Granada Group PLC

Directors' report and financial statements

Registered number 00290076

15 months ended 31 December 2003

Contents

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 act as a holding company.

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 5 of these financial statements.

Dividends

The directors do not recommend the payment of a dividend *(12 months to 30 September 2002: £42 million).*

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.

On 10 May 2004 Granada Group PLC received a capital contribution of £198,576,903 from Granada plc.

Directors

The following served as directors of the Company during the period ended 31 December 2003:

Charles Allen
Graham Parrott
Henry Staunton

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

Directors' interests

The interests of the directors in the shares and options of Granada plc and Granada Group 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.

Directors' report *(continued)*

Donations

Grants and charitable donations amounted to £nil *(12 months to 30 September 2002: £nil)*. There were no political contributions *(12 months to 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 *(2002: nil days)*.

Auditor

A resolution for the re-appointment of KPMG Audit Plc as auditor to the Company will be proposed at the forthcoming Annual General Meeting.

By order of the board

H. E. Staunton

Henry Staunton
Director

The London Television Centre
Upper Ground
London
SE1 9LT

Date 29 July 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.

Report of the independent auditor, KPMG Audit Plc, to the members of Granada Group PLC

We have audited the financial statements on pages 5 to 12.

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 auditors, 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 15 month 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 July 2004

PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Profit and loss account

	Note	**15 months ended 31 December 2003 £m**	12 months ended 30 September 2002 £m
Operating profit		**-**	-
Exceptional items:			
Profit on disposal of hospitality business	*3*	**-**	8
Costs incurred on guarantees made	*3*	**(1)**	-
Amounts written off intercompany balances	*3*	**(3,210)**	-
Interest receivable and similar income	*4*	**1**	-
Interest payable and similar charges	*5*	**(1)**	-
(Loss)/profit on ordinary activities before taxation		**(3,211)**	8
Taxation on (loss)/profit on ordinary activities	*6*	**9**	-
(Loss)/profit on ordinary activities after taxation		**(3,202)**	8
Dividends	*7*	**-**	(42)
Retained loss for the period	*12*	**(3,202)**	(34)

The results stated above are all derived 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 above in the profit and loss account.

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

Balance sheet

	Note	31 December 2003		30 September 2002	
		£m	£m	£m	£m
Fixed assets					
Investments in subsidiary undertakings	*8*		**1,010**		1,010
Current assets					
Debtors: amounts falling due within one year	*9*	**147**		2,898	
Cash at bank and in hand and short term deposits		-		49	
		147		2,947	
Creditors: amounts falling due within one year	*10*	**(423)**		(21)	
Net current (liabilities)/assets			**(276)**		2,926
Net assets			**734**		3,936
Capital and reserves					
Called up share capital	*11*		**281**		281
Share premium account	*12*		**266**		266
Profit and loss account	*12*		**187**		3,389
Shareholders' funds:					
Equity		**648**		3,850	
Non equity		**86**		86	
			734		3,936

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

Henry Staunton
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 are prepared under the historical cost convention and in accordance with applicable accounting standards.

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 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 15.

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 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.

Investments

Investments are stated at cost less any amounts written off in respect of diminution in value.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the translation. 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.

2 Staff costs, directors' and auditor's remuneration

The directors' emoluments and auditors remuneration have been borne by other group companies. There were no employees and hence no staff costs during the period.

Notes *(continued)*

3 Exceptional items

	15 months ended 31 December 2003 £m	12 months ended 30 September 2002 £m
Exceptional items:		
Profit on disposal of hospitality business	**-**	8
Costs incurred on guarantees made	**(1)**	-
Amounts written off intercompany balances	**(3,210)**	-
	(3,211)	8

During the prior periods the Company gave guarantees on loans held by Boxclever Technology Ltd, which was placed into administrative receivership on 23 September 2003. These loans subsequently became payable by the Company.

During the period Granada Group PLC forgave an intercompany loan due to them from Granada plc.

4 Interest receivable and similar income

	15 months ended 31 December 2003 £m	12 months ended 30 September 2002 £m
On bank	1	-
	1	-

5 Interest payable and similar charges

	15 months ended 31 December 2003 £m	12 months ended 30 September 2002 £m
On bank loans and overdrafts	1	-
	1	-

Notes *(continued)*

6 Taxation on loss on ordinary activities

	15 months ended 31 December 2003 £m	12 months ended 30 September 2002 £m
Analysis of credit in period		
UK Corporation tax		
Current tax on loss for the period (see below)	-	-
Adjustments in respect of prior periods	9	-
Tax on loss on ordinary activities	9	-

Factors affecting the tax credit for the current period

The current tax charge for the 15 months ended 31 December 2003 is higher (12 months ended 30 September 2002: lower) than the standard rate of corporation tax in the UK (15 months ended 31 December 2003: 30%, 12 months ended 30 September 2002: 30%). The differences are explained below.

	15 months ended 31 December 2003 £m	12 months ended 30 September 2002 £m
Current tax reconciliation		
(Loss)/profit on ordinary activities before tax	(3,211)	8
Current tax at 30% *(12 months to 30 September 2002: 30%)*	(963)	2
Effects of:		
Expenses not allowable for tax purposes (primarily amounts written off intercompany balances)	963	-
Profit on disposal of hospitality business	-	(2)
Adjustments in respect of prior periods	9	-
Total current tax charge (see above)	9	-

At 31 December 2003 the Company had a potential deferred tax asset of £24 million *(30 September 2002: £26 million)* which has not been provided for as, in the opinion of the directors, there is insufficient evidence that the asset will be recoverable.

7 Dividends

	15 months ended 31 December 2003 £m	12 months ended 30 September 2002 £m
Equity shares:		
Interim dividend of nil pence per share *(2002: 1.93 pence per share)*	-	42

Notes *(continued)*

8 Investments in subsidiary undertakings

	Total £m
At 1 October 2002 and 31 December 2003	**1,010**

The principal subsidiary undertakings of the Company, at 31 December 2003, all of which are directly wholly owned and incorporated and registered in England and Wales are:

Name	**Principal activity**
Granada Media plc	Holding company
Granada Trust Corporation Ltd	Trustee of Granada Group Pension Scheme

The registered office of both companies is The London Television Centre, Upper Ground, London, SE1 9LT.

9 Debtors: amounts falling due within one year

	31 December 2003 £m	30 September 2002 £m
Amounts owed by subsidiary undertakings	**138**	35
Amounts owed by ultimate parent undertaking	**-**	2,856
Other debtors	**9**	7
	147	2,898

10 Creditors: amounts falling due within one year

	***31 December 2003* £m**	*30 September 2002* £m
Bank loans and overdrafts	**68**	14
Amounts owed to subsidiary undertakings	**4**	7
Amounts owed to ultimate parent undertaking	**351**	-
	423	21

In prior years amounts owed to the ultimate parent were netted with amounts owed from them. Only amounts owed from the ultimate parent company were forgiven.

Notes *(continued)*

11 Called up share capital

	Authorised		Issued and fully paid	
	2003	2002	**2003**	2002
Ordinary shares of 12.5p each	**£m**	£m	**£m**	£m
Authorised:				
2,504,098,700 *(2002: 2,504,098,700)* shares	313	313	-	-
Allotted, called up and fully paid:				
2,181,174,248 *(2002: 2,181,174,248)* shares	-	-	272	272
Convertible preference shares of 10p each				
Authorised:				
87,411,271 *(2002: 87,411,271)* shares	9	9	-	-
Allotted, called up and fully paid:				
87,411,271 *(2002: 87,411,271)* shares	-	-	9	9
New convertible preference shares of 10p each				
Authorised:				
32,465,354 *(2002: 32,465,354)* shares	3	3	-	-
Allotted, called up and fully paid:				
Nil *(2002: nil)* shares	-	-	-	-
	325	325	**281**	281

a During the period no shares were issued *(12 months to 30 September 2002: nil).*

b The convertible preference shares may be converted into fully paid ordinary shares on the basis of 66 2/3 ordinary shares for every 100 convertible preference shares. Conversion may only take place on a conversion date which, up to and including 2003, was 30 April. Between 1 July 2003 and 31 January 2009 the Company has the right to redeem at any time any outstanding shares for £1 per share; any shares outstanding on 31 January 2009 shall be redeemed by the Company on the same terms. The convertible preference shares fall within the definition of non equity shareholders' funds for accounting purposes. However, they meet the definition of equity shares for Companies Act purposes because the rights on a winding up are not limited to a specific amount.

The convertible preference shares carry only very limited voting rights. The holders of such shares are entitled to vote in respect of them at any General Meeting of the Company (i) if at the date of such meeting the preferential dividend is in arrears for six months or more after any fixed payment date or (ii) a resolution is to be proposed abrogating, varying or modifying any of the rights or privileges of the holders of the convertible preference shares, in which case such holders shall have the right to vote only on such resolution.

Notes *(continued)*

12 Reconciliation of movements in shareholders' funds

	Share capital £m	Share premium £m	Profit and loss account £m	**Total 2003 £m**	Total 2002 £m
At beginning of period	281	266	3,389	**3,936**	3,970
Retained loss for period for equity shareholders	-	-	(3,202)	**(3,202)**	(34)
At end of period	**281**	**266**	**187**	**734**	**3,936**

13 Contingent liabilities

The Company, under Group registration, is jointly and severally liable for value added tax due by other group companies. At 31 December 2003 this contingent liability amounted to £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).*

No security has been provided for these contingent liabilities.

14 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.

On 10 May 2004 Granada Group PLC received a capital contribution of £198,576,903 from Granada plc.

15 Ultimate parent company

At 31 December 2003 the Company was a wholly owned subsidiary of Granada plc, a company incorporated and registered in England and Wales. The consolidated accounts of Granada plc for the period ended 31 December 2003 are available to the public and may be obtained from The London Television Centre, Upper Ground, London SE1 9LT. With effect from 2 February 2004, following the merger of Carlton Communications Plc and Granada plc, ITV plc became the ultimate parent company of Granada Group PLC. 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.