

ITV Services Limited

Directors' report and financial statements

Registered number 229607

Year ended 31 December 2004



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2004. The comparatives are 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 ITV Group.

Change of Name

On 28 January 2004 the Company changed its name from Granada Management Limited to ITV Services Limited.

Business review

The results for the year are shown in the Profit and Loss account on page 5 of these financial statements.

Dividends

The directors do not recommend the payment of a dividend (*15 months ended 31 December 2003: £nil*).

Principal transactions and post balance sheet events

On 2 February 2004 the merger between Granada plc and Carlton Communications Plc became effective and ITV plc was listed on the London Stock Exchange.

Following the merger of Granada plc with Carlton Communications Plc in February 2004, Granada shareholders received one ITV plc ordinary 10 pence share for each Granada plc share held, and Carlton shareholders received 1.9386 ITV plc 10 pence ordinary shares and 0.1835 ITV plc 10 pence convertible shares for each Carlton Communications Plc share held.

Subsequent to the merger, the ITV plc group commenced an operational and legal restructuring programme with the objectives to deliver synergies from the merger, rationalise intercompany funding arrangements, streamline dividend flows through the group structure, maximise retained earnings at the parent company level and eliminate unnecessary companies. The initial stages of the restructuring programme are considered to have furthered the achievement of the objectives and the restructuring programme is expected to continue during 2005.

At an Extraordinary General Meeting of Granada plc held on 17 September 2004 the shareholders passed a special resolution approving the re-registration of Granada plc as a limited company. The re-registration was registered by the Company Registrar on 21 September 2004 and the Company is now called Granada Limited.

At an Extraordinary General Meeting of Carlton Communications Plc held on 27 September 2004 the shareholders passed a special resolution approving the re-registration of Carlton Communications Plc as a limited company. The re-registration was registered by the Company Registrar on 27 September 2004 and the Company is now called Carlton Communications Limited.

Directors

The following were directors of the Company during the year ended 31 December 2004:

	Appointment Date	Resignation Date
Graham Parrott		17 August 2004
Helen Tautz	17 August 2004	
James Tibbitts		

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

Directors' report *(continued)*

Directors' interests and share options

The shareholdings of Helen Tautz and James Tibbitts in the share capital and interests in share options of ITV plc are disclosed in the accounts of Carltonco 120 Limited for the year ended 31 December 2004. A copy of the accounts of Carltonco 120 Limited can be obtained from the Company Secretary at the registered office address.

Donations

Grants and charitable donations amounted to £nil (*15 months to 31 December 2003: £nil*). There were no political contributions (*15 months to 31 December 2003: £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 2004 was nil days (*31 December 2003: 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

Company Secretary



The London Television Centre
Upper Ground
London SE1 9LT

20 October 2005

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.

Report of the independent auditor, KPMG Audit Plc, to the members of ITV Services Limited

We have audited the financial statements on pages 5 to 16.

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 3, 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 2004 and of the loss of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Date *26 October* 2005

Profit and Loss account

	<i>Note</i>	Year ended 31 December 2004 £000	15 months ended 31 December 2003 Restated £000
Turnover	2	29,694	32,796
Staff costs	3	(7,013)	(7,631)
Depreciation	8	(176)	(311)
Other operating costs		(18,184)	(43,639)
Operating profit/(loss)		4,321	(18,785)
Write down of investments		(5)	-
Interest payable	5	(3,599)	-
Profit/(loss) on ordinary activities before taxation	6	717	(18,785)
Taxation	7	(3,372)	10,871
Loss for the financial period	14	(2,655)	(7,914)

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

Statement of total recognised gains and losses

	Year ended 31 December 2004 £000	15 months ended 31 December 2003 Restated £000
Total recognised losses relating to the period	(2,655)	(7,914)
Prior period adjustments (see note 14)	(5,112)	
Total losses recognised during the period	<u>(7,767)</u>	

Historical cost profit is not materially different from that presented in the profit and loss account. Accordingly no separate analysis has been presented.

Balance sheet

	Note	31 December 2004		31 December 2003	
		£000	£000	Restated £000	£000
Fixed assets					
Tangible fixed assets	8		314		383
Investments	9		7		12
			<u>321</u>		<u>395</u>
Current assets					
Debtors	10	13,670		119,308	
Cash at bank and in hand		1		1	
		<u>13,671</u>		<u>119,309</u>	
Creditors: amounts falling due within one year	11	<u>(61,309)</u>		<u>(164,366)</u>	
Net current liabilities			<u>(47,638)</u>		<u>(45,057)</u>
Net liabilities			<u>(47,317)</u>		<u>(44,662)</u>
Capital and reserves					
Called up share capital	13		3		3
Profit and loss account	14		(47,320)		(44,665)
Shareholders' deficit	14		<u>(47,317)</u>		<u>(44,662)</u>
Equity		(47,319)		(44,664)	
Non-equity		2		2	
		<u></u>	<u>(47,317)</u>	<u></u>	<u>(44,662)</u>

These financial statements were approved by the board of directors on 20 October 2005 and were signed on its behalf by:

H Pautz
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 preparation

The financial statements have been prepared on the going concern basis, which the directors believe to be appropriate for the following reasons. The Company is dependant for its working capital on funds provided to it by Granada Media Limited, the Company's immediate parent undertaking. ITV plc, the Company's ultimate parent undertaking, has provided the Company with an undertaking that for at least 12 months from the date of approval of these financial statements it will continue to make available such funds as are needed by the Company and in particular will not seek repayment of the amounts currently made available. This should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Based on this undertaking the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

The Group has adopted UITF 17 (revised 2003) "Employee Share Schemes" for the first time in these accounts. Previously share awards were charged through the profit and loss account based on the cost of shares purchased, now the charge is based on the market value at the date of the award. The impact of the 2003 comparatives is to increase the profit and loss account charge by £5,613,598 and to increase the accrual by £5,112,000.

The company is exempt by virtue of s228 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 ITV 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 ITV plc, within which this Company is included, can be obtained from the address given in note 17.

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%

Notes (continued)

1 Accounting policies (continued)

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 31 December 2004. A revaluation for FRS 17 purposes at 31 December 2004 was also carried out by a qualified independent actuary.

At 31 December 2004 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 permanent diminution in value.

Taxation

The charge for taxation is based on the profit or loss for the year 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 and computed without discounting. Full provision is made in respect of all timing differences between the treatment of certain items in the financial statements and their treatment for taxation purposes at the balance sheet date. Deferred tax assets are recognised to the extent that it is more likely than not that the asset will be recovered.

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 in accordance with UITF 17 (revised 2003) "Employee Share Schemes". 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 Limited on behalf of other group companies being recharged to those companies.

Notes (continued)

3 Staff costs

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

	Number of employees	
	Year ended 31 December 2004	15 months ended 31 December 2003
Directors and executives	19	19
Finance and treasury	14	16
Human resources	21	20
	<u>54</u>	<u>55</u>

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2004 £000	15 months ended 31 December 2003 £000
Wages and salaries including redundancy costs	5,629	5,849
Social security costs	537	584
Pension costs and other benefits	847	1,198
	<u>7,013</u>	<u>7,631</u>

All staff were employed in the UK in the year ended 31 December 2004 and the 15 months ended 31 December 2003.

4 Directors' emoluments

	Year ended 31 December 2004 £000	15 months ended 31 December 2003 £000
Emoluments	1,366	721

The emoluments of the highest paid director were £1,036,513 (15 months ended 31 December 2003: £447,000).

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

Notes (continued)

5 Interest payable

	Year ended 31 December 2004 £000	15 months ended 31 December 2003 £000
Bank interest payable	3,599	-

6 Profit/(loss) on ordinary activities before taxation

	Year ended 31 December 2004 £000	15 months ended 31 December 2003 £000
<i>Profit/(loss) on ordinary activities before taxation is stated after</i>		
Auditors' remuneration:		
- non-audit services for group companies	584	537
Depreciation and amounts written off tangible fixed assets	176	311
Profit on disposal of tangible fixed assets	(43)	(798)
Hire of land and buildings – rentals payable under operating leases	-	39

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

7 Taxation

	Year ended 31 December 2004 £000	15 months ended 31 December 2003 £000
Analysis of charge/(credit) in period		
UK Corporation tax		
Current tax on income for the period	5,525	(2,603)
Adjustments in respect of prior periods	737	(3,789)
Total current tax (see below)	6,262	(6,392)
Deferred tax (see note 12)	(2,890)	(4,479)
Tax charge/(credit) on profit/(losses) on ordinary activities	3,372	(10,871)

Notes (continued)

7 Taxation (continued)

The current tax charge for the year is higher (*period ended 31 December 2003: credit, higher*) than the standard rate of corporation tax in the UK (*year ended 31 December 2004: 30%, period ended 31 December 2003: 30%*). The differences are explained below:

	Year ended 31 December 2004 £000	15 months ended 31 December 2003 Restated £000
<i>Current tax reconciliation</i>		
Profit/(loss) on ordinary activities before tax	717	(18,785)
Current tax at 30% (<i>31 December 2003: 30%</i>)	<u>215</u>	<u>(5,636)</u>
<i>Effects of:</i>		
Expenses not deductible for tax purposes	59	1,730
Depreciation in excess of capital allowances	37	337
Other timing differences	5,214	966
Adjustments in respect of prior periods	737	(3,789)
Total current tax charge/(credit) (see above)	<u><u>6,262</u></u>	<u><u>(6,392)</u></u>

8 Tangible fixed assets

	Equipment, fixtures and fittings £000	Motor vehicles £000	Total £000
<i>Cost</i>			
At 1 January 2004	524	605	1,129
Additions	-	107	107
Disposals	-	-	-
At 31 December 2004	<u>524</u>	<u>712</u>	<u>1,236</u>
<i>Accumulated depreciation</i>			
At 1 January 2004	509	237	746
Charge for period	10	166	176
Disposals	-	-	-
At 31 December 2004	<u>519</u>	<u>403</u>	<u>922</u>
<i>Net book value</i>			
At 31 December 2004	<u>5</u>	<u>309</u>	<u>314</u>
At 31 December 2003	<u>15</u>	<u>368</u>	<u>383</u>

9 Fixed asset investments

The movements in the investments in subsidiary undertakings of the Company during the year are analysed below:

	Investments in subsidiaries £000
<i>Cost:</i>	
At 1 January 2004	16
Additions	-
At 31 December 2004	16
<i>Provisions:</i>	
At 1 January 2004	(4)
Additions	(5)
At 31 December 2004	(9)
<i>Net book value:</i>	
At 31 December 2004	7
At 1 January 2004	12

At 31 December 2004 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.

10 Debtors

	31 December 2004	31 December 2003
	£000	Restated £000
Amounts owed by parent undertakings	-	10,898
Amounts owed by group undertakings	369	99,830
Deferred taxation asset (see note 12)	7,198	4,308
Prepayments and accrued income	6,103	4,272
	13,670	119,308

Notes (continued)

11 Creditors: amounts falling due within one year

	31 December 2004 £000	31 December 2003 Restated £000
Bank loans and overdraft	3,807	82,585
Amounts owed to ultimate parent undertaking	-	161
Amounts owed to parent undertakings	-	26,461
Amounts owed to group undertakings	7,413	343
Taxation and social security	2,570	65
Accruals and deferred income	47,519	54,751
	<u>61,309</u>	<u>164,366</u>

12 Deferred taxation

The movement in deferred taxation is as follows:

	£000
Opening balance as at 1 January 2004	4,308
Profit and loss account credit for the period (see note 7)	2,890
Closing balance as at 31 December 2004	<u>7,198</u>

The elements of deferred taxation are as follows:

	31 December 2004 £000	31 December 2003 £000
Accelerated capital allowances	83	162
Other timing differences	7,115	4,146
	<u>7,198</u>	<u>4,308</u>

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 2004 £000	31 December 2003 £000
Authorised		
12,500 ordinary shares of £0.05 each	1	1
12,500 4.2% cumulative preference shares of £1.00 each	12	12
	<u>13</u>	<u>13</u>
Allotted, called up and fully paid		
12,500 ordinary shares of £0.05 each	1	1
2,130 4.2% cumulative preference shares of £1.00 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 2004 £000
Balance at 1 January 2004	3	(39,553)	(39,550)
Prior period adjustment	-	(5,112)	(5,112)
	<u>3</u>	<u>(44,665)</u>	<u>(44,662)</u>
Result for period	-	(2,650)	(2,650)
At 31 December 2004	<u>3</u>	<u>(47,315)</u>	<u>(47,312)</u>

The prior period adjustment is a result of the implementation of UITF 17 (revised 2003) "Employee Share Schemes" and has impacted prior periods retained losses so is reflected in the statement of total recognised gains and losses.

Notes (continued)

15 Pensions

The company is a member of the ITV defined benefit pension scheme. 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 31 December 2004. A revaluation for FRS 17 purposes at 31 December 2004 was also carried out by a qualified independent actuary.

The company contribution for the period was £847,000 (year ended 31 December 2003: £1,198,000). It has been agreed that an employer contribution rate of 25.7% of pensionable pay will apply in future years. In addition to normal funding the group made a further contribution of £10 million in 2004 and this extra funding will be kept under review.

Particulars of the actuarial valuations of the group schemes are contained in the financial statements of ITV plc which can be obtained from the address given in note 17.

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

16 Contingent liabilities

Under a group registration, the Company is jointly and severally liable for VAT at 31 December 2004 of £49 million (*31 December 2003: £18 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 2004 this contingent liability amounted to £5 million (*31 December 2003: £4 million*).

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

17 Ultimate parent company

At 31 December 2004 the Company's immediate parent company was Granada Media Limited, a company incorporated and registered in England and Wales and the Company's ultimate parent company of was ITV plc, 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 ITV plc. The consolidated accounts of ITV plc are available to the public and may be obtained from the Company Secretary, The London Television Centre, Upper Ground, London SE1 9LT.