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 of 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
EBITA[1]	**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

Six months to 30 June	**2019 £m**	2018 £m	Change £m	Change %
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

Six months to 30 June	**2019**	2018	Change %
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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Operating and Performance Review

ITV has delivered a good performance in the first half of 2019, with our financial performance modestly better than expected. While the macro environment continues to impact ITV, we are delivering in the areas of the business we can control. We 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.

Our strategy is focused on creating a stronger, more diversified, structurally sound business. The pace of change within the media market is rapid and our strategy will continue to evolve as we become an increasingly digital entertainment company. We have strong foundations – our integrated producer broadcaster (IPB) model, world class content, strong advertiser and customer relationships, a powerful brand and sufficient financial flexibility to invest and grow.

ITV's vision is to be 'More than TV'. Our priorities are clear, and will ensure that ITV is:

- The pre-eminent IPB for viewers and brands in the UK by accelerating our digital transformation
- A leading direct to consumer business in the UK, and
- A world class creative force in global content production.

Our unique integrated business model, with the strong linkage between the two core businesses, is a strong competitive advantage. It provides ITV Studios with a powerful promotional engine for its content; enables 360 degree monetisation of ITV Studios content by ITV and secures access to great content for ITV's channels, advertising video on demand (AVOD) and subscription video on demand (SVOD) businesses and protects them against above inflation content pricing pressure.

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.

Our essential investments in the period to support our strategic priorities totalled £12 million, and we are on track to deliver the previously announced £40 million over the full year.

We measure performance through a range of metrics, particularly through our alternative performance measures and KPIs, as well as statutory results, all of which are detailed later on in this report.

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%). This is explained in further detail in the Finance Review.

Statutory financing costs were £16 million over the period which was slightly down year-on-year (2018: £18 million) and our reported effective tax rate was lower at 14% (2018: 20%) due to higher production tax credits in the period. Statutory profit before tax fell by 16% to £222 million (2018: £265 million) and statutory EPS decreased by 9% to 4.8p (2018: 5.3p), with the decline in statutory profit before tax partly offset by the benefit from the reported effective tax rate reducing from 20% to 14%, primarily due to higher production tax credits in the period.

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, is 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

The media market environment in which we operate is dynamic. It is changing and evolving rapidly, and becoming increasingly competitive. Our strategy for the IPB has five key components focused on strengthening the IPB model to drive digital viewing and advertising with our investments in the ITV Hub, data, technology and addressable advertising. This will help our Broadcast & Online business build upon its existing foundations, enabling it to address the challenges and capitalise on the significant opportunities presented by the changing environment.

ITV, through our family of free-to-air channels and platforms, offers unique audience scale and reach, as well as more targeted demographics demanded by advertisers. The ITV Hub and ITV Hub+, the online home for our family of channels and content, is growing rapidly, driven by viewers' appetite for our content on catch up, VOD and simulcast. Through our Direct to Consumer (DTC) business we are increasingly engaging with our audiences who have a growing willingness to pay to connect with our brands, content and intellectual property (IP), whether that is through SVOD, competitions, voting, live events, gaming, merchandise or pay per view. Data and technology are key to evolving operations and driving revenue growth.

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%.

Operating and Performance Review continued

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 0.3 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 of 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 groups 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.

Strong advertising proposition

While political and economic uncertainty has led advertisers to reduce their current spend on television advertising in order to maintain margins, television remains one of the most efficient and effective mediums for advertisers to achieve immediate, mass simultaneous reach. As viewing and advertising becomes more fragmented, the scale and reach of advertising that television, and particularly ITV, delivers becomes increasingly valuable. We provide a safe, trusted and transparent environment in which to advertise, and research has shown that TV delivers the highest return on investment of any advertising – around £4 for every £1 spent versus £2 for online video and less than a £1 for online display. The effectiveness of overall advertising is declining driven by the drift to short term online tactics but TV is becoming more important as its effectiveness has remained stable.

TV, and specifically ITV, remains the only place to get immediate reach and scale. In the first half of 2019 ITV delivered 99% of all commercial audiences over five million and 95% of all commercial audiences over three million.

Online advertising continues to grow rapidly and we have again seen double digital growth in our online advertising revenue on the ITV Hub, which delivers more targeted demographics in a high-quality, trusted and measured environment for online advertisers. Online advertising can deliver a more targeted advertising proposition and to develop our VOD advertising capabilities we signed a perpetual UK license for the Amobee technology in April 2019 enabling us to deliver programmatic addressable advertising around our premium VOD inventory. We are now integrating the technology and investing in the skills and capabilities we need. We expect to start rolling out the demand side platform, the DSP, on our new programmatic buying platform in Q4 2019, with full roll out to all major agencies in the first half of 2020. This will put buying in advertisers' hands, enabling them, from their own terminals, to buy ITV Hub inventory seamlessly and cost effectively, build their own audiences, add their own data and monitor their own campaigns. We expect the platform to be fully programmatic, integrated and automated on the buy and supply side platform during the second half of 2020. This will enable our Commercial business to offer our clients the best of both worlds, mass audiences with simultaneous reach on linear channels, and addressable targeting at scale around our premium inventory on the ITV Hub, something which is unique to the market.

ITV aims to maximise further the value of its airtime and drive new revenue streams through sponsorship, brand extension and creative collaboration. ITV utilises the core assets of its strong brand and reputation, unique commercial relationships and quality production capability to deliver a wide variety of innovative marketing solutions. To enhance our offering to advertisers we have built a client relationship team and scaled up the creative partnerships team to work closely with advertisers and provide original, engaging and brand-defining marketing propositions. During the first half of 2019, Marks & Spencer engaged with ITV in a fully integrated linear and digital advertising proposition around Britain's Got Talent (BGT) with sponsorship, product placement, a bespoke spot ad made by ITV as well as instore branding and social media content. This had a positive impact for M&S and they are now also sponsoring the autumn series of Britain's Got Talent. Love Island has attracted nine commercial partners, including Uber Eats, Samsung and Superdrug, engaging in programme and podcast sponsorship, brand licences, instore branding, exclusive product lines and merchandise, and product placement. This has driven incremental revenue of around £8 million year-on-year.

Responsive to a changing media environment

Linear television viewing remains resilient despite significant changes in the availability and delivery of content. On average the number of minutes of television viewers watched per day in 2018 was 192 minutes, down 5% on the previous year. If you include all viewing across TV, SVOD and all devices, the majority of viewing remains live at over 70% as television continues to have the power to bring audiences together. VOD viewing continues to grow rapidly while PVR (recorded) viewing has remained relatively constant over the last few years at around 13%. Younger viewers are watching less linear television than they used to, but through delivering great content such as Britain's Got Talent, Dancing On Ice and Love Island, ITV Family SOV for 16-34s increased by 2% to 24.3%, making ITV Family the largest family of channels for this demographic in the period. Television still reaches 84% of young people each week and remains their dominant choice of media.

ITV's position overall is strong but there is increasing competition for eyeballs and advertisers. Uncertainty has caused advertising to decline and there are significant changes in viewing and advertising trends but our strategy is designed to address the challenges and the opportunities that this presents.

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.

The majority of our competitions have performed well across the schedule, benefiting from the investment in the competition portal which has been rebranded to ITV Win, along with marketing of the platform through some of our key programming. Programme related app downloads has been strong in the first half of the year, encouraging engagement and driving linear viewing. The Love Island app has had over five million downloads, and over three million votes has been cast via the app. The Love Island game has also been downloaded over 2.5 million times in the UK and five million times globally.

We continue to host a number of live events based around our key brands. The Coronation Street set tour and Emmerdale village tour and studio experience continue to see growth in visitor numbers, we had This Morning Live, opened a third Ninja Warrior park and are due to launch a Love Island fan event, all of which build relationships directly with our viewers.

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 is 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

ITV Studios is a scaled business delivering medium term growth at a stable margin. Growing UK and global production is central to ITV's strategy as an integrated producer broadcaster and our aim is to be a leading creative force in global content production – driving both our scripted and unscripted businesses. As ITV creates and owns more content, our channels in the UK provide a platform to showcase our programmes before distributing them across multiple platforms in the UK and internationally.

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.

In the first half of 2019, 54% of Studios revenue was generated outside the UK, which was down on the 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.

Growing demand for content

The demand for great content from broadcasters and platform owners has never been stronger and this provides significant opportunity for ITV Studios. We estimate that the global content market is growing at around 4-5% per annum, with some genres, such as drama, growing more rapidly. A key driver of this change over recent years has been the evolution in the delivery and availability of content with a substantial increase in the number of ways to consume content. We have built a healthy pipeline of returning programmes, which we will continue to nurture and develop. To continue to build upon our strong creative pipeline and capitalise on growth, our investments within ITV Studios over the next three years are focused on the following areas:

- Drama and entertainment development funds to build our creative pipeline
- Strengthening our creative talent
- Building our monetisation capabilities

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.

Operating and Performance Review continued

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. In the first half we sold 34 (2018: 34) different formats internationally, 10 of which were sold to three or more countries. As part of the entertainment development fund we also have a number of pilot commissions in the UK to trial new formats.

While we continue to sell the right to produce formats in multiple countries, we are also increasingly producing our formats for local markets, therefore capturing the full margin. For example, we have recently set up ITV Netherlands to enable us to sell and produce ITV formats alongside Talpa. 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.

We are very focused on maximising the value of our formats and IP internationally. There are exciting opportunities to licence our brands and library content and drive value through merchandising using our significant capabilities across our network of labels and our global relationships.

Global Entertainment continues to be a strong and expanding business driven by our strong pipeline of high-end scripted programmes, our formats and our valuable library, which we sell to our vast network of long-standing existing traditional linear broadcasters, the global OTTs and new and emerging digital platforms, such as FilmRise. The content pipeline is healthy with the international distribution of War of the Worlds, World on Fire, Gold Digger, Noughts and Crosses, Poldark, and Balthazar in the second half of 2019. 2020 will see the international distribution of Romulus, Flesh and Blood, The Serpent, and Snowpiercer, the second season of which has been commissioned before it has even aired. We also have multiple deals with Netflix, Amazon and Hulu which are detailed further below. Our unscripted deliveries in the second half include Hell's Kitchen US, and Dancing On Ice, Love Island, I'm A Celebrity...Get Me Out Of Here! and The Voice all delivering across a number of different territories.

Investing in content with international appeal

Polarisation of content demand remains a feature of the market. This is driven by the growth of viewing platforms looking for channel defining content with demand for both local adaptations of proven entertainment formats and standout original scripted content.

We have seen very strong growth in scripted revenue in the first half, up 22%, driven mainly by the UK. While ITV Studios is predominantly unscripted in terms of scale, scripted, especially driven by demand from the OTT platforms, is likely to be an area of higher growth over the medium term. We are seeing increasing demand from platforms internationally for original long-form and secondary rights.

To capitalise on this, we are investing in our global scripted business. We are strengthening our development and creative capabilities, growing our European business and investing in a number of development relationships in the US.

We finance our large-scale scripted projects, and to a limited degree some unscripted projects, through our strong underlying cash flows or through co-productions and partnerships with broadcasters and OTT platforms. The production costs are partly funded by the initial sale of the series to a broadcaster, while the deficit is recovered through distribution revenue from selling the finished product globally to other broadcasters and platforms. Doing more scripted deals and deals with OTT platforms will impact our working capital going forward.

We balance our financial exposure through building a portfolio of programmes across genres and across their content life cycle, with successful international dramas offsetting the risk that we will not recover the full deficit on every show. This efficiently uses the rights windows of our content to maximise monetisation opportunities.

As well as distributing library content to OTT platforms through Global Entertainment, in 2019 we produced and jointly commissioned a number of scripted and unscripted programmes with OTT platforms, including the fourth season of Queer Eye and second season of Girls Incarcerated with Netflix, the third season of Harlots with Hulu, and original commission, Cowboy Bebop – a live action remake of the Japanese anime with Netflix. In addition we have many projects in development with Disney+, Facebook, Quibi, Apple, AT&T/Warner and Snapchat. Original hours supplied to OTTs increased over 200% in 2019.

Regulation

In 2018 the Government announced the Second Chapter in its Obesity strategy. As part of that, there was a consultation which closed in June 2019 on the possibility of introducing a 9pm watershed on TV advertising of HFSS products and similar protection for children viewing adverts online. The government consultation also included an option to make no change to the current rules and it has committed to explore options to ensure that any restrictions are proportionate and evidence based. We are fully engaged in this process and believe that there is a strong, evidence based, case for alternatives to a pre-9pm ban.

The Company continues to keep the potential implications of Brexit under review. Workstreams are in place across the business to identify, manage and mitigate the impact across advertising, broadcast licensing, tax, data, copyright and IP. The most significant risk is the likely impact on the wider advertising market.

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.

Alternative Performance Measures

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

Our APMs and KPIs are aligned with our strategy and business segments and together are used to measure the performance of our business and form the basis of the performance measures for remuneration.

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

Key adjustments for adjusted EBITA, profit before tax and EPS

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

Production tax credits

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

Exceptional items

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

Acquisition-related costs

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

Restructuring and reorganisation costs

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

Amortisation and impairment

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

Net financing costs

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

A full reconciliation between our adjusted and statutory results is provided on the following page.

Reconciliation between statutory and adjusted results

Six months to 30 June	2019 Statutory £m	2019 Adjustments £m	2019 Adjusted £m	2018 Statutory £m	2018 Adjustments £m	2018 Adjusted £m
EBITA[1]	**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)[2]	**–**	**–**	**–**	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. Further detail is included in the Finance Review.
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.

Other Alternative Performance Measures

Total revenue

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

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

Six months to 30 June	**2019 £m**	2018 £m
External revenue (Reported)	**1,476**	1,593
Internal supply	**273**	255
Total revenue (Adjusted)	**1,749**	1,848

Alternative Performance Measures continued

Adjusted net debt
Adjusted net debt is net debt (as defined in note 4.1 to the financial statements) adjusted for all our financial commitments such as our total undiscounted expected contingent payments on acquisitions, our net pension deficit and our lease commitments. The undiscounted operating lease commitments is now replaced by the discounted lease liabilities under IFRS 16. This better reflects how credit rating agencies look at our balance sheet. A reconciliation between net debt and adjusted net debt is provided below.

At 30 June	**2019 £m**	2018 £m
Net debt	**(1,082)**	(1,034)
Expected contingent payments on acquisitions	**(199)**	(269)
Net pension deficit*	**(113)**	–
Lease liabilities**	**(113)**	(154)
Adjusted net debt	**(1,507)**	(1,457)
Adjusted net debt to adjusted EBITDA* **	**1.9x**	1.7x
Reported net debt to adjusted EBITDA* **	**1.3x**	1.2x

* In 2018, there was a net pension surplus of £86 million
** 2018 includes the undiscounted operating lease commitments and has not been restated under IFRS 16. The undiscounted operating lease commitments at 30 June 2019, under the old standard would have been around £133 million.
*** On a 12-month rolling basis.

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

Profit to cash conversion
This is our measure of our effectiveness of cash generation used for working capital management. It is calculated as our adjusted cash flow as a proportion of adjusted EBITA. Adjusted cash flow, which reflects the cash generation of our underlying business, is calculated on our statutory cash generated from operations and adjusted for exceptional items, net of capex on property, plant and equipment and intangible assets, and including the cash impact of high-end production tax credits and payment of lease liabilities.

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

Key Performance Indicators

We have defined our Key Performance Indicators (KPIs) to align performance and accountability to our strategic priorities.

Strategy	KPIs for measuring performance		Targets – over 3 years to 2021
1 **Strengthen** Integrated producer broadcaster	**Advertising**	• Total advertising revenue	• Increase brand consideration to 60% for adults • Double digit online revenue growth per annum • Grow ITV Hub registered users to 30 million **Strategic ambition** • To grow total advertising in a flat NAR market • ITV Family SOV to be above 21% • To maintain total viewing (compared to the average for 2015-2018)
	Marketing and Viewing	• ITV Family SOV % • Total ITV viewing[1] • Brand consideration	
	Hub	• Online revenue growth • Online viewers • Registered users	
2 **Grow** UK and Global Production		• Total Studios revenue growth • Studios adjusted EBITA margin[2] • Total production hours	• Total Studios revenue to grow at least 5% average CAGR • EBITA margin of 14% to 16% • Production hours to grow to 10,000
3 **Create** Direct to Consumer		• Direct to Consumer revenue • Paying product relationships	• Grow Direct to Consumer revenue to at least £100 million (ex BritBox UK) • Grow paying product relationships to 10 million
Group Financial KPIs		• Adjusted EPS[2] • Total non-advertising revenues • Cost savings • Profit to cash conversion	• Grow total non-advertising revenues by at least 5% CAGR • Deliver £55 to £60 million of cost savings by 2022[3] • Maintain profit to cash conversion at around 85%

1. External source: BARB, Crocus and third-party platforms.

2 A full reconciliation between our adjusted and statutory results is provided in the APMs.

3. Includes £35 – £40 million announced in 2018 and additional £20 million announced in July 2019.

Key Performance Indicators continued

Our KPIs for the first six months of 2019 are set out below. Further detail on our financial performance and KPIs can be found in the Operating and Performance section and the Finance Review. Full definitions of our KPIs are included in the 2018 Annual Report and Accounts pages 28-31.

Six months to 30 June	**2019**	2018	Absolute change
Adjusted EPS	**6.2p**	7.1p	(0.9)p
Total non-advertising revenues	**£900m**	£958m	£(58)m
Cost savings	**£10m**	–	–
Profit to cash conversion 12-month rolling	**89%**	94%	(5)pts
Total advertising revenue	**£849m**	£890m	£(41)m
Online revenue growth	**18%**	48%	–
Total ITV Viewing (hours)	**8.2bn**	8.7bn	(0.5)bn
ITV Family SOV	**23.6%**	23.5%	0.1pts
Online viewing (hours)	**236m**	209m	27m
ITV Hub registered users	**29.3m**	25.1m	4m
Brand consideration	**54%**	58%	(4)pts
Total Studios revenue growth	**(6)%**	16%	–
Studios adjusted EBITA margin	**15%**	15%	–
Total production hours	**3,865**	4,085	(220)
Direct to Consumer revenue	**£40m**	£41m	£(1)m
Paying product relationships	**8.3m**	7.9m	0.4m

Finance Review

ITV's performance for the first six months of 2019 was modestly better than expected and we are on track to deliver our full year guidance.

Against a backdrop of ongoing political and economic uncertainty in the UK, which continues to impact the demand for television advertising and therefore ITV's financial performance, we have delivered a good performance in the areas we can control, and are making good progress in delivering the strategy, with our investment and cost saving programmes on track. 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.

This Finance Review focuses on the more technical aspects of our financial results while the operating and financial performance has been discussed within the Operating and Performance Review. Our Alternative Performance Measures section, explains the adjustments we make to our statutory results and focus on the key measures that we report on internally and use as KPIs across the business.

Total ITV revenue decreased 5% to £1,749 million (2018: £1,848 million), with external revenue down 7% to £1,476 million (2018: £1,593 million). Total advertising revenue was down 5% which was slightly better than expected, with online advertising revenue up 18% year-on-year more than offset by a decline in NAR. Total non-advertising revenue was down 6% to £900 million (2018: £958 million), including a £3 million favourable impact of currency. ITV Studios total revenue declined by 6% to £758 million (2018: £803 million), with growth in Studios RoW offset by the unfavourable timing of programme deliveries in ITV America which will be weighted towards the second half of 2019 as we guided. Direct to Consumer revenue decreased by 2% to £40 million (2018: £41 million), due to fewer pay per view boxing events compared to 2018 and the absence of Saturday Night Takeaway impacting our Interactive revenues.

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%		
Group 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)	

Adjusted EBITA declined 13% to £327 million (2018: £375 million). ITV Studios adjusted EBITA was down 2% at £116 million (2018: £118 million) with the adjusted EBITA margin flat at 15%. Broadcast & Online adjusted EBITA (excluding the net £3 million investment in BritBox UK) declined 17% to £214 million (2018: £257 million) with lower schedule costs offset by higher variable costs in relation to our online business, higher property costs associated with our new London properties, and the investments we are making in programme marketing, the ITV Hub, ITV Hub+, BritBox, data and technology.

Adjusted financing costs were up £5 million year-on-year and our adjusted tax rate came down to 18% from 19% in 2018. The net of these movements resulted in a 13% decline in adjusted EPS to 6.2p. Statutory EPS was down 9% to 4.8p, this is lower than the decline in statutory EBITA which decreased by 16% and is partly due to the reported effective tax rate reducing from 20% to 14% in the year which is explained in further detail in the Tax section.

Our key strengths include our high margins and healthy cash flows, which, together with our ongoing focus on costs, place us in a good position to continue to invest in growing an even stronger and more resilient business going forward, while delivering returns to our shareholders in line with our commitment to a full year dividend of at least 8.0p.

Finance Review continued

Exceptional items

Six months to 30 June	**2019 £m**	2018 £m
Acquisition-related expenses	**(24)**	(27)
Restructuring and property-related costs	**(8)**	(14)
Recovery of trade receivables	**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.

Net financing costs

Six months to 30 June	2019 £m	2018 £m
Financing costs directly attributable to loans and bonds	**(15)**	(14)
Cash-related net financing costs	**(5)**	(1)
Adjusted financing costs	**(20)**	(15)
Imputed pension interest	**(1)**	(1)
Unrealised foreign exchange and other net financial losses	**5**	(2)
Net financing costs	**(16)**	(18)

Adjusted financing costs were up year-on-year at £20 million (2018: £15 million) reflecting higher levels of net debt, foreign exchange and the impact of IFRS16. Net financing costs were £16 million over the period, which was down year-on-year (2018: £18 million), largely due to foreign exchange gains in the period.

JVs and associates

The share of losses from JVs and associates has decreased to £2 million (2018: £3 million). It is the net loss arising from our investments such as BritBox US, Circle of Confusion, Blumhouse Television, Freesat and Apple Tree productions.

Profit before tax

Adjusted profit before tax, after amortisation and impairment of assets and financing costs, was down 15% at £301 million (2018: £354 million). Statutory profit before tax decreased by 16% to £222 million (2018: £265 million) in the period. Production tax credits increased to £17 million in the period (2018: £8 million) as a result of more high value dramas such as Line of Duty, Gold Digger, The Bay and Wild Bill.

Profit before tax (PBT)

Six months to 30 June	**2019 £m**	2018 £m
Profit before tax	**222**	265
Production tax credits	**17**	8
Exceptional items	**35**	40
Amortisation and impairment*	**31**	38
Adjustments to net financing costs	**(4)**	3
Adjusted profit before tax	**301**	354

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

Tax

Adjusted tax charge

The total adjusted tax charge for the period was £54 million (2018: £68 million), corresponding to an effective tax rate on adjusted profit before tax (PBT) of 18% (2018: 19%), which is slightly lower than the standard UK corporation tax rate of 19% (2018: 19%). We expect the effective tax rate to be 18% over the full year and between 17% to 18% over the medium term as a result of the reduction in the UK statutory rate to 17% from April 2020. On a reported basis, the tax charge of £32 million (2018: £52 million) corresponds to an effective tax rate of 14% (2018: 20%). The rate is lower than the prior year due to an increase in high-end production tax credits. The adjustments made to reconcile the tax charge with the adjusted tax charge are the tax effects of the adjustments made to reconcile PBT and adjusted PBT, as discussed earlier.

Six months to 30 June	**2019 £m**	2018 £m
Tax charge	**(32)**	(52)
Production tax credits	**(17)**	(8)
Charge for exceptional items	**(2)**	(3)
Charge in respect of amortisation and impairment*	**(5)**	(4)
Charge in respect of adjustments to net financing costs	**1**	(1)
Other tax adjustments	**1**	–
Adjusted tax charge	**(54)**	(68)
Effective tax rate on adjusted profits	**18%**	19%

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

Cash tax

Cash tax paid in the period was £63 million (2018: £33 million) and is net of £5 million of production tax credits received (2018: £18 million). The majority of the cash tax payments were made in the UK. The cash tax paid is higher compared to the previous year due to the timing of tax credit receipts, and the receipt in the previous year of a prior year repayment.

Tax strategy

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

www.itvplc.com/investors/governance/policies

We have four key strategic tax objectives:

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

Our tax strategy is aligned with that of the business and its commercial activities, and establishes a clear Group-wide approach based on openness and transparency in all aspects of tax reporting and compliance, wherever the Company and its subsidiaries operate. The strategy confirms that ITV does not engage in or condone tax evasion or the facilitation of tax evasion in any form, and that we have in place reasonable procedures to prevent the facilitation of tax evasion. Within our overall governance structure, the governance of tax and tax risk is given a high priority by the Board and Audit and Risk Committee. The ITV Global Tax Strategy as published on the ITV plc website is compliant with the UK tax strategy publication requirement set out in Part 2 Schedule 19 of the Finance Act 2016.

Finance Review continued

EPS – adjusted and statutory

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%. This is explained earlier in the tax section.

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

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.

Acquisitions

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

Our business is performing well and we will consider selective value creating M&A and talent deals in both scripted and unscripted to obtain further creative talent and IP.

Acquisitions – between 2012 and 2019 (undiscounted)

Company	Geography	Genre	Initial consideration £m	Additional consideration paid £m	Expected future payments* £m	Total expected consideration** £m	Expected payment period	Total maximum consideration** £m
Total for 2012–2019	**Various**	**Content & Broadcast TV**	**941**	**191**	**199**	**1,331**	**2019-2024**	**2,176**

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

** Undiscounted and adjusted for foreign exchange, including the initial cash consideration and excluding working capital adjustments. Total maximum consideration which was potentially payable at the time of acquisition was £2.4bn.

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

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

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

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

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

Expected future payments of £199 million has decreased by £53 million since 31 December 2018, due to payments made to acquire full ownership of a number of partially owned companies, along with earnouts. At 30 June 2019, £146 million of expected future payments had been recorded on the balance sheet. We had not made any acquisitions as at 30 June 2019.

Cash generation

Profit to cash conversion

Six months to 30 June	**2019 £m**	2018 £m
Adjusted EBITA	**327**	375
Working capital movement	**(43)**	(86)
Adjustment for production tax credits	**(12)**	10
Depreciation	**29**	13
Lease liability payments	**(16)**	–
Share-based compensation and pension service costs	**5**	4
Acquisition of property, plant and equipment and intangible assets	**(31)**	(45)
Capex relating to redevelopment of London headquarters	**1**	24
Adjusted cash flow	**260**	295
Profit to cash ratio six months to 30 June	**80%**	79%
Profit to cash ratio 12-months rolling	**89%**	94%

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

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

Free cash flow

Six months to 30 June	**2019 £m**	2018 £m
Adjusted cash flow	**260**	295
Net interest paid	**(11)**	(13)
Adjusted cash tax*	**(68)**	(51)
Pension funding	**(44)**	(47)
Free cash flow	**137**	184

* Adjusted cash tax of £68 million is net cash tax paid of £63 million plus receipt of production tax credits of £5 million, which are included within adjusted cash flow from operations, as these production tax credits relate directly to the production of programmes.

Our free cash flow after payments for interest, cash tax and pension funding remained healthy in the period 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

Debt structure and liquidity

Our balance sheet strength, together with our healthy free cash flow, will enable us to continue to invest in opportunities to grow the business in line with our 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.

Finance Review continued

Net debt

At 30 June	**2019 £m**	2018 £m
Gross cash	**85**	95
Gross debt*	**(1,167)**	(1,129)
Net debt	**(1,082)**	(1,034)

Financing – gross debt
We are financed using debt instruments and facilities with a range of maturities. Borrowings at 30 June 2019 were repayable as follows:

Amount repayable as at 30 June 2019	£m	Maturity
£630 million Revolving Credit Facility	**190**	Various
€600 million Eurobond	**535**	Sep 2022
€500 million Eurobond	**447**	Dec 2023
Other loans	**18**	Various
Total debt repayable on maturity	**1,190**	

* Net of £23 million cross-currency swaps.

At 30 June 2019, £440 million of the £630 million RCF was undrawn.

Capital allocation and leverage
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). A reconciliation of net debt to adjusted net debt is provided in the Alternative Performance Measures.

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 in line with our 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 all aspects of value creation and the long-term future value of our investments in Broadcast & Online, Direct to Consumer and ITV Studios.

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

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

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

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

The foreign exchange and interest rate hedging strategy is set out in our Treasury policies which are approved by the ITV plc Board.

Foreign exchange sensitivity

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

Currency	Revenue £m	Adjusted EBITA £m
US dollar	±35-45	± 6-8
Euro	±45-55	± 6-8

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.

A full reconciliation is included within note 3.2 in the notes to the financial statements.

Actuarial valuation

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.

Closure to future accrual

Following a member consultation, in 2019 the Group decided to close the defined benefit sections of the UTV Pension Scheme to future benefit accrual with effect from 31 March 2019. Members' benefits are no longer linked to pensionable salary; the benefits are now linked to statutory revaluation until retirement. This change has resulted in a one-off, non-cash curtailment credit of £1 million and is recognised within exceptionals.

Deficit funding contributions

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

The Group's deficit funding contributions in the first half of 2019 were £44 million. The total expected deficit funding contribution for 2019 will be around £75 million. Further details are included within note 3.2 to the financial statements.

New accounting standards

IFRS 16 'Leases', was effective from 1 January 2019. The Group has adopted the modified retrospective approach with the right of use asset equal to the lease liability at transition date, adjusted by any prepayments or lease incentives recognised immediately before the date of initial application. Under the modified retrospective transition approach, the comparative information is not restated. IFRS 16 has no impact at a profit before tax level but increases both our EBITA and interest by £2 million in the first half and gross liabilities by £113 million with net assets remaining largely unchanged. The expected impact for the full year is a net £4 million increase to EBITA and a £100 million increase in gross liabilities, with net assets remaining unchanged. Section 1 of the notes to the financial statements provides further detail on these new accounting standards.

London property

The Group's previous headquarters at the London Television Centre and the site remain for sale. All associated costs until disposal, and the gain on sale will be treated as exceptional.

In 2014, ITV established a Pension Funding Partnership with the Trustees backed by The London Television Centre which resulted in the assets of Section A of the DB pension scheme being increased by £50 million. With the planned sale of the asset we have commenced discussions with the Trustees around providing a suitable equivalent asset. The proceeds of the sale of the South Bank site could be used to replace the £50 million asset security and the remaining sale proceeds used to reduce ITV's net debt.

Finance Review continued

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.

Risks and uncertainties

As an integrated producer broadcaster ITV's business carries a number of risks which we manage through our risk management framework (outlined in our 2018 Annual Report and Accounts pages 54-63). Our continuing success is dependent on how well we understand and manage our risks.

We have reviewed the risks as reported in the 2018 Annual Report and Accounts to ensure that they remain appropriate, accurate and complete, and we have considered emerging risks. While our principal risks and uncertainties will evolve, they have not changed significantly and remain relevant for the second half of 2019. The principal risks and uncertainties will remain under review in line with our ongoing risk management process over the rest of the year. These principal risks cover:

- Regulation and legislation
- Economic
- Advertising market
- Format development and programme rights
- Talent and succession
- Reputation and trust
- Scheduled broadcasting
- Technology

Interim Condensed Financial Statements

In this section

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

Contents

Condensed Consolidated Income Statement

For the six month period to 30 June	Note	**2019 £m**	2018 £m
Revenue	2.1	**1,476**	1,593
Operating costs		**(1,236)**	(1,308)
Operating profit		**240**	285
Presented as:			
Earnings before interest, tax and amortisation (EBITA) before exceptional items	2.1	**310**	367
Operating exceptional items	2.2	**(35)**	(41)
Amortisation and impairment		**(35)**	(41)
Operating profit		**240**	285
Financing income		**2**	2
Financing costs		**(18)**	(20)
Net financing costs		**(16)**	(18)
Share of losses of joint ventures and associated undertakings		**(2)**	(3)
Gain on sale of non-current assets (exceptional items)		**–**	1
Profit before tax		**222**	265
Taxation		**(32)**	(52)
Profit for the period		**190**	213
Profit attributable to:			
Owners of the Company		**191**	212
Non-controlling interests		**(1)**	1
Profit for the period		**190**	213
Earnings per share			
Basic earnings per share	2.3	**4.8p**	5.3p
Diluted earnings per share	2.3	**4.8p**	5.3p

Condensed Consolidated Statement of Comprehensive Income

For the six month period to 30 June	2019 £m	2018 £m
Profit for the period	**190**	213
Other comprehensive income:		
Items that are or may be reclassified to profit or loss		
Revaluation of financial assets	**2**	(1)
Share of losses of joint ventures and associated undertakings	**–**	(13)
Net loss/(gain) on cash flow hedges and cost of hedging	**–**	2
Exchange loss/(gain) on translation of foreign operations (net of hedging)	**(6)**	5
Items that will never be reclassified to profit or loss		
Remeasurement (losses)/gains on defined benefit pension schemes	**(123)**	117
Income tax credit/(charge) on items that will never be reclassified	**21**	(20)
Other comprehensive (loss)/income for the period, net of income tax	**(106)**	90
Total comprehensive income for the period	**84**	303
Total comprehensive income attributable to:		
Owners of the Company	**86**	302
Non-controlling interests	**(2)**	1
Total comprehensive income for the period	**84**	303

Condensed Consolidated Statement of Financial Position

	Note	30 June 2019 £m	31 December 2018 £m	30 June 2018 £m
Non-current assets				
Property, plant and equipment		**293**	191	271
Intangible assets		**1,620**	1,614	1,621
Investments in joint ventures, associates and equity investments		**51**	51	61
Derivative financial instruments	4.3	**25**	26	15
Distribution rights		**32**	29	40
Defined benefit pension surplus	3.2	**17**	19	98
Other pension asset	3.2	**51**	49	42
Deferred tax asset		**47**	38	34
		2,136	2,017	2,182
Current assets				
Programme rights and other inventory		**271**	298	279
Trade and other receivables due within one year		**381**	355	397
Trade and other receivables due after more than one year		**60**	71	43
Trade and other receivables		**441**	426	440
Contract Assets	2.1	**479**	470	346
Current tax receivable		**27**	15	7
Derivative financial instruments	4.3	**4**	2	3
Cash and cash equivalents	4.1	**85**	95	95
Asset held for sale		**81**	85	–
		1,388	1,391	1,170
Current liabilities				
Borrowings	4.1	**(201)**	(54)	(169)
Lease liabilities		**(20)**	–	–
Derivative financial instruments	4.3	**(4)**	(4)	(5)
Trade and other payables due within one year	4.4	**(767)**	(768)	(702)
Trade payables due after more than one year	4.4	**(42)**	(49)	(71)
Trade and other payables		**(809)**	(817)	(773)
Contract liabilities	2.1	**(287)**	(255)	(202)
Current tax liabilities		**(97)**	(115)	(102)
Provisions	3.1	**(15)**	(16)	(16)
		(1,433)	(1,261)	(1,267)
Net current (liabilities) / assets		**(45)**	130	(97)
Non-current liabilities				
Borrowings	4.1	**(989)**	(993)	(978)
Lease liabilities		**(93)**		
Derivative financial instruments	4.3	**(2)**	(1)	(2)
Defined benefit pension deficit	3.2	**(181)**	(106)	(54)
Deferred tax liabilities		**(52)**	(64)	(113)
Other payables		**(49)**	(130)	(104)
Provisions	3.1	**(5)**	(4)	(7)
		(1,371)	(1,298)	(1,258)
Net assets		**720**	849	827
Attributable to equity shareholders of the parent company				
Share capital		**403**	403	403
Share premium		**174**	174	174
Merger and other reserves		**224**	206	199
Translation reserve		**55**	60	48
Fair value reserve		**7**	5	5
Retained earnings	4.5	**(168)**	(33)	(44)
Total equity attributable to equity shareholders of the parent company		**695**	815	785
Non-controlling interests		**25**	34	42
Total equity		**720**	849	827

Chris Kennedy
Group Chief Financial Officer

Condensed Consolidated Statement of Changes in Equity

	Attributable to equity shareholders of the parent company								
	Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Fair value reserve £m	Retained earnings £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
Balance at 1 January 2019	**403**	**174**	**206**	**60**	**5**	**(33)**	**815**	**34**	**849**
Total comprehensive income for the period									
Profit for the period	–	–	–	–	–	191	191	(1)	**190**
Other comprehensive income/(loss)									
Revaluation of financial assets	–	–	–	–	2	–	2	–	**2**
Net loss on cash flow hedges and cost of hedging	–	–	–	–	–	–	–	–	–
Exchange differences on translation of foreign operations (net of hedging)	–	–	–	(5)	–	–	(5)	(1)	**(6)**
Remeasurement loss on defined benefit pension schemes	–	–	–	–	–	(123)	(123)	–	**(123)**
Income tax credit on other comprehensive income	–	–	–	–	–	21	21	–	**21**
Total other comprehensive (loss)	–	–	–	(5)	2	(102)	(105)	(1)	**(106)**
Total comprehensive income for the period	**–**	**–**	**–**	**(5)**	**2**	**89**	**86**	**(2)**	**84**
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Equity dividends	–	–	–	–	–	(216)	(216)	–	**(216)**
Movements due to share-based compensation	–	–	–	–	–	5	5	–	**5**
Tax on items taken directly to equity	–	–	–	–	–	–	–	–	**–**
Purchase of own shares via employees' benefit trust	–	–	–	–	–	(2)	(2)	–	**(2)**
Total transactions with owners	**–**	**–**	**–**	**–**	**–**	**(213)**	**(213)**	**–**	**(213)**
Changes in non-controlling interests	–	–	18	–	–	(11)	7	(7)	–
Balance at 30 June 2019	**403**	**174**	**224**	**55**	**7**	**(168)**	**695**	**25**	**720**

Condensed Consolidated Statement of Changes in Equity continued

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

Condensed Consolidated Statement of Cash Flows

For the six month period to 30 June	Note	£m	2019 £m	£m	2018 £m
Cash flows from operating activities					
Profit before tax	2.1		**222**		265
Share of losses of joint ventures and associated undertakings		**2**		3	
Gain on sale of non-current assets (exceptional items)		**–**		(1)	
Net financing costs		**16**		18	
Operating exceptional items		**35**		41	
Depreciation of property, plant and equipment		**29**		13	
Amortisation and impairment		**35**		41	
Share-based compensation and pension service costs		**5**		4	
Adjustments to profit			**122**		119
Decrease in inventory and distribution rights		**25**		21	
(Increase) / decrease in contract assets		**(10)**		5	
(Increase) / decrease in receivables		**(13)**		1	
Increase / (decrease) in contract liabilities		**32**		(18)	
Decrease in payables		**(77)**		(95)	
Movement in working capital			**(43)**		(86)
Cash generated from operations before exceptional items			**301**		298
Cash flow relating to operating exceptional items:					
Operating exceptional items		**(35)**		(41)	
Decrease in exceptional payables		**23**		(7)	
Decrease in exceptional prepayments and other receivables		**–**		1	
Cash outflow from exceptional items			**(12)**		(47)
Cash generated from operations					
Defined benefit pension deficit funding	3.2	**(44)**		(47)	
Interest received		**–**		1	
Interest paid on bank and other loans		**(11)**		(14)	
Net taxation paid		**(63)**		(33)	
			(118)		(93)
Net cash inflow from operating activities			**171**		158
Cash flows from investing activities					
Acquisition of non-controlling interests	4.4	**(41)**		–	
Acquisition of property, plant and equipment		**(13)**		(30)	
Acquisition of intangible assets		**(18)**		(15)	
Acquisition of investments		**(12)**		(10)	
Acquisition of financial instruments		**–**		(4)	
Proceeds from sale of property, plant and equipment		**–**		1	
Loans granted to associates and joint ventures		**(3)**		(1)	
Net cash outflow from investing activities			**(87)**		(59)
Cash flows from financing activities					
Bank and other loans – amounts repaid		**(420)**		(148)	
Bank and other loans – amounts raised		**567**		240	
Payment of lease liabilities		**(16)**		–	
Equity dividends paid		**(216)**		(211)	
Dividend paid to minority interest		**–**		(4)	
Purchase of own shares via employees' benefit trust		**(2)**		(3)	
Net cash outflow from financing activities			**(87)**		(126)
Net decrease in cash and cash equivalents			**(3)**		(27)
Cash and cash equivalents at 1 January	4.1		**95**		126
Effects of exchange rate changes and fair value movements			**(7)**		(4)
Cash and cash equivalents at 30 June	4.1		**85**		95

Notes to the Interim Condensed Financial Statements
Section 1: Basis of Preparation

In this section

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

These condensed consolidated interim financial statements for the six months ended 30 June 2019 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 ‘Interim financial reporting’ as adopted by the European Union.

These condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which were prepared in accordance with IFRS as adopted by the European Union. This is the first set of interim financial statements where IFRS 16 ‘Leases’ has been applied.

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

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

For the purposes of interim reporting, the defined benefit pension schemes’ key assumptions and asset values have been reviewed to assess whether material net actuarial gains and losses have occurred during the period (see note 3.2).

During the six months ended 30 June 2019, management also reassessed its estimates in respect of provisions and considered the recoverable amount of goodwill and other intangible assets. No impairment of goodwill or other intangible assets was identified.

Acquisition-related liabilities or performance-based employment-linked earnouts are estimates payable to previous owners. These estimated future payments are sensitive to forecast profits as they are based on a multiple.

These interim financial statements and the comparative figures are not statutory accounts. The statutory accounts for the year ended 31 December 2018 have been reported on by the Company’s auditors and delivered to the Registrar of Companies. The auditors’ report was: (i) unqualified; (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Going concern
At 30 June 2019, the Group was in a financial net debt position with a positive cash balance. Even though the Group is in a net current liability position, its solid balance sheet and continued generation of significant free cash flows enables the Group to meet its obligations.

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

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

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

Changes in significant accounting policies
The Group has adopted IFRS 16 ‘Leases’ from 1 January 2019 which has changed lease accounting for lessees under operating leases. Such agreements now require recognition of an asset, representing the right to use the leased item, and a liability, representing future lease payments. Lease costs (such as property rent) are recognised in the form of depreciation and interest, rather than as an operating cost.

Notes to the Interim Condensed Financial Statements Section 1: Basis of Preparation continued

The Group has adopted the modified retrospective approach with the right of use asset equal to the lease liability at transition date, adjusted by any prepayments or lease incentives recognised immediately before the date of initial application. Under the modified retrospective transition approach, the comparative information is not restated.

The Group has elected to apply a single discount rate to assets with similar characteristics. The Group has also elected not to recognise right of use assets and lease liabilities for short-term leases or low-value assets and has also. The Group will continue to expense the lease payments associated with these leases on a straight-line basis over the lease term.

Leases
The Group leases many assets including office space, production properties, vehicles and office equipment.

	Property £m	Vehicles, equipment and fittings £m	**Total £m**
Balance at 1 January 2019	115	4	**119**
Balance at 30 June 2019	104	3	**107**

Impact on Financial Statements

1) Impact on transition

On transition to IFRS 16, the Group recognised additional right of use assets, recognising the difference in retained earnings. This impact on transition is summarised below.

	1 January 2019 £m
Right-of-use assets presented in property, plant and equipment (net of rent incentives)	**115**
Right-of-use assets presented in vehicles, equipment and fittings (net of rent incentives)	**4**
Lease liabilities	**(125)**

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 3.39%.

	1 January 2019 £m
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements	**(147)**
Discounted using the incremental borrowing rate at 1 January 2019	**21**
Recognition exemption for leases with less than 12 months of lease term at transition	**1**
Lease liabilities recognised at 1 January 2019	**(125)**

2) Impacts for the period

As a result of applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised £107 million of right of use assets and £113 million of lease liabilities as at 30 June 2019.

The right of use assets of £107 million has been included in property, plant and equipment on the balance sheet.

Also, in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the six months ended 30 June 2019, the Group recognised £14 million of depreciation charges and £2 million of interest costs from those leases. No depreciation is recognised for the right of use asset that meets the definition of investment property. IFRS 16 has no impact at a profit before tax level but increases both our EBITA and interest by £2 million in the first half of the year.

For leases excluded from IFRS 16 under the exemption for leases with terms of less than 12 months, the Group recognised less than £1 million in rent expense in the period.

New or amended EU endorsed accounting standards
Details of new or revised accounting standards, interpretations or amendments which are effective for periods beginning on or after 1 January 2019 and which are considered to have an impact on the Group can be found in the annual financial statements for the year ended 31 December 2018.

Notes to the Interim Condensed Financial Statements
Section 2: Results for the Period

In this section

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

2.1 Profit before tax

Keeping it simple

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

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

Segmental information

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

The Board considers the business primarily from an operating activity perspective. The reportable segments for the periods ended 30 June 2019 and 30 June 2018 are therefore Broadcast & Online and ITV Studios, the results of which are outlined in the following tables:

For the six month period to 30 June	**Broadcast & Online 2019* £m**	**ITV Studios 2019* £m**	**Consolidated 2019* £m**
Total segment revenue	**991**	**758**	**1,749**
Intersegment revenue	**(2)**	**(271)**	**(273)**
Revenue from external customers	**989**	**487**	**1,476**
Adjusted EBITA*	**211**	**116**	**327**

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

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

Disaggregation of revenue

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

For the six month period to 30 June	**2019 £m**	2018 £m
Total advertising revenue	**849**	890
Direct to Consumer	**40**	41
SDN	**34**	36
Other	**68**	78
Total Broadcast & Online revenue	**991**	1,045

Notes to the Interim Condensed Financial Statements
Section 2: Results for the Period continued

For the six month period to 30 June	**2019 £m**	2018 £m
Studios UK	**331**	328
ITV America	**79**	141
Studios RoW	**260**	247
Global Entertainment	**88**	87
Total ITV Studios revenue	**758**	803

Timing of revenue recognition
The following table includes revenue from contracts disaggregated by timing of recognition:

For the six month period to 30 June	**2019 £m**	2018 £m
Products transferred at a point in time	**1,278**	1,337
Products and services transferred over time	**198**	256
Total external revenue	**1,476**	1,593

Included in the above 'Products transferred at a point in time' is Total advertising revenue, Direct to Consumer, SDN (2019: £851 million, 2018: £898 million), Programme production, programme distribution rights, digital archive (2019: £372 million, 2018: £387 million); and Formats and Licences (2019: £55 million, 2018: £53 million).

Included in the above 'Products and services transferred over time' is Total advertising revenue, Direct to Consumer, SDN (2019: £137 million, 2018: £147 million), Programme production, programme distribution rights, digital archive (2019: £53 million, 2018: £104 million); and Formats and Licences (2019: £8 million, 2018: £5 million).

Contract balances
Contract assets (accrued income) primarily relate to the Group's right to consideration for work completed but not billed at the reporting date. Contract liabilities (deferred income) primarily relate to the consideration received from customers in advance of transferring a good or service. The following table provides the balances at the end of the period:

	30 June 2019 £m	31 December 2018 £m
Contract assets	**479**	470
Contract liabilities	**(287)**	(255)

Of the opening balance of contract liabilities, £169 million has been recognised as revenue for the six months ended 30 June 2019.

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

For the six month period to 30 June	**2019* £m**	2018 £m
Adjusted EBITA	**327**	375
Production tax credits	**(17)**	(8)
EBITA before exceptional items	**310**	367
Operating exceptional items	**(35)**	(41)
Amortisation and impairment	**(35)**	(41)
Net financing costs	**(16)**	(18)
Share of losses of joint ventures and associated undertakings	**(2)**	(3)
Gain on sale of non-current assets (exceptional items)	**–**	1
Profit before tax	**222**	265

* The Group has initially applied IFRS 16 at 1 January 2019. In applying IFRS 16, in relation to the leases that were classified as operating leases, the Group recognises depreciation and interest costs, instead of operating lease expense. During the six month ended 30 June 2019, in relation to those leases, the Group recognised £14 million of depreciation charges and £2 million of additional interest costs from leases.

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

2.2 Exceptional items

Keeping it simple

Exceptional items are excluded from management's assessment of profit because by their size or nature they could distort the Group's underlying quality of earnings. They are typically gains or losses arising from events that are not considered part of the core operations of the business (e.g. costs relating to capital transactions, such as professional fees on acquisitions). These items are excluded to reflect performance in a consistent manner and are in line with how the business is managed and measured on a day-to-day basis.

Operating and non-operating exceptional items are analysed as follows:

(Charge)/credit	Ref.	**2019 £m**	2018 £m
Operating exceptional items:			
Acquisition-related expenses	A	**(24)**	(27)
Restructuring and property-related costs	B	**(8)**	(14)
Recovery of insured trade receivables	C	**6**	–
Other	D	**(9)**	–
Total operating exceptional items		**(35)**	(41)
Non-operating exceptional items:			
Gain/(loss) on sale of non-current assets		**–**	1
Total non-operating exceptional items		**–**	1
Total exceptional items before tax		**(35)**	(40)
Tax on exceptional items		**2**	3
Total exceptional items net of tax		**(33)**	(37)

A – Acquisition-related expenses

Acquisition-related expenses of £24 million (2018: £27 million) are predominately performance-based, employment-linked consideration to former owners.

B – Restructuring and property-related costs

Restructuring and property-related costs of £8 million (2018: £14 million) relate mainly to costs associated with our London property move.

C – Recovery of insured trade receivables

Recovery of insured trade receivables relate to cash received against our trade receivable. Refer to section 5.2 for further details.

D – Other

Included in other are legal costs in relation to litigation outside the normal course of business and the cancellation of The Jeremy Kyle show offset by a one-off, non-cash £1 million curtailment credit in relation to the closure of the UTV Pension Scheme closed to future benefit accrual with effect from 31 March 2019.

Notes to the Interim Condensed Financial Statements
Section 2: Results for the Period continued

2.3 Earnings per share

Keeping it simple

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

Basic EPS is calculated on the Group profit for the period attributable to equity shareholders of £191 million (2018: £212 million) divided by 3,999 million (2018: 3,998 million) being the weighted average number of shares in issue during the period, which excludes EBT shares held in trust.

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

Adjusted EPS is presented in order to show the business performance of the Group in a consistent manner and reflect how the business is managed and measured on a day-to-day basis. Adjusted EPS reflects the impact of operating and non-operating exceptional items on Basic EPS. Other items excluded from Adjusted EPS are amortisation and impairment; net financing cost adjustments and the tax adjustments relating to these items. Each of these adjustments is explained in detail in the section below.

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

Earnings per share

For the six month period to 30 June	**2019**	2018
Profit for the period attributable to equity shareholders of ITV plc (£m)	**191**	212
Weighted average number of ordinary shares in issue – million	**3,999**	3,998
Earnings per ordinary share	**4.8p**	5.3p

Diluted earnings per share

For the six month period to 30 June	**2019**	2018
Profit for the period attributable to equity shareholders of ITV plc (£m)	**191**	212
Weighted average number of ordinary shares in issue – million	**3,999**	3,998
Dilution due to share options – million	**16**	11
Total weighted average number of ordinary shares in issue – million	**4,015**	4,009
Diluted earnings per ordinary share	**4.8p**	5.3p

Adjusted earnings per share

For the six month period to 30 June	Ref.	**2019 £m**	2018 £m
Profit for the period attributable to equity shareholders of ITV plc		**191**	212
Exceptional items (net of tax)	A	**33**	37
Profit for the period before exceptional items		**224**	249
Amortisation and impairment	B	**26**	34
Net financing income / (cost)	C	**(3)**	2
Other tax adjustments		**–**	–
Adjusted profit		**247**	285
Total weighted average number of ordinary shares in issue – million		**3,999**	3,998
Adjusted earnings per ordinary share		**6.2p**	7.1p

Diluted adjusted earnings per share

For the six month period to 30 June	**2019**	2018
Adjusted profit (£m)	**247**	285
Weighted average number of ordinary shares in issue – million	**3,999**	3,998
Dilution due to share options – million	**16**	11
Total weighted average number of ordinary shares in issue – million	**4,015**	4,009
Diluted adjusted earnings per ordinary share	**6.2p**	7.1p

The rationale for determining the adjustments to profit is disclosed in the 31 December 2018 Annual Report and has not changed during the period. Details of the adjustments to earnings are as follows:

A. Exceptional items (net of tax) £33 million (2018: £37 million)

- operating and non-operating exceptional items of £35 million (2018: £40 million), relating to £24 million of acquisition-related expenses, primarily performance-based, employment linked consideration, £8 million of restructuring and property projects costs and other items which net to £3 million,
- net of a tax credit of £2 million (2018: £3 million).

B. Amortisation and impairment of £26 million (2018: £34 million)

- amortisation and impairment of assets acquired through business combinations and investments of £31 million (2018: £38 million), excluding amortisation and impairment of software licenses and development of £4 million (2018: £3 million),
- net of a related tax credit of £5 million (2018: £4 million).

C. Net financing income £3 million (2018: cost £2 million)

- foreign exchange gains net of mark-to-market movements on derivative instruments and imputed pension interest charges of £4 million (2018: cost £3 million),
- net of a related tax charge of £1 million (2018: credit of £1 million).

Dividends

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

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.

Notes to the Interim Condensed Financial Statements
Section 3: Operating Assets and Liabilities

In this section

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

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

3.1 Provisions

Keeping it simple

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

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

Provisions

There have been no movements in provisions during the period:

	Contract provisions £m	Property provisions £m	Legal and Other provisions £m	Total £m
At 1 January 2019	2	2	16	20
At 30 June 2019	**2**	**2**	**16**	**20**

Provisions of £15 million are classified as current liabilities (31 December 2018: £16 million)

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

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

Legal and Other provisions totalling £16 million (31 December 2018: £16 million).

This includes a provision for potential liabilities that may arise as a result of Boxclever having been placed into administrative receivership, most of which relate to pension arrangements.

In 2011, the Determinations Panel of the Pensions Regulator determined that Financial Support Directions (FSDs) should be issued against certain Group companies, which would require those companies to put in place financial support for the Boxclever Pension Scheme. The Group challenged the Regulator's decision in the Upper Tribunal. However, in May 2018, the Upper Tribunal handed down judgment allowing the Pensions Regulator to issue an FSD. Subsequently, ITV appealed the Upper Tribunal's decision to the Court of Appeal. The Court of Appeal dismissed the appeal in June 2019. ITV is currently seeking permission to appeal the Court of Appeal's decision to the Supreme Court. No FSDs can be issued until the permission application, and any resulting appeal, is finally determined. The case raises significant points of legal principle, and may continue to take significant time to resolve.

An FSD does not set out what form any financial support should take, nor its amount, and no issues as to the quantum or form of any potential liability have yet been addressed or resolved as part of the legal process. While any potential liability might be significant, the Directors continue to believe that the provision held is appropriate.

3.2 Pensions

Keeping it simple

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

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

What is a Defined Contribution scheme?
The Defined Contribution scheme is where the Group makes fixed payments into a separate fund on behalf of those employees participating in saving for their retirement. ITV has no further obligation to the participating employee and the risks and rewards associated with this type of scheme are assumed by the members rather than the Group. Although the Trustee of the scheme makes available a range of investment options, it is the members' responsibility to make investment decisions relating to their retirement benefits.

What is a Defined Benefit scheme?
In a Defined Benefit scheme, members receive payments during retirement, the value of which is dependent on factors such as salary and length of service. The Group makes contributions to the scheme, a separate trustee-administered fund that is not consolidated in these financial statements, but is reflected on the defined benefit pension surplus/deficit line on the consolidated statement of financial position.

The Trustee, appointed according to the terms of the scheme's documentation, is required to act in the best interest of the members and is responsible for managing and investing the assets of the scheme and its funding position.

The Group has a Pension Steering Committee, which liaises with the Trustee and has oversight of the management of the pension schemes and underlying risks.

In the event of poor returns, the Group may need to address this through a combination of increased levels of contribution or by making adjustments to the scheme. Schemes can be funded, where regular cash contributions are made by the employer into a fund which is invested, or unfunded, where no regular money or assets are required to be put aside to cover future payments but in some cases security is required.

The Group has determined that it has an unconditional right to a refund of any surplus if the Schemes are run off until the last member dies. On this basis the Group has recognised an accounting surplus as at 30 June 2019.

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

The net pension surplus/deficit is presented consistently with definitions presented in the Group's 2018 Annual Report.

During 2019, following a member consultation, the Group decided to close the UTV Pension Scheme to future benefit accrual with effect from 31 March 2019. Members' benefits are no longer linked to pensionable salary; the benefits are now linked to statutory revaluation until retirement. This decision gave rise to a one-off, non-cash £1 million curtailment credit recognised in exceptional items in the period.

With the London Television Centre (LTVC) currently for sale and with the SDN funding agreement due to end in 2022, we are currently reviewing the asset-backed contribution structures.

For the LTVC structure the Group's intention is to replace the current asset in the structure.

For the SDN structure, as the value of the security provided by SDN diminishes within the arrangement, the Group is contracted to provide additional collateral to support the original value of the asset-backed structure, with £101 million due in March 2020 and a further £51 million due in March 2021 and 2022. This cash would not leave the Group, but would be maintained in a restricted bank account. If we do not replace the asset in the SDN structure, the Group would pay to the pension scheme the lower of any deficit calculated on a funding basis in 2022 or £203 million.

The net pension deficit at 30 June 2019 was £113 million, compared with a deficit of £38 million at 31 December 2018. The increase in deficit was primarily as a result of an increase in the gross liability, offset by deficit funding payments of £44 million made in the period and an increase in the value of assets.

The gross liability increased principally due to a decrease in the corporate bond yields. The gross assets' value increased as a result of gilt and corporate bond yields decreasing.

Notes to the Interim Condensed Financial Statements
Section 3: Operating Assets and Liabilities continued

The 1 January 2017 actuarial valuation was agreed in the prior year. On the basis agreed with the Trustee, the combined deficits of the ITV Pension Scheme as at 1 January 2017 amounted to £470 million. The total expected deficit funding contribution for 2019 is consistent with prior years of around £75 million.

	30 June 2019 £m	31 December 2018 £m
Total defined benefit scheme obligations	**(4,006)**	(3,719)
Total defined benefit scheme assets	**3,842**	3,632
Defined benefit pension surplus/(deficit) (IAS 19)	**(164)**	(87)
Presented as:		
Defined benefit pension surplus	**17**	19
Defined benefit pension deficit	**(181)**	(106)
Defined benefit pension surplus/(deficit) (IAS 19)	**(164)**	(87)
Other pension asset	**51**	49
Net pension surplus/(deficit)	**(113)**	(38)

Notes to the Interim Condensed Financial Statements
Section 4: Capital Structure and Financing Costs

In this section

This section outlines how the Group manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets.

The Directors determine the appropriate capital structure of ITV; specifically how much is raised from shareholders (equity) and how much is borrowed from financial institutions (debt) in order to finance the Group's activities both now and in the future.

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

The Directors will continue to consider the Group's capital structure and dividend policy at least twice a year ahead of announcing results and do so in the context of its ability to continue as a going concern, to execute the new strategy and to invest in opportunities to grow the business and enhance shareholder value.

The foreign exchange and interest rate hedging strategy is discussed and approved by the ITV plc Board which oversees governance and approves tax and treasury related policies and procedures within the business.

4.1 Net debt

Keeping it simple

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

Adjusted net debt is also monitored by the Group and more closely reflects how the credit rating agencies view the Group's gearing. A full analysis and discussion of adjusted net debt is included in the Operating and Financial Review. Net debt excludes lease liabilities under IFRS 16.

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

	1 January 2019 £m	Net cash flow £m	Acquisitions £m	Currency and non-cash movements £m	**30 June 2019 £m**
Cash	85	(8)	–	–	**77**
Cash equivalents	10	(2)	–	–	**8**
Total cash and cash equivalents	95	(10)	–	–	**85**
Loans and facilities due within one year	(54)	(147)	–	–	**(201)**
Loans and facilities due after one year	(993)	1	–	3	**(989)**
Total debt	(1,047)	(146)	–	3	**(1,190)**
Currency component of swaps held against euro denominated bonds	25	–	–	(2)	**23**
Net debt	(927)	(156)	–	1	**(1,082)**

Notes to the Interim Condensed Financial Statements
Section 4: Capital Structure and Financing Costs continued

Loans and facilities due within one year
The Group has £630 million of committed funding through a Revolving Credit Facility ('RCF') with a group of relationship banks. During the period the Group drew down on the RCF to meet short-term funding requirements. At 30 June 2019 the Group had drawings of £190 million (31 December 2018: £50 million). The maximum draw down of the RCF during the period was £420 million (31 December 2018: maximum draw down was £400 million).

Loans and loan notes due after one year
The Group has issued the following Eurobonds:

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

The Group has £300 million of financial covenant free financing, which runs to 2021 and remains undrawn.

The Group has £100 million available under a non-recourse receivables purchase agreement. As at 30 June 2019 £30 million was available under the agreement (31 December 2018: £0 million).

4.2 Borrowings

Keeping it simple

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

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

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

		Book value		Fair value	
	Maturity	**30 June 2019 £m**	31 December 2018 £m	**30 June 2019 £m**	31 December 2018 £m
Loans due within one year					
£630 million Revolving Credit Facility	Various	**190**	50	**190**	50
Other short-term loans	Various	**11**	4	**11**	4
Loans due in more than one year					
€600 million Eurobond	Sept 2022	**535**	536	**560**	555
€500 million Eurobond	Dec 2023	**447**	449	**468**	456
Other long-term loans	Various	**7**	8	**7**	8
		1,190	1,047	**1,236**	1,073

4.3 Managing market risks: derivative financial instruments

Keeping it simple

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

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

Why do we need them?
The key market risks facing the Group are:

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

How do we use them?
The Group mainly employs three types of derivative financial instruments when managing its currency and interest rate risk:

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

The Group's policy on the various methods used to calculate their respective fair values is detailed in the 31 December 2018 Annual Report and summarised below.

The Group held certain derivative instruments at 30 June 2019:

At 30 June 2019	**Assets £m**	**Liabilities £m**
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	**2**	**(3)**
Foreign exchange forward contracts and swaps – fair value through profit or loss	**2**	**(1)**
Non-current		
Cross currency interest swaps – cash flow hedges	**25**	**(1)**
Foreign exchange forward contracts and swaps – cash flow hedges	**–**	**(1)**
	29	**(6)**

At 31 December 2018	Assets £m	Liabilities £m
Current		
Foreign exchange forward contracts and swaps – cash flow hedges	1	(2)
Foreign exchange forward contracts and swaps – fair value through profit or loss	1	(2)
Non-current		
Cross currency interest swaps – cash flow hedges	26	–
Foreign exchange forward contracts and swaps – cash flow hedges	–	(1)
	28	(5)

Notes to the Interim Condensed Financial Statements Section 4: Capital Structure and Financing Costs continued

4.4 Fair value hierarchy

Keeping it simple

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

Level 1
Fair values are measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2
Fair values are measured using inputs, other than quoted prices included within Level 1, which are observable for the asset or liability either directly or indirectly.

Level 3
Fair values are measured using inputs for the asset or liability that are not based on observable market data.

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

30 June 2019	Fair value £m	Level 1 £m	Level 2 £m	Level 3 £m
Assets measured at fair value				
Available-for-sale financial instruments				
Other pension assets – gilts (see note 3.2)	**51**	51	–	–
Equity investments	**8**	–	–	8
Financial assets at fair value through profit or loss				
Foreign exchange forward contracts and swaps	**2**	–	2	–
Financial assets at fair value through reserves				
Cash flow hedges	**27**	–	27	–
	88	**51**	**29**	**8**
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Foreign exchange forward contracts and swaps	**(1)**	–	(1)	–
Acquisition-related liabilities – payable to sellers under put options agreed on acquisition	**(28)**	–	–	(28)
Financial liabilities at fair value through reserves				
Cash flow hedges	**(5)**	–	(5)	–
	(34)	**–**	**(6)**	**(28)**

The accounting policies for how we value level 3 instruments are disclosed in the December 2018 Annual Report.

Commitments on acquisitions
Trade and other payables of £809 million include £146 million (31 December 2018: £176 million) of acquisition-related liabilities, of which £118 million (31 December 2018: £108 million) is employment linked contingent consideration and £28 million (31 December 2018: £68 million) is payable to sellers under put options agreed on acquisition. The estimated future payments are sensitive to forecast profits as they are based on a multiple.

During the period there were acquisitions of non-controlling interests of £41m, primarily related to payments made to acquire full ownership of a number of partially owned companies.

4.5 Retained Earnings

Keeping it simple

This section outlines retained earnings, presented in the Consolidated Statement in Changes in Equity, which are not explained elsewhere in the financial statements.

Retained Earnings
While the Group has negative retained earnings of £168 million (31 December 2018: negative £33 million), ITV plc (the Company) has sufficient distributable reserves at 30 June 2019. At 31 December 2018 ITV plc had distributable reserves which approximated to the balance of retained earnings in the Company accounts of £1,612 million.

Notes to the Interim Condensed Financial Statements
Section 5: Other Notes

5.1 Related party transactions

Keeping it simple

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

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

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

For the six month period to 30 June	2019 £m	2018 £m
Sales to joint ventures	**3**	3
Sales to associated undertakings	**8**	8
Purchases from joint ventures	**14**	13
Purchases from associated undertakings	**33**	34

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

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

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

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

	30 June 2019 £m	31 December 2018 £m
Amounts owed by joint ventures	**3**	6
Amounts owed by associated undertakings	**14**	7
Amounts owed to joint ventures	**2**	3
Amounts owed to associated undertakings	**6**	5

Balances owed by associated undertakings largely relate to loan notes.

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

For the six month period to 30 June	2019 £m	2018 £m
Short-term employee benefits	**7**	6
Share-based compensation	**4**	3
	11	9

Notes to the Interim Condensed Financial Statements
Section 5: Other Notes continued

5.2 Contingent liabilities

Keeping it simple

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

Contingent Assets
In 2017 Talpa Media took back the licence for The Voice of China due a breach of the agreement by the customer, Talent, for not fulfilling their payment obligations. The Group is pursuing Talent vigorously for the £20 million still due under the agreement, which was recognised as an exceptional cost in 2017. Further, the Group has credit insurance in place and a claim is in progress.

Whilst the Directors are confident of recovering the remaining amounts due, accounting standards set very specific requirements for the recognition of contingent assets, which is how the recovery of the amount due has been accounted for. As discussions with the insurers and the claim against Talent are still in progress, the Group is not able to demonstrate sufficient certainty to be able to recognise a cash receivable at 30 June 2019.

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

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

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules , being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

For and on behalf of the Board:

Chris Kennedy
Group Chief Financial Officer

24 July 2019

Independent Review Report to ITV plc

Conclusion
We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 which comprises Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement of Cash Flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

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

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

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

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

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

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

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

24 July 2019