Carlton Communications Limited

Directors' report and financial statements

Registered number 348312

Year ended 31 December 2007

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2007 The comparatives are for the year ended 31 December 2006

Principal activities

The principal activity of Carlton Communications Limited ("the Company") continues to be to act as an investment company

The results for the Company show a profit after taxation of £114 1m for the year *(2006 £31 8m)*

The Company has met the requirements in Companies Act 1985 to obtain the exemption provided from the presentation of an enhanced business review

Principal transactions and post balance sheet events

During the year the ITV plc group continued the operational and legal restructuring programme, commenced in 2004, to simplify the corporate structure

Dividends

On 27 September 2007 the Company paid an interim dividend of £200m *(year to 31 December 2006 £nil)* in cash

Directors

The following were directors of the Company during the year ended 31 December 2007

John Cresswell
Helen Tautz
James Tibbitts

Donations

Grants and charitable donations made during the year amounted to £nil *(year to 31 December 2006 £nil)* There were no political contributions made during the year *(year to 31 December 2006 £nil)*

Financial Instruments

Note 16 of the accounts gives details of the Company's financial risk management policies and related exposures

Directors' report *(continued)*

Auditors and disclosure of information to auditors

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

The Company has passed Elective Resolutions to dispense with the laying of the Annual Report and Financial Statements before the Company in General Meeting, the appointment of auditors annually and the holding of Annual General Meetings, pursuant to Sections 252, 386 and 366A respectively of the Companies Act 1985

By order of the Board

H Tautz

Helen Tautz
Director

200 Gray's Inn Road
London
WC1X 8HF

13th August 2008

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

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

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

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

Independent auditor's report to the members of Carlton Communications Limited

We have audited the financial statements of Carlton Communications Limited for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements 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 3

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Independent auditor's report to the members of Carlton Communications Limited *(continued)*

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007 and of its profit for the year then ended,

- the financial statements have been properly prepared in accordance with the Companies Act 1985, and

- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

8 Salisbury Square
London
EC4Y 8BB

Date 28 August 2008

Profit and loss account

	Notes	**Year ended 31 December 2007 £m**	Year ended 31 December 2006 £m
Other operating income	1	**10 4**	7 7
Operating costs	2	**(8 3)**	(20 6)
Operating profit / (loss)		**2 1**	(12 9)
Profit on sale of fixed assets	5	**3 2**	0 1
Income from fixed asset investments	6	**13 1**	0 3
Provision for diminution in fixed asset investments	12	**(5 6)**	(56 0)
Fixed asset investments written off	12	**(3 3)**	-
Interest receivable and similar income	7	**107.6**	99 7
Interest payable and similar charges	8	**(2 4)**	(0 7)
Profit on ordinary activities before taxation		**114 7**	30 5
Tax on profit on ordinary activities	9	**(0 6)**	1 3
Profit on ordinary activities after taxation		**114 1**	31 8

The results stated above are all derived from continuing activities

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

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

The notes on pages 8 to 26 form part of these financial statements

Balance sheet

	Notes	31 December 2007 £m	31 December 2006 £m
Fixed assets			
Tangible assets	11	**35 4**	40 5
Investments	12	**1,801 3**	1,816 5
		1,836 7	1,857 0
Current assets			
Debtors	13	**85 8**	36 7
Cash at bank and in hand		**895 7**	1,009 4
		981 5	1,046 1
Current liabilities			
Creditors amounts falling due within one year	14	**(11 9)**	(9 2)
Net current assets		**969 6**	1,036 9
Total assets less current liabilities		**2,806 3**	2,893 9
Creditors amounts falling due after one year	15	**-**	(0 6)
Provisions for liabilities and charges	17	**(3 2)**	(4 4)
Net assets		**2,803 1**	2,888 9
Capital and reserves			
Called up share capital	18	**33 9**	33 9
Share premium	19	**161 5**	161 5
Capital contribution reserve	19	**1,408 2**	1,408 2
Other reserves	19	**762 9**	762 9
Profit and loss account	19	**436 6**	522 4
Shareholders' funds		**2,803 1**	2,888 9
Attributable to			
Equity shareholders' funds		**2,803 1**	2,888 9
Non-equity shareholders' funds	18	**-**	-
Shareholders' funds		**2,803 1**	2,888 9

The notes on pages 8 to 26 form part of these financial statements

These financial statements were approved by the board of directors on 13th August 2008 and were signed on its behalf by

H Tautz

Helen Tautz
Director

Registered number 348312

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards

The Company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts These financial statements present information about the Company as an individual undertaking and not about its group

Dividends

Dividends are recognised in the period in which they are declared

Cash flow statement

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements

Other operating income

Other operating income, which excludes value added tax, represents charges levied for rent and other related property costs recognised over the period of occupancy All of the Company's other operating income and results arise within the United Kingdom

Operating leases

The rental costs arising from operating leases are charged to the profit and loss account over the term of the lease on a straight line basis

Pension costs

The Company is a participating member of the ITV defined benefit pension scheme The scheme's assets are held in separate trustee administered funds Contributions are based on pension costs across the group as a whole

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

The most recently completed triennial actuarial valuations in respect of the schemes forming the largest section of the Group's main retirement benefits fund was performed by an independent actuary for the trustees of the scheme and was carried out as at 1 January 2005 The first triennial valuation of the merged scheme is due to completed as at 1 January 2008 in respect of the largest section and was completed at 1 January 2007 in respect of other sections and in the interim the Group will monitor funding levels annually The latest actuarial valuations have been updated for FRS 17 purposes to 31 December 2007 by a qualified independent actuary

The Company's contributions for the year were £0 2m *(2006 £0 2m)* In addition to normal funding the group made a further contribution of £33 million in 2007 The levels of contributions are based on the current service costs and the expected future cash flows of the defined benefit scheme

At 31 December 2007 the scheme had an FRS 17 deficit of £112 million

Particulars of the actuarial valuations of the group schemes are contained in the financial statements of ITV plc which can be obtained from the address given in note 23

Depreciation

Depreciation is provided to write-off the cost or valuation less estimated residual value of certain tangible fixed assets on a straight line basis over their estimated future lives The major categories of fixed assets are depreciated as follows

Plant and equipment	3 to 15 years
Properties	
Leaseholds	shorter of residual lease term or 50 years
Freehold land	not depreciated
Freehold buildings	up to 50 years

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred tax is recognised where material and computed without discounting Full provision is made in respect of all timing differences between the treatment of certain items in the accounts and their treatment for taxation purposes at the balance sheet date, except as provided by FRS19 "Deferred Tax" Deferred tax assets are recognised to the extent that it is more likely than not that the asset will be recovered

Related party transactions

As the Company is a wholly owned subsidiary of ITV plc, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group The consolidated financial statements of ITV plc, within which this Company is included, can be obtained from the address given in note 23

Share based compensation

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

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

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

Notes *(continued)*

2 Operating costs

	Year ended 31 December 2007 £m	Year ended 31 December 2006 £m
Staff costs	**(0.4)**	(0 5)
Depreciation of owned tangible fixed assets	**(3.1)**	(12 7)
	(3.5)	(13 2)
Other operating (charges) / credits		
Property provisions	**(0.3)**	0 7
Property leases	**(4.6)**	(3 4)
Other	**0 1**	(4 7)
	(4 8)	(7 4)
Total operating costs	**(8 3)**	(20 6)

In the current and prior year the auditor's remuneration of £500 was borne by another group company Amounts paid to the Company's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's ultimate parent ITV plc

3 Staff costs and directors' remuneration

The average number of employees during the year, including directors was

	Year ended 31 December 2007	Year ended 31 December 2006
Administration	**11**	12

	Year ended 31 December 2007 £m	Year ended 31 December 2006 £m
Remuneration of employees was		
Gross wages and salaries	**0 2**	0 3
Employers' pension contributions	**0 2**	0 2
	0 4	0 5

No director received any emoluments for their services to this Company *(2006 £nil)*

Notes *(continued)*

4 Share based payment

	2007		2006	
	Number of options	**Weighted average exercise price (pence)**	Number of options	Weighted average exercise price (pence)
Outstanding at 1 January	-	-	-	-
Granted during the year - nil priced	82,857	-	-	-
Granted during the year - Other	8,294	86 72	-	-
Transferred from other group companies	393,772	79 46	-	-
Forfeited during the year	(19,279)	67 13	-	-
Exercised during the year	(67,863)	34 50	-	-
Expired during the year	(83,583)	74 73	-	-
Outstanding at 31 December	314,197	79 46	-	-
Exercisable at 31 December	123,526	147 88	-	-

The average share price during 2007 was 105 73 pence *(2006 108 09 pence)*

	2007			2006		
Range of exercise prices (pence)	**Weighted average exercise price (pence)**	**Number of options**	**Weighted average remaining contractual life (years)**	Weighted average exercise price (pence)	Number of options	Weighted average remaining contractual life (years)
Nil	-	141,138	2 69	-	-	-
50 00-69 99	63 37	13,788	1 82	-	-	-
70 00-99 99	54 59	20,105	3 79	-	-	-
100 00-109 99	101 94	32,917	2 90	-	-	-
110 00-119 99	114 62	38,663	6 69	-	-	-
120 00-149 99	132 37	25,537	5 31	-	-	-
150 00-199 99	-	-	-	-	-	-
200 00-249 99	217 78	3,234	2 98	-	-	-
250 00-299 99	269 13	38,598	2 36	-	-	-
300 00-385 99	385 31	217	2 40	-	-	-

ITV Share schemes

Short term and deferral incentives

Annual incentives are provided for the most senior executives and other key management talent through the Deferred Share Award Plan ("DSA") 50% of any pre-tax bonus entitlement will automatically be deferred into shares under the DSA and deferred awards to directors will vest after 12 and 24 months from the end of the financial year to which the bonus relates Participants may elect to take the balance of the bonus in cash or awards under the DSA

Awards made under the DSA, as well as any cash bonus payments, will be based on the achievement of a combination of corporate, specific business and individual targets

Notes *(continued)*

4 Share based payment *(continued)*

Long term incentive plans

The Turnaround Plan (the 'Plan') has been used as the main long term incentive Awards are subject to performance over a five year period The awards will vest dependent on various performance conditions 50% of the awards are subject to relative Total Shareholder Return (TSR) performance of ITV plc measured against a broad comparator group selected from the FTSE 100 (excluding certain industry sectors that are less relevant as a benchmark of performance) 25% of this portion of the award will vest for median performance and straight line vesting will occur up to full vesting for upper quartile performance The balance of the awards is subject to selected strategic performance measures, directly linked to the achievement of the Turnaround strategy There are four strategic performance targets, each having an equal weighting For achieving threshold performance of targets relating to share of commercial impacts, revenue growth, adjusted earnings per share and share price, 25% of the award relating to each target will vest, with full vesting for achieving the maximum target Between these points awards will vest on a straight line basis

Performance Share Plan ("PSP")

The Performance Share Plan has been used in previous years to provide a long term incentive for management No PSP awards will be made to any Turnaround Plan participants for two years following the adoption of the plan As a result no awards were made under the PSP in 2007 In previous years, the maximum award that can be made under the PSP was 150% of salary in respect of any financial year

Vesting of awards is dependent on the TSR performance of ITV plc, against the customised FTSE 100 comparator group (described above) over a three year period There is no vesting for performance below median 35% of the award vests at median and 100% at upper quartile Vesting will occur on a straight line basis between these points

The 2004 PSP award reached the end of its performance period in 2007 and lapsed as it did not satisfy the TSR performance condition

ITV Commitment Scheme (the 'Scheme')

The Scheme has been used in previous years to encourage the alignment of participants' interests with shareholders' through the commitment of a significant amount of their own investment capital in shares until the vesting date

No awards under the Scheme will be made to any Turnaround Plan participants for two years following the adoption of the Plan As a result no awards were made under the scheme in 2007

Under the Scheme, participants must commit and retain shares of up to a maximum value of 100% of salary at the date of the commitment A matching award is granted, composed of an award of a nil cost option and 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 dependent on TSR performance of ITV plc, against the customised FTSE 100 comparator group (described above) There is no vesting for performance below median 25% of the award vests at median and 100% at upper quartile Awards will vest on a sliding scale between these points Up to 50% of the matching award will vest at the third anniversary of the date of grant (subject to performance) and the remainder at the fourth anniversary Any portion of the award that has not vested at the end of the relevant three or four year performance period will lapse

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 The level of payout in the event of a change of control is capped at a multiple of the original financial amount a participant invests (twice the investment if a change of control occurs in the first year, three times if it occurs in the second year and four times if change of control occurs in the third or fourth year)

Notes *(continued)*

4 Share based payment *(continued)*

Granada Media and Granada Commitment schemes

The Granada Media and Granada Commitment schemes mirror the ITV scheme summarised above 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 16 companies 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 Performance conditions were adjusted to take account of the merger

- The Carlton Equity Participation Plan operated under similar terms to the ITV Commitment Scheme 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 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

Notes *(continued)*

4 Share based payment *(continued)*

Assumptions relating to grants of share options during 2007 and 2006.

Scheme name	Date of grant	Share price at grant (pence)	Exercise price (pence)	Expected volatility %	Expected life (years)	Gross dividend yield %	Risk free rate %	Fair value (pence)
Commitment Schemes								
ITV - shares	20-Mar-06	115 55	-	30 00%	3 00	2 70%	4 34%	60 00
ITV - shares	20-Mar-06	115 55	-	30 00%	4 00	2 70%	4 34%	61 00
ITV - options	20-Mar-06	115 55	115 75	30 00%	6 00	2 70%	4 33%	24 00
ITV - options	20-Mar-06	115 55	115 75	30 00%	7 00	2 70%	4 32%	27 00
Performance Share Plan								
ITV	18-Apr-06	114 50	-	32 00%	3 00	2 72%	4 48%	61 00
ITV	13-Sep-06	99 00	-	32 00%	3 00	3 18%	4 78%	46 00
Sharesave								
ITV - three year	06-Apr-06	117 75	92 00	32 00%	3 25	2 65%	4 39%	38 00
ITV - five year	06-Apr-06	117 75	92 00	32 00%	5 25	2 65%	4 40%	42 00
ITV - three year	05-Apr-07	111 10	86 60	25 00%	3 25	2 84%	5 25%	33 00
ITV - five year	05-Apr-07	111 10	86 60	25 00%	5 25	2 84%	5 12%	36 00
Turnaround Plan								
ITV - three year	13-Sep-07	106 40	-	25 00%	2 25	2 96%	5 04%	44 00
ITV - three year with retesting after 5 years	13-Sep-07	106 40	-	25 00%	2 25	2 96%	5 04%	59 00
ITV - 5 year	13-Sep-07	106 40	-	25 00%	4 25	2 96%	4 98%	48 00
ITV - three year	03-Oct-07	104 00	-	25 00%	2 25	2 96%	5 04%	41 00
ITV - five year	03-Oct-07	104 00	-	25 00%	4 25	2 96%	4 98%	45 00
ITV - three year	02-Nov-07	96 20	-	25 00%	2 25	2 96%	5 04%	28 00
ITV - five year	02-Nov-07	96 20	-	25 00%	4 25	2 96%	4 98%	36 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 totaled £0 1 million in 2007 *(2006 £nil)*

Notes *(continued)*

5 Profit on sale of fixed assets

Profit on sale of fixed assets in 2007 includes profit from the sale of tangible fixed assets of £3 2m *(2006 £nil)* and £nil from the sale of fixed asset investments *(2006 £0 1m)*

6 Investment income

	Year ended 31 December 2007 £m	Year ended 31 December 2006 £m
Dividends from shares in group undertakings	**13 0**	0 3
Other dividend income	**0 1**	-
	13 1	0 3

7 Interest receivable and similar income

	Year ended 31 December 2007 £m	Year ended 31 December 2006 £m
Bank deposits	**74 6**	42 0
Interest receivable from group undertakings	**29.1**	54 8
Interest receivable from joint ventures and associates	**2.6**	1 0
Foreign exchange gain	**0.1**	-
Other	**1.2**	1 9
	107.6	99 7

8 Interest payable and similar charges

	Year ended 31 December 2007 £m	Year ended 31 December 2006 £m
De-designated swap provision	**4.3**	1 6
Foreign exchange loss	**-**	(0 9)
Other loans and swap instruments	**(6.7)**	(1 4)
	(2.4)	(0 7)

Notes *(continued)*

9 Taxation

Analysis of tax credit / (charge) in the year	Year ended 31 December 2007 £m	Year ended 31 December 2006 £m
Current tax		
UK corporation tax on profit for the year	-	-
Adjustment in respect of prior periods	-	1 9
Total current tax (see below)	-	1 9
Deferred tax		
(Charge) / credit for the year (See note 17)	**(0 6)**	(0 6)
Total deferred tax	**(0 6)**	(0 6)
Tax on profit / (loss) on ordinary activities	**(0.6)**	1 3

The current tax charge for the year is lower *(year ended 31 December 2006 credit, higher)* than the standard rate of corporation tax in the UK *(year ended 31 December 2007 30%, year ended 31 December 2006 30%)* The differences are explained below

	Year ended 31 December 2007 £m	Year ended 31 December 2006 £m
Current tax reconciliation		
Profit on ordinary activities before tax	**114 7**	30 5
Current tax charge at 30% *(2006 30%)*	**(34 4)**	(9 2)
Effects of		
Permanent differences and group relief	**33 8**	8 4
Timing differences	**0 6**	0 8
Adjustment in respect of previous periods	-	1 9
Total current tax (charge) / credit (see above)	-	1 9

Potential deferred tax assets, primarily in respect of Loan Relationship Deficits (effectively loans written off) and capital losses (in relation to losses on investments), 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

Notes *(continued)*

10 Dividends

	Year ended 31 December 2007 £m	Year ended 31 December 2006 £m
Equity	**(200 0)**	-

11 Tangible fixed assets

	Land and Buildings Freehold £m	Land and Buildings Leasehold £m	Plant and Equipment £m	Total £m
Cost				
At 1 January 2007	48 5	3 0	3 4	54 9
Additions	-	3 2	1 9	5 1
Disposals	(8 0)	-	(0 3)	(8 3)
At 31 December 2007	40 5	6 2	5 0	51 7
Depreciation				
At 1 January 2007	13 2	0 1	1 1	14 4
Charge for the year	2 4	0 4	0 3	3 1
Disposals	(0 9)	-	(0 3)	(1 2)
At 31 December 2007	14 7	0 5	1 1	16 3
Net book value				
At 31 December 2007	**25 8**	**5 7**	**3.9**	**35 4**
At 31 December 2006	35 3	2 9	2 3	40 5

Notes *(continued)*

12 Fixed asset investments

	Subsidiary undertakings Equity £m	Subsidiary undertakings Loans £m	Joint ventures and Associated undertakings Equity £m	Joint ventures and Associated undertakings Loans £m	Other investments £m	Total £m
Cost						
At 1 January 2007	2,274 9	677 4	163 7	541 5	20 5	3,678 0
Additions	11 6	463 8	-	-	-	475 4
Return of captial	(0 8)	-	-	-	-	(0 8)
Disposals and repayments	(19 9)	(455 1)	-	(4 1)	(4 0)	(483 1)
Other	-	-	-	2 2	(3 3)	(1 1)
At 31 December 2007	2,265 8	686 1	163 7	539 6	13 2	3,668 4
Provisions						
At 1 January 2007	1,169 8	23 5	124 7	532 0	11 5	1,861 5
Provided / (released) in the year	7 3	-	-	(1 7)	-	5 6
At 31 December 2007	1,177 1	23 5	124 7	530 3	11 5	1,867 1
Net book value						
At 31 December 2007	**1,088 7**	**662 6**	**39 0**	**9 3**	**1 7**	**1,801 3**
At 31 December 2006	1,105 1	653 9	39 0	9 5	9 0	1,816 5

A list of the Company's principal subsidiary undertakings and investments is given in note 22

13 Debtors: amounts falling due within one year

	31 December 2007 £m	31 December 2006 £m
Amounts owed by subsidiary undertakings	**47 1**	29 0
Prepayments and accrued income	**7 0**	7 6
Corporation tax	**31 7**	-
Deferred taxation (see note 17)	**-**	0 1
	85 8	36 7

Notes *(continued)*

14 Creditors: amounts falling due within one year

	31 December 2007 £m	31 December 2006 £m
Unsecured loan notes	0 5	-
Accruals and deferred income	11 4	9 2
	11 9	9 2

15 Creditors: amounts falling due after one year

Loans

	31 December 2007 £m	31 December 2006 £m
Repayable		
Over five years	-	0 6
	-	0 6

Loans repayable after five years as at 31 December 2006 comprised unsecured loan notes totalling £0 6m These are now reported within creditors amounts falling due within one year

Notes *(continued)*

16 Derivatives and other financial instruments

Treasury operation and policies

Since 2 February 2004 Carlton Communications Limited has been part of the ITV plc group of companies The following policies are in place across the ITV plc group of companies

Treasury operation policies

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 rates

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 income statement and balance sheet exposures to changes in exchange rates

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

Sterling fixed rate liabilities

Sterling fixed rate liabilities include the interest rate swaps matched against the £200m Eurobond, which was novated to ITV plc during 2004 These interest rate swaps matured in June 2007

Interest rate swaps matched against the £200m Eurobond were as follows

In April 2003 the £200m Eurobond was swapped such that the Company receives the bond coupon of 7 625% and pays six month sterling LIBOR plus 3 19% The bank had the option to cancel the swap for nil value at each six monthly rate fixing date This option matured in December 2005 This swap matured in June 2007

The Company also had a further swap matched against this Eurobond Under the terms of this swap if six month dollar LIBOR exceeds 3 75% the Company 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 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 This swap had a positive fair value at 31 December 2006 and matured in June 2007

Notes *(continued)*

16 Derivatives and other financial instruments *(continued)*

Sterling floating rate liabilities

Sterling floating rate liabilities include the £0 5m unsecured loan notes and the interest rate swaps against the debt instruments listed below The £250m Eurobond was novated to ITV plc during 2004 The interest rate swaps remain in the Company

The £250m 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 six month period

The Company also has a further swap matched against this Eurobond Under the terms of this swap if six month dollar LIBOR exceeds 3 75% the Company 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

A liability of £6 7m relating to the onerous element of the above interest rate swaps has been recorded at 31 December 2007 *(31 December 2006 £11 0m)*

The £0 5m unsecured loan notes have a floating cost of six month sterling LIBOR minus 1%

Fair values of financial assets and financial liabilities

The estimated fair value of the Company's financial instruments is set out below

	31 December 2007 Book value £m	**31 December 2007 Fair value £m**	31 December 2006 Book value £m	31 December 2006 Fair value £m
Financial assets				
Cash	**895 7**	**895 7**	1,009 4	1,009 4
Loans	**(0 5)**	**(0 5)**	(0 6)	(0 6)
Financial liabilities				
Preference shares	**-**	**-**	-	-
Derivatives				
Interest rate swaps and options	**(6 7)**	**(6 7)**	(11 0)	(9 9)

The fair value of loans is calculated using the discounted LIBOR method

Notes *(continued)*

16 Derivatives and other financial instruments *(continued)*

The fair value of interest rate swaps and foreign exchange contracts is calculated using termination costs

Gains / (losses) on hedging contracts

The table below details gains / (losses) on hedging contracts at 31 December 2007

	Gains	Losses	Deferred Net	Gain	Losses	Unrecognised Net
	£m	£m	£m	£m	£m	£m
Gains / (losses) on hedges at 31 December 2006	-	-	-	1 1	-	1 1
Gains / (losses) arising in 2007 that were not recognised in 2007	-	-	-	(1 1)	-	(1 1)
Gains on hedges at 31 December 2007	-	-	-	-	-	-
Of which						
Gains expected to be recognised in 2007	-	-	-	-	-	-
Gains expected to be recognised in 2008 or later	-	-	-	-	-	-

17 Provisions for liabilities and charges

	ITV Digital and ITV Sport Channel	Property provisions	Total
	£m	£m	£m
At 1 January 2007	1 1	3 3	4 4
Profit and loss account - current	-	0 3	0 3
Utilised	(0 4)	(1 6)	(2 0)
At 31 December 2007	**0 7**	**2.0**	**2 7**

Property provisions are in respect of various vacant properties Utilisation will be over the life of these leases

	Deferred taxation
	£m
Deferred tax asset at 1 January 2007	(0 1)
Amount charged to Profit and loss account	0 6
Deferred tax liability at 31 December 2007	**0 5**

Provisions for liabilities and charges as at 31 December 2007	£m
ITV Digital & ITV Sport Channel	0 7
Property provisions	2 0
Deferred tax liability	0 5
	3 2

Notes *(continued)*

18 Called up share capital

	31 December 2007 £m	31 December 2006 £m
Authorised		
1,222,500,296 Ordinary shares of 5p each *(2006 1,222,500,296)*	**61 1**	61 1
	61 1	61 1
	$m	$m
15,000,000 Cumulative US Dollar-denominated Redeemable Preference shares of US$0 01 each *(2006 15,000,000)*	**0 2**	0 2
	£m	£m
Allotted, called up and fully paid		
677,145,965 Ordinary shares of 5p each *(2006 677,145,965)*	**33 9**	33 9
	33 9	33 9

19 Reconciliation of movements in shareholders' funds

	Share capital £m	Share premium £m	Capital contribution reserve £m	Other reserves	Profit & loss account £m	Total £m
At 1 January 2007	33 9	161 5	1,408 2	762 9	522 4	**2,888 9**
Retained profit for period	-	-	-	-	114 1	**114 1**
Dividends paid	-	-	-	-	(200 0)	**(200 0)**
At 31 December 2007	33 9	161 5	1,408 2	762 9	436 5	**2,803 0**

Other reserves

At 31 December 2007, other reserves of the Company, which were non-distributable, comprised (a) £191 6m *(31 December 2006 £191 6m)* being the remaining balance of special reserves created on the cancellation of the share premium account in previous years, (b) £455 6m *(31 December 2006 £455 6m)* being the amounts arising on the application of section 131(2) of the Companies Act 1985, (c) £100 0m *(31 December 2006 £100 0m)* reserve created on the transfer of an investment within the Group, and (d) £15 7m *(31 December 2006 £15 7m)* being a capital redemption reserve created on conversion of Preference shares to Ordinary shares

Notes *(continued)*

20 Contingent liabilities

Under a group registration, the Company is jointly and severally liable for VAT at 31 December 2007 of £28m *(31 December 2006 £29m)*

The Company and certain other group companies have entered into an arrangement for a joint bank account with Barclays Bank PLC and are jointly and severally liable in respect of any overdraft arising on the group joint bank account At 31 December 2007 this contingent liability amounted to £nil *(31 December 2006 £nil)*

The Company has guaranteed the bonds which are now held by its parent undertaking

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

21 Operating lease commitments

	31 December 2007 Land & Buildings £m	31 December 2006 Land & Buildings £m
Annual commitments under non-cancellable operating leases are as follows		
Operating leases which expire		
Less than one year	**-**	-
After one year but within five years	**1 8**	1 8
After five years	**4 8**	4 6
	6.6	6 4

Notes *(continued)*

22 Principal subsidiary undertakings and investments

The principal subsidiary undertakings of the Company at 31 December 2007, all of which are wholly owned (directly or indirectly) and incorporated and registered in England and Wales except where stated, are

Name	Principal activity
ITV Broadcasting Limited	Broadcast of television programmes
ITV Consumer Limited	Development of platforms, broadband, transactional and mobile services
ITV Productions Limited	Production of television programmes
ITV Network Limited [1]	Scheduling and commissioning television programmes
ITV Services Limited	Provision of services for other companies within the Group
ITV2 Limited	Operation of digital TV channels
ITV Digital Channels Limited	Operation of digital TV channels
12 Yard Productions (Partnership)	Production of television programmes
3sixtymedia Limited (80% owned)	Supplier of facilities for television productions
Carlton Screen Advertising Limited	Sale of advertising space in cinemas
GMTV Limited (75% owned)	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 [4]	Distribution of television programmes
Granada Productions Pty Limited [3]	Production of television programmes
Granada Entertainment USA [2]	Production of television programmes
Granada Produktion fur Film und Fernsehen GmbH [5]	Production of television programmes
Granada Ventures Limited	Production and distribution of video and DVD products
Jaffe/Braunstein Entertainment LLC (51% owned) [4]	Production of television programmes
SDN Limited	Operation of Freeview Multiplex A

1 Interest in company limited by guarantee
2 Registered in USA
3 Incorporated and registered in Australia
4 Incorporated and registered in USA
5 Incorporated and registered in Germany

Notes *(continued)*

22 Principal subsidiary undertakings and investments *(continued)*

Name	Note	Interest in ordinary share capital 2007 %	Interest in ordinary share capital 2006 %	Principal activity
The Ambassador Theatre Group Limited	c	7 34%	7 34%	Operation of theatres and production of theatrical productions
Arsenal Broadband Limited	b	50 00	50 00	Exploitation of new media and other commercial opportunities
Freesat (UK) Limited	b	50 00	–	Provision of a standard and high definition enabled digital satellite proposition
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
Mammoth Screen Limited	a	25 00	–	Production of television programmes
Screenvision Holdings (Europe) Limited	b	50 00	50 00	European cinema advertising
SMG plc *	c	5 60	16 78	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

* Incorporated and registered in Scotland
** Incorporated and registered in USA

a Associated undertaking
b Joint venture
c Trade investment

23 Ultimate parent company

At 31 December 2007 the Company's immediate parent company and ultimate parent company was ITV plc, a company incorporated and registered in England and Wales

The largest and smallest group in which the results of the Company were consolidated was that headed by ITV plc The consolidated accounts of ITV plc are available to the public and may be obtained from the Company Secretary, 200 Gray's Inn Road, London WC1X 8HF