Granada Media Limited

Directors' report and financial statements

Registered number 03106798

Year ended 31 December 2005

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2005. The comparatives are for the year ended 31 December 2004.

Principal activities
The Company's principal activity is as a holding company.

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

Principal transactions and post balance sheet events
The ITV plc group continued the operational and legal restructuring programme that commenced in 2004 with the objective 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.

On 1 July 2005 the Company received a cash capital contribution of £60,275,101 (year ended 31 December 2004: £370,590,147) from Granada Group Limited, its immediate parent undertaking.

On 15 December 2005 the Company received a capital contribution in the form of the shares in various group companies of £1,222,321,666 from Granada Group Limited, its immediate parent undertaking.

On 15 December 2005 the Company made a capital contribution, in the form of shares in the various group companies it had acquired from Granada Group Limited during the year, of £1,222,321,666 (year to 31 December 2004: £nil) to its subsidiary undertaking Granada Media Group Limited.

The Directors have noted a decline in the market value of the Company's investment in SMG plc post 31 December 2005. Due to the fact that this listed investment's market value is fluctuating it is not possible to calculate the financial effect this may have on these financial statements. The decline in the market value is attributable to events occurring after 31 December 2005 so no adjustment has been made in these accounts.

Dividends
The directors do not recommend the payment of a dividend (year ended 31 December 2004: £nil).

Directors
The following were directors of the Company during the year ended 31 December 2005:

	Appointment Date	Resignation Date
Charles Allen		1 October 2006
Henry Staunton		29 March 2006
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' interests and share options
The shareholdings of Charles Allen and Henry Staunton in the share capital and interests in share options of ITV plc are disclosed in the accounts of ITV plc for the year ended 31 December 2005. A copy of the accounts of ITV plc can be obtained from the Company Secretary at the registered office address.

The shareholdings of 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 2005. A copy of the accounts of Carltonco 120 Limited can be obtained from the Company Secretary at the registered office address.

Directors' report *(continued)*

Donations

Grants and charitable donations made during the year amounted to £108,697 (year ended 31 December 2004: £98,199). There were no political contributions made during the year (year ended 31 December 2004: £nil).

Auditor

The Company has passed Elective Resolutions to dispense with the laying of the Annual Report and Financial Statements before the Company in a 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

200 Grays Inn Road
London
WC1X 8HF
6 DECEMBER 2006

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.

The financial statements are required by law to 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 judgments 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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 Media Limited

We have audited the financial statements of Granada Media Limited for the year ended 31 December 2005 which comprise of the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 auditors

As described in the Statement of Directors' Responsibilities on page 3, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit 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 12 December 2006

Profit and Loss account

	Note	**Year ended 31 December 2005 £m**	Year ended 31 December 2004 £m
Administrative income		**146**	1
Operating profit		**146**	1
Amounts written off other investments	*8*	**(18)**	-
Loss on disposal of fixed asset investment		**(5)**	-
Amounts written off investments	*7*	**(145)**	(58)
Income from fixed asset investments	*3*	**11**	1,796
Interest receivable and similar income	*4*	**75**	62
Interest payable and similar charges	*5*	**(1)**	(4)
Profit on ordinary activities before taxation		**63**	1,797
Tax on profit on ordinary activities	*6*	**5**	(4)
Profit for the financial period	*13*	**68**	1,793

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

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

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

The notes on pages 7 to 15 form part of these financial statements.

Balance sheet

	Note	31 December 2005		31 December 2004	
		£m	£m	£m	£m
Fixed assets					
Investments in subsidiary undertakings	7		**4,124**		3,103
Other investments	8		**74**		92
			4,198		3,195
Current assets					
Debtors: amounts falling due within one year	9	**121**		321	
Cash at bank and in hand		**1,334**		995	
		1,455		1,316	
Current liabilities					
Creditors: amounts falling due within one year	10	**(42)**		(246)	
Net current assets			**1,413**		1,070
Total assets less current liabilities			**5,611**		4,265
Provisions for liabilities and charges	11		**(3)**		(7)
Net assets			**5,608**		4,258
Capital and reserves					
Called up share capital	12		**257**		257
Capital contribution reserve	13		**1,653**		371
Merger reserve	13		**636**		636
Profit and loss account	13		**3,062**		2,994
Equity shareholders' funds			**5,608**		4,258

The notes on pages 7 to 15 form part of these financial statements.

These financial statements were approved by the board of directors on 6 DECEMBER 2006 and were signed on its behalf by:

J Tibbitts
Director

Registered number 03106798 /

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.

The Company has adopted FRS 21 (IAS 10) 'Events after the balance sheet date' for the first time in these accounts. The principal impact is on dividend recognition. Previously dividends were recognised in the period for which they were declared as relating to, now dividends are recognised during the period in which they are declared. There has been no impact on these financial statements.

The Company has adopted FRS 28 'Corresponding amounts' for the first time in these accounts. FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

Dividends

Dividends are recognised in the year in which they are declared.

Cash flow statement

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.

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 15.

Investments

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

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 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.

Notes *(continued)*

2 Staff costs, directors' and auditor's remuneration

No director received any emoluments for their services to this Company (2004: £nil). The auditor's remuneration for the current and prior periods has been borne by another group company. There were no employees and hence no staff costs (2004: £nil).

3 Income from fixed asset investments

	Year ended 31 December 2005 £m	Year ended 31 December 2004 £m
Dividends received	**11**	1,796

4 Interest receivable and similar income

	Year ended 31 December 2005 £m	Year ended 31 December 2004 £m
On bank	**54**	48
Receivable from group undertakings	**19**	3
Foreign exchange	**-**	4
Other	**2**	7
	75	62

5 Interest payable and similar charges

	Year ended 31 December 2005 £m	Year ended 31 December 2004 £m
Payable to group undertakings	**-**	4
Foreign exchange	**1**	-
	1	4

Notes *(continued)*

6 Taxation

Analysis of (credit)/charge in year	**Year ended 31 December 2005 £m**	Year ended 31 December 2004 £m
Current tax		
UK Corporation tax on profit for the year	**-**	-
Adjustments in respect of prior years	**(5)**	4
Total current tax (see below)	**(5)**	4
Tax on profit on ordinary activities	**(5)**	4

The current tax charge for the year is lower *(year ended 31 December 2004: lower)* than the standard rate of corporation tax in the UK *(year ended 31 December 2005: 30%, year ended 31 December 2004: 30%)*. The differences are explained below.

	Year ended 31 December 2005 £m	Year ended 31 December 2004 £m
Current tax reconciliation		
Profit on ordinary activities before tax	**63**	1,797
Current tax at 30% *(31 December 2004: 30%)*	**19**	539
Effects of:		
Amounts written off not deductible for tax purposes	**-**	15
Amounts not deductible for tax purposes	**3**	-
Other permanent differences	**-**	(530)
Utilisation of tax losses	**(22)**	(24)
Adjustments in respect of prior years	**(5)**	4
Total current tax (credit)/charge (see above)	**(5)**	4

At 31 December 2005, the Company has potential deferred tax asset of £33 million *(31 December 2004: £92 million)* in relation to tax losses. This asset has not been recognised in the financial statements as, in the opinion of the directors, there is insufficient evidence that it will be recoverable.

Notes *(continued)*

7 Investments in subsidiary undertakings

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

	Total £m
Cost:	
At 1 January 2005	3,162
Additions	2,589
Return of capital	(195)
Disposals and repayments	(1,228)
At 31 December 2005	**4,328**
Provisions:	
At 1 January 2005	(59)
Provided in the year	(145)
At 31 December 2005	**(204)**
Net book value:	
At 31 December 2005	**4,124**
At 1 January 2005	3,103

The principal directly held subsidiary undertakings of the Company at 31 December 2005 are:

Subsidiary undertaking	Country of incorporation	Principal activity	Class and percentage of shares held
Elecrent Insurance Ltd	Guernsey	Underwriting of general insurance business	100%
Granada Media Group Ltd	UK	Holding company	100%
Granada Properties Ltd	UK	Property investment and development	100%

During the year the group underwent a restructuring exercise which resulted in the Company acquiring new investments and increasing investments in subsidiaries already held. During the year the Company impaired the carrying value of certain of its investments as they were considered to be held at too high a value.

In the opinion of the directors the list of all investments would be excessive, thus, the subsidiary companies shown are those which are directly held and which principally affect the figures in the Company's accounts.

Notes *(continued)*

8 Other investments

	£m
At 1 January 2005	92
Amounts written off	(18)
At 31 December 2005	74

	31 December 2005	31 December 2004
	£m	£m
Investments listed:		
- London Stock Exchange	**74**	92

	31 December2005	31 December 2004
	£m	£m
Market value of listed investments	**62**	81

The write offs arise due to the vesting of shares in the Granada Media Ltd Employee Benefit Trust and the Granada Ltd Employee Benefit Trust, and the transfer of shares to the ITV Employee Benefit Trust.

The Company's listed investment which is detailed below:

Name	**% owned** **31 December 2005**	31 December 2004	**Principal activity**
SMG plc**	**16.86**	16.87	Television broadcasting in central and north Scotland

** Incorporated and registered in Scotland.

9 Debtors: amounts falling due within one year

	31 December 2005	31 December 2004
	£m	£m
Amounts owed by group undertakings	**115**	312
Prepayments and accrued income	**5**	9
Taxation	**1**	-
	121	321

10 Creditors: amounts falling due within one year

	31 December 2005	31 December 2004
	£m	£m
Borrowings	-	1
Amounts owed to group undertakings	**42**	245
	42	246

Notes *(continued)*

11 Provisions for liabilities and charges

	£m
At 1 January 2005	7
Utilised in the period	(4)
At 31 December 2005	**3**

Provisions principally relate to the closure costs of Ondigital (1998) Limited and ITV Sport Channel Limited.

12 Called up share capital

	Authorised		Issued and fully paid	
	2005	2004	**2005**	2004
Ordinary shares of 2.5p each	**£m**	£m	**£m**	£m
Authorised:				
3,480,955,360 *(31 December 2004: 3,480,955,360)* shares	**87**	87		
Allotted, called up and fully paid:				
1,500,002,861 *(31 December 2004: 1,500,002,861)* shares			**38**	38
Participating preference shares of £1 each				
Authorised:				
219,226,116 *(31 December 2004: 219,226,116)* shares	**219**	219		
Allotted, called up and fully paid:				
219,226,116 *(31 December 2004: 219,226,116)* shares			**219**	219
Total	**306**	306	**257**	257

a In the period ended 31 December 2005 no ordinary shares were issued.

b Granada Group Ltd is the sole holder of the Company's participating preference shares and is entitled to a variable participating dividend in respect of each financial year of the Company of 0.25% of the amount of the Company's annual consolidated post tax profits exceeding £250 million but less than or equal to £500 million and 0.16% of the amount of the Company's annual consolidated post tax profits in excess of £500 million.

The participating preference shares rank prior to the ordinary shares but are limited on a winding up to any unpaid arrears and accruals of participating dividends calculated to the date of return of capital and the amount of capital paid up or credited as paid up in respect of the participating preference shares.

The participating 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 the business of the meeting includes the consideration of a resolution for winding up the Company or of matters affecting any of the rights attaching to the participating preference shares or (ii) if at the date of the meeting the preferential dividend is in arrears for six months or more after any fixed payment date.

Rights to dividends payable on participating preference shares have been waived by Granada Group Ltd.

Notes *(continued)*

12 Called up share capital *(continued)*

c At 31 December 2005 options over ordinary shares in ITV plc under the terms of the Granada Media schemes granted to directors, executives and staff were outstanding as follows:

Option scheme	Exercise period	Exercise price	Number of shares
Granada Media Ltd schemes:			
Executive Option Scheme	July 2003 to December 2010	217.78p – 268.32p	11,063,711
Commitment Scheme	July 2002 to July 2010	268.32p	4,699,789
Savings Related Share Option Scheme	February 2004 to August 2006	160.26p	274,908

Up until the Merger of Granada plc and Carlton Communications Plc on 2 February 2004 on exercise of options under the Granada Media schemes, participants were to receive Granada Media Ltd shares which will be converted immediately on the basis of 1.8455 Granada plc shares for every Granada Media Ltd share held. The figures disclosed above represent the equivalent exercise price and number of Granada plc shares.

Following the merger, on exercise of options under the Granada Media schemes, participants will receive ITV plc shares in accordance with the Articles of Association on the basis of 1.91932 ITV plc shares for every Granada Media Ltd share held.

d The Company has investments in ITV plc shares as a result of shares purchased by certain employee benefit trusts to which the Company has made loans.

At 31 December 2005 the trusts held the following shares:

ITV Employee Benefit Trust	6,164,183 shares (market value £7 million)
Granada Employee Benefit Trust	8,734,904 shares (market value £10 million) *(31 December 2004: 10,299,915 shares (market value £11 million))*
Granada Media Employee Benefit Trust	nil shares *(31 December 2004: 3,049,259 shares (market value £3 million)*.

The shares will be held in trust until such time as they may be transferred to participants of the ITV Deferred Share Award Plan, the ITV Commitment Scheme, the ITV Performance Share Plan, the Granada Deferred Share Award Plan and the Granada Commitment Scheme. Rights to dividends have been waived by the trust in respect of shares held which relate to the Commitment Schemes and the Performance Share Plan.

Notes *(continued)*

12 Called up share capital *(continued)*

During the year:

(1) 945,663 ordinary shares were released from the ITV Employees' Benefit Trust with a nominal value of £94,566.30 to satisfy awards vesting under the ITV Deferred Share Award Plan. A total of 318,100 shares were purchased in the market at a cost of £396,405.29 to satisfy the distribution of 298,958 shares to staff under the ITV Bonus Plan. The balance will remain in the ITV Employees' Benefit Trust to satisfy future awards.

(2) No ordinary shares were released from the Granada Media Employees' Benefit Trust to satisfy awards vesting under the Granada Media Commitment Scheme. The remaining balance of 3,049,259 shares, with a nominal value of £304,925.90, were sold to the Granada Employees' Benefit Trust on 14 December 2005. This Trust will now be wound up.

(3) 4,046,774 ordinary shares with a nominal value of £404,677.40 were released from the Granada Employees' Benefit Trust to satisfy awards vesting under the Granada Deferred Share Award Plan. 2,486,333 ordinary shares with a nominal value of £248,633.30 were released from the Granada Employees' Benefit Trust to satisfy awards vesting under the Granada Commitment Scheme. 629,200 ordinary shares with a nominal value of £62,920 were released from the Granada Employees' Benefit Trust to satisfy awards vesting under the Granada Executive Share Option Scheme. On 18 October 2005 the Trustees sold 1,371,472 ordinary shares in Compass Group plc held by the Granada Employees' Benefit Trust and used the proceeds to purchase 2,548,037 ITV plc ordinary shares in the market at a cost of £2,648,429.65 to satisfy future awards. On 14 December 2005 the Trustees bought 3,049,259 ITV plc ordinary shares from the Granada Media Employees' Benefit Trust at a market value of £3,354,184.90 to satisfy future awards.

13 Reconciliation of movements in shareholders' funds

	Share capital £m	Capital contribution reserve £m	Merger reserve £m	Profit and loss account £m	**Total 2005 £m**
At 1 January 2005	257	371	636	2,994	**4,258**
Capital contributions received	-	1,282	-	-	**1,282**
Profit for year	-	-	-	68	**68**
At 31 December 2005	257	1,653	636	3,062	**5,608**

During the year the Company received capital contributions of £1,282,397,277 from Granada Group Limited.

14 Contingent liabilities

Under a group registration, the Company is jointly and severally liable for VAT at 31 December 2005 of £37 million *(31 December 2004: £49 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 2005 this contingent liability amounted to £nil *(31 December 2004: £5 million).*

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

Notes *(continued)*

15 Ultimate parent company

At 31 December 2005 the Company's immediate parent company was Granada Group Limited, a company incorporated and 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 the Company Secretary, ITV plc, 200 Gray's Inn Road, London WC1X 8HF.