ITV plc 2005 annual report

more than meets the eye

Contents

Cover
Laurence Fox and Kevin Whately in "Lewis".

2005 was a landmark year for ITV. We celebrated 50 years of commercial broadcasting and delivered strong financial growth.

We are demonstrating leadership in the digital age by:

- expanding our successful family of channels and investing in digital capacity;
- building our production business and exploiting our content across all platforms and media; and
- developing new revenue streams in pay and consumer businesses.

We also developed a new look and feel for ITV and its channels to reflect this new era.

We will continue to use our creativity to achieve commercial success, delivering the highest-quality programmes and services to viewers, advertisers and consumers.

Financial highlights

Revenue
+6% to £2,177m
(2004: £2,053m)

Operating profit*
+42% to £460m
(2004: £324m)

Profit before tax*
+36% to £452m
(2004: £332m)

*before exceptional items and amortisation

Cash generated from operations
+42% to £456m
(2004: £321m)

Earnings per share
+54% to 5.4p
(2004: 3.5p)

Driving multichannel success

2005 was a great year for ITV's expanding channel portfolio. ITV1 remains the UK's most popular channel in peak time showing eight out of the top ten most popular programmes on TV in 2005. ITV2 overtook Sky One to become the biggest non-terrestrial channel, and ITV3 was the fourth biggest non-terrestrial commercial channel. ITV4's launch night in November 2005 was the most successful digital television channel launch to date, winning a peak audience of 1.2 million viewers.

more choices

82%

The ITV family of channels reaches 82% of individuals in an average week.

29%

ITV1 is Britain's most popular channel in peak time, averaging 6.4 million viewers and 29% share in all homes in 2005, 4 points higher than the BBC and 20 points higher than its closest commercial rival Channel 4.

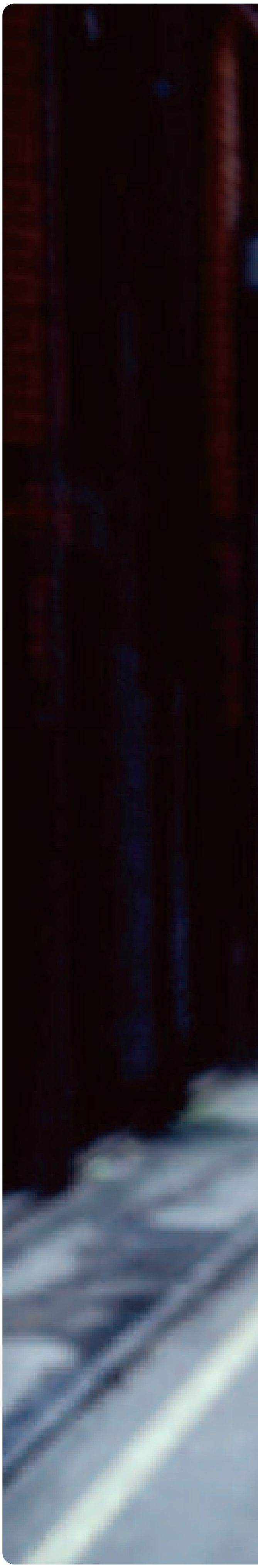
14.4m

Coronation Street remains the best performing programme on any channel, in terms of volume, with 14.4 million viewers and 57% audience share for one episode.

64%

An average 53% of 16–34 year olds watched The X Factor in 2005 with the series peaking at 10 million viewers on 24 September with a massive 64% of 16–34s viewing.

more content



Content for the future

ITV continues to attract the largest commercial audiences in the UK because of the high quality, range and popularity of the programmes it broadcasts.

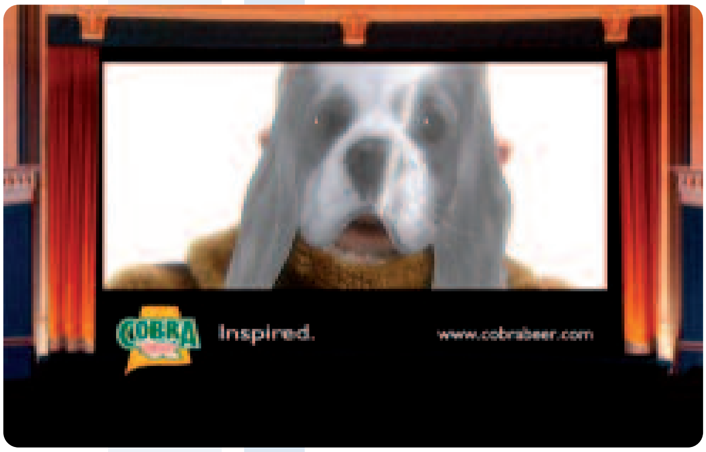
ITV1 has had a strong year in drama and entertainment. Coronation Street continues to be the nation's favourite programme attracting, on average, more than 11 million viewers. Emmerdale is outperforming its rivals, beating EastEnders each of the six times they went head to head in 2005.

I'm A Celebrity...Get Me Out Of Here! and The X Factor returned and attracted even more viewers than they did in 2004 proving that shows that capture the hearts and imagination of our viewers continue to thrive.

Customer focused

We reorganised the Company in 2005 so that we are now able to serve the needs of our advertisers better than ever before. ITV continues to lead the UK TV advertising market and works with Thinkbox, the marketing body for all the UK commercial broadcasters, to demonstrate to advertisers the unrivalled strengths, value and effectiveness of television as an advertising medium.

more customers



300 days

The average viewer watches 3.6 hours of television per day, with the potential exposure to 15 minutes of adverts per day, or 4 days of adverts per year or 300 days of adverts in a lifetime.

92%

Television is the UK's no. 1 leisure activity. In an average week commercial TV reaches 92% of adults, compared to only 64% for commercial radio. On average there are 4 million admissions to the cinema each week, whilst in an average week ITV1 alone reaches 25 million viewers by the end of Monday.

500

ITV Commercial has launched more than 500 interactive campaigns since November 2003 and transmitted around 1,500 interactive ad spots each month.


itv
Dancing on Ice
kelly's left behind!
Options
Back

more consumers

New revenue streams

Our viewers increasingly want to engage directly with ITV and its programmes. In 2005 we created a team to focus on developing services that consumers value, giving them more ways to connect with ITV and generate new revenue streams. ITV's online presence was greatly strengthened by the acquisition of Friends Reunited. It brings online expertise and a portfolio of popular and profitable online businesses to ITV. ITV also acquired the Freeview multiplex SDN. ITV now operates 38% of the valuable commercial digital terrestrial capacity. ITV Mobile screens video clips of popular shows such as Coronation Street, The X Factor and I'm A Celebrity...Get Me Out Of Here!

In 2005 we began broadcasting a number of "participation TV" formats on ITV1 and ITV2, including Quizmania and Play Sudoku. These programmes invite viewers to call in to take part in a variety of quizzes, puzzles and games to win cash prizes, and have proved very popular with viewers. Building on this success, ITV will launch the ITV Play brand in 2006 with its own TV channel and presence on ITV.com and ITV Mobile.

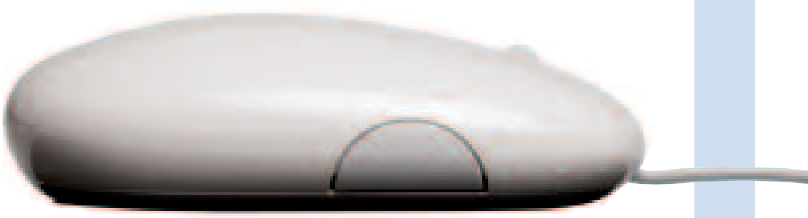
The ITV Local trial, delivering quality local television content over broadband, also began in the Meridian region in 2005.

68m

Television viewers sent ITV 68 million text messages, phone votes and red button activations last year.

8th

Buying Friends Reunited gives ITV the UK's 8th largest online presence. Friends Reunited's sponsorship of the hit show Soapstar Superstar increased traffic to the site by 65% and helped boost its revenues for January 2006 by almost 80%.



We've grown our successful family of channels. We've also created a new look and a distinctive personality for each of them. In a multichannel world strong brands become ever more important as they provide a useful shorthand for viewers to find the kind of programming they want to watch.

ITV1, ITV2 and ITV3 are all in Freeview's top 5 commercial channels.

Key programming
Coronation Street
The Bill
Bad Lads' Army
Champions' League
Emmerdale
I'm A Celebrity...Get Me Out Of Here!
The X Factor
Who Wants To Be A Millionaire
Tonight with Trevor McDonald
Vincent
Heartbeat

ITV1

Despite the ever expanding range of channels available, ITV's flagship channel, ITV1, continues to be the UK's most popular channel in peak time with almost four times the audience of its nearest commercial rival Channel 4 in multichannel homes. Every week 44 million people, or 80% of the nation, watch ITV1. ITV1 enjoyed numerous successes in 2005, with several major television "events" standing out. ITV1 is still able to bring together mass audiences in a highly-fragmented TV market, and provide television to talk about in every genre.

Key programming
Footballers' Wives Extra Time
The Xtra Factor
Jordan and Peter: Marriage and Mayhem
I'm A Celebrity...Get Me Out of Here Now!
American Idol

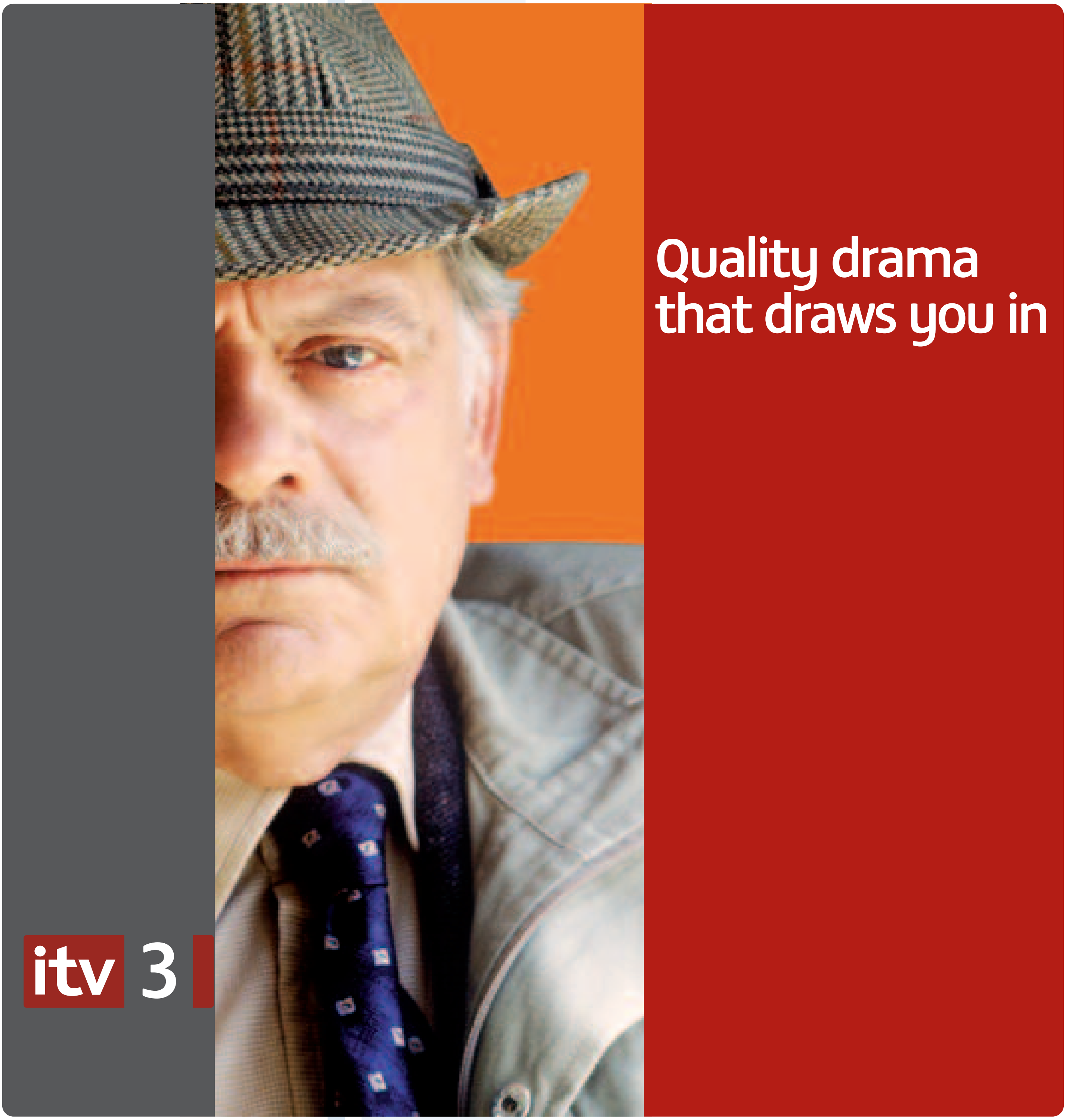
ITV2

ITV2 had a very good 2005 and comfortably outperformed its biggest commercial rival, Sky One. ITV2 is aimed at a younger, mainly female audience and has a popular mix of drama, comedy, movies, events, original commissions and brand extensions of popular ITV1 shows – such as The X Factor, I'm A Celebrity...Get Me Out Of Here! and Footballers' Wives. ITV2 is now the biggest non-terrestrial station for adults, and in an average week 2.8 million more adults watch ITV2 than Sky One.

Key programming
Agatha Christie's Poirot
Midsomer Murders
Inspector Morse
A Touch of Frost
Prime Suspect
Foyle's War
Jeeves and Wooster
Henry VIII

ITV3

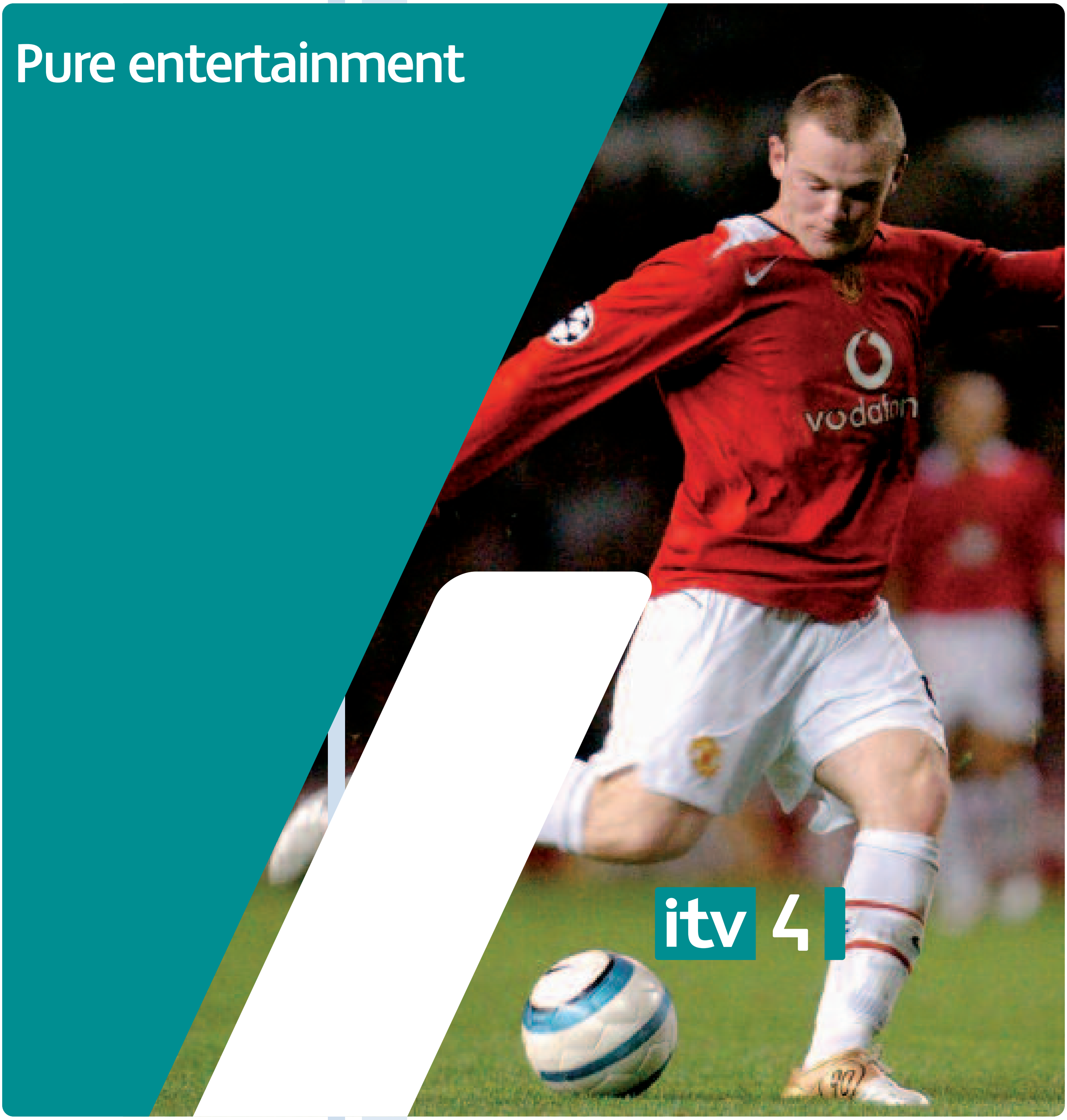
ITV3 was launched in November 2004 and is now the second most popular non-terrestrial commercial channel on Freeview, after ITV2. In 2005, ITV3 overtook its closest commercial rival, UKTV Gold. ITV3 is aimed at an upmarket audience and shows some of ITV's most popular dramas, many of which have only been broadcast once before, including Inspector Morse, Midsomer Murders, A Touch of Frost, Prime Suspect and Foyle's War. It also plays ITV classics including Maigret, Jeeves and Wooster and Henry VIII; acquired US series and high quality films.



Key programming
Champions' League Live
New Kojak
The Big Fight Live
Clint Eastwood Season
UEFA Cup Live

ITV4

ITV4 launched on 1 November 2005 and was the most successful digital channel launch ever attracting more than 1.2 million viewers at its peak. ITV4 is an entertainment channel predominantly aimed at young men. It showcases big new series from the US, such as New Kojak, Vengeance Unlimited, Traffic and Invasion Iowa; quality comedy; great films and is the home of must-see sporting events such as Champions League Football and World Championship boxing. In its first two months it became the 11th most watched non-terrestrial channel ahead of More4.



Key programming
Pocoyo
My Parents are Aliens
Bratz
Animal Spies
Uncle Dad
Louie

CITV

ITV will launch CITV in March 2006, the first dedicated commercial children's channel on Freeview and the latest addition to ITV's successful family of channels. Launching exclusively on Freeview and cable, it will air every day between 6am and 6pm. The channel is targeted towards two distinct age groups, our pre-school audience and 4–9 year olds. All the CITV favourites will be there from pre-school programme Pocoyo to the award-winning My Parents are Aliens. The CITV channel will also premiere a whole host of brand new shows exclusive to CITV. With a high volume of UK acquired and commissioned shows, the CITV channel will be packed full of quality entertainment for children.

Chairman's statement

In ITV's second year as a single Company we have continued to build on last year's progress, further improving our structure and our profitability.

2005 results

After a good first half our operating profit before amortisation and exceptional items continued to grow in the second half of the year, and for the full year is up by 42% on last year to £460 million before exceptionals and amortisation. Earnings per share (before amortisation and exceptional items) increased by 25% to 8.0 pence (up 54% to 5.4 pence after amortisation and exceptional items).

Your Board is proposing a final dividend of 1.8 pence per share payable on 3 July 2006 to shareholders on the register on 21 April 2006. The ex-dividend date will be 19 April 2006. This will increase the full year dividend by 30% to 3.12 pence compared to 2004, and will help achieve our stated aim of rebalancing the levels of interim and final dividend over the medium term such that the interim will ultimately represent approximately one-third of the total dividend.

Cash return to shareholders

In 2005 we reviewed the possibility of returning cash to our shareholders and concluded that before doing so we should:

- complete the process of renewing the financial terms of our ITV1 licences; and
- address the deficit funding of our defined benefit pension schemes.

We have now completed those processes and have the capacity to return £300 million to shareholders. We propose to do this over the coming few months by way of market purchase of ordinary shares.

Building new businesses and revenue streams

We have made real progress in:

- expanding the audience for our growing television channels;
- building our production business and exploiting our content across all platforms and media; and
- developing new businesses and revenue streams in pay and consumer areas.

Every part of the Group has contributed to this success.

In broadcasting we have seen tremendous success for our new channels and growing sponsorship and interactive revenues.

In production we have continued to grow our UK sales to other broadcasters and we are expanding our profitable US and Australian production businesses with commissions for network broadcasters.

Our new consumer team has launched a number of successful ventures in 2005, which will enable us to grow our non-advertising revenues. In 2005 we acquired SDN and Friends Reunited. These acquisitions support our strategy; with SDN providing long term digital terrestrial transmission capacity and already growing in value, and Friends Reunited increasing customers for its content based services and building communities through cross promotion from television. Organic growth is increasing from our interactive revenues, with ITV Play making a very promising start.

We are making real progress in:

- **expanding the audience for our growing channels;**
- **building our production business and exploiting content; and**
- **developing new businesses and revenue streams.**

Regulation

We have made some significant progress in bringing regulation up to date; but we still have a long way to go before we are as free of regulation as our main competitors.

Our licence payments to the government were reviewed in 2005 by our regulator, Ofcom, and as a result were reduced from a pro forma figure of £207 million in 2004 to £75 million in 2005. Over the period to digital switchover they will continue to reduce towards £4 million in constant prices.

Our Public Service Broadcasting (“PSB”) obligations still cost nearly £250 million a year including programme costs and revenue foregone during lower rating PSB programmes. Whilst we have recently received some dispensation to reduce our commitments to, for instance, the hours of religious and regional programming, we still have to bear costs which are both disproportionate to the ratings achieved from such material and almost unique to ITV as a commercial broadcaster. It is essential that we are able to reduce these PSB costs further over the medium term.

Contract Rights Renewal (“CRR”) is a further burden that has had the unintended consequence of changing the way that our advertising market works. Our ITV1 advertisers now contract to deliver to us the share of broadcast expenditure calculated under CRR and we therefore have fewer opportunities to take advantage of strengths in our schedule such as the Football World Cup during 2006. We will continue to lobby for CRR, which has become a disproportionate remedy, to be relaxed as the share of the market that ITV1 attracts is reduced by the growing multichannel universe.

Corporate governance and CR

We are publishing a corporate responsibility report for 2005 which sets out the detail of our activities across the Group. ITV was the highest contributor to charitable causes in both the 2005 Guardian Giving List and Business in the Community Percent Club, ranking contributions to charitable causes as a percentage of profits of FTSE 100 companies. A large part of ITV’s giving is supplied as airtime across our family of channels.

Pension schemes

We are in a period of unprecedented pressures on companies’ defined benefit (“DB”) pension schemes.

Over recent years the factors to which scheme deficits have been exposed have included increasing life expectancy of members and falling world equity markets. The most material factor now is the level of UK long term real interest rates where a small reduction can have a large impact by increasing the net present value of a scheme’s liabilities.

Our work on the DB pension schemes has continued during 2005:

a) Scheme mergers

We have merged six DB schemes in the Group into a single scheme with savings in cost and improved focus.

b) Deficit funding and IAS 19 valuations

We have completed the £325 million of deficit funding that we announced in September 2005, with the last tranche of £207 million paid early in 2006. Our IAS 19 aggregate deficit has reduced during 2005 from £672 million to £532 million and the last £207 million reduces that to £325 million.

c) Tax simplification

We have considered how we should deal with aspects of the tax simplification regime coming into effect on 6 April 2006. We will not separately compensate any executives for this change, but will establish alternate arrangements designed to leave both individuals and the Group in a broadly similar position.

Further details relating to the Group’s pension schemes are given later in these accounts.

People

Henry Staunton will be stepping down from the Board on 31 March 2006 after 13 years as Finance Director, first of Granada and then of ITV. The Board would like to thank Henry for his contribution to the Company and for his expertise in the mergers and acquisitions that have formed it.

John Cresswell, our Chief Operating Officer since 2005, joined the Board in January and is now our Finance Director. John has 18 years of experience in operational and financial roles in television companies which will be of great assistance to us as we deal with the many changes facing our industry.

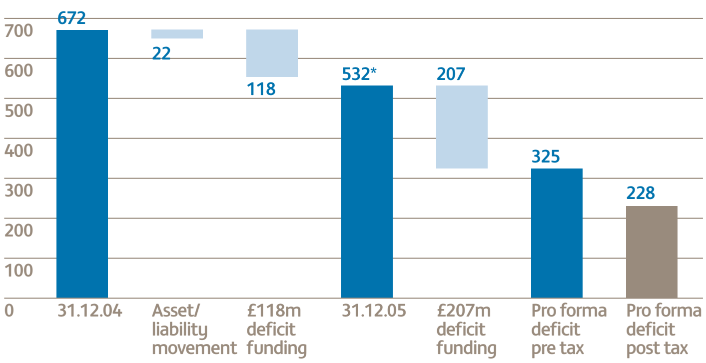
I am pleased to welcome Mike Clasper, who joined the Board in January, as a non-executive director. Mike has experience in running service businesses, as well as in advertising and marketing, that will be valuable to us. David Chance stepped down from the Board in February 2006. As his involvement in other television ventures has developed over recent months, he decided that it was appropriate for him to resign from the Board. We wish David well with his future ventures.

Once again I would like to extend the Board’s thanks to our management and employees whose continued commitment and drive make ITV the nation’s favourite commercial broadcaster.

Sir Peter Burt
Chairman

The Company will commence a programme of returning £300m cash to shareholders over the coming months by way of market purchase of ordinary shares.

Pension fund – good progress on deficit reduction – £m



*Present value of liabilities £2,604m, bid value of assets £2,072m

Chief Executive's review

During 2005 we have continued with our programme of developing our business and changing our operations to enable us to take advantage of the rapidly evolving digital television world. In early 2006 we re-branded our operations, from a fresh new look onscreen for our channels through to new signage and logo for our ITV production business. The feedback from our viewers has been very positive.

Improving and simplifying our structure
During 2005 we made some changes to simplify our management and structure, and increase the focus on our core business. Simon Shaps as Director of Television now heads up our channels operations and he has brought in a number of key new commissioning executives. He is also increasing the emphasis on US programme acquisitions across all our channels.

Ian McCulloch heads up the commercial operations, contracting with our advertisers and marketing our channels and programmes. His role is to build relationships directly with our advertising customers, and to address the challenge of reducing the burden that CRR places upon us.

Owning content and intellectual property rights is key to ITV's future success and John Whiston, amongst our most talented of programme makers, now heads up the ITV production operation.

Jeff Henry has been developing our consumer operations with a number of successful organic developments and acquisitions which are explained later.

We are also recruiting for a new head of our international production and distribution operations.

Freeview growth
Freeview was the fastest growing broadcasting platform across 2005 with three-quarters of all households that went digital choosing Freeview. We are actively promoting our channels, both on air and in other display media, and expect Freeview rapidly to become the UK's number one digital television platform in 2006.

We acquired SDN in April 2005 for £136 million. This acquisition boosts our digital strategy (ITV now operates 38% of commercial DTT bandwidth). SDN contributed £16 million of revenue in eight months of 2005. The market rate for a videostream in DTT has been increasing and videostream contract renewals for SDN begin in 2008. SDN has been an extremely profitable acquisition for our shareholders.

Channel schedule performance
Our new digital channels continued to grow their audience share and in November 2005 we launched our latest channel, ITV4. This channel is aimed at a male demographic and its schedule includes a higher proportion of US acquired material than our other channels. ITV4 has attracted a 0.5% share of multichannel viewing in its early months on screen. ITV2 and ITV3 have increased their viewing share in 2005 and our share of commercial viewing across all our channels in multichannel homes increased by 7% to 32%.

As viewers move to the greater channel choice available on digital television, the viewing share of ITV1 inevitably decreases. Under the CRR undertakings, agreed with the Office of Fair Trading as part of the ITV merger, the consequence of that is a proportionate decrease in the ITV1 share of television advertising revenue. During 2005 our ITV1 advertising revenue was £50 million lower than in 2004.

The success of our new business operations helped to increase our pro forma revenues outside ITV1 advertising by £144 million in 2005, more than offsetting the ITV1 reduction and increasing our revenues from these sources from 27% of the total last year to 33% of the total in 2005.

We are simplifying our operational structure to increase the focus on our core business, introducing key new commissioning executives.

As digital television approaches universal takeup in the near future, the downward pressure on ITV1 viewing share and revenues will slow, enabling ITV1 to return to growth alongside our rapidly growing digital channels.

In December, we took the difficult decision to close the ITV News Channel, as the increasing opportunity cost of digital transmission capacity made running a commercial 24 hour news channel economically unviable.

Developing non-ITV production assets in the UK and overseas
ITV productions had a very successful year, we created Sex Traffic for C4, Casanova for the BBC, another series of Brainiac for Sky and Countdown for C4.

International production (part of ITV Worldwide) had another excellent year. In America we made Hell's Kitchen and Nanny 911 for Fox, both US primetime shows that will return, Hit Me Baby for NBC, Airline and 1st 48 for A&E and Roomraiders for MTV. In Australia and Germany we made a number of primetime shows for the top broadcasters. We are able to create and produce hits for international broadcasters, increase our market share and add the new material to our media catalogue and distribution business.

We have increased the profitability of Granada International and extended our third party distribution sales worldwide. This includes such clients as HBO, Aardman, CNN and Chorion. We have begun the digitisation of our media catalogue and have been trialling video-on-demand which should develop into a new means of content exploitation.

Growing consumer revenues
A major focus for ITV is the development of our consumer operations; those parts of our business that deliver products and services directly to viewers who pay for them through subscription, transactional or interactive revenues.

ITV Play is the brand name for a portfolio of "participation" TV formats designed to engage our mass-market audiences in high-quality original interactive programming. ITV Play has been trialling across our Channels in night time. We will be launching a dedicated channel in April. This has proved to be very popular and we are currently developing more Play programming and formats which will be shown across our family of channels including online and mobile.

We have acquired Friends Reunited, the UK's leading reunion website. There are five separate business strands: the Schools reunion site; Genes Reunited; dating and jobs sites; and Connections, a general chat room and message board site. The dating and jobs sites can already be found within our existing itv.com environment and we are seeing increased traffic as a result.

itv.com is ITV's broadband site. Our aim is to create a content-rich multimedia proposition. itv.com will be restructured and relaunched as a broadband content on demand portal later in 2006; improving functionality and consumer experience. This will increase dwell times and stickiness to drive subscription and advertising revenues. Internet advertising is increasing rapidly, and is likely to have overtaken radio and outdoor in 2006.

ITV is a producer-broadcaster. We believe that there will be an increasing competition in Local Loop unbundling and that prices for bandwidth will be driven towards marginal cost. Consumers will pay for content, and we will strive to ensure that in this world of convergence, where viewers may be able to receive content via cable, satellite, DTT, broadband or mobile, that ITV's brand and content are available for them to enjoy.

Outlook
In 2005 our first quarter advertising revenue was particularly strong with Easter falling in March.

In 2006 both Easter and the Football World Cup fall in the second quarter and will move money into that period. As a result advertising revenue has been lower in the first few months of 2006 and total ITV advertising revenue will be down by approximately 10% in the first quarter.

In April we expect that ITV1 advertising revenue will be up 2% year on year and our total advertising revenue will be up 6% year on year.

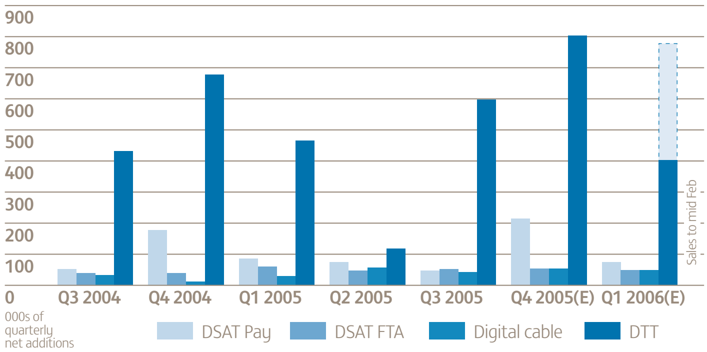
People
I would like to join with Sir Peter Burt and the rest of the Board in thanking all of our employees for their continuing work and dedication to the Company and to our programmes and services. The broadcasting world is seeing more change than many other industries and we continue to lead and embrace that change as we move towards a fully digital environment in which viewers are able to increase the level of personalisation of their viewing from more channels and prospectively from delivery systems such as broadband. We look forward to these changes and to remaining the producer and broadcaster of many of the nation's favourite shows.

Charles Allen CBE
Chief Executive

£144m

The increase in our non-ITV1 revenues in 2005.

Distribution
Quarterly numbers of digital homes added to each platform



Source: Ofcom digital television update

Operating review

In 2005 ITV celebrated its 50th anniversary. It was a year not only to look back on 50 years of broadcasting but to celebrate the success and quality of programming on ITV today. We celebrated this landmark year with some special 50th anniversary programming including The Story of ITV: The People's Channel – a documentary presented by Melvyn Bragg; 49 Up – a special programme about the lives of a group of people and their expectations for the future. The programme was first shown as Seven Up when they were children and has been revisited every seven years including 2005 as they approach their half century.

2005 has seen ITV successfully adapt to the demands of a digital world. We have moved away from a business focused on a single analogue channel to one that is capable of delivering content through different methods and across different platforms. In a world where we are seeing an increasing consolidation, convergence and commoditisation of technology, quality content is becoming increasingly valuable.

Content

As a producer-broadcaster ITV generates a significant amount of content in-house (65% of original commissions for ITV1). ITV Production is one of the world's leading television production houses. In the UK we create approximately 3,200 hours of original programming each year including eight out of the top ten performing programmes (non-sport) on ITV1 in 2005. ITV Production is responsible for producing some of the strongest brands on television including Coronation Street, Emmerdale, I'm A Celebrity...Get Me Out Of Here!, Jeremy Kyle, Cracker, Prime Suspect and Marple.

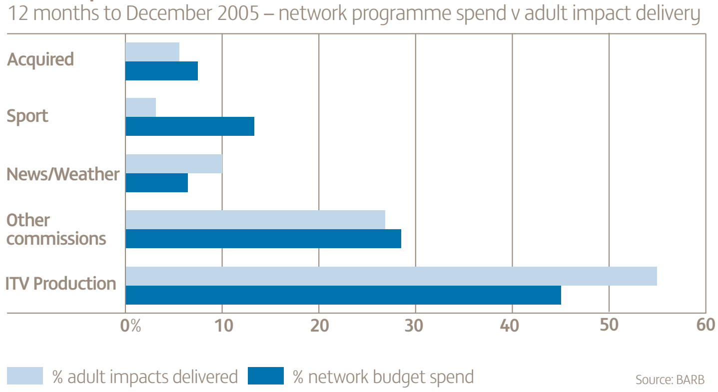
ITV owns one of the largest English language TV media catalogues in the world. One of the great advantages of being a vertically integrated producer broadcaster is that we control the rights to a significant number of our most successful programme brands and formats. These rights are the key to maximising returns. In a digital world, where content can be accessed through an increasing number of technologies, rights are becoming a key method of differentiation. We also exploit those rights through international sales and merchandising.

Our content has had a large number of successes including I'm A Celebrity...Get Me Out Of Here!, A Touch of Frost and Ant and Dec's Saturday Night Takeaway. We have also delivered a number of exciting new hits including Vincent, Ahead of the Class and Gameshow Marathon.

Sales to other UK broadcasters have grown significantly. We have had many successes for those broadcasters, who include the BBC, Channel 4 and Sky One, with Casanova, Sex Traffic and Brainiac highlighting the depth and breadth of creativity within our business.

As technology converges, quality content is becoming increasingly valuable.

Internal production is the most cost effective for ITV1
12 months to December 2005 – network programme spend v adult impact delivery



Our international businesses have delivered a number of hit series in the US which include Nanny 911 and Hell's Kitchen for Fox, Celebrity Fit Club for VH1 and Hit Me Baby One More Time for NBC. We have had great success selling formats around the world. For instance, Nanny 911 has been sold to more than 60 countries and both Coronation Street and Emmerdale have been sold to the Middle East for the first time. Our international catalogue sales continue to grow and in light of recent technological developments, which include trialling broadband downloads, we are beginning to digitise our library. This will enable our content to be exploited and generate additional revenues across different distribution networks.

In addition we have a significant number of high profile sports rights including World Cup football which we will be broadcasting in 2006, the Rugby World Cup which will be broadcast in 2007 and the Champions League football and Formula 1 motor racing which ITV viewers enjoy each year. These rights provide further opportunities to create value across different distribution networks. For example, we will be offering interactive and online services around the Champions League.

Granada Ventures exploits secondary rights from our large portfolio of hit properties, including DVD/video, books, music and merchandise. In 2005 Liverpool Football Club's DVD of their UEFA Champions' League final has sold extremely well, as have Sharpe and Inspector Morse. Projects for the future include merchandising rights for Pocoyo, an innovative new show for toddlers.

Distribution

As we move towards digital switchover, more and more people are migrating away from the analogue platform towards digital television. As part of our strategy for future growth in the digital world we acquired SDN Limited in April 2005 for cash consideration of £136 million.

SDN is a UK digital terrestrial television (DTT) multiplex operator which manages Multiplex A, one of the six multiplexes on the DTT platform that make up Freeview. This is a key acquisition as not only is it a new source of revenue but critically it ensures that ITV has the maximum opportunity for future capacity on the rapidly growing digital platform. Freeview is the fastest growing digital platform with 10 million boxes sold and is the platform on which ITV performs best. We currently have five channels on Freeview with ITV2 and ITV3 being the most watched digital commercial channels on the platform. Through the acquisition of SDN, ITV now operates 38% of the commercial DTT capacity. With video streams on DTT in demand, increasing the prices paid by channels, this puts SDN in a strong position when the video streams come up for renewal.

This summer, we will be broadcasting the World Cup in HDTV (High Definition Television) format, on DTT and DSAT.

In October ITV plc joined the Freeview consortium which owns and markets Freeview. We have joined as an equal shareholder (20%) alongside the BBC, BSkyB, National Grid Wireless and Channel 4. As part of this consortium we will be contributing towards the marketing of the platform which will enable us to take a more formal role in driving the takeup of Freeview.

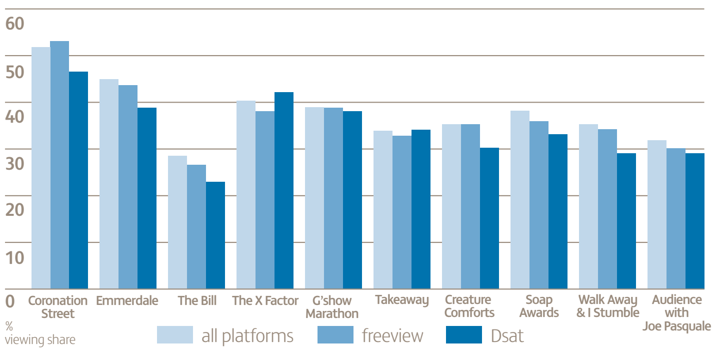
Channels

As part of ITV's evolution from a single channel to a family of successful digital channels with different programming, personalities and target audiences, we have launched a series of new channel identities. This new look on and off air is a dramatic modernisation of ITV's brand that moves each channel towards a clearly defined personality. The re-branding is the result of a comprehensive and wide-reaching project including a major segmentation study commissioned by our marketing team to understand the changing entertainment needs and attitudes of the UK consumer. This will also support our commissioning and sales processes.

ITV's family of channels has had an excellent 2005 with share of viewing increasing from 22.6% in 2004 to 22.7% in 2005. ITV1, the UK's most watched commercial channel, continues to offer mass appeal. In an average week ITV1 reaches 80% of the population. In 2005 ITV1 spent over £900 million on network programming and it is this substantial level of investment which enables us to offer a varied schedule of quality programming including drama and must see television events such as The X Factor. In 2005 ITV1 was the only commercial channel to achieve audiences greater than 7.5 million. ITV also broadcast eight out of the top ten programmes on UK television in 2005.

With the SDN acquisition, ITV now operates 38% of commercial DTT capacity.

Top content performs evenly across platforms



We continued to be the home of original quality drama with many new programmes proving successful, particularly in the all important Autumn schedule. We have received widespread critical acclaim across the drama portfolio, particularly for our one-off dramas. Notable strong offerings were Ahead of the Class which drew in 10.1 million viewers and a 40% viewing share and returning series such as Doc Martin with an average audience of 9.3 million viewers (38% viewing share) and Poirot averaging 7.9 million (31% viewing share). New detective series Vincent(6.4 million, 27% viewing share) was highly regarded and has been recommissioned. Afterlife proved a popular addition to our Saturday night schedule with an average audience nearing 6 million viewers.

Entertainment remains at the heart of the ITV1 schedule and we have seen great success with returning shows The X Factor and I'm A Celebrity...Get Me Out Of Here! as well as new formats such as Ant and Dec's Gameshow Marathon.

Our banker shows have continued to deliver. Coronation Street was again the best performing programme of the year on any channel, in terms of volume, and Emmerdale has continued to go from strength to strength. On occasion Emmerdale has gone head to head with Eastenders and beaten it.

2005 was a remarkable year for our news team. It started with our widely acclaimed reporting of the South East Asia tsunami disaster, in which we gave extensive airtime to coverage of the impacts on lives throughout the region and to the disaster appeal. We continued our programme of investment in digitising our newsrooms and now have the most advanced integrated set of regional and national newsrooms in Europe. We were able to use this capability to the full on and following the 7/7 terrorist bombings in London. The team was delighted to be awarded the prestigious Royal Television Society awards for coverage of the Pakistan Earthquake and for the country's best news programme – in the Early Evening News.

ITV is also home to a number of successful free to air digital channels – ITV2/3/4 and soon, CITV. ITV2 is now the biggest non-terrestrial station by adult impact delivery taking 2.8% of impacts putting it ahead of Sky One on 2.3%. The channel has been enjoying significant year on year impact growth with impacts in 2005 up 39% for adults and up 41% for 16-34s.
ITV2 offers a range of original commissions, acquisitions and brand extensions. Footballers' Wives Extra Time and Jordan and Peter: Marriage and Mayhem were both ITV2 original commissions and proved very popular with the 16-34 audience. In terms of brand extensions we have seen continued success with The Xtra Factor which was ITV2's top performing show in December closely followed by I'm A Celebrity...Get Me Out Of Here Now!, both reaching audiences of more than 1 million.

ITV3, which launched in November 2004, has also proved very successful and is now the fourth biggest non-terrestrial station in terms of Adults and ABC1 Adults impacts with a 1.6% share of Adults and a 1.8% share of ABC1 Adults. This is a very impressive achievement given the relative youth of the channel. On Freeview, ITV3 performs even better, being the second biggest non-terrestrial channel beaten only by ITV2. ITV3 benefits from the extensive ITV library of high quality drama available and we have seen strong performances from favourites such as Inspector Morse and Poirot.

ITV4 is our latest digital channel offering and is targeted at male viewers. On its launch night on the 1 November 2005 ITV4 averaged 335,000 viewers and a 3.23% share across its transmission hours (19.00 – 02.30) and peaked with an audience of 1.2 million viewers, making it the most successful digital channel launch to date. Sport has proved a popular part of the schedule with the UEFA Champions' League Match between Liverpool and Benfica in 2006 peaking at 1.2 million and averaging 702,000 and the match between Real Betis and Chelsea averaging 695,000 viewers. From its launch in November to the end of 2005, ITV4 ranked 10th in its target market, the male demographic, during transmission hours.

On 11 March 2006 we will be launching our new children's channel, CITV. CITV will initially be transmitted on Freeview and cable, rolling out on satellite later in the year. The channel will be targeted at younger viewers (pre-school and 4–9 year olds) as part of our multichannel strategy to offer more targeted programming to different demographics. As part of our Public Service Broadcasting (PSB) obligations we already spend £29 million on children's programmes which we will be able to utilise on the channel. This will give more exposure to our key children's brands such as Pocoyo and offer further brand extension and merchandising opportunities. ITV is collaborating closely with Ofcom and other industry bodies on the review of the codes on food advertising to children.

March 2006 sees the launch of the new CITV children's channel.

In 2005 ITV1 was the only commercial channel to regularly achieve audiences greater than 7.5 million.

In 2006 we aim to increase further the programme investment in our successful family of digital channels to £84 million. We are ahead of our target of £150 million of multichannel advertising revenue in 2007, and may achieve this run rate by the end of 2006. We now aim to achieve a run rate of £250 million of advertising and interactive revenue from our digital channels by the end of 2008.

New platforms bring commercial opportunities

The world is changing and our viewers are now able to consume content in an increasing number of ways. We believe that this presents an exciting opportunity to develop direct consumer revenues and reduce our reliance on traditional advertising revenues. We aim to generate 50% of our revenues from outside ITV1 advertising by the end of 2010.

ITV is home to the most popular brands in television and each year we broadcast some of the biggest "event" shows. We have been successful at generating additional transactional revenues through PRTS and SMS interactivity focused around brands such as I'm A Celebrity...Get Me Out Of Here!, The X Factor and This Morning.

ITV has a number of exciting new initiatives which are focused on further monetising our consumer relationships. Towards the end of 2005 we began broadcasting a number of "participation TV" formats, on ITV1 and ITV2, including Quizmania which is studio based and invites viewers to call in to take part in a variety of quizzes, puzzles and games to win cash prizes. These have proved popular and commercially successful. We are looking forward to launching the ITV Play channel in April, with a variety of participation formats that are entertaining, high quality and appeal to our mass-market ITV audiences.

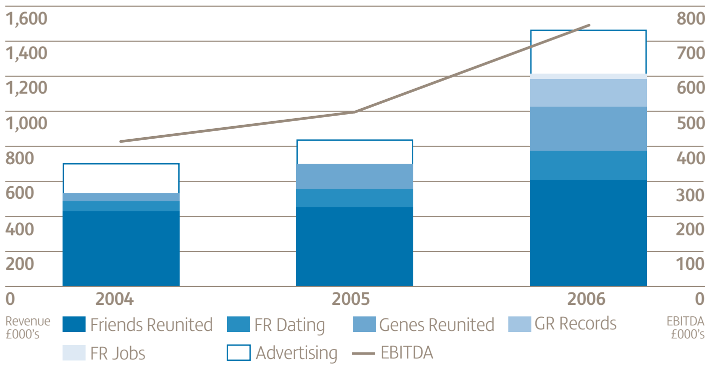
With broadband penetration forecast to increase significantly, passing 50% of homes by 2010, consumers will increasingly be able to receive audiovisual content via their phone line. TV over ADSL is likely to become more widely available and with it comes the ability of the consumer to view content on demand and pay-per view. ITV's premium content will become increasingly valuable during this period of platform proliferation. To harness this growing revenue stream and enable our content to be easily distributed through different digital viewing technologies we have begun the process of digitising our media catalogue. We are also ensuring that our new content is available in digital format.

Online is an important part of our future business for both consumers and advertisers alike and ITV has moved to increase its online content presence both organically and by acquisition. Our main website itv.com is currently undergoing a significant functionality upgrade which will enable us to further monetise our relationships with both consumers and advertisers. The new look site will be rolled out later in the year and we aim to offer a seamless user experience with easier navigation and rich content across our programme sites and news services. We will also be launching an online electronic programme guide and improved online interactive functionality and content. Technology upgrades mean that we will have the capability to offer downloadable programme catch-ups, on-demand viewing and highlights of forthcoming shows.

ITV acquired community-based website Friends Reunited in December 2005 for an initial consideration of £120 million. Friends Reunited is a profitable, rapidly growing content rich site with five key segments each driven by user generated content. These are Friends Reunited – a schools and colleges alumni site; Genes Reunited – a genealogy site; Friends Reunited Dating, Friends Reunited Jobs and Connections – a social networking site. Across their sites Friends Reunited has 15 million registered UK members and more than 1 million paying subscribers. Combining Friends Reunited and ITV's family of sites gives ITV the eighth largest online presence in terms of unique users, offering a powerful consolidated online advertising sales proposition which provides a one-stop shop for media agencies in the internet advertising space. We have already begun to cross promote our various online sites and leverage the Friends Reunited brand. Friends Reunited's sponsorship of hit show Soapstar Superstar drove a 70% year on year uplift in unique users across the month of January and a similar increase in profit. Friends Reunited brings with it a highly successful management team with unrivalled online expertise, product development and database management skills. We are integrating both the skills and underlying technology afforded to us by this acquisition into our own online propositions ITV.com and ITV Local.

3 million news highlights were viewed online on ITV's I'm A Celebrity...Get Me Out Of Here! website.

Friends Reunited Group comparison
January trading last 3 years



We have extended the trial of ITV Local which is a broadband based television project currently operating in the Meridian region. The ITV Local website (www.itvlocal.tv) offers news, weather, documentaries, classified advertising and, since the beginning of January, viewer generated content, including videos and adverts. We launched the trial in October. The site has attracted 10,000 users each week in phase two of the trial, and is generating significant interest both nationally and internationally. In January 2006 a new channel for educational professionals called Teachers' TV launched on ITV Local having already proved successful on satellite and cable. The ITV Local trial will allow the project team to refine the consumer proposition and give the local community a lengthened period of time to interact with the site. If the trial proves successful we aim to roll out ITV Local across the nation allowing ITV to generate further value from our regional content infrastructure.

ITV Mobile launched in September 2005 to offer our viewers access to ITV content whilst on the move. With consumers' appetite for video content growing, we have successfully offered downloads of video clips from popular shows such as Coronation Street, I'm A Celebrity...Get Me Out Of Here! and The X Factor, as well as news updates, ringtones, wallpapers and games. ITV has also signed output deals for our content with mobile operators including 3, a leading mobile media company. This allows us to talk directly to the company's 3 million customers and generate revenues from 3G-enhanced extras like streamed video and clips.

Regulation

In 2005 ITV had a review of its licence payments, settled on 29 June, which saw a change in the financial terms for our Channel 3 licences. In 2004 licence payments (on a pro forma basis) were £207 million net of the digital rebate. In 2005 we paid £75 million, a reduction of 64% or £132 million. This payment will continue to fall as digital penetration increases and is likely to reduce to around £4 million in constant prices by the time analogue transmission ends. These reduced financial terms reflect the declining value of the analogue broadcasting spectrum and will allow us to continue to invest in high quality programming.

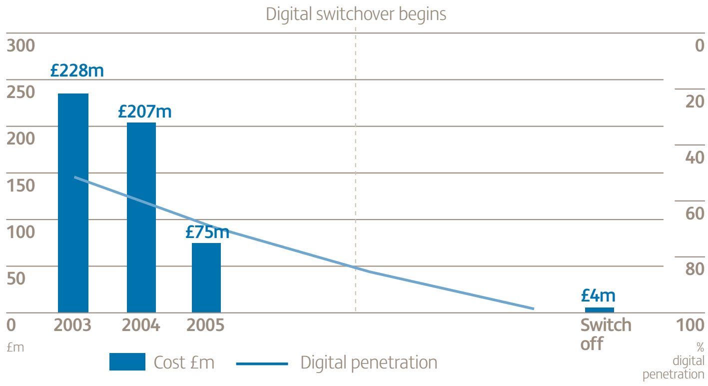
In December 2005 the EC published its legislative proposal for the revision of the "Television without Frontiers" Directive. The proposal addressed the commission's liberal stance on product placement and advertising rules, which ITV and the other European commercial broadcasters have lobbied for. The consultation is likely to run for some time, with the final directive unlikely to be adopted before 2007. However, in anticipation of changes to the EU framework, Ofcom is already consulting on possible relaxation of the UK rules regarding product placement. This could allow the UK to see change as soon as the new EU rules are confirmed. We would welcome this change as it would offer further opportunities for our advertisers.

Values and behaviours

In order to drive our digital growth in the future and make sure ITV plc continues to be a successful and vibrant media company we have introduced a set of values and behaviours for our employees from the top to the bottom of the organisation. We have also conducted a number of employee surveys in order to establish a base from which we can monitor our improvement. These core competencies and values will encourage and strengthen ITV's commercial success in the digital age.

ITV Mobile offers our viewers access to ITV content whilst on the move.

2005 licence fee review



Source: Digital penetration forecasts from Zenith (Feb-06)

Financial review

Statutory results for the year ended 31 December 2005

Revenue for the year ended 31 December 2005 was up 6% at £2,177 million (2004: £2,053 million). Operating profit increased to £329 million (2004: £143 million) with underlying operating profit before amortisation and exceptional items up 42% at £460 million (2004: £324 million). Profit before tax, amortisation and exceptional items increased by 36% to £452 million (2004: £332 million).

Pro forma results for the year ended 31 December 2004

For the year ended 31 December 2004 pro forma results were prepared to show the results of ITV as if the merger between Granada plc and Carlton Communications Plc had taken place before 1 January 2004. In summary, and adjusted for IFRS, these are:

	Published 2005 £m	Pro forma 2004 £m	Published 2004 £m
Revenue	**2,177**	2,083	2,053
Operating EBITA*	**460**	325	324
Profit before tax*	**452**	331	332
Adjusted* earnings per share – basic	**8.0p**	6.3p	6.4p

*Pre amortisation and exceptional items

On this basis, revenue for the year ended 31 December 2005 was up 5% at £2,177 million (2004: £2,083 million). Operating profit before amortisation and exceptional items was up 42% at £460 million (2004: £325 million). Profit before tax, amortisation and exceptional items increased by 37% to £452 million (2004: £331 million).

The following comparisons to 2004 for net advertising revenue, other sales, ITV schedule and licence fees are on a pro forma basis.

Net advertising revenue ("NAR")

Total ITV plc NAR increased by 2.7% during the year to £1,631 million (2004: £1,588 million). This result includes a full year contribution of £58 million from GMTV (2004: £18 million), which became a subsidiary in October 2004.

	Published 2005 £m	Pro forma 2004 £m	Change %
ITV1	**1,462**	1,512	(3.3%)
ITV2, ITV3, ITV4, ITV News Channel, Men & Motors	**111**	58	91%
GMTV	**58**	18	222%
Total ITV plc NAR	**1,631**	1,588	2.7%

ITV plc ITV1 NAR in the year was £1,462 million (2004: £1,512 million), £50 million lower than 2004, however, this reduction was outweighed by the strong performance of ITV2 and ITV3 which, together with ITV News Channel, Men and Motors and the newly launched ITV4 contributed 91% year on year growth of £53 million resulting in total NAR of £111 million (2004: £58 million) across these channels.

ITV's NAR is a function of audience share which is measured in terms of commercial impacts, prevailing advertising market conditions and television's share of that market. In 2005, ITV's total share of commercial impacts on UK television was 42.0% (2004: 42.7%). The reduction in 2005 was principally due to the rapid take-up of digital multichannel television and the increasing number of channels available to viewers.

ITV Channels 2005 all time adult viewing share in all homes

Channel	Share of viewing	Share of commercial viewing	Share of commercial impacts
ITV1	20.7	33.9	37.0
ITV2	1.4	2.4	2.8
ITV3	0.9	1.5	1.6
ITV4*	0.3	0.5	0.5

*Nov/Dec only

Revenue for the year ended 31 December 2005 was up 6% at £2,177 million (2004: £2,053 million).

ITV continues to develop its effective multichannel strategy, which has seen ITV2 establish itself during the year as the most popular digital channel in multichannel homes and strong performances from ITV3 and the recently launched ITV4. 2005 was a difficult year for the television advertising market, with growth of 2.6% compared to 6.0% in 2004. The market was adversely affected by a slowdown in economic growth combined with a fall in consumer confidence, resulting in reductions in advertising spend, particularly in the household stores and motoring sectors.

The 2006 advertising trading season is now substantially complete, with the majority of agency deals concluded. Our ITV1 negotiations are within the framework of the Contracts Rights Renewal ("CRR") remedy agreed with the Office of Fair Trading as a condition to the merger creating ITV plc.

Other sales

Other broadcasting sales of £140 million (2004: £133 million) principally comprise sponsorship income, fees for airtime sales on behalf of third parties, and sales of ITV programming by the Network Centre to Channel 3 licencees not owned by ITV plc.

Other revenue within our producer/broadcaster segment of £67 million (2004: £30 million) includes interactive transactions and online advertising sales of £45 million (2004: £21 million) of which £19 million (2004: £5 million) relates to GMTV, and revenue from the SDN business which we acquired during the year of £16 million (2004: £nil).

Production revenue includes original productions for the UK and international markets, the distribution and exploitation of internally generated and acquired rights, and studios and facilities revenue. Programming made by ITV for ITV channels is not included in Group revenue as it represents an internal programming cost of sale. In 2005, total external sales of £247 million (2004: £233 million) included original productions for other broadcasters of £121 million (2004: £108 million), distribution and exploitation sales of £99 million (2004: £103 million) and revenue from the hire of studio and technical facilities of £27 million (2004: £22 million).

Other operations revenue comprises cinema advertising sales of £61 million (2004: £65 million), revenue from education sales of £30 million (2004: £34 million) and revenue from Friends Reunited which was acquired during the year, £1 million (2004: £nil).

ITV schedule

The cost of the ITV1 network schedule (ITV plc share) in 2005 was £776 million (2004: £796 million). Regional programme costs for ITV1 were £125 million (2004: £142 million). Ofcom's reduction in our non-news regional programming commitment has resulted in a cost saving of £7 million to ITV plc. In addition to this, we have achieved savings of £10 million on last year from increased efficiencies across our regional production centres. Schedule costs for ITV2 were £38 million (2004: £26 million) and the first full year schedule costs of ITV3 were £9 million (2004: £2 million). ITV4 schedule costs were £6 million (2004: £nil) in its launch year. The increased investment in these digital channel schedules has been a key factor in attracting new advertisers and viewers to our multichannel offering. The first full year schedule cost of GMTV, which became a subsidiary in October 2004, was £29 million (2004: £7 million).

Licence fees

Licence fees comprise both a fixed annual sum (the cash bid) and a variable element representing a percentage of our NAR and sponsorship income (PQR Levy). The PQR Levy is reduced by the percentage of homes which receive ITV1 in digital format. The digital licence rebate for 2005 is based on a digital penetration of 61%. In 2004 the licence fee payment including a full 12 months of GMTV was £215 million.

	Published 2005 £m	Pro forma 2004 £m	Saving £m
Cash bid payment	**4**	67	63
PQR Levy	**192**	277	85
Digital rebate	**(121)**	(137)	(16)
Total	**75**	207	132

2005 has seen the setting of new financial terms for our Channel 3 licences which has resulted in a reduction in the net licence fees paid of 64% to £75 million. The payment will continue to fall as digital penetration increases and will reduce to around £4 million in constant prices by the time analogue transmissions cease.

Together with the tax charge of £85 million, the licence fee of £75 million produces a combined tax and licence fee rate of 41% on our profit before tax and licence fees of £386 million.

Exceptional items

The operating exceptional items in the year total £29 million and primarily represent reorganisation and integration costs, partially offset by liquidation dividends received. Reorganisation and integration costs include costs associated with the consolidation of regional news production centres as part of the ongoing efficiency gains following the merger between Granada and Carlton. Further such projects are planned for 2006.

Non-operating exceptional items show a £10 million charge recognised in respect of the education business after its classification as a disposal group held for sale.

Net financing costs

The net financing charge is £35 million. Financing income of £144 million includes the expected return on pension scheme assets (£112 million), interest income (£21 million) and net gains on remeasurement of interest rate swaps to fair value (£11 million). Financing costs of £179 million includes the interest on pension scheme liabilities (£125 million) and interest expense of £54 million arising on our principal debt instruments and interest payments under finance lease obligations.

Revenue	Published 2005 £m	Pro forma 2004 £m
Net advertising revenue	**1,631**	1,588
Other broadcasting revenue	**140**	133
Interactive, online and other segment revenue	**67**	30
Production revenue	**247**	233
Producer/broadcaster segment revenue	**2,085**	1,984
Other operations revenue	**92**	99
Total revenue	**2,177**	2,083

Investment income
Investment income of £5 million comprises dividend income principally from holdings in SMG and Channel 7 in Australia.

Gain on sale of property
The £11 million profit from the sale of properties in the year principally arose from a gain on the sale of the Nottingham Studios.

Tax
The effective rate of tax on PBT is 27%. The underlying effective rate on operating profits is 28% as shown below:

Underlying effective rate of tax	£m
Operating profit before exceptional items and share of profits of associates and joint ventures	
• Profit before tax as reported	311
• Exceptional items	39
• Share of profits of associates and joint ventures	(11)
	339
Underlying tax charge	
• Tax charge as reported	85
• Credit for exceptional costs	4
• Credit in respect of prior year items	7
	96
Underlying effective rate of tax	28%

Earnings per share
Basic earnings per share are 5.4 pence (2004: 3.5 pence). Adjusted earnings per share before amortisation and exceptional items are 8.0 pence (2004: 6.4 pence).

Dividend
The Board is proposing a final dividend of 1.8 pence per share which represents an increase of 38% over the 2004 final dividend. The total dividend proposed for the period is therefore 3.12 pence which is covered 2.56 times by the adjusted earnings per share (before amortisation and exceptional items) of 8.0 pence.

Acquisition of businesses
ITV made two material acquisitions during 2005: SDN and Friends Reunited. Friends Reunited has been acquired for an initial consideration of £120 million with additional consideration of up to £55 million based on future performance. SDN was acquired at a total cost of £136 million.

As required under IFRS 3 (Business combinations) the net assets of the businesses have been adjusted to reflect their fair value at the date of acquisition and goodwill has been calculated based on the fair value of the consideration.

For SDN, intangible assets of £82 million (in respect of the multiplex licence and customer contracts) have been recognised with an associated deferred tax liability of £25 million. Goodwill is £77 million.

The principal adjustments for Friends Reunited are to recognise additional intangible assets of £34 million (in respect of brands and customer relationships), with an associated deferred tax liability of £10 million, and to recognise a tax asset of £21 million in respect of the exercise of share options. Goodwill of £100 million has been recognised based on the expected total consideration taken at a fair value of £145 million.

Further details on both acquisitions are given in note 28 to the accounts.

Intangible assets
Total intangible assets at 31 December 2005 are £3,947 million being principally goodwill and acquired intangible assets. Additions during the year arise principally from the acquisitions of SDN and Friends Reunited and total £294 million. Goodwill balances are not amortised but are instead subject to annual impairment testing. No impairment has been recognised in 2005. Other intangible assets are amortised over their useful lives. The total amortisation charge for the year is £102 million (2004: £111 million).

Cash flow and net debt
The cash generated from operations was £456 million reflecting strong trading. Exceptional cash payments of £28 million reflect restructuring and integration costs offset by a receipt from the liquidators of ONdigital.

Property, plant and equipment expenditure was £46 million and £29 million was raised from sales. A net debt movement of £230 million in respect of the acquisitions of SDN and Friends Reunited is recognised.

In January 2005, €125 million of the Exchangeable bond was repaid while in April the remaining £8 million of the Carlton Communications Limited Preference shares were called. In October, ITV issued £325 million Eurobonds with a maturity of October 2015 and carrying a coupon of 5.375% in order to secure long term financing for the Group at a very attractive fixed rate.

As described in more detail under pensions, a £118 million deficit funding payment into the defined benefit schemes is reflected in cash flows.

Treasury operations and policies
A central department in London following policies and procedures laid down by the Board, manages the Group's treasury operations. The most significant treasury exposures faced by ITV are raising finance, managing interest rate and currency positions and investing surplus cash in high quality assets. Treasury policies have been approved by the Board for managing each of these exposures including levels of authority on the type and use of financial instruments. Transactions are only undertaken if they relate to underlying exposures. The treasury department reports regularly to the Audit Committee and treasury operations are subject to periodic independent reviews and internal audit.

The principal movements in net debt in the year are shown in the table below:	£m	£m
Net debt at 31 December 2004		(280)
Adjustment on adoption of IAS 32 and IAS 39 (see note 37)		(47)
Net debt at 1 January 2005 (restated)		(327)
Cash generated from operations	456	
Defined benefit pension deficit funding	(118)	
Acquisition of SDN and Friends Reunited	(230)	
Taxation paid	(120)	
Property, plant and equipment (acquisitions less disposals)	(17)	
Net interest paid	(26)	
Equity dividends paid	(98)	
Other movements	(1)	
Movement in net debt		(154)
Net debt at 31 December 2005		(481)

ITV has established and retains strong relationships with a number of banks to ensure a balanced spread of risk and to facilitate future funding requirements.

Set out below are ITV's principal treasury policies:

– Financing: ITV's financing policy is to fund itself long term using debt instruments with a range of maturities. It is substantially funded from the UK and European capital markets and has bank facilities from the UK syndicated market.

– Interest rate management: the Group's interest rate policy is to have fixed interest rate debt of between 30% and 70% of its total net indebtedness over the medium term in order to provide a balance between certainty of cost and benefit from low floating rates. ITV uses interest rate swaps and options in order to achieve the desired mix between fixed and floating.

– Currency management: the Group's foreign exchange policy is to hedge foreign currency denominated costs at the time of commitment and to hedge a proportion of foreign currency denominated revenues on a rolling 12 month basis. The policies significantly reduce the Group's earnings and balance sheet exposures to changes in exchange rates.

– Investment in cash: ITV operates strict investment guidelines with respect to surplus cash and the emphasis is on preservation of capital. Counterparty limits for cash deposits are largely based upon long term ratings published by the major credit rating agencies. Deposits longer than three months require the approval of the Management Committee of the Board.

Pensions

The Group's pension schemes are run independently by the schemes' trustees. All pension scheme assets are administered separately by the trustees using a number of external fund managers and custodians.

The defined benefit schemes are funded on a long term basis with advice from the scheme actuaries. Actuarial valuations of the assets and liabilities of the schemes are carried out every three years with the most recent valuation of the main scheme having been conducted by the actuaries at 31 December 2004.

At 31 December 2005, the make up of the membership of the Group's defined benefit schemes was:

	000's
Active employees	3
Deferreds	14
Pensioners	12
	29

This is a mature profile and the active employees therefore have a relatively small impact on changes in scheme liabilities compared to deferreds and pensioners.

i) Scheme merger

At the beginning of 2005 there were six separate defined benefit pension schemes in the Group, a legacy of the company mergers that created ITV. Terms were agreed with the trustees to merge those into a single scheme and that process completed at the end of January 2006. This will save significantly on the costs of administration and professional advice, and also enable a clearer focus on the issues for a single scheme than was possible with separate schemes.

ii) Deficit funding

It was announced in September 2005 that ITV plc would make a £325 million contribution into the defined benefit pension schemes as part of a plan to address the deficit. The amount had been calculated so that, together with estimated future investment returns on the schemes' assets, it would enable the schemes to move towards being fully funded (on an ongoing basis) over an appropriate period of time.

The funding was made in cash with £118 million paid in December 2005 and £207 million in January and February 2006.

iii) IAS 19

IAS 19 accounting for the Group's defined benefit schemes does not affect the ongoing funding of those schemes.

In 2005 the IAS 19 operating charge for defined benefit schemes was £24 million (2004: £24 million). The charge within net financing costs for the net of the expected return on scheme assets and the interest cost on liabilities was an additional £13 million (2004: £6 million). The Group's defined contribution schemes gave rise to an operating charge of £2 million (2004: £2 million).

The IAS 19 deficit on the defined benefit schemes was £672 million at 31 December 2004. The valuation at that date reflected the recognition of improving mortality rates which had been assessed on a scheme specific basis and there has been no need to make any further adjustment to those mortality rates in 2005.

The principal movements in assets and liabilities of the defined benefit pension schemes during the year have resulted from the significant reduction in the long term real interest rates which have increased liabilities, and the very strong investment returns (especially on the equity portfolio) which have provided a compensating increase in scheme assets.

The IAS 19 deficit at 31 December 2005 was £532 million reflecting the £118 million lump sum payment in December 2005 and an improvement of £22 million in the underlying funding position during the year before that lump sum payment. A net actuarial gain of £35 million has been recognised as a credit to reserves.

Following the £207 million lump sum payment in early 2006 that £532 million deficit would reduce to £325 million pre tax on a pro forma basis (or £228 million after a deferred tax asset of £97 million).

The pension schemes are funded on a long term basis and therefore the IAS 19 disclosures are not relevant to the ongoing funding of the schemes. The last ongoing actuarial valuations of the defined benefit schemes (at 31 December 2004 for the main ITV Scheme and other dates for some of the remaining schemes) showed a deficit of £586 million compared to the IAS 19 deficit of £672 million at 31 December 2004.

Over 2005 the difference in real long term interest rates applied to our IAS 19 valuations was 0.5%. If this reduction had not occurred then our year end liabilities would have been over £200 million less than reported.

As a result of the improved funding position it is expected that the net return on scheme assets and liabilities in 2006 will give rise to a credit to the net financing costs of the Group.

iv) Pension tax simplification
The new tax regime for pension funds comes into effect on 6 April 2006. This change, referred to as "A" Day, will have significant consequences for senior executives for whom tax relief on pension accruals will change from that time. ITV has taken professional advice and has concluded that it should not separately compensate any executives for this change, but should establish alternate pension arrangements for those immediately impacted which leave both the individual and the Group in positions broadly similar to the present.

Individuals whose pension arrangements are wholly within an approved scheme will remain in that scheme up to the maximum permitted without adverse tax consequences, and will have any accrual above that level provided from a secured unfunded unapproved retirement benefit scheme.

Individuals currently subject to the earnings cap within an approved scheme, and having additional benefits provided through an unfunded unapproved retirement benefit scheme, will accrue benefits under the approved scheme up to the maximum permitted without adverse tax consequences, and will have any accrual above that level provided from the unfunded unapproved retirement benefit scheme.

International Financial Reporting Standards
ITV plc adopted IFRS for group reporting on 1 January 2005 and has presented its group financial statements under IFRS for the first time in this report. The basis of preparation, along with the Group's significant accounting policies, is set out in note 1. The 2004 comparative financial information has been restated and represented under IFRS. Details of this conversion are given later in this report on pages 70 and 71 and further information is given in ITV plc's Preliminary International Financial Reporting Standards Financial Statements for 2004 which is available on the corporate website www.itvplc.com.

The ITV plc parent company accounts continue to be presented under UK GAAP. They have been included in this report following the results of the consolidated group.

Risks and uncertainties
ITV has an established programme of risk assessment, which is described in more detail in the corporate governance section on page 80. Key risks, mitigating controls and actions required to enhance controls are identified and monitored by the management, executive directors and Audit Committee. ITV currently considers its key risks and uncertainties to be as follows:

- The total level of advertising expenditure is driven by conditions within the UK and global economies over which ITV has no control;
- The high level of competition between media owners for share of the total display advertising market;
- The increasingly competitive market for television viewers in the UK and the impact of new technologies that may change viewing behaviour;
- Adherence to UK broadcasting regulations;
- Exposure to the risk that pension scheme assets are insufficient to meet the present and future scheme liabilities;
- Exposure to increasing cost of programmes, talent and rights acquired from third parties;
- Exposure to counterparty credit risk; and
- Reliance on third party technology for the operation of key activities.

John Cresswell
Finance Director

Corporate responsibility

ITV considers corporate responsibility (CR) to be a major factor in maintaining good relationships with key stakeholder groups. These include viewers, advertisers, employees, the regulator Ofcom, investors, artistes and local communities.

The media collectively has a significant influence over social values and ITV is committed to exercising responsibility in all of its programme output from soaps to dramas, current affairs and news. We believe that it is important to maintain ITV's established reputation for editorial standards during a period of increasing competition in television.

Recognising the significant role of television in society, the industry and its regulators have developed detailed rules and regulations administered by Ofcom. The experience gained over 50 years of broadcasting has enabled ITV to establish a strong culture of responsible programming.

In 2004, ITV plc's first year of existence, we established a new structure for managing CR issues. A CR Operational Group has been appointed reporting to the CR and Operational Risk Steering Group, chaired by the Company Secretary. The Group has broad representation from all the main company functions.

The prime function of the CR Operational Group is to co-ordinate management of issues already well established within operational functions. The Group also identifies any areas in need of closer scrutiny or a new approach.

The focus of the Group's meetings in 2005 was on improving the measurement of ITV's CR performance in different spheres and establishing targets and objectives where possible. The Group is in the process of a review of ITV's CR Policy. In 2005, the Group initiated a viewer survey of ITV's CR issues and performance and launched an intranet site on CR topics. This is part of our well used 'Watercooler' intranet, one of the prime ways ITV communicates with employees.

In common with other FTSE 100 companies, ITV receives regular enquiries from institutional investors about CR. We respond constructively to all such requests and ITV is included in both the Dow Jones Sustainability Index (where we are rated as the sector leader) and the FTSE4Good Index.

CR issues relevant to ITV

ITV's diverse CR issues divide into two main categories: those to do with what we broadcast and those to do with how we operate.

Our principal 'On air' issues relate to programme standards, our role as a provider of news and current affairs programmes, social and community issues in other programmes and advertising standards.

'Behind the scenes' ITV's main CR issues are our role in fostering creative talent, employment, regional partnerships and the environment.

Performance in 2005

CR on air

ITV provides the most popular family of channels in the UK, and spends around £1 billion a year on programming – the biggest spend of any European commercial broadcaster. We strive for strong editorial and creative values as well as high programme standards.

This is underpinned by broadcast licensing and regulation which is among the most rigorous in the world. That regulation offers significant protection for the community as a whole, for minority groups within it and for individuals. Compliance is mandatory. In 2005 Ofcom implemented a new Broadcasting Code. Along with other major broadcasters, ITV was heavily involved in Ofcom's consultation and welcomed the result.

To ensure ITV achieves the required standards across its channels, ITV's Compliance Unit was expanded in 2005 to a total of 27 specialists who guide programme makers and broadcasters. Compliance specialists advise programme teams on every aspect of broadcast output, apart from advertising and network news. A separate team checks TV commercials for compliance with the Television Advertising Code prior to broadcast.

News and current affairs are key facets of ITV's public service function and role in society. Part of ITV's corporate responsibility is to produce balanced, informative, impartial news and documentaries. ITV has a budget of £100 million for production of national and regional news programmes. Its global reach is aided by offices in London, Bangkok, Brussels, Jerusalem, Johannesburg, Moscow, Washington and a new bureau in Beijing.

In 2005, Ofcom dealt with complaints about 799 ITV programmes. Of these, 772 were not upheld. Complaints about 19 programmes were resolved to Ofcom's satisfaction. Complaints about eight programmes were upheld (compared with 17 in 2004). Ofcom publishes details of its rulings on its website at www.ofcom.org.uk/tv/obb/.

ITV's licences contain quotas for certain types of programme and for accessibility services for blind and deaf people. ITV achieved all its quotas.

Diversity on screen

Britain is a diverse nation and ITV believes its contribution to social cohesion is to ensure a balanced representation for all parts of the community in all types of our programmes. We have begun monitoring on-screen diversity and will be using this data in internal programme reviews and assessing what our target levels should be.

CR behind the scenes

Employment ITV employs 5,952 people worldwide, the majority of whom are in the UK. We aim to treat our employees fairly and with respect and have systems in place to provide a safe working environment for all. A new team was assembled in 2005 to co-ordinate our training strategy across the business, improving all skill levels and emphasising leadership development throughout the organisation. Every permanent employee receives an annual career development review that focuses progress during the year and identifies any development needs.

We are promoting diversity in ITV's workforce with several initiatives to recruit people from minority groups. During 2005 ITV increased ethnic minority representation from 4% (in 2004) to 6%. Women account for 47% of our workforce and 42% of management grades.

Environment ITV's main impacts on the environment are the energy and water we use at our sites and on location and the waste we produce. We aim to manage and reduce these impacts. We are in the process of reviewing and updating our environmental policy, procedures, objectives and targets.

We collect data on energy use, water consumption and waste. Our CR report contains details of reduction in ITV's climate impact, water use and waste generation.

Community ITV's social investment comes in two different ways: as airtime donated to good causes; and as cash donations to charities and social and environmental projects.

In 2005, ITV came first in the Guardian's Giving List, a ranking of FTSE100 companies by the percentage of profits donated to community investment (based on 2004 data). Our total social investment in 2005 was worth £19.3 million.

Details of ITV's approach to CR, performance during 2005 and targets are included in ITV's 2005 CR report which is available in the Responsibility section of the Company website at www.itvplc.com or in hard copy from the Company Secretary's office.

Board of Directors

Sir Peter Burt

Position:
Chairman

Appointment to the Board:
15 March 2004

Age:
62 (6 March 1944)

Committee Membership:
Nomination (Chairman)

External Appointments:
Chairman of Gleacher Shacklock LLP (2004) and Promethean plc (2005). Non-executive director of Royal Dutch Shell plc (2004) and director of Templeton Emerging Markets Investment Trust plc (2004)

Previous Experience:
Chairman of Gleacher Shacklock UK Ltd (2000 – 2005). Non-executive director of The Shell Transport and Trading Company plc (2002 – 2005). Executive deputy chairman of HBOS plc (2001 – 2003). Group Chief Executive and Governor of The Bank of Scotland (1996 – 2000)

Qualifications:
MA, MBA, FCIBS, FRSE

Sir George Russell CBE

Position:
Deputy Chairman and senior independent director

Appointment to the Board:
2 December 2003, appointed to the board of Granada in 2002

Age:
70 (25 October 1935)

Committee Membership:
Remuneration (Chairman), Nomination

External Appointments:
Non-executive director of Northern Rock plc (1996) and director of The Wildfowl and Wetlands Trust (2002)

Previous Experience:
Chairman of 3i Group plc (1993 – 2001), Northern Development Company (1994 – 2000), Camelot Group plc (1995 – 2002), Independent Broadcasting Authority and its successor, the Independent Television Commission (1989 – 1996), Independent Television News Limited (1988 – 1989), deputy chairman of Channel 4 (1987 – 1989). Non-executive director of Taylor Woodrow (1992 – 2004). Non-executive director of British Alcan Aluminium plc (1997 – 2001) and chief executive (1982 – 1985). Chief executive and then chairman of Marley plc (1986 – 1997)

Qualifications:
BA, DEng, FIMgt, FRSA

Charles Allen CBE

Position:
Chief Executive

Appointment to the Board:
3 December 2003, joined Granada Group in 1991 as chief executive of Granada Leisure, appointed to the board of Granada Group in 1992 and Granada in 2000. Became executive chairman of Granada in 2001

Age:
49 (4 January 1957)

Committee Membership:
Management

External Appointments:
Deputy chairman of Business in the Community (1997), vice chairman of London 2012 Limited (2003), non-executive director of Tesco plc (1999)

Previous Experience:
Non-executive director of British Hospitality Association (1998 – 2000), chairman of Manchester Commonwealth Games Limited (2000 – 2003). His previous career includes British Steel Corporation, Grand Metropolitan plc and Compass Group PLC

Qualifications:
FCMA, FHCIMA

Sir Robert Phillis

Position:
Non-executive director

Appointment to the Board:
7 February 2005

Age:
60 (3 December 1945)

Committee Membership:
Remuneration, Nomination

External Appointments:
Chief executive of Guardian Media Group plc (1997), chairman of All3 Media Limited (2004), president of the Royal Television Society (2004)

Previous Experience:
Non-executive director of Jazz FM plc (1999 – 2002), group managing director of Carlton Communications Plc (1987 – 1991), managing director of Central Independent Television plc (1981 – 1987), deputy director general of BBC (1993 – 1997), chief executive of BBC Worldwide (1994 – 1997), chairman of BBC Enterprises Limited (1993 – 1994), chief executive of Independent Television News Limited (1991 – 1993)

Qualifications:
BA Industrial Economics, FRSA, FRTS

Sir Brian Pitman

Position:
Non-executive director

Appointment to the Board:
2 December 2003, appointed to the board of Carlton in 1998

Age:
74 (13 December 1931)

Committee Membership:
Remuneration, Nomination

External Appointments:
Non-executive director of The Carphone Warehouse Group PLC (2001), Singapore Airlines Limited (2003), Virgin Atlantic Airways Limited (2004), Virgin Atlantic Limited (2004), Virgin Travel Group Limited (2004), Tomkins plc (2000), director of Acturis Limited (2000), The White Ensign Association Limited (1999). He is also a senior adviser to Morgan Stanley (2001)

Previous Experience:
Chief executive of Lloyds TSB Group plc for 13 years and chairman for four years, non-executive chairman of Next Plc (1998 – 2002). Non-executive director of UbiNetics Holdings Limited (2002 – 2005)

Qualifications:
FCIB

Baroness Usha Prashar CBE

Position:
Non-executive director

Appointment to the Board:
7 February 2005

Age:
57 (29 June 1948)

Committee Membership:
Audit, Nomination

External Appointments:
Chairman – Judicial Appointments Committee (2006), chancellor of De Montfort University (1996), chairman of the Royal Commonwealth Society

Previous Experience:
First Civil Service Commissioner (2000 – 2005). Non-executive director of Unite Group plc (2001 – 2004), Channel Four Television Corporation (1992 – 1999), chairman of the National Literacy Trust (2000 – 2005), member of the BBC Educational Broadcasting Council (1987 – 1988), the Arts Council of Great Britain (1994 – 1997), the Council Royal Holloway College London (1992 – 1997), trustee of BBC World Service Trust (2002 – 2005)

Qualifications:
BA, Diploma in Social Administration

James Crosby

Position:
Non-executive director

Appointment to the Board:
3 December 2003, appointed to the board of Granada in 2002

Age:
49 (14 March 1956)

Committee Membership:
Audit, Nomination

External Appointments:
Chief executive of HBOS plc (1999), non-executive director of the Financial Services Authority (2004)

Qualifications:
BA, FFA

John McGrath

Position:
Non-executive director

Appointment to the Board:
3 December 2003, appointed to the board of Carlton in 2003

Age:
67 (20 June 1938)

Committee Membership:
Audit (Chairman), Nomination

External Appointments:
Trustee of St. Christopher's Hospice (2000), chairman of The Cicely Saunders Foundation (2001), director of Kensington Green (Management) Limited (2003)

Previous Experience:
Chairman (2000 – 2003) of The Boots Company PLC (director 1997 – 2000), group chief executive of Grand Metropolitan plc (1994 – 1997) and Diageo PLC (1997 – 2000), director of Justerini and Brooks Limited (1996 – 2000), The Prince of Wales International Business Leaders Forum (1996 – 2001)

Qualifications:
BSc

Henry Staunton

Position:
Executive director

Appointment to the Board:
Appointed to the board 3 December 2003, joined Granada Group in 1993 as Finance Director, appointed to the board of Granada in 2000

Age:
57 (20 May 1948)

Committee Membership:
Management

External Appointments:
Non-executive director of Legal & General Group plc (2004) and Standard Bank plc (2005)

Previous Experience:
Non-executive director and chairman of Ashtead Group PLC (1997 – 2004), non-executive director of Emap Plc (1995 – 2002)

Qualifications:
BA, FCA

Mike Clasper

Position:
Non-executive director

Appointment to the Board:
3 January 2006

Age:
52 (21 April 1953)

Committee Membership:
Audit, Nomination

External Appointments:
Chief Executive of BAA plc (2003)

Previous Experience:
Deputy Chief Executive BAA plc (2001 – 2003). President of Global Home Care, Proctor & Gamble (1999 – 2001)

Qualifications:
MA, Engineering

John Cresswell

Position:
Finance director

Appointment to the Board:
16 January 2006, joined the Group in 2000

Age:
44 (2 May 1961)

Committee Membership:
Management

External Appointments:
Non-executive director of The Liverpool Football Club and Athletic Grounds plc (2003)

Previous Experience:
Finance Director Meridian Broadcasting Limited (1993 –1995), Finance Director United Broadcasting and Entertainment Limited (1996 – 1998) and Chief Operating Officer (1998 – 2000). Director of Operations Granada Content (2000 – 2001), Chief Operating Officer and FD Granada Content (2001 – 2004) and Chief Operating Officer, Granada and ITV (2004 – 2006)

Qualifications:
BSc, ACA

Directors' report

Principal activities of the Group and review of the year
A review of the results and activities of the business is included in the financial review on pages 25 to 29 Profit after tax was £226 million (2004: £143 million).

Principal transactions and post balance sheet events
On 27 April 2005 the Group acquired the UK digital terrestrial television multiplex operator SDN Limited from United Business Media plc and S4C Digital Media Limited. The total cost of the acquisition was £136 million.

In September 2005 the Group announced the intention to provide lump sum funding of £325 million to the Group's defined benefit pension scheme to reduce the deficit in those schemes. £118 million was contributed in December 2005 and £207 million was contributed in January and February 2006. Further details are included in the Financial Review on pages 28 and 29.

On 6 December 2005 the Group acquired community website Friends Reunited from the founders and employees of the Friends Reunited business. The Group acquired the holding company of the Friends Reunited group for an initial consideration of £120 million satisfied by a mixture of cash from existing facilities and the issue of notes and ITV plc ordinary shares plus deferred consideration of between £nil and £55 million. Further details are set out in note 28 of these financial statements.

Post balance sheet events are described in note 34 of these financial statements.

Convertible shares
At the time of the merger creating ITV the former Carlton shareholders were issued with ITV convertible shares. These were intended to provide those shareholders with an additional 2% in aggregate of the combined Group in the event of strong growth in advertising revenue for free to air television, to which Carlton had been more highly operationally geared than Granada.

Two triggers were set out in the terms of issue as measures of such growth. One of those triggers was that the share price of ITV plc should exceed 140 pence for 60 of the last 90 dealing days in 2005. That trigger was not achieved and the convertible shares were therefore of no further value. They have been converted into deferred shares and will shortly be cancelled without any payment.

Dividends
A final dividend on the ordinary shares is proposed for the year ended 31 December 2005 of 1.8 pence per share payable on 3 July 2006 to shareholders on the register at the close of business on Friday 21 April 2006. The shares will be quoted ex-dividend from Wednesday 19 April 2006.

The total dividends paid and proposed for the year ended 31 December 2005 are therefore as follows:

	2005	2004
Interim dividend	**1.32p**	1.10p
Final dividend	**1.80p**	1.30p
Total	**3.12p**	2.40p

The Dividend Reinvestment Plan is being offered to the holders of ordinary shares in respect of the final dividend and further information about the Plan is given on page 90.

Substantial shareholdings
As at 8 March 2006 the Company had received notifications from the following institutions of interests of themselves and their clients in 3% or more of the issued ordinary share capital of the Company (numbers of shares and percentage interests are as at the notification dates).

	Shares	%
FMR Corporation and Fidelity International Limited	575,200,415	14.00
Brandes Investment Partners, L.P.	290,187,578	7.10
Legal & General Group plc	140,677,287	3.45
Barclays PLC	123,340,774	3.01

A profile of shareholdings is set out on page 90.

Directors
The following were directors of the Company during the year:

	Appointed	Resigned
Sir Peter Burt (Chairman)		
Sir George Russell (Deputy Chairman and senior independent director)		
Charles Allen		
David Chance		13 February 2006
James Crosby		
John McGrath		
Sir Robert Phillis	7 February 2005	
Sir Brian Pitman		
Baroness Usha Prashar	7 February 2005	
Henry Staunton		

Mike Clasper and John Cresswell were appointed as directors on 3 January 2006 and 16 January 2006 respectively and will retire from the Board at the forthcoming Annual General Meeting and being eligible will offer themselves for election. Sir Peter Burt, Sir Brian Pitman and Sir George Russell retire from the Board, and being eligible, offer themselves for re-election. Mike Clasper, Sir Peter Burt, Sir Brian Pitman and Sir George Russell do not have service agreements with the Company. The service agreement of John Cresswell is terminable upon one year's notice. Further information on service contracts is set out in the Remuneration report on page 85.

Henry Staunton will step down from the Board on 31 March 2006. Further information is set out in the Remuneration report on page 85.

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

Directors' interests

Shareholdings in the share capital of ITV plc beneficially owned by directors and their family interests are set out below. Details of directors' interests over ordinary shares under company share schemes are set out in the Remuneration report on pages 81 to 89.

	31 December 2005		1 January 2005 or appointment date if later	
	ITV Ordinary	ITV Convertible	ITV Ordinary	ITV Convertible
Sir Peter Burt	**30,000**	**–**	30,000	–
Sir George Russell	**4,100**	**–**	4,017	–
Charles Allen	**3,872,156**	**–**	3,572,958	–
David Chance	**16,609**	**–**	16,609	–
James Crosby	**23,058**	**–**	23,058	–
John McGrath	**9,760**	**923**	9,760	923
Sir Robert Phillis	**10,000**	**–**	–	–
Sir Brian Pitman	**2,097**	**198**	2,097	198
Baroness Usha Prashar	**–**	**–**	–	–
Henry Staunton	**2,557,785**	**–**	2,282,784	–

Between the end of the financial year and 8 March 2006 there were no changes in directors' interests except for the following:

a. beneficial acquisition by Sir George Russell of 45 ITV ordinary shares under the Dividend Reinvestment Plan

b. reinvestment of dividends within an ISA by Charles Allen of 13 ITV ordinary shares and by Henry Staunton of 15 ITV ordinary shares

c. cancellation of the ITV convertible shares on 1 January 2006.

Going concern

The directors are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

Properties

Note 12 to the accounts gives details of the valuations of the Group's operational properties as at the balance sheet date.

Donations

The Group made contributions to charities and equivalent organisations amounting to £19.3 million (2004: £22.3 million).

It is ITV's policy not to make cash contributions to any political party. However, the Political Parties, Election and Referendums Act 2000 ("the Act") requires companies to obtain shareholder approval for any donations to political organisations or political expenditure in excess of an aggregate of £5,000. Within the normal activities of the Group's national and regional news gathering operations there are occasions when the Group may provide some hospitality at functions where politicians are present. The Group, as part of its normal industry activities, is also keen to maintain contact with all political parties to ensure that they are aware of the key issues affecting its business. Under the Act the definition of political expenditure and donations to political organisations is extremely wide and may be construed as covering such areas of the Group's normal activities. Shareholder authority for such expenditure was given at the Annual General Meeting held in May 2005 and a similar resolution will be proposed at the 2006 Annual General Meeting. During the year the Group made the following payments totalling £31,406 (2004: £24,850) to cover the cost of hosting receptions at the Autumn party conferences: Labour Party £17,710; Conservative Party £7,557; Liberal Democrat Party £6,139.

Employment policies

The Group's programme making, commercial, management, technical and administrative talent are key to its success. The Group's Diversity Policy aims to ensure equality of opportunity during the entire career cycle of an individual irrespective of sex, marital status, race, origin, nationality, religion, religious belief, disability, age, gender, sexual orientation, or gender reassignment. It also covers arrangements for the continued employment of and appropriate training for employees who become disabled whilst working for the Group. The policy includes a range of measures such as training in recruitment and selection, portrayal monitoring and entry level bursaries, traineeships and foundation schemes that are led by both the diversity and learning and development strategies. The Group consistently reports on-screen portrayal performance for both News and Network productions with new technology launched in 2005 to improve the process. The work-place profile is also monitored and reported on extensively from recruitment through to an individual's development and remuneration. The inauguration of 25 Diversity champions enables the various diversity action groups that exist throughout the business to align diversity strategy with participants being representative of most business areas and diverse in their make-up. The Company is chairing the Cultural Diversity Network for 2005 and 2006 and is an active participant in the major diversity forums whose focus is the employment and development of minority groups – Opportunity Now, the Employers' Forum on Disability, the Broadcasters' Disability Network and the Cultural Diversity Network.

Communication and consultation with employees is a high priority and the Group has a framework for consultation and information under which Communication Groups on each site have joint responsibility for maintaining a regular dialogue on all issues concerning the employees and the business. Where there is support from employees, there is a regular dialogue with recognised Trades Unions.

During a year of intensive change, our communication with employees has been crucially important. We have increased our support to managers with a series of management briefings from the leadership team at key points of change throughout the year together with monthly written briefings and action points for all employees. Every effort was made to inform and update employees on change first, before this was reported externally – a considerable feat in a media organisation. There was extensive collaboration between the Marketing, Communications and HR teams, in order to engage employees in the development of our new on-air and employer brand, including the defining of our mission and values. Much of this work was brought to life for employees with our new intranet which was also developed in consultation with them. Working with our elected employee representatives, we also introduced a new cycle of top-down and bottom-up communication between the leadership team and employees. Evaluation has already indicated the positive impact these initiatives have had, collectively, on morale, engagement and alignment with ITV's vision of the future.

Learning and development opportunities are vital to attract and retain the best talent and television's reliance on ever-changing technology also requires that we keep our employees well-trained. Training is offered across a wide range of activities from technical and managerial to programme making. We also maintain the philosophy that internal development is encouraged and monitored.

A new team was assembled in 2005 to co-ordinate our training strategy across the business, improving all skill levels and emphasising leadership development throughout the organisation.

All employees receive an annual career development review that focuses on progress during the year and identifies any development needs. Managers and employees can then refer to the Development Guide on the intranet. The Development Guide is a one-stop interactive source for information about all the training available to employees which was completely overhauled during the year. The result has been better communication and a higher uptake of training opportunities.

Training includes both off-the-job courses, such as technical and programme courses in camera operations, presentation skills for journalists, script writing and copyright law; and on-the-job training such as coaching and mentoring. Our own internal training courses include Researching for TV, ITV Production, Technology Seminars and DV Camera Training.

In 2005, we launched the 'Creating Strong Leaders Programme' offering a development programme for all our leaders across the Group from the Management Board to our First Level Leaders. In total, 385 managers have attended one of the three management development programmes. The aim is for all managers to undergo this training within three years. Online inductions were available on the new Development Guide from January 2006.

The Company chairs and is represented at board level on Skillset, which is the industry Sector Skills Council and contributes substantially both to its core funding and the freelance training fund it manages. This means that we are fully represented to ensure we are part of both designing and helping to implement the training strategy for the Broadcasting industry at large.

It is vital for the Group to offer the right reward and incentivisation in order to attract and retain the best talent. Since 2004, the Group has been offering new employees a consistent, competitive and attractive range of benefits. The Group's incentive programmes are structured to give our employees a stake in the future success of the Group. As well as a SAYE scheme which is open to all staff and enables them to save for shares in the Company, the Group runs a bonus scheme which ensures that those with the brightest and best ideas are encouraged. The Prime Mover Scheme allows the originators of programme formats that have the potential for international and UK exploitation to have a substantial stake in the success of those formats. In 2005, the Group also introduced an all-employee annual bonus scheme which will allow employees to receive a bonus when the Group is successful.

The health and safety of employees, contractors and visitors is considered as a priority. There are well established health and safety policies and procedures in place throughout the business and these are supported by an effective training programme.

Financial instruments

Note 25 to the accounts gives details of the Group's financial risk management policies and related exposures.

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, ensure awareness of the terms 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 2005 was nil days (2004: nil days).

Share capital

Full details of the movements in the authorised and issued share capital of the Company during the year are set out in note iv to the ITV plc Company financial statements on page 74.

The Company has the authority to purchase up to 409 million of its ordinary shares. The authority remains valid until the 2006 Annual General Meeting or, 25 August 2006 if earlier. A resolution will be put to shareholders to renew the authority at the 2006 Annual General Meeting.

As explained in the Chairman's statement, the Company intends to return £300 million to shareholders during 2006 by way of market purchase of shares.

The Group has a number of discretionary trusts funded by loans to acquire shares for the potential benefit of employees of the Group. Details of shares held by the trusts at 31 December 2005 are set out in note 29 to the accounts. During the period shares have been released from these trusts in respect of share award schemes for employees.

Annual General Meeting

The Annual General Meeting will be held on Wednesday 10 May 2006 at 11.00 am in the Whittle Room at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE. Notice is sent to shareholders separately with this report together with an explanation of special business to be considered at the meeting.

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

James Tibbitts
Company Secretary

The London Television Centre
Upper Ground
London SE1 9LT
8 March 2006

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the Group and parent company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards.

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company. In preparing each of the Group and parent company 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;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent 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 parent 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 Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of ITV plc

We have audited the Group and parent company financial statements (the "financial statements") of ITV plc for the year ended 31 December 2005 which comprise of the consolidated income statement, the consolidated and parent company balance sheets, the consolidated cash flow statement, the consolidated statement of recognised Income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 37.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited 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 whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the Group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. 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 review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 and the part of the Directors' Remuneration Report to be audited. 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 Group's and 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Opinion
In our opinion:

– the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended;

– the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;

– the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2005; and

– the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
8 March 2006

Consolidated income statement

For the year ended 31 December:	Note	2005 £m	2004 £m
Group and share of joint ventures' revenue		**2,243**	2,132
Less share of joint ventures' revenue		**(66)**	(79)
Revenue	2	**2,177**	2,053
Operating costs before amortisation of intangible assets and exceptional items		**(1,717)**	(1,729)
Operating costs – exceptional items	5	**(29)**	(70)
Earnings before interest, tax and amortisation (EBITA)		**431**	254
Amortisation of intangible assets	13	**(102)**	(111)
Total operating costs	4	**(1,848)**	(1,910)
Operating profit		**329**	143
Financing income	8	**144**	128
Financing costs	8	**(179)**	(147)
Net financing costs	8	**(35)**	(19)
Share of profits of associates and joint ventures	14	**11**	13
Investment income		**5**	7
Gain on sale of property		**11**	7
(Loss)/gain on sale of subsidiaries and investments (exceptional items)	5	**(10)**	17
Profit before tax		**311**	168
Taxation	9	**(85)**	(25)
Profit for the year		**226**	143
Attributable to:			
Equity shareholders of the parent company		**222**	137
Minority interests		**4**	6
Profit for the year		**226**	143
Basic earnings per share	11	**5.4p**	3.5p
Diluted earnings per share	11	**5.3p**	3.4p

All results are from continuing operations.

Operating exceptional items during the year comprise reorganisation and integration costs net of a liquidation dividend received (see note 5 for details).

Consolidated balance sheet

At 31 December:	Note	2005 £m	2004 £m
Non-current assets			
Property, plant and equipment	12	**235**	258
Intangible assets	13	**3,947**	3,797
Investments in joint ventures and associates	14	**93**	83
Equity investments	15	**181**	140
Distribution rights	16	**13**	12
Deferred tax asset in respect of pension scheme deficits		**160**	202
Other deferred tax balances		**(86)**	(136)
Net deferred tax asset	9	**74**	66
		4,543	4,356
Current assets			
Assets held for sale	27	**63**	–
Programme rights and other inventory	17	**388**	368
Trade and other receivables due within one year	18	**362**	349
Trade and other receivables due after more than one year	19	**7**	8
Trade and other receivables		**369**	357
Cash and cash equivalents	23	**663**	582
		1,483	1,307
Current liabilities			
Liabilities held for sale	27	**(9)**	–
Borrowings	24	**(43)**	(10)
Trade and other payables due within one year	20	**(734)**	(713)
Trade and other payables due after more than one year	21	**(4)**	–
Trade and other payables		**(738)**	(713)
Current tax liabilities		**(217)**	(225)
Provisions	26	**(23)**	(32)
		(1,030)	(980)
Net current assets		**453**	327
Non-current liabilities			
Borrowings	24	**(1,101)**	(852)
Defined benefit pension deficit	6	**(532)**	(672)
Other payables	22	**(29)**	(7)
Provisions	26	**(29)**	(43)
		(1,691)	(1,574)
Net assets		**3,305**	3,109
Attributable to equity shareholders of the parent company			
Share capital	29	**423**	422
Share premium	30	**98**	91
Merger and other reserves	30	**2,666**	2,666
Translation reserve	30	**(1)**	(2)
Available for sale reserve	30	**33**	–
Retained earnings	30	**74**	(84)
Total attributable to equity shareholders of the parent company	30	**3,293**	3,093
Minority interest	30	**12**	16
Total equity	30	**3,305**	3,109

The accounts were approved and authorised for issue by the Board of Directors on 8 March 2006 and were signed on its behalf by:

Charles Allen

John Cresswell

Consolidated cash flow statement

For the year ended 31 December:	2005 £m	2005 £m	2004 £m	2004 £m
Cash flows from operating activities				
Operating profit before exceptional items	**358**		213	
Depreciation of property, plant and equipment	**34**		35	
Amortisation of intangible assets	**102**		111	
Increase in programme rights and other inventory, and distribution rights	**(30)**		(22)	
Decrease in receivables	**23**		34	
(Decrease)/increase in payables	**(3)**		10	
Movement in working capital	**(10)**		22	
Cash generated from operations before exceptional items		**484**		381
Cash flow relating to exceptional items:				
Operating loss	**(29)**		(70)	
Asset write-offs	**–**		4	
Provision for impairment	**–**		5	
Increase in payables and provisions*	**1**		1	
Cash outflow from exceptional items		**(28)**		(60)
Cash generated from operations		**456**		321
Defined benefit pension deficit funding	**(118)**		–	
Interest received	**20**		19	
Interest paid on bank and other loans	**(42)**		(43)	
Interest paid on finance leases	**(4)**		(4)	
Investment income	**5**		7	
Dividends received from investments in joint ventures and associates	**–**		4	
Taxation paid	**(120)**		(12)	
		(259)		(29)
Net cash from operating activities		**197**		292
Cash flows from investing activities				
Acquisition of subsidiary undertakings, net of cash and cash equivalents acquired and debt repaid on acquisition	**(208)**		434	
Proceeds from sale of assets held for resale	**3**		59	
Proceeds from sale of property, plant and equipment	**29**		35	
Acquisition of minority interest	**–**		(154)	
Acquisition of property, plant and equipment	**(46)**		(36)	
Acquisition of investments	**(30)**		(2)	
Proceeds from sale of subsidiaries	**2**		–	
Proceeds from sale of investments	**–**		208	
Net cash (used in)/from investing activities		**(250)**		544
Cash flows from financing activities				
Proceeds from issue of ordinary share capital	**50**		8	
Purchase of US held shares	**(42)**		–	
Bank and other loans – amounts repaid	**(88)**		(192)	
Bank and other loans – amounts raised	**322**		–	
Capital element of finance lease payments	**(3)**		(4)	
Preference dividends paid to shareholders	**–**		(5)	
Redemption of preference shares	**(8)**		–	
Redemption of redeemable shares on merger	**–**		(200)	
Equity dividends paid	**(98)**		(48)	
Net cash from/(used in) financing activities		**133**		(441)
Net increase in cash and cash equivalents		**80**		395
Cash and cash equivalents at 1 January		**582**		185
Effects of exchange rate changes and fair value movements on cash and cash equivalents		**1**		2
Cash and cash equivalents at 31 December		**663**		582

*Includes £4 million (2004: £8 million) relating to expenditure against provisions held in respect of activities which have been previously discontinued.

Consolidated statement of recognised income and expense

For the year ended 31 December:	Note	2005 £m	2004 £m
Exchange differences on translation of foreign operations		**1**	(2)
Revaluation of available for sale investments		**20**	–
Movements in respect of cash flow hedges		**(1)**	–
Actuarial gains and losses on defined benefit pension schemes	6	**35**	(123)
Taxation on items taken directly to equity	9	**(8)**	37
Net income/(expense) recognised directly in equity		**47**	(88)
Profit for the year		**226**	143
Total recognised income and expense for the year		**273**	55
Attributable to:			
Equity shareholders of the parent company	30	**269**	49
Minority interests	30	**4**	6
Total recognised income and expense for the year		**273**	55
Effect of change in accounting policy:			
Impact of adoption of IAS 32 and IAS 39 on equity at 1 January 2005	30, 37	**4**	–
		277	55

Notes to the accounts

1 Accounting policies

a) Basis of preparation

The Group financial statements consolidate those of ITV plc and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

As required by EU law (IAS Regulation EC 1606/2002) the Group's accounts have been prepared in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB, as adopted by the EU ("IFRS"). These are the Group's first consolidated financial statements to be prepared under IFRS and IFRS 1 (First-time adoption of International Financial Reporting Standards) has been applied.

The accounts are principally prepared on the historical cost basis. Areas where other bases are applied are identified in the accounting policies below. Details of accounting estimates and judgments made by the directors in the application of these accounting policies that have a significant effect on the financial statements are discussed in note 36.

The comparative information presented in these accounts has been restated and represented under IFRS. In respect of financial instruments, the Group's policy, as permitted under IFRS 1, has been to adopt IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement) from 1 January 2005. Comparatives have therefore not been restated to reflect the requirements of IAS 32 and IAS 39 and continue to be presented in accordance with UK GAAP. Note 37 sets out the impact of the adoption of IAS 32 and IAS 39 at 1 January 2005. Further details on the restatement of comparative information and conversion to IFRS are given later in these accounts on pages 70 and 71.

The parent company's individual accounts continue to be presented under UK GAAP.

The accounting policies set out below, except as noted above, have been applied consistently in presenting the consolidated financial information.

b) Revenue recognition

Revenue is stated exclusive of VAT and consists of sales of goods and services to third parties. Revenue from the sale of goods is recognised when the Group has transferred the significant risks and rewards of ownership and control of the goods sold and the amount of revenue can be measured reliably. Key classes of revenue are recognised on the following basis:

Advertising and sponsorship	on transmission
Programme production	on delivery
Programme rights	when contracted and available for exploitation

Revenue on barter transactions is recognised only when the goods or services being exchanged are of a dissimilar nature.

c) Subsidiaries, associates and joint ventures

Subsidiaries are entities that are directly or indirectly controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

A joint venture is an entity in which the Group holds an interest under a contractual arrangement where the Group and one or more other parties undertake an economic activity that is subject to joint control. The Group accounts for its interests in joint ventures using the equity method.

An associate is an entity, other than a subsidiary or joint venture, over which the Group has significant influence. Significant influence is the power to participate in the financial and operating decisions of an entity but is not control or joint control over those policies. These investments are accounted for using the equity method.

d) Current/non-current distinction

Current assets include assets held primarily for trading purposes, cash and cash equivalents, and assets expected to be realised in, or intended for sale or consumption in, the course of the Group's operating cycle. All other assets are classified as non-current assets.

Current liabilities include liabilities held primarily for trading purposes, liabilities expected to be settled in the course of the Group's operating cycle and those liabilities due within one year from the reporting date. All other liabilities are classified as non-current liabilities.

e) Property, plant and equipment

Owned assets Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Certain items of property, plant and equipment that had been revalued to fair value prior to 1 January 2004, the date of transition to IFRS, are measured on the basis of deemed cost, being the revalued amount less depreciation up to the date of transition.

Leases Finance leases are those which transfer substantially all the risks and rewards of ownership to the lessee. Assets held under such leases are capitalised within property, plant and equipment and depreciation is provided as appropriate. Outstanding finance lease obligations, which comprise the principal plus accrued interest, are included within borrowings. The finance element of the agreements is charged to the income statement over the term of the lease on a systematic basis.

All other leases are operating leases the rentals on which are charged to the income statement on a straight line basis over the lease term.

Depreciation Depreciation is provided to write off the cost of property, plant and equipment less estimated residual value on a straight line basis over their estimated useful lives. The major categories of property, plant and equipment are depreciated as follows:

Vehicles, equipment and fittings	3 to 13 years
Plant and machinery	10 to 20 years
Properties:	
television studios	40 to 60 years
leaseholds	shorter of residual lease term or 70 years
Freehold land	not depreciated
Freehold buildings	up to 60 years

1 Accounting policies (continued)

f) Intangible assets

Business combinations and goodwill All business combinations that have occurred since 1 January 2004 are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the identifiable net assets acquired. Subsequent adjustments to the fair values of net assets acquired made within 12 months of the acquisition date are accounted for from the date of acquisition.

For business combinations prior to this date, but after 30 September 1998, goodwill is included at its deemed cost, which represents the amount recorded under UK GAAP at that time less amortisation up to 31 December 2003. The classification and accounting treatment of business combinations occurring prior to 1 January 2004, the date of transition to IFRS, has not been reconsidered as permitted under IFRS 1. Goodwill is stated at cost less any accumulated impairment losses and is allocated to cash generating units.

Goodwill arising on acquisitions prior to 30 September 1998 was recognised as a deduction from equity.

Other intangible assets Other intangible assets acquired by the Group are stated at cost less accumulated amortisation except those identifiable intangible assets acquired as part of a business combination which are shown at fair value at the date of acquisition (in accordance with IFRS 3 (Business combinations)) less accumulated amortisation. Identifiable intangible assets are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Amortisation Amortisation is charged to the income statement over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill is not amortised but is tested for impairment at each balance sheet date. The useful lives and amortisation methods for each major class of intangible asset are as follows:

Film libraries	Sum of digits	20 years
Licences	Straight line	11 to 17 years
Brands	Straight line	up to 11 years
Customer contracts	Straight line	up to 6 years
Customer relationships	Straight line	5 to 10 years

g) Distribution rights

Programme rights acquired primarily for the purposes of distribution are classified within the balance sheet as non-current assets. They are recognised initially at cost and charged through the income statement over either a three or five year period depending on genre.

h) Equity investments

Equity investments comprise equity securities which do not meet the definition of subsidiaries, joint ventures and associates, and are stated at fair value, with any resultant gain or loss recognised directly in the available for sale reserve in equity. Prior to the Group's adoption of IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement) from 1 January 2005, investments in equity securities were held at initial cost less any impairment subsequently recognised. The effect of adopting IAS 32 and IAS 39 is shown in note 37.

i) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Where an asset such as goodwill relates to more than one cash-generating unit, impairment is tested against the cash flows of the group of cash-generating units related to that asset.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Impairment losses in respect of goodwill are not reversed. No reversal of impairment has been booked by the Group.

1 Accounting policies (continued)

j) Foreign currencies

Foreign currency transactions Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Foreign currency monetary assets and liabilities at the balance sheet date are translated into sterling at the rate of exchange ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities measured at historical cost are translated into sterling at the rate of exchange on the date of the transaction.

Financial statements of foreign operations The assets and liabilities of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into sterling at the average rate of exchange ruling during the financial period. Exchange differences arising on translation are recognised directly in the translation reserve in equity.

Net investment in foreign operations Exchange differences arising on the translation of the net investment in foreign operations are taken directly to the translation reserve within equity.

In respect of all foreign operations only those translation differences arising since 1 January 2004, the date of transition to IFRS, are presented as a separate component of equity as permitted under IFRS 1. On disposal of an investment in a foreign operation the associated translation reserve balance is released to the income statement.

k) Exceptional items

Exceptional items, as disclosed on the face of the income statement, are items which due to their material and non-recurring nature have been classified separately in order to draw them to the attention of the reader of the accounts and to show more accurately the underlying profits of the Group.

l) Programme rights

Where programming, sports rights and film rights are acquired for the primary purpose of broadcasting these are recognised within current assets. An asset is recognised when the Group controls, in substance, the respective assets and the risks and rewards associated with them. For acquired programme rights an asset is recognised as payments are made and is recognised in full when the acquired programming is available for transmission. Programming produced internally either for the purpose of broadcasting or to be sold in the normal course of the Group's operating cycle is recognised within current assets at production cost.

Programme costs and rights are written off to operating costs in full on first transmission except certain film rights which are written off over a number of transmissions. Programme costs and rights not yet written off at the balance sheet date are included on the balance sheet at the lower of cost and net realisable value.

m) Cash and cash equivalents

Cash and cash equivalents comprises cash balances, call deposits with maturity of less than or equal to three months and cash held to meet finance lease commitments.

n) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation arising from past events and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows by a rate which reflects current market assessments of the time value of money and the risks specific to the liability based on an appropriate gilt rate.

o) Borrowings

Borrowings are recognised initially at fair value, and in subsequent periods at amortised cost. The difference between cost and redemption value being recorded in the income statement over the period of the liability on an effective interest basis.

Where the Group has identified that any such liabilities result in a mismatch between the accounting liability and the related derivative, the Group has adopted early the fair value option provision of IAS 39 (revised). The effect of this is that the Group recognises any such financial liabilities at fair value in all periods subsequent to initial recognition, with resultant gains or losses recorded in the income statement.

p) Non-current assets held for sale and discontinued operations (IFRS 5)

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through sale rather than continuing use, they are available for immediate sale and sale is highly probable.

On initial classification as held for sale, non-current assets or disposal groups are measured at the lower of their previous carrying amount and fair value less costs to sell.

No amortisation or depreciation is charged on non-current assets (including those in disposal groups) classified as held for sale. Assets classified as held for sale are disclosed separately on the face of the balance sheet and classified as current assets or liabilities with disposal groups being separated between assets held for sale and liabilities held for sale.

IFRS 5 applies prospectively for periods beginning on or after 1 January 2005 and has therefore not been adopted for the comparative period.

1 Accounting policies (continued)

q) Taxation
The tax charge for the period comprises both current and deferred tax. Taxation is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method on any temporary differences between the carrying amounts for financial reporting purposes and those for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

A deferred tax asset is recognised only to the extent that it is probable sufficient taxable profit will be available to utilise the temporary difference. Deferred tax assets and liabilities are disclosed net to the extent that they relate to taxes levied by the same authority and the Group has the right of set off.

r) Employee benefits
Defined contribution schemes Obligations under the Group's defined contribution schemes are recognised as an expense in the income statement as incurred.

Defined benefit schemes The Group's obligation in respect of defined benefit pension schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of scheme assets is deducted. The discount rate used is the yield at the valuation date on high quality corporate bonds. The calculation is performed by a qualified actuary using the projected unit credit method.

The Group has taken the option of adopting early the amendment to IAS 19 (Employee Benefits) issued on 16 December 2004. As a result, actuarial gains and losses are recognised in full in the period in which they arise through the statement of recognised income and expense.

Share based compensation The Group operates a number of share based compensation schemes. The fair value of the equity instrument is measured at grant date and spread over the vesting period through the income statement with a corresponding increase in equity. The fair value of the share options and awards is measured using either a Monte Carlo or Black-Scholes model as appropriate taking into account the terms and conditions of the individual scheme. The amount recognised as an expense is adjusted to reflect the actual vesting except where forfeiture is due only to market based criteria not being achieved.

s) ITV shares held by Employee Benefit Trusts (EBTs)
Transactions of the Group-sponsored EBTs are included in the Group's financial statements. In particular, the EBTs' purchases of shares in ITV plc are debited directly to equity.

t) Derivatives and other financial instruments
The Group uses a limited number of derivative financial instruments to hedge its exposure to fluctuations in interest and other foreign exchange rates. The Group does not hold or issue derivative instruments for speculative purposes.

Derivative financial instruments are initially recognised at fair value and are subsequently remeasured at fair value with the movement recorded in the income statement.

The fair value of foreign currency forward contracts is determined by using forward exchange market rates at the balance sheet date. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of swap counterparties.

Prior to the Group's adoption of IAS 32 and IAS 39 from 1 January 2005 interest receipts and payments under interest rate swap and option agreements were accrued so as to match the net income or cost with the related finance expense. No amounts were recognised in respect of future periods. The difference between the fair value and book value of bonds and derivative instruments arising on the acquisition accounting for Carlton was amortised through net interest over the remaining life of the instruments. The effect of adopting IAS 32 and IAS 39 is shown in note 37.

u) Dividends
Dividends are recognised through equity in the period in which they are declared.

v) Investment income
Investment income comprises dividends received from the Group's investments. Dividend income is recognised in the income statement on the date the Group's right to receive payments is established.

w) Net financing costs
Net financing costs principally comprise interest payable, finance charges on finance leases, interest receivable on funds invested, gains and losses on hedging instruments that are recognised in the income statement and the expected return on pension scheme assets net of the interest cost on liabilities.

2 Segmental reporting

The Group's primary segmental reporting is by business segment with secondary segmental reporting being by geographical segment.

Primary segmental reporting

The Group has one main producer/broadcaster reportable business segment. This segment includes all activities related to the production and broadcasting of television programmes and channels, including the exploitation of related rights and assets. Any activities falling outside this main segment are grouped together as other operations.

	Producer/broadcaster		Other operations		Consolidated	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Total revenue (all external)	**2,085**	1,954	**92**	99	**2,177**	2,053
Operating profit before exceptional items	**356**	208	**2**	5	**358**	213
Operating costs – exceptional items	**(25)**	(64)	**(4)**	(6)	**(29)**	(70)
Operating profit	**331**	144	**(2)**	(1)	**329**	143
Net financing costs					**(35)**	(19)
Share of profits of associates and joint ventures	**6**	9	**5**	4	**11**	13
Investment income					**5**	7
Gain on sale of property					**11**	7
(Loss)/gain on sale of subsidiaries and investments					**(10)**	17
Taxation					**(85)**	(25)
Profit for the year					**226**	143
Segment assets	**4,945**	4,718	**152**	144	**5,097**	4,862
Unallocated assets					**929**	801
Total Group assets					**6,026**	5,663
Segment liabilities	**(643)**	(718)	**(16)**	(9)	**(659)**	(727)
Unallocated liabilities					**(2,062)**	(1,827)
Total Group liabilities					**(2,721)**	(2,554)
Additions to property, plant, equipment and intangible assets	**201**	2,612	**139**	42	**340**	2,654
Cash flows from/(used in):						
Operating activities	**451**	321	**(1)**	4	**450**	325
Unallocated					**(253)**	(33)
Total Group operating activities					**197**	292
Investing activities	**(11)**	60	**(1)**	(2)	**(12)**	58
Unallocated					**(238)**	486
Total Group investing activities					**(250)**	544
Financing activities	**–**	–	**–**	–	**–**	–
Unallocated					**133**	(441)
Total Group financing activities					**133**	(441)
Total cash flows	**440**	381	**(2)**	2	**438**	383
Unallocated					**(358)**	12
Total Group cash flows					**80**	395

2 Segmental reporting (continued)

Secondary segmental reporting

The secondary segmental reporting given below is for geographical segments. The main segment is the United Kingdom with all other locations being grouped together as other.

The Group's revenue is analysed by geographical market as follows:

	Revenue by geographical market	
	2005 £m	2004 £m
United Kingdom	**2,048**	1,946
Other	**129**	107
Total	**2,177**	2,053

The following shows the carrying amount of segment assets and additions to property, plant, equipment and intangible assets by the geographical area in which the assets are located:

	Segment assets		Additions to property, plant, equipment, and intangible assets	
	2005 £m	2004 £m	**2005 £m**	2004 £m
United Kingdom	**5,855**	5,508	**339**	2,654
Other	**171**	155	**1**	–
Total	**6,026**	5,663	**340**	2,654

3 Staff costs

	2005 £m	2004 £m
Wages and salaries	**174**	172
Social security and other costs	**23**	23
Share-based payment (see note 7)	**17**	15
Pension costs (see note 6)	**26**	26
Total	**240**	236

In addition, staff costs within exceptional items were £25 million (2004: £41 million) principally relating to redundancy payments in the reorganisation and integration process which followed the merger. Total staff costs for the year ended 31 December 2005 are £265 million (2004: £277 million). In addition to the pension operating cost shown above is a net charge to net financing costs of £13 million (2004: £6 million) and a credit to retained earnings in respect of actuarial gains and losses of £35 million (2004: charge of £123 million).

The average number of employees employed by the Group during the year was:

	2005	2004
Producer/broadcaster	**5,660**	5,857
Other operations	**413**	405
Total	**6,073**	6,262

Details of the directors' emoluments, share options, pension entitlements and long term incentive scheme interests are set out in the remuneration report.

4 Total operating costs

	2005 £m	2004 £m
Staff costs		
Before exceptional items	240	236
Exceptional items	25	41
	265	277
Depreciation and amortisation		
Amortisation	102	111
Depreciation	34	35
	136	146
Other operating costs		
PQR Levy	71	134
Cash bid payment	4	63
Operating lease costs:		
– Plant and machinery	6	6
– Other rentals	17	19
Broadcasting schedule costs	1,044	998
Production non-staff costs	86	99
Other operating exceptional items	4	29
Audit and non-audit fees paid to KPMG (see below)	2	2
Other	213	137
	1,447	1,487
Total	1,848	1,910

Production non-staff costs are net of the recharge for programmes supplied to ITV Broadcast channels (which are eliminated on consolidation as internal turnover).

The Group engages KPMG Audit Plc on assignments additional to their statutory audit duties where their expertise and experience with the Group are important. The Group's policy on such assignment is set out in the corporate governance report on page 79.

Audit and non-audit fees paid to KPMG Audit Plc during the year are set out below:

	2005 £m	2004 £m
Audit services:		
Statutory audit	0.9	0.7
Non-statutory audit	–	0.1
Audit related regulatory reporting	0.3	0.2
	1.2	1.0
Further assurance services:		
Accounting advice	0.1	0.1
Transaction support	0.1	–
Tax advisory services	0.4	0.5
Other services	–	0.1
	0.6	0.7
Total	1.8	1.7

5 Exceptional items

	2005 £m	2004 £m
Operating exceptional items:		
Reorganisation and integration costs	(40)	(65)
Receipt from the liquidators of ONdigital	11	–
Provision for goodwill impairment	–	(5)
	(29)	(70)
Non-operating exceptional items:		
(Loss)/gain on sale of subsidiaries and investments	(10)	17
	(10)	17
Total exceptional items before tax	(39)	(53)

5 Exceptional items (continued)

In 2005 a charge of £40 million was incurred in respect of reorganisation and integration costs including the consolidation of regional news production centres and technical facilities. The largest element of this (£25 million) was staff related. Also included in 2005 is an £11 million receipt from the liquidators of ONdigital. A £10 million loss has been recognised in relation to the education business after its classification as a disposal group held for sale.

Reorganisation and integration costs in 2004 of £65 million were principally costs associated with the integration of the Carlton, Granada and new subsidiary businesses into ITV plc. The largest element of these costs (£41 million) were staff related with further costs incurred arising as a result of integrating our IT systems and infrastructure, property portfolio and fixed asset base.

6 Pension schemes

The Group operates a number of defined benefit and defined contribution pension schemes.

Defined contribution schemes

Total contributions recognised as an expense in relation to defined contribution schemes during 2005 were £2 million (2004: £2 million).

Defined benefit schemes

The Group operates a number of final salary defined benefit schemes. The majority of these schemes are funded and associated scheme assets are held in separate trustee administered funds.

The movement in the present value of the defined benefit obligation for these schemes is analysed below:

	2005 £m	2004 £m
Defined benefit obligation at 1 January	**2,357**	1,552
Business combinations	**–**	570
Current service cost	**26**	28
Curtailment gain	**(2)**	(4)
Interest cost	**125**	113
Net actuarial loss	**184**	179
Contributions by scheme participants	**5**	6
Benefits paid	**(91)**	(87)
Defined benefit obligation at 31 December	**2,604**	2,357

The present value of the defined benefit obligation is analysed between wholly unfunded and funded defined benefit schemes in the table below:

	2005 £m	2004 £m
Defined benefit obligation in respect of funded schemes	**2,573**	2,330
Defined benefit obligation in respect of wholly unfunded schemes	**31**	27
Total defined benefit obligation	**2,604**	2,357

The movement in the fair value of the defined benefit scheme assets is analysed below:

	2005 £m	2004 £m
Fair value of assets at 1 January	**1,685**	1,130
Business combinations	**–**	432
Expected return on assets	**112**	107
Net actuarial gain	**219**	56
Employer contributions	**142**	41
Contributions by scheme participants	**5**	6
Benefits paid	**(91)**	(87)
Fair value of assets at 31 December	**2,072**	1,685

The assets and liabilities of the scheme are recognised in the balance sheet and shown within non-current liabilities. The total recognised is:

	2005 £m	2004 £m
Total defined benefit scheme assets	**2,072**	1,685
Total defined benefit scheme obligations	**(2,604)**	(2,357)
Net amount recognised within the balance sheet	**(532)**	(672)

6 Pension schemes (continued)

Amounts recognised through the income statement are as follows:

	2005 £m	2004 £m
Amount (charged)/credited to operating costs:		
Current service cost	**(26)**	(28)
Curtailment gain	**2**	4
	(24)	(24)
Amount credited/(charged) to net financing costs:		
Expected return on pension scheme assets	**112**	107
Interest cost	**(125)**	(113)
	(13)	(6)
Total charge in the income statement	**(37)**	(30)

The amounts recognised through the statement of recognised income and expense are:

	2005 £m	2004 £m
Actuarial gains and (losses):		
Arising on scheme assets	**219**	56
Arising on scheme liabilities	**(184)**	(179)
	35	(123)

The cumulative amount of actuarial gains and losses recognised through the statement of recognised income and expense since 1 January 2004 is an actuarial loss of £88 million (2004: £123 million).

Included within actuarial gains and losses are experience adjustments as follows:

	2005 £m	2004 £m
Experience adjustments on scheme assets	**219**	56
Experience adjustments on scheme liabilities	**9**	(70)

The scheme assets are shown below by major category along with the associated expected rates of return.

	Expected long term rate of return 2005 %	Market value 2005 £m	Expected long term rate of return 2004 %	Market value 2004 £m
Market value of assets – equities and property	**7.5**	**1,421**	7.5	1,198
Market value of assets – bonds	**4.1 – 5.6**	**618**	4.5 – 6.1	453
Market value of assets – other	**4.5 – 4.9**	**33**	4.75 – 5.4	34
Total scheme assets		**2,072**		1,685

The expected long term rate of return on assets assumption is assessed by considering the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class is then weighted based on the asset allocation to develop the expected long term rate of return on assets assumption for the portfolio.

The actual return on plan assets in the year ended 31 December 2005 was £331 million (2004: £163 million).

The principal assumptions used in the scheme valuations at the balance sheet date were:

	2005	2004
Rate of general increase in salaries	**4.00%**	4.25%
Rate of increase in pension payment	**2.75%**	2.75%
Rate of increase to deferred pensions	**2.75%**	2.75%
Discount rate for scheme liabilities	**4.90%**	5.40%
Inflation assumption	**2.75%**	2.75%

For mortality rates the Group has used PA92 tables with mortality projected to 2015 for pensioner members and to 2030 for non-pensioner members. Using these tables a male member currently aged 40 is expected to live for a further 45 years, while a male pensioner aged 60 is expected to live a further 24 years. The Group reflected this recognition that mortality rates have reduced in its 2004 valuation. The tables above have been used for both 2005 and 2004 and reflect published mortality investigation data in conjunction with the results of investigations into the mortality experience of scheme members.

Normal contributions into the schemes in 2006 are expected to be in the region of £20 million based on contribution rates agreed with scheme trustees. Payments totalling £207 million have been made in early 2006 as part of the announced £325 million lump sum payment to address the schemes' deficit being the balance following the £118 million payment in December 2005.

7 Share-based payment

	2005		2004	
	Number of options ('000)	Weighted average exercise price (pence)	Number of options ('000)	Weighted average exercise price (pence)
Outstanding at 1 January	**217,703**	**106.15**	107,791	120.83
Outstanding at date of Carlton acquisition	**–**	**–**	129,305	94.16
Granted during the year	**31,127**	**49.82**	31,355	54.02
Forfeited during the year	**(8,508)**	**79.44**	(19,441)	108.98
Exercised during the year	**(21,907)**	**83.07**	(25,322)	25.81
Expired during the year	**(22,711)**	**199.87**	(5,985)	168.98
Outstanding at 31 December	**195,704**	**90.07**	217,703	106.15
Exercisable at 31 December	**66,471**	**157.40**	71,502	191.20

The average share price during 2005 was 116.38p (2004: 116.59p).

	2005			2004		
Range of exercise prices (pence)	Weighted average exercise price (pence)	Number of options ('000)	Weighted average remaining contractual life (years)	Weighted average exercise price (pence)	Number of options ('000)	Weighted average remaining contractual life (years)
Nil	**0.00**	**55,469**	**6.22**	0.00	42,716	6.99
50.00–69.99	**65.90**	**34,971**	**5.23**	65.22	42,776	5.99
70.00–99.99	**77.97**	**7,130**	**6.79**	78.49	9,221	7.72
100.00–109.99	**101.81**	**22,791**	**4.55**	102.00	23,604	5.20
110.00–119.99	**114.21**	**34,158**	**7.22**	113.77	49,682	7.84
120.00–149.99	**131.86**	**17,509**	**7.52**	138.43	11,764	6.75
150.00–199.99	**160.26**	**275**	**0.50**	161.38	1,736	4.96
200.00–249.99	**220.09**	**2,318**	**4.54**	221.85	4,295	4.95
250.00–299.99	**268.88**	**20,978**	**4.30**	269.18	30,865	5.22
300.00–385.99	**384.56**	**105**	**4.40**	352.04	1,044	5.25

Share schemes

Full details of the ITV Commitment Scheme, Performance Share Plan and Deferred Share Award Plan can be found in the remuneration report on page 82.

The Granada Media and Granada Commitment schemes mirror the ITV scheme summarised in the remuneration report on page 82. The main differences are as follows:

25% of the Matching Awards will vest for median ranking, and maximum vesting will occur only for first or second position out of a comparator group of sixteen companies (set out in the remuneration report on page 87). The performance condition is tested in respect of 50% of the Matching Award on the second anniversary of the date of grant. Any portion of the Matching Award which does not vest at that time may vest when the condition is again tested on the fourth anniversary of the date of grant. Performance conditions were adjusted to take account of the merger.

The Granada Media, Granada, Carlton and ITV Sharesave schemes are Inland Revenue Approved SAYE schemes.

The Granada Media, Granada and Carlton Executive Option schemes are Inland Revenue Approved and Unapproved schemes with three year performance periods. For all options granted before December 2002 the performance conditions were deemed to be satisfied on the merger of Carlton and Granada. The performance conditions for options granted from December 2002 measure TSR against a comparator group of companies permitting exercise only if ITV is ranked above the median of this group. The comparator group for Granada is set out in the remuneration report on page 87. The comparator group for Carlton is the FTSE 100 at date of grant. Performance conditions were adjusted to take account of the merger.

The Carlton Equity Participation Plan operated under similar terms to the ITV Commitment Scheme summarised in the remuneration report on page 82. For all awards made before December 2002 the performance conditions were deemed to be satisfied on the merger of Carlton and Granada. For awards made from December 2002, 33% of the Matching Award vests at median with maximum vesting occurring when ITV ranks in the upper quartile against a comparator group of UK media companies. The performance condition is tested on 1 April following the third anniversary of the date of grant. Any proportion that does not vest at this time may vest when the condition is tested on 1 April following the fourth anniversary of the date of grant. Performance conditions were adjusted to take account of the merger.

The Granada Deferred Share Award Plan mirrors the ITV scheme summarised in the remuneration report on page 82.The Carlton Deferred Annual Bonus Plan operated as a share award scheme. Shares were purchased from bonus entitlements and held in trust for a three year period. Matching shares were awarded and released after four years.

Exercises can be satisfied by market purchase or by new issue shares. No new shares may be issued to satisfy exercises under the terms of the Deferred Share Award Plan or nil-cost options under the Commitment Scheme. However it is now Company practice to satisfy all option exercises where possible by using shares purchased in the market and held in the Granada, Carlton and ITV Employees' Benefit Trusts rather than by issuing new shares.

7 Share-based payment (continued)

Assumptions relating to grants of share options during 2005 and 2004:

Schedule 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)
Executive Option Scheme								
Granada	06-Jan-04	118.75	118.75	38.40%	6	2.85%	4.72%	35.00
Commitment Schemes								
ITV – shares	19-May-04	116.50	0.00	39.00%	3	1.89%	5.05%	61.00
ITV – shares	19-May-04	116.50	0.00	38.00%	4	1.89%	5.05%	65.00
ITV – options	19-May-04	116.50	114.75	36.00%	6	1.89%	5.11%	32.00
ITV – options	19-May-04	116.50	114.75	35.00%	7	1.89%	5.11%	36.00
ITV – shares	19-Apr-05	126.00	0.00	32.00%	3	1.90%	4.51%	70.00
ITV – shares	19-Apr-05	126.00	0.00	31.50%	4	1.90%	4.50%	74.00
ITV – options	19-Apr-05	126.00	125.75	30.50%	6	1.90%	4.51%	31.00
ITV – options	19-Apr-05	126.00	125.75	30.00%	7	1.90%	4.52%	33.00
ITV – shares	17-May-05	116.50	0.00	32.00%	3	1.90%	4.51%	65.00
ITV – shares	17-May-05	116.50	0.00	31.50%	4	1.90%	4.50%	68.00
ITV – options	17-May-05	116.50	116.00	30.50%	6	1.90%	4.51%	28.00
ITV – options	17-May-05	116.50	116.00	30.00%	7	1.90%	4.52%	31.00
Performance Share Plan								
ITV	16-Sep-04	110.75	0.00	39.00%	3	2.35%	4.87%	67.00
ITV	30-Sep-04	107.75	0.00	39.00%	3	2.41%	4.87%	65.00
ITV	13-Oct-04	107.75	0.00	39.00%	3	2.41%	4.58%	61.00
ITV	21-Oct-04	106.25	0.00	39.00%	3	2.45%	4.58%	60.00
ITV	18-Apr-05	125.75	0.00	32.00%	3	1.90%	4.51%	74.00
ITV	10-May-05	114.50	0.00	32.00%	3	1.90%	4.51%	67.00
ITV	27-Sep-05	112.25	0.00	32.00%	3	2.33%	4.18%	56.00
Sharesave								
ITV – three year	08-Apr-04	127.50	100.40	39.00%	3.25	1.73%	4.61%	48.40
ITV – five year	08-Apr-04	127.50	100.40	37.00%	5.25	1.73%	4.73%	54.13
ITV – three year	08-Apr-05	126.50	101.60	32.00%	3.25	1.90%	4.57%	33.00
ITV – five year	08-Apr-05	126.50	101.60	31.00%	5.25	1.90%	4.59%	39.00

The expected volatility is based on the historic volatility of ITV plc. ITV plc was formed on the merger of Granada plc and Carlton Communications Plc on 2 February 2004.

The Executive Option Schemes, Commitment Schemes and Performance Share Plans all 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 Sharesave Schemes as these do not have any market performance conditions.

Share-based payment charges totalled £21 million in 2005 (2004: £15 million). Of these £4 million have been shown within exceptional items (2004: £nil).

8 Net financing costs

	2005 £m	2004 £m
Financing income:		
Interest income	21	18
Expected return on pension scheme assets	112	107
Net gain on remeasurement of interest rate swaps to fair value	11	–
Asset held for resale	–	3
	144	128
Financing costs:		
Interest expense	(54)	(34)
Interest cost on pension scheme liabilities	(125)	(113)
	(179)	(147)
Net financing costs	(35)	(19)

9 Taxation

Recognised in the income statement:

	2005 £m	2004 £m
Current tax expense:		
Current tax before exceptional items	(129)	(73)
Current tax credit on exceptional items	4	14
	(125)	(59)
Adjustment for prior periods	9	17
	(116)	(42)
Deferred tax:		
Origination and reversal of temporary differences	33	17
Adjustment for prior periods	(2)	–
	31	17
Total taxation expense in the income statement	(85)	(25)

Reconciliation of taxation expense:

	2005 £m	2004 £m
Profit before tax	311	168
Taxation expense at UK corporation tax rate of 30% (2004: 30%)	(93)	(50)
Non-taxable/non-deductible exceptional items	(8)	(2)
Non-taxable income/non-deductible expenses	(5)	(7)
Effect of tax losses utilised	18	17
Over provision in prior years	7	17
Other	(4)	–
	(85)	(25)

In the year ended 31 December 2005 the effective tax rate on profits is lower (2004: lower) than the standard rate of UK corporation tax primarily as a result of the utilisation of tax losses on which deferred tax assets were not previously recognised, offset by exceptional items which are not deductible for corporation tax purposes. The underlying tax rate on operating profits, after adjusting for exceptional items, overprovisions in prior years, and excluding associates and joint ventures is 28% (2004: 27%).

A tax expense totalling £8 million (2004: credit of £37 million) has been recognised directly in equity representing a current tax credit of £2 million (2004: £nil) and a deferred tax expense of £10 million (2004: credit of £37 million).

9 Taxation (continued)

Deferred tax assets and liabilities recognised and their movements are:

	At 31 December 2004 £m	Adjustment for IAS 32 and IAS 39 (note 37) £m	At 1 January 2005 (restated) £m	Business combinations £m	Recognised in the income statement £m	Recognised in equity £m	Transfer to held for sale £m	**At 31 December 2005 £m**
Property, plant and equipment	(3)	–	(3)	–	(2)	–	2	**(3)**
Intangible assets	(151)	–	(151)	(35)	31	–	–	**(155)**
Programme rights	7	–	7	–	(2)	–	–	**5**
Pension scheme deficits	202	–	202	–	(31)	(11)	–	**160**
Pensions funding payments	2	–	2	–	27	–	–	**29**
Interest-bearing loans and borrowings, and derivatives	(8)	2	(6)	–	10	(1)	–	**3**
Share-based payments	8	–	8	18	4	2	–	**32**
Tax losses	5	–	5	–	(5)	–	–	**–**
Other	4	–	4	–	(1)	–	–	**3**
	66	2	68	(17)	31	(10)	2	**74**

	At 1 January 2004 £m	Business combinations £m	Recognised in the income statement £m	Recognised in equity £m	At 31 December 2004 £m
Property, plant and equipment	(6)	4	(1)	–	(3)
Intangible assets	–	(184)	33	–	(151)
Programme rights	–	9	(2)	–	7
Pension scheme deficits	127	41	(3)	37	202
Pensions funding payments	–	–	2	–	2
Interest-bearing loans and borrowings, and derivatives	–	9	(17)	–	(8)
Share-based payments	1	5	2	–	8
Tax losses	–	5	–	–	5
Other	2	(1)	3	–	4
	124	(112)	17	37	66

At 31 December 2005 total deferred tax assets are £232 million (2004: £228 million) and total deferred tax liabilities are £158 million (2004: £162 million).

Potential deferred tax assets estimated at £0.7 billion, primarily in respect of capital losses and loan relationship deficits, have not been recognised due to uncertainties as to amount and whether gain or income will arise in the appropriate form and relevant territory against which such losses could be utilised.

Deferred tax liabilities relating to investments in subsidiaries, associates and joint ventures are also not recognised because the Group controls whether the liability will be incurred and is satisfied that it will not be incurred in the foreseeable future.

10 Dividends

Dividends declared and recognised through equity in the year were:

	2005 £m	2004 £m
Equity shares:		
Interim 2003 dividend of 0.5 pence per share	**–**	20
Interim 2004 dividend of 1.1 pence per share	**–**	45
Final 2004 dividend of 1.3 pence per share	**53**	–
Interim 2005 dividend of 1.32 pence per share	**54**	–
	107	65

A final dividend of 1.8 pence per share, totalling £74 million, has been proposed after the balance sheet date in respect of the year ended 31 December 2005 (2004: 1.3 pence per share, totalling £53 million). As is required by IAS 10 (Events after the balance sheet date) this amount has not been provided for at the balance sheet date.

11 Earnings per share

	2005 Basic £m	2005 Diluted £m	2004 Basic £m	2004 Diluted £m
Profit for the year attributable to equity shareholders of the parent company	**222**	**222**	137	137
Exceptional items (including related tax effect of £4 million, 2004: £14 million)	**35**	**35**	39	39
Profit for the year before exceptional items	**257**	**257**	176	176
Amortisation of intangible assets (including related tax effect of £31 million, 2004: £33 million)	**71**	**71**	78	78
Profit for the year before exceptional items and amortisation of intangible assets	**328**	**328**	254	254
Weighted average number of ordinary shares in issue – million	**4,082**	**4,082**	3,947	3,947
Dilution impact of share options – million	**–**	**46**	–	60
	4,082	**4,128**	3,947	4,007
Earnings per ordinary share	**5.4p**	**5.3p**	3.5p	3.4p
Adjusted earnings per ordinary share				
Basic earnings per ordinary share	**5.4p**	**5.3p**	3.5p	3.4p
Add: Loss per ordinary share on exceptional items	**0.9p**	**0.9p**	1.0p	1.0p
Earnings per ordinary share before exceptional items	**6.3p**	**6.2p**	4.5p	4.4p
Add: Loss per ordinary share on amortisation of intangible assets	**1.7p**	**1.7p**	1.9p	1.9p
Earnings per ordinary share for the year before exceptional items and amortisation of intangible assets	**8.0p**	**7.9p**	6.4p	6.3p

An adjusted earnings per share has been disclosed because in the view of the directors this gives a fairer reflection of the results of the underlying business.

12 Property, plant and equipment

	Freehold land and buildings £m	Improvements to leasehold land and buildings Long £m	Improvements to leasehold land and buildings Short £m	Vehicles, equipment and fittings Owned £m	Vehicles, equipment and fittings Leased £m	Rental assets £m	Total £m
Cost							
At 1 January 2004	62	57	8	337	48	19	531
Additions	2	1	–	33	–	–	36
Business combinations	31	27	5	32	1	–	96
Disposals	(14)	(16)	–	(15)	–	–	(45)
At 31 December 2004	81	69	13	387	49	19	618
Additions	–	1	2	43	–	–	46
Reclassification as assets held for sale	(11)	(3)	–	(11)	–	–	(25)
Disposals	(15)	–	(1)	(34)	(8)	–	(58)
At 31 December 2005	**55**	**67**	**14**	**385**	**41**	**19**	**581**
Depreciation							
At 1 January 2004	7	8	5	256	46	16	338
Charge for the year	2	2	1	30	–	–	35
Disposals	(2)	(2)	–	(9)	–	–	(13)
At 31 December 2004	7	8	6	277	46	16	360
Charge for the year	2	2	1	29	–	–	34
Reclassification as assets held for sale	(5)	(1)	–	(6)	–	–	(12)
Disposals	(3)	–	–	(25)	(8)	–	(36)
At 31 December 2005	**1**	**9**	**7**	**275**	**38**	**16**	**346**
Net book value							
At 31 December 2005	**54**	**58**	**7**	**110**	**3**	**3**	**235**
At 31 December 2004	74	61	7	110	3	3	258
At 1 January 2004	55	49	3	81	2	3	193

Included within the book values above is expenditure of £26 million (2004: £22 million) on property, plant and equipment which are in the course of construction. The amount of contractual commitments for the acquisition of property, plant and equipment is disclosed in note 33.

13 Intangible assets

	Goodwill £m	Brands £m	Customer contracts and relationships £m	Licences £m	Film libraries and other £m	Total £m
Cost						
At 1 January 2004	1,256	–	–	–	8	1,264
Additions	2,004	173	319	48	74	2,618
Reclassifications (see note 14)	40	–	–	–	–	40
Disposals	(4)	–	–	–	–	(4)
At 31 December 2004	3,296	173	319	48	82	3,918
Additions	174	26	17	73	4	294
Reclassification as assets held for sale	(45)	–	–	–	(7)	(52)
Disposals	–	–	–	–	(1)	(1)
At 31 December 2005	**3,425**	**199**	**336**	**121**	**78**	**4,159**
Amortisation and impairment						
At 1 January 2004	–	–	–	–	5	5
Charge for the year	–	15	86	4	6	111
Impairment charge	5	–	–	–	–	5
At 31 December 2004	5	15	86	4	11	121
Charge for the year	–	17	72	7	6	102
Reclassification as assets held for sale	(5)	–	–	–	(5)	(10)
Disposals	–	–	–	–	(1)	(1)
At 31 December 2005	**–**	**32**	**158**	**11**	**11**	**212**
Net book value						
At 31 December 2005	**3,425**	**167**	**178**	**110**	**67**	**3,947**
At 31 December 2004	3,291	158	233	44	71	3,797
At 1 January 2004	1,256	–	–	–	3	1,259

Amortisation of intangible assets is shown within operating costs in the income statement. In 2004 an impairment of £5 million was recognised within exceptional items as a result of an impairment review on elements of goodwill attached to the education business.

Impairment tests for cash-generating units containing goodwill
The following units have significant carrying amounts of goodwill:

	2005 £m	2004 £m
Broadcasting	**2,963**	2,889
Multiple units without significant goodwill	**462**	402
	3,425	3,291

The recoverable amount of the Broadcasting cash-generating units is based on value in use calculations. Those calculations use cash flow projections based on actual operating results and the five year business plan. Cash flows in perpetuity are extrapolated using a 2.5% growth rate and are appropriate because broadcasting is a long term business. The growth rate used is consistent with the long term average growth rate for the industry. A pre-tax discount rate of 11.4% has been used in discounting the projected cash flows.

The key assumptions and the approach to determining their value are:

Assumption	How determined
Total advertising market	Long term trends, industry forecasts and macro-economic outlook
Television share of advertising market	Long term trends, industry forecasts and in-house estimates
Digital penetration	Industry forecasts and government stated objectives
ITV1 share of commercial impacts	Impact of digital penetration and historic viewing shares by platform

14 Investments in joint ventures and associated undertakings

	Joint ventures £m	Associated undertakings £m	Total £m
At 1 January 2004	2	31	33
Additions	–	2	2
Business combinations	80	4	84
Reclassification (GMTV)	6	(6)	–
Reclassification as subsidiaries (ITV2, LNN, ITFC, ITV News Channel, GMTV, GSkyB)*	(39)	(6)	(45)
Share of attributable profits	9	4	13
Dividends received	(3)	(1)	(4)
At 31 December 2004	55	28	83
Share of attributable profits	5	6	11
Other	–	(1)	(1)
At 31 December 2005	**60**	**33**	**93**

*Included within the 2004 £45 million reclassification as subsidiaries was £40 million of goodwill (see note 13).

The aggregated summary financial information in respect of associates in which the Group has an interest is as follows:

	2005 £m	2004 £m
Assets	**143**	125
Liabilities	**(108)**	(87)
Revenue	**142**	135
Profit	**13**	8

The aggregated summary financial information in respect of the Group's share of interests in joint ventures is as follows:

	2005 £m	2004 £m
Non-current assets	**66**	65
Current assets	**49**	45
Current liabilities	**(27)**	(19)
Non-current liabilities	**(29)**	(30)
Revenue	**66**	79
Expense	**(61)**	(70)

The Group's interests in significant joint ventures and associated undertakings are listed in note ix in the ITV plc company financial statements section of this report.

15 Equity investments

	£m
At 1 January 2004	157
Business combinations	2
Disposals	(16)
Other	(3)
At 31 December 2004	140
Adjustment on adoption of IAS 32 and IAS 39 (note 37)	13
At 1 January 2005 (restated)	153
Additions at fair value	13
Disposals	(3)
Revaluation to fair value	18
At 31 December 2005	**181**

16 Distribution rights

	£m
Cost	
At 1 January 2004	6
Acquisitions	13
Additions	16
At 31 December 2004	35
Additions	11
At 31 December 2005	**46**
Charged to income statement	
At 1 January 2004	–
Expense for the year	23
At 31 December 2004	23
Expense for the year	10
At 31 December 2005	**33**
Net book value	
At 31 December 2005	**13**
At 31 December 2004	12
At 1 January 2004	6

The expense for the year is accounted for within operating costs in the income statement. On transition to IFRS on 1 January 2004, the cumulative balance charged to the income statement has been set to zero with the net book value at that date being taken as opening cost.

17 Programme rights and other inventory

	2005 £m	2004 £m
Commissions	**99**	91
Sports rights	**25**	30
Acquired films	**104**	89
Production	**74**	78
Prepayments	**85**	67
Other	**1**	13
	388	368

Programme rights and other inventory recognised as an expense in the year is included within the operating costs analysed in note 4.

18 Current assets – trade and other receivables due within one year

	2005 £m	2004 £m
Trade receivables	**299**	283
Other receivables	**16**	20
Prepayments and accrued income	**47**	46
	362	349

19 Current assets – trade and other receivables due after more than one year

	2005 £m	2004 £m
Trade receivables	**7**	8

20 Current liabilities – trade and other payables due within one year

	2005 £m	2004 £m
Trade payables	**159**	172
Social security	**10**	10
Other payables	**152**	125
Accruals and deferred income	**359**	361
Dividends	**54**	45
	734	713

21 Current liabilities – trade and other payables due after more than one year

	2005 £m	2004 £m
Trade payables	**4**	–

22 Non-current liabilities – other payables

	2005 £m	2004 £m
Other payables	**29**	7

23 Analysis of net debt

	31 December 2004 £m	Adjustment for IAS 32 and IAS 39 (note 37) £m	1 January 2005 (restated) £m	Net cash flow and acquisitions £m	Currency and non-cash movements £m	31 December 2005 £m
Cash	441	–	441	81	–	**522**
Cash equivalents	141	–	141	(1)	1	**141**
Cash and cash equivalents	582	–	582	80	1	**663**
Loans and loan notes due within one year	(7)	–	(7)	(22)	(11)	**(40)**
Finance leases due within one year	(3)	–	(3)	3	(3)	**(3)**
Loans and loan notes due after one year	(774)	(39)	(813)	(234)	21	**(1,026)**
Finance leases due after one year	(78)	–	(78)	–	3	**(75)**
Preference shares	–	(8)	(8)	8	–	**–**
	(862)	(47)	(909)	(245)	10	**(1,144)**
Net debt	(280)	(47)	(327)	(165)	11	**(481)**

	1 January 2004 £m	Acquisitions excluding cash £m	Net cash flow £m	Currency and non-cash movements £m	31 December 2004 £m
Cash at bank and in hand	91	–	349	1	441
Cash equivalents	94	27	19	1	141
Cash and cash equivalents	185	27	368	2	582
Loans due within one year	(3)	(1)	–	(3)	(7)
Finance leases due within one year	(1)	–	4	(6)	(3)
Loans and loan notes due after one year	–	(965)	192	(1)	(774)
Finance leases due after one year	(54)	(30)	–	6	(78)
	(58)	(996)	196	(4)	(862)
Net funds/(debt)	127	(969)	564	(2)	(280)

Included within cash equivalents is £78 million (2004: £81 million) the use of which is restricted to meeting finance lease commitments and Gilts of £29 million (2004: £24 million) over which the unfunded pension promises have a charge.

24 Analysis of borrowings

	2005			2004		
	Loans and loan notes £m	Finance leases £m	Total £m	Loans and loan notes £m	Finance leases £m	Total £m
Current						
In one year or less, or on demand	**40**	**3**	**43**	7	3	10
Non-current						
In more than one year but not more than two years	**452**	**3**	**455**	11	3	14
In more than two years but not more than five years	**253**	**14**	**267**	763	12	775
In more than five years	**321**	**58**	**379**	–	63	63
	1,026	**75**	**1,101**	774	78	852
	1,066	**78**	**1,144**	781	81	862

Loans repayable within one year
Loans repayable within one year as at 31 December 2005 include £19 million of loan notes issued in connection with the purchase of Friends Reunited and £6 million of loan notes issued in connection with the purchase of Carlton Communications Limited Preference Shares, with a coupon of LIBOR minus 0.525% and LIBOR minus 0.5% respectively. Loans repayable within one year also include Yen 2 billion loan note totalling £11 million and £4 million of other unsecured loans.

Loans repayable between one and two years
Loans repayable between one and two years as at 31 December 2005 comprise an unsecured €356 million Exchangeable bond which has a coupon of 2.25% and matures in January 2007. The Exchangeable bond can now be exchanged at any time at the option of investors for 8.6 million shares in Thomson S.A. at an exchange rate of €41.2 per share. The Company has the right to redeem the bonds at par on or after 4 July 2003 if the underlying shares in Thomson have traded at a 30% premium to the exchange price of €41.2 on 20 consecutive trading days in any period of 30 trading days. At 31 December 2005 the Thomson S.A. share price was €17.7. Loans repayable between one and two years as at 31 December 2005 also include an unsecured £200 million Eurobond which has a coupon of 7.625% and matures in June 2007.

Loans repayable between two and five years
Loans repayable between two and five years as at 31 December 2005 comprise an unsecured £250 million Eurobond which has a coupon of 5.625% and matures in March 2009.

Loan repayable after five years
Loans repayable after five years comprise an unsecured £325 million Eurobond which has a coupon of 5.375% and matures in October 2015.

Available facilities
At 31 December 2005, the Group has available £450 million (31 December 2004: £450 million) undrawn committed facilities. These expire in December 2008.

Finance leases
Finance lease liabilities are payable as follows:

	2005			2004		
	Minimum lease payments £m	Interest £m	Principal £m	Minimum lease payments £m	Interest £m	Principal £m
Not later than one year	**7**	**4**	**3**	7	4	3
Later than one year and not later than five years	**31**	**14**	**17**	30	15	15
Later than five years	**68**	**10**	**58**	76	13	63
	106	**28**	**78**	113	32	81

Finance leases principally comprise the lease of programme titles under sale and leaseback arrangements.

25 Financial instruments

Financial instruments disclosures 2005

a) Treasury operation and policy
The most significant treasury exposures faced by the Group are raising finance, managing interest rate and currency positions and investing surplus cash in high quality assets. Treasury policies have been approved by the Board for managing each of these exposures including levels of authority on the type and use of financial instruments. Transactions are only undertaken if they relate to underlying exposures. The treasury department reports regularly to the Audit Committee of the Board and treasury operations are subject to periodic independent reviews and internal audit.

Financing
The Group's financing policy for long term funding is to use debt instruments with a range of maturities. It is substantially funded from the UK and European capital markets and has bank facilities from the UK syndicated market.

Interest rate management
The Group's interest rate policy is to be between 30% and 70% fixed on its forecast net indebtedness over the medium term in order to provide a balance between certainty of cost and benefit from low floating rates. The Group uses interest rate swaps and options in order to achieve the desired mix between fixed and floating.

Currency management
The Group's foreign exchange policy is to hedge foreign currency denominated costs at the time of commitment and to hedge a proportion of foreign currency denominated revenues on a rolling 12 month basis. It is also the Group's policy to hedge major balance sheet exposures. The policies significantly reduce the Group's earnings and balance sheet exposures to changes in exchange rates.

25 Financial instruments (continued)

Investment in cash

The Group operates strict investment guidelines with respect to surplus cash and the emphasis is on preservation of capital. Counterparty limits for cash deposits are largely based upon long term ratings published by the major credit rating agencies. Deposits longer than three months require the approval of the Management Committee of the Board.

b) Measurement

Equity investments

Equity investments are detailed in note 15. The fair value is based on year end quoted prices for listed investments and estimates of likely sales proceeds for other investments.

Cash equivalents

The carrying value approximates to fair value because of the short maturity of the instruments.

Loans

The £200 million and £250 million Eurobonds have book and fair values of £207 million and £253 million respectively based upon their bid price valuations at 31 December 2005. The bonds are being carried at fair value with the resultant gains or losses recorded in the income statement in accordance with our accounting policy which prevent an accounting mismatch with the related swaps.

The €356 million Exchangeable bond is accounted for on an amortised cost basis using the effective interest method. At 31 December 2005 its book value was £245 million and its fair value based upon bid price was £243 million.

The Yen 2 billion loan note is accounted for on an amortised cost basis using the effective interest method. At 31 December 2005 its book value was £11 million and its fair value based upon bid price was £10 million.

The £325 million Eurobond is accounted for on an amortised cost basis using the effective interest method. It had a book value of £321 million and a fair value based upon bid price of £327 million at 31 December 2005.

The fair value of all other loans and finance leases were the same as book value at 31 December 2005.

Interest rate swaps and options

All interest rate swaps and options are accounted for at their fair value based upon termination prices. The fair value of these instruments at 31 December 2005 was £19 million.

Other current assets and liabilities

No disclosure of fair value has been made as the carrying value is a reasonable approximation of fair value.

c) Interest rate profile

The effective interest rates of loans and their maturity periods are as follows:

	Effective interest rate	Total £m	0–1 year £m	1–2 years £m	2–5 years £m	>5 years £m
Cash and cash equivalents	4.6%	663	588	3	14	58
Borrowings:						
£200 million Eurobond	7.6%	(207)	–	(207)	–	–
Effective rate after swaps	7.0%					
£250 million Eurobond	5.6%	(253)	–	–	(253)	–
Effective rate after swaps	6.1%					
€356 million Exchangeable bond	2.3%	(245)	–	(245)	–	–
Effective rate after swaps	4.4%					
Yen 2 billion loan note	0.4%	(11)	(11)	–	–	–
Effective rate after swaps	5.1%					
£325 million Eurobond	5.4%	(321)	–	–	–	(321)
Finance lease liabilities	5.3%	(78)	(3)	(3)	(14)	(58)
Other debt	4.4%	(29)	(29)	–	–	–
		(1,144)	(43)	(455)	(267)	(379)

Financial instruments disclosures 2004

Interest rate risk profile

The interest rate and currency profile of financial instruments at the year end are as follows:

Financial assets

				2004
	Floating rate £m	Fixed rate £m	Non-interest bearing £m	Total £m
Currency				
Sterling	435	106	89	630
Euro	32	–	–	32
US dollar	7	–	–	7
Other	2	–	59	61
	476	106	148	730

Fixed rate financial assets have a weighted average interest rate of 5.4% and have a weighted average term of 14 years. The cash and short term deposits, where interest bearing, attract interest at floating rates based on LIBID for periods of up to one month. The non-interest bearing financial assets principally comprise investments and the Group has made no decision to dispose of them.

25 Financial instruments (continued)

Financial liabilities

	2004			
	Floating rate £m	Fixed rate £m	Non-interest bearing £m	Total £m
Currency				
Sterling debt	607	289	59	955
Other debt	–	–	1	1
Preference shares	–	8	–	8
	607	297	60	964

Sterling fixed rate liabilities
Sterling fixed rate liabilities comprise Carlton Communications Limited Preference shares, the £200 million Eurobond and finance lease creditors. The liabilities have a weighted average interest rate of 7.6% after taking account of interest rate swaps and have a weighted average term of six years.

Interest rate swaps matched against the £200 million Eurobond are described below:

In April 2003 the £200 million Eurobond was swapped such that the Group receives the bond coupon of 7.625% and pays six month sterling LIBOR plus 3.19%. The bank has the option to cancel the swap for nil value at each six monthly rate fixing date. In May 2004 the Group entered into a one year swap for £75 million, a two year swap for £75 million and a three year swap for £50 million under which it receives six month sterling LIBOR plus 3.19% and pays fixed rates of 8.41%, 8.65% and 8.68% respectively.

The Group also has a further swap matched against this Eurobond which was dormant as at 31 December 2004. Under the terms of this dormant swap if six month dollar LIBOR exceeds 3.75% the Group receives the bond coupon of 7.625% and pays the higher of six month dollar LIBOR plus 0.75% set in arrears or in advance (payable in sterling) or 6 month sterling LIBOR minus 0.1% set in arrears or in advance. If six month dollar LIBOR set in advance sets above 6.5% a further 1% margin for that period is payable. This swap is not designated as a hedge for accounting purposes and as such the Group's policy is to provide to the extent that the swap represents an onerous contract. As at 31 December 2004 there was no provision against this swap.

Sterling floating rate liabilities
Sterling floating rate cost of borrowing mainly comprises the post swap costs of various debt instruments described below:

The €639 million Exchangeable bond was swapped with effect from May 2002 from its fixed rate cost of 2.25% into a floating rate cost of one month sterling LIBOR minus 2.81% on a notional amount of £395 million until January 2005. In September 2004 the Group repurchased €158 million of the Exchangeable. In December 2004 €125 million of the bonds were put for settlement in January 2005. At this time the Group entered into a forward starting 2 year swap commencing January 2005 whereby it receives 2.25% annually matched to the remaining €356 million bonds and pays 3 month sterling LIBOR minus 0.23% on a notional £252 million.

The £250 million Eurobond was swapped in July 2003 with subsequent amendments in May 2004 and December 2004 from its fixed rate coupon of 5.625% into the higher of six month sterling LIBOR set in arrears plus 1.045% or the payment rate used in the previous 6 month period.

The Group also has a further swap matched against this Eurobond which was dormant as at 31 December 2004. Under the terms of this dormant swap if six month dollar LIBOR exceeds 3.75% the Group receives the bond coupon of 5.625% and pays the higher of six month dollar LIBOR plus 0.75% set in arrears or in advance (payable in sterling) or six month sterling LIBOR minus 0.1% set in arrears or in advance. If six month dollar LIBOR set in advance sets above 6.5% a further 1% margin for that period is payable.

Yen 2 billion of private placement notes were swapped in September 2001 into sterling LIBOR plus 0.48% on a notional amount of £11 million. £6 million of loan notes were issued in consideration for repurchasing Carlton Communications Limited preference shares paying a coupon of LIBOR minus 0.5%.

Fair values of financial assets and financial liabilities
The estimated fair value of the Group's financial instruments is set out below:

	2004 Book value £m	2004 Fair value £m
Financial assets		
Equity investments	140	152
Cash and other liquid funds	582	582
Debtors due after more than 1 year	8	8
	730	742
Financial liabilities		
Loans	(896)	(908)
Preference shares	(8)	(8)
Creditors due after more than 1 year	(60)	(60)
	(964)	(976)
Derivatives		
Interest rate swaps and options, and foreign exchange contracts	9	10

Equity investments
Equity investments are detailed in note 15. Joint ventures and associated undertakings have been excluded as required under FRS 13. The fair value is based on year end quoted prices for listed investments and estimates of likely sales proceeds for other investments.

Cash and other liquid funds
The carrying value approximates to fair value because of the short maturity of the instruments.

Debtors and creditors due after more than one year
The fair value is based on estimates of likely cash receipts and payments.

25 Financial instruments (continued)

Loans
The £200 million and £250 million Eurobonds have book values of £208 million and £249 million respectively based upon their mid market valuations at merger and straight line amortisation to par over their remaining lives. The fair value of these bonds discounting at LIBOR was £212 million and £257 million respectively. Similarly the book value of the Yen 2 billion loan note was £11 million at 31 December 2004 which compares to its fair value calculated by discounting at LIBOR of £10 million.

The book value and the fair value of the Exchangeable bonds at 31 December 2004 was par on the basis that the holders of these bonds did not exercise their put option in December 2004.

The fair value of all other loans and finance leases were the same as book value at 31 December 2004.

Preference shares
The fair value of the Carlton Communications Limited Preference Shares was not materially different from the book value at 31 December 2004 due to the proximity of the issuer's call option on 30 April 2005.

Interest rate swaps and options
The interest rate swaps and options that were held by Carlton Communications Limited at merger and which were still outstanding at 31 December 2004 have an aggregate book value provision of £24 million based upon their mid market valuations at merger and straight line amortisation over their remaining lives. The fair value of these contracts along with new contracts entered into post merger on the basis of termination cost totalled £22 million at 31 December 2004.

Foreign exchange contracts
Foreign exchange contracts are valued at the 31 December 2004 spot rate of exchange to match the treatment applied to the item hedged.

Gains/(losses) on hedging contracts
The table below details gains/(losses) on hedging contracts at 31 December 2004:

	Deferred			Unrecognised		
	Gains £m	Losses £m	Net £m	Gains £m	Losses £m	Net £m
Gains/(losses) on hedges at 1 January 2004	–	–	–	–	(2)	(2)
Gains/(losses) provided for on combination	3	(38)	(35)	–	–	–
Losses/(gains) arising in previous years that were recognised in 2004	(3)	14	11	–	1	1
Losses/(gains) arising in 2004 that were not recognised in 2004	–	–	–	6	(3)	3
(Losses)/gains on hedges at 31 December 2004	–	(24)	(24)	6	(4)	2
Of which:						
(Losses)/gains expected to be recognised in 2005	–	(6)	(6)	2	(2)	–
(Losses)/gains expected to be recognised in 2006 or later	–	(18)	(18)	4	(2)	2

Currency risk
It is the Group's policy to hedge trading activities in non-functional currencies into the functional currency at the time of commitment. After taking such hedges into account, the Group had no material financial exposure to foreign exchange gains or losses on monetary assets and monetary liabilities in non-functional currencies at 31 December 2004.

26 Provisions

	Boxclever £m	Property £m	Other provisions £m	**Total £m**
At 1 January 2005	30	17	28	**75**
Utilised in the year	(2)	(6)	(17)	**(25)**
Unwinding of discount factor	1	1	–	**2**
At 31 December 2005	29	12	11	**52**

Of the provisions £23 million (2004: £32 million) are shown within current liabilities.

Property provisions are in place in respect of various vacant properties. Utilisation will be over the life of these leases. The Boxclever provision relates to potential liabilities that may arise as a result of Boxclever being placed into administration, most of which also relate to property.

27 Non-current assets and disposal groups held for sale
The Group is in the process of selling its education business and in January 2006 sold the 021 business. As such these are classified as disposal groups held for sale. The businesses are being sold as they are not core to the Group's main activities. It is expected that the education business will be sold within the next year. Additionally four freehold properties are also classified as held for sale. These properties are being sold as they are deemed to be surplus to future operating requirements and disposal is anticipated to be completed within one year. On classification as held for sale a £1 million loss was recognised. In summary the following are classified as held for sale in the balance sheet:

	£m
Property, plant and equipment	**13**
Intangible assets	**32**
Inventory	**9**
Trade and other receivables	**9**
Assets held for sale	**63**
Trade and other payables	**(7)**
Deferred tax liability	**(2)**
Liabilities held for sale	**(9)**
Net assets held for sale	**54**

28 Acquisitions and disposals of businesses

Acquisitions and disposals in 2005

SDN

On 27 April 2005, the Group acquired 50.1% of the shares in SDN Ltd and 100% of the shares in United Media & Information Ltd (which held the remaining shares in SDN Ltd) for a total consideration of £83 million in cash. As part of the acquisition, loan amounts due by these companies, totalling £53 million, were repaid bringing the total cash outflow of the Group to £136 million. SDN holds the licence to operate Multiplex A on digital terrestrial television.

In the period to 31 December 2005 SDN contributed £8 million to the consolidated operating profit of the Group (before additional amortisation of £4 million). Had the acquisition occurred on 1 January 2005, the estimated revenue for the Group would have been £7 million higher at £2,184 million and operating profit before amortisation and exceptional items £2 million higher at £462 million (additional amortisation is £2 million) for the year ended 31 December 2005. The acquired net assets of SDN are set out in the table below.

	Book value before acquisition £m	Fair value adjustments £m	Fair value to ITV plc £m
Intangible assets	–	82	82
Trade and other receivables	6	–	6
Borrowings	(53)	–	(53)
Trade and other payables	(7)	3	(4)
Deferred tax liability	–	(25)	(25)
Net assets and liabilities	(54)	60	6
Goodwill on acquisition			77
Consideration paid			83
Borrowings settled at date of acquisition			53
Total cash outflow			136

The intangible assets recognised at a fair value of £82 million include the Multiplex licence and customer contracts. A deferred tax liability of £25 million has been recognised in respect of these intangible assets.

The goodwill recognised represents the wider strategic benefits of the acquisition to ITV plc and the value of those assets not requiring valuation under IFRS3 (Business combinations). The strategic benefits are principally the enhanced ability to promote Freeview as a platform, business relationships with the channels which are on Multiplex A and the additional capacity available from 2010. These, in combination with existing Group assets including the ITV brand and programming, generate the goodwill on acquisition.

Friends Reunited

On 6 December 2005, the Group agreed to acquire 100% of the shares in Friends Reunited Holdings Limited for a total initial consideration of £120 million and deferred consideration of up to £55 million payable in 2009 contingent upon the future performance of the acquired business. The initial consideration consisted of £75 million cash, £21 million loan notes and £24 million ITV plc shares. Of the initial consideration £94 million was paid in 2005 with the balance of £26 million paid in 2006 (being the 21 million (£24 million) ITV plc shares and £2 million loan notes).

The fair value of the consideration is £145 million. This takes into account the initial consideration, the present value of the expected deferred consideration and other costs associated with the acquisition.

Had the acquisition occurred on 1 January 2005, the estimated revenue for the Group would have been £12 million higher at £2,189 million and operating profit before amortisation and exceptional items £6 million higher at £466 million (additional amortisation would have been £4 million) for the year ended 31 December 2005.

The acquired net assets of Friends Reunited are set out in the table below.

	Book value before acquisition £m	Fair value adjustments £m	Fair value to ITV plc £m
Intangible assets	4	34	38
Cash and cash equivalents	3	–	3
Trade and other receivables	1	–	1
Borrowings	(2)	–	(2)
Trade and other payables	(5)	–	(5)
Current tax (liability)/asset	(1)	3	2
Deferred tax asset	–	8	8
Net assets and liabilities	–	45	45
Goodwill on acquisition			100
Fair value of consideration			145

The intangible assets recognised at fair value include the brands and customer relationships. A deferred tax liability of £10 million has been recognised in respect of these intangible assets. A current tax asset of £3 million and a deferred tax asset of £18 million has been recognised in respect of the exercise of share options.

The goodwill recognised represents the benefits of the acquisition across the Group when combined with existing Group assets and businesses and the value of those assets not requiring valuation under IFRS 3 (Business combinations).

28 Acquisitions and disposals of businesses (continued)

Valuation of acquired intangible assets methodology
Valuation of acquired intangibles has been preformed in accordance with industry standard practice. Methods applied are designed to isolate the value of each intangible asset separately from the other assets of the business. The value of brands are assessed by applying a royalty rate to the expected future revenues over the life of the brand. Licences are valued on a start-up basis. Customer relationships and controls are valued based on expected future cash flows from those existing at the date of acquisition. Contributory charges from other assets are taken as appropriate with post tax cash flows then being discounted back to their present value. Typical discount rates applied in the valuation of intangible assets acquired in the period are 8%-11%.

Disposal
During the year the Group disposed of Superhire Ltd for gross consideration of £2 million.

Acquisition and disposals in 2004
Summary of the effect of the acquisition of new businesses:

	Carlton		GMTV/GSkyB			
	Book value before acquisition £m	Fair value to ITV plc £m	Book value before acquisition £m	Fair value to ITV plc £m	Reclassifications* £m	Total £m
Intangible assets	87	583	–	31	–	614
Fixed assets	81	86	3	3	7	96
Investments	96	122	–	–	(36)	86
Distribution rights	13	13	–	–	–	13
Deferred tax	29	(106)	–	(9)	3	(112)
Programme rights and other inventory	106	96	7	1	6	103
Trade and other receivables	155	149	14	13	45	207
Current asset investments	182	178	–	–	–	178
Assets held for sale	–	59	–	–	–	59
Cash and cash equivalents	410	410	19	19	59	488
Trade and other payables, provisions and borrowings	(1,204)	(1,245)	(29)	(32)	(111)	(1,388)
Pensions	(129)	(129)	–	–	(9)	(138)
Current tax	(62)	(62)	–	–	–	(62)
	(236)	154	14	26	(36)	144
Share of net assets within equity accounted investments plus minority interests		(168)		(8)	(3)	(179)
Goodwill on acquisition		1,932		33	39	2,004
Revaluation reserve adjustment		–		(6)	–	(6)
		1,918		45	–	1,963
Fair value of consideration paid		1,897		45		1,942
Acquisition costs		21		–		21
		1,918		45		1,963

*Reclassification of ITV2, LNN, ITFC, ITV News Channel and ITV Network Limited to subsidiaries on combination of Granada and Carlton. These were previously held within investments in joint ventures and associates.

The most material acquisition accounted for during 2004 results from acquisition accounting for the combination with Carlton Communications Plc on 2 February 2004. Consideration comprised 1,308 million ordinary shares and 124 million convertible shares in ITV plc. The fair value of the consideration at the date of merger was £1,897 million.

In the period to 31 December 2004 Carlton contributed £82 million to the consolidated operating profit of the Group (before additional amortisation of £101 million). Had the acquisition occurred on 1 January 2004, the estimated revenue for the Group would have been £30 million higher at £2,083 million and operating profit before amortisation and exceptional items £1 million higher at £325 million for the year ended 31 December 2004.

The principal fair value adjustments to the book values (under IFRS) of the acquired assets and liabilities are as follows:

- Recognition of acquired intangible assets at fair value. These are principally brands, customer contracts, customer relationships, licences and acquired film libraries.
- Acquired properties stated at market value.
- Revaluation of investments to estimated market value.
- Write down of inventories to estimated selling price less reasonable profit margin.
- Assets held for sale shown at expected net proceeds discounted back to their present value at the date of acquisition.
- Revaluation of financial instruments to market value.
- Deferred tax provided on acquisition accounting adjustments as appropriate.

Disposals
During 2004 the Group disposed of The Moving Picture Company Holdings Ltd and Carlton Books Ltd (which were classified as held for resale) for respective gross considerations of £59 million and £nil.

29 Called up share capital

The Group's share capital is the same as that of ITV plc. Details of this are given in note iv in the ITV plc company financial statements section of this report.

Employee benefit trusts

The Group has investments in its own shares as a result of shares purchased by certain employee benefit trusts. As at 31 December 2005 the holdings were as follows:

	2005		2004	
	Number of shares	**Market value £m**	Number of shares	Market value £m
ITV Employees' Benefit Trust	**6,164,183**	**7**	7,090,704	7
Granada Media Employees' Benefit Trust	**–**	**–**	3,049,259	3
Granada Employees' Benefit Trust	**8,734,904**	**10**	10,299,915	11
Carlton Communications Employee Share Ownership Plan	**1,567,706**	**2**	2,930,077	3

The nominal value of own shares held is £1.6 million (2004: £2.3 million). The shares will be held in trust until such time as they may be transferred to participants of the various Group share schemes. Rights to dividends have been waived by the Granada Media, Granada and ITV Employees' Benefit Trusts in respect of shares held which do not relate to the Deferred Share Award Plan.

The total number of shares held by the trusts at 31 December 2005 is 16,466,793 (2004: 23,369,955) ordinary shares representing 0.4% (2004: 0.6%) of ITV's issued share capital.

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.

(4) 224,091 ordinary shares with a nominal value of £22,409.10 were released from the Carlton Employee Share Ownership Plan to satisfy awards vesting under the Carlton Equity Participation Plan. 1,138,280 ordinary shares with a nominal value of £113,828 were released from the Carlton Employee Share Ownership Plan to satisfy awards vesting under the Carlton Communications Executive Share Option Scheme.

30 Consolidated statement of changes in equity

	Attributable to equity shareholders of the parent company								
	Share capital £m	Share premium £m	Merger and other reserves £m	Translation reserve £m	Available for sale reserve £m	Retained earnings £m	**Total £m**	Minority interest £m	**Total equity £m**
At 1 January 2004	277	–	1,191	–	–	(81)	1,387	1	1,388
Business combinations	143	85	1,675	–	–	–	1,903	174	2,077
Redemption of Granada redeemable shares	–	–	(200)	–	–	–	(200)	–	(200)
Purchase of minority interest	–	–	–	–	–	–	–	(159)	(159)
Shares issued in the year	2	6	–	–	–	–	8	–	8
Total recognised income and expense	–	–	–	(2)	–	51	49	6	55
Movements due to share-based compensation	–	–	–	–	–	11	11	–	11
Dividends paid to non-equity shareholders	–	–	–	–	–	–	–	(6)	(6)
Equity dividends	–	–	–	–	–	(65)	(65)	–	(65)
At 31 December 2004	422	91	2,666	(2)	–	(84)	**3,093**	16	**3,109**
Adjustment on adoption of IAS 32 and IAS 39 (note 37)	–	–	–	–	13	(1)	**12**	(8)	**4**
At 1 January 2005 (restated)	422	91	2,666	(2)	13	(85)	**3,105**	8	**3,113**
Cancellation of shares	(3)	(39)	–	–	–	–	**(42)**	–	**(42)**
Shares issued in the year	4	46	–	–	–	–	**50**	–	**50**
Total recognised income and expense	–	–	–	1	20	248	**269**	4	**273**
Movements due to share-based compensation	–	–	–	–	–	18	**18**	–	**18**
Equity dividends	–	–	–	–	–	(107)	**(107)**	–	**(107)**
At 31 December 2005	**423**	**98**	**2,666**	**(1)**	**33**	**74**	**3,293**	**12**	**3,305**

Included within the adjustment to retained earnings on adoption of IAS 32 and IAS 39 is the creation of a cash flow hedge reserve of £1 million. Following movements in the year the balance on this reserve at 31 December 2005 is £nil.

Included within retained earnings is a £26 million (2004: £39 million) deduction for investments held in ITV plc shares by the Group-sponsored employee benefit trusts.

Merger and other reserves
Merger and other reserves at 31 December 2005 include merger reserves of £2,548 million (2004: £2,548 million), capital reserves of £112 million (2004: £112 million) and revaluation reserves of £6 million (2004: £6 million).

Translation reserve
The translation reserve comprises all foreign exchange differences arising on the translation of the financial statements of, and investments in, foreign operations.

Available for sale reserve
The available for sale reserve comprises all movements arising on the revaluation of assets accounted for as available for sale.

31 Contingent liabilities
There are contingent liabilities in respect of certain litigation and guarantees and in respect of warranties given in connection with certain disposals of businesses. In the opinion of the directors, adequate allowance has been made in respect of these matters.

32 Operating Leases
The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2005 £m	2004 £m
Not later than one year	**16**	16
Later than one year and not later than five years	**55**	56
Later than five years	**130**	132
	201	204

The Group leases a number of properties principally comprising offices and studios under operating leases. Leases typically run for a period of 15 years, with an option to renew the lease after that date. Lease payments are typically increased every five years to reflect market rentals. None of the leases include contingent rentals.

The total future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date is £22 million (2004: £19 million).

The total operating lease expenditure recognised during the year was £17 million (2004: £19 million) and total sublease payments received totalled £3 million (2004: £3 million).

33 Capital and other commitments
There are no capital commitments at 31 December 2005 (31 December 2004: none). There are commitments in respect of forward foreign exchange contracts entered into the ordinary course of business.

34 Post balance sheet events

In January and February 2006 the Group made payments into pension schemes totalling £207 million as part of the Group's £325 million deficit funding payment. The initial £118 million payment was made in December 2005.

As disclosed in more detail in note iv to the ITV plc company financial statements, the ITV convertible shares were tested under the conversion criteria on 1 January 2006. The criteria for conversion into ordinary shares were not met and the shares automatically converted into non-voting deferred shares.

35 Related party transactions

Transactions with associated undertakings and joint ventures:

	2005 £m	2004 £m
Sales to joint ventures	**1**	4
Sales to associated undertakings	**5**	11
Purchases from associated undertakings	**54**	50

	2005 £m	2004 £m
Amounts owed by joint ventures	**33**	34
Amounts owed by associated undertakings	**10**	6
Amounts owed to associated undertakings	**4**	4

All transactions with associated undertakings and joint ventures arise in the normal course of business.

Transactions with key management personnel

Key management personnel compensation is as follows:

	2005 £m	2004 £m
Short term employee benefits	**5**	4
Post-employment benefits	**2**	1
Termination benefits	**2**	–
Share-based payment	**6**	4
	15	9

36 Accounting estimates and judgments

Details of significant accounting estimates and judgments have been disclosed under the relevant note or accounting policy for each area where disclosure is required. Principally these are pensions, valuation of acquired intangible assets, goodwill impairment testing, fair value of derivatives and provisions.

37 Adoption of IAS 32 and IAS 39

In accordance with the option allowed by IFRS 1 the Group has adopted IAS 32 and IAS 39 prospectively from 1 January 2005. The impact on the Group's opening balance sheet at 1 January 2005, by balance sheet category, is outlined below:

	31 December 2004 £m	Effect of IAS 32 and IAS 39 £m	1 January 2005 £m
Equity investments (a)	140	13	153
Net deferred tax asset (b)	66	2	68
Trade and other receivables due within one year (c)	349	34	383
Trade and other payables due within one year (d)	(713)	2	(711)
Borrowings (non-current) (e)	(852)	(47)	(899)
Impact on net assets		4	

a) Revaluation of investments to 1 January 2005 fair values.
b) Deferred tax effect of IAS 39 adjustments.
c) Reclassification of currency option relating to Exchangeable bond from borrowings.
d) Revaluation of interest rate swaps and foreign exchange contracts to 1 January 2005 fair values.
e) Reclassification of currency option to trade and other receivables (see c above), revaluation of loans and loan notes to 1 January 2005 fair values and reclassification of Carlton preference shares from minority interests.

The nature of the effects on the primary statements in 2004, had IAS 32 and IAS 39 been adopted, would have been similar to those stated above.

Conversion to International Financial Reporting Standards

Following the Group's adoption of IFRS, the 2004 comparative financial information in these accounts has been restated and represented under IFRS. The reconciliations below highlight the key impacts on both the profit attributable to equity shareholders and on total equity. The Group has produced Preliminary International Financial Reporting Standards Financial Statements for 2004 which set out in greater detail the impact of IFRS on the Group's 2004 results and include more detailed reconciliations from UK GAAP of the balance sheets at 1 January 2004, 30 June 2004 and 31 December 2004 and the income statements for the six months ended 30 June 2004 and the year ended 31 December 2004. This document is available on the ITV plc corporate website at www.itvplc.com.

Reconciliation of profit attributable to equity shareholders from UK GAAP to IFRS

	Year ended 31 December 2004 £m
Profit attributable to equity shareholders (UK GAAP)	139
IAS 19 (Employee benefits) *	(3)
IFRS 2 (Share-based payment) *	(3)
IFRS 3 (Business combinations) *	5
Other	(1)
Profit attributable to equity shareholders (IFRS)	**137**

* Includes related deferred tax effect

Reconciliation of total equity from UK GAAP to IFRS

	31 December 2004 £m	1 January 2004 £m
Total equity (UK GAAP)	3,418	1,656
IAS 10 (Events after the balance sheet date)	53	20
IAS 19 (Employee benefits)*	(389)	(274)
IFRS 3 (Business combinations)*	39	–
IAS 12 (Taxation)	(5)	(9)
Other	(7)	(5)
Total equity (IFRS)	**3,109**	**1,388**

* Includes related deferred tax effect

The principal IFRS adjustments are as follows:

a) IAS 19 – Employee benefits

The principal impact of IAS 19 (Employee benefits) on the Group is in relation to accounting for defined benefit pension schemes.

IAS 19 (as amended) requires defined benefit pension scheme accounting to be based on fair values at the balance sheet date. Separate charges for operating and net financing costs based on actuarial assumptions in place at the start of the year are required through the income statement while in the balance sheet under the accounting policy adopted the deficit is recognised in full with actuarial gains and losses arising taken through the statement of recognised income and expense in the period in which they arise. The treatment and impact is broadly in line with that previously disclosed in accordance with FRS 17 under UK GAAP. Deferred tax is recognised in respect of the balance sheet deficit.

The operating charge through the income statement in the year ended 31 December 2004 reduces by £5 million while the net financing cost, for which there was no equivalent under UK GAAP (SSAP 24), is £6 million. The reduction reflects the different measurement basis and the recognition of a short term curtailment gain on the Group's pension schemes which had a significant drop in active members as a result of the merger between Granada and Carlton. There is a related increase in the deferred tax charge of £2 million.

The balance sheet shows a total IAS 19 pensions deficit of £672 million at 31 December 2004 (1 January 2004: £422 million) of which, under UK GAAP, the unfunded element of £27 million (1 January 2004: £22 million) was previously recognised within creditors and an amount of £95 million (with associated deferred tax asset of £28 million) was included within provisions under acquisition accounting for Carlton. A movement through the statement of recognised income and expense for the year of £123 million reflects the actuarial gains and losses. The deficit is shown before a deferred tax asset of £202 million (1 January 2004: £127 million) recognised within non-current assets in the balance sheet giving a net deficit of £470 million (1 January 2004: £295 million). These and other smaller adjustments lead to a net decrease in net assets of £389 million at 31 December 2004 (1 January 2004: £274 million).

b) IFRS 2 – Share-based payments

Under IFRS 2 (Share-based payments) the charge through the income statement is based upon the fair value of share options and awards granted. The fair value of the equity instrument is measured at grant date and spread over the vesting period through the income statement with a corresponding increase in equity. The fair value of the share options and awards is measured using either a Monte Carlo or Black-Scholes model as appropriate taking into account the terms and conditions of the individual scheme. The amount recognised as an expense is adjusted to reflect changes to the expected vesting except where forfeiture is due only to changes in the expected achievement of market based criteria.

IFRS 2 requires a charge for all such grants including awards, options and SAYE schemes unlike 2004 UK GAAP which based the charge on the intrinsic market value of the underlying shares at the date of grant and so, for the Group, a charge arose on awards only.

The Group has applied IFRS 2 only to share options and awards granted after 7 November 2002 that had not vested at 1 January 2005 as permitted under IFRS 1. As the Group has not previously presented the fair value of share options and awards granted, the IFRS 1 option to apply IFRS 2 to all share options and awards granted, including those granted before 7 November 2002, cannot be taken by the Group.

The charge under IFRS is £5 million higher in 2004 than under UK GAAP. There is no impact on the net assets of the Group as the charge to the income statement is matched by an equal credit through reserves (barring the deferred tax impact discussed under point e)).

c) IFRS 3 – Business combinations

The Group has taken the IFRS 1 exemption from applying IFRS 3 to combinations occurring before 1 January 2004. Consequently there is no impact on goodwill recognised before that date and so no impact on the 2004 opening balance sheet.

Business combinations occurring after 1 January 2004 have been accounted for in accordance with IFRS 3. This impacts on the acquisition accounting for Carlton Communications Plc and the purchase of additional stakes in GMTV and GSkyB, which occurred during 2004. The principal impact is that intangible assets (which meet the definition for recognition under IAS 38 (Intangible Assets) and whose fair value can be measured) are recognised separately from goodwill. These assets are then amortised over their useful lives. Additionally the fair values identified under UK GAAP must be revisited under IFRS. The main impact of this is that the pensions deficits are brought onto the balance sheet using an IAS 19 (Employee Benefits) valuation rather than the SSAP 24 (Accounting for Pension Costs) valuation used under UK GAAP. Both the intangible assets and pensions adjustments lead to associated deferred tax balances being recognised. The net of these reduces the goodwill recognised.

IFRS 3 prohibits the amortisation of goodwill instead requiring that it is subjected to annual impairment testing. This causes a reduction in the Group's amortisation charge for the year ended 31 December 2004 of £72 million. Additionally goodwill balances held within investments in joint ventures and associates are also no longer amortised leading to a credit of £5 million to the share of profit of associates and joint ventures. The balance sheet shows corresponding increases to goodwill and investments in associates and joint ventures.

The net impact on the income statement is to increase the amortisation charge in 2004 by £33 million, reduce the tax charge by £33 million and increase share of profits from joint ventures and associates by £5 million, giving a net increase in profit of £5 million.

On the balance sheet at 31 December 2004, goodwill is lower than previously reported under UK GAAP by £255 million, other intangible assets increase by £435 million, investments in joint ventures and associates increase by £5 million which together with an additional deferred tax liability of £146 million gives a net increase in net assets of £39 million.

d) IAS 10 – Events after the balance sheet date

Under IAS 10 (Events after the balance sheet date) dividends are recognised in the period in which they are declared. The impact on the balance sheet is to reduce liabilities by £53 million at 31 December 2004 (1 January 2004: £20 million).

e) IAS 12 – Taxation

IAS 12 (Income taxes) requires deferred tax to be provided on all temporary differences rather than timing differences which are considered under UK GAAP. The deferred tax impacts of IAS 19 and IFRS 3 are discussed in a) and c) above. The remaining deferred tax impact is in respect of a number of smaller items such as, share-based payments and properties which were revalued historically.

f) Cash flow statement

The material adjustments to the cash flow statement are principally presentational with cash flows now classified under the three main categories of operating activities, investing activities and financing activities. Additionally the definition of cash and cash equivalents is wider with liquid resources now being included in both the opening and closing balances and the cash flows.

ITV plc Company Financial Statements

Company balance sheet

At 31 December:	Note	2005 £m	2005 £m	2004 Restated £m	2004 Restated £m
Fixed assets:					
Investments in subsidiary undertakings	ii		**1,791**		1,646
Current assets:					
Amounts owed by subsidiary undertakings		**17**		79	
Prepayments and accrued income		**1**		6	
Cash at bank and in hand and short term deposits		**632**		453	
		650		538	
Creditors – amounts falling due within one year:					
Borrowings	iii	**(65)**		(436)	
Amounts owed to subsidiary undertakings		**–**		(15)	
Accruals and deferred income		**(58)**		(27)	
Other creditors		**(33)**		(1)	
Dividends		**(54)**		(45)	
		(210)		(524)	
Net current assets			**440**		14
Total assets less current liabilities			**2,231**		1,660
Creditors – amounts falling due after more than one year:					
Borrowings	iii		**(1,027)**		(801)
Net assets			**1,204**		859
Capital and reserves:					
Called up share capital	iv		**423**		422
Share premium	v		**98**		91
Profit and loss account	v		**683**		346
Shareholders' funds – equity			**1,204**		859

The accounts were approved by the Board of Directors on 8 March 2006 and were signed on its behalf by:

Charles Allen

John Cresswell

Notes to the ITV plc company financial statements

i Accounting policies

Basis of preparation
As permitted by section 230(4) of the Companies Act 1985, a separate profit and loss account, dealing with the results of the parent company, has not been presented.

The Company has adopted FRS 21 (IAS 10) 'Events after the balance sheet date' for the first time in these accounts. The principal impact of this standard 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. The impact on the 2004 comparatives is to reduce the dividend creditor by £53 million and the dividend recognised within the profit and loss account by the same amount.

The Company has adopted FRS 26 (IAS 39) 'Financial Instruments: Measurement' and FRS 25 (IAS 32) 'Financial Instruments: Disclosure and Presentation' for the first time in these accounts. As permitted under these standards the 2004 comparatives have not been restated and continue to be presented under previously applicable accounting standards. The impact of adopting FRS 25 and FRS 26 is discussed in note viii.

The Company has adopted FRS 28 (Corresponding amounts) for the first time in these accounts.

The accounts have been prepared under the historical cost convention as modified by the revaluation of certain assets and liabilities and in accordance with applicable accounting standards.

Subsidiaries
Subsidiaries are entities that are directly or indirectly controlled by the Company. Control exists where the Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

Foreign currency transactions
Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Foreign currency monetary assets and liabilities at the balance sheet date are translated into sterling at the rate of exchange ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account. Non-monetary assets and liabilities measured at historical cost are translated into sterling at the rate of exchange on the date of the transaction.

Borrowings
Borrowings are recognised initially at fair value, and in subsequent periods at amortised cost. The difference between cost and redemption value being recorded in the profit and loss account over the period of the liability on an effective interest basis.

Where the Company has identified that any such liabilities result in a mismatch between the accounting liability and the related derivative, the Company has adopted early the fair value option provision of FRS 26. The effect of this is that the Company recognises any such financial liabilities at fair value in all periods subsequent to initial recognition, with resultant gains or losses recorded in the profit and loss account.

Derivatives and other financial instruments
The Company uses a limited number of derivative financial instruments to hedge its exposure to fluctuations in interest rates. The Company does not hold or issue derivative instruments for speculative purposes.

Derivative financial instruments are initially recognised at cost and are subsequently remeasured at fair value with movement recorded in the profit and loss account.

The fair value of foreign currency forward contracts is determined by using forward exchange market rates at the balance sheet date. The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of swap counterparties.

Prior to adoption of FRS 25 and FRS 26 from 1 January 2005 interest receipts and payments under interest rate swap and option agreements were accrued so as to match the net income or cost with the related finance expense. No amounts were recognised in respect of future periods.

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

ii Investments in subsidiary undertakings
The principal subsidiary undertakings are listed in note ix. The movements in the investments in subsidiary undertakings of the Company during the year are analysed below:

	£m
At 1 January 2005	1,646
Additions	145
At 31 December 2005	1,791

iii Borrowings

Borrowings repayable within one year
Loans repayable within one year as at 31 December 2005 include £19 million of loan notes issued in connection with the purchase of Friends Reunited and £6 million of loan notes issued in connection with the purchase of Carlton Communications Limited Preference Shares, with a coupon of LIBOR minus 0.525% and LIBOR minus 0.5% respectively. Loans repayable within one year and also include Yen 2 billion loan note totalling £11 million and £29 million of bank overdrafts. In 2004 the Yen 2 billion loan notes were classified as due after more than one year and loans due within one year excluded the £19 million of loan notes issued in connection with the purchase of Friends Reunited in 2005.

Borrowings repayable after more than one year
Loans repayable between one and two years as at 31 December 2005 comprise an unsecured €356 million Exchangeable bond which has a coupon of 2.25% and matures in January 2007. The Exchangeable bond can now be exchanged at any time at the option of investors for 8.6 million shares in Thomson S.A. at an exchange rate of €41.2 per share. The Company has the right to redeem the bonds at par on or after 4 July 2003 if the underlying shares in Thomson have traded at a 30% premium to the exchange price of €41.2 on 20 consecutive trading days in any period of 30 trading days. Loans repayable between one and two years as at 31 December 2005 also include an unsecured £200 million Eurobond which has a coupon of 7.625% and matures in June 2007. Loans repayable between two and five years as at 31 December 2005 comprise an unsecured £250 million Eurobond which has a coupon of 5.625% and matures in March 2009. Loans repayable after five years comprise an unsecured £325 million Eurobond which has a coupon of 5.375% and matures in October 2015. At 31 December 2004 loans due after more than one year also included the Yen 2 billion loan notes and the Exchangeable bond was held at €481 million. €125 million of the Exchangeable bond was redeemed in January 2005.

iv Called up share capital

	Authorised		Allotted, issued and fully paid	
	2005 £m	2004 £m	2005 £m	2004 £m
Ordinary shares of 10 pence each				
Authorised:				
5,826,377,627 (2004: 5,854,500,000)	583	585		
Allotted, issued and fully paid:				
4,108,483,836 (2004: 4,093,111,161)			411	409
Convertible shares of 10 pence each				
Authorised:				
144,516,388 (2004: 145,000,000)	14	15		
Allotted, issued and fully paid:				
123,772,488 (2004: 124,250,119)			12	13
Total	**597**	**600**	**423**	**422**

There were 50,000 authorised redeemable preference shares of £1 each of which 49,998 were issued on 1 December 2003. All of the issued redeemable shares were redeemed on 15 November 2004. There were no redeemable preference shares in issue at 31 December 2004 or 31 December 2005.

On 1 January 2006 the convertible shares were, pursuant to Article 4.A.4(F) of the Company's Articles of Association, automatically converted into non-voting deferred shares. Pursuant to this Article, the Company has the right to appoint any person to execute on behalf of each holder of deferred shares a transfer of such holder's entire holding of deferred shares to such person as the Company may determine as custodian thereof without obtaining the sanction of any such holder and for no consideration. The UK Listing Authority and the London Stock Exchange have confirmed cancellation of the listing from the Official List of the deferred shares and the cancellation of trading of the deferred shares on the London Stock Exchange.

Issued share capital movements during the period can be summarised as follows:

		Ordinary £1 shares	Ordinary 10 pence shares	Convertible 10 pence shares	Redeemable preference £1 shares
On incorporation	One £1 ordinary share	1	–	–	–
1 December 2003	Share issue	1	–	–	49,998
4 December 2003	Share conversion	(2)	20	–	–
2 February 2004	Issued on combination	–	4,076,455,071	123,796,653	–
13 February 2004	Cancellation of subscriber shares	–	(20)	–	–
March/April 2004	Conversion of Carlton preference shares	–	575,183	54,422	–
15 November 2004	Redemption of redeemable shares	–	–	–	(49,998)
Various	Issued in connection with share option schemes	–	16,080,907	399,044	–
At 31 December 2004		–	4,093,111,161	124,250,119	–
11 March 2005	Cancellation of Scheme of Arrangement shares	–	(28,122,373)	(483,612)	–
16 March 2005	Placing of shares following the Scheme of Arrangement	–	30,000,000	–	–
28 June 2005	Conversion of Carlton preference shares	–	63,327	5,981	–
Various	Issued in connection with share option schemes	–	13,431,721	–	–
At 31 December 2005		**–**	**4,108,483,836**	**123,772,488**	**–**

On 11 March 2005 the Company undertook a reorganisation of its share capital by way of a scheme of arrangement under section 425 of the Companies Act 1985 and the amendment of its Articles of Association, which had the effect of reducing the number of US resident holders of each class of shares to below 300 enabling it to suspend its registration and reporting obligations to the US Securities and Exchange Commission. Accordingly, 28,122,373 ordinary and 483,612 convertible shares were cancelled on 11 March 2005. In order to maintain the level of the Company's issued share capital and reduce the cost of the Scheme, the Company conducted a cash placing with institutional investors of 30,000,000 new ordinary shares of 10 pence each in the capital of the Company on 16 March 2005. As a small number of convertible shares were cancelled no new convertible shares were placed.

v Reconciliation of movements in shareholders' funds

	Share capital £m	Share premium £m	Profit and loss account £m	**Total 2005 £m**
At 31 December 2004 (restated)	422	91	346	**859**
Adjustment for adoption of FRS 25 and FRS 26 (note viii)	–	–	(15)	**(15)**
At 1 January 2005 (restated)	422	91	331	**844**
Issue of shares in year	1	7	–	**8**
Retained profit for year for equity shareholders	–	–	352	**352**
At 31 December 2005	423	98	683	**1,204**

The profit after tax for the year dealt with in the accounts of ITV plc is £459 million (period ended 31 December 2004: £411 million) before dividends of £107 million (2004: £65 million).

vi 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 has guaranteed certain finance and operating lease obligations of subsidiary undertakings.

There are contingent liabilities in respect of certain litigation and guarantees and in respect of warranties given in connection with certain disposals of businesses and in respect of certain trading and other obligations of certain subsidiaries.

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

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

The Company does not expect the amendments to have any impact on the financial statements for the period commencing 1 January 2006.

vii Capital and other commitments

There are no capital commitments at 31 December 2005 (31 December 2004: none). There are commitments in respect of forward foreign exchange contracts entered into the ordinary course of business.

The Company has not adopted amendments to FRS 26 in relation to financial guarantee contracts which will apply for periods commencing on or after 1 January 2006.

viii Adoption of FRS 25 and FRS 26

The Company has applied FRS 25 and FRS 26 prospectively from 1 January 2005. The impact on the Company's opening balance sheet at 1 January 2005, by balance sheet category, is outlined below:

	31 December 2004 £m	Effect of FRS 25 and FRS 26 £m	1 January 2005 £m
Other creditors (a)	(1)	(2)	(3)
Borrowings (non-current) (b)	(801)	(13)	(814)
Impact on net assets		(15)	

(a) Revaluation of interest rate swaps to 1 January 2005 fair values.
(b) Revaluation of loans and loan notes to 1 January 2005 fair values.

The nature of the effects on the primary statements in 2004, had FRS 25 been adopted, would have been similar to those stated above.

ix Principal subsidiary undertakings and investments

Principal subsidiary undertakings

The principal subsidiary undertakings of the Company at 31 December 2005, all of which are wholly owned (directly or indirectly) and incorporated and registered in England and Wales except where stated, are:

Name	Principal activity
3sixtymedia Limited +	Supplier of facilities for television productions
Anglia Television Limited	Production and broadcast of television programmes
Border Television Limited	Production and broadcast of television programmes
Carlton Broadcasting Limited	Production and broadcast of television programmes
Carlton Communications Limited	Holding company
Carlton Film Distributors Limited	Film rights ownership and distribution
Carlton Screen Advertising Limited	Sale of advertising space in cinemas
Carlton Television Limited	Sale of television airtime
Central Independent Television Limited	Production and broadcast of television programmes
Friends Reunited Holdings Limited	Operation of community based websites
GMTV Limited ++	Production and broadcast of breakfast time television under national Channel 3 licence
Granada Limited	Holding company
Granada International Media Limited	Rights ownership and distribution of television programmes and films
Granada International Media, Inc **	Distribution of television programmes
Granada Learning Limited	Supplier of educational media
Granada Media Australia Pty Limited *	Production of television programmes
Granada Media Group Limited	Holding company
Granada Media Limited	Holding company
Granada Productions Pty Limited *	Production of television programmes
Granada Television Limited	Production and broadcast of television programmes
Granada Ventures Limited	Production and distribution of video and DVD products

ix Principal subsidiary undertakings and investments (continued)

Principal subsidiary undertakings (continued)

Name	Principal activity
Hamdon Entertainment***	Television rights and productions
HTV Group Limited	Holding company
HTV Limited	Production and broadcast of television programmes
Independent Television Facilities Centre Limited ++++	Subtitling, audio-description and signing services
ITC Distribution LLC**	Film rights ownership and distribution
ITC Entertainment Group Limited	Film rights ownership and distribution
ITV Digital Channels Limited	Operation of digital TV channels
ITV Network Limited +++	Scheduling and commissioning television programmes
ITV Sales Limited	Sale of television airtime
ITV2 Limited	Operation of digital TV channels
London Weekend Television Limited	Production and broadcast of television programmes
LWT (Holdings) Limited	Holding company
Meridian Broadcasting Limited	Production and broadcast of television programmes
SDN Limited	Operation of Freeview Multiplex A
Tyne Tees Television Limited	Production and broadcast of television programmes
Westcountry Television Limited	Production and broadcast of television programmes
Yorkshire Television Limited	Production and broadcast of television programmes

* Incorporated and registered in Australia
** Incorporated and registered in USA
*** Registered in USA

\+ 80% owned
++ 75% owned
+++ Interest in company limited by guarantee
++++ 91.5% owned

A list of all subsidiary undertakings will be included in the Company's annual return to Companies House.

Principal joint ventures, associated undertakings and investments

The Company indirectly holds the following holdings in significant joint ventures, associated undertakings and investments:

Name	Note	Interest in ordinary share capital 2005 %	Interest in ordinary share capital 2004 %	Principal activity
Arsenal Broadband Limited	b	50.00	50.00	Exploitation of new media and other commercial opportunities
Arsenal Holdings plc	c	10.05	4.99	Management of the football and related interests of Arsenal football club
Education Digital Limited	a	20.00	20.00	Production and Broadcast of Teachers TV
Independent Television News Limited	a	40.00	40.00	Supply of news services to broadcasters in the UK and elsewhere
Liverpool FC.tv Limited	b	50.00	50.00	Exploitation of new media and other commercial opportunities
MUTV Limited	a	33.00	33.00	Operation of the MUTV television channel dedicated to Manchester United Football Club and its activities
Screenvision Holdings (Europe) Limited	b	50.00	50.00	European cinema advertising
Seven Network Limited *	c	11.59	12.33	Holder of Australian free to air broadcast licence
SMG plc **	c	16.86	16.87	Management activities for holding companies and television broadcasting in central and north Scotland
Technicolor Cinema Advertising LLC***	b	50.00	50.00	US cinema advertising
The Liverpool Football Club and Athletic Grounds Plc	b	9.99	9.99	Management of the football and related interests of Liverpool football club
TV3 Television Network Limited ****	a	45.00	45.00	Operation of the TV3 channel in Ireland

* Incorporated and registered in Australia
** Incorporated and registered in Scotland
*** Incorporated and registered in USA
**** Incorporated and registered in Ireland

a Associated undertaking
b Joint venture
c Trade investment

Corporate governance

The Board of ITV plc is committed to business integrity and high ethical values across the Group's operations. As an essential part of this commitment, the Board supports high standards of corporate governance and has a policy of seeking to comply with the recommendations of the Combined Code and voting guidelines of our major institutional investors.

Compliance

As required by the Listing Rules issued by the UK Listing Authority, this report describes how the Company has applied the principles set out in Section 1 of the Combined Code on Corporate Governance. It also discloses the extent to which the Company has complied with the Code's provisions.

The Board considers that, throughout the year (and subsequently up to the date of this report), the Company complied with the provisions of the Combined Code.

The Board

Composition: The Board currently comprises eleven members, the Chairman, seven non-executive and three executive directors. Biographical details for each of the directors are set out on pages 32 and 33.

Chairman: Sir Peter Burt is Chairman and is responsible for leadership of the Board, ensuring its effectiveness and setting its agenda. Details of his professional commitments are included in his biography on page 32. The Board is satisfied that these are not such as to interfere with the performance of his duties for the Company. The Chairman is committed to working for the Company for approximately 52 days per annum.

Senior Independent Director: Sir George Russell is Deputy Chairman and the senior independent non-executive director. He acts as a conduit to the Board for communication of shareholder concerns when other channels of communication are inappropriate and ensures that the performance evaluation of the Chairman is conducted effectively.

Details of his professional commitments are included in his biography on page 32. The Board is satisfied that these are not such as to interfere with the performance of his duties for the Company. His job description is available on the Company website at www.itvplc.com.

Chief Executive: Charles Allen is Chief Executive and has responsibility to the Board for leadership and management of the Company and management of the day-to-day operations of the Company.

The respective job descriptions of the Chairman and the Chief Executive are set out in writing and have been agreed by the Board. Copies are available on the Company website at www.itvplc.com.

Election and re-election: All directors are required by the Company's articles of association to be elected by shareholders at the first Annual General Meeting after their appointment by the Board. Subsequently, all directors are subject to re-election by shareholders at least every three years. Directors who reach the age of 70 will retire annually.

The directors who will be seeking re-election at the Annual General Meeting on 10 May 2006 are set out in the Directors' report on page 34. The reasons why the Board believes they should be re-elected are set out in the explanatory notes to the notice of the Annual General Meeting sent with this document.

External directorships: With the specific approval of the Board in each case, executive directors may accept external appointments as non-executive directors of other companies and retain any related fees paid to them. Charles Allen served as a non-executive director of Tesco plc throughout the year and Henry Staunton served as a non-executive director of Legal & General Group plc throughout the year and of Standard Bank plc from 1 December 2005. They both retained the fees from these appointments. Details of the amounts retained are set out in the Remuneration report on page 85.

The non-executive directors

The non-executive directors constructively challenge and help develop proposals on strategy. They bring strong, independent judgement, knowledge, and experience to the Board's deliberations. The independent directors are of sufficient calibre and number that their views carry significant weight in the Board's decision making.

Independence: The Combined Code recommends that at least half of the Board, excluding the Chairman, should comprise "independent" non-executive directors. The ITV Board considers each of its current non-executive directors to be independent.

Meetings of non-executives: The non-executive directors meet regularly as a group.

Terms of appointment: Subject to the Company's articles of association, the Companies Act and satisfactory performance evaluation, non-executive directors are appointed for an initial period of three years from commencement of appointment. Before the third and sixth anniversary of the non-executive directors' first appointment, the director will discuss with the Board whether it is appropriate for a further three year term to be served. The re-appointment of directors who have served for more than nine years will be subject to annual review. The terms and conditions of appointment of the non-executive directors are available on the Corporate Information section of the Company website at www.itvplc.com.

Time commitment: The Board is satisfied that each of the non-executive directors commits sufficient time to the business of the Company.

Company Secretary: The Company Secretary, James Tibbitts, is responsible for advising the Board through the Chairman on all governance matters. The directors have access to the advice and services of the Company Secretary. The Company's articles of association and the schedule of matters reserved to the Board for decision, provide that the appointment and removal of the Company Secretary is a matter for the full Board.

Name	Board	Strategy	Audit Committee	Nomination Committee	Remuneration Committee
Number of Meetings in 2005	10	2	4	2	6
Sir Peter Burt	10	2	n/a	2	n/a
Sir George Russell [2]	10	2	2	2	6
David Chance	9	2	n/a	2	n/a
James Crosby [3]	9	2	4	2	3
John McGrath [3]	10	2	4	2	3
Sir Robert Phillis [1, 2]	8	2	1	1	5
Sir Brian Pitman [2]	10	2	2	2	6
Baroness Usha Prashar [1, 3]	8	2	2	1	2
Charles Allen	10	2	n/a	n/a	n/a
Henry Staunton	10	2	n/a	n/a	n/a

Notes:
[1]Sir Robert Phillis and Baroness Usha Prashar were appointed as directors on 7 February 2005.
[2]Ceased to be a member of the Audit Committee on 1 May 2005.
[3]Ceased to be a member of the Remuneration Committee on 1 May 2005.
Non attendance has been due to ill health and unavoidable commitments.

How the Board operates

Board meetings: The Board is scheduled to meet 10 times in 2006 (including two meetings devoted to discussion of strategic matters) and may meet at other times as and when required.

Board Programme: The Board approves annually a schedule of matters to be considered at each meeting and at each meeting of the Remuneration, Audit and Nomination Committees.

Directors' attendance: Attendance of directors at Board and Committee meetings during 2005 is set out in the table on page 77.

Board responsibility and delegation: The specific responsibilities are set out in a schedule of matters reserved to the Board. These include: setting long term objectives and corporate strategy and approving an annual budget; approving major acquisitions, divestments and capital expenditure; approving Board appointments; reviewing systems of financial control and risk management; and approving policies relating to directors' remuneration. The full schedule of matters reserved to the Board is available on the Company website at www.itvplc.com.

The Board has delegated certain responsibilities to board committees, the key committees being the Remuneration Committee, the Audit Committee and the Nomination Committee. Further information is provided below and copies of the terms of reference for each Committee are on the Company website at www.itvplc.com.

Information flow: Regular reports and papers are circulated to the directors in a timely manner in preparation for Board and Committee meetings. These papers are supplemented by other relevant information when applicable or if requested.

The non-executive directors receive monthly management accounts and regular management reports which enable them to scrutinise the Group's and management's performance against agreed objectives. ITV has developed a website for the use of its directors. The website is regularly updated with information about the Company and other corporate governance matters.

Independent professional advice: Directors are given access to independent professional advice at the Group's expense, when the directors deem it necessary in order for them to carry out their responsibilities. Details of the process are available on the Company website at www.itvplc.com.

Insurance cover: The Company maintains liability insurance for its directors and officers with a cover limit of £50 million.

Indemnities: The Company has entered into deeds of indemnity with its directors. A copy of the form of deed of indemnity is available on the Company website at www.itvplc.com.

Board effectiveness

Performance evaluation: The Board has established a formal process, led by the Chairman, for the annual evaluation of the performance of the Board, its Committees, and individual directors with particular attention given to those who are due for re-election. The directors are made aware, on appointment, that their performance will be subject to an annual evaluation.

The first evaluation took place in 2004 and some of the actions taken during 2005 from this evaluation included the establishment of an internal communications function, strengthening of the strategic planning resource internally, increased communication of business data to directors, implementation of a more detailed induction programme and establishment of a defence committee.

The evaluation for 2005 was undertaken in November. The evaluation process required each director to complete a detailed questionnaire designed to provide the Chairman with a means of making year-to-year comparisons. The questions covered a range of issues such as board processes, board roles and responsibilities, board agendas, committee processes, individual effectiveness, training, continuing professional development and effectiveness of the Chairman.

The results were collated and the consolidated results were presented to the Chairman. Individual director assessments were discussed by the Chairman with the relevant director together with goals for the following year. The results of the evaluation together with recommendations for the year were discussed at Board level.

Led by the senior independent director, the non-executive directors conducted their annual evaluation of the Chairman's performance; a similar method to that described above was employed. The views of the executive directors were also considered. The outcome of the evaluation was highly positive.

The performance of individual executive directors is appraised annually by the Chief Executive, to whom they report. The performance review of the Chief Executive is conducted by the Chairman, taking into account the views of other directors.

Induction and continuing professional development: ITV has a policy and programme for induction and continuing professional development, which is reviewed annually.

On appointment, each director takes part in an induction programme when he or she receives information about the Group in the form of presentations by executives from the business and on the regulatory environment. They also meet representatives of the Company's key advisers. In addition they receive information about the role of the Board and the matters reserved for its decision, the terms of reference and membership of Board Committees, and the powers delegated to those Committees, the Group's corporate governance practices and procedures and the latest financial information about the Group. This is supplemented by visits to key locations and meetings with key senior executives and meetings with major shareholders. Throughout their period in office, the directors are continually updated on the Group's businesses, the competitive and regulatory environments in which they operate, corporate social responsibility matters and other changes affecting the Group and the markets in which it operates. This is provided by written briefings and meetings with senior executives across the Group and from meetings with key advisers. Directors are also advised on appointment of their legal and other duties and obligations as a director of a listed company, both in writing and in face-to-face meetings with the Company Secretary. They are briefed regularly on changes to the legal and governance requirements of the Group and in relation to their own position as directors.

Board Committees

The terms of reference for the Audit, Remuneration, Nomination and Management Committees are available on the Company website at www.itvplc.com. The terms of reference are reviewed annually.

The Company Secretary acts as secretary to all of the Board Committees and minutes of meetings are circulated to all Board members.

Audit Committee

Composition:

During 2005 the Audit Committee comprised the following members:

– John McGrath (Chairman of the Committee)
– James Crosby
– Baroness Usha Prashar (from 7 February 2005)
– Sir Robert Phillis (from 7 February 2005 until 1 May 2005)
– Sir Brian Pitman (until 1 May 2005)
– Sir George Russell (until 1 May 2005)

Mike Clasper became a member of the Committee on 16 January 2006.

The Committee normally meets four times a year.

The Combined Code requires the Board to be satisfied that at least one member of the Audit Committee has recent and relevant financial experience. The Board has considered this requirement, and has concluded that the wide range of business and financial experience of the Committee members as a whole, gained at the highest level of UK FTSE 100 companies and other blue-chip organisations, is sufficient to enable the Committee to fulfil its terms of reference in a robust and independent manner. Biographical details of the members of the Committee are set out on pages 32 and 33.

At the invitation of the Chairman of the Committee, the Finance Director, the Director of Internal Audit and representatives of the external auditors regularly attend Audit Committee meetings. The Committee as a whole has the opportunity to meet privately with the internal and external auditors at any time they consider appropriate. In 2005 one private meeting was held with each of the internal and external auditors.

Terms of reference: In accordance with the Committee's terms of reference the Committee's main role and responsibilities include:

- monitoring the integrity of the financial statements of the Company;
- reviewing the effectiveness of the Company's internal control and risk management systems;
- reviewing the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters;
- monitoring and reviewing the effectiveness of the Company's internal audit function; and
- considering and making recommendations to the Board in relation to the appointment, re-appointment, removal and remuneration of the Company's external auditor.

The Committee is authorised by the Board to seek any information that it requires from any employee and to obtain, at the Company's expense, independent legal or professional advice on any matter within its terms of reference and to call any employee to be questioned at a meeting of the Committee as and when required.

The Committee works to a structured programme of activities with agenda items focused to coincide with key events of the annual financial reporting cycle, together with standing items that the Committee is required to consider at each meeting.

Activities in 2005: The Audit Committee met four times and discharged its responsibilities by:

- reviewing the Group's draft financial statements (including detailed disclosures) prior to Board approval;
- reviewing the appropriateness of the Group's accounting policies;
- performing a specific review of the Group's accounting policy in relation to goodwill, the methodology and assumptions in relation to goodwill impairment testing and the impact of IFRS on goodwill reporting;
- reviewing and approving the annual external audit plan;
- reviewing the external auditors' reports on their work, considering the findings of that work and confirming that all significant matters had been satisfactorily resolved;
- monitoring regularly the non-audit services being provided to the Group by its external auditors. The Committee has approved a formal policy governing the independence of the Company's external auditors and defining those non-audit services that may be provided to the Group, including those which require the prior approval of the Committee. This policy provides for a cap in non-audit fees to be charged by the external auditor. Details of the statutory audit and non-audit services are set out in note 4 of the financial statements;
- reviewing and approving the internal audit plan and resources for the internal audit function. The internal audit plan is constructed taking a risk based approach with the review cycle ensuring that financially material operations are reviewed annually and all activities are reviewed at least once every three years;
- considering internal audit reports and the actions taken to implement the recommendations made in those reports;
- reviewing the results of the annual Group risk assessment process, and considering a rolling programme of risk and internal control presentations made by each operating team and central service functions;
- reviewing an annual report on the Group's system of internal control and its effectiveness and reporting to the Board on the results of that review;
- considering the impact of IFRS on the Company's financial reporting; and
- approving the Group's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

Auditor's independence and objectivity

The Audit Committee regularly monitors the non-audit services being provided to the Group by its external auditors, and has developed a formal policy to ensure this does not impair their independence or objectivity, and that the Group maintains a sufficient choice of appropriately qualified audit firms. The policy sets out four key principles which underpin the provision of non-audit services by the external auditors: the auditor should not audit its own firm's work, make management decisions for the Group, have a mutuality of financial interest with the Group, or be put in the role of advocate for the Group. The policy sets a maximum 1:1 ratio for the annual split between audit and non-audit fees charged by the external auditor. The Audit Committee has pre-approved the categories of non-audit services that may be performed by the external auditors and explicitly set out the categories of work that they may not perform. The Audit Committee believes that these policies accord with governance best practice. Audit Committee approval is required for any engagement of the external auditors where the fee is likely to be in excess of £0.1 million.

The Audit Committee reviews all services being provided by the external auditors to review the independence and objectivity of the external auditors, taking into consideration relevant professional and regulatory requirements, so that these are not impaired by the provision of permissible non-audit services. The Audit Committee has also performed a specific evaluation of the performance of the external auditors, through assessment of the results of questionnaires completed by relevant executive management in addition to Committee members' own views of auditor performance. Such evaluations will be carried out annually and the Company will carry out market testing or a form of audit tender every five years from appointment of external auditors.

Internal control

The Combined Code requires that companies review, at least annually, all material internal controls including financial, operational, compliance controls and risk management systems. The Turnbull Report provided guidance to directors in complying with these internal control requirements and in the opinion of the Board the Company has complied with this guidance throughout the year, maintaining an ongoing process for identifying, evaluating and minimising risk. In October 2005, the Financial Reporting Council issued revised guidance to directors in complying with the internal control requirements of the Combined Code for accounting periods beginning on or after 1 January 2006. The Board will apply this revised guidance for the Company's 2006 financial year.

The Board has overall responsibility for the Group's systems of internal control and for regularly reviewing the effectiveness of those systems. The primary responsibility for the operation of these systems is delegated to line management. Such systems can only provide reasonable and not absolute assurance against material misstatement or loss. Key control procedures are designed to manage rather than eliminate risk and can be summarised as follows:

- **Strategy and financial reporting:** The Group performs a comprehensive annual strategy review and budgeting process. The executive directors review budgets and strategies and the Board approves the overall Group budget as part of its normal responsibilities. The results of operating units are reported monthly, compared with their individual budgets and forecast figures are reviewed on a month by month basis.
- **Organisational structure and authorisation procedures:** The Group has an established organisational structure with clearly stated lines of responsibility and reporting. Authorisation procedures in respect of matters such as purchase commitments, capital expenditure, investment limits and treasury transactions are clearly defined.
- **Control environment:** Financial controls and procedures are considered as part of the Group's ongoing risk assessment process.

- **Risk assessment:** Management has responsibility for the identification of risks facing each of the Group's businesses and for putting in place controls and procedures to mitigate and monitor those risks. A formal annual risk assessment process has been established, the results of which are reported to the executive directors and Board. Key risks, mitigating controls and required actions are identified and monitored by the executive directors and Audit Committee. Risks are also reviewed at least annually by the executive directors, who meet with the senior management of each business team and with the heads of significant central service functions specifically to discuss the risks facing their areas. In addition, presentations are made to the Audit Committee to enable it to review the risks in these areas at least once a year.
- **Reviewing and monitoring the effectiveness of internal controls:** Controls are monitored by management review, Internal Audit, the executive directors and the Audit Committee. Directors of each business team are required to confirm annually compliance with internal financial control in their area. Serious control weaknesses (if any) are reported to the Board as appropriate. The Board has conducted a review of the effectiveness of the Group's systems of internal controls for the period ended 31 December 2005.

Remuneration Committee
The Remuneration report can be found on pages 81 to 89. Terms of engagement of the remuneration consultants are available on the Company website at www.itvplc.com.

Nomination Committee

Composition:
During 2005 the Nomination Committee comprised Sir Peter Burt (Chairman) and all the non-executive directors.

Terms of reference: The principal responsibilities of the Committee include:
- reviewing the structure, size and composition required of the Board;
- identifying and nominating for Board approval candidates to fill Board vacancies;
- evaluating the balance of skills, knowledge and experience on the Board; and
- considering succession planning for directors and other senior executives.

Activities in 2005: The Committee initiated the search for a new Finance Director. After consideration of a number of candidates John Cresswell was appointed on 16 January 2006. In addition the Committee began the process of identifying suitable additional non-executive candidates, again using a professional search firm. Mike Clasper was appointed as a director on 3 January 2006. On appointment he met the independence criteria set out in the Combined Code and is expected to continue to do so.

The Committee considers the composition of the Board on an annual basis to ensure the appropriate balance of skills and experience.

Management Committee
The Management Committee comprises the executive directors and meets as required to conduct the Company's business within the clearly defined limits delegated by the Board and subject to those matters reserved to the Board.

Relations with shareholders
The Board attaches a high priority to communications with shareholders. In addition to the preliminary and interim results presentations and the Annual General Meeting, a series of meetings between institutional shareholders, the Chairman, the senior independent director and the executive directors is held throughout the year. In fulfilment of the Chairman's obligations under the Combined Code, the Chairman gives feedback to the Board on issues raised with him by major shareholders.

The Group maintains a corporate website containing a wide range of information of interest to institutional and private investors. The Group has frequent discussions with institutional shareholders on a range of issues affecting its performance. These include meetings following the announcement of the annual results with the Group's largest institutional shareholders on an individual basis. In addition, the Group responds to individual ad hoc requests for discussions from institutional shareholders.

Save in exceptional circumstances, all members of the Board will attend the Annual General Meeting and shareholders are invited to ask questions during the meeting and to meet with directors prior to the formal proceedings. At the meeting the Chairman reviews the Group's current trading. Notice of the Annual General Meeting, together with any related documents, is mailed to shareholders about seven weeks before the meeting and separate resolutions are proposed on each substantially separate issue. At the meeting all resolutions are taken on a poll. The level of votes lodged on a resolution is announced to the meeting following voting and is made available on a regulatory news service the following day and on the Corporate Information section of the Company website at www.itvplc.com within 48 hours following the meeting.

Contacts for corporate governance

Chairman	Sir Peter Burt
Senior independent director	Sir George Russell
Chief Executive	Charles Allen
Company Secretary	James Tibbitts

Telephone: 020 7620 1620
Further information is available on the Company website at www.itvplc.com.

Remuneration report

The Remuneration Committee is governed by formal terms of reference and is comprised entirely of independent non-executive directors. The Committee meets as required during the year, but not less than twice a year. All members of the Committee have no personal financial interest, other than as a shareholder, in the matters to be decided by the Committee, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the Company's businesses.

The Committee is responsible for reviewing the remuneration policy for the Chairman, executive directors and senior executives of the Company. The Committee also has responsibility for the Company's performance related pay schemes and share incentive plans, and the levels of awards made under them as they apply to the senior executives. Details of the full terms of reference of the Committee are available on the Company website at www.itvplc.com.

During 2005 the Remuneration Committee comprised the following members:

– Sir George Russell (Chairman of the Committee)
– Sir Robert Phillis from 7 February 2005
– James Crosby until 1 May 2005
– John McGrath until 1 May 2005
– Sir Brian Pitman
– Baroness Usha Prashar from 7 February 2005 until 1 May 2005

The Chief Executive is generally invited to attend meetings of the Committee to advise on policy for executive remuneration except when matters relating to his own remuneration are discussed. Similarly, the Chairman of ITV plc may also attend. Internal and external advisers to the Committee may also be invited to attend all or part of meetings where appropriate. No individual is involved in decisions relating to their own remuneration. The Committee has appointed Deloitte and Touche LLP ("Deloitte") as external independent advisers. In addition, Deloitte provided the Group with tax and corporate finance advice under separate engagement terms. Advice on legal matters is provided by Lovells. The Committee's internal advisers are the Group Human Resources Director and the Company Secretary, supported by their colleagues in the Human Resources and Secretariat functions.

Remuneration policy
These pages set out how the Remuneration Committee operated the various elements of remuneration in 2005 and intends to operate them going forward, subject to the approval by shareholders of the Remuneration report at the forthcoming AGM.

General policy
The Board is committed to building the most appropriate remuneration policy for ITV. In doing this the Committee has designed a remuneration policy which is intended to address ITV's operational requirements while taking into account prevailing best practice.

The remuneration policy is based on the following key principles:

- To provide competitive total remuneration opportunities which will attract, retain and reward the best executive talent necessary to drive ITV's successful future in the highly competitive media market. This must respond to the pressures that ITV faces from both other commercial and publicly owned broadcasters and producers.
- The majority of total long term remuneration for all senior executives should be variable/at–risk and tied to the achievement of specific stretching performance conditions and objectives which align executive remuneration with shareholders' interests. The schemes encourage executives to adopt the attitude of owners and true entrepreneurs and build up meaningful and substantial shareholdings in ITV.
- Performance should be measured over clearly specified, varying periods (i.e. short, medium and long term). The Committee does not believe that retesting is appropriate in such a framework, and no ITV arrangements contain this feature.
- Individuals should be rewarded for success, and steps should be taken, within contractual obligations, to minimise rewards for failure. The Board is unanimously of the view that service contracts for executive directors should be no longer than twelve months.
- The Committee should take its decisions being fully aware of the wider context in ITV as a whole, and as part of this process, the Group Human Resources Director, as the Committee's main internal adviser, provides an update on wider remuneration, employee relations and human resource issues in ITV as a regular agenda item. Updates on the external remuneration environment are provided by Deloitte.
- A remuneration policy needs to evolve over time to adapt to commercial demands, changing market practice and shareholder expectations. Investors will be consulted about any key issues that arise and be provided with the opportunity to endorse the Company's remuneration policies on a regular basis through the vote on the Remuneration report.

Components of reward
The reward package for senior members of staff consists of a combination of incentive schemes intended to provide motivation and reward for short, medium and long term performance and to retain the necessary talent over the longer term. Each component is intended to fulfil a different function within the remuneration framework.

Salary and approach to competitive positioning
Market positioning of salary and other elements of reward is approached on an individual by individual basis. The aim is to identify the most appropriate competitive positioning for each role and for the individuals best capable of filling it.

Once the appropriate competitive positioning has been determined, the emphasis is on providing a high ratio of variable pay opportunities to fixed elements of reward. Variable pay opportunities are wholly performance driven, and performance as a whole is tightly managed within ITV's performance management framework.

The application of this policy is monitored to ensure that all assessments of competitive positioning keep pace with changes in the relevant remuneration environment. Typically, changes in remuneration opportunity will track the market for the given role and individual.

Following the changes in the executive team announced in September 2005, a job sizing and market positioning review was undertaken in respect of individuals in the senior team whose role or responsibilities had changed. No material change was found to have taken place which would affect the positioning of the executive director roles, and consequently during 2005 and going into 2006 their salaries will have been increased in line with the cost of living rises provided to all staff.

Short term and deferral incentives
Annual incentives are provided for the most senior executives and other key management talent through the ITV Deferred Share Award Plan ("DSA"). 50% of any pre-tax bonus entitlement will automatically be deferred into shares under the DSA, vesting after 12 and 24 months. Participants may elect to take the balance of the bonus in cash. Any of this 50% not taken in cash will be deferred into shares.

Awards made under the DSA, as well as any cash bonus payments, will be based on the achievement of a combination of corporate, and specific business and individual targets. For 2006 the corporate element includes demanding targets based on profit, revenues and share of commercial impacts. For the executive directors, the targets will be weighted towards corporate performance.

The total annual bonus opportunity (including awards made under the DSA) for executive directors will not normally exceed 150% of a participant's annual salary.

Long term incentive plans
During the year the Committee has kept the Company's long term incentive plans under regular review to ensure they remain appropriate and are fulfilling their objectives. No changes have been made to the operation of the schemes other than to spread opportunities under the Commitment Scheme (further details provided below). In 2006 the Committee intends to continue to monitor and review the performance criteria for the plans to ensure these continue to represent the best way to drive the creation of value in line with shareholders' interests.

Annual long term opportunities
The Performance Share Plan ("PSP"), was approved by shareholders at the Annual General Meeting in 2004. It is the main long term incentive and, as such, the awards replace grants that would otherwise have been made under the ITV plc Unapproved and Approved Executive Share Option Schemes ("Option Schemes"). There have been no option grants made under the Option Schemes and following the adoption of the PSP the Committee does not intend to operate the Option Schemes for individuals receiving PSP awards. However, options subsist from earlier grants under the Granada and Carlton schemes. The performance conditions applying to PSP awards are described below. In the event of a change of control, performance is measured over the foreshortened performance period and any resulting amounts vesting are pro-rated to reflect the proportion that this period represents of the full performance period. Early vesting may be permitted if the individual leaves in certain compassionate circumstances. The maximum award that can be made under the PSP is 150% of salary in respect of any year.

Vesting of the awards is currently dependent on TSR performance of the Company, against the customised FTSE 100 comparator group (described below). There is no vesting for performance below median. 35% of the award vests at median and 100% at upper quartile.

Awards have a three-year performance period. There is an exercise window of 12 months from the date of vesting, after which period they expire.

Long term scheme requiring capital commitment
The ITV plc Commitment Scheme (the "Scheme") requires invitees to commit and retain a significant amount of capital in the form of ITV shares – in essence, the invited participants are encouraged to adopt the attitudes of owners and "commit" their own funds.

Under the Scheme, participants must commit and retain shares of up to a maximum value of 300% of salary at the date of commitment.

A matching award will be granted, composed of an award of free shares and/or a market value option to acquire an equal number of shares. The maximum matching award can be over no more than three times the number of committed shares for each component part of the matching award.

Vesting of the matching award is currently dependent on TSR performance of the Company, against the customised FTSE 100 comparator group (described below). There is no vesting for performance below median. 25% of the award vests at median and 100% at upper quartile. Matching awards will vest (subject to achievement of the performance condition) no earlier than the third anniversary of the date of grant. The performance period will be set by the Committee when the award is made. Up to 50% of the initial awards will vest at the third anniversary of the date of grant and the remainder at the fourth. Any portion of the award that has not vested at the end of the relevant performance period will lapse (i.e., either year three or year four in respect of the initial awards). There is no provision for 'retesting' in this or any other ITV arrangement.

In the event of a change of control, awards may vest based on the extent to which the performance condition has been met in the period since the awards were made, unless it is determined that exceptional financial circumstances have occurred. As a condition of accepting the invitation to participate, each participant has formally acknowledged the independent directors' absolute discretion in this matter.

In 2004 the Committee decided to operate the Scheme according to the following additional parameters:

- a participant who chooses to participate above an investment of 100% of salary (maximum investment is 300%) may not receive a PSP award in the year in which they participate in the Scheme;
- executive directors may participate up to a maximum investment of 100% of salary per annum (but with eligibility for a PSP award in that year); and
- the level of (performance related) payout in the event of a change of control is capped to a multiple of the original financial amount a participant invests (twice investment if a change of control occurs in the first year, three times if it occurs during the second year and four times if change of control occurs in the third or fourth year).

From 2005 onwards, the Committee has resolved to further limit awards under the Scheme by reducing invitations to all participants to a maximum investment of 100% of salary per annum, except in exceptional circumstances.

Performance conditions
Targets for awards made under the DSA, as well as any cash bonus payments, are explained above.

All long term incentive awards, i.e. those made under the PSP or under the Commitment Scheme will currently vest subject to ITV's relative TSR performance against a comparator group, which the Committee considers to be the most appropriate measure of the creation and maintenance of shareholder value. The effectiveness of relative TSR as a measure of performance for the TSR based ITV plans is dependent on the selection of an appropriate comparator group. The Committee has given careful consideration to the way in which such a group should be derived and has identified the following criteria:

- the performance of the companies should be driven by similar macro-economic factors as ITV and, particularly given the widespread participation in plans dependent on TSR within ITV, any comparator group must be meaningful, for both investors and participants;
- the group should be of a sufficient size to accommodate de-listings and mergers that may occur within the comparator group and to ensure that the vesting schedule does not result in large increases in vesting for small changes in rank; and
- it should be easy to identify the appropriate comparators at any point in time on an objective basis.

Given these criteria, and after considering a number of alternatives, the Committee decided that the initial comparator group for ITV's TSR based plans should be a customised FTSE 100 group, excluding those sectors which do not provide a benchmark of performance that would be relevant to ITV. The remaining companies in the comparator group consist of the FTSE 100 constituents at each individual grant/award date of the following sectors: Media and Entertainment, Telecom Services, Support Services, General Retailers, Transport, Beverages and Leisure and Hotels. On this basis, in respect of the PSP and Commitment Scheme awards made in 2004 and 2005 the comparator companies were:

Allied Domecq*	Compass	Intercontinental Hotels	Rexam
BAA	Daily Mail	Kingfisher	SAB Miller
Boots	Diageo	Marks & Spencer	Scottish & Newcastle
British Sky Broadcasting	DSG International	O_2	Vodafone
British Airways	Emap*	Next	Whitbread
BT	Enterprise Inns	Party Gaming ***	William Hill
Bunzl*	Exel	Pearson	WPP
Cable and Wireless	GUS	Reed Elsevier	Yell
Capita**	Hays*	Rentokil Initial	
Carnival	Hilton	Reuters	

*Included in comparator group for 2004 Commitment Scheme, 2004 PSP and 2005 Commitment Scheme awards only.
**Included in comparator group for 2004 PSP, 2005 Commitment Scheme and 2005 PSP awards only.
***Included in comparator group for 2005 PSP awards only.

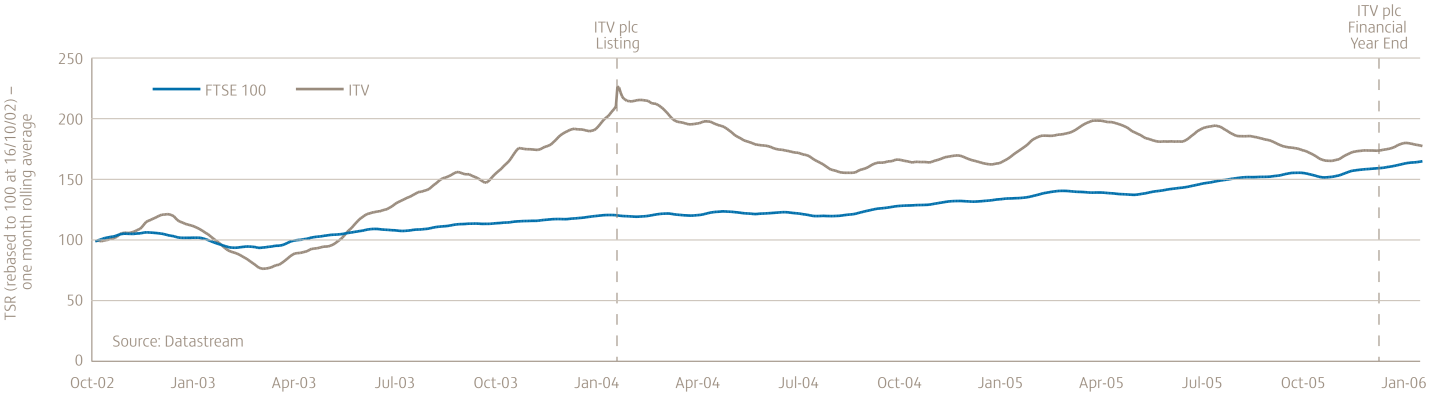
Both the PSP and the Commitment Scheme provide for a reduction of the vesting result produced from the TSR calculation if the Committee, together with the other independent directors, consider that exceptional circumstances have prevailed, including failure to achieve real earnings per share growth over the performance period. The Committee may consider the appropriate comparator group for future awards and whether any secondary performance criteria may be applied, and would consult with investors should such changes be contemplated.

All TSR measurement for the purposes of calculating vesting is performed by a third party (in 2005 this was Deloitte). The results are circulated to the members of the Committee for their confirmation.

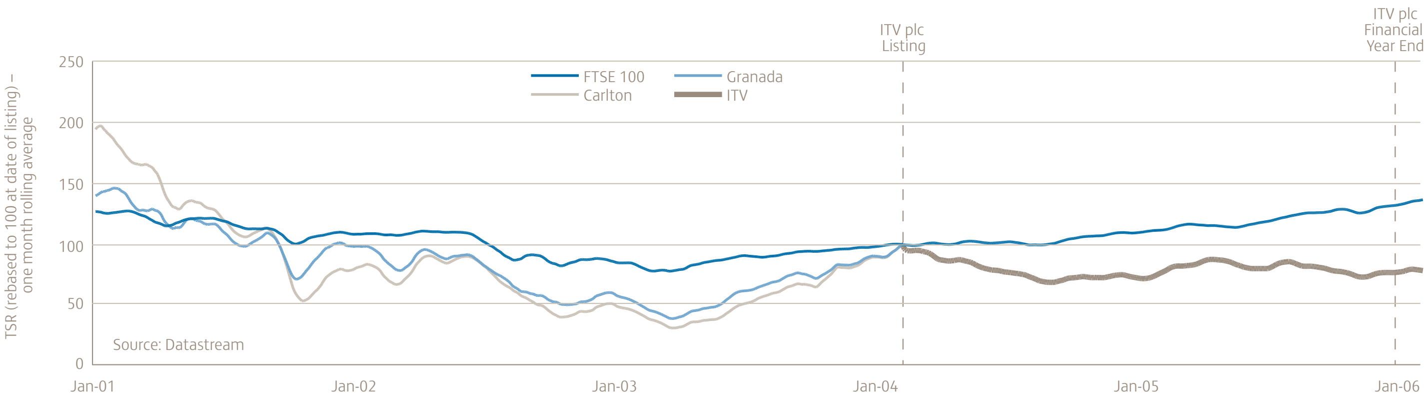
The performance condition applicable to awards made under the Granada Media Commitment Scheme is TSR relative to Granada's international media comparator group companies (as set out on page 87 in relation to share option schemes). 25% of awards vest at median; full vesting occurs at upper decile. Up to 50% of these awards are capable of vesting after two years, with the remainder subject to performance over a four year period.

Performance graph

The graphs below show the TSR performance of ITV against the FTSE 100 index. The FTSE 100 has been selected for comparison as it represents a broad equity market index of which ITV was a member during the full financial year.



This graph shows TSR performance from 16 October 2002 (the date of the announcement of the merger) as this is considered to be the most appropriate basis on which to assess ITV's performance. Prior to the listing of ITV the graph tracks the performance of a synthetic stock which shows the combined TSR performance of Granada and Carlton, weighted on the basis of their respective market capitalisation at 16 October 2002.



This additional graph is provided to mirror as closely as possible the normal basis for TSR performance graphs. The graph therefore shows TSR performance over a five-year period to present, with the performance of Granada and Carlton shown separately prior to the listing of ITV. The TSR holdings have been rebased to 100 at the date of listing to reflect the requirement to show performance from this date onwards.

In both graphs one-month averaging has been applied throughout, with the exception of the month following the merger. To ensure that the portion of the graph from the date of listing reflects solely the performance of ITV plc, the data for ITV in this period has been averaged from 2 February 2004 to each date, with the effect that the averaging period lengthens until it reaches one month.

Financing of share based awards

The Board seeks to finance all share based awards in ways which minimise the cost of such awards to the Company and its shareholders, including the impact of dilution. Most awards are satisfied through the use of ITV shares acquired in the open market by employee benefit trusts. Details of the shares held by the trusts are set out in note 29 to the accounts on page 67. For awards made under long term incentive plans shareholders have granted flexibility to finance awards using either newly issued shares or shares held in treasury. This flexibility provides the Board with the ability to make best use of corporate tax relief made available by HMRC in respect of share based arrangements and to manage effectively the spreading of the cost of awards across the employing companies whose employees receive awards.

Service contracts

The executive directors of ITV plc have service contracts which provide for 12 months' notice on either side.

As an alternative to serving notice, ITV may terminate the service agreement by paying the executive a sum (the "Prescribed Sum") representing the aggregate of salary and the value of all other benefits, excluding pension benefits, for the 12 month period. Alternatively the Company may elect to provide such benefits in kind for 12 months. Where the Prescribed Sum is payable, the Company will procure that the executive is put in the same position in respect of the pension scheme and other pension benefits as if he had remained in pensionable service for an additional 12 months from the date of termination. The payment of the Prescribed Sum will normally be made in monthly instalments.

Where the Prescribed Sum is payable the executive is also entitled to:

(a) an award under the DSA over shares equal to between a minimum of 75% and a maximum of 100% of salary dependent upon a share price performance related ratchet, up to one half of which may be taken as a cash payment; and

(b) where the executive has been nominated for an award in accordance with the terms of the DSA in respect of the financial year in which the Prescribed Sum is payable, the value of the award shall be determined in accordance with the same share price performance related ratchet.

Henry Staunton will step down from the Board of ITV plc on 31 March 2006. Up until that time his remuneration and other benefits will continue at the current rate. Upon his departure he will receive, under the terms of his contract of employment, the following: one year's basic salary including payment in lieu of accrued holiday (£595,400) and benefits in kind (£37,800) and an award under the Deferred Share Award Plan with a value at that time of between 75% and 100% of basic salary (the percentage to be calculated by reference to the share price performance of ITV plc compared to the FTSE 100 index between 4 December 2003 and 31 March 2006 in accordance with the formula in his contract of employment), 50% of which will be paid in cash and 50% in the form of a nil cost option over ITV plc shares. The Company will publish details of the number of shares subject to such option in due course on its web site at www.itvplc.com. For the period of 2006 during which he is in post, he has a maximum bonus opportunity of 50% of salary, subject to performance. The Company will also make contributions towards his pension arrangements for the period from April to October 2006 in an aggregate amount of £260,760. All of the above reflect the terms of Henry Staunton's service agreement which was signed in December 2003 at which time the notice period was reduced from 24 months to 12 months.

The requirements for performance testing of Henry Staunton's pre-existing awards of shares and options under the ITV plc Performance Share Plan and Commitment Scheme, and under the legacy Granada schemes, remain in place. As at 28 February 2006 performance testing of his awards under the ITV plc Performance Share Plan and Commitment Scheme would have resulted in none of those awards vesting.

The non-executive directors have contracts of service with the Company. Sir Peter Burt receives an annual fee of £200,000 and Sir George Russell receives an annual fee of £115,000 (from 30 June 2005). The other non-executive directors receive an annual fee of £45,000 (from 31 March 2005) plus an additional sum of £5,000 for membership of the Audit Committee and £5,000 for membership of the Remuneration Committee. John McGrath receives an additional sum of £15,000 (from 30 June 2005) as Chairman of the Audit Committee.

Retirement and other benefits

The Board has conducted a full review of the pension commitments of ITV and executive directors' arrangements formed part of this review. No changes to executive directors' arrangements are currently contemplated. No additional remuneration will be paid to executive directors as a result of the introduction of the tax simplification regime for pensions being introduced on 6 April 2006.

Impact of International Accounting Standards

Where the Committee is overseeing arrangements which involve financial metrics which require year on year comparisons and the base and end figures are derived on different bases, because of the transition to International Financial Reporting Standards, the Remuneration Committee will seek the view of the Audit Committee on the most appropriate interpretation.

External appointments

Charles Allen was a non-executive director of Tesco plc throughout the year and received fees of £58,000 for this position. Henry Staunton was a non-executive director of Legal & General Group Plc during the year and received fees of £73,334 for this position. He was a non-executive director of Standard Bank plc from 1 December 2005 and received fees of £3,875 in the year for this position.

Audited information

Aggregate directors' remuneration

The total amounts for directors' remuneration for the period from 1 January 2005 (or date of appointment if later) to 31 December 2005 were as follows:

	2005 £000	2004* £000
Emoluments	**3,459**	3,315
Gains on exercise of share options	**–**	–
Amounts receivable under long term incentive schemes	**–**	1,750
	3,459	5,065

* The prior year figure shown in respect of 2004 relates to the period from 13 January 2004 to 31 December 2004 (statutory basis).

Directors' emoluments

The directors' remuneration for the year ended 31 December 2005 was as follows:

Name of director	Fees/Basic salary £000	Benefits in kind £000	Short term incentives £000	Total for the year ended 31 December 2005 £000	Total for the year ended 31 December 2004 £000	Total for the year ended 31 December 2004* £000
Executive						
Charles Allen	**1,040**	**35**	**777****	**1,852**	1,888	1,832
Henry Staunton	**557**	**38**	**416****	**1,011**	999	969
Non-executive						
Sir Peter Burt	**200**	**–**	**–**	**200**	160	156
David Chance	**44**	**–**	**–**	**44**	40	39
James Crosby	**50**	**–**	**–**	**50**	50	49
Etienne de Villiers	**–**	**–**	**–**	**–**	33	32
John McGrath	**60**	**–**	**–**	**60**	60	58
Sir Robert Phillis	**46**	**–**	**–**	**46**	–	–
Sir Brian Pitman	**50**	**–**	**–**	**50**	100	97
Baroness Usha Prashar	**46**	**–**	**–**	**46**	–	–
Sir George Russell	**100**	**–**	**–**	**100**	85	83
Aggregate emoluments	**2,193**	**73**	**1,193**	**3,459**	3,415	3,315

* The prior year figure shown in respect of 2004 relates to the period from 13 January 2004 to 31 December 2004 (statutory basis).
**The figures shown above are the value of short term incentives earned in respect of performance over the period to 31 December 2005, as detailed in the note on the DSA below.

Incentive and performance related awards

Information given in the tables below is for the period from 1 January 2005 (or date of appointment if later) to 31 December 2005.

Deferred Share Award Plans

Name of director	Scheme	Award Date	1 January 2005	Awarded in the year	Released in the year	31 December 2005	Share price at date of award (pence)	Release date
Charles Allen	Granada	4 December 2003	393,869	–	393,869	–	122.83	
	ITV	23 June 2004	226,142	–	113,071	113,071	110.00	June 2006
	ITV	17 March 2005*	–	465,552	–	465,552	127.50	50% March 2006
								50% March 2007
			620,011	465,552	506,940	578,623		
Henry Staunton	Granada	4 December 2003	316,374	–	316,374	–	122.83	
	ITV	23 June 2004	121,099	–	60,549	60,550	110.00	June 2006
	ITV	17 March 2005*	–	274,232	–	274,232	127.50	50% March 2006
								50% March 2007
			437,473	274,232	376,923	334,782		

* Awarded in the form of nil cost options.

At least 50% of bonuses must be taken in the form of ITV ordinary shares or nil cost options awarded under the DSA and subject to its vesting rules. Participants can choose to take the balance either in cash or as further shares or nil cost options awarded under the DSA.
For the twelve months performance period ended 31 December 2005, to be awarded as to (i) Charles Allen 50% and Henry Staunton 50% in nil cost options under the DSA in March/April 2006; and (ii) the balance paid in cash in March 2006 and included in the emoluments table above.

ITV Performance Share Plan

Name of director	Award Date	1 January 2005	Awarded in the year	Vested in the year	31 December 2005	Share price at date of award (pence)	Exercise period
Charles Allen	16 September 2004	1,378,541	–	–	1,378,541	109.50	September 2007 to September 2008
	27 September 2005	–	1,386,059	–	1,386,059	112.50	September 2008 to September 2009
		1,378,541	1,386,059	–	2,764,600	–	
Henry Staunton	16 September 2004	738,207	–	–	738,207	109.50	September 2007 to September 2008
		738,207	–	–	738,207		

The performance condition applicable to these awards is as set out in the remuneration policy above.

Granada Share Option Schemes

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in ITV plc granted to or held by the directors.

No options were exercised under share option schemes during the year.

Options outstanding over ordinary shares in ITV plc under the terms of the Granada Media and Granada Inland Revenue Approved and Unapproved Executive Share Option Schemes (ESOS) and Savings–Related Share Option Schemes (SAYE) are as follows:

Name of director	Scheme	Date of grant	1 January 2005	Granted in the year	Exercised in the year	31 December 2005	Exercise price (pence)	Exercise period
Charles Allen	Media ESOS	11 July 2000	438,689	–	–	438,689	268.32	July 2003-July 2010
	Granada ESOS	6 July 2001	1,405,642	–	–	1,405,642	137.02	July 2004-July 2011
	Granada ESOS	7 January 2003	2,503,800	–	–	2,503,800	76.92	January 2006-January 2013
	Granada ESOS	18 December 2003	1,719,241	–	–	1,719,241	117.07	December 2006-December 2013
	Granada SAYE	9 January 2002	14,837	–	–	14,837	111.53	March 2007-September 2007
			6,082,209	–	–	6,082,209		
Henry Staunton	Media ESOS	11 July 2000	234,919	–	–	234,919	268.32	July 2003-July 2010
	Granada ESOS	6 July 2001	752,718	–	–	752,718	137.02	July 2004-July 2011
	Granada ESOS	7 January 2003	1,340,780	–	–	1,340,780	76.92	January 2006-January 2013
	Granada ESOS	18 December 2003	920,651	–	–	920,651	117.07	December 2006-December 2013
	Granada SAYE	9 January 2003	14,452	–	–	14,452	65.38	March 2006-September 2006
			3,263,520	–	–	3,263,520		

No payment was made for the award of any of the above share options.

The performance condition applicable to options granted under the Granada ESOS since 1 January 2003 is TSR relative to Granada's international media comparator group. This comprises the following companies: BSkyB, Canwest Global Communications, Capital Radio, Carlton, EMAP, Fox Entertainment, GWR Group, M6 – Metropole TV, Mediaset, Modern Times Group, RTL Group, SBS Broadcasting, SMG, Telewest Communications, TF1.

Options only vest for achieving a median ranking. There have been no variations to the terms and conditions or performance criteria for share options during the financial year. The performance conditions for options granted prior to 1 January 2003 fell away on merger. There were no performance conditions applicable to options granted under the Granada SAYE scheme. No further options will be granted under Executive Option Schemes to these individuals following the introduction of the PSP.

Commitment Schemes

Awards and market price options outstanding over ordinary shares in ITV plc under the terms of the Granada Media and ITV Commitment Schemes are as follows:

Name of director	Date of Grant	1 January 2005 (or appointment date if later) vested	1 January 2005 (or appointment date if later) unvested	Granted during the year	Market price at grant (pence)	Vested during the year	Lapsed during the year	Exercised during the year	31 December 2005 vested	31 December 2005 unvested	Exercise price (pence)	Vesting date	Exercise period
Charles Allen													
Scheme													
Media	11 July 2000	1,648,888	–	–		–	–	–	1,648,888	–	268.32	July 2004	July 2004 – July 2010
ITV	19 May 2004	–	2,630,940	–		–	–	–	–	2,630,940	nil	50% May 2007 50% May 2008	May 2007 – May 2014
	19 May 2004	–	2,630,940	–		–	–	–	–	2,630,940	114.75	50% May 2007 50% May 2008	May 2007 – May 2014
	19 April 2005	-	–	2,480,026	126.00	–	–	–	–	2,480,026	nil	50% April 2008 50% April 2009	April 2008 – April 2015
	19 April 2005	–	–	2,480,026	126.00	–	–	–	–	2,480,026	125.75	50% April 2008 50% April 2009	April 2008 – April 2015
		1,648,888	5,261,880	4,960,052		–	–	–	1,648,888	10,221,932			
Henry Staunton													
Scheme													
Media	11 July 2000	882, 978	–	–		–	–	–	882,978	–	268.32	July 2004	July 2004 – July 2010
ITV	19 May 2004	–	1,408,863	–		–	–	–	–	1,408,863	nil	50% May 2007 50% May 2008	May 2007 – May 2014
	19 May 2004	–	1,408,863	–		–	–	–	–	1,408,863	114.75	50% May 2007 50% May 2008	May 2007 – May 2014
	19 April 2005	–	–	1,328,050	126.00	–	–	–	–	1,328,050	nil	50% April 2008 50% April 2009	April 2008 – April 2015
	19 April 2005	–	–	1,328,050	126.00	–	–	–	–	1,328,050	125.75	50% April 2008 50% April 2009	April 2008 – April 2015
		882,978	2,817,726	2,656,100		–	–	–	882,978	5,473,826			

No options were exercised during the year.

The performance condition applicable to awards made under the ITV and Granada Media Commitment Schemes are as set out in the remuneration policy above.

Merger adjustment

Following the merger of Granada with Carlton, ordinary shares in Granada were converted on a one-for-one basis into ordinary shares in ITV plc.

All rights under the various Granada and Granada Media share schemes, other than those granted after 1 January 2003, became exercisable as a result of the merger up to 1 August 2004. Any Granada ordinary shares acquired on exercise were converted immediately on exercise into ordinary shares of ITV plc and all outstanding Granada and Granada Media options unexercised at 1 August 2004 were exchanged into options over ITV plc ordinary shares on a one-for-one basis.

Granada ESOS, SAYE and Granada Media Commitment Schemes: As part of the merger Granada shareholders on the register of members on 28 January 2004 received Granada Redeemable Shares. In order to maintain the value of the options, a ratio adjustment of 1.04 was agreed with the Company's auditors and the Inland Revenue using the share price of Granada on the day before the Granada shares became ex-bonus issue and the share price on the first dealing day after the shares became ex-bonus issue. For every one Granada ordinary share under option each optionholder became entitled to options over 1.04 Granada and Granada Media ordinary shares. To ensure that the aggregate amount payable on the exercise of options under the Granada and Granada Media schemes remained the same, the exercise price per share was also adjusted by dividing the original exercise price by 1.04. On exercise, optionholders receive shares in ITV plc in exchange for the Granada shares under option.

Granada Deferred Share Award Plan: Participants received the redeemable shares on the shares under award held by the Granada Employees' Benefit Trust.

The numbers in the tables above are in ITV plc shares and have been adjusted as explained above.

Share price information

The market price of the ITV plc ordinary shares at 31 December 2005 was 112.5 pence and the range during the year was 101 pence to 130 pence. The market price of the ITV plc convertible shares at 31 December 2005 was 0.75 pence and the range during the year was 0.75 pence to 63 pence.

The ITV plc convertible shares did not attain their conversion terms and in January 2006 were cancelled from the official list of the UK Listing Authority and converted into deferred shares of no economic value.

Directors' pension entitlements

Two directors are members of the Company's defined benefit pension scheme. The following directors had accrued entitlements under the schemes as follows:

Name of director	Accrued pension 1 January 2005 £000	Increase in accrued pension in the year £000	Accrued pension 31 December 2005 £000
Charles Allen	439	49	488
Henry Staunton	327	29	356

The following table sets out the transfer value of the directors' accrued benefits under the scheme calculated in a manner consistent with "Retirement Benefit Schemes – Transfer Values (GN 11)" published by the Institute of Actuaries and the Faculty of Actuaries.

The pension benefits of Charles Allen and Henry Staunton are provided on a defined benefit basis. The accrued pension shown is that which would be paid annually based on service to the end of the year. The increase in the accrued pension during the year reflects an increase in the pension entitlement as a result of one year's additional accrual and increases in pensionable earnings.

Name of director	Transfer value at 1 January 2005 £000	Contributions made by the director £000	Increase in transfer value in the year net of contributions £000	Transfer value 31 December 2005 £000
Charles Allen	6,567	16	1,906	8,489
Henry Staunton	6,543	16	845	7,404

The increase in the transfer value includes the effects of fluctuations in the transfer value due to factors beyond the control of the directors and the Company, in particular the reduction in long term real yields, as well as the additional benefits accrued by the director over the year.

The following additional information is given to comply with the requirements of the Listing Rules which differ in some respects from the equivalent statutory requirements.

Name of director	Increase in accrued pension in the year in excess of inflation £000	Transfer value of increase in the year less directors' contributions £000
Charles Allen	39	662
Henry Staunton	22	442

The transfer values disclosed above do not represent a sum paid or payable to the individual director. Instead they represent a potential liability of the pension scheme.

No directors were members of money purchase schemes operated by the Group.

Approval

This report was approved by the Board of Directors on 8 March 2006 and signed on its behalf by:

Sir George Russell
Chairman, Remuneration Committee

Shareholder information

Shareholder analysis

	Number	Holders %	Millions	Shares held %
Type of holder:				
Insurance companies	32	0.04	0.60	0.01
Banks and nominee companies	5,065	6.23	3,802.18	92.07
Individuals	75,476	92.79	154.33	3.74
Others	768	0.94	172.44	4.18
Totals		100.00		100.00
Size of holding:				
1 – 100	10,720	13.18	0.40	0.01
101 – 200	11,365	13.97	1.69	0.04
201 – 500	20,779	25.55	6.82	0.17
501 – 1,000	13,765	16.92	10.09	0.24
1,001 – 2,000	10,949	13.46	15.82	0.38
2,001 – 5,000	8,380	10.30	26.28	0.64
5,001 – 10,000	2,681	3.30	18.98	0.46
10,001 – 50,000	1,552	1.91	30.33	0.73
50,001 – 100,000	217	0.27	15.48	0.37
100,001 – 500,000	399	0.49	97.96	2.37
500,001 – 1,000,000	156	0.19	116.35	2.82
1,000,001 – 5,000,000	236	0.29	573.81	13.90
5,000,001 – 10,000,000	67	0.08	481.90	11.67
10,000,001 – 50,000,000	61	0.07	1,238.85	30.00
50,000,001 and above	14	0.02	1,494.79	36.20
Totals		100.00		100.00

Registrars and transfer office
All administrative enquiries relating to shareholdings and requests to receive corporate documents by email should, in the first instance, be directed to Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Telephone 0870 1623100 from the UK and +44 20 8639 2157 from outside the UK. Alternatively you could email them at: ssd@capitaregistrars.com.

Shareholders who receive duplicate sets of company mailings because they have multiple accounts should write to the registrar to have the accounts amalgamated.

By logging on to www.capitaregistrars.com and selecting online Shareholders Services you can benefit from a number of online services as follows:

- View share price and current value of shareholding.
- View shareholding details.
- View share transaction history.
- View details of dividends paid.
- Apply/change dividend mandate instruction.
- Apply/change dividend reinvestment plan mandate.
- Change registered postal address.
- Proxy voting.
- Register an email address to receive future shareholder communications and reports via the Internet rather than by post.

You will need your investor code (IVC) which can be found on your share certificate(s).

Share dealing services
The Company has established the following share dealing services:

Capita Registrars – a telephone and online share dealing service for UK resident shareholders. To use this service shareholders should contact Capita Registrars on 0870 458 4577 or visit www.capitadeal.com.

Hoare Govett – a low-cost postal dealing service. To use this service shareholders should contact Hoare Govett Limited, Low-cost Share Dealing Department. For details, telephone 020 7661 6616 (Purchases) or 020 7661 6617 (Sales).

ShareGift
ShareGift is a charity share donation scheme for shareholders who may wish to dispose of a small quantity of shares where the market value makes it uneconomic to sell on a commission basis. The scheme is administered by the Orr Mackintosh Foundation and further information can be obtained by calling 020 7337 0501 or from www.sharegift.org.

Share price information
The current price of ITV plc ordinary shares is available on Ceefax, Teletext, FT Cityline (operated by the Financial Times), telephone 0906 843 2753 and on the Company website.

Dividend Reinvestment Plan
The Company operates a Dividend Reinvestment Plan to provide UK shareholders with a facility to invest cash dividends by purchasing further ITV plc shares. Further details are available from the registrar.

Individual Savings Accounts (ISAs)
The Company has corporate sponsored Maxi and Mini ISAs. The ISAs offer UK resident shareholders a simple low-cost and tax efficient way to invest in ITV plc ordinary shares. Full details together with a form of application are available from HSBC Trust Company (UK) Limited, Corporate PEPs & ISAs, 1st Floor, Courtwood House, Silver Street Head, Sheffield, S1 2BH.
Telephone 0845 745 6123 (Textphone 08457 660391).

The Unclaimed Assets Register
The Company participates in The Unclaimed Assets Register, which provides a search facility for financial assets, which may have been lost or forgotten and which donates 10% of its public search fees to a wide range of UK charities.

For further information contact:
The Unclaimed Assets Register
Bain House
16 Connaught Place
London W2 2ES
Telephone 0870 241 1713
Email search@uar.co.uk
www.uar.co.uk

Unsolicited mail

The Company is legally obliged to make its register of members available to the public.

As a consequence of this some shareholders might receive unsolicited mail. Shareholders wishing to limit the amount of such mail should write to the Mailing Preference Service ("MPS"), Freepost 29, LON20771, London W1E 0ZT. Alternatively you can register online at www.mpsonline.org.uk or request an application form by calling 0845 703 4599. MPS will then notify the bodies that support its service that you do not wish to receive unsolicited mail.

Registered office

ITV plc
The London Television Centre
Upper Ground
London SE1 9LT
Telephone 020 7620 1620
Company registration number 4967001

Company website

Investor and shareholder related information can be found on the Company website at www.itvplc.com.

Financial calendar

Annual General Meeting Wednesday 10 May 2006

Half year results announcement August 2006

Dividends

Final Dividend 2005	
Ex-dividend date	Wednesday 19 April 2006
Record date	Friday 21 April 2006
Final date for return of DRIP mandate forms	Wednesday 7 June 2006
Payment date and DRIP purchase	Monday 3 July 2006
Certificated and Crest accounts credited	Friday 7 July 2006

The Company has introduced consolidated tax vouchers. Shareholders will receive a single tax voucher each year, normally sent in March in time for the tax year end, containing details of dividends paid in that tax year. If you would prefer to receive a tax voucher for each dividend payment please contact the registrar.

Convertible shares

The ITV plc convertible shares were issued to Carlton shareholders as part of the merger between Granada and Carlton which created ITV plc in 2004.

The particular reason for their issue was to address the fact that Carlton was more highly geared to potential strong growth in the television advertising market than was Granada. As a consequence, had there been such strong growth it was recognised that Carlton shareholders might have expected a greater share of the combined group; and the convertible shares would have, if they had converted, delivered an additional 2% of the combined group to Carlton shareholders.

The terms of conversion were therefore set so that the shares would only be of value if a particular earnings and share price target was attained by ITV plc in the course of 2005, reflecting such television advertising market growth. If those targets were not met then it would be because the potential television advertising market growth had not materialised.

In the event the ITV ordinary share price target (140 pence or more for 60 of the last 90 dealing days in 2005) was not met and the convertible shares were therefore not of any value after that time. The mechanics by which those shares were withdrawn from the market are quite standard in such circumstances and were very clearly set out in the terms of issue at the time. ITV plc has been in contact with both the London Stock Exchange and the UK Listing Authority to inform them of the process.

Five year financial record

	2001 £m	2002 £m	2003 £m	2004 £m	**2005 £m**
Balance sheet					
Share capital	277	277	277	422	**423**
Reserves	1,799	1,364	1,378	2,671	**2,870**
Shareholders' funds	2,076	1,641	1,655	3,093	**3,293**
Minority interests	11	1	1	16	**12**
Net assets	2,087	1,642	1,656	3,109	**3,305**
Represented by:					
Property, plant and equipment and intangible assets	1,841	1,537	1,452	4,055	**4,182**
Investments	244	139	190	223	**274**
Distribution rights	–	–	–	12	**13**
Inventory	259	248	276	368	**388**
Trade and other receivables (including assets held for sale)	329	288	215	357	**432**
Deferred tax asset	–	–	–	66	**74**
Net funds	14	41	127	–	**–**
Total assets	2,687	2,253	2,260	5,081	**5,363**
Net debt	–	–	–	(280)	**(481)**
Other liabilities	(591)	(565)	(557)	(1,617)	**(1,525)**
Provisions	(9)	(46)	(47)	(75)	**(52)**
	2,087	1,642	1,656	3,109	**3,305**
Results					
Turnover	1,488	1,427	1,746	2,053	**2,177**
Operating profit before exceptional items	151	129	152	213	**358**
Share of profits/(losses) of associates and joint ventures	(15)	(4)	5	13	**11**
Investment income and profit on sale of property	7	5	8	14	**16**
Exceptional items	(83)	(265)	(125)	(53)	**(39)**
Profit/(loss) before interest and tax	60	(135)	40	187	**346**
Net interest	15	1	3	(19)	**(35)**
Profit/(loss) before tax	75	(134)	43	168	**311**
Taxation	(52)	(49)	(58)	(25)	**(85)**
Profit/(loss) after tax	23	(183)	(15)	143	**226**
Minority interests	(1)	–	–	(6)	**(4)**
Profit/(loss) for the financial period	22	(183)	(15)	137	**222**

The 2001 and 2002 figures have been taken from the Granada plc accounts and restated to reflect the results of continuing businesses. The results for 2000, 2001 and 2002 are for the 12 months to September, those for 2003 are for the 15 months to September and those for 2004 and 2005 are for the 12 months to December. Following the conversion to International Financial Reporting Standards, the 2004 and 2005 information is presented under IFRS. 2001, 2002 and 2003 information continues to be presented under UK GAAP.

Design and production Radley Yeldar

Print St Ives Westerham Press, environmentally accredited printers ISO 14001, using vegetable based inks.

Paper Hello silk, made from virgin wood fibre from sawmill residues, forest thinnings and sustainable forests in Europe. It is fully biodegradable and recyclable and produced in mills which hold ISO 9002 and ISO 14001 accreditation.

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