



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%		

* 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 (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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