Company Number 348312

CARLTON COMMUNICATIONS PLC

REPORT AND ACCOUNTS

FOR THE 15 MONTHS ENDED 31 DECEMBER 2003

CONTENTS

COMPANY INFORMATION

Company Registration Number

348312

Registered Office

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London
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Directors

C L Allen
G J Parrott
H E Staunton

Company Secretary

J Tibbitts

Auditors

PricewaterhouseCoopers LLP
1 Embankment Place
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DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the consolidated financial statements of Carlton Communications Plc ("the company") and its subsidiaries (together "the Group") for the fifteen month period ended 31 December 2003. The company's year end has changed to 31 December. The 2003 figures reflect the fifteen month period to 31 December 2003, whilst the comparatives show the twelve months to 30 September 2002.

As described in note 36, subsequent to 31 December 2003, the ordinary shareholders of the company approved the merger with Granada plc ("Granada"). As a result, 100% of the ordinary share capital of the company was acquired by ITV plc ("ITV") and the ordinary shares of the company were de-listed from the London Stock Exchange on 30 January 2004. The Directors' Report and Remuneration Report set out the conditions that existed in the company during the fifteen month period to 31 December 2003.

Principal Activities

The principal activities of the Group are free-to-air television broadcasting for four regional Channel 3 licences, advertising sales, cinema screen advertising, post production services and content production and distribution.

Review Of Business

1. Turnover

Turnover from continuing businesses (excluding share of joint ventures' turnover) was £1,191 million in the 15 month period to 31 December 2003 (12 month period to 30 September 2002: £965 million). Group turnover fell like-for-like mainly due to a weaker television advertising market in the period from April to September, although this was partly offset by recovery in the final calendar quarter.

2. Broadcast revenue

Carlton's share of ITV1 NAR was £835 million (2002: £660 million). The slow advertising market caused a like-for-like fall of 3% in the calendar year 2003 to £649 million. Sponsorship income was £16 million (2002: £12 million).

Carlton Screen Advertising turnover was £86 million (2002: £60 million) boosted by strong product such as Lord of the Rings and Harry Potter.

3. Content revenue

Total content sales were £174 million (2002: £165 million), comprising sales to UK broadcasters including ITV £93 million (2002: £76 million), international sales £55 million (2002: £50 million) and video and publishing sales £26 million (2002: £39 million).

4. Results

Profit before tax, amortisation and exceptional items from continuing operations was £94 million (2002: £53 million).

Total EBITA before exceptional operating items was £90 million (2002: £69 million). Loss before tax, after exceptional items and discontinued operations was £256 million (2002: £156 million loss).

Payments to the Government for the Group's wholly owned broadcasting licences continue to be a significant element of costs. In the period these payments totalled £131 million (2002: £111 million). This is calculated net of the effects of digital penetration, which has been estimated at an average of 41% (2002: 32%) in the period, reducing licence costs by £59 million (2002: £36 million).

Income from joint ventures, associates and investments was £16 million (2002: loss £3 million) boosted by a strong performance from ITV2 and the Screenvision companies.

Net interest charges were £12 million (2002: £12 million). Benefits from swaps are the main reason for the reduced interest charge on a like-for-like basis.

5. *Goodwill, exceptional items and amounts written off investments*

Amortisation in the core operations was £23 million (2002: £18 million), of which £14 million (2002: £11 million) related to broadcasting operations and £4 million (2002: £2 million) to joint ventures.

Exceptional operating items of £58 million relate primarily to restructuring, reorganisation and merger costs.

Amounts written off investments of £273 million are mainly made up of the effect of reclassifying the Thomson shares as current asset investments and writing down to net realisable value in the process. This was based on the closing 31 December share price of EUR 16.8, compared with a book value of EUR 41.2 per share, and resulted in a write-down of £271 million. The balance represents a £2 million write-down of the investment in France Telefilms to its net realisable value.

6. *Discontinued operations*

Profits from discontinued operations relate to adjustments to the Technicolor sale transaction. 2002 also includes the results of ITV Digital and ITV Sport Channel.

7. *Taxation, earnings and dividends*

The effective rate of tax on continuing operations reflects non-deductible amortisation. Earnings per Ordinary share on continuing operations before exceptional items (£338 million including amounts written off investments) and amortisation (£23 million) were 12.7p (2002: 4.8p). Basic loss per share was 37.8p (2002: 24.8p loss). The dividend for the fifteen month period is £43 million (2002: £66 million). An interim dividend of 2p net per Ordinary share was paid on 15 August 2003. A second interim dividend of 2p net per Ordinary share was paid on 20 January 2004. No final dividend is to be paid by the company (2002: 5p per share). ITV shareholders will receive a special dividend of 0.5p per share which is being funded by a £25 million dividend from Granada to ITV following the merger between Granada and Carlton.

8. *Cash flow*

In the fifteen month period there was a cash inflow from operating activities of £107 million (2002: £269 million). This figure includes proceeds from loan note sales of £33 million (2002: £179 million), and a cash outflow arising from an increase in working capital (stocks, programme and film rights, debtors and creditors) of £6m, primarily resulting from a reduction in creditors on closure of businesses.

Gross cash inflows were £87 million (2002: £246 million) after tax, interest and preference dividend payment but before all acquisitions and financing. Further cash outflows included ITV Digital and ITV Sport Channel closure costs (£30 million), equity dividends (£47 million), EMTN loan repayments (£35 million) and capital expenditure (£15 million). The net cash outflow in the period was £57 million (2002: inflow of £323 million).

Net debt was £527 million at 31 December 2003, compared with £460 million at 30 September 2002. This increase in net debt in the 15 month period of £67 million (2002: decrease of £47 million) comprises a net cash outflow before financing of £18 million and translation differences and non-cash movements of £49 million (which arose primarily from the strengthening of the euro against sterling, which increased the book value of the exchangeable bond liability).

9. *Post balance sheet events*

On 16 October 2002 the boards of the company and Granada announced that they had agreed the terms of a proposed merger, paving the way for a fully consolidated ITV. The Secretary of State referred the proposed merger to the Competition Commission on 11 March 2003 and on 7 October 2003 announced that she had decided to clear the merger, subject to appropriate undertakings being given by Carlton and Granada. Carlton and Granada announced on 14 November 2003 that the terms of those undertakings had been agreed and duly accepted by the Secretary of State. On 2 February 2004 Carlton and Granada merged under a Court approved Scheme of Arrangement to form ITV.

As a result 100% of the ordinary share capital of the company was acquired by ITV and the ordinary shares of the company were de-listed from the London Stock Exchange on 30 January 2004. The proposed preference shareholder scheme was not passed and the company has retained its preference share listing on the London Stock Exchange.

DIRECTORS' REPORT (continued)

Directors' responsibilities

Directors are required by the Companies Act 1985 to ensure that financial statements for each financial year are prepared which give a true and fair view of the state of the company and the Group as at the end of the financial year and of the profit or loss for that period. In preparing the financial statements, the directors confirm that suitable accounting policies have been used and applied consistently; reasonable and prudent judgements and estimates have been made; and the financial statements have been drawn up on a going concern basis. Applicable accounting standards have been followed.

It is also the directors' responsibility to ensure that adequate accounting records are maintained; to safeguard the assets of the company and the Group; to maintain a system of internal financial control; and to prevent and detect fraud and other irregularities.

Board of Directors

The directors of the company who served during the period were:

M P Green (Chairman)		(resigned 30 January 2004)
P C Murray		(resigned 30 January 2004)
G M Murphy		(resigned 31 January 2003)
E de Villiers	non-executive	(resigned 2 February 2004)
D B Green	non-executive	(resigned 2 February 2004)
L F Hill	non-executive	(resigned 2 February 2004)
Sir Sydney Lipworth	non-executive	(resigned 2 February 2004)
J B McGrath	non-executive	(appointed 21 May 2003; resigned 2 February 2004)
Sir Brian Pitman	non-executive	(resigned 2 February 2004)

C L Allen, G J Parrott and H E Staunton were appointed as directors with effect from 2 February 2004.

D Abdoo served as Company Secretary during the 15 month period ended 31 December 2003. J Tibbitts was appointed Company Secretary on 2 February 2004.

Directors' interests

Details of the directors' interests in the company's ordinary shares are as follows:

	1 October 2002*	**31 December 2003**
M P Green	10,208,324	10,270,717
E M de Villiers	-	5,000
D B Green	9,375,299	9,375,299
L F Hill	79,889	79,889
Sir Sydney Lipworth	34,572	36,646
J B McGrath	-	5,000
P C Murray	109,821	109,821
Sir Brian Pitman	1,082	1,082

* or date of appointment

N.B. The interests of M P Green and D B Green include a holding of 8,057,330 ordinary shares in the name of Tangent Industries Limited, a company controlled by M P Green.

The company established an Employee Share Ownership Trust (ESOP) in 1991 and a Qualifying Employee Share Ownership Trust (Quest) in 1998. The Companies Act 1985 deems each executive director to be interested in the shares held for the purposes of the ESOP and the Quest. These interests have not been included in the above figures. The number of ordinary shares held for the purposes of the ESOP was 1,822,172 on 1 October 2002 and 1,643,673 on 31 December 2003. The number of ordinary shares held for the purposes of the Quest was 696,177 on 1 October 2002, and 686,656 on 31 December 2003. For details of share option schemes, see the Remuneration Report on pages 7 to 14.

There have been no changes in these interests between the period end and the date of the merger. On 30 January 2004 the directors' interests in the ordinary share capital of the company were acquired by ITV.

Going Concern

The directors view future prospects with confidence. For this reason, the directors continue to adopt the going concern basis in preparing the accounts.

Conversion and redemption of preference shares

During the period, the company repurchased 24,140 non-voting deferred shares. These deferred shares were issued upon the conversion of preference shares and were immediately repurchased by the company and cancelled. Further details are set out in note 26. The preference shares continue to trade on the London Stock Exchange following the merger of Carlton and Granada.

Auditors

A resolution to appoint auditors will be proposed at the 2004 Annual General Meeting.

Creditor Payment Policy

The Group does not follow any particular code on payment practice. Operating businesses are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted and making those suppliers aware of the terms of payment. It is Group policy that payments to all suppliers are made in accordance with the agreed terms, provided that the supplier is also complying with all relevant terms and conditions.

Trade creditor days of the Group for the period ended 31 December 2003 were 25 days, based on the ratio of Group trade creditors at the period-end to the amounts invoiced during the period by trade creditors.

Donations

The Group made charitable donations of £0.4m (2002: £0.3m) in the period, but no political donations.

Employment Policy

The company does not discriminate between employees or potential employees on the grounds of colour, race, ethnic or national origin, sex, marital status or religious beliefs. Full consideration is given to applications for employment from disabled people who can demonstrate they have the necessary abilities. If individuals become disabled during employment and are unable to do their jobs, consideration would be given to retraining for alternative jobs. The company is committed to staff training and the development of employee skills at all levels. It is the company's policy to promote an understanding of its business aims and performance. Employees are consulted on matters of concern to them and encouraged to participate in their company's affairs.

Corporate Governance

The company is now a wholly owned subsidiary of ITV and corporate governance matters will be reported in the accounts of ITV.

Remuneration Report

The ordinary shares of the company ceased to be listed on the London Stock Exchange on 30 January 2004. The company is now a wholly owned subsidiary of ITV and has no responsibility for the remuneration policy for the ITV group. Information on remuneration policy and arrangements in this document reflect those set by the Remuneration Committee of Carlton Communications Plc prior to the merger. Information about the ITV remuneration policy is contained in the ITV Financial Review. Details of the terms of reference of the Remuneration Committee of ITV are available on its website, www.itv.com. A full remuneration report with details of remuneration policy for ITV will be published in March 2005.

The Remuneration Committee of Carlton was comprised solely of the following non-executive directors: Sir Brian Pitman (Chair), E M de Villiers, L F Hill and Sir Sydney Lipworth, all of whom the Board considered to be independent. The Remuneration Committee dealt with the remuneration of the executive directors on behalf of the Board. The company's Chairman, Chief Executive, Finance Director and the Company Secretary assisted the Remuneration Committee except in relation to matters specifically concerning their own remuneration. The Remuneration Committee did not retain a firm of remuneration consultants, but sought professional advice on an ad hoc basis. During the period under review, advice was sought from Alithos in relation to providing Total Shareholder Return ("TSR") measurement services, Clifford Chance in relation to share schemes and Slaughter and May in relation to employment law issues.

Remuneration

The policy of the Remuneration Committee in respect of each element of remuneration is set out below, including those related to performance.

Base Salary and Benefits

Base salary and benefits were determined on an annual basis by the Remuneration Committee after a review of the individual's performance and market trends. For guidance, the Remuneration Committee had regard to available research and published remuneration information on comparable companies. Salary policy within the rest of the Group was also taken into consideration. Benefits typically included a car and life, disability and health insurance. The value of benefits was not pensionable.

Annual Cash Bonus

The directors' annual performance-related cash bonus scheme provided executive directors with an incentive to achieve demanding short-term performance targets. The bonus earned, which was not pensionable, depended principally upon the company's performance as measured against a specific target or targets set by the Remuneration Committee each year.

For the period under review, the scheme provided for a bonus of up to 100% of salary, and the targets related to operating and cashflow performance and individual objectives.

Deferred Annual Bonus Share plan (DABS)

This plan provided for a participant to choose to invest up to 50% of his net (i.e. after tax) annual cash bonus to purchase Carlton ordinary shares. The investing participant was then conditionally awarded a number of Carlton ordinary shares with a value that was the gross (i.e. pre-tax) equivalent of the annual cash bonus so invested. Provided the bonus shares are retained for three years and the participant remains employed by the Group for four years, the restricted shares vest and thereafter become available to the participant.

The Carlton Equity Participation Plan (EPP)

The EPP received shareholder approval at the AGM on 1 March 2001.

Participation in the EPP applied to executive directors and selected senior executives. Participants invited to take part in the EPP were required to commit Carlton ordinary shares (EPP shares) by a specified date to qualify for a matching award. Normally a participant was entitled to commit EPP shares to a value of up to 100 per cent. of basic salary (save for the first award where the maximum EPP share commitment was to a value of up to 200 per cent. of basic salary). A matching award comprises both an award of free shares (in the form of a nil-price option) and an option grant over shares at market value. The extent to which a matching award will vest depends on the participant retaining his/her EPP shares and the performance conditions relating to the matching award being satisfied. The maximum matching award comprises free shares equal in number to three times the EPP shares and options (at market value) over an equal number of shares. The principal performance conditions applicable to both awards made were/are measured on the basis of the company's TSR performance against that of a UK media comparator group and against the FTSE 100 constituents (at the first day of the performance period). The media comparator group consists of the media companies within the FTSE All Share Media and Entertainment sector, capitalised at more than £1bn, as defined at the first day of the performance period. The full matching award vests for upper quartile performance against the media comparator group. None of the matching award could vest for below median performance. None of the matching options could vest, regardless of TSR performance against the media comparator group, if Carlton ranks below median against the FTSE 100 over the period. The TSR performance condition is measured objectively with the use of third party data.

Details of the EPP awards held by Mr Green and Mr Murray are given in Table 3 on page 13. The 2002 awards held by Mr Green and Mr Murray, granted in December 2001, and the 2003 awards, granted in January 2003, vested respectively as a result of the merger and Mr Green's and Mr Murray's termination of employment, although the 2003 awards may not be exercised until 2006/07.

Long-Term Incentive Share Plan (LTIS)

During the period, no awards were made under the LTIS plan.

The LTIS plan provided for a participant to be conditionally awarded a number of Carlton ordinary shares with a value equating to a percentage of base salary. The percentage was determined by the Remuneration Committee. Vesting of awards was based on a TSR performance condition.

All awards made under this plan vested prior to the start of the financial period.

Share Option Schemes

Grants were made to directors under the Carlton Executive Share Option Scheme 1999. The exercise of executive share options is subject to satisfaction of performance conditions set by the Remuneration Committee. The annual limit was 150% of salary, with facility to grant in excess of this if required. Performance was measured over 3 years based on TSR. TSR had to be at or above median of the FTSE 100 for options to become exercisable. Full vesting occured at a ranking of median or above. The Remuneration Committee believed TSR was the most appropriate performance measure as it aligns the rewards of executives more closely with the returns received by shareholders. The TSR performance condition was measured objectively with the use of third party data. Options may also become exercisable in certain circumstances, such as on a change of control, reconstruction or certain compassionate circumstances.

Directors were also able to participate in the Sharesave scheme.

All Carlton schemes are now closed to new entrants.

DIRECTORS' REPORT (continued)

Service Contracts

The following information on Mr Green and Mr Murray is derived from those set out in the merger documents and describes their contractual arrangements with Carlton prior to the merger.

Mr Green had no written service contract with the company and as such his employment was terminable on reasonable notice. Mr Green's contract was terminated on 30 January 2004 and it was agreed by the Remuneration Committee of Carlton, after taking legal advice, that he should receive by way of agreed damages a cash sum reflecting the value of 12 months' salary, bonus and benefits together with an augmentation of his benefits under Carlton's pension scheme by the addition of 24 months' service.

Mr Murray entered into a service agreement with Carlton on 22 November 2001 pursuant to which he was employed as Group Finance Director. The contract was terminable on one year's notice by either party, save on a change of control whereupon for one year thereafter the contract was terminable by the company on two years' notice. Mr Murray's contract was also terminated on 30 January 2004 and, having regard to the principles of mitigation, it was agreed by the Remuneration Committee, under legal advice, that he would receive by way of agreed damages a cash sum reflecting the value of 12 months' salary, bonuses and benefits together with an augmentation of his benefits under Carlton's pension scheme by the addition of 24 months' service. Insofar as this benefit is provided by an unfunded arrangement he may elect for a contribution to a Funded, Unapproved Retirement Benefit Scheme ("FURBS") or a cash sum by way of commutation of that unfunded pension promise.

Details of EPP awards, share options and other share scheme awards, which were outside the service contracts, are set out in Tables 2 and 3 below.

Outside Appointments

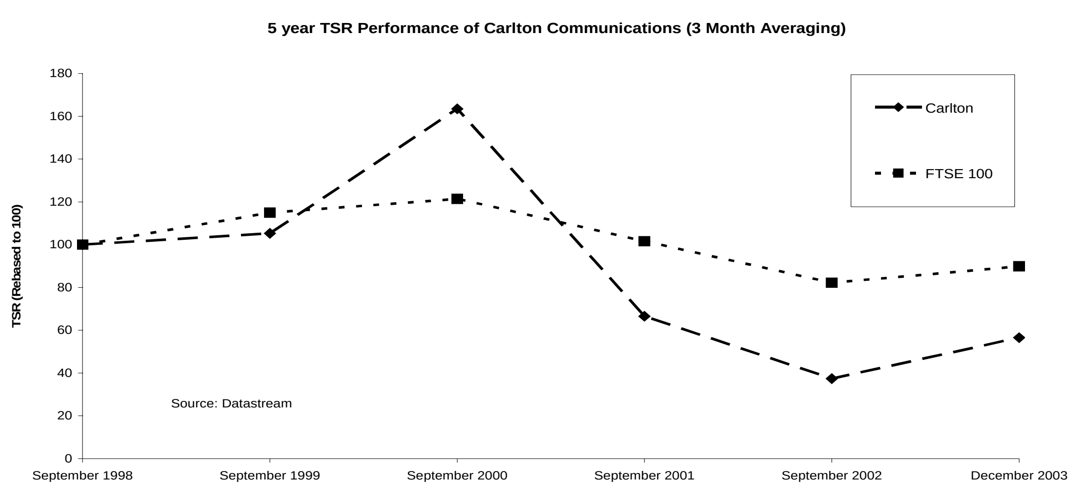
Executive directors were encouraged to accept non-executive directorships offered by FTSE 100 and FTSE 250 companies and other organisations which provided industry experience or public service. Outside appointments were subject to prior Board approval, taking into account existing duties and potential conflicts of interest. Fees paid for these services were normally retained by the executive director concerned.

Non-Executive Directors' Fees

The executive directors are responsible for setting the non-executive directors' fees. Non-executive directors do not receive benefits or pension contributions from the Group and do not participate in any Group incentive scheme.

5 Year Share Price Performance Graph

For consistency with the Granada Remuneration Report and given ITV's status as a FTSE 100 company, the graph below plots Carlton's TSR performance against the FTSE 100 Index.



The tables below set out the results of the TSR measurement exercise performed for the Remuneration Committee in respect of the merger by Alithos. It shows the ranking of the TSRs of the media comparator group which were used to calculate the EPP awards. For the market value option element of each EPP award to vest, the company's TSR, as well as exceeding the 8th ranked position against the media comparator group, had to rank at least 50th within the FTSE 100 over the same period. In respect of the 2002 EPP award the company ranked 30th out of 101 companies and in respect of the 2003 EPP award the company ranked 1st out of 101 companies.

Total Shareholder Return Ranking for 2002 EPP Award:

Period: 1 April 2002 – 30 January 2004

Media Comparator group

Rank	Company	TSR (%)
1	Trinity International	18.69
2	Emap	11.18
3	Carlton Communications	4.54
4	Aegis	0.45
5	Granada	0.12
6	Daily Mail A	(1.12)
7	BSkyB	(2.86)
8	United Business Media	(3.25)
9	Pearson	(10.02)
10	WPP Group	(11.82)
11	Reed Elsevier	(11.97)
12	EMI	(27.10)
13	Reuters Holdings	(34.00)

Total Shareholder Return Ranking for 2003 EPP Award:

Period: 1 April 2003 – 30 January 2004

Media Comparator group

Rank	Company	TSR (%)
1	Carlton Communications	178.47
2	United Business Media	140.41
3	Granada	133.15
4	Reuters Holdings	101.35
5	Aegis	69.78
6	EMI	66.41
7	Trinity Mirror	60.95
8	WPP Group	54.55
9	Daily Mail Trust A	33.35
10	Pearson	29.25
11	Emap	28.87
12	BSkyB	16.61
13	Reed Elsevier	1.58

DIRECTORS' REPORT (continued)

The auditors are required to report on information contained in the following section of this Remuneration Report.

Remuneration for the period

Table 1 - Directors' emoluments

	Salary £000	Benefits £000	Annual bonus £000	Compensation for loss of office	Total for 15 months to 31 December 2003 £000	Total for 12 months to 30 September 2002 £000
Executive						
M P Green (1)	843	47	670	1,792	3,352	707
P C Murray (1)	405	19	325	1,111	1,860	218
Non-executive						
E M de Villiers	63	-	-	-	63	35
D B Green	63	-	-	-	63	35
L F Hill	63	-	-	-	63	35
Sir Sydney Lipworth	63	-	-	-	63	35
J B McGrath (2)	31	-	-	-	31	-
Sir Brian Pitman	63	-	-	-	63	35
Current directors total	1,594	66	995	2,903	5,558	1,100
Previous directors						
G M Murphy (3)	167	34	-	-	201	598
	1,761	100	995	2,903	5,759	1,698

Notes

(1) Mr Green's and Mr Murray's severance agreements are described in the section on service contracts on page 9 and details of their awards under the EPP and other share schemes are set out in Table 2 and Table 3 below.
(2) J B McGrath was appointed to the board on 21 May 2003.
(3) G M Murphy resigned as a director on 31 January 2003. Included in his benefits figure is a payment of £24,322 (2002 : £74,712) connected with his pension arrangements.
(4) For the purposes of Schedule 6 to the Companies Act 1985:
 (a) the director with the highest total emoluments for 2003 and 2002 was M P Green. The accumulated total accrued pension in 2003 for M P Green was £153,000 as set out in the table below (2002 : £134,000).
 (b) directors' emoluments totalled £1,894,000 in 2002.

Details of the performance conditions applicable to the share option and EPP awards are set out on page 8.

DIRECTORS' REPORT (continued)

Share options

Options outstanding over ordinary shares in Carlton Communications Plc under the terms of the Executive Share Option Scheme, the Long-term Incentive Scheme, the Deferred Annual Bonus Share plan and the SAYE are detailed below in Table 2.

Table 2 – Options

	Scheme	Options held on 1 October 2002	Options granted during the period	Options lapsed during the period	Options exercised during the period	Options held on 31 December 2003	Option Price	Exercise Period
M P Green	EXEC	28,712	-	28,712	-	-	282p	1996-2003
	EXEC	40,000	-	-	-	40,000	358.4p	1998-2005
	EXEC	230,188	-	-	-	230,188	530p	2001-2008
	EXEC	202,657	-	-	-	202,657	602p	2003-2010
	EXEC	158,031	-	-	-	158,031	772p	2003-2010
	EXEC	238,859	-	-	-	238,859	561p	2004-2011
	EXEC	315,047 (2)	-	-	-	315,047	319p	2004-2011
	EXEC	-	755,639 (2)	-	-	755,639	133p	2005-2012
	Sharesave	5,164	-	-	-	5,164	334p	2003-2004
	DABS	23,718	-	-	23,718	-	Nominal	1999-2003
	DABS	20,331	-	-	-	20,331	Nominal	2001-2007
	DABS	1,953	-	-	-	1,953	Nominal	2002-2007
	DABS	5,411	-	-	-	5,411	Nominal	2003-2008
	DABS	6,258	-	-	-	6,258	Nominal	2004-2010
	DABS	19,910 (2)	-	-	-	19,910	Nominal	2005-2010
	LTIS	38,675	-	-	38,675	-	Nominal	2000-2003
	LTIS	28,590	-	-	-	28,590	Nominal	2001-2007
	LTIS	79,075	-	-	-	79,075	Nominal	2002-2007
G M Murphy	EXEC	250,000	-	250,000	-	-	800p	2003-2010
	EXEC	178,253	-	178,253	-	-	561p	2004-2011
	EXEC	235,109	-	235,109	-	-	319p	2004-2011
	Sharesave	4,545	-	4,545	-	-	209p	2005
	DABS	3,138	-	3,138	-	-	Nominal	2005-2010
P C Murray	EXEC	488,888 (2)	-	-	-	488,888	225p	2004-2011
	EXEC	-	366,541 (2)	-	-	366,541	133p	2005-2012
	Sharesave	4,545	-	4,545	-	-	209p	2005
	Sharesave	-	14,931	-	-	14,931	110p	2008

Notes

(1) The aggregate gains for all directors' options exercised during the period were £72,220 (2002 : £392,184). This figure represents the difference between the market price of option shares at the exercise date and their exercise price. It does not represent the net proceeds received as no account has been taken of option shares which have been retained, the tax liability or, where option shares have been sold, the sale commissions and expenses. The 2003 aggregate gains all related to MP Green (2002 : £nil).

(2) In accordance with the rules of the scheme, Mr Green and Mr Murray's EXEC awards of 1,070,686 and 855,429 options respectively vested in full at their dates of termination, as did DABS awards over 19,910 options for Mr Green.

DIRECTORS' REPORT (continued)

The Carlton Equity Participation Plan (EPP)
The directors' interests in EPP awards made on 5 December 2001 and 7 January 2003 are shown in Table 3.

Table 3 – EPP awards

	Option price	Held on 1 October 2002	Awarded during the year	Lapsed during the year	Held on 31 December 2003 and performance conditions satisfied as at 30 January 2004 (1)	
M P Green	Nominal	1,786,665	-	-	1,786,665	
	225p	1,786,665	-	-	1,786,665	
	Nominal	-	1,440,858	-	1,440,858	Up to 50% on 1 April 2006 and
	139.5p	-	1,440,858	-	1,440,858	the balance on 1 April 2007
G M Murphy	Nominal	1,333,332	-	1,333,332	-	
	225p	1,333,332	-	1,333,332	-	
P C Murray	Nominal	733,332		-	733,332	
	225p	733,332		-	733,332	
	Nominal	-	698,922	-	698,922	Up to 50% on 1 April 2006 and
	139.5p	-	698,922	-	698,922	the balance on 1 April 2007

Note

(1) In the case of Mr Green and Mr Murray, the Carlton Remuneration Committee determined prior to the completion of the merger, in accordance with the EPP rules, as approved by shareholders and informed by independent advice on performance measurement, that in respect of both the 2002 awards and the 2003 awards the performance requirement had been satisfied for full vesting given Carlton's relative TSR performance up to the completion of the merger (on the basis of ranking in 3rd position for the 2002 EPP award and 1st position for the 2003 EPP award, as set out in the tables on page 10). The performance criteria had not been met at 30 September 2003 or earlier periods when performance had been tested. Accordingly, the 2002 award vested and was exercisable on change of control, being triggered by the merger. Although the performance criteria for the 2003 award were satisfied, these awards only become exerciseable at such times as the options and awards would normally have been exerciseable had their contracts not been terminated, save in the situation of a change of control of ITV prior to this normal exercisable date. On termination the 2003 awards were therefore retained by Mr Green and Mr Murray. As a result of the vesting of the 2002 and 2003 awards Mr Green held options over 6,455,046 shares and Mr Murray held options over 2,864,508 shares at 30 January 2004. As there are no further restrictions to exercise, notwithstanding that exercise has been deferred, the full charge in respect of these awards has now been taken.

Pensions

Prior to merger all executive directors were eligible to participate in a directors' contributory defined benefit pension scheme, within the main Carlton Communications Plc Group pension scheme. The directors' pension scheme enables members to retire at age 60 with a maximum pension after 30 years' pensionable service equivalent to 2/3rds of final pensionable salary. Pensionable salary is basic salary, excluding bonuses. Final pensionable salary is the average of pensionable salary over the last three years before retirement. On death before retirement, a lump sum equal to four times pensionable salary is paid, together with a spouse's pension of 4/9ths of pensionable salary. Pensions in payment are guaranteed to increase in line with inflation up to 5 per cent. per annum.

DIRECTORS' REPORT (continued)

Table 4 - Pensions

The following information relates to the three directors who participated during the period in the directors' pension scheme[(1)]:

Director	Age at 31 December 2003	Directors' contributions in the period (2) £000	Increase in accrued pension during the period (3) £000	Accumulated total accrued pension at 31 December 2003 £000	Transfer value at 30 September 2002 £000	Transfer value at 31 December 2003 £000	Increase in transfer value less director's contributions £000
M P Green	56	59	23	156	1,655	2,069	355
G M Murphy (4)	48	2	1	4	29	36	5
P C Murray	42	18	9	14	32	96	46

Notes

(1) The pension entitlement shown is that which would be paid annually at the normal date of retirement (age 60), based on service to 31 December 2003.

(2) These relate to the contributions paid in the period by the director under the terms of the scheme.

(3) The increase in accrued pension during the period excludes any increase for inflation.

(4) G M Murphy ceased to be a director on 31 January 2003. In addition to Mr Murphy's participation in the directors' pension scheme, company contributions of £36,482 (2002: £112,068) were made during the period into his money purchase pension plan.

Share price information

The middle market price of Carlton Communications Plc ordinary shares on 30 September 2002 and 31 December 2003 was 109 pence and 230 pence respectively, and on 30 January 2004 was 281.5 pence. During the period the market price of Carlton Communications Plc ordinary shares ranged between 245.75 pence (9 December 2003) and 68.25 pence (12 March 2003).

Approved by the Board on 3 March 2004
James Tibbitts, *Company Secretary*

Independent auditors' report to the members of Carlton Communications Plc

We have audited the financial statements which comprise the consolidated profit and loss account, the consolidated balance sheet, the consolidated cash flow statement, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ("the auditable part").

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities. The directors are also responsible for preparing the directors' remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 auditable part of the directors' remuneration report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the unaudited part of the directors' remuneration report and the operating and financial review.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the Group at 31 December 2003 and of the loss and cash flows of the Group for the period then ended, the financial statements have been properly prepared in accordance with the Companies Act 1985, and those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
3 March 2004

CONSOLIDATED PROFIT & LOSS ACCOUNT

For the 15 months ended 31 December 2003

	Notes	Continuing operations £m	Discontinued operations (Note 5) £m	Total £m
Turnover		**1,281.3**	**-**	**1,281.3**
Less: share of joint ventures		**(89.9)**	**-**	**(89.9)**
Group turnover	1	**1,191.4**	**-**	**1,191.4**
Operating costs before exceptionals		**(1,120.9)**	**-**	**(1,120.9)**
Exceptional operating items	4	**(57.6)**	**-**	**(57.6)**
Total operating costs		**(1,178.5)**	**-**	**(1,178.5)**
EBITDA		**57.8**	**-**	**57.8**
Depreciation		**(25.8)**	**-**	**(25.8)**
Amortisation		**(19.1)**	**-**	**(19.1)**
Group operating profit	1,2	**12.9**	**-**	**12.9**
Share of operating results of joint ventures		**9.6**	**-**	**9.6**
Joint ventures' amortisation		**(3.9)**	**-**	**(3.9)**
Share of operating results of associated companies		**3.5**	**-**	**3.5**
Income from fixed asset investments		**2.8**	**-**	**2.8**
		24.9	**-**	**24.9**
Profit on sale of businesses	5	**-**	**12.0**	**12.0**
Loss on sale or termination of businesses	4	**(7.7)**	**-**	**(7.7)**
Profit on ordinary activities before interest		**17.2**	**12.0**	**29.2**
Amounts written off investments	13	**(273.1)**	**-**	**(273.1)**
Net interest payable	6	**(12.0)**	**-**	**(12.0)**
(Loss)/profit on ordinary activities before taxation		**(267.9)**	**12.0**	**(255.9)**
Taxation	7	**16.1**	**1.3**	**17.4**
(Loss)/profit on ordinary activities after taxation		**(251.8)**	**13.3**	**(238.5)**
Dividends equity and non-equity	8	**(42.6)**	**-**	**(42.6)**
Retained (loss)/profit		**(294.4)**	**13.3**	**(281.1)**
Earnings per share (pence)				
Basic and diluted	9	**(39.8)**	**2.0**	**(37.8)**

There is no material difference between profits and losses as reported above and historical cost profits and losses.

The notes on pages 23 to 54 form part of these accounts. The principal accounting policies are shown on pages 21 and 22.

CONSOLIDATED PROFIT & LOSS ACCOUNT
For the year ended 30 September 2002

	Notes	Continuing operations £m	Discontinued operations (Note 5) £m	Total £m
Turnover		1,008.7	64.1	1,072.8
Less: share of joint ventures		(44.1)	(64.1)	(108.2)
Group turnover	1	964.6	-	964.6
Operating costs before exceptionals		(911.4)	-	(911.4)
Exceptional operating items	4	4.8	-	4.8
Total operating costs		(906.6)	-	(906.6)
EBITDA		96.5	-	96.5
Depreciation		(23.0)	-	(23.0)
Amortisation		(15.5)	-	(15.5)
Group operating profit	1,2	58.0	-	58.0
Share of operating results of joint ventures		(0.4)	(99.1)	(99.5)
Joint ventures' amortisation		(2.1)	-	(2.1)
Share of operating results of associated companies		(3.0)	(2.6)	(5.6)
Income from fixed asset investments		-	-	-
		52.5	(101.7)	(49.2)
Profit on sale of businesses	5	-	11.8	11.8
Loss on sale or termination of businesses	5	-	(98.6)	(98.6)
Profit/(loss) on ordinary activities before interest		52.5	(188.5)	(136.0)
Amounts written off investments	13	(8.2)	-	(8.2)
Net interest payable	6	(12.0)	-	(12.0)
Profit/(loss) on ordinary activities before taxation		32.3	(188.5)	(156.2)
Taxation	7	(8.6)	8.8	0.2
Profit/(loss) on ordinary activities after taxation		23.7	(179.7)	(156.0)
Dividends equity and non-equity	8	(66.0)	-	(66.0)
Retained loss		(42.3)	(179.7)	(222.0)
Earnings per share (pence)				
Basic and diluted	9	2.0	(26.8)	(24.8)

CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2003 £m	As at 31 December 2003 £m	As at 30 September 2002 £m	As at 30 September 2002 £m
Fixed assets					
Intangible assets	11		**301.2**		319.5
Tangible assets	12		**98.0**		110.3
Investments in joint ventures:					
Share of gross assets		**56.0**		46.3	
Share of gross liabilities		**(52.7)**		(43.9)	
Loans to joint ventures		**28.8**		18.9	
Goodwill		**52.6**		58.2	
	13	**84.7**		79.5	
Investments in associated undertakings	13	**10.4**		6.1	
Other investments	13	**3.2**		409.9	
Total fixed asset investments	13		**98.3**		495.5
			497.5		925.3
Current assets					
Stocks	14	**3.9**		6.3	
Programme and film rights	15	**172.3**		178.5	
Debtors: amounts falling due within one year	16	**174.7**		170.3	
Debtors: amounts falling due after more than one year	16	**15.6**		17.6	
Investments	17	**185.5**		40.6	
Cash and other liquid funds	18	**491.6**		552.9	
		1,043.6		966.2	
Creditors: amounts falling due within one year	19	**(325.3)**		(401.6)	
Net current assets			**718.3**		564.6
Total assets less current liabilities			**1,215.8**		1,489.9
Creditors: amounts falling due after more than one year					
Loans	21	**(907.5)**		(854.8)	
Convertible debt	22	**(83.8)**		(91.3)	
Finance lease creditors	23	**(27.7)**		(31.7)	
Other creditors		**(11.1)**		(30.5)	
			(1,030.1)		(1,008.3)
Provisions for liabilities and charges	25		**(13.5)**		(48.1)
Net assets			**172.2**		433.5
Capital and reserves					
Called up share capital	26		**41.8**		41.8
Share premium account	28		**151.4**		151.4
Other reserves	28		**16.9**		17.1
Profit and loss account	29		**(37.9)**		223.2
Shareholders' funds			**172.2**		433.5
Attributable to:					
Equity shareholders' funds (before goodwill)			**942.2**		1,207.5
Cumulative goodwill written off directly to reserves			**(933.5)**		(937.6)
Equity shareholders' funds			**8.7**		269.9
Non-equity shareholders' funds	26		**163.5**		163.6
Total shareholders' funds			**172.2**		433.5

Henry Staunton, Director
Charles Allen, Director

Approved by the Board on 3 March 2004.

The notes on pages 23 to 54 form part of these accounts. The principal accounting policies are shown on pages 21 and 22.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the 15 months ended 31 December 2003

	Notes	15 months ended 31 December 2003 £m	Year ended 30 September 2002 £m
Cash inflow from operating activities	30(a)	**106.9**	269.4
Dividends received from joint ventures and associated undertakings		**1.4**	0.8
Returns on investments and servicing of finance	30(b)	**(14.4)**	(28.5)
Taxation		**(6.5)**	4.2
Cash inflow after returns on investments, servicing of finance and taxation		**87.4**	245.9
Capital expenditure and financial investment	30(c)	**(56.2)**	(126.2)
Acquisitions and disposals	34	**(2.6)**	(7.8)
Equity dividends paid		**(47.0)**	(55.5)
Cash (outflow)/inflow before financing		**(18.4)**	56.4
Financing	30(d)	**(38.7)**	266.3
(Decrease)/increase in cash in the period		**(57.1)**	322.7

Reconciliation of net cash flow to movements in net debt	Notes	15 months ended 31 December 2003 £m	Year ended 30 September 2002 £m
(Decrease)/increase in cash in the period		**(57.1)**	322.7
Cash flow from decrease/(increase) in debt		**38.7**	(269.6)
Change in net debt resulting from cash flows		**(18.4)**	53.1
Translation difference and non-cash movements		**(49.1)**	(6.4)
Movement in net debt in the period		**(67.5)**	46.7
Opening net debt		**(459.9)**	(506.6)
Closing net debt	31	**(527.4)**	(459.9)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the 15 months ended 31 December 2003

	15 months ended 31 December 2003 £m	Year ended 30 September 2002 £m
Loss for the financial period	**(238.5)**	(156.0)
Exchange differences on foreign currency net investments	**(1.4)**	(7.3)
Total recognised gains and losses in the period	**(239.9)**	(163.3)

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
For the 15 months ended 31 December 2003

	15 months ended 31 December 2003 £m	Year ended 30 September 2002 £m
Loss for the financial period	**(238.5)**	(156.0)
Ordinary and preference dividends	**(42.6)**	(66.0)
Exchange differences on foreign currency net investments	**(1.4)**	(7.3)
New share capital issued	**-**	0.7
Other reserve movements	**(0.2)**	(1.6)
Share-based compensation	**20.2**	-
Goodwill reinstated on sale of businesses	**1.2**	-
Net decrease in shareholders' funds	**(261.3)**	(230.2)
Shareholders' funds at beginning of the period	**433.5**	663.7
Shareholders' funds at the end of the period	**172.2**	433.5

PRINCIPAL ACCOUNTING POLICIES
31 December 2003

1 BASIS OF PREPARATION
The accounts are prepared under the historical cost convention, modified to include the revaluation of certain current asset investments, and in accordance with the applicable financial reporting and accounting standards. The Group has re-assessed the appropriateness of its accounting policies as prescribed in FRS 18.

2 CONSOLIDATION AND GOODWILL
The consolidated financial statements incorporate the accounts of the company's subsidiary undertakings prepared to 31 December 2003 and 30 September 2002. The company has taken advantage of the exemption in Section 230 (1)-(4) of the Companies Act 1985 not to present its own profit and loss account.

Goodwill arising on acquisitions is capitalised as an intangible asset and is amortised on a straight line basis over estimated useful economic lives ranging between 10 and 20 years. Companies acquired have been accounted for as acquisitions. Prior to 30 September 1998 goodwill, whether purchased or arising on consolidation, was written off against reserves in the year it arose.

3 IMPAIRMENT
Impairment reviews are carried out to ensure that goodwill is not carried above its recoverable amount. Any amortisation or impairment write-downs are charged to the profit and loss account.

Goodwill is reviewed for impairment at the completion of the first full year after acquisition and on the occurrence of any event or change in circumstances indicating that there has been a decline in the carrying value or change in useful life.

4 INVESTMENTS
Associates and joint ventures are accounted for in the Group's accounts under the equity method of accounting, as adjusted where material to conform to the Group's accounting policies. Other fixed asset investments are stated at cost less amounts written off in respect of any permanent diminution in value.

Current asset investments are held at the lower of cost or net realisable value, or where appropriate, under the alternative accounting rules, at current cost based on a directors' valuation.

5 FOREIGN CURRENCIES
Foreign currency debtors and creditors covered by forward currency contracts are translated at the contract rates of exchange; other foreign currency denominated assets and liabilities are translated at closing rates of exchange. Gains and losses are taken to the profit and loss account, except that exchange differences on foreign currency net borrowings to finance foreign currency net investments are taken to reserves, in accordance with SSAP 20.

Trading results of overseas subsidiaries are translated at weighted average rates of exchange. Differences resulting from the re-translation of opening net assets and results for the year at closing rates are taken to reserves.

6 BORROWINGS AND FINANCE LEASE CREDITORS
Borrowings are carried at their nominal value with any premium or discount on issue and any other associated fees offset against the carrying value of the borrowing. Such costs are written off to the profit and loss account over the life of the borrowing or to the expected repayment date. The capital element of finance lease creditors is recorded as a liability, with lease rentals split between capital and interest elements. The capital element is applied to reduce the outstanding liability and the interest element is charged against profit.

7 REVENUE RECOGNITION
Turnover, which excludes value added tax and sales between Group companies, represents the value of products and services sold. More particularly, key classes of revenue are recognised as follows:

Advertising – on transmission.
Programme production – on delivery.
Rights – the point that the right sold is available for exploitation. This results in deferred revenue when cash is received before the licence period commences.
Facilities – on provision of the service.
Product merchandising – on product delivery.

8 INTANGIBLE FIXED ASSETS
Libraries acquired are valued at fair value on acquisition on the basis of projected cash flows and amortised in equal annual instalments over the estimated economic life of the assets over a period of up to 40 years. The libraries are reviewed for impairment on an annual basis. The useful economic life has been adopted in view of the classical and ongoing appeal of the library titles. All other research, development and marketing expenditure is written off as incurred, with the exception of certain programme development expenditure (see point 11 below).

9 TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at historical cost less accumulated depreciation and any provision for impairment. Depreciation is generally provided by equal annual instalments at the following rates:

Freehold property excluding land	2% - 4%
Leasehold property	period of lease
Plant and equipment	10% - 33%

Depreciation is not charged on freehold land.

10 STOCKS

Stocks and work in progress are valued at the lower of cost and net realisable value.

11 PROGRAMME PRODUCTION AND DEVELOPMENT

Programmes in production and acquired programmes are stated at the lower of cost and net realisable value. Programme material is written off fully on first transmission, except for certain film rights which are written off over a number of transmissions. Film rights acquired with a view to exploitation in secondary markets over a number of transmissions are written off in line with the revenue generated from such exploitation or transmission, over a period not exceeding 20 years.

12 LIQUID FINANCIAL INSTRUMENTS

Liquid financial instruments are stated at the lower of cost and net realisable value. Interest and other income is dealt with in the period in which it arises.

13 PENSIONS

The Group maintains a number of defined benefit and defined contribution based pension schemes in the UK. The costs of defined benefit schemes are determined by external actuaries and charged against profits each year under SSAP 24. The costs of defined contribution schemes are charged against profits in the year in which they are incurred.

FRS 17 – Retirement Benefits. This standard addresses the measurement and valuation of pension schemes. The Group has continued to adopt the transitional arrangements as prescribed in FRS 17 (note 3c).

14 DEFERRED TAXATION

Full provision is made for deferred tax liabilities arising from timing differences in respect of transactions or events that result in an obligation to pay tax in the future, that have originated but not reversed by the balance sheet date. A deferred tax asset is not recognised to the extent that recoverability is uncertain. Deferred tax liabilities and assets which are recognised are not discounted.

To the extent that, at the balance sheet date, dividends from overseas undertakings have been accrued as receivable or an overseas undertaking has entered into a binding agreement for the future distribution of its past earnings, appropriate amounts are provided.

15 OPERATING LEASES

The rental costs arising from operating leases are charged to the profit and loss account in the period in which they are incurred.

16 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Group uses a limited number of derivative financial instruments to hedge its exposure to fluctuations in interest and foreign exchange rates.

The Group does not hold or issue derivative instruments for speculative purposes.

Interest rate swap and option agreements are used to manage the interest basis of borrowings. Interest receipts and payments under these agreements are accrued so as to match the net income or cost with the related finance expense. No amounts are recognised in respect of future periods. Gains and losses on early termination of interest rate swaps are spread over the life of the original contract or borrowing.

1 DIVISIONAL AND GEOGRAPHICAL INFORMATION

a) Divisional analysis

In the view of the directors Carlton has only one continuing business segment which includes interests in broadcasting, content and screen advertising.

b) Geographic analysis, by destination

	Group turnover		Group operating profit	
	15 months ended 31 December 2003 £m	Year ended 30 September 2002 £m	15 months ended 31 December 2003 £m	Year ended 30 September 2002 £m
United Kingdom	**1,129.9**	918.3	**64.1**	48.5
Europe	**29.7**	18.8	**4.2**	3.4
US	**21.0**	17.0	**1.2**	0.2
Other (including Japan)	**10.8**	10.5	**1.0**	1.1
	1,191.4	964.6	**70.5**	53.2
Exceptional items - UK	-	-	**(57.6)**	4.8
Continuing operations	**1,191.4**	964.6	**12.9**	58.0

c) Geographic analysis, by origin

	Group turnover		Group operating profit		Operating net assets	
	15 months ended 31 December 2003 £m	Year ended 30 September 2002 £m	15 months ended 31 December 2003 £m	Year ended 30 September 2002 £m	15 months ended 31 December 2003 £m	Year ended 30 September 2002 £m
United Kingdom, Europe and Other	**1,179.2**	956.1	**69.4**	54.9	**469.7**	480.8
US	**12.2**	8.5	**1.1**	(1.7)	**22.3**	(0.1)
	1,191.4	964.6	**70.5**	53.2	**492.0**	480.7
Exceptional items - UK	-	-	**(57.6)**	4.8	-	-
Continuing operations	**1,191.4**	964.6	**12.9**	58.0	**492.0**	480.7

Reconciliation of operating net assets to net assets		
Operating net assets	**492.0**	480.7
Investments	**283.8**	536.1
Corporation tax	**(71.3)**	(88.5)
Deferred tax	**8.5**	(1.4)
Net borrowings	**(527.4)**	(459.9)
Proposed dividend	**(13.4)**	(33.5)
	172.2	433.5

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2 GROUP OPERATING PROFIT

	15 months ended 31 December 2003 £m	Year ended 30 September 2002 £m
Turnover	**1,281.3**	1,072.8
Less: Share of joint ventures' turnover	**(89.9)**	(108.2)
Group turnover	**1,191.4**	964.6
Cost of sales (including Percentage of Qualifying Revenue)	**(834.4)**	(697.9)
Gross profit	**357.0**	266.7
Distribution costs	**(104.2)**	(77.7)
Administration expenses (1)	**(239.9)**	(131.0)
Group operating profit	**12.9**	58.0
Group operating profit is stated after charging:		
Depreciation of tangible fixed assets	**25.8**	23.0
Amortisation of intangible fixed assets	**19.1**	15.5
Impairments of fixed asset investments and goodwill	**1.0**	3.9
Hire of plant and machinery	**1.2**	0.8
Other operating lease rentals	**11.4**	8.5
Auditors' remuneration for statutory audit (2)	**0.8**	0.6

(1) Administration expenses for the 15 months ended 31 December 2003 include £57.6m of exceptional costs (year ended 30 September 2002: £4.8m net income) (note 4).

(2) The Group employs PricewaterhouseCoopers LLP on assignments additional to their statutory audit duties where their expertise and experience with the Group are important. During the 15 months ended 31 December 2003 PricewaterhouseCoopers LLP earned fees for audit related and other non-audit services totalling £2.0m. During the year ended 30 September 2002 PricewaterhouseCoopers earned fees for UK non-audit services totalling £1.2m principally for due diligence reporting on acquisitions and disposals. The auditors' remuneration includes £20,000 (year ended 30 September 2002: £17,000) in respect of the parent company audit. The audit and non-audit fees earned during the 15 months ended 31 December 2003 are as follows:

	15 months ended 31 December 2003 £m
Audit services	
- Statutory audit	**0.8**
- Audit related regulatory reporting	**0.2**
Further assurance services	
- Accounting advice	**0.1**
- Internal controls assistance	**0.1**
- Transaction support services	**1.3**
Tax services	
- Advisory	**0.3**
Total	**2.8**

3 EMPLOYEE NUMBERS, REMUNERATION AND PENSION COSTS

(a) Employee numbers and remuneration

The average number of persons employed by the Group during the period, including executive directors, was as follows:

	15 months ended 31 December 2003	Year ended 30 September 2002
Production	**1,595**	1,818
Selling and distribution	**553**	589
Administration	**580**	593
	2,728	3,000
The number of employees at 31 December/30 September	**2,611**	2,787

Group employee costs - all employees including executive directors	£m	£m
Aggregate gross wages and salaries paid to the Group 's employees	**120.8**	99.8
Employers' national insurance contributions	**9.3**	8.5
Employers' pension contributions	**11.4**	8.0
Total direct costs of employment	**141.5**	116.3

The information on directors' remuneration set out on pages 7 to 14 forms part of these accounts.

(b) Pension costs under SSAP 24

The Group operates a number of funded defined benefit and defined contribution schemes in its principal locations. Pension costs for the defined benefit schemes are assessed in accordance with actuarial advice and are charged to the profit and loss account so as to recognise the cost over the working lifetime of the employees. Actuarial valuations of these schemes have been carried out by independent actuaries in accordance with local legislative requirements. The accounting and funding policies differ to the extent that funding valuations may be based on more conservative assumptions and surpluses and deficits may be recognised more quickly for funding purposes. Details of the assumptions and methods used, for accounting purposes, for the main schemes are given below:

For the 15 months ended 31 December 2003:

		Valuation of Assets		Principal Actuarial Assumptions					
Pension Fund	**Latest Full Actuarial Valuation**	**Actuarial**	**Market**	**Valuation Method Adopted**	**Average Investment Rate of Return**	**Average Salary Increases**	**Average Pension Increases**	**Spreading Method**	**Value of Fund Assets/ Accrued Benefits**
Carlton Group	1 July 2001	£105.7m	£105.7m	Projected Unit	6.0%	4.0%	2.5-3.0%	Level % pay	93.5%
Central	31 March 2002	£247.5m	£247.5m	Attained age	5.7%-6.7%	3.8%	3.6%	Straight line	96.0%
HTV	1 August 2003 *	£80.9m	£80.9m	Attained age	5.2%-6.8%	4.0%	2.7%	Level % pay	79.0%

*The HTV figures above are based on a draft valuation.

The net pension cost of the defined benefit schemes was £11.0m (year ended 30 September 2002: £7.6m). The net pension cost of the defined contribution schemes was £0.4m (year ended 30 September 2002: £0.4m). At 31 December 2003 accrued pension costs were £4.0m (30 September 2002: £4.6m).

3 EMPLOYEE NUMBERS, REMUNERATION AND PENSION COSTS (CONTINUED)

(c) Pensions disclosures under FRS 17 transitional requirements

Under the transitional requirements of FRS 17 “Retirement Benefits”, the impact that the new accounting standard would have had on the accounts, had it been adopted in the period, is disclosed below. The full actuarial valuations as shown in note 3(b) above have been updated at the relevant period end by qualified independent actuaries in accordance with FRS 17.

The major assumptions used by these actuaries were:

	31 December 2003	30 September 2002
Discount rate	**5.5%**	5.5%
Retail price index	**2.5%**	2.25%
Salary increases	**3.75%**	3.75%
Pension increases	**2.5% -3.0%**	2.25%-3.0%

The following amounts at 31 December 2003 and 30 September 2002 were measured in accordance with the requirements of FRS 17:

	31 December 2003 £m	30 September 2002 £m
Total market value of assets	**408.8**	357.1
Present value of scheme liabilities	**(509.3)**	(480.6)
Deficit in the schemes	**(100.5)**	(123.5)
Related deferred tax asset	**30.2**	37.1
Net pension liability	**(70.3)**	(86.4)

The assets in the scheme and the expected rate of return as at 31 December 2003 and 30 September 2002 were:

	31 December 2003		30 September 2002	
	Long-term rate of return	Total £m	Long-term rate of return	Total £m
Equity	**7.75%**	**234.2**	8.5%	200.2
Corporate bonds	**5.4%**	**72.7**	5.2%	40.3
Gilts	**4.75%**	**94.1**	4.5%	105.4
Property	**6.75%**	**4.9**	8.5%	4.3
Other	**3.75%**	**2.9**	4.0%	6.9
		408.8		357.1

If these amounts had been recognised in the financial statements, the Group’s net assets and profit and loss account at 31 December 2003 and 30 September 2002 would have been as follows:

	31 December 2003 £m	30 September 2002 £m
Net assets excluding SSAP 24 pension liability	**176.2**	438.1
FRS 17 pension liability	**(70.3)**	(86.4)
Net assets including FRS 17 pension liability	**105.9**	351.7
Profit and loss account excluding SSAP 24 pension liability	**(33.9)**	227.8
FRS 17 pension reserve	**(70.3)**	(86.4)
Profit and loss account including FRS 17 pension reserve	**(104.2)**	141.4

3 EMPLOYEE NUMBERS, REMUNERATION AND PENSION COSTS (CONTINUED)

The following amounts would have been recognised in the performance statements in the 15 months to 31 December 2003 and the year to 30 September 2002 under the requirements of FRS 17:

	31 December 2003 £m	30 September 2002 £m
Operating profit		
Current service cost	**9.4**	7.1
Past service cost	**0.1**	0.1
Curtailment/settlement cost	**(2.2)**	-
Total charge to operating profit	**7.3**	7.2
Other finance income		
Expected return on schemes' assets	**29.8**	27.3
Interest on schemes' liabilities	**(33.5)**	(24.6)
Total amount (debited)/credited to other finance income	**(3.7)**	2.7
Statement of total recognised gains and losses		
Actual return less expected return on schemes' assets	**32.5**	(54.0)
Experience gains and (losses) arising on schemes' liabilities	**2.4**	(24.0)
Changes in actuarial assumptions underlying the present value of the schemes' liabilities	**(11.8)**	(26.1)
Actuarial gain/(loss) recognisable in statement of total recognised gains and losses	**23.1**	(104.1)
Movement in deficit during the period		
Deficit in schemes at beginning of period	**(123.5)**	(19.8)
Total charge to operating profit	**(7.3)**	(7.2)
Contributions	**10.9**	4.9
Other finance (charge)/income	**(3.7)**	2.7
Actuarial gain/(loss)	**23.1**	(104.1)
Deficit in schemes at end of period (pre-tax)	**(100.5)**	(123.5)

Since the HTV and Central schemes are both closed to new entrants, the service cost for these two schemes will increase under the projected unit method as the members approach retirement. This does not necessarily result in an increase in cash contributions.

Forecast contribution rates for the year ended 31 December 2004 for the Carlton Group, Central and HTV schemes are 10.0%, 27.0% and 32.4% respectively.

	31 December 2003	30 September 2002
Details of experience gains and (losses) for the period		
Difference between the expected and actual return on schemes' assets:		
Amount (£m)	**32.5**	(54.0)
Percentage of schemes' assets	**8%**	(15%)
Experience gains and (losses) on schemes' liabilities:		
Amount (£m)	**2.4**	(24.0)
Percentage of the present value of schemes' liabilities	**1%**	(5%)
Total amount recognised in statement of total recognised gains and losses:		
Amount (£m)	**23.1**	(104.1)
Percentage of the present value of schemes' liabilities	**5%**	(22%)

4 EXCEPTIONAL ITEMS

	For the 15 months ended 31 December 2003			For the year ended 30 September 2002		
	Continuing operations	**Discontinued operations**	**Total**	**Continuing operations**	**Discontinued operations**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Exceptional operating items (a)						
Reorganisation & restructuring	**(4.4)**	-	**(4.4)**	(2.8)	-	(2.8)
Asset write offs	**(1.8)**	-	**(1.8)**	(7.1)	-	(7.1)
Goodwill impairment	-	-	-	(3.9)	-	(3.9)
Net litigation income	-	-	-	18.6	-	18.6
Merger costs	**(51.4)**	-	**(51.4)**	-	-	-
	(57.6)	-	**(57.6)**	4.8	-	4.8
Profit on sale of business	-	**12.0**	**12.0**	-	11.8	11.8
Loss on sale or termination of businesses (b)	**(7.7)**	-	**(7.7)**	-	(98.6)	(98.6)
Amounts written off investments	**(273.1)**	-	**(273.1)**	(8.2)	-	(8.2)
Total exceptional items before tax	**(338.4)**	**12.0**	**(326.4)**	(3.4)	(86.8)	(90.2)

(a) Exceptional operating items

In the 15 months to 31 December 2003 there were exceptional reorganisation and restructuring costs of £4.4m, asset write-downs of £1.8m and costs of £51.4m incurred in the merger with Granada. A tax credit of £8.0m arises on these items. Merger costs are further analysed in the table below:

	£m
Redundancy costs	**4.2**
Professional fees	**11.3**
Merger retention bonuses	**5.1**
Equity Participation Plan 1 charge	**19.9**
Equity Participation Plan 2 charge	**6.7**
X-Cap issue costs write off and other costs	**4.2**
	51.4

In the year to 30 September 2002 there were exceptional reorganisation and restructuring costs of £2.8m, asset write-downs of £7.1m and a goodwill impairment of £3.9m offset by £18.6m of litigation net income. A tax credit of £2.0m arose on these items.

(b) Loss on sale or termination of businesses

The liquidation in 2003 of the Italian operations of Screenvision Europe (a joint venture) acquired in 2002 resulted in a £6.7m loss on termination of the business. A completion dispute exists in respect of this matter and a claim to recover the related costs has been made against the vendors. The claim is currently in arbitration with the International Chamber of Commerce (note 33).

The sale of Euronews in 2003 by ITN (an associate) resulted in a loss on disposal for the Group of £1.0m, including goodwill reinstated of £1.2m which had originally been written off against reserves.

5 DISCONTINUED OPERATIONS

	15 months ended 31 December 2003 £m	Year ended 30 September 2002 £m
ITV Digital and ITV Sport Channel - discontinued trading	-	(99.1)
Other digital media businesses:		
Discontinued trading	-	(2.6)
Profit/(loss) on sale of investments	**1.0**	(6.1)
Profit on sale of Technicolor	**11.0**	17.9
ITV Digital and ITV Sport Channel - exceptional closure costs	-	(98.6)
Profit/(loss) before tax	**12.0**	(188.5)
Tax credit	**1.3**	8.8
Profit/(loss) after tax	**13.3**	(179.7)

Discontinued operations in 2003 relate to amendments to the accrued costs in respect of the disposal of Technicolor and Quantel.

Discontinued operations in 2002 relate to the pre-closure results and closure cost provisions for ITV Digital and ITV Sport Channel, pre-sale results and loss on disposal of other digital media businesses and further receipts from the sale of Technicolor.

No interest has been allocated to the Technicolor discontinued results on the basis that those activities were cash generative and therefore did not require ongoing financing from the Group.

The tax credit in the 15 months ended 31 December 2003 reflects the relief previously unrecognised on certain restructuring costs following the closure of ITV Digital and ITV Sport Channel. The tax credit in the year ended 30 September 2002 reflects the offset by consortium or other relief of discontinued operations losses against profits in continuing operations.

6 NET INTEREST PAYABLE

	15 months ended 31 December 2003 £m	Year ended 30 September 2002 £m
Interest receivable and similar income:		
Bank deposits	**18.5**	18.7
Loan notes	**0.3**	4.0
Arising on tax repayments	**5.4**	-
Interest receivable on funding to joint ventures and associates	**1.3**	2.5
	25.5	25.2
Interest payable and similar charges:		
Bank loans and overdrafts	**(0.1)**	(2.7)
Loan notes	**(1.5)**	(6.0)
Other loans	**(26.8)**	(24.9)
De-designated swap provision (note 24a)	**(1.2)**	-
Interest payable on finance leases	**(0.2)**	(0.2)
Amortisation of fees and foreign exchange	**(6.5)**	(0.7)
Other	**-**	(0.2)
Share of joint ventures' and associates' interest payable	**(1.2)**	(2.5)
	(37.5)	(37.2)
Net interest payable	**(12.0)**	(12.0)

£14.4m of interest in 2002 relating to ITV Digital and ITV Sport Channel has not been shown in joint ventures' payable or group interest receivable due to the closure of these businesses.

7 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of tax credit for the period

	15 months ended 31 December 2003 £m	Year ended 30 September 2002 £m
United Kingdom corporation tax based on the results for the period at 30% (2002: 30%)	**(15.0)**	(0.6)
Overseas taxation	**(1.8)**	(0.8)
Avoir fiscal credit	**1.2**	-
Adjustments in respect of prior years	**25.8**	-
Share of joint ventures' and associated undertakings' tax	**(2.7)**	0.6
Current tax credit/(charge) for the period	**7.5**	(0.8)
Deferred taxation	**4.6**	1.4
Adjustments in respect of deferred taxation for prior years	**5.3**	(0.4)
Tax credit for the period	**17.4**	0.2

The adjustments in respect of deferred and current taxation for prior years include the effect of the disclaiming of capital allowances and the release of provisions no longer required following progress in the agreement with revenue authorities of prior periods' tax liabilities.

7 TAXATION ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

(b) Factors affecting current tax credit/(charge) for the period

The current tax credit/(charge) for the period is lower (2002: lower) than the standard rate of corporation tax in the UK (30%). The difference is explained below:

	15 months ended 31 December 2003 £m	**Year ended 30 September 2002 £m**
Loss on ordinary activities before taxation	**(255.9)**	(156.2)
Tax at 30% (2002: 30%)	**76.8**	46.8
(Increase)/decrease resulting from:		
Exceptional items and discontinued operations	**(88.7)**	(44.3)
Amortisation	**(6.4)**	(4.6)
Other permanent differences	**(1.3)**	1.6
Other timing differences	**1.0**	(0.2)
Overseas income taxed at other than UK statutory rate	**0.3**	(0.1)
Adjustments in respect of prior years	**25.8**	-
Current tax credit/(charge) for the period	**7.5**	(0.8)

(c) Factors that may affect future tax charges

At 31 December 2003 the Group has overseas deferred tax assets of US$20.1m (30 September 2002: US$7.5m) which have not been recognised, principally in respect of film rights and carried forward losses in relation to companies in the United States. These deferred tax assets can only be recovered against suitable taxable profits generated in the United States.

8 DIVIDENDS PAID AND PROPOSED

	15 months ended 31 December 2003 £m	**Year ended 30 September 2002 £m**
Interim of 2.0p per Ordinary share (2002: 3.275p per share)	**13.4**	22.0
Second interim dividend of 2.0p per Ordinary share (2002: nil)	**13.4**	-
Proposed final dividend of nil pence per Ordinary share (2002: 5.0p per share)	**-**	33.5
Ordinary dividends - equity	**26.8**	55.5
Dividends paid on 6.5% Preference shares	**15.8**	10.5
Preference dividends - non-equity	**15.8**	10.5
Total dividends	**42.6**	66.0

ITV shareholders will receive a special dividend of 0.5p per share which is being funded by a £25 million dividend from Granada to ITV following the merger between Granada and Carlton.

9 EARNINGS PER SHARE

	15 months ended 31 December 2003			Year ended 30 September 2002		
	Earnings £m	Weighted average number of shares millions	Per share amount pence	Earnings £m	Weighted average number of shares millions	Per share amount pence
Loss attributable to shareholders	**(238.5)**			(156.0)		
Preference dividends (note 8)	**(15.8)**			(10.5)		
Basic earnings	**(254.3)**	**672.0**	**(37.8)**	(166.5)	670.7	(24.8)
Effect of dilutive securities						
Options	**-**	**12.1**		-	-	
Other	-	-		-	0.2	
Diluted earnings	**(254.3)**	**684.1**	**(37.8)**	(166.5)	670.9	(24.8)
Reconciliation to continuing operations pre-exceptionals earnings per share						
Basic earnings	**(254.3)**	**672.0**	**(37.8)**	(166.5)	670.7	(24.8)
Discontinued operations	**(13.3)**		**(2.0)**	179.7		26.8
Continuing operations - post-exceptionals	**(267.6)**		**(39.8)**	13.2		2.0
Exceptional items *	**57.3**		**8.5**	(6.8)		(1.0)
Continuing operations - pre-exceptionals	**(210.3)**	**672.0**	**(31.3)**	6.4	670.7	1.0

As there is a continuing operations loss in the 15 months to 31 December 2003 the share options are not deemed to be dilutive and hence the diluted loss per share is the same as the basic loss per share.

Continuing operations pre-exceptionals earnings per share has been provided to illustrate the underlying performance of the Group before exceptional items.

* Including exceptional tax credits (note 4).

10 COMPANY BALANCE SHEET

	Notes	31 December 2003 £m	31 December 2003 £m	30 September 2002 £m	30 September 2002 £m
Fixed assets					
Tangible assets	12	**26.3**		27.8	
Investments	13	**2,456.5**		2,275.8	
			2,482.8		2,303.6
Current assets					
Debtors	16	**97.3**		110.2	
Investments	17	**455.8**		38.6	
Cash and other liquid funds	18	**314.8**		331.5	
		867.9		480.3	
Creditors: amounts falling due within one year	19	**(960.8)**		(715.1)	
Net current liabilities			**(92.9)**		(234.8)
Total assets less current liabilities			**2,389.9**		2,068.8
Creditors: amounts falling due after more than one year					
Loans	21	**(907.5)**		(854.8)	
Convertible debt	22	**(83.8)**		(91.3)	
			(991.3)		(946.1)
Provisions for liabilities and charges	25		**(14.9)**		(33.9)
Net assets			**1,383.7**		1,088.8
Capital and reserves					
Called up share capital	26		**41.8**		41.8
Share premium account	28		**151.4**		151.4
Other reserves	28		**729.7**		449.8
Profit and loss account	29		**460.8**		445.8
Shareholders' funds			**1,383.7**		1,088.8
Attributable to:					
Equity shareholders' funds			**1,220.2**		925.2
Non-equity shareholders' funds	26		**163.5**		163.6
Total shareholders' funds			**1,383.7**		1,088.8

Henry Staunton, Director
Charles Allen, Director

Approved by the Board on 3 March 2004.

The notes on pages 23 to 54 form part of these accounts. The principal accounting policies are shown on pages 21 and 22.

11 INTANGIBLE FIXED ASSETS

Group	Goodwill £m	Film libraries and other £m	Total £m
Cost			
At 1 October 2002	234.9	125.3	360.2
Expenditure	-	1.2	1.2
Adjustment in respect of deferred consideration	(0.4)	-	(0.4)
At 31 December 2003	**234.5**	**126.5**	**361.0**
Amortisation			
At 1 October 2002	30.3	10.4	40.7
Charge for the period	15.6	3.5	19.1
At 31 December 2003	**45.9**	**13.9**	**59.8**
Net book value at 31 December 2003	**188.6**	**112.6**	**301.2**
Net book value at 30 September 2002	204.6	114.9	319.5

12 TANGIBLE FIXED ASSETS

	Land and Buildings		Plant and	
	Freehold	Leasehold	Equipment	Total
(a) Group	£m	£m	£m	£m
Cost				
At 1 October 2002	27.5	33.5	94.9	155.9
Expenditure	0.1	1.1	13.9	15.1
Disposals	-	(0.5)	(12.4)	(12.9)
At 31 December 2003	**27.6**	**34.1**	**96.4**	**158.1**
Depreciation				
At 1 October 2002	1.5	9.2	34.9	45.6
Charge for the period	0.7	2.7	22.4	25.8
Disposals	-	(0.4)	(10.9)	(11.3)
At 31 December 2003	**2.2**	**11.5**	**46.4**	**60.1**
Net book value at 31 December 2003	**25.4**	**22.6**	**50.0**	**98.0**
Net book value at 30 September 2002	26.0	24.3	60.0	110.3

The net book value of short leasehold property is £9.1m (2002: £9.9m) and is included above in leasehold land and buildings.

The net book value of tangible fixed assets held under finance leases is £1.7m (2002: £1.8m) and is included above within leasehold land and buildings.

12 TANGIBLE FIXED ASSETS (CONTINUED)

(b) Company	Land and Buildings Freehold £m	Land and Buildings Leasehold £m	Plant and Equipment £m	Total £m
Cost				
At 1 October 2002	23.7	5.3	3.2	32.2
Disposals	-	-	(0.9)	(0.9)
At 31 December 2003	**23.7**	**5.3**	**2.3**	**31.3**
Depreciation				
At 1 October 2002	1.1	1.1	2.2	4.4
Charge for the period	0.6	0.2	0.4	1.2
Disposals	-	-	(0.6)	(0.6)
At 31 December 2003	**1.7**	**1.3**	**2.0**	**5.0**
Net book value at 31 December 2003	**22.0**	**4.0**	**0.3**	**26.3**
Net book value at 30 September 2002	22.6	4.2	1.0	27.8

The net book value of short leasehold property is £1.0m (2002: £1.2m) and is included above in leasehold land and buildings.

13 FIXED ASSET INVESTMENTS

(a) Group

	Joint ventures £m	Associated undertakings £m	Other investments £m	Own shares held £m	Total £m
Cost and funding					
At 1 October 2002	51.9	6.1	407.4	10.7	476.1
Loans advanced	9.6	6.1	-	-	15.7
Loans repaid or discharged	(3.7)	-	-	-	(3.7)
Share of retained results	(0.1)	(1.8)	-	-	(1.9)
Exchange differences and other	3.3	-	48.6	(1.6)	50.3
Transfer to current asset investments	-	-	(452.7)	-	(452.7)
At 31 December 2003	**61.0**	**10.4**	**3.3**	**9.1**	**83.8**
Goodwill					
At 1 October 2002	58.2	-	-	-	58.2
Additions during the period	0.9	-	-	-	0.9
Amortisation	(3.9)	-	-	-	(3.9)
Exchange differences and other	(2.6)	-	-	-	(2.6)
At 31 December 2003	**52.6**	**-**	**-**	**-**	**52.6**
Provision					
At 1 October 2002	(30.6)	-	-	(8.2)	(38.8)
Movements in the period	1.7	-	(274.1)	-	(272.4)
Transfer to current asset investments	-	-	273.1	-	273.1
At 31 December 2003	**(28.9)**	**-**	**(1.0)**	**(8.2)**	**(38.1)**
Net book value at 31 December 2003	**84.7**	**10.4**	**2.3**	**0.9**	**98.3**
Net book value at 30 September 2002	79.5	6.1	407.4	2.5	495.5

13 FIXED ASSET INVESTMENTS (CONTINUED)

i) Joint ventures

In the year ended 30 September 2002, included within joint ventures is the Group's 50% share of the consolidated results and balance sheet of ITV Digital Holdings Limited and ITV Sport Channel Limited.

Following the appointment of the liquidators in October 2002 to ITV Digital plc (the principal operating subsidiary of ITV Digital Holdings Limited) and the decision to close ITV Sport Channel, full provision has been made against the Group's share of their net assets. A summary of the results is set out below:

	Year ended 30 September 2002 £m
Turnover	64.1
Loss before interest	(99.1)
Interest payable	-
Loss after interest	(99.1)

£14.4m of interest payable in 2002 relating to ITV Digital and ITV Sport Channel has not been shown in the analysis above due to the closure of these businesses.

The Group has an interest in ITV Network Centre which is a company limited by guarantee, the main objective of which is to independently commission and schedule programmes on behalf of ITV licensees. The most significant transactions that are accounted for are the payment by Carlton of its share of the network programme budget and the payments received from ITV Network Centre for programmes that it commissions and that are produced by Carlton.

ii) Other investments

Other investments at 30 September 2002 include 15.5m shares in Thomson carried at retranslated book value of £401.4m on the basis that the Carlton Board had the intention to hold the investment for the long term. As a result of the merger approval process the Carlton Board cannot be certain that ITV (the company formed on the merger of Carlton and Granada) will have the intention for the Group to hold the Thomson shares for the long term. Consequently, the Carlton Board has recategorised the shares, as a current asset investment. This change in categorisation requires the shares to be marked down to their net realisable value when they are transferred to current asset investments. The resulting write-down of £271.3m has been recognised in the period.

During the period, the Carlton Board elected to offer for sale its 33% interest in France Telefilms. Accordingly, at 31 December 2003, the investment of £2.7m was written down by £1.8m and reclassified as a current asset investment.

13 FIXED ASSET INVESTMENTS (CONTINUED)

iii) Own shares held

Own shares held comprise listed Carlton ordinary shares held within an Employee Share Ownership Trust and a Qualifying Employee Share Ownership Trust. The shares are held to cover awards under employee share plans. Nil-price share options are allocated to shares held in the Employee Share Ownership Trust and the market price at date of grant of these options is amortised over the vesting period.

At 30 September 2002, the value of own shares held was assessed against the year end share price of £1.09 and a provision for impairment of £8.2m was made. The impairment excludes certain nil-price DABS and LTIS options already amortised below £1.09.

The period end market values and book values of the shares held by the Group are as follows:

	31 December 2003			30 September 2002		
	Number of Ordinary shares held	Market value £m	Book value £m	Number of Ordinary shares held	Market value £m	Book value £m
Employee Share Ownership Trust	**1,609,192**	**3.7**	**0.2**	1,822,172	1.9	1.7
Qualifying Employee Share Ownership Trust	**686,656**	**1.6**	**0.7**	696,177	0.8	0.8
	2,295,848	**5.3**	**0.9**	2,518,349	2.7	2.5

(b) Company

	Subsidiary undertakings		Joint ventures and Associated undertakings		Other investments	Own shares held	Total
	Equity £m	Loans £m	Equity £m	Loans £m	£m	£m	£m
Cost							
At 1 October 2002	2,947.1	40.3	200.7	533.8	483.3	8.1	4,213.3
Additions	428.9	744.7	-	11.1	-	-	1,184.7
Disposals and repayments	(778.5)	(24.4)	-	(2.0)	-	-	(804.9)
Transfer to current asset investments	-	-	-	-	(529.5)	-	(529.5)
Other movements	(0.1)	(0.2)	(0.7)	2.4	48.6	-	50.0
At 31 December 2003	**2,597.4**	**760.4**	**200.0**	**545.3**	**2.4**	**8.1**	**4,113.6**
Provisions							
At 1 October 2002	(1,184.1)	(3.5)	(152.3)	(514.6)	(77.1)	(5.9)	(1,937.5)
Provided in the period	(7.5)	-	-	(0.2)	(1.6)	(2.0)	(11.3)
Disposals and repayments	213.1	-	-	-	-	-	213.1
Transfer to current asset investments	-	-	-	-	78.6	-	78.6
At 31 December 2003	**(978.5)**	**(3.5)**	**(152.3)**	**(514.8)**	**(0.1)**	**(7.9)**	**(1,657.1)**
Net book value at 31 December 2003	**1,618.9**	**756.9**	**47.7**	**30.5**	**2.3**	**0.2**	**2,456.5**
Net book value at 30 September 2002	1,763.0	36.8	48.4	19.2	406.2	2.2	2,275.8

A list of the company's principal operating subsidiary undertakings is given in note 37.

14 STOCKS

	31 December 2003 £m	30 September 2002 £m
Work in progress	**1.3**	1.7
Finished goods	**2.6**	4.6
	3.9	6.3

There is no material difference between the replacement cost of stocks and their carrying value.

15 PROGRAMME AND FILM RIGHTS

	31 December 2003 £m	30 September 2002 £m
Programmes in production	**20.5**	24.7
Completed programmes and film rights	**151.8**	153.8
	172.3	178.5

16 DEBTORS

	Group		Company	
	31 December 2003 £m	30 September 2002 £m	31 December 2003 £m	30 September 2002 £m
Amounts falling due within one year:				
Trade debtors	**121.1**	121.9	**1.4**	1.6
Amounts owed by subsidiary undertakings	**-**	-	**88.6**	94.6
UK and overseas taxes recoverable	**-**	-	**1.2**	0.6
Deferred tax asset (note 25)	**8.5**	-	**-**	-
Other debtors	**20.4**	24.0	**-**	-
Prepayments and accrued income	**24.7**	24.4	**6.1**	13.4
	174.7	170.3	**97.3**	110.2
Amounts falling due after more than one year:				
Prepayments and accrued income	**15.6**	17.6	**-**	-

17 CURRENT ASSET INVESTMENTS

	Group		Company	
	31 December 2003 £m	30 September 2002 £m	31 December 2003 £m	30 September 2002 £m
Loan notes	**-**	32.8	**-**	32.8
Certificates of tax deposit	**5.6**	7.5	**4.6**	5.5
Listed securities and other investments	**179.9**	0.3	**451.2**	0.3
	185.5	40.6	**455.8**	38.6

The loan notes were issued to the Group in 2001 by Thomson as part of the Technicolor sale. In March 2002 $175m of the notes were sold and $75m matured. The remaining $50m matured in March 2003. The notes accrued interest at 6 month dollar libor plus 0.15% with all interest being compounded and cash settled at the maturity date of the notes. These non-quoted loan notes were held at directors' valuation and were supported by bank guarantee.

Current asset investments at 31 December 2003 include 15.5m shares in Thomson transferred from fixed asset investments during the period (note 13(a)ii). They are carried at a book value at Group of £178.7m and at company of £450.0m. The difference in carrying values is due to the company having entered into an agreement with another group company for the transfer of 15.5m shares in Thomson for a consideration equal to the original euro book value of €638.6m.

Current asset investments at 31 December 2003 also include a £0.9m net investment in France Telefilms transferred from fixed asset investments (note 13(a)ii).

18 CASH AND OTHER LIQUID FUNDS

	Group		Company	
	31 December 2003 £m	30 September 2002 £m	31 December 2003 £m	30 September 2002 £m
Cash at bank and in hand	**491.6**	552.9	**314.8**	331.5

Cash at bank and in hand comprises bank deposits which have a maximum maturity of twenty-four hours and interest earned is based on that available in the overnight money market.

Included within cash at bank and in hand is £26.4m (2002: £30.2m), the use of which is restricted to meeting finance lease commitments (note 23).

19 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	31 December 2003 £m	30 September 2002 £m	31 December 2003 £m	30 September 2002 £m
Overdrafts and short-term borrowings (note 20)	-	35.0	-	35.0
Trade creditors	**42.1**	56.8	**2.0**	0.8
Amounts owed to subsidiary undertakings	-	-	**910.6**	633.5
Corporation tax	**71.3**	88.5	-	-
Other tax and social security	**15.1**	17.1	-	-
Other creditors	**24.1**	24.1	-	-
Accruals and deferred income	**159.3**	146.6	**34.8**	12.3
Dividends	**13.4**	33.5	**13.4**	33.5
	325.3	401.6	**960.8**	715.1

20 SHORT TERM BORROWINGS

	Group		Company	
	31 December 2003 £m	30 September 2002 £m	31 December 2003 £m	30 September 2002 £m
Loans due within one year	-	35.0	-	35.0

The loans repayable within one year comprise loan notes issued under the company's £1,000m Euro Medium Term Note programme.

21 LOANS

	Group		Company	
	31 December 2003 £m	30 September 2002 £m	31 December 2003 £m	30 September 2002 £m
Repayable:				
Between one and two years	**447.5**	-	**447.5**	-
Between two and five years	**210.8**	605.8	**210.8**	605.8
Over five years	**249.2**	249.0	**249.2**	249.0
	907.5	854.8	**907.5**	854.8

21 LOANS (CONTINUED)

Repayable between one and two years
Loans repayable between one and two years as at 31 December 2003 comprise an unsecured €638.6m Exchangeable bond stated net of the costs of issue which has a coupon of 2.25% and matures in January 2007. The Exchangeable bond can be exchanged at any time at the option of investors for the company's 15.5m shares in Thomson at an exchange price of €41.2 per share. The investors also hold the right to put the bonds back to the company in January 2005. 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.

Repayable between two and five years
Loans repayable between two and five years as at 31 December 2003 and 30 September 2002 include loan notes totalling £11.5m issued under the company's £1,000m Euro Medium Term Note programme. Loans repayable between two and five years as at 31 December 2003 and 30 September 2002 also include an unsecured £200m Eurobond stated net of the costs of issue which has a coupon of 7.625% and matures in June 2007. Loans repayable between two and five years as at 30 September 2002 also included the unsecured €638.6m Exchangeable bond stated net of the costs of issue which has a coupon of 2.25% and matures in January 2007.

Repayable after five years
Loans repayable after five years as at 31 December 2003 and 30 September 2002 comprise an unsecured £250m Eurobond stated net of the costs of issue which has a coupon of 5.625% and matures in March 2009 and unsecured loan notes totalling £0.8m.

All loans are repayable other than by instalment.

As at 31 December 2003 and 30 September 2002 the company has total committed bank facilities of £100m under a syndicated facility which matures in April 2006 or on a change in control. The facility was undrawn at 31 December 2003 and 30 September 2002. The facility matured on 30 January 2004 following completion of the merger with Granada.

22 CONVERTIBLE DEBT

	Group		Company	
	31 December 2003 £m	**30 September 2002 £m**	**31 December 2003 £m**	**30 September 2002 £m**
Exchangeable Capital Securities	**83.8**	91.3	**83.8**	91.3

The US$150m undated Exchangeable Capital Securities are divided into 6,000,000 Exchangeable Capital Securities of US$25 per security with a coupon of 8% per annum, and were redeemable at the option of the company from 7 October 1998 at US$26 per security reducing each year until 7 October 2003 from which time the redemption price will be US$25 per security. The Exchangeable Capital Securities rank senior to the Preference shares of the company in the event of a winding up. The Exchangeable Capital Securities are exchangeable at the option of the company at any time into Cumulative US Dollar-denominated Redeemable Preference shares of US$0.01 each in the company on a one-for-one basis. The rights of such Preference shares are summarised in note 26.

23 FINANCE LEASE CREDITORS

	Group		Company	
	31 December 2003 £m	**30 September 2002 £m**	**31 December 2003 £m**	**30 September 2002 £m**
Repayable:				
Between one and two years	**1.5**	1.1	**-**	-
Between two and five years	**5.4**	5.8	**-**	-
Over five years	**20.8**	24.8	**-**	-
	27.7	31.7	**-**	-

Included within finance leases due after one year is £26.4m (30 September 2002: £30.2m) in relation to the sale and leaseback of rights associated with programme production.

24 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

Financing

Carlton's policy is to finance itself long-term using debt instruments with a range of maturities. Carlton has traditionally raised fixed rate debt from the US and European Capital Markets, as well as obtaining bank facilities from the UK Syndicated Market.

Objectives, policies and strategies

The most significant treasury exposures faced by Carlton are raising finance, managing interest rate and currency positions and investing surplus cash in high quality assets. Clear parameters have been established, including levels of authority, on the type and use of financial instruments to manage these exposures. Transactions are only undertaken if they relate to underlying exposures. Regular reports are provided to senior management and treasury operations are subject to periodic independent reviews and internal audit.

Interest rate management

Carlton uses interest rate swaps, options and forward rate agreements to manage its interest rate exposures on its debt and cash positions with the objective of minimising its net interest cost.

The interest rate profile of Carlton's interest bearing assets and liabilities at 31 December 2003 and 30 September 2002 are detailed in notes 17, 18, 20 and 24(a) respectively.

Borrowings are denominated in currencies that broadly match Carlton's net assets as described below. The fair values of borrowings and cash at 31 December 2003 and 30 September 2002 are compared to their book values in note 24(b).

Currency management

Carlton faces currency exposure on trading transactions undertaken by its subsidiaries in foreign currencies. In addition, Carlton is also subject to currency exposures arising on its 15.5m shares in Thomson (quoted in euros), loan notes issued by Thomson (denominated in dollars which all matured by March 2003) and cash and debt instruments denominated in dollars and euros.

Carlton hedges a proportion of its transactional exposures by taking out forward foreign exchange contracts of up to four years forward against its anticipated and known sales and purchases. The decision to hedge is influenced by the size of exposure, the certainty of it arising, the trading and market position of the company in which the exposure arises and the current exchange rate.

At 31 December 2003 Carlton estimated that its net purchases of foreign currency in the following twelve months relating to trading transactions would total less than £60m (30 September 2002: £30m) after taking into account foreign currency hedging in place. The 31 December 2003 fair value of foreign exchange contracts maturing in 2004 was positive £0.5m (30 September 2002: negative £2.9m) due to forward purchases of swiss francs and euros undertaken in previous years when sterling was stronger.

Carlton's balance sheet translation exposure is managed by partially matching currency assets with a combination of currency borrowings and forward foreign exchange option contracts.

Carlton's largest single balance sheet currency exposure in economic terms is in euros. The exposure relates to a €638.6m Exchangeable bond (£447.5m net of issue costs) which is offset by the value of the 15.5m shares in Thomson (book value £178.7m at 31 December 2003) and the purchase in May 2002 of a €425m (£266.5m at the strike rate) currency call option with a strike rate of 1.5947 (at a cost of £11.0m) which matures in January 2005 and had a fair market value of £37.8m at 31 December 2003 (30 September 2002: £10.7m). The cost of the call option is being written off on a straight line basis over its life (32 months) and to the extent that the written down value exceeds the fair market value further provision will be made. In the 15 months ended 31 December 2003 £5.2m of premium cost was written off (year ended 30 September 2002: £1.7m).

Investment in cash

Carlton operates strict investment guidelines with respect to surplus cash and the emphasis is on preservation of capital. Consequently, discretionary investments with maturity greater than one year must be rated AA or better and discretionary investments of less than one year must be rated A1 or P1 by the major credit rating agencies. There are also conservative limits for individual counter-parties. The maturity profile of investments is managed according to the forecast cash needs of the Group.

For the purposes of the disclosures which follow in this note (other than in the currency risk disclosures), short-term debtors and creditors which arise directly from the Group's operations have been excluded as permitted under FRS 13.

24 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

(a) Interest rate risk profile

Financial assets

Financial assets of the Group which earn interest are cash and other liquid funds (note 18) and for 2002 loan notes held in Thomson (note 17). The interest rate profile of the financial assets of the Group by currency denomination as at 31 December 2003 and 30 September 2002 is shown below:

	As at 31 December 2003			As at 30 September 2002		
	Total £m	Floating £m	Non interest bearing £m	Total £m	Floating £m	Non interest bearing £m
Thomson shares	**178.7**	**-**	**178.7**	401.4	-	401.4
Sterling cash	**398.8**	**398.8**	**-**	502.4	502.4	-
US dollar cash	**92.8**	**92.8**	**-**	50.5	50.5	-
US dollar Loan Notes	**-**	**-**	**-**	32.8	32.8	-
Total	**670.3**	**491.6**	**178.7**	987.1	585.7	401.4

As at 30 September 2002 the US Dollar Thomson loan notes were paying a weighted average floating rate of 1.98%.

Financial liabilities

The interest rate profile of the financial liabilities of the Group by currency denomination as at 31 December 2003 and 30 September 2002 is shown below:

	As at 31 December 2003					As at 30 September 2002				
					Fixed rate					Fixed rate
	Total £m	Floating £m	Fixed £m	Weighted average fixed rate at 31 December %	Weighted average time for which rate is fixed Years	Total £m	Floating £m	Fixed £m	Weighted average fixed rate at 30 September %	Weighted average time for which rate is fixed Years
Sterling Preference Shares	**163.5**	**-**	**163.5**	**6.5**	**1.3**	163.6	-	163.6	6.5	2.5
Sterling debt	**935.2**	**907.5**	**27.7**	**5.8**	**12.0**	474.4	447.4	27.0	5.8	13.0
US Dollar debt	**83.8**	**83.8**	**-**	**-**	**-**	538.4	538.4	-	-	-
Total	**1,182.5**	**991.3**	**191.2**	**6.4**	**2.8**	1,176.4	985.8	190.6	6.4	4.2

Sterling Preference shares

The Preference shares are described in note 26. The weighted average time for which the rate is fixed on these Preference shares has been calculated on the assumption that the company redeems the shares at the earliest opportunity.

Sterling fixed rate liabilities

Sterling fixed rate liabilities relate to finance lease creditors (note 23).

24 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

Sterling floating rate liabilities

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

The €638.6m Exchangeable bond was swapped with effect from May 2002 from its fixed rate cost of 2.25% into a floating rate cost of 1 month sterling libor minus 2.81% on a notional amount of £394.9m until January 2005.

The effective financing cost of the £250m Eurobond was swapped in July 2003 into 6 month sterling libor set in arrears plus 0.67% if the libor rate fixing is greater than 3.0% and no higher than 4.75%. If the libor rate fixing is greater than 4.75% the margin rises to 1.92%. If the libor rate fixing is 3.0% or less the bond coupon of 5.625% is payable. If 6 month dollar sets at 3.75% or above on a rate fixing date both the bank and Carlton have the option to terminate and cash settle the swap at fair market value. This is because at this level a dormant swap as at 31 December 2003 will become active again. Under the terms of this dormant swap if 6 month dollar libor exceeds 3.75% Carlton receives the bond coupon of 5.625% and pays 6 month dollar libor plus 0.75% (payable in sterling) up to September 2004. From September 2004 the bank has the choice of receiving 6 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 6 month dollar libor set in advance sets above 6.5% a further 1% margin for that period is payable. In January 2003 Carlton sold swaps for a gain of £21m that had been entered into in July 2002. These swaps also matched the £250m Eurobond and had the effect of swapping the bond coupon into 6 month dollar libor plus 0.75% (payable in sterling) if 6 month dollar libor set below 3.75%. As at 31 December 2003 £5.8m remains unamortised and will be recognised through the profit and loss account during years 2004 to 2006.

In April 2003 the £200m Eurobond was swapped such that Carlton receives the bond coupon of 7.625% and pays 6 month sterling libor plus 3.19%. The bank has the option to cancel the swap for nil value at each 6 monthly rate fixing date. Carlton has a further swap matched against this Eurobond which was dormant as at 31 December 2003. Under the terms of this dormant swap if 6 month dollar libor exceeds 3.75% Carlton receives the bond coupon of 7.625% and pays 6 month dollar libor set in arrears plus 0.415% (payable in sterling) up to December 2004. From December 2004 the bank has the choice of receiving 6 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 6 month dollar libor set in advance sets above 6.5% a further 1% margin for that period is payable. The dormant swap is no longer designated as a hedge for accounting purposes and as such Carlton's policy is to provide to the extent that the swap represents an onerous contract. As at 31 December 2003 £1.2m was provided against this swap.

£11.5m private placement loan notes issued under the £1,000m Euro Medium Term Note Programme have a post swap financing cost of 6 month libor plus 0.48%.

Dollar floating rate liabilities

Dollar floating rate cost of borrowing comprises the post swap cost of the US$150m Exchangeable Capital Securities (note 22). Under the swap the Group receives 8% (to match the coupon on the securities) and pays the higher of 3 month dollar libor set in arrears or in advance plus 2.45%. The swap is cancellable at the bank's option at any time for no consideration. The maturity of the swap is October 2028 (unless cancelled earlier).

24 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

(b) Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of the Group's financial assets and financial liabilities as at 31 December 2003 and 30 September 2002.

	As at 31 December 2003		As at 30 September 2002	
	Book Value £m	**Fair Value £m**	**Book Value £m**	**Fair Value £m**
Primary financial instruments held or issued to finance the Group's operations:				
Overdrafts and short-term borrowings (note 20)	-	-	(35.0)	(33.8)
Loans (notes 21 and 23)	**(935.2)**	**(949.0)**	(886.5)	(753.0)
Convertible debt (note 22)	**(83.8)**	**(83.8)**	(91.3)	(49.6)
Preference shares (note 26)	**(163.5)**	**(166.0)**	(163.6)	(139.5)
	(1,182.5)	**(1,198.8)**	(1,176.4)	(975.9)
Cash and other liquid funds (note 18)	**491.6**	**491.6**	552.9	552.9
Equity interest in Thomson (notes 13 and 17)	**178.7**	**184.3**	401.4	155.3
Loan notes held in Thomson (note 17)	-	-	32.8	32.8
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps, swaptions and caps	**0.2**	**(8.8)**	3.5	13.4
Derivative financial instruments held or issued to hedge the currency exposure on expected future sales and purchases:				
Forward foreign exchange contracts	**4.1**	**38.3**	9.3	7.8

Market values have been used to determine the fair value of listed Preference shares, debt issued, equity interest in Thomson, cash, interest rate and foreign exchange derivatives. The Thomson loan notes which are not listed have been included at directors' valuation.

(c) Gains/(losses) on hedging contracts

The table below details gains/(losses) on hedging contracts at 31 December 2003:

			Deferred			**Unrecognised**
	Gains	**Losses**	**Total net gains/ (losses)**	**Gains**	**Losses**	**Total net gains/ (losses)**
(Losses)/gains on hedges at 1 October 2002	**-**	**(11.1)**	**(11.1)**	**30.6**	**(20.4)**	**10.2**
Losses/(gains) arising in previous years that were recognised in 2003	**-**	**5.7**	**5.7**	**(18.8)**	**6.3**	**(12.5)**
Gains/(losses) arising in 2003 that were not recognised in 2003	**5.8**	**-**	**5.8**	**40.3**	**(15.0)**	**25.3**
Gains/(losses) on hedges at 31 December 2003	**5.8**	**(5.4)**	**0.4**	**52.1**	**(29.1)**	**23.0**
Of which:						
Gains/(losses) expected to be recognised in 2004	**3.9**	**(4.5)**	**(0.6)**	**5.9**	**-**	**5.9**
Gains/(losses) expected to be recognised in 2005 or later	**1.9**	**(0.9)**	**1.0**	**46.2**	**(29.1)**	**17.1**

The unrecognised gain of £40.3m arising in 2003 mainly relates to the increase in value of a €425m currency call option which was purchased to hedge differences that may arise on the maturity of the €638.6m Exchangeable bond.

(d) Maturity profile

The maturity profile of cash and other liquid funds can be found in note 18 and the maturity profile of the Thomson loan notes is detailed in note 17. The maturity profile for financial liabilities can be found in notes 20, 21, 22 and 23. The unamortised issue costs associated with the loans and convertible debt are immaterial.

24 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

(e) Currency exposures

The table below shows the Group's currency exposures i.e. those transactional (or non-structural) exposures that give rise to the net currency gains and losses in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the functional currency of the operating unit involved. As at 31 December 2003 and 30 September 2002 these exposures were as follows:

	As at 31 December 2003			As at 30 September 2002		
	Net foreign currency monetary assets/(liabilities)			Net foreign currency monetary assets/(liabilities)		
	US dollar £m	Swiss Francs £m	Total £m	US dollar £m	Swiss Francs £m	Total £m
Functional currency of Group operation						
Sterling	**(64.7)**	-	**(64.7)**	(26.3)	(41.1)	(67.4)
Total	**(64.7)**	-	**(64.7)**	(26.3)	(41.1)	(67.4)

25 PROVISIONS FOR LIABILITIES AND CHARGES

(a) Group	Closure of businesses £m	Deferred taxation £m	Total £m
At 1 October 2002	46.7	1.4	48.1
Profit and loss account - current	-	(4.6)	(4.6)
Profit and loss account - prior	-	(5.3)	(5.3)
Utilised	(33.2)	-	(33.2)
Deferred tax asset reclassifed to debtors (note 16)	-	8.5	8.5
At 31 December 2003	**13.5**	**-**	**13.5**

(b) Company	Closure of businesses £m	Deferred taxation £m	Total £m
At 1 October 2002	32.5	1.4	33.9
Profit and loss account - current	-	(0.8)	(0.8)
Profit and loss account - prior	-	0.4	0.4
Utilised	(18.6)	-	(18.6)
At 31 December 2003	**13.9**	**1.0**	**14.9**

The provision for closure of businesses as relates to the closure of ITV Digital and ITV Sport Channel is disclosed in note 13. The majority of the provision is expected to be utilised within one year from 31 December 2003.

Deferred taxation

	Group		Company	
	31 December 2003 £m	30 September 2002 £m	31 December 2003 £m	30 September 2002 £m
Deferred taxation asset/(liability) comprises:				
Accelerated capital allowances	**2.7**	(0.2)	**(2.5)**	(1.7)
Short-term timing differences	**6.5**	0.5	**1.2**	0.2
Other	**(0.7)**	(1.7)	**0.3**	0.1
At 31 December / 30 September	**8.5**	(1.4)	**(1.0)**	(1.4)

26 CALLED UP SHARE CAPITAL

	31 December 2003	30 September 2002
Authorised	**£m**	**£m**
1,221,317,551 Ordinary shares of 5p each (2002: 1,221,285,011)	**61.1**	61.1
168,682,449 6.5% (net) Cumulative Convertible Redeemable Preference shares of 5p each (2002: 168,714,989)	**8.4**	8.4
	69.5	69.5
	US$	**US$**
15,000,000 Cumulative US Dollar-denominated Redeemable Preference shares of US$0.01 each (2002: 15,000,000)	**0.2**	0.2
Allotted, called up and fully paid	**£m**	**£m**
671,960,088 Ordinary shares of 5p each (2002: 671,951,686)	**33.6**	33.6
163,532,321 6.5% (net) Cumulative Convertible Redeemable Preference shares of 5p each (2002: 163,564,861)	**8.2**	8.2
	41.8	41.8

The following changes have taken place in the issued share capital of the company during the 15 months to 31 December 2003:

On 3 December 2003, 2 ordinary shares were issued to ITV.

The 6.5% Preference shares became convertible on 31 March 1991 and continue to be so on each anniversary (or on the next business day) thereafter until 2005 on the basis of 25.83975 ordinary shares for every 100 6.5% Preference shares.

On 1 April 2003, 32,540 6.5% Preference shares were converted, in accordance with the articles of association, by a process of consolidation and subdivision into 8,400 ordinary shares and 24,140 non-voting Deferred shares. The Deferred shares were subsequently repurchased by the company as detailed below. The company has the option to redeem the outstanding 6.5% Preference shares at £1 per share on 30 April 2005 (or on the next business day) and on each anniversary thereafter until 30 April 2010, when any 6.5% Preference shares outstanding will be redeemed at £1 per share.

In accordance with the articles of association, during the period the company repurchased for an aggregate consideration of 1p, and then cancelled all 24,140 non-voting Deferred shares of 5p each issued upon the conversion of 6.5% Preference shares. All authorised unissued Deferred share capital has converted into authorised unissued ordinary share capital.

By resolution passed on 25 March 2003, shareholders' authority was obtained for the company to make market purchases of its own shares up to a maximum of 67,195,000 ordinary shares and 16,356,000 6.5% Preference shares to expire on the earlier of 24 March 2003 and the date of the company's Annual General Meeting.

Each of the two classes of Preference shares ranks pari passu for dividends or other returns of capital, in priority to any other class of shares. None of the Preference shares has voting rights except in the event of winding up or following dividend arrears of greater than six months. In the event of a winding up the 6.5% Preference shares have a liquidation preference of £1 per share and the Dollar Preference shares have a liquidation preference of US$25 per share.

Non-equity shareholders' funds comprise £163.5m (30 September 2002: £163.6m) in respect of the 6.5% Preference shares.

27 SHARE OPTIONS

At 31 December 2003, options and awards had been granted and remained outstanding over 66,332,557 ordinary shares as follows:

Option schemes	Notes	Exercise period	Exercise price	Number of shares
Executive share option grants	(a)	11.1.97 - 29.12.13	Nominal - 772p	29,481,774
Carlton Sharesave scheme	(b)	02.04.04 - 30.09.08	110p - 475p	5,827,603
Equity Participation Plan	(c)	01.04.06 - 06.01.13	139p	7,506,030
Equity Participation Plan	(c)	02.02.04 - 14.01.12	225-245p	8,005,560
Equity Participation Plan	(c)	02.02.04 - 06.01.13	Nominal	15,511,590

(a) The normal exercise period for executive options is between 3 and 10 years from the date of grant. Some options have been granted on terms that allow part of the option to vest from one year after date of grant.

(b) Under the terms of the Carlton Sharesave scheme, employees entered into a savings contract for a period of either 3 or 5 years at amounts varying between £5 and £250 per month. The normal exercise periods for options granted under this scheme are the 6 month period following the third anniversary of the date of grant in respect of the 3 year savings contracts and the 6 month period following the fifth anniversary of the date of grant in respect of the 5 year savings contracts.

(c) The Equity Participation Plan comprises both an award of free shares (in the form of a nil-price option) and an option grant over shares at market value on date of grant. The figures above are the maximum that could potentially vest contingent on certain performance conditions being satisfied. A number of these awards and options have vested subsequent to the period end. See page 8 for further details.

28 SHARE PREMIUM ACCOUNT AND OTHER RESERVES

(a) Group	Share Premium account £m	Other reserves £m
At 1 October 2002	151.4	17.1
Deferred contingent consideration	-	(0.2)
At 31 December 2003	**151.4**	**16.9**
(b) Company		
At 1 October 2002	151.4	449.8
Deferred contingent consideration	-	(0.2)
Amounts reinstated on investment transfer	-	213.1
Realisation of special reserves	-	(33.0)
Transfer of investment intra-group	-	100.0
At 31 December 2003	**151.4**	**729.7**

At 31 December 2003, other reserves of the company, which were non-distributable, comprised (a) £184.0m (30 September 2002: £217.0m) being the remaining balance of special reserves created on the cancellation of the share premium account in previous years; (b) £438.1m (30 September 2002: £225.0m) being the amounts arising on the application of section 131(2) of the Companies Act 1985; (c) £nil (30 September 2002: £0.2m) being an estimate of the shares to be issued by way of part consideration for the purchase of Planet 24 Limited in the event of certain performance targets being achieved; (d) £100.0m (30 September 2002: £nil) reserve created on the transfer of an investment within the Group; and (e) £7.6m (30 September 2002: £7.6m) being a capital redemption reserve created on conversion of Preference shares to ordinary shares.

29 PROFIT AND LOSS ACCOUNT

	Group £m	Company £m
At 1 October 2002	223.2	445.8
Retained (loss)/profit	(281.1)	295.1
Goodwill reinstated	1.2	-
Share-based compensation	20.2	-
Amounts reinstated on investment transfer	-	(213.1)
Realisation of special reserves	-	33.0
Transfer of investment intra-group	-	(100.0)
Exchange differences	(1.4)	-
At 31 December 2003	**(37.9)**	**460.8**

Retained loss for the 15 months ended 31 December 2003 is stated after crediting foreign exchange gains of £4.6m (year ended 30 September 2002: £5.4m). Included in exchange differences in reserves for the 15 months ended 31 December 2003 are exchange gains of £2.0m (year ended 30 September 2002: £1.9m loss) arising on loans denominated in foreign currencies designated as hedges of net investments overseas.

Included within the company's profit and loss account at 31 December 2003 was an amount of £nil (year ended 30 September 2002: £264.3m) which was not distributable at that date.

30 CASH FLOW

	15 months ended 31 December 2003 £m	Year ended 30 September 2002 £m
(a) Cash inflow from operating activities		
Operating profit	**12.9**	58.0
Depreciation	**25.8**	23.0
Amortisation	**19.1**	19.4
Stocks	**2.4**	0.8
Programme and film rights	**6.2**	8.9
Debtors	**6.1**	12.2
Creditors	**(20.7)**	(33.5)
Share-based compensation	**21.8**	-
Sale of current asset investments	**33.3**	179.0
Non-cash fixed asset impairment	**-**	1.8
Profit on sale of fixed assets	**-**	(0.2)
	106.9	269.4
(b) Returns on investment and servicing of finance		
Interest received	**54.9**	43.4
Interest paid	**(55.9)**	(61.4)
Dividend income from other investments	**2.4**	-
Preference dividends paid	**(15.8)**	(10.5)
	(14.4)	(28.5)
(c) Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(15.1)**	(11.7)
Purchase of intangible assets	**(1.2)**	(0.2)
Disposal of intangible and tangible fixed assets	**1.6**	0.9
Payments to ITV Digital/ITV Sport Channel	**(29.7)**	(96.8)
Other net investments	**(11.8)**	(18.4)
	(56.2)	(126.2)
(d) Financing		
Issue of shares	**-**	-
Net change in long-term funding	**(38.7)**	266.3
	(38.7)	266.3

For the 15 months ended 31 December 2003, included within cash flow from operating activities is a £9.2m net cash outflow (year ended 30 September 2002: £18.6m inflow) in respect of the exceptional operating items of £57.6m cost (year ended 30 September 2002: £4.8m income) (note 4). For the 15 months ended 31 December 2003 the remaining £48.4m (year ended 30 September 2002: £13.8m) comprises £1.8m (2002: £11.0m) asset write offs, £nil (2002: £2.8m) of accrued expenses and £46.6m (2002: £nil) of accrued merger costs.

31 ANALYSIS OF NET DEBT

	1 October 2002 £m	Cash flow £m	Exchange and non-cash movements £m	31 December 2003 £m
Cash at bank and in hand	552.9	(57.1)	(4.2)	**491.6**
Overdrafts	-	-	-	**-**
	552.9	(57.1)	(4.2)	**491.6**
Loan notes and short-term borrowings	-	-	-	-
Loans due within one year	(35.0)	34.6	0.4	-
	(35.0)	34.6	0.4	-
Loans due after more than one year	(854.8)	0.1	(52.8)	**(907.5)**
Convertible debt	(91.3)	-	7.5	**(83.8)**
Finance lease creditors	(31.7)	4.0	-	**(27.7)**
	(977.8)	4.1	(45.3)	**(1,019.0)**
Net debt	(459.9)	(18.4)	(49.1)	**(527.4)**

Foreign exchange movements in 2003 arose primarily on the €638.6m Exchangeable bond. Non-cash movements principally comprise loan reclassifications and amortisation of fees.

32 CAPITAL EXPENDITURE – CONTRACTED FOR

	Group		Company	
	31 December 2003 £m	30 September 2002 £m	31 December 2003 £m	30 September 2002 £m
Expenditure on tangible assets - contracted for	**1.7**	3.1	-	-

33 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating leases

The Group had minimum annual commitments under non-cancellable leases as follows:

	31 December 2003			30 September 2002		
	Land & Buildings £m	Other £m	Total £m	Land & Buildings £m	Other £m	Total £m
Operating leases which expire:						
Within one year	**2.4**	**-**	**2.4**	0.5	-	0.5
After one year but within five years	**1.4**	**0.4**	**1.8**	2.8	0.4	3.2
After five years	**5.1**	**-**	**5.1**	4.7	-	4.7
	8.9	**0.4**	**9.3**	8.0	0.4	8.4

(b) Guarantees

The company and certain of its UK subsidiaries have entered into cross-guarantees in connection with the Group's UK banking arrangements. At 31 December 2003 subsidiary overdrafts amounting to £13.4m (30 September 2002: £16.6m) were covered by guarantees given by the company.

(c) Disposals

Contingent liabilities exist in respect of warranties and indemnities given to Thomson pursuant to the Technicolor disposal agreement. Provision has been made against any anticipated payments.

33 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(d) ONdigital

The liquidators of ONdigital 1998 plc (in liquidation) formerly ITV Digital plc ("ITV Digital") and ONdigital 1998 (Services) Limited formerly ITV Digital (Services) Limited ("Services") are investigating various matters including whether there are any grounds for bringing actions against certain parties, including Carlton, Granada and the former directors of ITV Digital and Services. To date, no formal proceedings have been initiated by the liquidators, although the liquidators have indicated that they will commence proceedings in relation to a transaction involving Carlton, Granada and ITV Digital which they allege to have been carried out at an undervalue. On the basis of legal advice taken by Carlton and Granada, the directors believe that there would be a strong defence against any such proceedings. Carlton and Granada have indemnified certain former directors of ITV Digital in respect of costs and liabilities arising as a result of investigations into the insolvency of ITV Digital. In the event that formal proceedings were initiated by the liquidators in this regard, on the basis of legal advice the directors believe that the former directors of ITV Digital would have a strong case for defending any such proceedings.

(e) UGC litigation

Carlton is involved in two disputes with UGC SA ("UGC") relating to Screenvision Holdings (Europe) Limited ("Screenvision"), an associated undertaking in which Carlton holds a 50 per cent. interest. In May 2003, Screenvision filed an arbitration claim against UGC, RMB International SA ("RMB") and Régie Média Belge SA on the basis that UGC and RMB failed to comply with certain obligations under an agreement for the sale to Screenvision of a 51% stake in an Italian cinema advertising business. The claim (which is the subject of ICC arbitration) is for damages of €25m. Screenvision has been advised that it has a strong case for recovery of all or part of this amount. In November 2003, UGC issued proceedings against Carlton in the French Court claiming damages of €50m in respect of Carlton's alleged wrongful termination of pre-contractual negotiations for the acquisition by Carlton of UGC's French cinema advertising business. Carlton has been advised that there may be a strong argument that the French Court does not have jurisdiction and, on the basis of the preliminary evidence produced by the claimant at this early stage in the proceedings and the legal advice received by Carlton, the Carlton Board consider that, were the French Court to retain jurisdiction, Carlton would be likely to have a strong defence to the claim. Therefore no provision has been made in respect of this claim.

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

34 ACQUISITIONS AND DISPOSALS

For the 15 months ended 31 December 2003, the net cash outflow of £2.6m comprises further receipts and payments from the disposal of Technicolor in 2001.

For the year ended 30 September 2002, the net cash outflow of £7.8m comprises £31.0m for the acquisition of Screenvision Holdings (Europe) Limited and £23.2m further post-acquisition receipts from the disposal of Technicolor in 2001. The Group acquired a 50% interest in Screenvision Holdings (Europe) Limited in June 2002. The goodwill held in this joint venture entity was stated after provisional fair value adjustments.

35 RELATED PARTY TRANSACTIONS

The Group entered into the following material transactions with related parties during the period:

	15 months ended 31 December 2003 £m	Year ended 30 September 2002 £m
Sales to joint ventures	**-**	3.9
Sales to associated companies	**9.0**	2.8
Purchases from joint ventures	**12.0**	8.2
Purchases from associates	**18.0**	19.4
Amounts owed by joint ventures	**0.1**	-
Loans owed by joint ventures	**28.8**	19.7
Amounts owed by associated undertakings	**1.3**	0.7
Loans owed by associated undertakings	**6.2**	0.2
Amounts owed to joint ventures	**1.0**	1.8
Amounts owed to associated undertakings	**-**	1.6

All transactions arose in the normal course of business. They include sale of television advertising time, advertising commission, programme sales and the purchase of news programmes and transmission.

In 2002 the Group made loans to ITV Digital (including ITV Sport Channel) totalling £82.7m. Full provision was made against all ITV Digital (including ITV Sport Channel) loans held at 30 September 2002.

36 POST BALANCE SHEET EVENTS

Merger with Granada

On 16 October 2002 the boards of the company and Granada announced that they had agreed the terms of a proposed merger, paving the way for a fully consolidated ITV. The Secretary of State referred the proposed merger to the Competition Commission on 11 March 2003 and on 7 October 2003 announced that she had decided to clear the merger, subject to appropriate undertakings being given by Carlton and Granada. Carlton and Granada announced on 14 November 2003 that the terms of those undertakings had been agreed and duly accepted by the Secretary of State. On 2 February 2004 Carlton and Granada merged under a Court approved Scheme of Arrangement to form ITV.

As a result 100% of the ordinary share capital of the company was acquired by ITV and the ordinary shares of the company were de-listed from the London Stock Exchange on 30 January 2004. The proposed preference shareholder scheme was not passed and the company has retained its preference share listing on the London Stock Exchange.

37 PRINCIPAL OPERATING COMPANIES

All of the Group's principal operating companies are detailed below and are included in its consolidated financial statements.

All subsidiary companies are wholly owned and are incorporated and operating in the UK (and are registered in England and Wales) except as noted.

(a) Subsidiary undertakings

	Country of incorporation/ establishment
Action Time (UK) Limited*	
Andre Deutsch Limited	
Carlton Active Limited **	
Carlton Books Limited	
Carlton Broadcasting Limited*	
Carlton Digital Channels Limited*	
Carlton Film Distributors Limited	
Carlton Interactive Media Limited	
Carlton International Media, Inc. (trading as Carlton America)*	USA
Carlton International Media Limited*	
Carlton Productions Limited**	
Carlton Media Sales Limited**	
Carlton Screen Advertising Limited*	
Carlton Television Limited*	
Carlton 021 Limited**	
Carlton Visual Entertainment Limited*	
Central Independent Television Limited *	
Hamdon Entertainment*	USA
HTV Group Limited*	
ITC Distribution LLC (also trading as Carlton Productions LLC)*	USA
ITC Entertainment Group Limited*	
The Moving Picture Company Limited*	
Planet 24 Productions Limited*	
SelecTV Cable Limited*	
Superhire Limited	
Westcountry Television Limited*	

* Indirect holdings **Trading as divisions of subsidiary companies

(b) Joint ventures and associated undertakings

	Country of registration/ incorporation	Nominal value of Ordinary shares	Number of Ordinary shares in issue	Proportion of shares held by group
Education Digital Limited (1)	England and Wales	£1	100	20%
GMTV Limited	England and Wales	£1	2,000,000	25%
Independent Television News Limited	England and Wales	£1	400,000	20%
ITV Digital Holdings Limited (2)	England and Wales	£0.10	207,001,000	50%
ITV2 Limited	England and Wales	£1	1,831,220	44.1%
ITV News Channel Limited (3)	England and Wales	1p	1,000	32.5%
ITV Sport Channel Limited (4)	England and Wales	£1	2	50%
London News Network Limited (5)	England and Wales	£1	100	50%
Screenvision Holdings (Europe) Limited (6)	England and Wales	£1	40,208,404	50%
Technicolor Cinema Advertising LLC (7)	USA	US$1	122,000	50%
TV Eye Limited (8)	England and Wales	£1	5	20%

The Group holds a 33% interest in France Telefilms, operating in France. This is held as a current asset investment.

37 PRINCIPAL OPERATING COMPANIES (CONTINUED)

Notes

(1) Acquired November 2003.

(2) ONdigital Holdings Limited (formerly ITV Digital Holdings Limited) owns 100% of the share capital of ONdigital 1998 plc (in liquidation), which ceased to trade in May 2002.

(3) Acquired in May 2002. The Group also owns 40.25% of the 20,350,000 preference shares of £1 each in issue.

(4) Ceased to trade in May 2002.

(5) The Group also owns 50% of the 2,500,000 7% Cumulative Preference shares of £1 each in issue.

(6) Screenvision Holdings (Europe) Limited (acquired June 2002) owns 100% of the share capital of Circuit A SAS, Screenvision Belgium SA, Screenvision Netherlands BV, Screenvision Portugal SA and Screenvision Spain SA.

(7) Technicolor Cinema Advertising LLC (acquired July 2001) owns 100% of the issued share capital of Cinema Billboard Network Inc, Screenvision Cinema Network LLC, Technicolor Cinema Billboard Inc, Technicolor Screen Advertising Inc, Technicolor Screen Services Inc and Screenvision Direct Inc.

(8) Acquired in December 2002.