

ITV Services Limited

**Directors' report and
financial statements**

**Registered number 229607
Year ended 31 December 2011**

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2011. The comparatives are for the year ended 31 December 2010.

Principal activities and business review

The principal activity of ITV Services Limited ("the Company") continues to be to provide services for other companies within the ITV plc Group.

The results for the Company show a loss before tax of £74,805,000 (2010 profit of £173,458,000) for the year and turnover of £147,058,000 (2010 £152,129,000).

Principal risks and uncertainties

The principal risks of the Company relate to non-payment for services and are therefore integrated with the principal risks of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of the ITV plc Group are discussed on pages 42 to 43 of the Group's annual report.

Key performance indicators (KPIs)

Given the nature of the business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the Company.

Dividends

The directors do not recommend the payment of a dividend (2010: £nil).

Directors

The directors who held office during the year were as follows:

	Appointment date	Resignation date
Adam Crozier		
Christopher Swords		13 February 2012
Andrew Doyle		
Andrew Garard		
Ian Griffiths		
Helen Tautz		13 February 2012
Eleanor Irving		13 February 2012
Mary Fagan	13 February 2012	
Peter Fincham	13 February 2012	
Anne Hazlitt	13 February 2012	
Kevin Lygo	13 February 2012	
Simon Pitts	13 February 2012	

Political and charitable contributions

Grants and charitable donations made during the year amounted to £269,067 (2010: £1,510). There were no political contributions made during the year (2010: £nil).

Directors' Report *(continued)*

Principle transactions and post balance sheet events

On 10 October 2011 pursuant to Chapter 10 Part 17 of the Companies Act 2006, the directors passed a special resolution cancelling the company's share premium reserve of £1,499,865,209. As a result, the cancelled share premium reserve balance is distributable to shareholders and was transferred to profit and loss reserves.

During the year the Company invested £50 million in ITV Scottish Limited Partnership. The Company subsequently disposed a portion of its investment in ITV Scottish Limited Partnership to the trustees of the ITV Pension Scheme for a consideration of £41.7 million and disposed of £49.995 million of its investment in ITV Holdings (Cayman) Limited to ITV Holdings (Cayman) Limited.

Employment policies

The employment policies of the Company are disclosed in the accounts of ITV plc for the year ended 31 December 2011. A copy of the accounts of ITV plc can be obtained from www.itvplc.com or the Company Secretary at the registered office address.

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 2011 was 36 days.

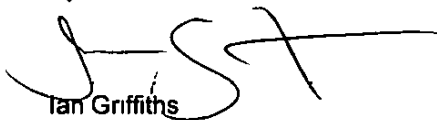
Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be re-appointed and KPMG Audit plc will therefore continue in office.

By order of the board


Ian Griffiths
Director

11 September 2012

The London Television Centre
Upper Ground
London
SE1 9LT

Statement of directors' responsibilities in respect of the Directors' report and the financial statements

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these 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 UK 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

Independent auditor's report to the members of ITV Services Limited

We have audited the financial statements of ITV Services Limited for the year ended 31 December 2011 set out on pages 6 to 25. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Statement of directors' responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Mark Summerfield (Senior Statutory Auditor)
for and on behalf of KPMG Audit plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL

 2012

Profit and loss account

		Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
	Note		
Turnover	1	147,058	152,129
Cost of Sales		(442)	(546)
Gross Profit		146,616	151,583
Other operating income		663	773
Operating costs		(152,155)	(159,764)
Operating loss		(4,876)	(7,408)
Income from fixed asset investments	5	50	230,000
Interest receivable and similar income	6	591	784
Interest payable and similar charges	7	(70,570)	(49,918)
(Loss)/Profit on ordinary activities before taxation		(74,805)	173,458
Taxation	8	(256)	7,392
(Loss)/Profit for the financial year		(75,061)	180,850

The results stated above are all derived from continuing activities

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

The notes on pages 9 to 25 form part of these financial statements

Balance sheet

		31 December 2011 £000	31 December 2010 £000
	Note		
Fixed assets			
Tangible assets	9	101,690	88,833
Investments	10	1,785,894	1,827,589
		<u>1,887,584</u>	<u>1,916,422</u>
Current assets			
Stock	11	723	297
Debtors	12	1,123,649	996,267
Cash at bank and in hand		-	83
		<u>1,124,372</u>	<u>996,647</u>
Current liabilities			
Creditors amounts falling due within one year	13	<u>(1,152,267)</u>	<u>(975,748)</u>
Net current (liabilities) / assets		<u>(27,895)</u>	<u>20,899</u>
Total assets less current liabilities		1,859,689	1,937,321
Creditors: amounts falling due after more than one year	14	<u>-</u>	<u>(812)</u>
Net assets		<u>1,859,689</u>	<u>1,936,509</u>
Capital and reserves			
Called up share capital	20	3	3
Share premium account	21	-	1,499,865
Other reserves	21	149,421	149,421
Profit and loss reserve	21	1,710,265	287,220
Equity shareholders' funds		<u>1,859,689</u>	<u>1,936,509</u>

The notes on pages 9 to 25 form part of these financial statements

These financial statements were approved by the board of directors on 11 September 2012 and were signed on its behalf by


Ian Griffiths
Director

Statement of total recognised gains and losses

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Total recognised (losses)/gains relating to the year	(75,061)	180,850
Actuarial gains and losses on defined benefit pension schemes (note 18)	(1,714)	(1,706)
Deferred tax on defined benefit pension schemes	(45)	478
Total gains relating to the financial year	(76,820)	179,622

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 in accordance with applicable accounting standards and under the historical cost accounting rules

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

Under FRS 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.

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 (or investees of the group qualifying as related parties). The consolidated financial statements of ITV plc, within which this Company is included, can be obtained from the registered office at The London Television Centre, Upper Ground, London SE1 9LT.

Going concern

The Company participates in the Group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. As such, the Company is dependent for its working capital on funds provided to it by ITV plc, the Company's ultimate parent company. ITV plc has indicated 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. As at the date of approval of these financial statements, the directors of the Company have no reason to believe that this financial support will not be forthcoming in the event that it is required.

On this basis, and on their assessment of the Company's financial position, the Company's directors have a reasonable expectation that the Company will be able to continue in existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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. Also included within turnover is rental income for properties held by ITV Services Limited and let to the rest of the ITV plc Group.

Depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Motor vehicles, equipment, fixtures and fittings	3 to 20 years
Short leasehold	10 years
Long leasehold	10 to 60 years

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 contracted rate or 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 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, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Deferred tax assets are recognised to the extent that it is more likely than not that the asset will be recovered.

Stock

Consumable stocks are valued at the lower of cost and net realisable value.

Pension scheme

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

With the exception of the unfunded pension scheme 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' these schemes are accounted for as if they were defined contribution schemes. The unfunded pension scheme is accounted for as a defined benefit pension scheme in accordance with FRS 17.

Investments

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

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.

Classification of financial instruments issued by the Company

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company, and
- b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Amounts owed(to) / from subsidiary undertakings

The Company is part of the new inter-group banking policy in 2011 with certain 100% owned UK subsidiaries. The policy involves the daily closing cash position for participating subsidiaries whether positive or negative, being cleared to £nil via daily bank transfers to ITV plc. These daily transactions create a corresponding intercompany creditor or debtor which explains the increase in the amounts owed to and from subsidiary undertakings in the Company balance sheet.

Share based compensation

During the year the Company received a share based payment charge from its ultimate parent company, ITV plc.

The Company has dealt with this in accordance with FRS 20 'Share-based payment' and UITF 44 'Group and Treasury Share Transactions'.

The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimate of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account.

2 Staff costs

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

	Year ended 31 December 2011	Year ended 31 December 2010
Directors and executives	91	64
Finance and technology	171	216
Human resources	39	50
Other	314	296
	<u>615</u>	<u>626</u>

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Wages and salaries	29,548	32,484
Social security costs	2,990	3,520
Other pension costs	19,492	36,885
	<u>52,030</u>	<u>72,889</u>

Other pension costs for the year ended 31 December 2011 includes the Company's contribution for deficit funding of £15.9 million (2010: £26.0 million) to the ITV Pension Scheme (see note 18).

All staff were employed in the UK in the years ended 31 December 2011 and 31 December 2010.

3 Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated after charging/(crediting) the following

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Depreciation and other amounts written off tangible fixed assets		
Owned	15,820	16,880
Leased	1,208	959
Loss on disposal of tangible fixed assets		
Owned	2,424	202
Operating lease rentals		
Land and Buildings	2,940	3,037
	<u>22,392</u>	<u>21,078</u>

During both the current year and the prior year the remuneration of the auditor was borne by ITV Services Limited on behalf of the ITV plc Group. Accordingly fees payable to the auditor are disclosed on page 95 of the Group's annual report.

Amounts paid to the Company's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required to be disclosed on a consolidated basis in the consolidated financial statements of the Company's ultimate parent, ITV plc.

4 Directors' emoluments

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Emoluments	<u>5,066</u>	<u>3,596</u>

The emoluments of the highest paid director were £1,523,888 (2010 £1,179,000).

There was 1 director to whom retirement benefits were accruing under defined benefit schemes (2010

4) The pension accrued during the year for these directors was £2,225 (2010 £16,873).

There were 3 directors who contributed to the defined contributions scheme (2010 2).

5 Income from fixed asset investments

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Dividends from shares in Group undertakings	<u>50</u>	<u>230,000</u>

6 Interest receivable and similar income

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Bank interest receivable	54	444
Interest receivable from group undertakings	534	337
Interest from HMRC	3	-
Other interest	-	3
	<u>591</u>	<u>784</u>

7 Interest payable and similar charges

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Bank interest payable	1,376	22,496
Interest payable to group undertakings	67,595	25,779
Interest on pension deficit liability	1,599	1,595
Other loans and swap instruments	-	48
	<u>70,570</u>	<u>49,918</u>

8 Taxation

Analysis of credit/(charge) in year

	£000	Year ended 31 December 2011 £000	£000	Year ended 31 December 2010 £000
<i>UK corporation tax</i>				
Corporation tax on income for the period	-		-	
Adjustment in respect of prior periods	-		-	
Total current tax credit/(charge)	-	-	-	-
<i>Deferred tax (see note 15)</i>				
Origination/reversal of timing differences	(256)		7,392	
Adjustment in respect of previous years	-		-	
Total deferred credit/(charge)		<u>(256)</u>		<u>7,392</u>
Tax credit/(charge) on (loss) / profit on ordinary activities		<u>(256)</u>		<u>7,392</u>

8 Taxation – note continued

The current tax charge for the year is lower (2010 (charge), lower) than the standard rate of corporation tax in the UK (26.5%, 2010 28%)

The differences are explained below

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
<i>Current tax reconciliation</i>		
(Loss) / Profit on ordinary activities before tax	<u>(74,805)</u>	<u>173,458</u>
Current tax charge at 26.5% (2010 28%)	19,823	(48,568)
Effects of		
Expenses not deductible for tax purposes and group relief	(20,216)	56,955
Depreciation for the period in excess of capital allowances	(884)	(2,421)
Other timing differences	<u>1,277</u>	<u>(5,966)</u>
Total current tax charge (see above)	<u>-</u>	<u>-</u>

Factors that may affect the future current and total tax charges

On 23 March 2011 the Chancellor announced the reduction in the main rate of UK corporation tax to 26 percent with effect from 1 April 2011 and a further reduction to 25 percent with effect from 1 April 2012. These changes became substantively enacted on 29 March 2011 and 5 July 2011 respectively and therefore the effect of these rate reductions creates a reduction in the deferred tax(asset/liability) which has been included in the figures above.

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A further reduction to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012.

It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax asset accordingly.

9 Tangible fixed assets

	Land and buildings		Vehicles, equipment and fittings	Total
	Long leasehold £000	Short Leasehold £000	£000	£000
Cost				
At 1 January 2011	49,637	2,048	91,117	142,802
Additions	1,313	-	30,102	31,415
Transfers	-	-	1,053	1,053
Impairments	-	-	(227)	(227)
Disposals and retirements	(26)	-	(25,837)	(25,863)
At 31 December 2011	50,924	2,048	96,208	149,180
Depreciation				
At 1 January 2011	3,389	706	49,874	53,969
Charge for the year	1,016	192	15,820	17,028
Disposals and retirements	(26)	-	(23,481)	(23,507)
At 31 December 2011	4,379	898	42,213	47,490
Net book value				
At 31 December 2011	46,545	1,150	53,995	101,690
At 31 December 2010	46,248	1,342	41,243	88,833

10 Fixed asset investments

	Investments in subsidiaries £000
Cost	
At 1 January 2011	1,827,589
Additions	50,000
Disposals	(91,695)
At 31 December 2011	1,785,894
Provisions	
At 1 January 2011	-
Provided/(released) in the year	-
At 31 December 2011	-
Net book value	
At 31 December 2011	1,785,894
At 31 December 2010	1,827,589

During the year the Company invested £50 million in ITV Scottish Limited Partnership. The Company subsequently disposed a portion of its investment in ITV Scottish Limited Partnership to the trustees of the ITV Pension Scheme for a consideration of £41.7 million and disposed of £49,995 million of its investment in ITV Holdings (Cayman) Limited back to ITV Holdings (Cayman) Limited.

At 31 December 2011 the Company had a direct interest in 100% of the unlisted ordinary share capital of the following principal companies, all of which are incorporated and registered in England and Wales unless otherwise stated:

Name of company	Principal activity
Granada Limited	Holding company
Castlefield Properties Limited	Provision of property to Group companies
ITV Holdings (Cayman) Limited (registered in Cayman Islands)	Investment company
ITV Scottish Limited Partnership (registered in Scotland) *	Trading in permitted assets
ITV (Scotland) Limited (registered in Scotland)	Investment company
* 50% direct holding and 50% indirect holding	

11 Stock

	Year ended 31 December 2011 £000	Year ended 31 December 2010 £000
Consumables	<u>723</u>	<u>297</u>

12 Debtors

	31 December 2011 £000	31 December 2010 £000
Trade debtors	122	390
Other debtors	124,588	1,875
Amounts owed by Group undertakings	973,035	964,294
Deferred tax asset (see note 15)	13,942	14,198
Prepayments and accrued income	<u>11,962</u>	<u>15,510</u>
	<u>1,123,649</u>	<u>996,267</u>

13 Creditors: amounts falling due within one year

	31 December 2011 £000	31 December 2010 £000
Trade creditors	9,837	11,576
Bank overdraft	1,397	462,668
Other creditors	3,198	23,676
Amounts owed to Group undertakings	958,752	383,178
Taxation and social security	56,046	24,895
Accruals and deferred income	88,431	34,015
Defined benefit pension liability	32,635	30,640
Provisions (see note 16)	<u>1,971</u>	<u>5,100</u>
	<u>1,152,267</u>	<u>975,748</u>

14 Creditors: amounts falling due after one year

	31 December 2011 £000	31 December 2010 £000
Provisions (see note 16)	<u>-</u>	<u>812</u>

15 Deferred taxation

The movement in deferred taxation is as follows

	£000	
Deferred tax asset as at 1 January 2011	14,198	
Charge for the year (see note 8)	<u>(256)</u>	
Deferred tax asset as at 31 December 2011	<u>13,942</u>	
	31 December 2011 £000	31 December 2010 £000
The elements of deferred taxation are as follows		
Accelerated capital allowances	2,576	728
Unfunded pension scheme	8,159	8,273
Other short term timing differences	<u>3,207</u>	<u>5,197</u>
	<u>13,942</u>	<u>14,198</u>

A deferred tax asset is recognised because the Directors believe that the future taxable profits are in excess of those arising from the reversal of the deferred tax asset

Factors that may affect the future current and total tax charges

On 23 March 2011 the Chancellor announced the reduction in the main rate of UK corporation tax to 26 percent with effect from 1 April 2011 and a further reduction to 25 percent with effect from 1 April 2012. These changes became substantively enacted on 29 March 2011 and 5 July 2011 respectively and therefore the effect of these rate reductions creates a reduction in the deferred tax(asset/liability) which has been included in the figures above.

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A further reduction to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012.

It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax asset accordingly.

16 Provisions

	Property £000	Restructuring £000	Total £000
At 1 January 2011	812	5,100	5,912
Additions	-	3,062	3,062
Charged/(reversed) in the year	(812)	(6,191)	(7,003)
At 31 December 2011	-	1,971	1,971

Property provisions principally relate to onerous lease contracts due to empty space created by the significant reduction in headcount in 2010

Restructuring provisions are in respect of previously announced efficiency programmes and are expected to be utilised by 31 December 2012

17 Lease commitments

At 31 December 2011 the Company had annual commitments under non-cancellable operating leases as set out below

	Land and buildings 2011 £000	Land and buildings 2010 £000
Operating leases which expire		
Less than one year	91	165
In the second to fifth years inclusive	529	853
Over five years	2,698	2,270
	3,318	3,288

18 Pension scheme

Defined contribution scheme

Total contributions recognised in the profit and loss account in relation to defined contribution schemes during 2010 were £1,371,385 (2010 £980,000)

Defined benefit scheme

The Company is a participating 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 underlying assets and liabilities of the scheme on a consistent and reasonable basis. Therefore, as permitted by FRS 17 'Retirement benefits' the Company has accounted for contributions to the scheme as if it were a defined contribution scheme.

The Group's main scheme consists of three sections, A, B and C. The latest triennial valuation of section A was completed as at 1 January 2008 by an independent actuary for the Trustees of the ITV Pension Scheme. The latest triennial valuations of sections B and C were completed as at 1 January 2010 and agreed in 2011. The next triennial valuation of section A as at 1 January 2011 is in progress. The Trustees are also carrying out actuarial valuations of sections B and C at this date in order to bring the triennial reporting date for the three sections into line. The Group will monitor funding levels annually. The latest actuarial valuations have been updated for FRS 17 purposes to 31 December 2011 by a qualified independent actuary.

The Company's normal contributions for the year were £1,638,029 (2010 £2,000,000). In addition to normal funding the Group made further contributions of £48 million in 2011 (2010 £30 million) as disclosed in the ITV plc financial statements. The levels of contributions are based on the current service costs and the expected future cash flows of the defined benefit scheme.

During 2011 the Group and the Trustee of the ITV Pension Scheme amended the pension funding partnership, ITV Scottish Limited Partnership, the details of which are disclosed in the financial statements of ITV plc. The amendment of this partnership resulted in the Group contributing an additional interest in the partnership worth £41.7 million to the main section of the ITV Pension Scheme. The company's contribution in respect of this was £8,507,875.

At 31 December the scheme had an FRS 17 deficit of £390 million (2010 £313 million).

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 24.

Unfunded pension scheme

The Company participates in the Group unfunded pension scheme. This scheme is accounted for as a defined benefit pension scheme in accordance with FRS17. The principal assumptions used in the scheme valuation at the balance sheet date were:

	2011	2010
<i>Major assumptions</i>		
Discount rate for scheme liabilities	4.70%	5.40%
Inflation assumption	3.00%	3.40%
Rate of pensionable salary increases	0.90%	0.90%
Rate of increase in pension payment (LPI 5% pension increases)	2.90%	3.30%
Rate of increase to deferred pensions (CPI)	2.30%	2.90%

In estimating the life expectancy of pension scheme members, the group has used PA92 year of birth tables with medium cohort improvements, with a 1% per annum underpin and a one year age rating (ie tables are adjusted so that a member is assumed to be one year older than actual age).

The liabilities of the scheme are shown below:

	2011 £000	2010 £000
Present value of scheme liabilities	(32,635)	(30,640)
Related deferred tax asset – full provision basis	8,159	8,273
Net pension deficit	<u>(24,476)</u>	<u>(22,367)</u>

The scheme is unfunded so there are no assets to be valued. The amounts recognised are as follows:

	2011 £000	2010 £000
Analysis of amount charged to operating costs		
Current service cost	-	(11)
Curtailment gain (roll in of unfunded liabilities to section A of the ITV pension scheme)	-	-
Curtailment gain (salary cap)	-	-
	-	(11)
Analysis of amount that would be charged to interest payable and similar charges		
Interest on pension scheme liabilities	(1,599)	(1,595)
Charge before taxation	(1,599)	(1,606)
Analysis of amount recognised in statement of total recognised gains and losses		
Changes in assumptions underlying the present value of the scheme's liabilities	(1,714)	(1,706)
Actuarial loss recognised in the statement of total recognised gains and losses	(1,714)	(1,706)
Movement in deficit during the period		
Deficit in scheme at beginning of period	(30,640)	(28,581)
Movement in period		
Current service cost and curtailment gain	-	(11)
Amounts paid to pensioners	1,318	1,253
Interest payable and similar charges	(1,599)	(1,595)
Transfer of liability to other companies in ITV Plc Group	-	-
Actuarial loss	(1,714)	(1,706)
	(32,635)	(30,640)
Related deferred tax asset – full provision basis	8,159	8,273
Net pension deficit	(24,476)	(22,367)

History of experience gains and losses	2011	2010	2009	2008	2007
Total amount recognised in the statement of total recognised gains and losses					
Amount (£000)	(1,714)	(1,706)	(4,584)	2,855	2,360
Percentage of the present value of scheme liabilities	(5%)	(6%)	(16%)	12%	8%

The curtailment gain of £nil (2010: £nil) recognised in the year relates to a roll in of unfunded liabilities to the defined benefit element of section A of the Group's main scheme, The ITV pension scheme. An equal and opposite curtailment loss has been recognised in the main section A defined benefit scheme, with that gain and loss netting off in the ITV plc consolidated financial statements.

19 Share-based payment

	2011 Weighted average Number of options (('000))	exercise price (pence)	2010 Weighted average Number of options (('000))	exercise price (pence)
Outstanding at 1 January	9,335,794	22.32	9,790,255	63.94
Granted during the year – nil priced	2,515,450	-	4,165,985	-
Granted during the year – other	365,048	73.58	555,262	42.90
Forfeited during the year	(370,660)	60.25	(605,844)	21.63
Exercised during the year	(477,201)	27.02	(781,458)	1.79
Expired during the year	(906,471)	75.86	(3,788,406)	121.42
Outstanding at 31 December	10,461,960	12.74	9,335,794	22.32
Exercisable at 31 December	2,711,216	19.13	1,058,766	121.61

The average share price during 2011 was 69.35 pence (2010 59.99 pence)

Range of exercise prices (pence)	Weighted average exercise price (pence)	Number of options (('000))	2011 Weighted average remaining contractual life (years)	Weighted average exercise price (pence)	Number of options (('000))	2010 Weighted average remaining contractual life (years)
Nil	-	7,876,934	1.90	-	6,057,963	2.54
20.00–49.99	31.50	1,703,275	1.86	31.56	1,840,283	2.83
50.00–69.99	58.46	190,922	1.05	54.69	439,928	1.62
70.00–99.99	74.67	331,586	3.00	85.03	126,268	1.03
100.00–109.99	106.25	207,946	0.53	105.99	226,797	1.44
110.00–119.99	-	-	-	112.30	263,630	0.94
120.00–149.99	143.27	151,296	0.03	136.40	312,254	0.90
150.00–199.99	-	-	-	-	-	-
200.00–249.99	-	-	-	-	-	-
250.00–299.99	-	-	-	280.00	68,672	0.05
300.00–385.99	-	-	-	-	-	-

Share schemes

A transaction will be classed as a share-based transaction where the ITV plc group (the Group) receives services from employees and pays for these in shares or similar equity instruments. If the Group incurs a liability whose amount is based on the price or value of the Group's shares then this will also fall under a share-based transaction.

The Group operates a number of share-based compensation schemes. A description of each material type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted, and the method of settlement (e.g. whether in cash or equity) are set out below.

Awards made under the Granada and Carlton Executive Share Option schemes have reached the end of their various performance periods, and have vested or lapsed accordingly. Details of the performance criteria that applied to these awards have been detailed in the notes to previous financial statements and have not been repeated in these financial statements on the grounds of relevance.

Exercises of share options granted to employees can be satisfied by market purchase or issue of new shares. No new shares may be issued to satisfy exercises under the terms of the Deferred Share Award Plan. During the year all exercises were satisfied by using shares purchased in the market and held in the ITV Employees' Benefit Trust rather than by issuing new shares.

Short term and deferral incentives

Annual incentives are provided for the Senior Executive Group through the ITV Annual Bonus Scheme (Bonus). The performance conditions that apply are set on an individual basis and are closely linked to the Company's corporate, financial and strategic priorities. A bonus arrangement extends to all ITV employees, providing a comprehensive and fully integrated incentive framework which rewards all employees when ITV is successful.

Long term incentive plans

Performance Share Plan ('PSP')

As part of the incentives framework introduced in 2011 to support the delivery of the Transformation Plan, changes were made to the terms of the long-term incentive awards to be made to the Senior Executive Group under the Performance Share Plan (PSP).

- aggregate PSP awards, combining core and matching elements, will not exceed 150% of base salary (unchanged from previous maximum)
- if an individual voluntarily defers one-third of their annual Bonus into shares, they will receive a matching award of shares under the PSP (on a 1:1 basis subject to the performance conditions that apply to PSP awards)

In order to ensure that executives are only rewarded if value is delivered to shareholders, awards are subject to an initial cumulative adjusted EPS performance gateway. If this gateway is achieved, performance will then be assessed by reference to the following:

- 50% on cumulative adjusted EPS. This represents the key financial metric of the Group. The cumulative adjusted EPS targets that have been set are considered by the Group's Remuneration Committee to be appropriately demanding.
- 25% on Family SOV (platform adjusted). This is aligned with the strategic priorities of the Group.
- 25% on non-NAR growth and increased internal supply.

Awards are subject to performance conditions measured over a three year period. There is no vesting if a threshold performance is not reached and 100% will vest for maximum performance. Vesting will be on a straight line or proportionate basis between these points. Once vested, awards can be exercised for 12 months. Any portion of the award that does not vest or is not exercised will lapse.

Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions. The proportion that vests may be capped depending on the time elapsed since grant.

This was the only long-term incentive used for awards made from 2010. Awards were made on 8 March 2011 and 11 October 2011. This Plan will continue to be used under the incentives framework.

The Turnaround Plan (the 'Plan')

No awards have been made under the Plan since 2008. Awards in the form of nil-cost options were made to a number of key senior executives in 2007 and 2008 with a maximum value of up to 550% of the individual's salary. Participants were required to acquire and retain a number of shares with a value up to 100% of annual base salary for the duration of the performance period to 31 December 2011. 75% of the awards were subject to performance over a 5-year period. Up to 50% of the award subject to TSR (25% of the total award) was subject to performance over the three-year period to 31 December 2009. This condition was not met, and 25% of the total award lapsed. The balance of the award was tested when the Groups 2011 final year results were published, and 12.5% vested on achieving the

strategic target share of commercial impacts detailed below, and is exercisable by participants up until 31 December 2012. The balance of the award lapsed. The Plan has now terminated.

TSR 50% of the total award was subject to TSR performance measured against a comparator group selected from the FTSE 100 (excluding certain industry sectors that are less relevant as a benchmark of performance). 25% of this portion of the award vested for median performance, 100% vested at the upper quartile, with vesting occurring on a straight line basis between these two points.

Strategic targets 50% of the total award was subject to four strategic performance targets relating to share of commercial impacts, revenue growth, adjusted earnings per share and share price, each having an equal weighting. 25% of the award relating to each target vested for threshold performance, with full vesting for achieving maximum performance. Between these points awards vested on a straight line basis.

Assumptions relating to grants of share options during 2011 and 2010:

Scheme name	Date of grant	Share price at grant (pence)	Exercise price (pence)	Expected volatility %	Expected life (years)	Gross dividend yield %	Risk free rate %	Fair value (pence)
Save As You Earn								
ITV – three year	01-Apr-10	62.95	42.90	56.00%	3.25	– 1.97%		21.45
ITV – five year	01-Apr-10	62.95	42.90	45.00%	5.25	– 2.89%		22.75
ITV – three year	07-Apr-11	75.85	73.58	57.00%	3.25	– 2.02%		20.88
ITV – five year	07-Apr-11	75.85	73.58	47.00%	5.25	– 2.81%		22.95
Performance Share Plan								
ITV – three year	26-Mar-10	58.70	–	56.00%	3.00	– 1.88%		39.55
ITV – three year	03-Aug-10	51.60	–	57.00%	3.00	– 1.42%		34.15
ITV – three year	08-Mar-11	90.05	–	*	3.00	*	*	90.05
ITV – three year	11-Oct-11	62.65	–	*	3.00	*	*	62.65

* Awards do not include market based performance conditions, therefore, Monte-Carlo or Black-Scholes model not required to calculate fair value.

The expected volatility for awards made in 2011 reflects the historic volatility of ITV plc's share price and equity markets as a whole over the preceding three or five years, and depending on the expected life of the award, prior to the grant date of the share options awarded.

The awards made under the Performance Share Plan, prior to 2011, have market based performance conditions which are taken into account in the fair value calculation using a Monte Carlo pricing model. The Black-Scholes model is used to value the Save As You Earn Schemes as these do not have any market performance conditions.

Share-based compensation charges totalled £1,705,597 in 2011 (2010: £1,257,427).

20 Share capital

	31 December 2011 £	31 December 2010 £
Issued and fully paid		
12,520 ordinary shares of £0.05 each	626	626
2,130 4.2% cumulative preference shares of £1.00 each	<u>2,130</u>	<u>2,130</u>
	<u>2,756</u>	<u>2,756</u>

The holders of the redeemable preference shares have waived their right to preference share dividends and the right to exercise their option to redeem these shares. As such these shares have been classified as equity in accordance with FRS 25.

21 Reconciliation of movements in shareholders' funds

	Share capital £000	Share premium £000	Capital contribution reserve £000	Profit and loss account £000	Total £000
At 1 January 2011	3	1,499,865	149,421	287,220	1,936,509
Capital reduction		(1,499,865)		1,499,865	-
Actuarial losses on pension scheme	-	-	-	(1,714)	(1,714)
Deferred tax relating to actuarial losses on pension scheme	-	-	-	(45)	(45)
Loss for the year	-	-	-	(75,061)	(75,061)
At 31 December 2011	<u>3</u>	<u>-</u>	<u>149,421</u>	<u>1,710,265</u>	<u>1,859,689</u>

On 10 October 2011 pursuant to Chapter 10 Part 17 of the Companies Act 2006, the directors passed a special resolution cancelling the company's share premium reserve of £1,499,865,000. As a result, the cancelled share premium reserve balance is distributable to shareholders and was transferred to profit and loss reserves.

The table below shows the FRS 17 impact of the pension liability on reserves.

	31 December 2011 £000	31 December 2010 £000
Profit and loss reserve excluding pension liability	1,742,900	317,860
Pension liability	<u>(32,635)</u>	<u>(30,640)</u>
Profit and loss reserve including pension liability	<u>1,710,265</u>	<u>287,220</u>

22 Capital commitments

There are £3,967,605 of capital commitments at 31 December 2011 (2010: £nil).

23 Contingent liabilities

Under a group registration, the Company is jointly and severally liable for VAT at 31 December 2011 of £35,000,000 (31 December 2010 £39,000,000)

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 2011 this contingent liability amounted to £nil (31 December 2010 £nil)

In the opinion of the directors, adequate allowance has been made in respect of this matter

24 Ultimate parent company

At 31 December 2011 the Company's immediate parent company was ITV Holdings Limited, a company registered in England and Wales and the Company's ultimate parent company 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 www.itvplc.com or the Company Secretary, The London Television Centre, Upper Ground, London, SE1 9LT