

**ITV Services Limited (formerly
Granada Management Ltd)**

Directors' report and financial statements
Registered number 229607

15 months ended 31 December 2003



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Directors' report

The directors present their annual report and the audited financial statements for the 15 month period ended 31 December 2003.

Principal activities

The Company's principal activity is to provide management services for other companies within the Granada Group. The Company will continue to provide these management services for the foreseeable future.

Business review

In 2003 the Company and Group changed their year-ends from 30 September to 31 December. Therefore these statutory accounts for the Company have been prepared for the 15 months ended 31 December 2003 and the comparatives are for the 12 months ended 30 September 2002. The results for the period are shown in the profit and loss account on page 6 of these financial statements.

On 28 January 2004 the company changed its name from Granada Management Ltd to ITV Services Ltd.

Dividends

The directors do not recommend the payment of an equity dividend (*12 months ended 30 September 2002: £nil*). A preference dividend has not been paid (*12 months ended 30 September 2002: £nil*).

Principal transactions and post balance sheet events

Merger of Granada plc ("Granada") and Carlton Communications Plc ("Carlton")

On 16 October 2002 the boards of Carlton Communications Plc and Granada plc, the Company's ultimate holding company at 31 December 2003, announced that they had agreed the terms of a proposed merger, paving the way for a fully consolidated ITV. The Secretary of State referred the proposed merger to the Competition Commission on 11 March 2003 and on 7 October 2003 announced that she had decided to clear the merger, subject to appropriate undertakings being given by Carlton and Granada. Carlton and Granada announced on 14 November 2003 that the terms of those undertakings had been agreed and duly accepted by the Secretary of State.

On 2 February 2004 Carlton and Granada merged under a Court approved Scheme of Arrangement to form ITV plc ("ITV"). All of the existing share capital of Granada was cancelled and shareholders received one ITV ordinary share for every Granada ordinary share they held.

The capital of Granada was restated to its former amount and the credit arising in the books of Granada as a result of the cancellation was applied in paying up in full new Granada ordinary shares which were issued to ITV. Granada became a wholly owned subsidiary of ITV.

Directors

The following were directors of the Company during the period ended 31 December 2003.

Graham Parrott	(resigned 17 August 2004)
James Tibbitts	
Helen Tautz	(appointed 17 August 2004)

No director had any interest in any contract with the Company or its subsidiary undertakings except as disclosed in these financial statements.

Directors' interests in shares and share options

The interests of Graham Parrott in the shares and options of Granada plc and Granada Media plc are disclosed in the accounts of Granada plc which is the highest company in the Group structure that has prepared audited consolidated accounts for the 15 months to 31 December 2003. A copy of the accounts of Granada plc can be obtained from the Company Secretary at the registered office address.

Shareholdings in the ordinary share capital of Granada plc beneficially owned by James Tibbitts and his family interests and details of his interests over ordinary shares under company share schemes are set out below.

Directors' report (continued)

Granada plc shares

	As at 31 December 2003	As at 30 September 2002
James Tibbitts	197,238	58,633

In addition, Mr Tibbitts held options and awards under the Granada plc and Granada Media plc share schemes. Details of these are set out below.

All rights under the Granada share schemes for those options granted prior to January 2003 became exercisable as a result of the merger and ITV offered an exchange facility. All options granted after January 2003 were automatically exchanged into options over ordinary shares in ITV. Any Granada or Granada Media shares acquired on exercise under the relevant share schemes will be converted immediately on exercise into ordinary shares of ITV on the same bases as set out below.

Performance conditions attached to the various Schemes and Awards are disclosed in the report and accounts of Granada plc which is the highest company in the Group structure that has prepared audited consolidated accounts for the 15 month period to 31 December 2003.

All options and awards detailed below, and related exercise price, are disclosed in terms of the Granada plc shares equivalent.

Granada plc schemes

	At 1 Oct 2002	Number granted in period	Number exercised/ vested in period	Number lapsed in period	At 31 Dec 2003	Exercise price	Exercise period
<i>Sharesave Option Scheme</i>							
	9,350	-	-	(9,350)	-	101.6p	Jul 2005 to Jan 2006
	-	24,154	-	-	24,154	68p	Mar 2008 to Aug 2008
<i>Approved and Unapproved Executive Share Option Schemes</i>							
	35,000	-	-	-	35,000	142.5p	Jul 2003 to Jul 2011
	1,000	-	-	-	1,000	149p	Jan 2005 to Jan 2012
	18,500	-	-	-	18,500	110.5p	Jul 2005 to Jul 2012
	25,000	-	-	-	25,000	80p	Jan 2006 to Jan 2013
	50,000	-	-	-	50,000	121.75p	Dec 2006 to Dec 2013
<i>Deferred Share Award Plan</i>							
	31,600	-	(31,600)	-	-	84.125p*	50% Jun 2002, 50% Jun 2003
	-	247,972	-	-	247,972	n/a	50% Jan 2004, 50% Jan 2005
	-	79,196	-	-	79,196	n/a	50% Dec 2004, 50% Dec 2005
<i>Commitment Plan - Matching Options</i>							
	-	1,136,292	-	-	1,136,292	104.75p	Up to 50% to vest Aug 2005, remainder Aug 2007
<i>Commitment Plan - Matching Shares</i>							
	-	1,136,292	-	-	1,136,292	n/a	Up to 50% to vest Aug 2005, remainder Aug 2007

* Market value of shares at vesting date

Directors' report (continued)

Granada Media plc

	At 1 Oct 2002	Number granted in period	Number exercised/ vested in period	Number lapsed in period	At 31 Dec 2003	Exercise price	Exercise period
<i>Approved and Unapproved Executive Share Option Schemes</i>	-	73,820	-	-	73,820	279p	Jul 2003 to Jul 2010

	At 1 Oct 2002	Number granted in period	Number exercised/ vested in period	Number lapsed in period	At 31 Dec 2003	Exercise price	Exercise/vesting period
<i>Unapproved Executive Share Option Scheme – Executive Commitment</i>							
Options (unvested)	193,508	-	(41,033)*	-	152,475	279p	July 2004*
Options (vested)	-	-	41,033	-	41,033	279p	July 2003 to July 2010

* As measured against the set performance criteria 21.025% of the options vested in July 2002, and became exercisable in July 2003. The balance to be tested in July 2004.

Share Price Information

The middle market price of Granada plc ordinary shares on 30 September 2002 and 31 December 2003 was 67.25 pence and 122 pence (respectively). During the period the market price of Granada plc ordinary shares ranged between 130 pence (9 December 2003) and 45.5 pence (12 March 2003).

Donations

There were no charitable donations or political contributions in the period (12 months ended 30 September 2002: £nil).

Creditor payment policy

The Company's policy, in relation to all its suppliers, is to settle the terms of payment when agreeing the terms of the transaction and to abide by those terms provided that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Company does not follow any code or standard on payment practice. The number of days' purchases outstanding for payment by the Company as at 31 December 2003 was nil days (30 September 2002: nil days).

Auditor

The Company has passed Elective Resolutions to dispense with the laying of the Annual Report and Financial Statements before the Company in General Meeting, the appointment of auditors annually and the holding of Annual General Meetings, pursuant to Sections 252, 386 and 366A respectively of the Companies Act 1985.

By order of the board


E Irving
Company Secretary

The London Television Centre
Upper Ground
London SE1 9LT

29 OCTOBER 2004

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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Report of the independent auditor, KPMG Audit plc, to the members of ITV Services Ltd.

We have audited the financial statements on pages 6 to 15.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditor, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2003 and of the loss of the Company for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

Date *29 October* 2004

PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Profit and loss account

		15 months ended 31 December 2003 £000	12 months ended 30 September 2002 £000
	<i>Note</i>		
Turnover	2	32,796	85,267
Staff costs	3	(7,631)	(5,745)
Depreciation	8	(311)	(461)
Other operating costs		(38,025)	(35,475)
Operating (loss)/profit		(13,171)	43,586
Income from shares in group undertakings	5	-	1,490
(Loss)/profit on ordinary activities before taxation	6	(13,171)	45,076
Taxation	7	10,871	(14,076)
Retained (loss)/profit for the financial period	14	(2,300)	31,000

The results for both current period and prior period derive from continuing activities.

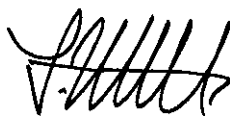
A statement of total recognised gains and losses has not been included as part of these financial statements as the company made no gains or losses in the period other than those disclosed in the above profit and loss account.

A note on historical cost profits and losses has not been included as part of these financial statements since the results as disclosed in the profit and loss account are prepared on an unmodified historical cost basis.

Balance sheet

	Note	31 December 2003		30 September 2002	
		£000	£000	£000	£000
Fixed assets					
Tangible fixed assets	8		383		1,972
Investments	9		12		12
			<u>395</u>		<u>1,984</u>
Current assets					
Debtors	10	118,899		104,561	
Cash at bank and in hand		1		12	
		<u>118,900</u>		<u>104,573</u>	
Creditors: amounts falling due within one year	11	<u>(158,845)</u>		<u>(143,636)</u>	
Net current liabilities			<u>(39,945)</u>		<u>(39,063)</u>
Total assets less current liabilities			<u>(39,550)</u>		<u>(37,079)</u>
Provisions for liabilities and charges	12		-		(171)
Net liabilities			<u>(39,550)</u>		<u>(37,250)</u>
Capital and reserves					
Called up share capital	13		3		3
Profit and loss account	14		<u>(39,553)</u>		<u>(37,253)</u>
Shareholders' deficit	14		<u>(39,550)</u>		<u>(37,250)</u>
Equity		(39,552)		(37,252)	
Non-equity	2	<u>2</u>		<u>2</u>	
			<u>(39,550)</u>		<u>(37,250)</u>

These financial statements were approved by the board of directors on 29 October 2004 and were signed on its behalf by:



James Tibbitts
 Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of accounting

The financial statements are prepared in accordance with applicable accounting standards and under the historical cost convention.

The financial statements have been prepared on a going concern basis in view of a letter of support from the Company's parent, which undertakes to provide such support as is necessary to maintain the Company as a going concern for the foreseeable future.

The company is exempt by virtue of Section 228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Cash flow statement

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Related party transactions

As the Company is a wholly owned subsidiary of Granada plc, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Granada plc, within which this company is included, can be obtained from the address given in note 19.

Depreciation

Depreciation is provided so as to write off the cost of tangible fixed assets on a straight line basis at the following rates:

Equipment, fixtures and fittings	-	7 2/3% to 33 1/3%
Motor vehicles	-	25% to 33 1/3%

Operating leases

The rental paid under operating leases is charged to the profit and loss account on a straight line basis over the term of the lease.

Pension scheme

The Company is a member of the group defined benefit pension schemes. The scheme's assets are held in separate trustee administered funds. Contributions are based on pension costs across the group as a whole.

The Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis. Therefore, as permitted by FRS 17 'Retirement benefits', when the accounting standard is fully adopted by the company, the scheme will be accounted for as if the scheme was a defined contribution scheme.

The latest full actuarial valuation was carried out at 1 October 2001 and was updated for FRS 17 purposes to 30 September 2002 and 31 December 2003 by a qualified independent actuary.

At 31 December 2003 the valuation of the scheme, for the purposes of the group accounts, showed that the scheme had a deficit. This deficit is not expected to have a direct impact on this company.

Investments

The Company's balance sheet includes investments at cost less amounts written off in respect of any diminution in value.

Notes (continued)

1 Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Taxation

The charge for taxation is based on the profit or loss for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised in respect of the effect of timing differences between the financial statements and tax treatments of certain items of revenue and expense to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Employee share schemes

The cost of awards to employees that take the form of shares or rights to shares are recognised over the period of the employee's related performance. Where there are no performance criteria, the cost is recognised when the employee becomes unconditionally entitled to the shares. No cost is recognised in respect of SAYE schemes that are offered on similar terms to all or substantially all employees.

2 Turnover

Turnover, which arose wholly in the United Kingdom, represents the invoiced amounts of services provided during the period and is stated net of Value Added Tax. This includes overheads incurred by ITV Services Ltd on behalf of other group companies being recharged to those companies.

3 Staff costs

The average number of persons employed by the Company (including directors) during the period, analysed by category, was as follows:

	Number of employees	
	15 months ended 31 December 2003	12 months ended 30 September 2002
Directors and executives	13	14
Finance and treasury	12	12
Human resources	20	22
Administration	10	10
	55	58

Notes (continued)

3 Staff costs (continued)

The aggregate payroll costs of these persons were as follows:

	15 months ended 31 December 2003 £000	12 months ended 30 September 2002 £000
Wages and salaries including redundancy costs	5,849	3,955
Social security costs	584	878
Pension costs and other benefits	1,198	912
	<u>7,631</u>	<u>5,745</u>

All staff were employed in the UK in the 15 months ended 31 December 2003 and the 12 months ended 30 September 2002.

4 Directors' emoluments

	15 months ended 31 December 2003 £000	12 months ended 30 September 2002 £000
Emoluments	<u>721</u>	<u>638</u>

The emoluments of the highest paid director were £447,000 (12 months ended 30 September 2002: £351,000).

There are 2 directors to whom retirement benefits are accruing under defined benefit schemes.

The details of the accrued annual pension entitlement earned by the highest paid director, GJ Parrott, and the related notes, are disclosed in the accounts of Granada plc which is the highest company in the group structure that has prepared audited consolidated accounts for the period ended 31 December 2003.

5 Income from shares in group undertakings

	15 months ended 31 December 2003 £000	12 months ended 30 September 2002 £000
Dividends receivable	<u>-</u>	<u>1,490</u>

Notes (continued)

6 (Loss)/profit on ordinary activities before taxation

	15 months ended 31 December 2003 £000	12 months ended 30 September 2002 £000
<i>(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting):</i>		
Auditors' remuneration:		
- non-audit services for group companies	537	219
Depreciation and amounts written off tangible fixed assets	311	461
Profit on disposal of tangible fixed assets	(798)	-
Hire of land and buildings – rentals payable under operating leases	39	101

During both the current period and the prior year the remuneration of the auditor was borne by another group company.

7 Taxation

	15 months ended 31 December 2003 £000	12 months ended 30 September 2002 £000
Analysis of (credit)/charge in period		
UK Corporation tax		
Current tax on income for the period	(2,603)	13,905
Adjustments in respect of prior periods	(3,789)	-
Total current tax	(6,392)	13,905
Deferred tax (see note 12)	(4,479)	171
Tax (credit)/charge on (losses)/profit on ordinary activities	(10,871)	14,076

The current tax credit for the period is higher (*year ended 30 September 2002: charge, higher*) than the standard rate of corporation tax in the UK (*15 months ended 31 December 2003: 30%, year ended 30 September 2002: 30%*). The differences are explained below:

	2003 £000	2002 £000
<i>Current tax reconciliation</i>		
(Loss)/profit on ordinary activities before tax	(13,171)	45,076
Current tax at 30% (<i>30 September 2002: 30%</i>)	(3,951)	13,523
<i>Effects of:</i>		
Expenses not deductible for tax purposes	45	328
Depreciation in excess of capital allowances	337	54
Other timing differences	966	-
Adjustments in respect of prior periods	(3,789)	-
Total current tax (credit)/charge	(6,392)	13,905

Notes (continued)

8 Tangible fixed assets

	Equipment, fixtures and fittings £000	Motor vehicles £000	Total £000
Cost			
At 1 October 2002	3,748	769	4,517
Additions	-	348	348
Disposals	(3,224)	(512)	(3,736)
At 31 December 2003	524	605	1,129
Accumulated depreciation			
At 1 October 2002	1,988	557	2,545
Charge for period	138	173	311
Disposals	(1,617)	(493)	(2,110)
At 31 December 2003	509	237	746
Net book value			
At 31 December 2003	15	368	383
At 30 September 2002	1,760	212	1,972

9 Fixed asset investments

	Shares in group undertakings £000
Cost:	
At 1 October 2002 and 31 December 2003	16
Provisions:	
At 1 October 2002 and 31 December 2003	(4)
Net book value	
At 1 October 2002 and 31 December 2003	12

At 31 December 2003 the Company had an interest in excess of 5% of the unlisted equity share capital of the following companies, both of which are incorporated in Great Britain and registered in England and Wales.

Name of company	Country of incorporation	Principal activity	Class and percentage of shares held
Granada World Productions Limited	UK	Holding company	100% of ordinary shares
Kinematograph Equipment Co Limited	UK	Dormant	15% of ordinary shares

In the opinion of the directors the value of the Company's investment in group undertakings is not less than the amount at which they are stated in the balance sheet.

Notes (continued)

10 Debtors

	31 December 2003 £000	30 September 2002 £000
Amounts owed by parent undertakings	10,898	17,796
Amounts owed by fellow subsidiary undertakings	99,421	86,101
Other debtors	-	180
Deferred taxation asset (see note 12)	4,308	-
Prepayments and accrued income	4,272	484
	118,899	104,561

11 Creditors: amounts falling due within one year

	31 December 2003 £000	30 September 2002 £000
Bank loans and overdraft	82,585	79,119
Amounts owed to ultimate parent undertaking	161	-
Amounts owed to parent undertakings	26,461	26,461
Amounts owed to fellow subsidiary undertakings	343	-
Taxation and social security	65	146
Accruals and deferred income	49,230	37,910
	158,845	143,636

12 Deferred taxation

The movement in deferred taxation is as follows:	£000
Opening balance as at 1 October 2002	(171)
Profit and loss account credit for the period (see note 7)	4,479
Closing balance as at 31 December 2003	4,308

The elements of deferred taxation are as follows:

	31 December 2003 £000	30 September 2002 £000
Accelerated capital allowances	162	(171)
Other timing differences	4,146	-
	4,308	(171)

A deferred tax asset is recognised because the directors believe that the future taxable profits are likely to be in excess of those arising from the reversal of the deferred tax liability.

Notes (continued)

13 Called up share capital

	31 December 2003 £000	30 September 2002 £000
<i>Authorised:</i>		
12,500 ordinary shares of 5p each	1	1
12,500 4.2% cumulative preference shares of £1 each	12	12
	<u>13</u>	<u>13</u>
<i>Allotted, called up and fully paid:</i>		
12,500 ordinary shares of 5p each	1	1
2,130 4.2% cumulative preference shares of £1 each	2	2
	<u>3</u>	<u>3</u>

14 Reconciliation of movements in shareholders' funds

	Share capital £000	Profit and loss account £000	Total 2003 £000	Total 2002 £000
Balance at 1 October 2002	3	(37,253)	(37,250)	(68,250)
Retained (loss)/profit for period for equity shareholders	-	(2,300)	(2,300)	31,000
	<u>3</u>	<u>(39,553)</u>	<u>(39,550)</u>	<u>(37,250)</u>
At 31 December 2003	3	(39,553)	(39,550)	(37,250)

15 Pensions

The Company participates in defined benefit pension schemes operated by Granada plc that are externally funded under separate trusts.

The Company contribution for the 15 month period was £1,198,000 (12 months ended 30 September 2002: £912,000). It has been agreed that an employer contribution rate of 23% of pensionable pay will apply in future years. In addition the group has agreed to make a further contribution of £10 million per annum and this extra funding will be kept under review.

There were no outstanding or prepaid contributions at either the beginning or the end of the financial period.

Particulars of the actuarial valuations of the group schemes are contained in the financial statements of Granada plc, a copy of which may be obtained from the address given in note 19.

Notes (continued)

16 Operating leases

At 31 December 2003 the Company had annual commitments under operating leases as follows:

	Land and buildings 31 December 2003 £000	Land and buildings 30 September 2002 £000
Operating leases which expire:		
Within one year	-	74
Between one and five years	-	-
More than five years	-	-
	-	74

17 Contingent liabilities

Under a group registration, the Company is jointly and severally liable for VAT at 31 December 2003 of £18 million (30 September 2002: £22 million).

The Company and certain other Group companies have entered into an arrangement for a joint bank account with Barclays Bank PLC and are jointly and severally liable in respect of any overdraft arising on the Group joint bank account. At 31 December 2003, this contingent liability amounted to £4 million (30 September 2002: £274 million).

In the opinion of the directors, adequate allowance has been made in respect of these matters.

18 Post balance sheet events

On 2 February 2004 Granada plc merged with Carlton Communications Plc under a Court approved Scheme of Arrangement to form ITV plc.

19 Ultimate parent company

At 31 December 2003 the Company was a wholly owned subsidiary of Granada Media plc, a company incorporated and registered in England and Wales. The ultimate parent company was Granada plc, incorporated and registered in England and Wales. With effect from 2 February 2004, following the merger of Carlton Communications Plc and Granada plc, ITV plc became the ultimate parent company of ITV Services Ltd. ITV plc is a company incorporated and registered in England and Wales.

The largest and smallest group in which the results of the Company were consolidated was that headed by Granada plc. The consolidated accounts of Granada plc are available to the public and may be obtained from The London Television Centre, Upper Ground, London SE1 9LT.