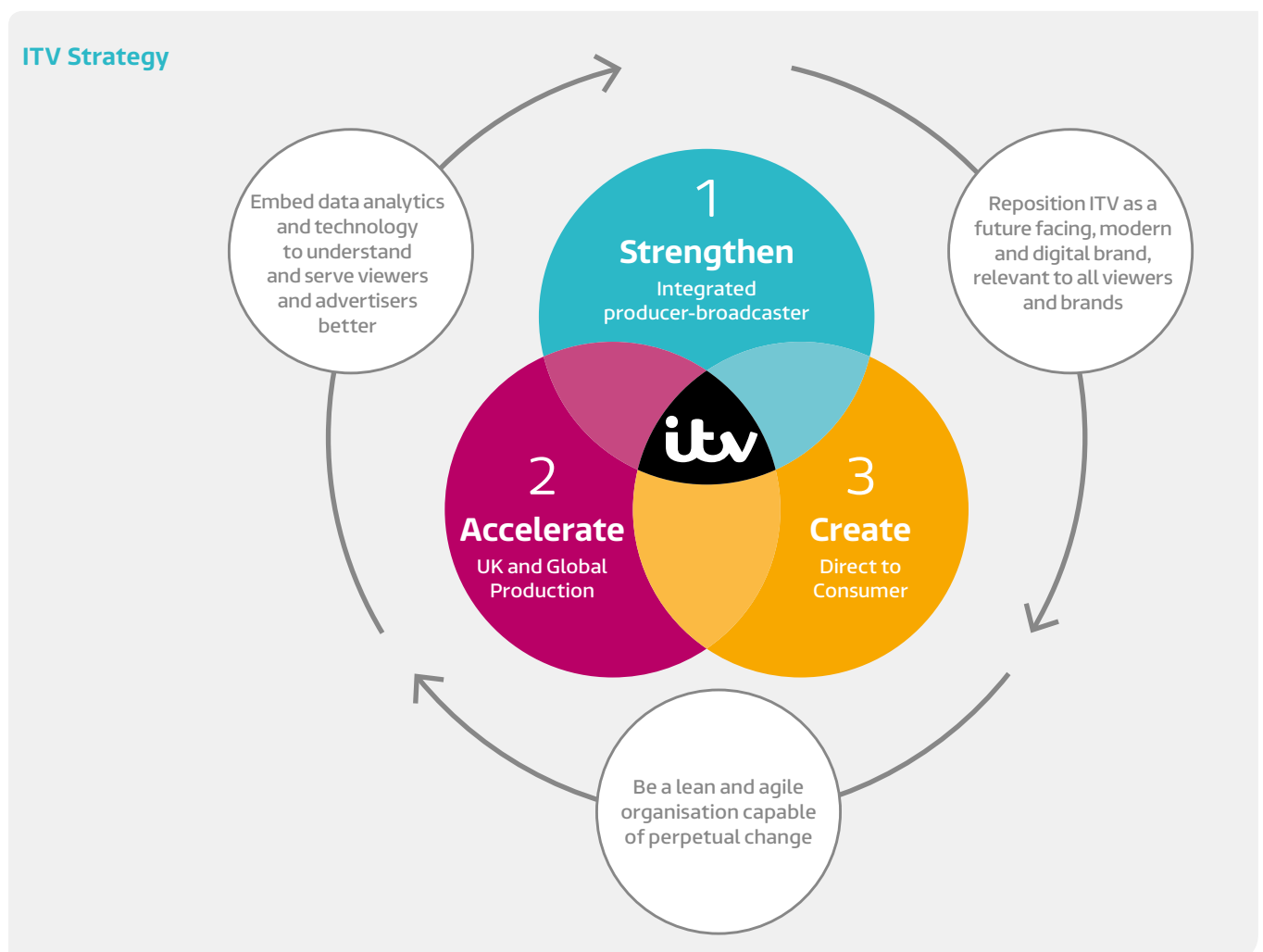
This is the next exciting chapter in ITV's story. We will compete where we can win – domestically where we intend to lead in broadcasting and on demand, and globally as a world class Studios business.

ITV's strategy

In the future, we'll focus on three key areas

- Strengthening the integrated producer broadcaster
- Growing UK and Global production, and
- Creating a scaled Direct to consumer business

These are not independent silos. They work together – reinforcing each other creating synergies and delivering value. Great content is a core strength of ITV and driving viewers and profit across ITV.



Strategy Update continued

Strengthen the integrated producer broadcaster (IPB)

We'll strengthen our core UK IPB business to ensure that we can address the opportunities and challenges of structural change and provide a strong, branded and data rich relationship with our viewers and advertisers. We will extend the benefits of the IPB and expand our leadership as the best partner for brands.

There are five key component to our IPB strategy:

- Investing in the Hub to make it a destination for viewers rather than just a catch up service.
- Investing in the ITV brand to broaden the appeal of ITV and in particular to attract light viewers – those who watch limited ITV content.
- Investing in data, analytics, insight and technology so we understand and serve our viewers better, driving further engagement, viewing and monetisation.
- Supporting our advertisers better, driving effectiveness and expanding our portfolio of data driven marketing solutions.
- Working more closely with Studios, maximising the value of our investment in content.

ITV Hub

Going forward the Hub will be managed as a core part of our offering. Historically the Hub was run as a stand alone separate business and as a result we were not getting the full value from it.

We are focused on improving the user experience, with more personalisation, evolving the product and content offering and making it consistent across all platforms. 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 will also aim to increase our monthly active users to increase reach, engagement and frequency.

Building the ITV brand and engaging light viewers

The second part of our strategy to strengthen the broadcast business is to reposition the brand. Research shows we are not 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 platforms and demographics.

There are many people who only watch a limited amount of ITV content a week. They do not see us as a destination. Advertisers want reach as well as mass audiences and therefore it is important that we increase our engagement with these light viewers. Our analysis indicates the 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 relationships. We believe we can increase total viewing amongst this segment which will help underpin a more stable viewing performance and improve our reach – a key competitive commercial advantage for ITV.

Commercial ambition

TV's overall proposition to advertisers remains strong and it is about to get stronger as we aim to be able to offer advertisers the best of both worlds. Television gives immediate scale, reach and fame for advertisers that just cannot be achieved anywhere else in the UK. It also 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 to complement the mass scale of our robust linear viewing. Therefore in terms of measuring performance going forward we will focus on ITV total advertising which includes our spot advertising revenues, VOD and sponsorship.

In addition, we will evolve our partnerships with agencies; create a client team to strengthen our direct relationships with advertisers; and expand our creative teams in commercial to fully leverage our creative power from across ITV to deliver an innovative portfolio of marketing solutions across all our platforms. The effective use of data is a key part of the strategy.

360 monetisation

Going forward we will implement a structured 360 approach to monetisation opportunities on selected programme brands. The success of Love Island shows the value this can create as we not only deliver significant revenues through advertising and sponsorship but also licensing and merchandising partnerships in the UK. Through its great engagement and our relationships with viewers we are also driving more value directly from the consumer through games, voting and competitions. Its success in the UK has also helped us sell it internationally and we now produce it in seven countries and are actively selling it to many more.

Data analytics

Gathering and using data will be a key focus of the IPB and Direct to Consumer businesses. We already have a technology platform which we are developing but we have large amounts of data sitting in many different parts of ITV. In order to be able to gain insight and value from this, we need to bring it all together in 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 more targeted and addressable advertising and also through Direct to Consumer.

To do this we need the right skills and capabilities. We are in the process of appointing a Chief Technology Officer who will sit on the management board and also close to appointing a Chief Data Officer, who will lead a team of data scientists and analysts. We are creating a Centre of Data Excellence, pulling together and upskilling our disparate data resources across ITV and recruiting some new capability. On the Hub, data will enable us to increase personalisation of the content and experience, such as programme recommendations and onward journey recommendations. It will also enable more efficient re-engagement of inactive users and give marketing laser focussed targeting to support the drive to increase light viewers.

Data will enable improved ad monetisation – delivering advertisers more tailored audiences. For example, creating audience segments for advertisers around viewing behaviour on the Hub. The capture and analysis of data will also help us build a scaled Direct to Consumer business with cross promotion and direct marketing, 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 quiz event.

Investments and KPIs

We will invest an additional £40 million in our integrated producer broadcaster across the next 3 years, across advertising, marketing and the Hub as outlined earlier.

Overall our KPIs will be looking at total viewing and advertising across all our platforms – Total advertising revenue and Total ITV viewing. On viewing we have an ambitious aim to maintain our total viewing across all our platforms and 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 advertising revenue when NAR is broadly flat.

We will also measure and manage the business with specific KPIs for our viewing, growing the Hub and improving our brand health and light viewer engagement. 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 the value from the investments we are making. We will deliver 30 million registered users on the Hub; we will deliver double digit online revenue growth per annum, and we will grow our brand consideration to 60%.

Grow UK and Global production

Our second strategic focus is Studios and 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 now 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 content produced in 2017 and 62 different formats.

Using our competitive advantage as an IPB we will work more closely with the broadcast business. 360 commissioning has been discussed a lot in the past – this time we are putting some structure in place to support this – a 360 forum to facilitate easier and quicker decisions – a joint entertainment pilot scheme and a drama investment fund 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 and we will continue to do this. Demand for great content has never been stronger – so this continues to be a real opportunity.

The core drivers of this business are creative talent, creating hits, monetising them effectively and being disciplined and efficient. We are very focused on developing more hits and to do this we need to keep attracting and retaining great talent and we will ensure we have the right creative and commercial environment to do this. We will also consider selective value creating M&A and talent deals in both scripted and unscripted to obtain creative talent and IP. We have eliminated the option of doing any scaled US scripted acquisitions for the foreseeable future.

Strategy Update continued

Now that we have 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. We are also delivering efficiencies through relocating teams and using shared service functions across all our portfolio of labels.

Going forward, we will be increasingly commercial in the way we monetise our formats and IP. We will also look at further opportunities to licence our brands and library and drive value through merchandising.

Investments and KPI's

We will invest £10 million in the Studios business over the next three years building our creative talent, investing in our creative pipeline and our monetisation capabilities.

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 hours by 2021. The margin will be between 14% and 16% depending on the genre mix.

We expect growth in both scripted and unscripted but that growth is likely to be faster in scripted. We will measure the performance of our scripted business by looking at the number of hours and returning hours to measure quantity and quality of what we produce. Similarly, in unscripted we will measure the number of unscripted hours we produce, the number of formats we create and how well they are selling internationally.

Create Direct to Consumer

Our third driver of future growth is all about the consumer and we are creating a new Direct to Consumer business.

We see a real opportunity to tap further into consumer's willingness to pay for great content and to engage with ITV as a trusted brand. Today we have over 28 million consumer relationships across our business. With around one in five of those actually spending money with us. 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 attending live events. We do a limited amount of this at the moment but it's well 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 a passionate fan base who love what we do and want to engage with us beyond the screen.

Direct to Consumer opportunities

Opportunities to grow our consumer revenues will be strengthened by the same investments we are making in our IPB – in marketing and in data with the establishment of our Centre of Data 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. For example in Events we are creating a dedicated team to develop ideas. Looking at opportunities to extend This Morning live to other day time formats and to other regions. 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; and we are looking at opportunities to develop new content and experiences – around gaming, pay per view and merchandising. We believe that our investments in analytics will continue to drive insight, innovation and growth in all of these areas.

SVOD

In addition, we see an opportunity to create an SVOD service in the UK on the back of our brands, our content and significant cross promotion capability. Our 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 are very likely to subscribe because of quality British content – and we are very well positioned to deliver this.

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

Investments and KPIs

Specific Direct to Consumer investment is approximately £10 million over the three years as a lot of the investment is already covered in the investment in the Hub, data and the brand which will drive Direct to Consumer revenues and profits. Our key target is to drive revenues to at least £100 million over the 3 years and we will also deliver 10 million paying product relationships. We will also measure our performance through specific KPIs including total relationships, our increase in 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.

ITV Strategy – Enablers

Finally, to deliver our strategy we need to do three things extremely well.

- We need to communicate and market ourselves really effectively to engage across our platforms and gain more light viewers.
- We need to be a lean and agile organisation with a culture that can constantly adapt to change. We will redesign our organisation to be more creative, more digital and more commercial. We must also of course ensure that we continue to develop the skills and capabilities we already have to deliver world class content.
- We need to ensure that we embed data, analytics and technology right across our businesses.

Investments and cost savings

Bringing 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 to £40 million of cost savings which we will achieve without impacting the culture and creative and commercial strength of the business. In 2020 and 2021 the in year investments will be totally offset by cost savings.

The net impact over the plan is £20 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 for Online, the Hub, Studios and Direct to Consumer and will more than cover the net impact, but will be back end loaded.

There will be £15 million of exceptional costs of change in 2019 to deliver the cost savings.

Group financial KPIs

We also have group financial targets which are around cash and costs. It is essential that we maintain our financial discipline and so as well as our cost savings we will look to maintain our profit to cash conversion at around 85%.

In addition we have a target which reflects our aim to increasingly diversifying the business by growing our non advertising 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 from consumers. Seven years ago ITV was predominantly funded just from advertisers.

Capital allocation framework

As part of our refreshed strategy we are investing to drive organic growth in the business. We may also look at selective value creating M&A in line with our strategic priorities. This will be disciplined, targeted M&A, focussed on value creation and returns above our cost of capital.

The Board intends 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. Consistent with this, the Board has declared an interim dividend of 2.6p which is up 3% on 2017. Over the medium term the Board intends that the dividend will grow broadly in line with earnings.

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

Summary

Today we have announced a clear vision – More than TV – and initiatives for how we can and will compete in a rapidly changing environment. Implementing the strategy and creating value requires relentless focus on delivery but we are clear about what we need to do and how we will measure success. And we have already started investing, especially in technology and bringing key data capabilities into the business.

Through this strategy we will create a resilient and growing business

- an 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,
- it will create value by developing and nurturing strong direct consumer relationships, and
- a business which will deliver attractive sustainable returns to shareholders.

Alternative Performance Measures

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

In light of the strategic refresh we have reviewed our APMs which are unchanged. Our APMs are aligned to our strategy and business segments and together are used to measure the performance of our business and form the basis of the performance measures for remuneration.

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

Key adjustments for adjusted EBITA, profit before tax and EPS

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

Production tax credits

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

Exceptional items

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

Acquisition-related costs

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

Restructuring and reorganisation costs

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

Property costs

In the first half of 2018, we relocated to various properties on a temporary basis while our headquarters are redeveloped. The fit-out costs were capitalised but the incremental one-off property project costs, including move costs, rental payments for these properties and accelerated depreciation for assets made redundant due to the move, were ring-fenced as they relate to a one-off property project and are therefore excluded from our adjusted measures. As a ring-fenced cost, rental payments will continue to be excluded from our adjusted measures until we move back, which is expected in 2023.

Amortisation and impairment

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

Net financing costs

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

A full reconciliation between our adjusted and statutory results is provided below.

Reconciliation between statutory and adjusted results

| Six months to 30 June | 2018 Statutory £m | 2018 Adjustments £m | 2018 Adjusted £m | 2017 Statutory £m | 2017 Adjustments £m | 2017 Adjusted £m |
|---------------------------------------------------------------------------------------|-------------------------|---------------------------|------------------------|-------------------------|---------------------------|------------------------|
| EBITA ¹ | 367 | 8 | 375 | 395 | 8 | 403 |
| Exceptional items (operating) ² | (41) | 41 | – | (53) | 53 | – |
| Amortisation and impairment ³ | (41) | 38 | (3) | (58) | 55 | (3) |
| Operating profit | 285 | 87 | 372 | 284 | 116 | 400 |
| Net financing costs ⁴ | (18) | 3 | (15) | (23) | 6 | (17) |
| Share of losses on JVs and Associates | (3) | – | (3) | (2) | – | (2) |
| Gain on sale of non-current assets and subsidiaries (non-operating exceptional items) | 1 | (1) | – | – | – | – |
| Profit before tax | 265 | 89 | 354 | 259 | 122 | 381 |
| Tax ⁵ | (52) | (16) | (68) | (53) | (18) | (71) |
| Profit after tax | 213 | 73 | 286 | 206 | 104 | 310 |
| Non-controlling interests | (1) | – | (1) | (3) | – | (3) |
| Loss from discontinuing operations (net of tax) | – | – | – | – | – | – |
| Earnings | 212 | 73 | 285 | 203 | 104 | 307 |
| Shares (million), weighted average | 3,998 | | 3,998 | 4,010 | | 4,010 |
| EPS (p) | 5.3p | | 7.1p | 5.1p | | 7.7p |
| Diluted EPS (p) | 5.3p | | 7.1p | 5.1p | | 7.6p |

1. £8 million adjustment relates to production tax credits which we consider to be a contribution to production costs and working capital in nature rather than a corporate tax item.
2. Exceptional items largely relate to acquisition costs, primarily employment linked consideration, as well as property costs. Further detail is included in the Operating and Financial Review.
3. £38 million adjustment relates to amortisation and impairment of assets acquired through business combinations and investments. We include only amortisation on purchased intangibles such as software within adjusted PBT.
4. £3 million adjustment is primarily for non-cash interest cost. This provides a more meaningful comparison of how the business is managed and funded on a day-to-day basis.
5. Tax adjustments are the tax effects of the adjustments made to reconcile PBT and adjusted PBT. A full reconciliation is included in the Operating and Financial Review.

Alternative Performance Measures continued

Other Alternative Performance Measures

Total revenue

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

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

| | 2018 £m | 2017 £m |
|---------------------------------|--------------|--------------|
| Six months to 30 June | | |
| External revenue (statutory) | 1,593 | 1,469 |
| Internal supply | 255 | 239 |
| Total revenue (Adjusted) | 1,848 | 1,708 |

Adjusted net debt

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

| | 2018 £m | 2017 £m |
|-------------------------------------------------------------|-------------|-------------|
| As at 30 June 2018 | | |
| Net debt | (1,034) | (1,074) |
| Expected contingent payments on acquisitions – undiscounted | (269) | (257) |
| Net pension deficit* ¹ | – | (343) |
| Operating leases* ² | (154) | (404) |
| Adjusted net debt | (1,457) | (2,078) |
| Adjusted net debt to adjusted EBITDA*³ | 1.7x | 2.4x |
| Reported net debt to adjusted EBITDA*³ | 1.2x | 1.2x |

1. Net pension deficit for 2018 is excluded as the schemes are in net surplus

2. 2018 excludes transponder costs, which are now treated as service contracts. The comparator has not been re-presented.

3. On a 12-month rolling basis

Net pension deficit/surplus

This is our defined benefit pension deficit/surplus under IAS 19 adjusted for other pension assets, mainly gilts, which are held by the Group as security for future unfunded pension payments for four former Granada executives and over which that pension scheme holds a charge. A full reconciliation is included within note 3.2.

Profit to cash conversion

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




Free cash flow

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

Key Performance Indicators

As part of the strategy refresh we have realigned our KPIs to our new strategic priorities. Going forward we will report the following KPIs which is how we manage and measure the business.

Further detail on our new KPIs can be found in the Strategy section.

| Strategy | KPIs for measuring performance | | Targets – over 3 years to 2021 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  <p>1 Strengthen Integrated producer broadcaster</p> | Advertising | <ul style="list-style-type: none"> Total advertising revenue | <ul style="list-style-type: none"> Grow ITV Hub registered users to 30 million Double digit online revenue growth per annum Increase brand consideration to 60% |
| | Marketing and Viewing | <ul style="list-style-type: none"> ITV Family SOV % ITV Family SOCI % Total ITV viewing Monthly total reach % of Commercial audiences over 5 million | |
| | Hub | <ul style="list-style-type: none"> Registered users Online consumption Long form video requests % increase in monthly active users | |
|  <p>2 Grow UK and Global Production</p> | Scripted | <ul style="list-style-type: none"> Drama hours (excluding soaps) Returning drama hours Total scripted revenue | <ul style="list-style-type: none"> Grow total production hours to 10,000 Total Studios revenue to grow at least 5% CAGR EBITA margin of 14% to 16% |
| | Unscripted | <ul style="list-style-type: none"> Number of unscripted hours Total number of formats Number of formats sold in 3 or more countries Total unscripted revenue | |
|  <p>3 Create Direct to Consumer</p> | | <ul style="list-style-type: none"> Total Direct to Consumer relationships % increase in monthly active users % conversion rate to paying relationships Net promoter score Unique customer relationships ARPU | <ul style="list-style-type: none"> Grow Direct to Consumer revenue to at least £100 million 10 million paying product relationships |
| Group Financial KPIs | | <ul style="list-style-type: none"> Adjusted EBITA Adjusted EPS | <ul style="list-style-type: none"> Grow total non advertising revenues by at least 5% CAGR Deliver £35 to £40 million of cost savings over 3 years Maintain profit to cash conversion at around 85% |

Key Performance Indicators continued

Our existing KPIs aligning with our previous strategy are set out below for the first six months of 2018.

| Six months to 30 June | 2018 | 2017 | Absolute change |
|----------------------------------------------|--------------|-------|-----------------|
| Adjusted EBITA | £375m | £403m | £(28)m |
| Adjusted earnings per share | 7.1p | 7.7p | (0.6)p |
| Profit to cash ratio 12 month rolling | 94% | 91% | 3% |
| ITV Family Share of Viewing (SOV) | 23.5% | 21.6% | 1.9% |
| ITV Family Share of Commercial Impacts (SOC) | 36.7% | 34.5% | 2.2% |
| Total long-form video requests | 847m | 690m | 157m |

Operating and Financial Review

ITV has delivered a strong operational performance in the first six months of 2018

We have delivered a strong operational performance in an uncertain market environment. On-screen, our share of viewing has again grown, increasing for the third consecutive year, up 9%, and the ITV Hub continues to deliver strong viewing, up 33%. Total advertising revenue grew 2% as expected which includes online revenue up 48%, and total ITV Studios revenue increased 16% including the unfavourable impact of currency. We have a strong creative pipeline of high-quality programmes, particularly drama and entertainment, and we continue to perform well across the key genres that return and travel.

This provides the strong foundations on which to build and we have today announced a new strategy with clear priorities and initiatives which we believe will deliver growth and strengthen ITV to ensure it is well positioned to address the opportunities and challenges of a competitive media landscape.

| Six months to 30 June | 2018 £m | 2017 £m | Change £m | Change % |
|-------------------------------|----------------|----------------|---------------|-------------|
| Broadcast & Online | 1,045 | 1,016 | 29 | 3 |
| ITV Studios | 803 | 692 | 111 | 16 |
| Total revenue* | 1,848 | 1,708 | 140 | 8 |
| Internal supply | (255) | (239) | 16 | 7 |
| Group external revenue | 1,593 | 1,469 | 124 | 8 |
| Group adjusted EBITA | 375 | 403 | (28) | (7) |
| Group adjusted EBITA margin | 24% | 27% | | |
| Adjusted EPS | 7.1p | 7.7p | (0.6p) | (8) |
| Statutory EPS | 5.3p | 5.1p | 0.2p | 4 |
| Dividend per share | 2.60p | 2.52p | 0.08p | 3 |
| Net debt | (1,034) | (1,074) | 40 | 4 |

| Six months to 30 June | 2018 £m | 2017 £m | Change £m | Change % |
|-------------------------------|--------------|--------------|--------------|-------------|
| Total advertising revenue | 890 | 871 | 19 | 2 |
| Total non-advertising revenue | 958 | 837 | 121 | 14 |
| Total revenue* | 1,848 | 1,708 | 140 | 8 |
| Internal supply | (255) | (239) | 16 | 7 |
| Group external revenue | 1,593 | 1,469 | 124 | 8 |

* IFRS 15 'Revenue from Contracts with Customers' was effective from 1 January 2018. Please see Section 1 of the Notes to the accounts for further details.

Total ITV revenue increased 8% to £1,848 million, with external revenue also up 8% at £1,593 million. Total non-advertising revenue grew 14% to £958 million. Total non-advertising now accounts for 52% of total revenue.

Adjusted EBITA declined 7% to £375 million (2017: £403 million) and adjusted EPS declined 8% to 7.1p (2017: 7.7p) with the 7% growth in ITV Studios EBITA offset by the 12% decline in Broadcast & Online EBITA. Broadcast & Online EBITA was impacted by higher schedule costs due to the World Cup.

Adjusted financing costs were broadly in line year on year and our adjusted tax rate at 19% has also not changed. Adjusted EPS declined by 8% to 7.1p. Statutory profit before tax grew by 2% to £265 million (2017: £259 million) and statutory EPS was up 4% to 5.3p as the decline in earnings was offset by a reduction in exceptional items, and amortisation and impairments, which is explained over the following pages.

We have a strong balance sheet and the business continues to be highly cash generative. Our profit to cash conversion remains high at 94% and we ended the period with net debt of £1,034 million (31 December 2017: £912 million). 1.2x net debt to adjusted EBITDA provides headroom against our investment grade rating.

Operating and Financial Review continued

This places us in a good position to continue to invest in growing a stronger, more resilient business with the implementation of our refreshed strategy, while also continuing to deliver sustainable returns to our shareholders.

For the period of investment in 2018 and 2019 the Board intends to pay at least an 8p dividend per year. This reflects the Board's confidence in the business and in the new strategy as well as the continued strong cash generation. The Board expects that over the medium term the dividend will grow broadly in line with earnings.

Consistent with this, the Board has declared an interim dividend of 2.6p which is up 3% on 2017.

We measure performance through a range of metrics, particularly through our alternative performance measures and KPIs, all of which are set out in this report. These have been reviewed and aligned to the refreshed strategy.

Broadcast & Online Financial performance

Broadcast & Online total revenue was up 3% in the period at £1,045 million (2017: £1,016 million).

We have changed the way we report our Broadcast & Online revenues to focus on total advertising which includes ITV Family NAR, VOD, sponsorship and other advertising revenues. We have also split out our Direct to Consumer revenues to reflect our strategic priorities going forward.

We delivered 2% growth in total advertising revenue at £890 million (2017: £871 million) with online revenue up 48%.

Advertising categories such as Retail, FMCG, Finance, and Airlines, Travel and Holidays continued to see declines in advertising due to the uncertain economic outlook, leading advertisers to reduce spend to maintain margins. Within Retail, we have seen spending decline on both the high street and the supermarkets. Entertainment & Leisure was up, in particular around the World Cup. Telecommunications and Computing increased their spend around product launches and digital brands continue to spend heavily on television to build brand awareness.

We have provided more detail on our costs to highlight the variable areas of our cost base, especially as we grow new revenue streams. Total costs were up £65 million, over half of this is driven by higher schedule costs weighted towards H1 with the phasing of the World Cup. Variable costs increased with significant growth in online, and investment on the Hub, Hub+ and ITV Box Office (our pay-per-view channel used to show boxing matches). Broadcast infrastructure and overheads increased with foreign exchange movements on our Euro denominated transmission contracts, and property costs from our new London property buildings.

Overall Broadcast & Online adjusted EBITA declined 12% to £257million (2017: £293 million) which has led to a four percentage point reduction in the adjusted EBITA margin to 25% (2017: 29%).

| Six months to 30 June | 2018 £m | 2017 £m | Change £m | Change % |
|----------------------------------------------------|--------------|------------|--------------|-------------|
| Total advertising revenue | 890 | 871 | 19 | 2 |
| Direct to consumer | 41 | 29 | 12 | 41 |
| SDN | 36 | 35 | 1 | 3 |
| Other revenue | 78 | 81 | (3) | (4) |
| Non-Advertising revenue | 155 | 145 | 10 | 7 |
| Total Broadcast & Online revenue | 1,045 | 1,016 | 29 | 3 |
| Network schedule costs | (567) | (532) | (35) | (7) |
| Variable Costs | (57) | (43) | (14) | (33) |
| Broadcast infrastructure and overheads | (164) | (148) | (16) | (11) |
| Total Broadcast & Online adjusted EBITA | 257 | 293 | (36) | (12) |
| Adjusted EBITA margin | 25% | 29% | | |

* IFRS 15 'Revenue from Contracts with Customers' was effective from 1 January 2018. Please see Section 1 of the Notes to the accounts for further details.

Viewing

On-screen we performed strongly with viewing up for the third consecutive year.

ITV Family SOV grew 9% with a strong performance across the schedule. This level of growth is the biggest in ITV's recent history and never before has ITV delivered three years of consecutive growth. Our ITV Family SOV is now the highest it has been for 10 years. Daytime shows including Good Morning Britain, This Morning and The Chase grew their audiences, and Coronation Street and Emmerdale continue to perform well and are now the UK's two largest soaps. We launched the sixth weekly episode of Coronation Street in September 2017, which has further strengthened its performance. We successfully aired a range of new dramas including Trauma, Innocent, and Girlfriends; entertainment shows, including Dancing on Ice and Survival of the Fittest; and successful factual, including The Queen's Green Planet. We continued to drive significant audiences with our returning brands such as Vera – which had its most successful series to date – Endeavour, The Durrells, Good Karma Hospital, Ant & Dec's Saturday Night Takeaway, Britain's Got Talent and The Real Full Monty. Our news programming continues to perform well, as does our sporting schedule with the World Cup, the Six Nations Rugby Championships and horse racing. ITV's coverage of England's semi-final against Croatia hit a peak of 26.6 million viewers. The match average of 24.3 million was bigger than the audiences for the Olympic Opening and Closing Ceremonies in 2012. While overall our schedule is performing very strongly, not all of our programmes performed as we had hoped so some, for example Next of Kin, will not return.

We continue to target the demographics most highly demanded by advertisers – particularly young and male audiences – through our digital channels and online, and have seen a significant increase in our target demographics on ITV2 and ITV4. Our 16-34s share of commercial impacts (SOCI) on ITV2 was up 19% helped by the phenomenal success of Love Island, achieving the second highest audience on a digital channel since records go back, as well as Survival of the Fittest, Celebrity Juice, Family Guy and American Dad. Male SOCI on ITV4 was up 8% helped by ITV's coverage of horse racing, The French Open and Tour de France. ITV3's viewing performance improved in the period due to the strong performance of dramas such as Midsomer Murders, Vera, Lewis and Endeavour. Following the closure of ITV Encore at the end of April 2018 the content has moved back to ITV3, adding to the strength of the schedule and improving viewing. ABC1 adults SOCI on ITV3 was up 6% making it the most popular digital channel for this demographic.

ITV Hub

The ITV Hub, the digital home for all our channels and content, is growing rapidly. This is driven by our viewers appetite to watch content any time, any where, be it catch up or increasingly, simulcast, and the quality of our content. The ITV Hub is now available on 28 platforms and is pre-installed on over 90% of all connected televisions sold in the UK.

Long-form video requests were up 23% and online viewing consumption, which measures how long viewers are spending online, was up 33% driven by viewing on mobile and connected televisions. The ITV Hub has now been the fastest-growing public service broadcaster online service for over three years. This comes from an improved user experience and great content. The ITV Hub now has 25 million registered users.

The ITV Hub helps ITV reach valuable younger audiences – 75% of the UK's 16–24 year olds are registered. Younger viewers increasingly use the ITV Hub for simulcast viewing, as well as catch up, with programmes such as the World Cup delivering record viewing with 0.9 million simulcast viewers for England's semi-final against Croatia. Love Island has achieved an average audience of 0.3 million via simulcast per episode, which is more than the linear audiences on most digital channels. In the first six months of 2018 simulcast requests are up 41% year on year.

Direct to Consumer

Direct to Consumer generates revenue directly from the customer, and includes competitions, voting, live events, SVOD and our pay per view boxing trial. Total revenue is currently small but up year on year. Growing a Direct to Consumer business will be a key focus of our new strategy.

Our competitions have performed well across the schedule. Interactive has further benefited from the continued growth of the competition portal. Programme related app downloads have been strong in the first half of the year, encouraging engagement and driving linear viewing. The Love Island app has seen exceptional downloads at 2 million, and 10 million votes have been cast via the app.

The trial of ITV Box Office launched in 2017 as a direct to consumer pay per view offering which focused initially on boxing. We also have a number of live events based around our key brands. For example, we have the Emmerdale Studios Experience, which showcases the process of creating an episode of the soap, and This Morning Live, a shopping and lifestyle festival. These both build relationships directly with our viewers.

As at 30 June 2018, ITV Hub+ subscribers, including subscribers via Amazon, had increased to 286k subscribers. The total number of subscribers is up over 500% year-on-year. The increase in subscribers has been driven by increased marketing, great content and EU portability. We expect subscribers to be seasonal, and the number of subscribers to vary during the year. The growth in subscribers increasingly gives us confidence that we have a role to play in SVOD.

Operating and Financial Review continued

In March 2017, we launched our US joint venture with the BBC Studios, BritBox, (with AMC Networks taking a minority share), an ad-free SVOD service offering the most comprehensive collection of British content in the US. A version of the service also launched in Canada in February 2018. Having exceeded 250,000 subscribers in less than a year from launch, the service is on track to double that number in its second year. Revenues from Britbox are not included in Direct to Consumer as it is accounted for as a joint venture.

SDN

SDN generates revenue by licensing capacity to broadcast channels, radio stations and data providers on digital terrestrial television or Freeview. It holds a licence with capacity for 16 broadcast channels, including ITV services and third-party channels. SDN external revenue grew 3% in the period.

Other revenue

Other revenue includes revenue from platforms, such as Sky and Virgin, and third party commissions, e.g. for services we provide to STV. This is down year on year due to the closure of Encore at the end of April 2018.

ITV continues to license its channels and content across multiple platforms, including our HD digital channels and catch-up VOD on Sky and Virgin Media set top boxes and all our live channels and catch up VOD across their connected platforms.

ITV Studios

Financial performance

ITV Studios total revenues grew 16% to £803 million (2017: £692 million) including an unfavourable currency impact, with growth across all our production businesses as we continue to build our capability in key creative markets. Total organic revenue, which excludes our 2017 acquisitions and currency, was up 11%. Revenue growth was driven by a significant increase in hours delivered, up 10% to over 4,000 hours.

| Six months to 30 June | 2018 £m | 2017 £m | Change £m | Change % |
|---------------------------------------|------------|------------|--------------|-------------|
| Studios UK | 328 | 306 | 22 | 7 |
| ITV America | 141 | 138 | 3 | 2 |
| Studios RoW | 247 | 159 | 88 | 55 |
| Global Entertainment | 87 | 89 | (2) | (2) |
| Total Studios revenue* | 803 | 692 | 111 | 16 |
| Total Studios costs | (685) | (582) | (103) | 18 |
| Total Studios adjusted EBITA** | 118 | 110 | 8 | 7 |
| Studios adjusted EBITA margin | 15% | 16% | | |

* IFRS 15 'Revenue from Contracts with Customers' was effective from 1 January 2018. Please see Section 1 of the Notes to the accounts for further details.

**Includes the benefit of production tax credits.

| Six months to 30 June | 2018 £m | 2017 £m | Change £m | Change % |
|----------------------------------------------|------------|------------|--------------|-------------|
| Sales from ITV Studios to Broadcast & Online | 254 | 239 | 15 | 6 |
| External revenue | 549 | 453 | 96 | 21 |
| Total Studios revenue | 803 | 692 | 111 | 16 |

| Six months to 30 June | 2018 £m | 2017 £m | Change £m | Change % |
|------------------------------|------------|------------|--------------|-------------|
| Scripted | 142 | 114 | 28 | 25 |
| Unscripted | 511 | 448 | 63 | 14 |
| Heartland ITV and Other | 150 | 130 | 20 | 15 |
| Total Studios revenue | 803 | 692 | 111 | 16 |

Reflecting our growth in key production markets in Europe and the US, 57% of Studios revenue was generated outside the UK (2017: 52%). ITV is the number one commercial producer in the UK and a leading producer in Europe and the US. As our Studios business grows internationally, foreign currency movements could have a larger impact on our results.

Adjusted EBITA was up 7% year-on-year at £118 million. Adjusted EBITA margin declined by one percentage points to 15%, impacted by revenue mix on new and returning shows.

In the first half of 2018, the unfavourable foreign currency impact was £12 million on revenue and £1 million on adjusted EBITA.

Building scale in key creative markets

ITV Studios has three production divisions – Studios UK, ITV America and Studios Rest of World (RoW) all of which grew in the first half.

The UK performed well with total revenue up 7% at £328 million (2017: £306 million). We continue to grow our sales to ITV, which were up 6% with deliveries including The Voice, Love Island, Dancing on Ice and an extra episode of Coronation Street. ITV Studios' UK share of original content on ITV main channel has remained flat year on year at 66%. Our off-ITV revenues in the UK grew 22% with deliveries including Poldark, Bodyguard and Age Before Beauty for BBC, Friday Night Dinner for Channel 4, and Blind Date for Channel 5.

ITV America total revenue grew 2% to £141 million (2017: £138 million) including the unfavourable foreign exchange impact and non-return of Duck Dynasty, and an absence of deliveries of Pawn Stars, American Grit and Hell's Kitchen. The growth was driven by two series of The Four, Four Weddings and Mama June deliveries. At constant currency, ITV America was up 11%.

Studios RoW has production bases in Australia, Germany, France, the Netherlands, the Nordics and Italy where we produce original content as well as local versions of ITV Studios UK and Talpa formats. Revenue grew 55% to £247 million (2017: £159 million) including foreign exchange and acquisitions, driven particularly by good growth in France due to The Voice of France and The Voice Kids. Across the territories, our entertainment and format deliveries included I'm A Celebrity ...Get Me Out of Here!, The Voice and Love Island in Australia, I'm A Celebrity ...Get Me Out of Here!, Quiz Dual and The Chase in Germany, and This Time Next Year in Finland. The business also benefited from the 2017 acquisitions of Tetra Media, Cattleya and Elk.

Demand for drama is growing strongly and we have made real progress in building a European scripted business with the acquisition of Cattleya and Tetra. These, along with our existing European businesses, enable us to benefit from the increasing demand for locally produced content with global appeal.

Talpa continues to develop its formats including The Voice Senior, Dance Dance Dance, The Big Picture, 5 Gold Rings, The Perfect Picture, Design Dream, and House of Talent. Our international scale now enables ITV to make all these other formats, and in particular The Voice, in all our international production territories and therefore earn the production revenue as well as the format fee.

Investing in content with international appeal

We are continuing to expand our portfolio of successful formats and series that return and can be distributed internationally.

We continue to strengthen our global capability in entertainment formats. Across the business, we have grown a strong portfolio of high volume and high margin formats that travel internationally and that we produce locally. For example, during 2018 we will produce Love Island in all seven countries in which the format has been sold, The Voice in six countries, and Four Weddings in four countries.

Expanding our global distribution business

Global Entertainment, the distribution arm within ITV Studios, reported revenue decline of 2% to £87 million (2017: £89 million), due to timing of deals including the delivery of Harlots across H1 and H2. Excluding currency, revenue was flat year on year. With a good drama deliveries slate in the second half, Global Entertainment is expected to deliver growth over the full year. Global Entertainment's pipeline of new deliveries is strengthening with projects such as Vanity Fair and Snowpiercer expected for the second half of 2018 and into 2019. As well as funding and creating new content from ITV Studios, we also invest in third-party producers and their content from all over the world.

Our content continues to sell well internationally to both broadcasters and OTT platforms and in particular our scripted programmes with titles including Somewhere Between, Good Witch, Schitt's Creek, Poldark, Shetland, and Harlots. Over 15 of our scripted programmes have been sold to more than 100 countries. Our entertainment and factual entertainment formats are highly demanded and include programmes such as The Voice, Love Island, The Chase, Big Star's Little Star, This Time Next Year, Five Gold Rings, Come Dine With Me and Four Weddings. In the six month period to 30 June 2018, we sold 34 different formats internationally, 9 of which are being produced by ourselves or other producers in three or more countries including Four Weddings, Come Dine with Me and The Voice.

Operating and Financial Review continued

Exceptional items

| Six months to 30 June | 2018 £m | 2017 £m |
|------------------------------------------|-------------|-------------|
| Acquisition-related expenses | (27) | (50) |
| Restructuring and property-related costs | (14) | (3) |
| Total operating exceptional items | (41) | (53) |
| Non-operating exceptional items | 1 | - |
| Total exceptional items | (40) | (53) |

Total exceptional items in the period were £40 million (2017: £53 million). Operating exceptional items principally relate to acquisition-related expenses, which are mainly performance based employment-linked consideration. These costs are down year-on-year following the €100m payment under the Talpa earnout in 2017. Our expected payments on all future earnouts is explained later. Property-related costs of £14 million primarily related to temporary rent, dual running costs and relocation costs as a result of our London property move in 2018. We will continue to incur exceptional rental costs over the next four or five years until we return to our new offices at The London Television Centre. Further details can be found later in the section.

The cash cost of exceptionals in the period was £47 million (2017: £106 million).

Net financing costs

| Six months to 30 June | 2018 £m | 2017 £m |
|------------------------------------------------------------|-------------|-------------|
| Financing costs directly attributable to loans and bonds | (14) | (15) |
| Cash-related net financing costs | (1) | (2) |
| Adjusted financing costs | (15) | (17) |
| Imputed pension interest | (1) | (4) |
| Unrealised foreign exchange and other net financial losses | (2) | (2) |
| Net financing costs | (18) | (23) |

Adjusted financing costs were broadly flat year on year at £15 million (2017: £17 million).

Net financing costs were £18 million over the period which was down year-on-year by £5 million (2017: £23 million), due to a small reduction in imputed pension interest.

JVs and associates

The share of losses from JVs and associates has increased to £3 million (2017: £2 million) and is in relation to losses arising on our investments in our new venture BritBox US, along with Blumhouse Television and Circle of Confusion, both of which are start up scripted talent investments within ITV Studios.

Profit before tax

Adjusted profit before tax, after amortisation and impairment of assets and financing costs, was down 7% at £354 million (2017: £381 million). Statutory profit before tax increased by 2% to £265 million (2017: £259 million), primarily as a result of a reduction in exceptional items, and amortisation and impairments.

Profit before tax (PBT)

| Six months to 30 June – on a continuing basis | 2018 £m | 2017 £m |
|-----------------------------------------------|------------|------------|
| Profit before tax | 265 | 259 |
| Production tax credits | 8 | 8 |
| Exceptional items | 40 | 53 |
| Amortisation and impairment* | 38 | 55 |
| Adjustments to net financing costs | 3 | 6 |
| Adjusted profit before tax | 354 | 381 |

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

Tax

Adjusted tax charge

The total adjusted tax charge for the period was £68 million (2017: £71 million), corresponding to an effective tax rate on adjusted profit before tax (PBT) of 19% (2017: 19%), which is in line with the standard UK corporation tax rate of 19% (2017: 19.25%). We expect this effective tax rate to be sustainable over the medium term. On a reported basis, the tax charge of £52 million (2017: £53 million) corresponds to an effective tax rate of 20% (2017: 20%). The adjustments made to reconcile the tax charge with the adjusted tax charge are the tax effects of the adjustments made to reconcile PBT and adjusted PBT, as discussed earlier.

| Six months to 30 June | 2018 £m | 2017 £m |
|---------------------------------------------------------|-------------|-------------|
| Tax charge | (52) | (53) |
| Production tax credits | (8) | (8) |
| Charge for exceptional items | (3) | (3) |
| Charge in respect of amortisation and impairment* | (4) | (7) |
| Charge in respect of adjustments to net financing costs | (1) | (1) |
| Other tax adjustments | - | 1 |
| Adjusted tax charge | (68) | (71) |
| Effective tax rate on adjusted profits | 19% | 19% |

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

Cash tax

Cash tax paid in the period was £33 million (2017: £65 million) and is net of £18 million of production tax credits received (2017: £9 million). The majority of the cash tax payments were made in the UK. The cash tax paid is lower compared to the previous year due to phasing of payments and prior year repayments, and an increase in tax credits received.

Tax strategy

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

www.itvplc.com/investors/governance/policies

We have four key strategic tax objectives:

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

Our tax strategy is aligned with that of the business and its commercial activities, and establishes a clear Group-wide approach based on openness and transparency in all aspects of tax reporting and compliance, wherever the Company and its subsidiaries operate. Within our overall governance structure, the governance of tax and tax risk is given a high priority by the Board and Audit and Risk Committee, including through the operation of the Tax & Treasury Committee. The ITV Global Tax Strategy as published on the ITV plc website is compliant with the UK tax strategy publication requirement set out in Part 2 Schedule 19 of the Finance Act 2016.

EPS – adjusted and statutory

Overall, adjusted profit after tax was down 8% at £286 million (2017: £310 million). After non-controlling interests of £1 million (2017: £3 million), adjusted basic earnings per share was 7.1p (2017: 7.7p), down 8%, which is broadly consistent with the decrease in adjusted EBITA of 7%. The weighted average number of shares declined to 3,998 million (2017: 4,010 million) because ITV bought shares during 2017 on behalf of the Employee Benefit Trust and, in line with accounting standards, shares held by the Trust are not included in the EPS share count. Diluted adjusted EPS in 2018 was 7.1p (2017: 7.6p) reflecting a weighted average diluted number of shares of 4,009 million (2017: 4,019 million). The weighted average diluted number of shares was down year-on-year because of a decrease in the number of shares expected to vest in ITV's long term incentive plans in the future.

Statutory EPS grew by 4% to 5.3p (2017: 5.1p) with the decline in earnings more than offset by a reduction in exceptional items, amortisation and impairments, and net financing costs.

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

Operating and Financial Review continued

Dividend per share

ITV continues to deliver a strong operational performance in an uncertain market environment. In addition, we have announced a new strategy which we believe will strengthen ITV to ensure it is well positioned to address the opportunities and challenges of a competitive media landscape.

For the period of investment in 2018 and 2019 the Board intends to pay at least an 8p dividend per year. This reflects the Board's confidence in the business and in the new strategy as well as the continued strong cash generation. The Board expects that over the medium term the dividend will grow broadly in line with earnings.

Consistent with this the Board has declared an interim dividend of 2.6p which is up 3% on 2017.

Acquisitions

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

Our business is performing well, we will also consider selective value creating M&A and talent deals in both scripted and unscripted to obtain creative talent and IP. However at this stage, we will not be doing any scaled US scripted acquisitions.

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

Acquisitions – 2012 to 2018 (undiscounted)

| Company | Geography | Genre | Initial consideration £m | Additional consideration paid £m | Expected future payments* £m | Total expected consideration** £m | Expected payment period | Total maximum consideration** £m |
|---------------------|-----------|------------------------|-----------------------------|-------------------------------------|---------------------------------|--------------------------------------|-------------------------|-------------------------------------|
| Total for 2012–2017 | Various | Content & Broadcast TV | 941 | 116 | 269 | 1,326 | 2018–2024 | 2,346 |
| Total | | | 941 | 116 | 269 | 1,326 | | 2,346 |

* 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.

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

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

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

We closely monitor the forecast performance of each acquisition and, where there has been a change in expectations, we adjust our view of potential future commitments.

Expected future payments of £269 million have decreased by £23 million since 31 December 2017, due to payments made relating to our 2014 and 2015 acquisitions. At 30 June 2018, £169 million of expected future payments had been recorded on the balance sheet. We have not made any acquisitions so far in 2018.

Cash generation

Profit to cash conversion

| Six months to 30 June | 2018 £m | 2017 £m |
|-----------------------------------------------------------------------|------------|------------|
| Adjusted EBITA | 375 | 403 |
| Working capital movement | (86) | (115) |
| Adjustment for high end production tax credits | 10 | 1 |
| Depreciation | 13 | 17 |
| Share-based compensation and pension service costs | 4 | 9 |
| Acquisition of property, plant and equipment and intangible assets | (45) | (26) |
| Acquisition of capex relating to redevelopment of London headquarters | 24 | 3 |
| Adjusted cash flow | 295 | 292 |
| Profit to cash ratio six months to 30 June | 79% | 72% |
| Profit to cash ratio 12 months rolling | 94% | 91% |

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

One of ITV's key strengths is its healthy cash flows reflecting our ongoing tight management of working capital balances and our disciplined approach to cash and costs. This is particularly important when there is wider political and economic uncertainty. Remaining focused on cash and costs means we are in a good position to continue to invest across the business in line with our new strategic priorities and continue to deliver sustainable returns to our shareholders.

In the period, we generated £295 million (2017: £292 million) of operational cash from £375 million (2017: £403 million) of adjusted EBITA, which equates to a strong profit to cash ratio of 94% after capex (2017: 91%). In the period, we saw an increase in working capital. This was due the decrease in stock and receivables more than offset by a decrease in payables across the Group.

To facilitate our working capital management, we have a £100 million non-recourse receivables purchase agreement (free of financial covenants), which gives us the flexibility to access additional liquidity when required. At the 30 June, £70 million of receivables were sold under the purchase agreement (31 December 2017: £90 million).

Free cash flow

| Six months to 30 June | 2018 £m | 2017 £m |
|---------------------------|------------|------------|
| Adjusted cash flow | 295 | 292 |
| Net interest paid | (13) | (20) |
| Adjusted cash tax* | (51) | (74) |
| Pension funding | (47) | (47) |
| Free cash flow | 184 | 151 |

* Adjusted cash tax of £51 million is total cash tax paid of £33 million excluding receipt of production tax credits, which are included within adjusted cash flow from operations, as these production tax credits relate directly to the production of programmes.

Our free cash flow after payments for interest, cash tax and pension funding remained healthy in the period, up 22% to £184 million (2017: £151 million).

Overall, after dividends, acquisitions and acquisition-related costs, pension and tax payments, we ended the period with net debt of £1,034 million, compared with net debt of £912 million at 31 December 2017 and net debt of £1,074 million at 30 June 2017.

Funding and liquidity

Debt structure and liquidity

Our balance sheet strength, together with our healthy free cash flow, will enable us to continue to invest in opportunities to grow the business in line with our new strategic priorities and to make sustainable returns to our shareholders. We have a number of facilities in place to preserve our financial flexibility. We have a £630 million Revolving Credit Facility (RCF) in place until 2022 (with the option to extend to 2023). We also have a bilateral financing facility of £300 million, which is free of financial covenants and matures in 2021. This provides us with sufficient liquidity to meet the requirements of the business in the short to medium term. The RCF has the usual financial covenants for this type of financing. Of the total £930 million of facilities in place, £160 million was drawn down at 30 June 2018. Our policy is to maintain at least £250 million of available liquidity at any point.

Operating and Financial Review continued

Net debt

| | 2018 £m | 2017 £m |
|-----------------|----------------|----------------|
| At 30 June | | |
| Gross cash | 95 | 123 |
| Gross debt | (1,129) | (1,197) |
| Net debt | (1,034) | (1,074) |

Financing – gross debt

We are financed using debt instruments and facilities with a range of maturities. Borrowings at 30 June 2018 were repayable as follows:

| Amount repayable as at 30 June 2018 | £m | Maturity |
|-------------------------------------------|--------------|----------|
| £630 million Revolving Credit Facility* | 160 | Various |
| €600 million Eurobond | 528 | Sep 2022 |
| €500 million Eurobond** | 424 | Dec 2023 |
| Other loans | 17 | Various |
| Total debt repayable on maturity** | 1,129 | |

* Option to extend to 2023.

** Net of £18 million cross-currency swaps.

At 30 June 2018, £470 million of the £630 million RCF was undrawn.

Capital allocation and leverage

Our objective is to run an efficient balance sheet. We have always believed that maintaining leverage at around 1.5x net debt to adjusted EBITDA will optimise our cost of capital and maintain our investment grade credit. At 30 June 2018 reported net debt to adjusted EBITDA on a rolling 12 month basis was 1.2x (31 December 2017: 1.0x and 30 June 2017: 1.2x). Our priority remains to invest to drive organic growth and we have made acquisitions where we have found the right opportunities. We will continue to look at opportunities under the new strategy. We will balance this investment with attractive returns to shareholders. Our investment decisions are based upon value creation and returns analysis. Our returns analysis looks at the 360 degree value creation and the long-term future value of our investments in both Broadcast and Studios.

In light of changes from IFRS 16 'Leases' which will come into effect in 2019, we may look to revisit the 1.5x net debt to adjusted EBITDA guidance. We will work with the ratings agencies as part of this process, but wherever we conclude on this our commitment to investment grade will underpin the outcome.

We also look at an adjusted measure of net debt, taking into consideration all of our other debt-like commitments including the expected, undiscounted contingent payments on acquisitions, the net pension deficit and the undiscounted operating lease commitments, which mainly relate to property. This adjusted leverage measure better reflects how the credit rating agencies look at our balance sheet. This is important to monitor as our investment grade rating is the key criteria when considering our overall capital allocation. At 30 June 2018, adjusted net debt was £1,457 million (adjusted net debt of £1,430 million at 31 December 2017 and adjusted net debt of £2,078 million at 30 June 2017) and adjusted net debt to adjusted EBITDA on a 12 month rolling basis was 1.7x (adjusted net debt to adjusted EBITDA was 1.6x at 31 December 2017 and adjusted net debt to adjusted EBITDA was 2.4x at 30 June 2017). A reconciliation of net debt to adjusted net debt is provided in the Alternative Performance Measures.

Credit ratings

We are rated investment grade by two ratings agencies: BBB- (stable outlook) by Standard and Poor's and Baa3 (stable outlook) by Moody's Investor Services. The factors that are taken into account in assessing our credit rating include our degree of operational gearing, exposure to the economic cycle, as well as business and geographical diversity. Continuing to execute our strategy will strengthen our position against all these metrics.

Foreign exchange

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

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

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

The foreign exchange and interest rate hedging strategy is discussed and approved by the ITV plc Board and implemented by our internal Tax and Treasury Committee which oversees governance and approval of tax and treasury related policies and procedures within the business.

Foreign exchange sensitivity

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

| Currency | Revenue £m | Adjusted EBITA £m |
|-----------|---------------|-------------------------|
| US dollar | ±40-50 | ±5-7 |
| Euro | ±40-50 | ±4-5 |

Pensions

The net pension surplus for the defined benefit schemes at 30 June 2018 was £86 million (31 December 2017: £83 million deficit). This is primarily as a result of a decrease in the gross liabilities together with deficit funding payments of £47 million made in the period.

The gross liabilities reduced principally due to an increase in corporate yields. This was further improved by a decrease in the market expectation of long-term inflation rates.

The net pension surplus includes £42 million of gilts, which are held by the Group as security for future unfunded pension payments of four former Granada executives, the liabilities of which are included in our pension obligations.

A full reconciliation is included within note 3.2.

Actuarial valuation

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

Deficit funding contributions

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

The Group's deficit funding contributions in the first half of 2018 were £47 million. The total expected deficit funding contribution for 2018 will be consistent with prior years. Further details are included within Note 3.2.

In 2019, we expect deficit funding contributions of around £75 million.

Operating and Financial Review continued

New accounting standards

IFRS 15 'Revenue from Contracts with Customers', was effective from 1 January 2018. The new standard requires the Group to reclassify various costs attributable to revenue in the income statement. The prior year comparatives have been restated.

IFRS 16 'Leases', is effective from 1 January 2019. The detailed assessment of the impact on the Group's performance is ongoing. The adoption is likely to have a material impact on the presentation of the Group's assets and liabilities, mainly due to property leases, however we don't expect a material impact on the Group's earnings.

Section 1 of the Notes on the accounts provides further detail on these new accounting standards.

London property

In 2017, the Board made the decision to redevelop our headquarters at The London Television Centre for which we own the freehold. As a result the staff and Studios have recently been relocated for a period of four to five years to alternative accommodation before moving back into a new freehold building.

During the course of the project, ITV will ring-fence all incremental costs in relation to the redevelopment. All move costs, dual rates and rent will be treated as exceptional costs in the P&L as they relate to this one-off property project that runs over several years, and will no longer be incurred when we return to The London Television Centre. Capital items will be capitalised as investment capex. Investment capex is excluded from capex for our adjusted cash measurements.

In the period to 30 June 2018, ITV incurred £14 million of costs in relation to move costs, dual rates and rent. These were one-off as explained above. ITV also incurred £24 million of costs for the fit out of the interim offices and studios and in relation to planning for the redevelopment of The London Television Centre which were capitalised.

Full planning permission has now been granted and we currently expect to commence demolition in Q4 2018. All build costs will be capitalised with the most significant investment capex to be incurred in 2021 and 2022.

Following the step up in London property operating costs of £10 million over the full year in 2018, we do not expect future costs to be materially different from 2018 when we move back in 2023.

Outlook

Looking ahead our guidance for the full year remains unchanged.

We have today announced a new strategy with clear priorities and initiatives which we believe will deliver growth and strengthen ITV to ensure it is well positioned to address the opportunities and challenges of a competitive media landscape. We are starting to implement our strategy immediately and in 2018 will be investing in technology and people to bring in the capabilities we need to execute the plan. Our previous investment target of £15 to £20million for 2018 gives us the capacity to do this within our current guidance.

ITV Studios has a strong pipeline of new and returning drama and entertainment shows, including Alone, Queer Eye, Suburra, The Hunt, Milk & Honey and House of Talent. We are confident that we will deliver good organic growth over the full year and we have already secured almost 90% of our target revenues and that represents nearly £100m more revenue than we had this time last year. Within that we have 263 new or recommissioned shows, which is 36 more than this time last year.

Total advertising is expected to be up 1% over the nine months with Q3 broadly flat against a backdrop of wider market uncertainty. Within that we expect to again deliver double digit revenue growth in Online.

On screen we have a strong slate of new and returning programmes for the remainder of the year including Vanity Fair, Strangers, X Factor, I'm A Celebrity...Get Me Out of Here!, Jonathan Ross and Don't Hate the Playaz.

In the first half of the year the Government announced the Second Chapter in its Obesity strategy. As part of that there will be a consultation on the possibility of introducing a 9pm watershed on TV advertising of HFSS products, and similar protection for children viewing adverts online, which will commence before the end of the year. The government has committed to explore options to ensure that any restrictions are proportionate. We are fully engaged in this process and believe that there is a strong, evidence based, case for alternatives to a pre-9pm ban.

2018 full year planning assumptions

Profit and Loss impact:

- Total schedule costs are expected to be £1,055 million to £1,060 million
- Total investment of around £15-£20 million which includes initial investment in line with the new strategy
- Adjusted interest is expected to be around £35 million, which is broadly unchanged from 2017
- The adjusted effective tax rate is 19%, which is unchanged and expected to be sustainable over the medium term
- The translation impact of foreign exchange, assuming rates remain at current levels, could have a £20 million negative impact on revenue and £nil million impact on profit
- Exceptional items are expected to be around £85 million, mainly due to acquisition accounting and the London Property redevelopment project.

Cash impact

- Total capex is expected to be around £100 million, comprising of £60 million of regular capex to support the business and £40 million relating to the redevelopment of our London site
- The cash cost of exceptionals will be around £85 million, largely relating to accrued earnouts
- Profit to cash is expected to be around 85%, reflecting our continued strong cash generation and investment in Studios working capital
- Total pension deficit funding contribution for 2018 will be consistent with prior years.

2019 full year planning assumptions

- Total schedule costs are expected to be £1.1 billion and will be held for three years to 2021 at roughly this level
- Total investment of around £40 million in line with new strategy priorities
- £15 million cost savings to fund strategic priorities
- £15-20 million exceptional cost of change to deliver cost savings in 2019. Total exceptional costs of change over the three years could be £30m.
- Total pension deficit funding is expected to be around £75 million

Ian Griffiths

Chief Operating Officer and Group Finance Director

Risks and uncertainties

As a producer and broadcaster, ITV's business carries a number of risks, which we manage through our risk management framework. Our continuing success is dependent on how well we understand and manage our risks.

In light of the strategic refresh we have reviewed the risks as reported in the 2017 Annual Report and Accounts to ensure that they remain appropriate, accurate and complete. As the strategy evolves, the risks will remain under review in line with our ongoing risk management process. We consider that the principal risks and uncertainties have not changed significantly and remain relevant for the second half of 2018. These principal risks cover:

- Talent and succession
- Advertising markets
- Format development and programme rights
- Technology
- Scheduled broadcasting
- Legal and regulatory changes
- Liquidity
- Reputation and trust

A detailed explanation of the risk management framework, and the principle risks and uncertainties can be found on pages 50 to 57 of the 2017 Annual Report.

Interim Condensed Financial Statements

In this section



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

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Condensed Consolidated Income Statement

| For the six month period to 30 June | Note | 2018 £m | Restated* 2017 £m |
|---------------------------------------------------------------------------------|------|----------------|-------------------------|
| Revenue | 2.1 | 1,593 | 1,469 |
| Operating costs | | (1,308) | (1,185) |
| Operating profit | | 285 | 284 |
| Presented as: | | | |
| Earnings before interest, tax and amortisation (EBITA) before exceptional items | 2.1 | 367 | 395 |
| Operating exceptional items | | (41) | (53) |
| Amortisation and impairment | | (41) | (58) |
| Operating profit | | 285 | 284 |
| Financing income | | 2 | 2 |
| Financing costs | | (20) | (25) |
| Net financing costs | | (18) | (23) |
| Share of losses of joint ventures and associated undertakings | | (3) | (2) |
| Gain on sale of non-current assets (exceptional items) | | 1 | – |
| Profit before tax | | 265 | 259 |
| Taxation | | (52) | (53) |
| Profit for the period | | 213 | 206 |
| Profit attributable to: | | | |
| Owners of the Company | | 212 | 203 |
| Non-controlling interests | | 1 | 3 |
| Profit for the period | | 213 | 206 |
| Earnings per share | | | |
| Basic earnings per share | 2.2 | 5.3p | 5.1p |
| Diluted earnings per share | 2.2 | 5.3p | 5.1p |

* The Group has applied IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' at 1 January 2018. Under the transition method chosen, the comparative information has been restated. See Section 1.

Condensed Consolidated Statement of Comprehensive Income

| For the six month period to 30 June | 2018 £m | 2017 £m |
|----------------------------------------------------------------------------|------------|-------------|
| Profit for the period | 213 | 206 |
| Other comprehensive income: | | |
| Items that are or may be reclassified to profit or loss | | |
| Revaluation of available-for-sale financial assets | (1) | (1) |
| Share of losses of joint ventures and associated undertakings | (13) | – |
| Net gain/(loss) on cash flow hedges | 2 | (6) |
| Exchange gain/(loss) on translation of foreign operations (net of hedging) | 5 | (18) |
| Items that will never be reclassified to profit or loss | | |
| Remeasurement gains/(losses) on defined benefit pension schemes | 117 | (59) |
| Income tax (charge)/credit on items that will never be reclassified | (20) | 8 |
| Other comprehensive income/(loss) for the period, net of income tax | 90 | (76) |
| Total comprehensive income for the period | 303 | 130 |
| Total comprehensive income attributable to: | | |
| Owners of the Company | 302 | 127 |
| Non-controlling interests | 1 | 3 |
| Total comprehensive income for the period | 303 | 130 |

Condensed Consolidated Statement of Financial Position

| | Note | 30 June 2018 £m | Restated* 31 December 2017 £m | Restated* 30 June 2017 £m |
|-------------------------------------------------------------------------------|------|-----------------------|----------------------------------------|------------------------------------|
| Non-current assets | | | | |
| Property, plant and equipment | | 271 | 256 | 241 |
| Intangible assets | | 1,621 | 1,645 | 1,650 |
| Investments in joint ventures, associates and equity investments | | 61 | 74 | 74 |
| Derivative financial instruments | 4.3 | 15 | 10 | 3 |
| Distribution rights | | 40 | 19 | 35 |
| Defined benefit pension surplus | 3.2 | 98 | 16 | – |
| Other pension asset | 3.2 | 42 | 38 | 39 |
| Deferred tax asset | | 34 | 31 | 22 |
| | | 2,182 | 2,089 | 2,064 |
| Current assets | | | | |
| Programme rights and other inventory | | 499 | 541 | 459 |
| Trade and other receivables due within one year | | 523 | 545 | 499 |
| Trade and other receivables due after more than one year | | 43 | 27 | 45 |
| Trade and other receivables | | 566 | 572 | 544 |
| Current tax receivable | | 7 | 19 | 10 |
| Derivative financial instruments | 4.3 | 3 | 6 | 6 |
| Cash and cash equivalents | 4.1 | 95 | 126 | 123 |
| | | 1,170 | 1,264 | 1,142 |
| Current liabilities | | | | |
| Borrowings | 4.1 | (169) | (76) | (243) |
| Derivative financial instruments | 4.3 | (5) | (2) | (1) |
| Trade and other payables due within one year | 4.4 | (904) | (1,029) | (862) |
| Trade payables due after more than one year | | (71) | (68) | (48) |
| Trade and other payables | | (975) | (1,097) | (910) |
| Current tax liabilities | | (102) | (86) | (65) |
| Provisions | 3.1 | (16) | (16) | (19) |
| | | (1,267) | (1,277) | (1,238) |
| Net current liabilities | | (97) | (13) | (96) |
| Non-current liabilities | | | | |
| Borrowings | 4.1 | (978) | (982) | (969) |
| Derivative financial instruments | 4.3 | (2) | (1) | (1) |
| Defined benefit pension deficit | 3.2 | (54) | (137) | (382) |
| Deferred tax liabilities | | (113) | (111) | (67) |
| Other payables | 4.4 | (104) | (106) | (66) |
| Provisions | 3.1 | (7) | (7) | (4) |
| | | (1,258) | (1,344) | (1,489) |
| Net assets | | 827 | 732 | 479 |
| Attributable to equity shareholders of the parent company | | | | |
| Share capital | | 403 | 403 | 403 |
| Share premium | | 174 | 174 | 174 |
| Merger and other reserves | | 199 | 199 | 220 |
| Translation reserve | | 48 | 41 | 55 |
| Available-for-sale reserve | | 5 | 6 | 6 |
| Retained earnings | | (44) | (136) | (416) |
| Total equity attributable to equity shareholders of the parent company | | 785 | 687 | 442 |
| Non-controlling interests | | 42 | 45 | 37 |
| Total equity | | 827 | 732 | 479 |

* The Group has applied IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' at 1 January 2018. Under the transition method chosen, the comparative information has been restated. See Section 1.

Ian Griffiths

Chief Operating Officer and Group Finance Director

Condensed Consolidated Statement of Changes in Equity

| | Attributable to equity shareholders of the parent company | | | | | | Total £m | Non- controlling interests £m | Total equity £m |
|----------------------------------------------------------------------------|-----------------------------------------------------------|------------------------|---------------------------------------|------------------------------|-----------------------------------------|----------------------------|-------------|----------------------------------------|-----------------------|
| | Share capital £m | Share premium £m | Merger and other reserves £m | Translation reserve £m | Available- for-sale reserve £m | Retained earnings £m | | | |
| Balance at 1 January 2018 (restated*) | 403 | 174 | 199 | 41 | 6 | (136) | 687 | 45 | 732 |
| Total comprehensive income for the period | | | | | | | | | |
| Profit for the period | – | – | – | – | – | 212 | 212 | 1 | 213 |
| Other comprehensive income/(loss) | | | | | | | | | |
| Revaluation of available-for-sale financial assets | – | – | – | – | (1) | – | (1) | – | (1) |
| Share of losses of joint ventures and associated undertakings | – | – | – | – | – | (13) | (13) | – | (13) |
| Net gain on cash flow hedges | – | – | – | 2 | – | – | 2 | – | 2 |
| Exchange differences on translation of foreign operations (net of hedging) | – | – | – | 5 | – | – | 5 | – | 5 |
| Remeasurement gain on defined benefit pension schemes | – | – | – | – | – | 117 | 117 | – | 117 |
| Income tax charge on other comprehensive income | – | – | – | – | – | (20) | (20) | – | (20) |
| Total other comprehensive income/(loss) | – | – | – | 7 | (1) | 84 | 90 | – | 90 |
| Total comprehensive income/(loss) for the period | – | – | – | 7 | (1) | 296 | 302 | 1 | 303 |
| Transactions with owners, recorded directly in equity | | | | | | | | | |
| Contributions by and distributions to owners | | | | | | | | | |
| Equity dividends | – | – | – | – | – | (211) | (211) | (4) | (215) |
| Movements due to share-based compensation | – | – | – | – | – | 4 | 4 | – | 4 |
| Tax on items taken directly to equity | – | – | – | – | – | 6 | 6 | – | 6 |
| Purchase of own shares via employees' benefit trust | – | – | – | – | – | (3) | (3) | – | (3) |
| Total transactions with owners | – | – | – | – | – | (204) | (204) | (4) | (208) |
| Changes in non-controlling interests | – | – | – | – | – | – | – | – | – |
| Balance at 30 June 2018 | 403 | 174 | 199 | 48 | 5 | (44) | 785 | 42 | 827 |

* The Group has applied IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' at 1 January 2018. Under the transition method chosen, the comparative information has been restated. See Section 1.

Condensed Consolidated Statement of Changes in Equity

continued

| | Attributable to equity shareholders of the parent company | | | | | | Total £m | Non- controlling interests £m | Total equity £m |
|----------------------------------------------------------------------------|-----------------------------------------------------------|------------------------|---------------------------------------|------------------------------|-----------------------------------------|----------------------------|-------------|----------------------------------------|-----------------------|
| | Share capital £m | Share premium £m | Merger and other reserves £m | Translation reserve £m | Available- for-sale reserve £m | Retained earnings £m | | | |
| Balance at 1 January 2017 | 403 | 174 | 221 | 79 | 7 | (162) | 722 | 33 | 755 |
| Total comprehensive income for the period | | | | | | | | | |
| Profit for the period | – | – | – | – | – | 203 | 203 | 3 | 206 |
| Adjustment on application of IFRS 15* | – | – | – | – | – | 2 | 2 | – | 2 |
| Other comprehensive income/(loss) | | | | | | | | | |
| Revaluation of available-for-sale financial assets | – | – | – | – | (1) | – | (1) | – | (1) |
| Net loss on cash flow hedges | – | – | – | (6) | – | – | (6) | – | (6) |
| Exchange differences on translation of foreign operations (net of hedging) | – | – | – | (18) | – | – | (18) | – | (18) |
| Disposal of subsidiary | – | – | 2 | – | – | (2) | – | – | – |
| Remeasurement loss on defined benefit pension schemes | – | – | – | – | – | (59) | (59) | – | (59) |
| Income tax credit on other comprehensive income | – | – | – | – | – | 8 | 8 | – | 8 |
| Total other comprehensive income/(loss) | – | – | 2 | (24) | (1) | (53) | (76) | – | (76) |
| Total comprehensive income/(loss) for the period | – | – | 2 | (24) | (1) | 152 | 129 | 3 | 132 |
| Transactions with owners, recorded directly in equity | | | | | | | | | |
| Contributions by and distributions to owners | | | | | | | | | |
| Equity dividends | – | – | – | – | – | (394) | (394) | (2) | (396) |
| Movements due to share-based compensation | – | – | – | – | – | 6 | 6 | – | 6 |
| Purchase of own shares via employees' benefit trust | – | – | – | – | – | (18) | (18) | – | (18) |
| Total transactions with owners | – | – | – | – | – | (406) | (406) | (2) | (408) |
| Changes in non-controlling interests | – | – | (3) | – | – | – | (3) | 3 | – |
| Balance at 30 June 2017 (restated*) | 403 | 174 | 220 | 55 | 6 | (416) | 442 | 37 | 479 |

* The Group has applied IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' at 1 January 2018. Under the transition method chosen, the comparative information has been restated. See Section 1.

Condensed Consolidated Statement of Cash Flows

| For the six month period to 30 June | Note | £m | 2018 £m | £m | 2017 £m |
|--------------------------------------------------------------------------------------|------|-------|--------------|-------|--------------|
| Cash flows from operating activities | | | | | |
| Profit before tax | 2.1 | | 265 | | 259 |
| Share of losses of joint ventures and associated undertakings | | 3 | | 2 | |
| Gain on sale of non-current assets (exceptional items) | | (1) | | – | |
| Net financing costs | | 18 | | 23 | |
| Operating exceptional items | | 41 | | 53 | |
| Depreciation of property, plant and equipment | | 13 | | 17 | |
| Amortisation and impairment | | 41 | | 58 | |
| Share-based compensation and pension service costs | | 4 | | 9 | |
| Adjustments to profit | | | 119 | | 162 |
| Decrease/(increase) in programme rights and other inventory, and distribution rights | | 21 | | (80) | |
| Decrease in receivables | | 6 | | 33 | |
| Decrease in payables | | (113) | | (68) | |
| Movement in working capital | | | (86) | | (115) |
| Cash generated from operations before exceptional items | | | 298 | | 306 |
| Cash flow relating to operating exceptional items: | | | | | |
| Operating exceptional items | | (41) | | (53) | |
| Decrease in exceptional payables | | (7) | | (70) | |
| Decrease in exceptional prepayments and other receivables | | 1 | | 20 | |
| Cash outflow from exceptional items | | | (47) | | (103) |
| Cash generated from operations | | | | | 203 |
| Defined benefit pension deficit funding | 3.2 | (47) | | (47) | |
| Interest received | | 1 | | 21 | |
| Interest paid on bank and other loans | | (14) | | (41) | |
| Net taxation paid | | (33) | | (65) | |
| | | | (93) | | (132) |
| Net cash inflow from operating activities | | | 158 | | 71 |
| Cash flows from investing activities | | | | | |
| Acquisition of subsidiary undertakings, net of cash acquired | | – | | (24) | |
| Acquisition of property, plant and equipment | | (30) | | (14) | |
| Acquisition of intangible assets | | (15) | | (12) | |
| Acquisition of investments | | (10) | | (15) | |
| Acquisition of financial instruments | | (4) | | – | |
| Proceeds from sale of property, plant and equipment | | 1 | | – | |
| Loans granted to associates and joint ventures | | (1) | | (2) | |
| Net cash outflow from investing activities | | | (59) | | (67) |
| Cash flows from financing activities | | | | | |
| Bank and other loans – amounts repaid | 4.1 | (148) | | (341) | |
| Bank and other loans – amounts raised | 4.1 | 240 | | 320 | |
| Capital element of finance lease payments | | – | | (4) | |
| Equity dividends paid | | (211) | | (394) | |
| Dividend paid to minority interest | | (4) | | (2) | |
| Purchase of own shares via employees' benefit trust | | (3) | | (18) | |
| Net cash outflow from financing activities | | | (126) | | (439) |
| Net decrease in cash and cash equivalents | | | (27) | | (435) |
| Cash and cash equivalents at 1 January | 4.1 | | 126 | | 561 |
| Effects of exchange rate changes and fair value movements | | | (4) | | (3) |
| Cash and cash equivalents at 30 June | 4.1 | | 95 | | 123 |

Notes to the Interim Condensed Financial Statements

Section 1: Basis of Preparation

In this section



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

These condensed consolidated interim financial statements for the six months ended 30 June 2018 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 'Interim financial reporting' as adopted by the European Union.

These condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which were prepared in accordance with IFRS as adopted by the European Union. This is the first set of interim financial statements where IFRS 15 and IFRS 9 have been applied.

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

Revenues are impacted by underlying economic conditions, the cyclical demand for advertising, seasonality of programme sales, significant licensing deals and the timing of delivery of ITV Studios' programmes. Major events, including sporting events, will impact the seasonality of schedule costs and the mix of programme spend between sport and other genres, especially drama and entertainment. Other than this, there is no significant seasonality or 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 3.2).

During the six months ended 30 June 2018, management also reassessed its estimates in respect of provisions and considered the recoverable amount of goodwill and other intangible assets. No impairment of goodwill or other intangible assets was identified.

These interim financial statements and the comparative figures are not statutory accounts. The statutory accounts for the year ended 31 December 2017 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 2018, the Group was in a financial net debt position with a positive cash balance. Even though the Group is in a net current liability position, its strong balance sheet and continued generation of significant free cash flows enables the Group to meet its obligations.

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

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

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

Changes in significant accounting policies

The Group has adopted IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' from 1 January 2018. Neither standard has a material effect on the Group's financial statements.

Except for the first time application of IFRS 15 and IFRS 9, 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 2017.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2018.

Revenue recognition

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 'Revenue', IAS 11 'Construction Contracts' and related interpretations.

The Group has adopted IFRS 15 on a fully retrospective basis. Accordingly, the information presented for 2017 has been restated to include the effect of transition.

| For the six month period to 30 June | Note | As reported 2017 £m | Adjustments | Restated 2017 £m |
|-------------------------------------|------|---------------------------|-------------|------------------------|
| Revenue | 2.1 | 1,458 | 11 | 1,469 |
| Operating costs | | (1,174) | (11) | (1,185) |
| Operating profit | | 284 | – | 284 |

On retrospective application of new accounting policies compliant with IFRS 15 the following adjustments were made to previously reported results for the six months to 30 June 2017:

- Increase in Broadcast & Online revenue of £16 million;
- Reduction in ITV Studios revenue of £5 million; and
- Increase in operating costs of £11 million.

Various costs in the Broadcast & Online division which are now deemed to be attributable to revenue have been reclassified, increasing revenue by total of £16 million with a corresponding increase in operating costs.

Certain contracts for production of programs in ITV Studios meet over-time revenue recognition criteria under IFRS 15, compared to point-in-time recognition under the previous standard. This change has resulted in a reduction in revenue by £5 million with a corresponding reduction in operating costs. The comparative balance sheet was adjusted for the impact of this timing difference.

The vast majority of the Group's revenue was recognised at point-in-time in the six months to 30 June 2018.

As the effect of the application of IFRS 15 is not material, further details of the new significant accounting policies will be set out in the Group's consolidated financial statements as at and for the year ending 31 December 2018.

Financial instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 'Financial Instruments: Recognition and Measurement'.

Adoption of IFRS 9 resulted in no adjustments to previously reported results.

As the effect of the application of IFRS 9 is not material, the details of the new significant accounting policies will be set out in the Group's consolidated financial statements as at and for the year ending 31 December 2018.

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 2018 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 2017.

IFRS 16 'Leases' is effective 1 January 2019. IFRS 16 will change lease accounting for lessees under operating leases. Such agreements will require recognition of an asset, representing the right to use the leased item, and a liability, representing future lease payments. Lease costs (such as property rent) will be recognised in the form of depreciation and interest, rather than as an operating cost.

The detailed assessment of impact on the Group's performance is progressing, with the current focus on the modelling of impact based on the lease database.

The adoption is likely to have a material impact on the presentation of the Group's assets and liabilities, mainly due to property leases. Due to the quantity of leases under review, the Group has not substantially completed the assessment of lease contracts under the new accounting standard. Therefore, a quantification of the impact on the Group's results cannot yet be reliably estimated.

Section 2: Results for the Period

In this section



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

2.1 Profit before tax

Keeping it simple



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

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

Segmental information

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

The Board considers the business primarily from an operating activity perspective. The reportable segments for the periods ended 30 June 2018 and 30 June 2017 are therefore Broadcast & Online and ITV Studios, the results of which are outlined in the following tables:

| | Broadcast & Online 2018 £m | ITV Studios 2018 £m | Consolidated 2018 £m |
|----------------------------------------|----------------------------------|---------------------------|----------------------------|
| For the six month period to 30 June | | | |
| Total segment revenue | 1,045 | 803 | 1,848 |
| Intersegment revenue | (1) | (254) | (255) |
| Revenue from external customers | 1,044 | 549 | 1,593 |
| Adjusted EBITA* | 257 | 118 | 375 |

| | Broadcast & Online 2017 £m | ITV Studios 2017 £m | Consolidated 2017 £m |
|--------------------------------------------------|----------------------------------|---------------------------|----------------------------|
| For the six month period to 30 June (restated**) | | | |
| Total segment revenue | 1,016 | 692 | 1,708 |
| Intersegment revenue | – | (239) | (239) |
| Revenue from external customers | 1,016 | 453 | 1,469 |
| Adjusted EBITA* | 293 | 110 | 403 |

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

** The Group has applied IFRS 15 'Revenue from Contracts with Customers' at 1 January 2018. Under the transition method chosen, the comparative information has been restated. See Section 1.

Disaggregation of revenue

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

| | 2018 £m | 2017 £m |
|---------------------------------------------|--------------|--------------|
| For the six month period to 30 June | | |
| Total Advertising revenue | 890 | 871 |
| Direct to Consumer | 41 | 29 |
| SDN | 36 | 35 |
| Other | 78 | 81 |
| Total Broadcast & Online revenue | 1,045 | 1,016 |

| For the six month period to 30 June | 2018 £m | 2017 £m |
|-------------------------------------|------------|------------|
| Studios UK | 328 | 306 |
| ITV America | 141 | 138 |
| Studios RoW | 247 | 159 |
| Global Entertainment | 87 | 89 |
| Total ITV Studios revenue | 803 | 692 |

Adjusted EBITA

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

| For the six month period to 30 June | 2018 £m | 2017 £m |
|---------------------------------------------------------------|------------|------------|
| Adjusted EBITA | 375 | 403 |
| Production tax credits | (8) | (8) |
| EBITA before exceptional items | 367 | 395 |
| Operating exceptional items | (41) | (53) |
| Amortisation and impairment | (41) | (58) |
| Net financing costs | (18) | (23) |
| Share of losses of joint ventures and associated undertakings | (3) | (2) |
| Gain on sale of non-current assets (exceptional items) | 1 | – |
| Profit before tax | 265 | 259 |

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

2.2 Earnings per share

Keeping it simple



Earnings per share ('EPS') is the amount of post-tax profit attributable to each share.

Basic EPS is calculated on the Group profit for the period attributable to equity shareholders of £212 million (2017: £203 million) divided by 3,998 million (2017: 4,010 million) being the weighted average number of shares in issue during the period, which excludes EBT shares held in trust.

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

Adjusted EPS is presented in order to 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 are amortisation and impairment; net financing cost adjustments and the tax adjustments relating to these items. Each of these adjustments are explained in detail in the section below.

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

Earnings per share

| For the six month period to 30 June | 2018 £m | 2017 £m |
|-----------------------------------------------------------------------------|-------------|-------------|
| Profit for the period attributable to equity shareholders of ITV plc | 212 | 203 |
| Weighted average number of ordinary shares in issue – million | 3,998 | 4,010 |
| Earnings per ordinary share | 5.3p | 5.1p |

The weighted average number of ordinary shares has decreased in the period due to a large number of shares purchased by the Group on behalf of the Employee Benefit Trust in late 2017.

Section 2: Results for the Period continued

Diluted earnings per share

| | 2018 £m | 2017 £m |
|-----------------------------------------------------------------------------|--------------|------------|
| For the six month period to 30 June | | |
| Profit for the period attributable to equity shareholders of ITV plc | 212 | 203 |
| Weighted average number of ordinary shares in issue – million | 3,998 | 4,010 |
| Dilution due to share options | 11 | 9 |
| Total weighted average number of ordinary shares in issue – million | 4,009 | 4,019 |
| Diluted earnings per ordinary share | 5.3p | 5.1p |

Adjusted earnings per share

| | Ref. | 2018 £m | 2017 £m |
|----------------------------------------------------------------------|------|--------------|------------|
| For the six month period to 30 June | | | |
| Profit for the period attributable to equity shareholders of ITV plc | | 212 | 203 |
| Exceptional items (net of tax) | A | 37 | 50 |
| Profit for the period before exceptional items | | 249 | 253 |
| Amortisation and impairment | B | 34 | 48 |
| Adjustments to net financing costs | C | 2 | 5 |
| Other tax adjustments | | – | 1 |
| Adjusted profit | | 285 | 307 |
| Total weighted average number of ordinary shares in issue – million | | 3,998 | 4,010 |
| Adjusted earnings per ordinary share | | 7.1p | 7.7p |

Diluted adjusted earnings per share

| | 2018 £m | 2017 £m |
|----------------------------------------------------------------------------|--------------|------------|
| For the six month period to 30 June | | |
| Adjusted profit | 285 | 307 |
| Weighted average number of ordinary shares in issue – million | 3,998 | 4,010 |
| Dilution due to share options | 11 | 9 |
| Total weighted average number of ordinary shares in issue – million | 4,009 | 4,019 |
| Diluted adjusted earnings per ordinary share | 7.1p | 7.6p |

The rationale for determining the adjustments to profit is disclosed in the 31 December 2017 Annual Report and has not changed during the period. Details of the adjustments to earnings are as follows:

A. Exceptional items (net of tax) £37 million (2017: £50 million), calculated as total of:

- operating and non-operating exceptional items of £40 million (2017: £53 million), relating to £27 million of acquisition-related expenses, primarily performance-based, employment linked consideration and other items including property project costs of £14 million,
- net of a tax credit of £3 million (2017: £3 million).

B. Amortisation and impairment of £34 million (2017: £48 million), calculated as total of:

- amortisation and impairment of assets acquired through business combinations and investments of £38 million (2017: £55 million), excluding amortisation and impairment of software licenses and development of £3 million (2017: £3 million),
- net of a related tax credit of £4 million (2017: £7 million).

C. Adjustments to net financing costs £2 million (2017: £5 million). Net financing costs are adjusted for:

- mark-to-market movements on derivative instruments, foreign exchange and imputed pension interest charges of £3 million (2017: £6 million),
- net of a related tax credit of £1 million (2017: £1 million).

Dividends

Equity dividends are derived from distributable reserves of the ITV plc Company and not from the consolidated Group, and therefore the consolidated retained loss presented on the condensed consolidated balance sheet does not represent a block to our dividend policy.

For the period of investment in 2018 and 2019 the Board intends to pay at least an 8p dividend per year. This reflects the Board's confidence in the business and in the new strategy as well as the continued strong cash generation. The Board expects that over the medium term the dividend will grow broadly in line with earnings.

Consistent with this, the Board has declared an interim dividend of 2.6p which is up 3% on 2017.

Section 3: Operating Assets and Liabilities

In this section



This section shows the assets used to generate the Group's trading performance and the liabilities incurred as a result. On the following pages there are notes covering provisions and pensions.

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

3.1 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

There have been no movements in provisions during the period:

| | Contract provisions £m | Property provisions £m | Legal and Other provisions £m | Total £m |
|------------------------|---------------------------|---------------------------|----------------------------------|-------------|
| At 1 January 2018 | 3 | 4 | 16 | 23 |
| At 30 June 2018 | 3 | 4 | 16 | 23 |

Provisions of £16 million are classified as current liabilities (31 December 2017: £16 million). Unwind of the discount is £nil in 2018 and 2017.

Contract provisions comprise onerous commitments on payout and related services that are not expected to be utilised over the remaining contract period.

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

Legal and Other provisions totalling £16 million (31 December 2017: £16 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 should be issued against certain Group companies, which would require the Group to put in place financial support for the Boxclever Scheme. The Group challenged this in the Upper Tribunal. In May 2018 the Upper Tribunal reached a decision to allow the Pension Regulator to issue Financial Support Directions. However, subsequently in June 2018 the Upper Tribunal allowed ITV to appeal its decision and such appeal was made in July 2018.

The Directors, having taken advice, believe that they continue to have a strong case. There are significant points of legal principle at issue and consequently any potential liability may take a significant period to resolve. The Directors continue to believe that the provision held is appropriate.

Section 3: Operating Assets and Liabilities continued

3.2 Pensions

Keeping it simple



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

What are the Group's pension schemes?

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

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 participating in saving for their retirement. ITV has no further obligation to the participating employee and the risks and rewards associated with this type of scheme are assumed by the members rather than the Group. Although the Trustee of the scheme makes available a range of investment options, it is the members' responsibility to make investment decisions relating to their retirement benefits.

What is a Defined Benefit scheme?

In a Defined Benefit scheme, members receive payments during retirement, the value of which is dependent on factors such as salary and length of service. The Group makes contributions to the scheme, a separate trustee-administered fund that is not consolidated in these financial statements, but is reflected on the defined benefit pension surplus/deficit line on the consolidated statement of financial 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 Group has a Pension Steering Committee, which liaises with the Trustee and has oversight of the management of the pension schemes and underlying risks.

In the event of poor returns, the Group may need 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 but in some cases security is required.

The Group has determined that it has an unconditional right to a refund of any surplus if the Schemes are run off until the last member dies. On this basis the Group has recognised an accounting surplus as at 30 June 2018.

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

The net pension surplus/deficit is presented consistently with definitions presented in the Group's 2017 Annual Report.

The net pension surplus at 30 June 2018 was £86 million, compared with a deficit of £83 million at 31 December 2017. The reduction in deficit was primarily as a result of a decrease in the gross liability together with deficit funding payments of £47 million made in the period, offset by a reduction in the value of assets.

The gross liability reduced principally due to an increase in the corporate bond yields. This was further improved by a decrease in the market expectation of long-term inflation rates. The gross assets' value declined as a result of gilt yield increase.

The 1 January 2017 actuarial valuation was agreed during the period. On the basis agreed with the Trustee, the combined deficits of the ITV Pension Scheme as at 1 January 2017 amounted to £470 million. The total expected deficit funding contribution for 2018 will be consistent with prior years. In 2019, we expect deficit funding contributions of around £75 million.

| | 30 June 2018 £m | 31 December 2017 £m |
|-----------------------------------------------------------|-----------------------|---------------------------|
| Total defined benefit scheme obligations | (3,731) | (3,987) |
| Total defined benefit scheme assets | 3,775 | 3,866 |
| Defined benefit pension surplus/(deficit) (IAS 19) | 44 | (121) |
| Presented as: | | |
| Defined benefit pension surplus | 98 | 16 |
| Defined benefit pension deficit | (54) | (137) |
| Defined benefit pension surplus/(deficit) (IAS 19) | 44 | (121) |
| Other pension asset | 42 | 38 |
| Net pension surplus/(deficit) | 86 | (83) |

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.

The Directors have reviewed the Group's capital allocation in light of the new strategy. Maintaining capital discipline and balance sheet efficiency remains important to the Group. Any investment decisions are based upon value creation and returns analysis, taking into account returns to shareholders, the Group's liquidity needs, pension deficit initiatives and impact on credit ratings.

The Directors will continue to 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 new strategy and to invest in opportunities to grow the business and enhance shareholder value.

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

4.1 Net debt

Keeping it simple



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

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

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

| | 1 January 2018 £m | Net cash flow £m | Acquisitions £m | Currency and non-cash movements £m | 30 June 2018 £m |
|--------------------------------------------------------------------|-------------------------|---------------------|--------------------|---------------------------------------------|-----------------------|
| Cash | 121 | (32) | – | 1 | 90 |
| Cash equivalents | 5 | – | – | – | 5 |
| Total cash and cash equivalents | 126 | (32) | – | 1 | 95 |
| Loans and facilities due within one year | (76) | (93) | – | – | (169) |
| Loans and facilities due after one year | (982) | 1 | – | 3 | (978) |
| Total debt | (1,058) | (92) | – | 3 | (1,147) |
| Currency component of swaps held against euro denominated bonds | 20 | – | – | (2) | 18 |
| Net debt | (912) | (124) | – | 2 | (1,034) |

4.2 Borrowings

Keeping it simple



The Group borrows money from financial institutions in the form of bonds, bank facilities and other financial instruments.

The Group is required to disclose the fair value of its debt instruments. The fair value is the amount the Group would pay a third party to transfer the liability. It is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Loans and facilities due within one year

The Group has £630 million of available funding through a Revolving Credit Facility (RCF) with a group of relationship banks. During the period the Group drew down on the RCF to meet short-term funding requirements. At 30 June 2018 the Group had drawings of £160 million (31 December 2017: £60 million). The maximum draw down of the RCF during the period was £300 million (2017: maximum draw down was £390 million).

Loans and loan notes due after one year

The Group has issued the following Eurobonds:

- A seven-year €600 million Eurobond at a fixed coupon of 2.125% which matures in September 2022; and
- A seven-year €500 million Eurobond at a fixed coupon of 2.0% which will mature in December 2023. The bond issued in December 2016 has been swapped back to sterling using a cross currency interest swap. The resulting fixed rate payable is c. 3.5%.

The Group has £100 million available under a non-recourse receivables purchase agreement. As at 30 June 2018 £30 million was available under the agreement (31 December 2017: £10 million).

Fair value versus book value

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

| | | Book value | | Fair value | |
|---------------------------------|-----------|-----------------------|---------------------------|-----------------------|---------------------------|
| | | 30 June 2018 £m | 31 December 2017 £m | 30 June 2018 £m | 31 December 2017 £m |
| | Maturity | | | | |
| Loans due within one year | | | | | |
| Other short-term loans | Various | 9 | 16 | 9 | 16 |
| Revolving Credit Facility | Various | 160 | 60 | 160 | 60 |
| Loans due in more than one year | | | | | |
| Other long-term loans | Various | 8 | 9 | 8 | 9 |
| €600 million Eurobond | Sept 2022 | 528 | 529 | 558 | 560 |
| €500 million Eurobond | Dec 2023 | 442 | 444 | 459 | 461 |
| | | 1,147 | 1,058 | 1,194 | 1,106 |

Section 4: Capital Structure and Financing Costs continued

4.3 Managing market risks: derivative financial instruments

Keeping it simple



What is a derivative?

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

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

Why do we need them?

The key market risks facing the Group are:

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

How do we use them?

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

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

The Group's policy on the various methods used to calculate their respective fair values is detailed in the 31 December 2017 Annual Report and summarised below.

The Group held certain derivative instruments at 30 June 2018.

| At 30 June 2018 | Assets £m | Liabilities £m |
|----------------------------------------------------------------------------------|--------------|-------------------|
| Current | | |
| Foreign exchange forward contracts and swaps – cash flow hedges | 2 | (2) |
| Foreign exchange forward contracts and swaps – fair value through profit or loss | 1 | (3) |
| Non-current | | |
| Cross currency interest swaps – cash flow hedges | 15 | (2) |
| | 18 | (7) |
| <hr/> | | |
| At 31 December 2017 | Assets £m | Liabilities £m |
| Current | | |
| Foreign exchange forward contracts and swaps – cash flow hedges | 4 | (1) |
| Foreign exchange forward contracts and swaps – fair value through profit or loss | 2 | (1) |
| Non-current | | |
| Cross currency interest swaps – cash flow hedges | 10 | – |
| Foreign exchange forward contracts and swaps – cash flow hedges | – | (1) |
| | 16 | (3) |

4.4 Fair value hierarchy

Keeping it simple



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

Level 1

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

Level 2

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

Level 3

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

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

| 30 June 2018 | Fair value £m | Level 1 £m | Level 2 £m | Level 3 £m |
|----------------------------------------------------------------------------------------------|------------------|---------------|---------------|---------------|
| Assets measured at fair value | | | | |
| Available-for-sale financial instruments | | | | |
| Other pension assets – gilts (see note 3.2) | 42 | 42 | – | – |
| Available-for-sale investments | 4 | – | – | 4 |
| Financial assets at fair value through profit or loss | | | | |
| Foreign exchange forward contracts and swaps | 1 | – | 1 | – |
| Financial assets at fair value through reserves | | | | |
| Cash flow hedges | 17 | – | 17 | – |
| | 64 | 42 | 18 | 4 |
| Liabilities measured at fair value | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Foreign exchange forward contracts and swaps | (3) | – | (3) | – |
| Acquisition-related liabilities – payable to sellers under put options agreed on acquisition | (76) | – | – | (76) |
| Financial liabilities at fair value through reserves | | | | |
| Cash flow hedges | (4) | – | (4) | – |
| | (83) | – | (7) | (76) |

The accounting policies for how we value level 3 instruments are disclosed in the December 2017 Annual Report.

Commitments on acquisitions

Other payables include £169 million (31 December 2017: £161 million) of acquisition-related liabilities, of which £93 million (31 December 2017: £88 million) is employment linked contingent consideration and £76 million (31 December 2017: £73 million) is payable to sellers under put options agreed on acquisition.

Section 5: Other Notes

5.1 Related party transactions

Keeping it simple



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

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

Transactions with joint ventures and associated undertakings

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

| | 2018 £m | 2017 £m |
|----------------------------------------|------------|------------|
| Sales to joint ventures | 3 | 8 |
| Sales to associated undertakings | 8 | 6 |
| Purchases from joint ventures | 13 | 13 |
| Purchases from associated undertakings | 34 | 35 |

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

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

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

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

| | 30 June 2018 £m | 31 December 2017 £m |
|-----------------------------------------|-----------------------|---------------------------|
| Amounts owed by joint ventures | 1 | 6 |
| Amounts owed by associated undertakings | 7 | 6 |
| Amounts owed to joint ventures | 2 | – |
| Amounts owed to associated undertakings | 4 | 4 |

Balances owed by associated undertakings largely relate to loan notes.

Transactions with key management personnel

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

| | 2018 £m | 2017 £m |
|-------------------------------------|------------|------------|
| For the six month period to 30 June | | |
| Short-term employee benefits | 6 | 4 |
| Share-based compensation | 3 | 1 |
| | 9 | 5 |

5.2 Contingent liabilities

Keeping it simple



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

Contingent liabilities

In 2017 the Group initiated legal proceedings against the minority owners of Gurney Productions LLC for alleged breaches of contracts and their fiduciary duties, as well as self-dealing and fraudulent concealment. The minority owners dispute the allegations and they have counter-claimed for damages of at least \$150 million. The action is ongoing and, having taken legal advice, the Directors believe this counter-claim is completely without merit.

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

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

We confirm that to the best of our knowledge:

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

For and on behalf of the Board:

Ian Griffiths

Chief Operating Officer and Group Finance Director

25 July 2018

Independent Review Report to ITV plc

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 which comprises Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement of Cash Flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

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

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

Directors' responsibilities

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

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

Our responsibility

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

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

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

Paul Sawdon

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

25 July 2018