



Continuing ITV's Digital Transformation

Interim results for the period ending 30 June 2019

Carolyn McCall, ITV Chief Executive, said:

"ITV delivered another good viewing performance in the first half of the year. Online revenues grew strongly up 18% despite tough comparatives, with Love Island providing a strong finish to the half. This was reflected in better than expected total advertising revenue.

"The economic and political environment remains uncertain but we are very focused on delivering our strategy and creating a stronger, more diversified and structurally sound business to enable ITV to take advantage of evolving viewing and advertising opportunities.

"We are making good progress in each area of our strategy as we become an increasingly digital entertainment company. BritBox is set to launch in Q4, as is our new programmatic addressable advertising platform, and we are accelerating our digital and data capabilities.

"ITV Studios has a solid pipeline of new and returning shows this year – from I'm A Celebrity... Get Me Out of Here! to World on Fire to Snowpiercer – and is firmly on track to deliver our full year guidance.

"We continue to deliver strongly on our cost savings where we are targeting, in addition to the original £35m to £40m, a further £5m this year and £15m between 2020 to 2022, totalling £55m to £60m over 2019 to 2022.

"We have a solid balance sheet which enables us to make the right decisions to build a robust and growing business and deliver returns to shareholders in line with our guidance."

H1 modestly better than expected

- Total external revenue down 7% at £1,476 million (2018: £1,593 million)
- ITV total advertising revenue down 5%, better than previously guided
- Strong growth in online revenue, up 18%, against tough comparatives
- Total ITV Studios revenue down 6% at £758 million (2018: £803 million) as expected, with deliveries weighted to the second half. ITV Studios external revenue was down 11% at £487 million (2018: £549 million)
- Broadcast & Online adjusted EBITA was down 18% at £211 million (2018: £257 million)
- ITV Studios adjusted EBITA down 2% at £116 million (2018: £118 million)
- Adjusted EBITA down 13% at £327 million (2018: £375 million)
- Adjusted EPS down 13% at 6.2p (2018: 7.1p)
- Statutory EBITA down 16% at £310 million (2018: £367 million)
- Statutory EPS down 9% at 4.8p (2018: 5.3p)

Strong performance in areas we can control

- Good on-screen and online viewing
 - ITV Family SOV flat against tough comparatives and ITV2 16-34 SOV up 7%
 - 99% of all commercial audiences over 5m delivered by ITV
 - Online viewing up 13%, with monthly active users (MAU) up 37%
- ITV Studios has a strong pipeline of new and returning shows
- Over 500,000 Hub+ subscribers and over 650,000 BritBox US subscribers

Continue to successfully execute our strategy

- Britbox is due to launch in the UK in Q4, following formal agreement with the BBC
- We will begin the roll out of our new programmatic addressable advertising platform for the ITV Hub in Q4
- Identified a further £5m of cost savings in 2019 and £15m over 2020 to 2022, in addition to £35m to £40m announced previously
- Strengthened our capabilities in advertising, data and technology

Solid balance sheet and healthy liquidity

- Strong profit to cash conversion of 89% on a 12-month rolling basis
- 1.3x reported net debt to adjusted EBITDA on a 12-month rolling basis
- Interim dividend of 2.6p, in line with our stated policy

On track to deliver full year guidance

- Over the full year we are confident that
 - We will deliver £20m of cost savings
 - We will continue to execute well on the strategy, building on our market leadership in linear TV and in premium AVOD
 - We will deliver double digit online revenue growth
 - ITV Studios will deliver at least 5% revenue growth at a 14% to 16% margin, with £130m more revenue for the full year secured at this point than last year, and
 - We will maintain a robust balance sheet and deliver on our full year dividend commitment of at least 8.0p per share
- Economic and political uncertainty continues to impact the demand for advertising as we expected, with total advertising forecast to be in a range of -1% to +1% in Q3
- We remain focused on delivering in the areas of the business which are under our control whilst actively mitigating the impact of exogenous factors.

Operating and Financial Performance

Six months to 30 June	2019 £m	2018 £m	Change £m	Change %
Total advertising revenue	849	890	(41)	(5)
Total non-advertising revenue	900	958	(58)	(6)
Total revenue	1,749	1,848	(99)	(5)
Internal supply	(273)	(255)	(18)	(7)
Group external revenue	1,476	1,593	(117)	(7)
Group adjusted EBITA	327	375	(48)	(13)
Group adjusted EBITA margin	22%	24%		
Statutory EBITA	310	367	(57)	(16)
Adjusted EPS	6.2p	7.1p	(0.9)p	(13)
Statutory EPS	4.8p	5.3p	(0.5)p	(9)
Dividend per share	2.6p	2.6p		
Net debt as at 30 June	(1,082)	(1,034)	(48)	

While the macro environment continues to impact ITV, it delivered a robust performance in the first half of 2019, with the financial results modestly better than expected. We are delivering in all areas of the business we control and are making good progress investing in our strategic priorities and in particular, enhancing the ITV Hub and our technology capabilities and platforms to continue our digital transformation internally and externally. We are on track to launch BritBox UK and our programmatic addressable advertising platform in Q4 2019, which will further position ITV to take advantage of evolving viewing and advertising opportunities.

Total ITV revenue decreased 5% to £1,749 million (2018: £1,848 million), with external revenue down 7% at £1,476 million (2018: £1,593 million). Total non-advertising revenue was down 6% to £900 million (2018: £958 million), which accounts for 51% of total revenue (2018: 52%).

Adjusted EBITA declined 13% to £327 million (2018: £375 million), with a 2% decline in ITV Studios adjusted EBITA and a 17% decline in Broadcast & Online adjusted EBITA (excluding the net £3 million investment in BritBox UK) driven by the decrease in total advertising revenue and the impact of our essential investments to support the strategic priorities. Adjusted EPS declined 13% to 6.2p (2018: 7.1p). Adjusted financing costs were up £5 million year-on-year at £20 million and our adjusted tax rate has come down to 18% (2018: 19%).

Statutory EPS decreased by 9% to 4.8p (2018: 5.3p), with the decline in statutory EBITA partly offset by the benefit from the reported effective tax rate reducing from 20% to 14% primarily due to higher tax credits in the period.

In the first half of the year our viewing performance remained good against tough comparatives. On-screen, we maintained our ITV Family share of viewing (SOV) at 23.6% (2018: 23.5%) with strength across the schedule from daytime through to evening news. The ITV Hub continued to deliver strong viewing, up 13%. Total advertising was down 5% in the first half of 2019 which was slightly better than expected and our online revenues grew strongly, up 18%. While total ITV Studios revenues were down 6% in the period due to the phasing of deliveries, we have developed a solid pipeline of new and returning shows and expect a strong second half.

We are firmly on track to deliver our full year guidance of at least 5% growth in ITV Studios total revenues at a margin of 14% to 16% and double digit growth in online revenue.

We continue to deliver strongly on our cost savings where we are targeting, in addition to the original £35m to £40m, a further £5m this year and £15m between 2020 to 2022. In total, we will target £55 million to £60 million of cost savings over 2019 to 2022, which is equivalent to around 13% of our fully addressable cost base. Over 2019 we will deliver £20 million of cost savings, of which we have delivered £10 million across the business in the first half.

We have a solid balance sheet with good access to liquidity, and our cash generation continues to be a real strength. In the period, profit to cash conversion was lower than 2018 as guided, as we continue to invest in our scripted business. Profit to cash conversion on a 12-month rolling basis was 89% (2018: 94%).

Our objective is to run an efficient balance sheet and manage our financial metrics appropriately, consistent with our commitment to investment grade metrics. This allows us to continue to invest in growing a more robust business and progressing our strategy, whilst continuing to deliver sustainable returns to our shareholders in line with our policy. Our net debt (excluding lease liabilities) was £1,082 million (31 December 2018: £927 million) after dividend payments of £216 million and pension contributions of £44 million. On a 12-month rolling basis our reported net debt to adjusted EBITDA was 1.3x and adjusted net debt to adjusted EBITDA, which better reflects how credit agencies look at us, was 1.9x.

Reflecting the Board's confidence in the business and its strategy, as well as the continued strong cash generation, it has declared an interim dividend of 2.6p which is flat on 2018. The Board remains committed to paying at least an 8.0p dividend for the full year. The Board expects that over the medium term the dividend will grow broadly in line with earnings.

Broadcast & Online

Six months to 30 June	2019 £m	2018 £m	Change £m	Change %
Total advertising revenue	849	890	(41)	(5)
Direct to Consumer	40	41	(1)	(2)
SDN	34	36	(2)	(6)
Other revenue	68	78	(10)	(13)
Broadcast non-advertising revenue	142	155	(13)	(8)
Total Broadcast & Online revenue	991	1,045	(54)	(5)
Network schedule costs	(541)	(567)	26	5
Variable costs	(59)	(57)	(2)	(4)
Broadcast infrastructure and overheads	(177)	(164)	(13)	(8)
Broadcast & Online adjusted EBITA (ex BritBox UK)	214	257	(43)	(17)
BritBox UK net investment	(3)	–	(3)	–
Total Broadcast & Online adjusted EBITA	211	257	(46)	(18)
Adjusted EBITA margin (ex BritBox UK)	22%	25%		
Total adjusted EBITA margin	21%	25%		

Financial Performance

Broadcast & Online total revenue was down 5% in the period at £991 million (2018: £1,045 million).

Total advertising revenue declined 5% to £849 million (2018: £890 million) which was slightly better than expected. The decline was driven by NAR, with online advertising revenue up 18%. TV advertising continues to be impacted by political and economic uncertainty, and there is a great deal of change in viewing and advertising trends which we are keeping under constant focus and adapting what we do to respond. Research has shown that digital is less effective than TV advertising, but it allows advertisers to gain short-term impact and benefit from low production costs.

The make up of TV advertisers is changing as new categories and markets are being disrupted by insurgent brands. Some categories are growing rapidly. Publishers, Airlines and Travel and the Government have spent more in the period and spend by online brands grew by 7% if you exclude the gaming spend around the 2018 World Cup. These brands can see the immediate benefits of TV advertising spend and demonstrate how valuable it is. The well publicised issues with the high street, retail and FMCG companies have put pressure on their budgets and they are spending less across all media. There was also a decline in Entertainment & Leisure compared to the significant gaming spend around the Football World Cup last year.

Direct to Consumer revenue declined marginally by 2% to £40 million (2018: £41 million), with growth in Hub+ subscriptions offset by fewer pay per view boxing events compared to 2018 and the absence of Saturday Night Takeaway impacting our Interactive revenues. We remain on track to deliver revenue growth over the full year and the targeted £100 million revenue by 2021 as set out in the strategy.

Schedule costs were £26 million lower due to the timing of sporting events year-on-year. Spend on screen is weighted towards the second half with the Rugby World Cup in the autumn, a number of England football qualifiers for the European Football Championships, and new and returning dramas. Our variable costs increased in the period with higher bandwidth and rights costs associated with our online business and programme marketing. Broadcast infrastructure and overhead costs also increased, with higher property costs for our new London buildings as previously announced, and from our investments in data, the ITV Hub, ITV Hub+ and technology. This more than offsets the £6 million of cost savings made across Broadcast & Online in the period.

Broadcast & Online adjusted EBITA excluding BritBox UK was £214 million, down 17% year-on-year (2018: £257 million), with a margin of 22% (2018: 25%). Total Broadcast & Online adjusted EBITA was down 18% year-on-year at £211 million with a margin of 21%.

Viewing

In the first half of the year we delivered a good viewing performance both on-screen and online, against tough comparatives in 2018 from the Football World Cup, and the absence of Saturday Night Takeaway. We maintained our SOV at 23.6% (2018: 23.5%) and ITV Family SOV is now at an 11 year high.

Total ITV viewing, which combines live viewing of ITV channels, recorded and video on demand (VOD), decreased by 5% year-on-year against the Football World Cup last year. Over two years, total ITV viewing was broadly flat. On the main channel, daytime shows grew their share of viewing year-on-year, including Good Morning Britain and The Chase, which both had their highest share ever, This Morning and Lorraine. Our soaps, Coronation Street and Emmerdale maintained their position as the UK's two largest soaps, although their viewing was marginally down year-on-year against big storylines in 2018. We successfully aired a range of new programmes; dramas including Manhunt, Cheat, Cleaning Up and The Bay which were the four most watched new dramas so far this year with more than 7 million viewers each; new entertainment shows, including In For A Penny; and successful factual entertainment, including Bradley Walsh and Son and Harry's Heroes. We continue to drive significant audiences with our returning brands such as Vera, Cold Feet, Endeavour, The Durrells, Britain's Got Talent – which is the most watched entertainment programme so far this year, The Voice UK, Dancing On Ice and Ninja Warrior. Our news programming continues to perform well, as does our sporting schedule with the Six Nations Rugby Championships and horse racing. While overall our schedule is performing strongly, not all of our programmes will return. Small Fortune did not perform as we had hoped and The Jeremy Kyle Show has been cancelled.

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 strong performance in our target demographics on ITV2, ITV3 and the ITV Hub.

ITV2 remained the most watched digital channel for the 16-34s for the third year in a row. This was helped by Love Island which to date, is having its best performing series yet. It is averaging 4.2 million viewers (5.5 million including non-TV viewing), with a share of 18%, up 0.6 million viewers and +1.4% pts year-on-year. It is so far the largest 16-34 audience across all channels averaging 2.1 million viewers with a 52% share, up 0.1 million viewers and +6.6% pts. Love Island, together with Love Island: Aftersun, Ibiza Weekender, The Stand-Up Sketch Show and Celebrity Juice, has helped ITV2 achieve a SOV of 6.5% and SOCI of 10.2% for the 16-34s demographic, up 7% and 10% respectively. ITV3's viewing performance improved in the period due to the strong slate of dramas such as Midsomer Murders, Vera, Poirot, Doc Martin as well as classic Emmerdale and classic Coronation Street. ABC1 adults SOV and SOCI on ITV3 were both up 7% in the period. Male SOV and SOCI on ITV4 were down 1% and 4% respectively year-on-year, impacted by the Football World Cup in 2018. The sports schedule remained healthy in the period with horse racing, the French Open, darts and snooker.

We have a strong schedule for the rest of the year with new dramas including Sanditon, A Confession and Sticks and Stones as well as I'm A Celebrity...Get Me Out Of Here!, the autumn series of Britain's Got Talent and X Factor, and the Rugby World Cup.

We are investing to reposition ITV, drive more light viewers and increase reach. Our investments to date have focussed on evolving the brand to be more creative and contemporary, and this is now visible on ITV and the ITV Hub. We launched our new 'More than TV' viewer campaign and developed consistent off-air marketing across multiple media channels and have used this across established media and social media. We are starting to see a positive impact from this investment with spontaneous consideration of ITV Family amongst light viewers increasing two percentage points, with our brand target group up one percentage point. ITV Family SOV for both light viewers and our brand target audience was up 0.4 percentage points (across Jan-May 2019).

ITV Hub

The ITV Hub, the online home for all of our channels and content, continues to grow strongly. This is driven by our viewers' appetite to watch our content whenever and wherever they want, be it catch up or, increasingly, simulcast. The ITV Hub is available on 28 platforms and is pre-installed on over 90% of all connected televisions sold in the UK.

Online viewing, which measures the total number of hours viewers are spending online, was up 13% driven by viewing on mobile devices and connected TVs. Dwell time, which measures the average time spent viewing per session across all platforms, was up 5% in the period. The ITV Hub now has 29 million registered users (2018: 25 million) and monthly active users are up 37%, helped by compulsory registration on connected TVs. This growth is driven by our great content and good user experience, supported and enhanced by a process of continued improvement and investment around the brand, user experience and our underlying digital platform. We will continue to enhance the user experience on the ITV Hub and later this year we will roll out a newly designed ITV Hub which will have redesigned homepages, increased personalisation including a "continue watching" section, along with the upsell of BritBox UK.

The ITV Hub helps ITV reach valuable younger audiences – around 81% of the UK's 16-34 year olds are registered. Younger viewers use the ITV Hub for simulcast viewing, as well as catch up. Love Island achieved an average of 0.5 million viewers via simulcast per episode, up from 0.3 million in 2018, which is greater than linear audiences on most digital channels. Simulcast viewing hours were up 17% year-on-year, driven by more simulcast viewing on connected TVs in the period.

Growth in ITV Hub allows us to collect more data which we have started to consolidate and unify with other data from across the business. This has enabled us to drive viewing and customer relationships through data driven marketing and testing our recommendation engine on the ITV Hub. We have also started growing consumer revenue with our Hub+ subscriber acquisition model and have established a data framework for BritBox UK. In addition we are establishing our position around advanced advertising, developing multiple data science led advertising products. In the second half of 2019 we will continue to build upon the progress we have made in our data capabilities, scaling and strengthening them and deploying them more widely across the business, including BritBox UK and ITV Interactive.

Direct to Consumer

Direct to Consumer generates revenue directly from the customer, and includes SVOD, competitions, merchandise, live events, gaming and pay per view events. In 2019, total revenue declined marginally by 2% to £40 million (2018: £41 million) predominantly due to less pay per view boxing and our competitions being impacted by the absence of Saturday Night Takeaway. Over the full year we are on track to deliver revenue growth.

Our existing SVOD propositions which include ITV Hub+ in the UK, BritBox US in the US and Canada, and Cirkus in the Nordics, Germany, Austria, Iceland and Switzerland, demonstrates our ability and ambition to compete in this market.

ITV Hub+ offers an ad-free subscription version of the ITV Hub with content download capability and EU portability. While it remains relatively small, the number of subscribers had almost doubled year-on-year to over 500,000 by July 2019. The subscriber growth has been driven by our great content, increased marketing and EU portability. We are using our investment into data capabilities to understand what drives customer acquisition and retention with the aim of understanding, predicting and affecting our subscriber behaviour more effectively.

Our joint venture with the BBC, BritBox US, provides an ad-free SVOD service offering the most comprehensive collection of British content available in the US and Canada. Subscribers have continued to grow steadily, now exceeding 650,000. We will continue to explore opportunities for BritBox US on other platforms and in other territories internationally. Revenues from Britbox US are not included in Direct to Consumer as it is accounted for as a joint venture.

On 19th July 2019 we announced our formal agreement with the BBC for our strategic partnership, BritBox UK, an exciting new SVOD service for UK audiences. We have undertaken further research to track the SVOD market and it is showing no signs of slowing down. There is a real appetite amongst British viewers for a new British streaming service, in addition to their current subscriptions. BARB data shows that more households are taking multiple subscriptions, while the annual growth in homes with any SVOD service is 20%, the growth in homes with multiple services is 34%, with five million homes now having more than one subscription. BritBox will tap into this demand and the innovative new service will provide the largest collection of British boxsets available anywhere – the best of the past, the present and the future. Our research has shown that the desire for British content is high, with 44% of all online homes interested in subscribing to a new SVOD service which features British content. This increases to over 54% in homes with Netflix.

BritBox UK will be an ITV controlled entity with an initial holding of 90% and the BBC holding 10% of the equity with an option to increase it up to 25%. We anticipate that other partners will be added to BritBox UK over time. The service is expected to launch in Q4 and will provide an unrivalled collection of British content and original series. It will be supported by a high profile marketing and promotional campaign by ITV and the BBC.

Our net investment in BritBox UK remains unchanged and will be up to £25 million in 2019, increasing to around £40 million in 2020, and expected to decline thereafter.

SDN

SDN generates revenue by licensing multiplex capacity to broadcast channels, radio stations and data providers on digital terrestrial television or Freeview. Currently, the SDN platform utilises the radio spectrum licensed to it to provide capacity for 16 broadcast channels and a number of data and radio services.

SDN customers include ITV and third parties, with external revenue (non-ITV) declining by 6%, driven by deal renewals in the period. SDN's multiplex licence expires in 2022 and we are fully engaged with both Government and Ofcom in relation to the possible renewal or extension of the licence.

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 13% year-on-year due to the closure of Encore at the end of April 2018 and lower commission from STV which ITV receives for selling STV's national advertising, which corresponds with the decline in spot advertising revenue during the period.

ITV Studios

Financial Performance

ITV Studios is on track to deliver at least 5% total revenue growth at a 14% to 16% margin over the full year, however as expected, first half total revenue decreased, down 6% to £758 million (2018: £803 million), with good growth within Studios Rest of World (RoW) offset by a decline in ITV America due to the phasing of deliveries. This performance includes a favourable currency impact of £3 million. Total organic revenue, which adjusts for currency, was also down 6%. The number of hours delivered in the period was down 5% mainly driven by non-returning commissions in ITV America and off-ITV in the UK. ITV Studios deliveries are weighted towards the second half of 2019 and we currently have £130 million more revenue secured for the full year than this time last year, which gives us confidence in our full year guidance.

Reflecting our presence in key global production markets, 54% of Studios revenue was generated outside the UK, down on prior year due to phasing (2018: 57%). ITV is the number one commercial producer in the UK and one of the largest producers in Europe and one of the largest independent unscripted producers in the US. As our Studios business grows internationally, foreign currency movements could have a larger impact on our results.

Adjusted EBITA was down 2% year-on-year at £116 million. Adjusted EBITA margin was stable at 15%. In the period, there was no impact from foreign exchange on ITV Studios adjusted EBITA.

Six months to 30 June	2019 £m	2018 £m	Change £m	Change %
Studios UK	331	328	3	1
ITV America	79	141	(62)	(44)
Studios RoW	260	247	13	5
Global Entertainment	88	87	1	1
Total ITV Studios revenue	758	803	(45)	(6)
Total ITV Studios costs	(642)	(685)	43	6
Total ITV Studios adjusted EBITA*	116	118	(2)	(2)
ITV Studios adjusted EBITA margin	15%	15%		

* Includes the benefit of production tax credits

Six months to 30 June	2019 £m	2018 £m	Change £m	Change %
Sales from ITV Studios to Broadcast & Online	271	254	17	7
External revenue	487	549	(62)	(11)
Total ITV Studios revenue	758	803	(45)	(6)

Six months to 30 June	2019 £m	2018 £m	Change £m	Change %
Scripted	173	142	31	22
Unscripted	439	511	(72)	(14)
Core* ITV and Other	146	150	(4)	(3)
Total ITV Studios revenue	758	803	(45)	(6)

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

Building scale in key creative markets

ITV Studios has three production divisions – Studios UK, ITV America and Studios Rest of World (RoW). Our performance in different territories is impacted by phasing, with the risk managed through the portfolio.

The US and UK are the dominant creative markets, with the US the largest exporter of scripted content globally and the UK the world leader in exported formats. Over the last few years we have built scale in these key markets, both organically and through acquisitions, and we now have a significant portfolio of successful series and formats. In recent years in the US, we have invested in backing talent and IP, rather than large scale acquisitions. This allows us to attract and collaborate with innovative and entrepreneurial creatives, with minimal risks and attractive returns. Europe is a growing creative market, with particular demand for foreign language drama internationally and local scripted content from broadcasters and OTT platforms. We have also strengthened our position in the European market with the acquisition of Tetra Media in France and Cattleya in Italy, both of which have produced a number of scripted titles for delivery in 2019.

A key part of ITV Studios investment is to strengthen our creative talent. We have made good progress in 2019 in attracting key talent to the business, including Patrick Spence – the award winning producer behind programmes such as Fortitude and Silent Witness joining from Endemol. We will continue to focus on this, and talent retention over the next few years. In July 2019, we increased our minority stake to take a controlling interest in Monumental Television, the production company behind Harlots.

For the first six months of 2019, total ITV Studios revenue in the UK was up 1% at £331 million (2018: £328 million) and up 2% on an organic basis. Sales to Broadcast & Online grew 7% driven by extra episodes of Emmerdale and new and returning dramas such as The Bay, Wild Bill, A Confession, Sticks and Stones, Anne, and Victoria. ITV Studios' UK share of original content on ITV main channel was marginally down at 65% (2018: 66%). The second half of 2019 will see the delivery of new and returning programmes including Singapore Grip, Flesh and Blood, Glass Houses, Bancroft, Vera, Endeavour, I'm A Celebrity...Get Me Out Of Here! and The Chase.

Our off-ITV revenues in the UK declined 19% mainly impacted by the phasing of deliveries, with several 2018 commissions not returning in the period, including Bodyguard, Age Before Beauty, Friday Night Dinner and This Time Next Year US. This was partly offset by new and returning dramas Line of Duty, Gold Digger and Shetland. The second half of 2019 will see a number of new drama commissions including World on Fire, Pale Horse and Noughts and Crosses, all for the BBC along with returning factual entertainment commissions 24 Hours in A&E and 24 Hours in Police Custody for Channel 4

As expected, ITV America total revenue declined significantly, down 44% to £79 million (2018: £141 million), and 47% to £75 million when adjusted for the favourable foreign exchange impact. The decline was mainly driven by the non-return of the music talent show, The Four following the delivery of two series in 2018, along with the non-return of Somewhere Between and the timing of unscripted deliveries Cake Boss and Fixer Upper. This decline was partly offset by a higher volume of Emmy award winning Queer Eye being delivered to Netflix, more episodes for the fifth series of Good Witch for Hallmark and higher volumes of Pawn Stars and Forged in Fire. ITV America has a strong slate of deliveries in the second half including; Snowpiercer (S1) for TNT, Cowboy Bebop – the TV adaptation of the Japanese anime for Netflix, Hell's Kitchen US, Bidding Live, Crank Yankers – for Comedy Central, and Love Island US.

Studios RoW has production bases in Australia, Germany, France, the Netherlands, the Nordics, Italy and the Middle East where we produce original content as well as local versions of ITV Studios UK and Talpa formats. Revenue grew 5% to £260 million (2018: £247 million), and by 6% to £263m when adjusted for the unfavourable impact of foreign currency. This growth was driven mainly by Talpa, which remains the largest territory in RoW, securing a number of multi-year deals for The Voice. Across the RoW our entertainment and format deliveries included I'm A Celebrity...Get Me Out of Here!, Quizduell and the part delivery of Dancing On Ice in Germany, The Voice, I'm A Celebrity...Get Me Out of Here! and Saturday Night Takeaway in Australia, and The Voice and The Voice Kids in France. Second half deliveries include Four Weddings in France and Love Island in Australia and Germany.

Our European scripted business continues to perform well with strong demand from broadcasters and OTT platforms for local content with global appeal. In the second half of 2019 we will deliver Profilage (S10) and Balthazar (S2) for TF1, Zero Zero Zero for Sky Italia, Canal+ and Amazon, Summertime for Netflix and Carlo & Malik for RAI. Cattleya also has 'Romulus' in production, the world's first Latin language series for Sky Italia, due for delivery in 2020. We will continue to focus on growing our European scripted business to allow us to benefit from the increasing demand for locally produced content with global appeal.

Talpa continues to develop its formats including The Voice Senior, Oogappels (The Apple of My Eye), Wishing Tree, Dansing, Military Bootcamp and House of Talent. Our international scale enables ITV to make these other formats across many of our international production territories and therefore earn the production revenue as well as the format fee.

Expanding our global distribution business

Global Entertainment revenue, the distribution arm within ITV Studios, was marginally up at 1% year-on-year to £88 million (2018: £87 million). Excluding the favourable impact of currency movements, revenue was down 1%. 2019 was impacted by the timing of deals and strong 2018 comparatives which included a number of non-returning ITV Studios UK drama commissions mentioned earlier.

Our content continues to sell well internationally to both broadcasters and OTT platforms and in particular our scripted programmes. Over 15 of our scripted programmes have been sold to date in more than 100 countries, including War of the Worlds (pre-sold), Victoria, Vera, Poldark, Endeavour and Cold Feet.

A key strength of ITV Studios is its large portfolio of successful entertainment and factual entertainment formats that return and travel which we are strengthening each year. This includes programmes such as The Voice, Love Island, Hell's Kitchen, The Graham Norton Show, I'm A Celebrity...Get Me Out of Here!, Catchpoint, The Chase, This Time Next Year, Come Dine With Me, and Four Weddings.

Interim results – statutory and adjusted

Six months to 30 June	2019 Statutory £m	2019 Adjustments £m	2019 Adjusted £m	2018 Statutory £m	2018 Adjustments £m	2018 Adjusted £m
EBITA¹	310	17	327	367	8	375
Exceptional items (operating) ²	(35)	35	–	(41)	41	–
Amortisation and impairment ³	(35)	31	(4)	(41)	38	(3)
Operating profit	240	83	323	285	87	372
Net financing costs ⁴	(16)	(4)	(20)	(18)	3	(15)
Share of losses on JVs and Associates	(2)	–	(2)	(3)	–	(3)
Gain / (loss) on sale of non-current assets and subsidiaries (non-operating exceptional items)	–	–	–	1	(1)	–
Profit before tax	222	79	301	265	89	354
Tax ⁵	(32)	(22)	(54)	(52)	(16)	(68)
Profit after tax	190	57	247	213	73	286
Non-controlling interests	1	–	1	(1)	–	(1)
Earnings	191	57	248	212	73	285
Shares (million), weighted average	3,999		3,999	3,998		3,998
EPS (p)	4.8p		6.2p	5.3p		7.1p
Diluted EPS (p)	4.8p		6.2p	5.3p		7.1p

1. £17 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 include, but are not limited to, acquisition-related costs, reorganisation and restructuring costs, property costs, non-routine legal costs and pension-related costs.

3. £31 million adjustment relates to amortisation and impairment of assets acquired through business combinations and investments. We include only amortisation of purchased intangibles such as software within adjusted profit before tax.

4. £4 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 profit before tax and adjusted profit before tax. A full reconciliation is included in the Finance Review.

Exceptional items

Six months to 30 June	2019 £m	2018 £m
Acquisition-related expenses	(24)	(27)
Restructuring and property-related costs	(8)	(14)
Insured trade receivables provision	6	–
Other	(9)	–
Total operating exceptional items	(35)	(41)
Non-operating exceptional items	–	1
Total exceptional items	(35)	(40)

Total exceptional items in the period were £35 million (2018: £40 million). Operating exceptional items principally relate to acquisition-related expenses. Acquisition-related expenses are predominantly performance based, employment-linked consideration to former owners.

Restructuring and property-related costs of £8 million are down £6 million year-on-year due to lower costs associated with our London property move. Recovery of trade receivables of £6 million relates to cash received against our insured trade receivable. Included within other items of £9 million are; legal costs in relation to litigation outside the normal course of business, pension related costs associated with closing the defined benefit sections of the UTV Pension Scheme to future benefit accrual, and the cancellation of the Jeremy Kyle show.

The cash cost of exceptionals in the period was £12 million (2018: £47 million) and relates to earnouts associated with our acquisitions.

EPS

Overall, adjusted profit after tax was down 14% at £247 million (2018: £286 million). After non-controlling interests of £(1) million (2018: £1 million), adjusted basic earnings per share was 6.2p (2018: 7.1p), down 13%, which is consistent with the decrease in adjusted EBITA of 13%. The weighted average number of shares remained flat year-on-year at 3,999 million (2018: 3,998 million). Diluted adjusted EPS in 2019 was 6.2p (2018: 7.1p) reflecting a weighted average diluted number of shares of 4,015 million (2018: 4,009 million). The weighted average diluted number of shares was up in the period due to an increase in the number of shares expected to vest in ITV's long term incentive plans in the future.

Statutory EPS declined by 9% to 4.8p (2018: 5.3p) with the decline in statutory EBITA partly offset by the benefit from the reported effective tax rate reducing from 20% to 14%.

Dividend per share

ITV continues to deliver a good operational performance in the areas of the business we can control, in an uncertain economic and political environment. Reflecting the Board's confidence in the business and its strategy, as well as the continued strong cash generation, it has declared an interim dividend of 2.6p which is flat year-on-year. This is in line with the Board's commitment to pay a full year dividend of at least 8.0p. The Board expects that over the medium term the dividend will grow broadly in line with earnings.

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 strategic priorities and continue to deliver returns to our shareholders in line with our dividend policy.

In the period, we generated £260 million of operational cash (2018: £295 million) from £327 million of adjusted EBITA (2018: £375 million), resulting in a profit to cash ratio of 80%. We saw a working capital outflow driven by continued investment in our scripted business, a reduction in our receivables purchase agreement, and the timing of supplier payments in relation to our productions and overheads. Across a 12-month rolling basis this equates to a strong profit to cash ratio of 89% (2018: 94%).

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 30 June, £70 million of receivables were sold under the purchase agreement (2018: £70 million).

Our free cash flow after payments for interest, cash tax and pension funding remained healthy in the period at £137 million (2018: £184 million).

Overall, after dividends, acquisitions and acquisition-related costs, pension and tax payments, we ended the period with net debt of £1,082 million, compared with net debt of £927 million at 31 December 2018 and £1,034 million at 30 June 2018.

Funding 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 strategic priorities and to make returns to our shareholders in line with our dividend policy. 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 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, £190 million was drawn down at 30 June 2019. Our policy is to maintain at least £250 million of available liquidity at any point.

Our objective is to run an efficient balance sheet and manage our financial metrics appropriately, consistent with our commitment to investment grade metrics. At 30 June 2019 reported net debt to adjusted EBITDA on a 12 month basis was 1.3x (31 December 2018: 1.1x and 30 June 2018: 1.2x).

We also use 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 discounted IFRS 16 lease liabilities, which mainly relate to property. This adjusted leverage metric better reflects how the credit rating agencies look at our balance sheet. At 30 June 2019 adjusted net debt was £1,507 million (adjusted net debt of £1,364 million at 31 December 2018 and adjusted net debt of £1,457 million at 30 June 2018) and adjusted net debt to adjusted EBITDA on a 12 month rolling basis was 1.9x (adjusted net debt to adjusted EBITDA was 1.6x at 31 December 2018 and adjusted net debt to adjusted EBITDA was 1.7x at 30 June 2018).

Pensions

The net pension deficit for the defined benefit schemes at 30 June 2019 was £113 million (31 December 2018: £38 million deficit). The increase in the deficit since 31 December 2018 reflects an increase in liabilities due to a decrease in the discount rate. This was partly offset by our deficit funding contribution and an increase in the asset values.

The net pension assets include £51 million of gilts, which are held by the Group as security for future unfunded pension payments to four former Granada executives, the liabilities of which are included in our pension obligations.

The last actuarial valuation was undertaken in 2017. On the basis agreed with the Trustees, the combined deficits of the ITV defined benefit Pension Scheme as at 1 January 2017 amounted to £470 million. The next actuarial valuation will be as at 1 January 2020.

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 2019 were £44 million. The total expected deficit funding contribution for 2019 will be around £75 million.

Outlook

We are clear on what we need to do and we remain very focused on delivering in the areas we can control, implementing our strategy and managing our costs tightly. Our strategy is focused on our digital transformation to create a stronger, more diversified and structurally sound business. We have strong foundations and the next phase of our strategy will further position ITV to take advantage of evolving viewing and advertising opportunities as we become an increasingly digital entertainment company.

Economic and political uncertainty continues to impact the demand for advertising as we expected, with total advertising forecast to be in a range of -1% to +1% in Q3.

Despite this, we remain on track to deliver our full year guidance of at least 5% growth in ITV Studios total revenues at a margin of 14% to 16% and double digit growth in online.

We have a solid balance sheet which enables us to make the right decisions to build a future facing and robust business and deliver returns to shareholders with a commitment of at least 8.0p dividend per share for the full year.

2019 full year planning assumptions

Profit and Loss impact

- Total schedule costs are expected to be around £1.1 billion
- Total essential investment of around £40 million in 2019, increasing to £60 million by 2021 as previously announced
- ITV's net investment in BritBox UK will be up to £25 million in 2019, increasing to around £40 million in 2020 and expected to decline thereafter
- Cost savings expected to be £20 million in 2019, £5 million more than the previously announced. An additional £15 million is also being targeted across 2020 – 2022. Total cost savings will be £55 million – £60 million over the four years to 2022
- Adjusted interest is expected to be around £40 million, slightly up on the previously announced £35 million, reflecting the impact of slightly higher debt, foreign exchange and IFRS 16
- The adjusted effective tax rate for the full year is expected to be around 18%, which is lower than the 19% previously guided. Over the medium term it is expected to be between 17% to 18%
- The translation impact of foreign exchange, assuming rates remain at current levels, could have an adverse impact of around £10 million on revenue and around £3 million impact on profit
- Exceptional items are expected to be around £65 million, mainly due to acquisition related expenses. This excludes the sale of The London Television Centre.

Cash impact

- Total capex is expected to be £80 million to £85 million, up from previous guidance of £65 million, due to our investment in the addressable advertising platform
- The cash cost of exceptionals will be around £85 million, largely accrued earnouts, and includes the purchase of the remaining share in non-controlling interests. It excludes the sale of The London Television Centre

- Profit to cash is expected to be around 80%, reflecting our continued strong cash generation, investment in ITV Studios working capital and BritBox UK
- Total pension deficit funding contribution for 2019 is expected to be around £75 million.

Notes to editors

1. Unless otherwise stated, all financial figures refer to the 6 months ended 30 June 2019, with growth compared to the same period in 2018.
2. Group external revenue

	2019 £m	2018 £m	Change £m	Change %
Six months to 30 June				
Broadcast & Online	991	1,045	(54)	(5)
Studios	758	803	(45)	(6)
Total revenue	1,749	1,848	(99)	(5)
Internal Supply	(273)	(255)	(18)	(7)
Group external revenue	1,476	1,593	(117)	(7)

3. Total advertising was down 5% in H1, with April up 8%, May down 3% and June down 11%. Total advertising is forecast to be in a range of -1% to +1% in Q3, with July down 5%, August up 2% and September flat to up 5%. The 9 months to the end of September are forecast to be down around 3%. 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. Broadcast & Online key performance indicators

	2019	2018	Change %
Six months to 30 June			
ITV Total viewing (hrs)	8.2bn	8.7bn	(5)
ITV Family SOV	23.6%	23.5%	—
Long form online viewing (hrs)	236m	209m	13
ITV Hub registered users	29.3m	25.1m	17

- Total viewing is the total number of hours spent watching ITV channels live, recorded broadcast channels within 28 days, third party VOD platforms, total ITV Hub, and managed YouTube channels.
- SOV data based on BARB/AdvantEdge. SOV data is for individuals and is based on 7 days (C7). ITV Family includes: ITV, ITV2, ITV3, ITV4, ITV Encore, ITVBe, CITV, ITV Breakfast, CITV Breakfast and associated "HD" and "+1" channels. All viewing on TV set, therefore includes catch up and Hub on television.
- Long form online viewing is the total number of hours ITV VOD content is viewed on owned and operated ad funded platforms, and Hub+ viewing on owned and operated platforms, based on data from Crocus.
- A registered user is an individual viewer who has signed up to the ITV Hub. The individual has to have been active within the last 3 years to remain a registered user.
- % change for performance indicators is calculated on unrounded numbers.

5. The interim dividend will be paid on 2 December 2019. The ex-dividend date is 24 October 2019. The record date is 25 October 2019.
6. This announcement contains certain statements that are or may be forward looking with respect to the financial condition, results or operations and business of ITV. By their nature forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward looking statements. These factors include, but are not limited to (i) a major deterioration in the current outlook for UK advertising and consumer demand, (ii) significant change in regulation or legislation, (iii) failure to identify and obtain, or significant loss of, optimal programme rights, (iv) the loss or failure of transmission facilities or core systems and (v) a significant change in demand for global content.

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

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