

Channel Four
Television

Company Limited ■

*Report and Accounts
for the year ended*

31st March 1988 ■



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General information

DIRECTORS

- *Sir Richard Attenborough CBE (CHAIRMAN)..... Film Producer/Director, Chairman of British Film Institute and Chairman of British Screen Advisory Council.
- *George Russell CBE (DEPUTY CHAIRMAN)..... Chairman of ITN Limited.
(appointed May 1988)

OTHER RELATED ACTIVITIES

EXECUTIVE DIRECTORS

- Michael Grade (CHIEF EXECUTIVE).....
(appointed 1st January 1988)
- Justin Dukes (MANAGING DIRECTOR AND
DEPUTY CHIEF EXECUTIVE).....
- Liz Forgan (DIRECTOR OF PROGRAMMES).....
(appointed 15th March 1988)
- Colin Leventhal (DIRECTOR OF ACQUISITION
AND SALES) (appointed 15th March 1988).....

NON-EXECUTIVE DIRECTORS

- *Sir Brian Bailey OBE..... Chairman of Television South West plc.
- Carmen Callil.....
- Greg Dyke..... Director of Programmes, London Weekend
(appointed 11th April 1988) Television plc.
- James Gatward..... Chief Executive of Television South plc, and
Non-Executive Director of ITN Limited.
- John Gau..... Independent Producer and Director of John
Gau Productions Limited.
- Anthony Pragnell CBE, DFC.....
- *Peter Rogers..... Director of Finance, Independent
Broadcasting Authority.
- Professor David Vines.....
- Eleri Wynne Jones..... Member of the Welsh Fourth Channel
Authority.

*The Directors marked with an asterisk are members of the
audit committee of the Board.

SECRETARY

David Scott

REGISTERED OFFICE

70 Brompton Road
London SW3 1EY

BANKERS

National Westminster Bank plc
21 Lombard Street
London EC3P 3AR

AUDITORS

Coopers & Lybrand
Chartered Accountants
Plumtree Court
London EC4A 4HT

Chairman's statement

During this past year we have parted company with a number of those who helped to found Channel 4.

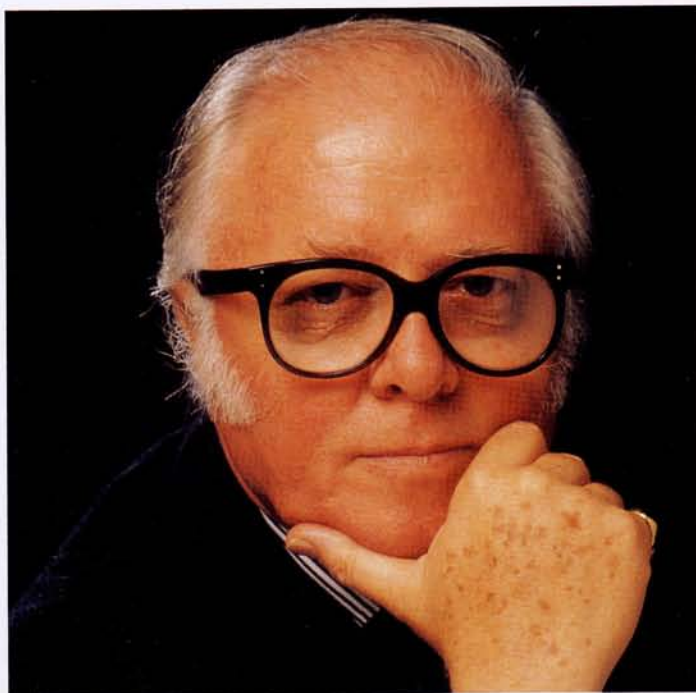
Edmund Dell, our first Chairman, left us after over seven years of devoted and selfless service. His steadfast attitude towards the channel's affairs, his determination to maintain the highest standards of integrity and his abiding commitment to our independence were major factors in determining our present level of success.

Jeremy Isaacs was, of course, the architect of Channel 4. His vision, his overall concept, his indefatigable defence of the remit and, above all, his magnificently courageous stance in defending all he felt to be right and true in the editorial freedom of broadcasting have granted the channel a profile and a stature which are renowned throughout the world. Channel 4 will forever bear his signature and his dedication and innovative flair will never be forgotten.

At the end of May 1987, Paul Bonner, our Controller of Programming since the channel went on air, accepted the post of Programme Planning Director with the ITV Association. We would all wish to express our gratitude for the very particular qualifications and judgement he brought to bear on our output.

The year under review also saw the departure from the Board of Jennifer D'Abo, Mike Scott, Paul Fox and, at the end of this month, Tony Pragnell, each of whom made an individual and specialised contribution to our affairs.

Finally, at the time of writing this report, the company has received Justin Dukes' resignation. Everyone involved in television broadcasting is well aware of Justin's dual management of Channel 4 with Jeremy Isaacs. However, those of us intimately concerned with the structuring of the network during the past six or seven years are privileged to have had first hand experience of his masterly administrative abilities. That we have been capable of



operating a totally new concept of television programming is overwhelmingly due to him and I feel certain, therefore, that programme makers throughout the country will wish to join the Board in offering congratulations on his appointment as Chief Executive of the new European airline consortium, Galileo.

On 1st January 1988, Michael Grade took up his appointment as Channel 4's Chief Executive. Already, he has amply demonstrated that his remarkable skills are particularly applicable to running a television service such as ours. We are fortunate indeed to have the benefit of his singular managerial expertise, his farsightedness and his undoubted creativity.

We are delighted that our new Chief Executive has decided to appoint Liz Forgan as Director of Programmes in a move which formally endorses what is already an outstanding contribution to our network. The Board has also approved Michael Bolland's appointment as Deputy Director of Programmes and Controller of Arts and Entertainment and, within the past few weeks, that of John Willis as Controller of Factual Programming.

Together with Liz Forgan, we welcome to the Board our Director of Acquisition and Sales, Colin Leventhal, our General Manager, Frank McGettigan, and our Director of Finance/Company Secretary, David Scott. Their appointments serve to underline how much we value their knowledgeable opinions in managing the channel's affairs.

And so to the future.

Recently, the Government announced the first details of its proposed Broadcasting Standards Council to be chaired by Lord Rees-Mogg.

I feel I should place on record that my colleagues and I are extremely exercised by the prospect. Whereas we welcome any body which fosters communication between broadcasters and viewers, we must state that, with the exception of the Independent Broadcasting Authority, we categorically oppose any organisation being granted the right to preview television programmes. We therefore anxiously await final clarification of the Council's terms of reference.

Later this year the Government is to publish its White Paper on the future of broadcasting and it is, I believe, appropriate that the Board's views in this regard should be set out at some length.

We are in no doubt that the multiplicity of choice our programming currently makes available to British viewers would be severely eroded if we were forced to compete for advertising revenue simply in order to create a favourable balance sheet. However, past arguments against this position, and there have been many, will surely now evaporate by virtue of a totally new development. This is the recently announced possible fifth television channel which might cover some 70% of the country through the terrestrial transmission system.

The revelation of such a channel's availability must radically alter all previously accepted criteria for the future of commercial television broadcasting in the United

Kingdom. We take the view that it might be introduced as early as 1993 when the extended ITV franchises are due to expire and, in all probability, will screen mass entertainment which is advertising-financed in order to meet unsatisfied demand caused by the present shortage of airtime.

This being so, it will be even more vital that minority interests, unrepresented elsewhere, continue to be served by the one channel which has a statutory duty to do so.

At its inception, Parliament granted Channel 4 a share of all television advertising revenue. The Independent Broadcasting Authority then created a formula which allocated to us, annually in arrears, a fixed 13.6% of the net proceeds from our own commercial breaks and those generated by ITV. (S4C, the Welsh Channel, receives the remaining 3.4% of the total 17% subscription).

The formula ensures that Channel 4 has secure and adequate funding, enabling us to implement an adventurous programme policy which has become, without doubt, the envy of the world. In the current year, our subscription will amount to £181.8 million. Because we are able to maintain low overheads – with a staff of fewer than 400 to run a national network – an unprecedented 90% of this income will be devoted to actual programme making.

In our view, maintaining the existing financial formula unquestionably offers the best opportunity of ensuring that we can continue to provide and develop the vast range of quality options which are currently attracting almost 10% of the country's television audience. Some would argue that the need for peak time news, current affairs programmes and documentaries can be adequately served by the two BBC licence fee funded channels. We are convinced, however, that competition and choice in broadcasting – as in any enterprise – engenders efficiency, excellence and, perhaps even more importantly, an alternative editorial assessment.

In terms of cost effectiveness, we would emphasise that, while Channel 4 enjoys the planning benefits of a guaranteed income, it also more than pays its way. At present the revenue the ITV companies are able to generate by selling our airtime far exceeds the subscription we receive from them under the IBA formula. However, were we to create our own sales force selling in competition with ITV, complementary scheduling would almost certainly disappear with a consequent reduction in Channel 4's audience. As a result the revenue that could be obtained might well be inadequate to fulfil our remit.

In the Board's view a much more appropriate solution would be to apply the subscription formula – by virtue of a new fifth channel – across all additional terrestrial advertising-funded services. Under such an arrangement, any new commercial channels would join ITV in making a positive and valuable contribution to the retention of public service broadcasting in the private sector.

At present Channel 4 is a wholly-owned subsidiary of the IBA. Its Board, however, is autonomous, ensuring an independence which is crucial to the service we are able to offer. In presenting what we believe to be an invincible case for maintaining the status quo, we would add that this independence must remain central to the provision of superb minority broadcasting in this country. Moreover, we are convinced that, were Channel 4 to be privatised, expectations from shareholders seeking ever increasing profits and dividends could also place the remit in jeopardy. Indeed such pressure might result in the channel becoming indistinguishable from any other commercial station competing for the highest audience ratings.

Earlier this month, the Department of Trade and Industry together with the Home Office raised the possibility of transmitting Channel 4 and BBC 2 via the DBS satellite to

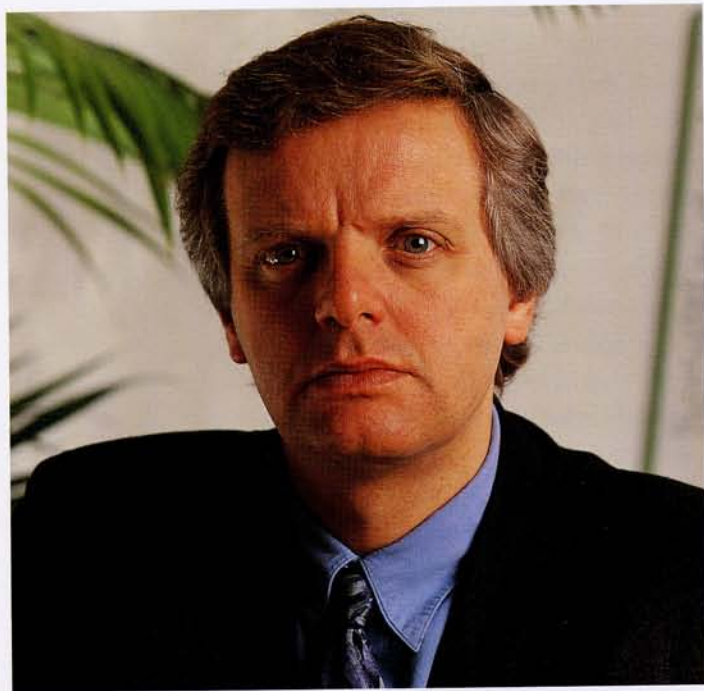
be launched at the end of 1989. In due course, the satellite would take over completely and we would no longer broadcast terrestrially. This, we believe, would create a situation which would be totally incompatible with Channel 4's cherished philosophy of serving all of the people some of the time. At present all United Kingdom households are able to receive our network and, in fact, 92% choose to do so at some point in each month. We do not, however, envisage that anything approaching the same percentage will elect to purchase the necessary equipment to receive satellite transmissions. Therefore, in our view, the result of this proposal would be a reduction in the options open to viewers leading to a loss of advertising revenue, again endangering our remit.

In summary, we wish the Government well in their deliberations. They are faced with a most complex set of equations and, in resolving them, we hope they will accept our arguments and secure the future of a television channel which, through thrift, innovation, specialisation, perseverance and sheer flair, has carved for itself a reputation which has never been surpassed anywhere during the brief but eventful history of this essentially twentieth century medium.

Richard Attenborough

CHAIRMAN
21st June 1988

Chief executive's review



By any yardstick the 1987/88 programmes year has been the channel's most successful. Our programmes won more awards at home and abroad and we enjoyed our best ever share of the audience. It has, in short, been a triumphant final year for the channel's founder Chief Executive Jeremy Isaacs, whom I succeeded in January. The credit for the year's success is due entirely to him and the talented team he led.

Our share of the total audiences on the four channels for the year was 8.8%; and in return for our subscription of 12.0% of the joint advertising revenues of ITV and Channel 4, we attracted 17.4% of the two advertiser funded channels' audience – a most satisfactory result achieved without any diminution of the range of programmes the channel offers.

The awards that Channel 4 programmes have accumulated are listed on pages 19 to 21 of this report. They include 10 awards from the British Academy of Film and Television Arts at their annual ceremonies.

This record number broke the run of BBC domination in recent years.

Were he writing this, I'm sure Jeremy would want to single out just a few of those special programmes that have helped to give the channel its distinctive look and its ever growing reputation. From a rich and varied drama year *LETTER TO BREZHNEV*, *DANCE WITH A STRANGER*, *HEAVENLY PURSUITS*, *CARAVAGGIO*, *A PRIVATE FUNCTION* and *PORTERHOUSE BLUE* stand out. Richard Eyre's film of Tony Harrison's poem *v* caused great controversy but was also good poetry. London Weekend Television provided us with a series of great distinction in *THE MODERN WORLD: TEN GREAT WRITERS*. The most extraordinary event of the year was probably the showing of Claude Lanzmann's nine hour epic documentary *SHOAH*.

DISPATCHES has made a place in the schedule for reportage, investigation or observation from a variety of sources. The *COURT REPORT* reconstruction of the appeal of the Birmingham Bombers again stirred up the controversy associated with this form but again justified the trouble it caused. *FRIDAY NIGHT LIVE* has been the great success of the entertainment output, with the best series yet. The Comic Strip's *THE STRIKE* was the Independent Television nomination and winner of the Montreux Golden Rose this year. William Stewart's quiz *FIFTEEN TO ONE* has proved a splendid companion to *COUNTDOWN*.

CINEMA FROM THREE CONTINENTS has found brilliant films from unexpected sources. Phil Agland's study of the pygmies of Cameroon, *BAKA – PEOPLE OF THE RAINFOREST*, was one of the most remarkable documentaries of this genre to have been seen on television.

The space available does not allow a full list of our programme highlights. But on behalf of our viewers who have enjoyed the varied and alternative choice on offer, I must thank the staff of Channel 4 and all our suppliers, in particular all the independent producers who have proved they can match the BBC and ITV in production quality.

I believe the next years are going to be crucial to the long term health and resilience of Channel 4. Always assuming the next round of Government legislation allows for the channel to continue its unique programme remit, we must go on proving our worth by providing the innovation and the flair and the programmes that other channels or the new marketplace cannot.



Tony Harrison's V



Shoah



The ModernWorld: Ten Great Writers



Friday Night Live



The Comic Strip Presents... The Strike

We will face greater competition than ever before, both from new channels and existing ones. For the first time, the host of independent producers nurtured by Channel 4 will have other markets for their ideas. Channel 4 will not be, and should not be, in a position to outbid rivals. What we must offer instead is speed of reaction to new ideas, and the ability to pick the best new ideas and new producers. We must then put them on the air so they can be noticed, if not first time around, then we must have the courage of our convictions and back the programmes with longer term commitment. We must be the first port of call for talented people with new ideas.

To this end, we have effected a restructuring of the editorial departments. Liz Forgan, who has been with the channel since the start, has been appointed Director of Programmes. Reporting to her will be two Controllers, of Factual Programming and of Arts and Entertainment. Neither of them will have day to day programme commissioning responsibilities thus freeing them to think ahead and plan strategically for our creative needs. We believe this new structure, which will devolve some of the creative responsibility, will put us in better shape than ever to meet the future competition.

In the interests of viewers, we are working more closely with ITV's Programme Controllers' Group to offer a more complementary schedule. This is an important development, since nothing so annoys an audience as a clash of like programmes. We shall retain, of course, our independence but there is room for more mutual "accommodations" in scheduling.

In summary, the channel is in good heart, ready to face any competition, ready to meet the challenges that the future uncertainty brings. We are confident that we have proved that viewers want the choice that Channel 4 offers. I believe we have the structure to achieve that, but more importantly we have the talented TEAM within the channel to turn our revenue into programmes of distinction.

Michael Grade

CHIEF EXECUTIVE
21st June 1988



Letter to Brezhnev



Fifteen to One

Managing director's review

In this year's Report and Accounts, you will see on page 18 a figure of 2.77 pence, described as the cost of Channel 4 per viewer hour. In many senses it is an important measure of the channel's overall performance, and it has appeared each year since the channel's first complete year of transmission. This figure of overall cost effectiveness is obtained simply by dividing the total funding available to Channel 4 – £163.4 million in the year ended 31st March 1988 – by the sum total of all the channel's viewers, multiplied by the hours for which they watched us.

The remarkable stability and the satisfactorily low level of this index across the years is shown in the table on page 18. That table illustrates one of the channel's achievements – that of delivering a wide range of additional choice through terrestrial television to viewers throughout the United Kingdom at costs which compare favourably with those of all other terrestrial channels. All this despite the fact that Channel 4 is required by its remit to deliver sector programming, often of interest to only a relatively small specialised audience.

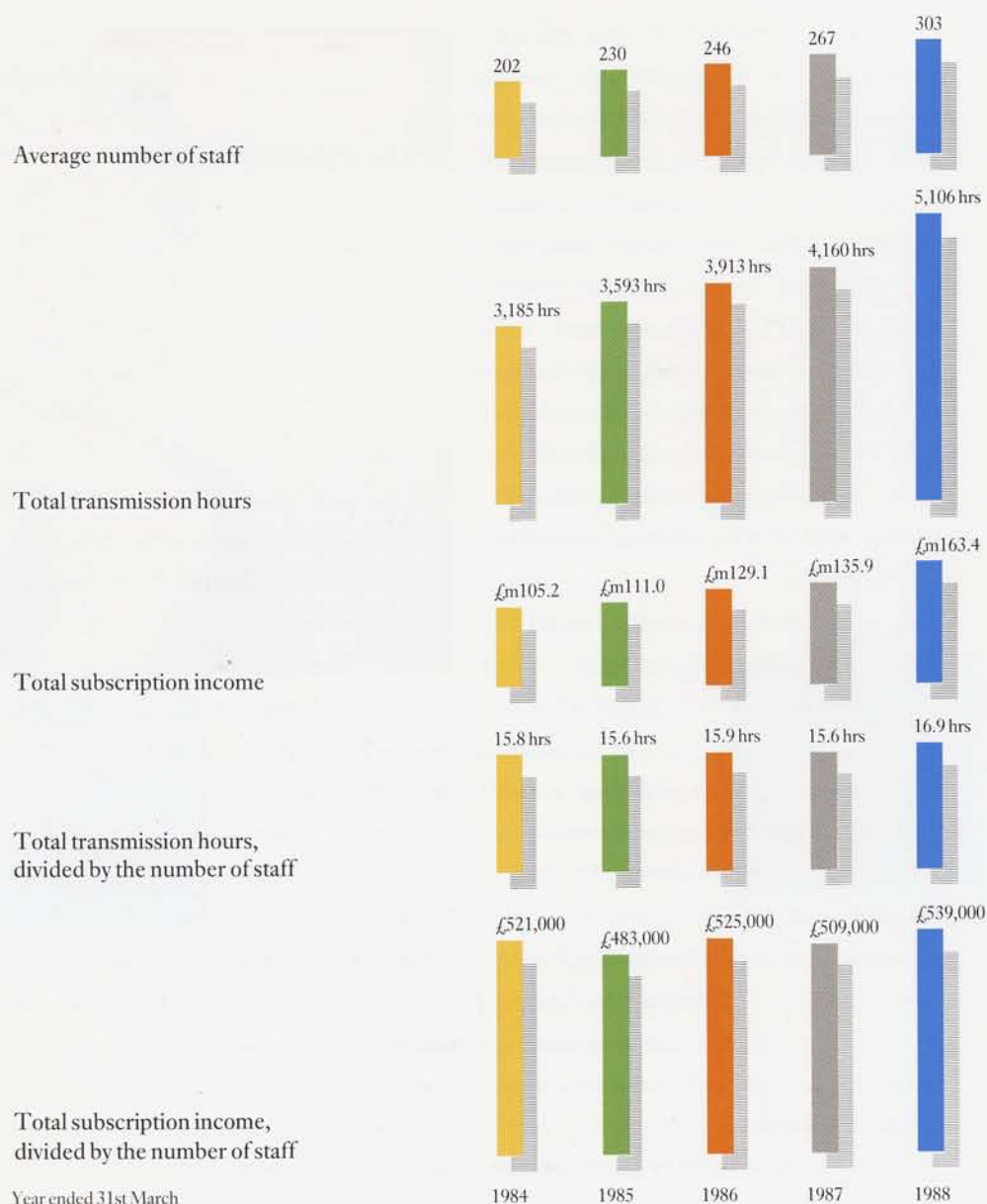
It will undoubtedly be a challenge for those concerned with the management of new broadcasting systems in the future to see if the competition they represent matches Channel 4 in terms of this measure of cost efficiency. It will also be a challenge for the management of Channel 4 to maintain the performance so far achieved in this new, more competitive, environment.

It is good news, therefore, that the Channel 4 management team, which has contributed so effectively to this achievement through good negotiating, sound programme production cost control and high operational



efficiency with low cost overheads, is now fully represented at Board level. The elevation to the Board of David Scott as Director of Finance, Colin Leventhal as Director of Acquisition and Sales, and Frank McGettigan in becoming an executive director on his appointment as General Manager gives Channel 4 the best prospect of maintaining its cost effectiveness and competitive edge, as new eras of communications technology bring their challenges and opportunities.

It is a generally held view that the stimulus of competition is essential to cause managements to operate their businesses efficiently and to the satisfaction of consumers. Channel 4 takes some pride, which I hope will be sustained in the future, in that while required to operate with a programme remit and funding arrangements which do not suggest a basis for conventional competition, it has nevertheless consistently operated with high levels of efficiency and has provided a good, reliable service to the viewers.



Year ended 31st March

The channel has continuously expanded its operations since transmissions started in November 1982. This has necessitated an increase in the number of staff, but has not led to any lowering of efficiency. This can be seen from the chart above.

The channel's management team, which has functioned so well in the seven years since it was brought together, has recently suffered two losses in the departure

of Ellis Griffiths, the channel's Chief Engineer, to British Satellite Broadcasting and latterly, Pam Masters, the channel's Head of Presentation, who has returned to the BBC. The channel is in the process of effecting new appointments to head up these important areas. It will be essential for the channel to sustain a strength and diversity in its management team, so that it can demonstrate resilience and a continued reliable operating ability in the face of the

predictable demand for proven executive talent as all the present and new broadcasting operations are developed.

The channel has, from the earliest days, been particularly open to programmes and ideas from all over the world, but in its relations with the new Europe the channel has a leading role. From the inception of the European Co-production Association, which has brought together the principal public service broadcasters from seven European countries, with the objective of gradually learning how to work together, so that, in some areas of programming at least, European broadcasters may have the economies of scale which American programme producers have for so long enjoyed in their own domestic market, Channel 4 has been a constructive, yet critical partner. As new commercially driven broadcasting interests gather strength, it is vital, if public service broadcasting is to sustain its access to quality and talent, that the channel remains committed to sustain alliances in Europe.

It is a source of considerable satisfaction to the executive team at Channel 4, that the Government, the Home Office and the Independent Broadcasting Authority, have all felt that it is now time to encourage the BBC and the ITV companies to commission on merit a significant proportion of their programme needs from the independent production sector. Channel 4 was initially required to work with the independent production sector, but has, in fact, greatly enjoyed doing so. The standards and procedures which have been set by the channel in its working relationships with the independent production sector have not only encouraged that sector to prove, now to the

satisfaction of all, that it can deliver programmes and films on time, on budget and of high quality, but also to show that it can make a contribution to the export market for United Kingdom programmes and films in Europe and the rest of the world.

During the year the channel substantially increased its film and television programme sales turnover, with an improved profit performance. This growing activity contributes valuable additional funds for further film and programme production. Two distinct marketing operations, Film Four International and Channel 4 International, structured as internal divisions of the channel, now handle (together with external approved distributors) the selling of Films on Four and the television programmes commissioned by the channel from the independent production sector.

On the matter of software, another significant area of achievement was created by the channel's remarkable engineering and computer staff who have played an important role in the development and supply of computer-aided transmission systems all over the world. Again it is a matter of considerable satisfaction, that, notwithstanding the loss of some key personnel, the channel is committed to maintain its position at the leading edge of broadcasting technology.

The channel is a clear manifestation of public service broadcasting at its best and takes great satisfaction from meeting the requirements of Parliament with success and efficiency.

Justin Dukes

MANAGING DIRECTOR AND
DEPUTY CHIEF EXECUTIVE
21st June 1988

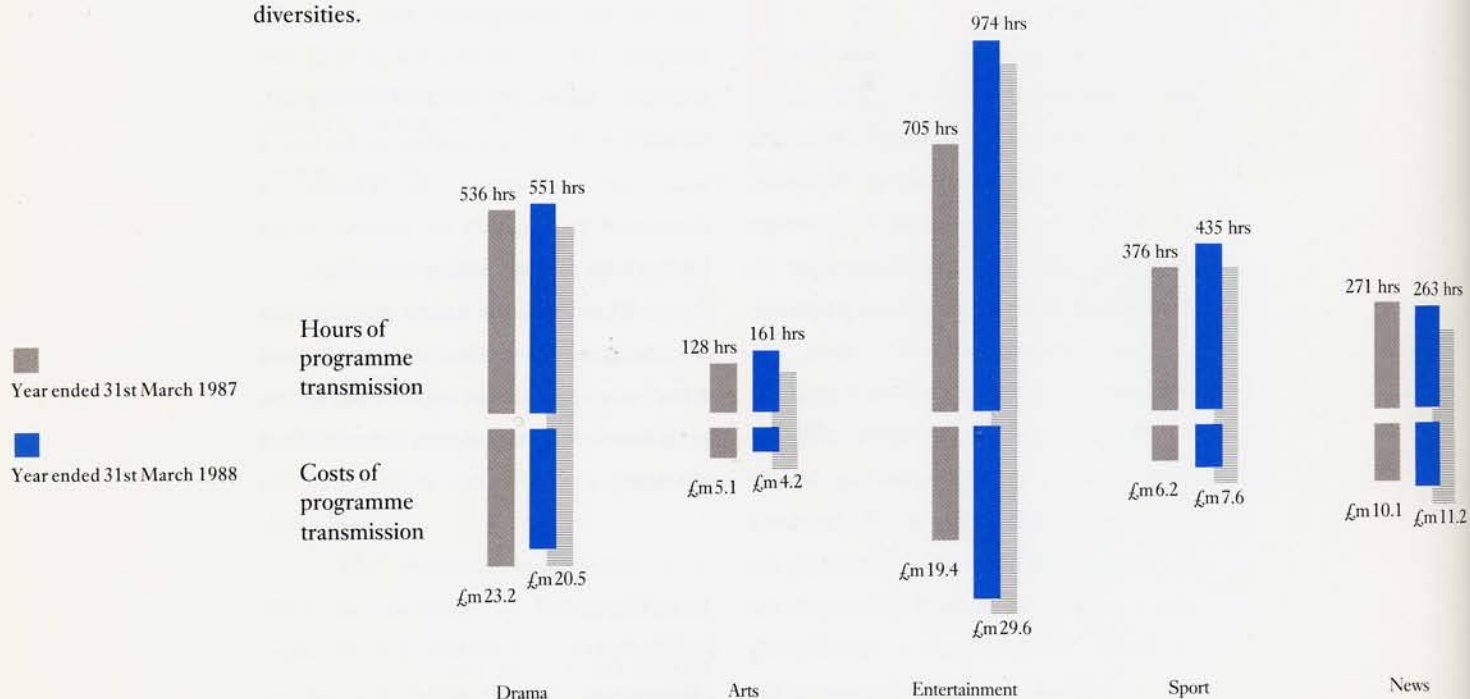
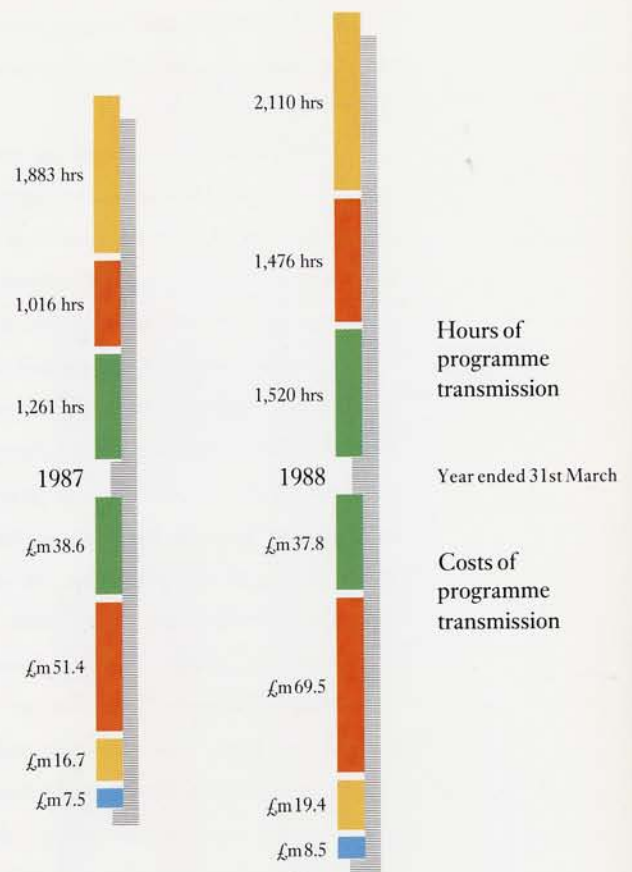


Programme transmissions

SOURCES

In the year to 31st March 1988 the channel transmitted for 5,106 hours (1987: 4,160 hours) – an average of 98 hours per week (1987: 80 hours per week). Channel 4 commissions programmes from the ITV companies and independent producers, and purchases programmes in the international markets. The sources and costs of the programmes transmitted were as shown in the chart alongside.

The programme policy statement promulgated by the IBA in December 1980 stated that, in order to achieve an appropriate balance of output, the channel would need to observe a balance between different sources of supply. The statement welcomed the positive injunction given by Parliament to encourage the work of independent producers. It also expected the regional companies within ITV to make a due contribution to the channel's programme schedules. Though a national network, the channel is charged to reflect regional diversities.



In the year to 31st March 1988, the ITV companies and ITN provided 30% (1987: 30%) of Channel 4's total hours of programme transmissions for 28% (1987: 34%) of the channel's programme transmission costs. Independent producers provided 29% (1987: 25%) of the total hours of programme transmissions for 51% (1987: 45%) of the channel's programme transmission costs.

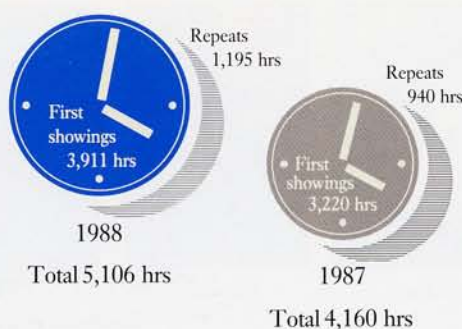
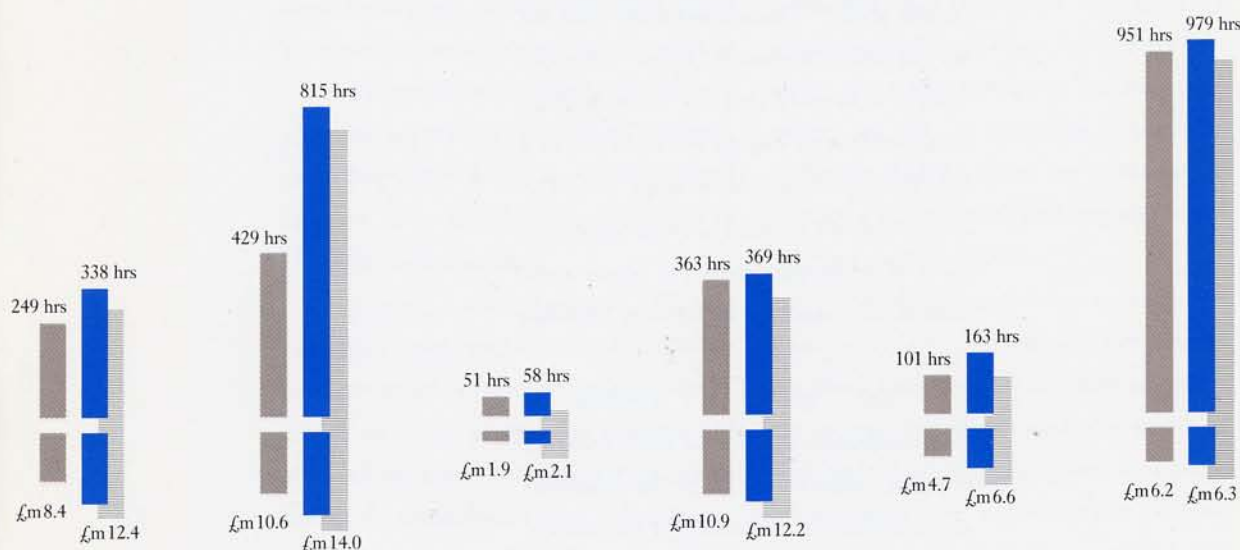
The programme policy statement requires the channel, in making its financial arrangements, to ensure that so far as possible the same terms apply to all programme suppliers. The overall cost per programme hour from the ITV companies might appear to be less than for programmes from the independent producers, but this is simply because the ITV companies produce the majority of the channel's cheaper studio based programmes, whereas the independent producers provide the majority of the drama programmes and the more expensive location productions.

Commissioned programmes (including repeats)
ITV Companies and ITN

Commissioned programmes (including repeats)
Independent producers

Purchased programmes
Acquired material and feature films

Programme related costs



CATEGORIES

The channel transmits a wide range of programmes, analysed in the chart below. These programmes divide between first showings and repeats as shown in the charts above.

Programmes repeated on the channel may be either programmes which were first shown on the channel or first shown on ITV. In the year to 31st March 1988, 297 hours (1987: 299 hours) of the repeated programmes were programmes first transmitted on ITV. Repeat hours exclude feature films and other acquired material which might have been broadcast previously on either ITV or the BBC.

Audience: "Television to talk about"

"Television to talk about" is the catchphrase for the poster campaign Channel 4 launched in May 1988, after the end of this financial year. But it neatly encapsulates what the channel's new advertising agency has perceived as a distinctive quality in the public response to the channel and its programmes.

Audience response is not just a matter of numbers, although the quality of interest in the channel may help to explain how it has managed to buck the downward trend in TV viewing and actually increase the amount of viewing, by 12 minutes per week, at a time when viewers overall were watching less TV; 40 minutes less each week.



Woman in View



After Dark



The Struggles for Poland



Dispatches



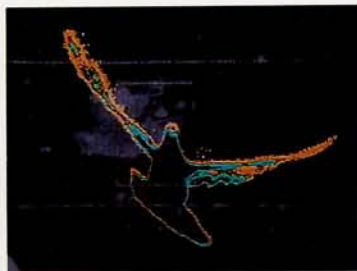
Equinox

Channel 4's programmes do get "talked about" – sometimes more than the size of their audiences might otherwise warrant – because they are often original, controversial and engage the audience in a way that much television does not. The channel has always tried to avoid blandness: much of its programming will please some viewers very much at the risk of repelling others.

The result is certainly a disproportionate amount of press coverage even by comparison with the channel's growing share of audience; the response of ordinary viewers can be gauged from the letters, phone calls and contributions in the growing network of Video Boxes around the country.



The Victorian House



A TV Dante



Business Daily



Network 7



Gnostics



The Last Resort with
Jonathan Ross

In the past year, NETWORK 7 managed to attract a new audience to Sunday lunchtime with a quite new kind of current affairs format for young people, that did not rely on a bed of pop music for its appeal. It attracted attention both for the originality of its fast-paced style and of much of its journalism, recognised by its BAFTA award for originality.

AFTER DARK, the live, open-ended late night discussion programme avoids all the devices that are necessary elsewhere to fit discussion into a place in the TV schedule. While it can never perhaps gain the maximum audience, even for its late-night slot – it always attracts considerable response to the various viewpoints in each discussion, and it also won unanimous praise from the press, as “one of the most inspired and effective uses of airtime yet devised” (*Guardian*), while the *Daily Telegraph* reckoned it was “considered by many to be the only true innovation in night-time broadcasting”.

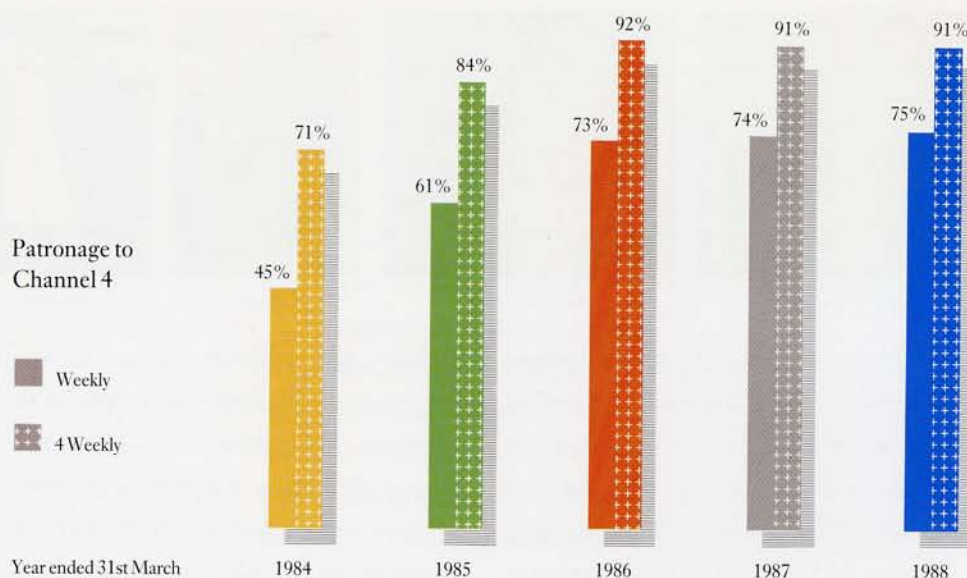
During the General Election campaign, the channel attracted attention for its three-minute COMMENT programmes by groups of voters around the country, and above all for CAMPAIGN CHALLENGE, about which “the revolutionary thing”, according to Richard Last in the *Daily Telegraph* was “the fact that it allowed politicians to be seen speaking to *each other*” (his italics).

Many other serious programmes also

attracted the maximum of praise and attention from modest yet clearly appreciative audiences. The diversity of subjects and styles of the science and technology strand EQUINOX owes much to its reliance on commissioning individual programmes from different companies. It has now been joined by DISPATCHES, a new series swiftly hailed as a “showcase for some excellent journalism” (*Time Out*), which boldly applies the same commissioning principle to the logistically more complex area of topical current affairs. There was praise and controversy too for the channel’s latest attempt to define and address women’s issues on TV, WOMAN IN VIEW.

The new daily programme of business news, BUSINESS DAILY, can only attract a small measurable audience in its lunchtime slot – those who manage to watch in their offices are not, by definition, measurable under the BARB system, but it has swiftly become a forum for the first response to the morning’s news in the City.

Not all arts programmes raise as much controversy as v, Tony Harrison’s reading of his poem which uses the language of graffiti for its reflection on the kind of people who had daubed his parents’ graves – a poem whose power and style deserved a public performance rather than private reading. But A TV DANTE was a pilot for a quite original way of making television out of a great classic of world literature.



The very act of scheduling *SHOAH* across two whole evenings, and of the Japan season, a cluster of Japanese TV programmes across a month, attracted comment and praise, apart from the considerable merits of the programmes themselves.

Another way of judging viewers' engagement with programmes is the demand for follow-up material, not just in some excellent education programmes such as *THE VICTORIAN HOUSE*, but in the place on the best-seller lists of Neal Ascherson's book (hardly a coffee-table contender) of the Channel 4 series *THE STRUGGLES FOR POLAND*, which itself won as many as a million viewers – and much controversy among parts of the Polish community. The enormous response to *THE MODERN WORLD: TEN GREAT WRITERS* was predicted, but the sell-out by Christmas of the book of the religious series *GNOSTICS* was more surprising.

This impact is hardly confined to programmes giving intense pleasure to a tiny minority. The *FILM ON FOUR* season that concluded in spring 1987 got its largest

audiences yet, often for films that were in style or content the most controversial, such as *LETTER TO BREZHNEV*.

In comedy, *THE COMIC STRIP* gained some of their largest and most fervent response, particularly with *THE STRIKE*, whose wicked spoof of Hollywood styles was later to win the channel its first Golden Rose in the Montreux Festival. And Harry Enfield's "Loadsamoney" in the latest season of *FRIDAY NIGHT LIVE*, proved the first popular national catchphrase to be born on Channel 4. Jonathan Ross's continuing success in *THE LAST RESORT* confirms the channel's ability to nurture new stars. And in sport, the ability of American Football to fill Wembley to capacity is perhaps the most visually graphic display of the national enthusiasm for the sport which was fostered in the United Kingdom entirely by Channel 4's coverage.

As disposable incomes rise, people with more ready money tend to go out rather than stay in and watch television, and television viewing declines; in the year to 31st March 1988 down by an average of 40

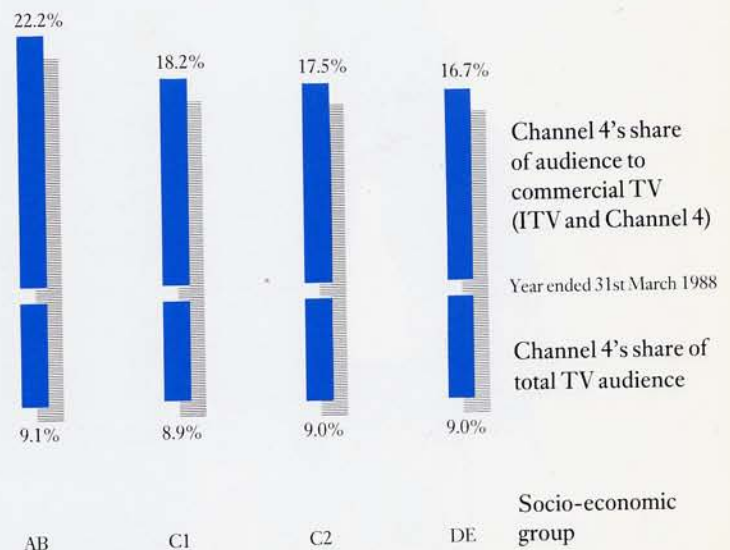
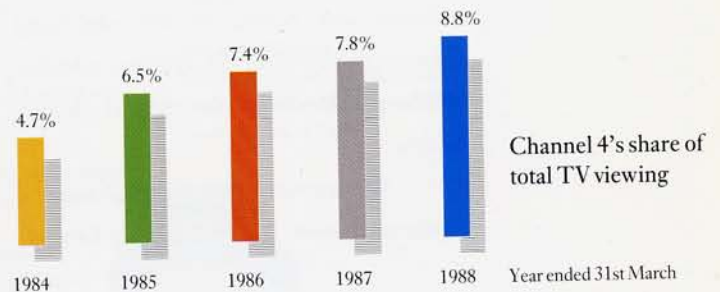
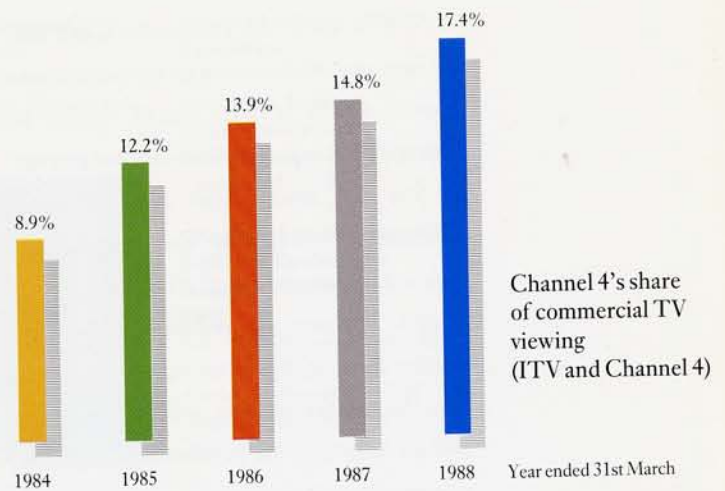
minutes per week to 25 hours 10 minutes per week, which is still more than most other countries in the world.

So it is very satisfying that the channel should not just have kept its audience but actually managed to attract more viewing – up 12 minutes to an average of 2 hours 13 minutes per week – indicating perhaps that viewing Channel 4 is likelier to be a positive act, rather than simply a way of passing time.

This increased viewing of Channel 4, coupled with the overall reduction in TV viewing, produced a significant increase in audience share, up a whole percentage point, from 7.8% in the year to 31st March 1987 to 8.8% and even higher, to 9%, among the adult population over the age of 15.

When the channel started, its audiences were small, but it was more readily able to attract younger and more upmarket people. As its audience grew, it was feared that Channel 4's profile would become older and more downmarket, as its audience was swelled by those who traditionally watch more TV. But so far this problem has been avoided, and the channel's 9% share of all adult viewing is fairly even across all social groups.

Since ITV has suffered a large part of this reduction in TV viewing, the channel's share of viewing on the two commercial channels has increased, in the last year, even more dramatically, from 14.8% to 17.4%. And the differences between social groups in their preferences for the two commercial channels are more marked: among viewers in the AB socio-economic groups, 22.2% of their time watching the two commercial channels was devoted to Channel 4, whereas viewers in the DE group spent more of their time with ITV and only spent 16.7% of their commercial viewing time with Channel 4.



The 16-24 age group, who watch less TV than any other section of the population, devoted 10.4% of their overall viewing to Channel 4 (as opposed to the national average of 9% for adults) and 21% of their commercial viewing to the channel (as opposed to the average of 17.8% among all adults). The only age groups who devote a smaller share of their viewing to Channel 4 than the national average, are 4-15 year olds and the over-65s, the heaviest viewers in the community, but both these groups are well catered for by other channels.

The continuing and growing strength of Channel 4 among AB adults and the 16-24 age group is complementary to ITV's audience and helpful to the advertising industry in providing an efficient editorial environment to reach the lightest viewing groups.

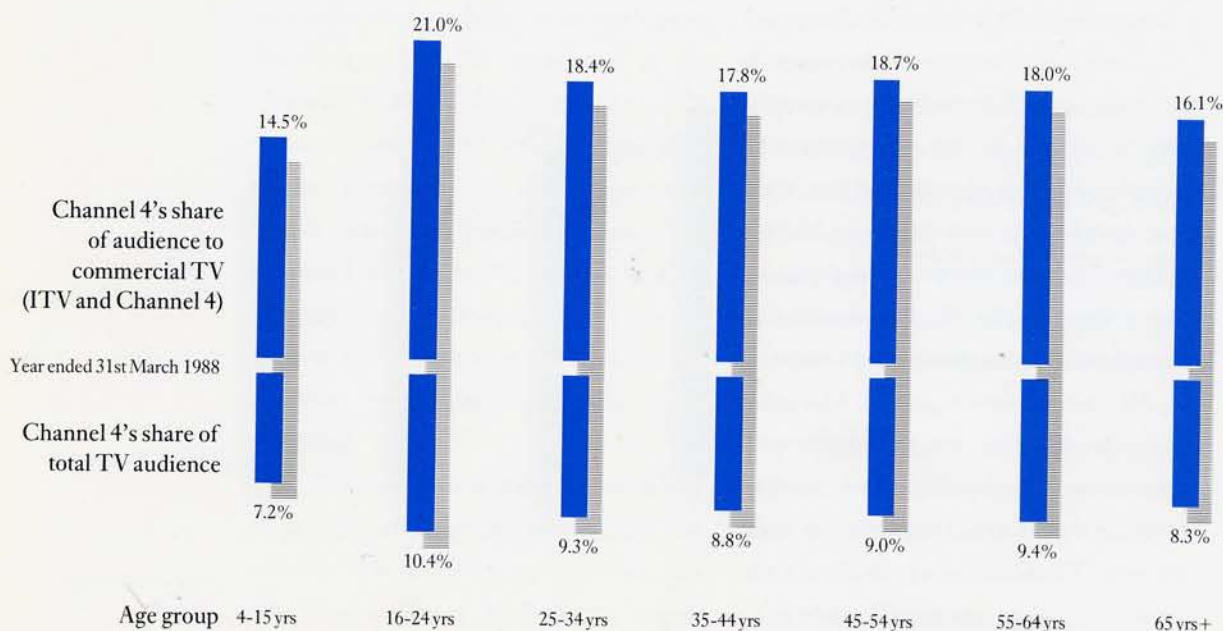
The audience watching Channel 4 continues to grow. The relationship between

the audience and the total cost of the channel may be analysed as follows:

Year to 31st March	1985	1986	1987	1988
Total number of viewer hours for Channel 4 programmes (millions)	4,331	5,178	5,368	5,900
Total cost of Channel 4 (£m)	111.0	129.1	135.9	163.4
Cost per viewer hour (pence)	2.56	2.49	2.53	2.77

Once again the revenue that ITV took on Channel 4 outstripped the total subscription that the ITV companies paid for Channel 4. The channel's revenue from subscriptions for the year was £163.4 million, 12% of the revenue taken on ITV and Channel 4.

The Channel 4 airtime was sold for £213.3 million, which is 15.6% of the combined income. Both these figures should be compared with Channel 4's share, 17.4%, of all commercial viewing for the year ended 31st March 1988.



Awards for Channel 4 programmes

Received in the year ended 31st March 1988

Acceptable Risk

John Gau Productions
Special Eye Award: Ecovision '87,
Birmingham, UK 1987.



Behind the Mask

The Belle of Amherst

Thames Television
Performing Arts Award:
International Emmy Awards, New
York, USA 1987.



The Black Dog

Channel 4 News – King's Cross Fire

ITN
News Home Award:
Royal Television Society
Journalism Awards 1987,
London, UK 1988.

Channel 4 News – Special Edition: Zeebrugge Disaster Coverage

ITN
Best News and Outside Broadcast
Coverage:
British Academy of Film and
Television Arts, Film & TV
Awards 1987, London, UK 1988.

Animating Art

Imogen Sutton Productions
Silver Plaque (Documentary):
Chicago International Film
Festival, USA 1987.

The Black Dog

Lee Stork
Prix Fipresci; Prize for Television
Film: International Animated
Film Festival, Annecy, France
1987.

Chasing a Rainbow: The Life of Josephine Baker

Csaky
Distinguished Documentary
Achievement Award:
International Documentary
Association, Los Angeles, USA
1987.

Art Blakey: The Jazz Messenger

Central Television
1st Prize, Best Jazz Biography:
5th International Competition
& Review of Jazz Films, Wroclaw,
Poland 1987.

Born of Fire

Dehlavi Films
Gold Award (Special Jury Prize):
Houston Film Festival, USA
1987.
1st Prize (Genre Section): Madrid
Film Festival, Spain 1987.

Closed Circuit

Nicholas Granby Productions
Best Short Film: Barcelona Film
Festival, Spain 1987.

An Audience with Peter Ustinov

London Weekend Television
Gold Medal (TV Entertainment
Programmes): International Film
& TV Festival of New York, USA
1987.

Business as Usual

London Cannon Films
Prix du Jury: International
Festival of Women's Films,
Creteil, France 1988.

Baka – People of the Rain Forest

Dja River Films
Flaherty Documentary Award:
Best Film Cameraman (TV) – Phil
Agland: British Academy of Film
and Television Arts, Film & TV
Awards 1987, London, UK 1988.
Award of the Royal
Anthropological Institute, London,
UK 1988.

Behind the Mask: Perspectives on the Music of Harrison Birtwistle

Artifax
Regione Veneto Prize:
Prix Italia, Vicenza, Italy 1987.



Porterhouse Blue

Crime Pays

Thread Cross Film
Laser d'Or (for particular contribution to development of video art and new images): 40th International Film Festival of Locarno, Switzerland 1987.

Equinox: Now Eat This

London Scientific Films
Technology Award (TV): British Association for the Advancement of Science, Film & TV Awards, London, UK 1988.

A Month in the Country

Euston Films/Thames Television
Silver Award (Main Competition): Bergamo Film Festival, Italy 1987.
Grand Prix: Brussels International Film Festival, Belgium 1988.



Equinox: Now Eat This



Network 7



Baka – People of the Rain Forest

The Debt

Mainframe Films
Silver Bear: Berlin International Film Festival, West Germany 1988.

Dispatches – Aids: The Unheard Voices

Meditel
Current Affairs International Award: Royal Television Society Journalism Awards 1987, London, UK 1988.

Down Home

Película Films
Best Entertainment Award: 8th International Festival of Films & TV in the Celtic Countries, Inverness, UK 1987.

East of the Moon

Grasshopper Productions
Best Children's Programme Award: 9th International Festival of Films & TV in the Celtic Countries, Caernarfon, UK 1988.

Elphida

Working Title
UNDA Award: International Television Festival of Monte-Carlo, Monaco 1988.

EP Sculptor

Everallin
Best Art Film: Television and Radio Industries Club Awards, Glasgow, UK 1988.

Girls' Night Out

Joanna Quinn
Prix Ufoleis; 2nd Jury Prize: International Animated Film Festival, Annecy, France 1987.

Hope and Glory

Goldcrest
Best Film – John Boorman; *Best Technical Achievement* – Anthony Pratt: Evening Standard Awards, London, UK 1988.
Best Actress in a Supporting Role – Susan Wooldridge: British Academy of Film and Television Arts, Film & TV Awards 1987, London, UK 1988.

The Kitchen Toto

Skreba Productions
Most Promising Newcomer – Harry Hook: Evening Standard Awards, London, UK 1988.

The Lowest of the Low

Igelfilm GmbH
Special Award for Foreign Documentary – Georg Gfrörer, Gunter Walraff: British Academy of Film and Television Arts, Film & TV Awards 1987, London, UK 1988.

Mr Skeeter

Children's Film Unit
Danube Prize: Prix Danube, Bratislava, Czechoslovakia 1987.

My Beautiful Laundrette

Working Title
Best Original Screenplay – Hanif Kureishi: 59th Annual Academy Awards, Los Angeles, USA 1987.

Network 7

Sunday Productions
Special Award for Originality: British Academy of Film and Television Arts, Film & TV Awards 1987, London, UK 1988.

The Paradox of the Papacy

Antelope Films
1987 Documentary Award: XII Acapulco World Festival, Mexico 1987.

Porterhouse Blue

Picture Partnership Productions
Drama Award: International Emmy Awards, New York, USA 1987.
Best Actor (TV) – David Jason; *Best Original Music (TV)* – Christopher Gunning, Rick Lloyd: British Academy of Film and Television Arts, Film and TV Awards 1987, London, UK 1988.

Prick Up Your Ears

Zenith Productions
Best Artistic Contribution for Music Score – Stanley Myers: Cannes International Film Festival, France 1987.
Best Screenplay – Alan Bennett: Evening Standard Awards, London, UK 1988.

QAF

Dehlavi Films
Best of Festival; Best Environmental Film: Jackson Hole Mountain Film Festival, Wyoming, USA 1987.

The Sacrifice

Swedish Film Institute
Best Foreign Language Film – Analena Wibon: British Academy of Film and Television Arts, Film & TV Awards 1987, London, UK 1988.

The Tree of Liberty

Timothy Neat Films
Best Documentary Award: 8th International Festival of Film & TV in the Celtic Countries, Inverness, UK 1987.

What If It's Raining?

Limehouse Productions
Award of Merit, Best Drama Production: Television Movie Awards, Mt Freedom, New Jersey, USA 1987.

When the Wind Blows

Meltdown
Prize for Feature-length film: International Animated Film Festival, Annecy, France 1987.

Wish You Were Here

Working Title/Zenith Productions
International Critics Federation Award: Cannes International Film Festival, France 1987. François Truffaut Award (for Best first film): 32nd Valladolid Award, Spain 1987. Silver Dolphin (for Best first work): Troia International Film Festival, Portugal 1987. Best Actress – Emily Lloyd; Peter Sellers Award for Comedy – David Leland: Evening Standard Awards, London, UK 1988. Best Screenplay (Original) – David Leland: British Academy of Film and Television Arts, Film and TV Awards 1987, London, UK 1988.

Channel 4 Television

Roberto Rossellini Award to Channel 4 for its 'contribution to the progress of cinema in the past year': Cannes International Film Festival, France 1987.

The Storyteller: Hans My Hedgehog

TVS/Jim Henson Productions
1987 Children's Programming Award: XII Acapulco World Festival, Mexico 1987.

Sweet Disaster: Babylon

Aardman Animations/Occam
Prix Special: Varna '87, 5th World Animation Film Festival, Bulgaria 1987.

Sweet Disaster: Dreamless Sleep

Occam
Hiroshima Prize: 2nd International Animation Festival, Hiroshima, Japan 1987.

Talking to the Enemy

Sered Films
Prix du Public (Full length section); Special Mention (by the Jury of the A.F.J.): International Festival of Women's Films, Creteil, France 1988.

There is a Happy Land

Freeway Films
Spirit of the Festival Award: 8th International Festival of Film & TV in the Celtic Countries, Inverness, UK 1987.

Reefer and the Model

Berber Films
Main Feature Prize: 9th International Festival of Films & TV in the Celtic Countries, Caernarfon, UK 1988.

Rocinante

Cinema Action
Independent Cinema Section Prize: Madrid International Film Festival, Spain 1987.

A Room with a View

A Room With A View Productions
Best Screenplay – Ruth Praver Jhabvala: Best Art Direction – Brian Ackland-Snow; Best Costume Design – Jenny Beavan, John Bright: 59th Annual Academy Awards, Los Angeles, USA 1987.

Wish You Were Here



Income from the IBA and programme payments

ITV COMPANIES

The funding arrangements are referred to in the Chairman's statement and in the Directors' Report. The subscriptions derived by the IBA from the ITV companies are set out below. The ITV companies have the right to sell advertising on Channel 4 and retain the proceeds. The ITV companies also produce programmes for Channel 4 – for which the channel pays negotiated market prices.

Year ended 31st March 1988	Subscription received by the IBA	Programme payments by Channel 4
	£m	£m
Anglia	12.5	0.41
Border	0.2	0.75
Central	29.1	1.80
Channel	0.1	0.04
Grampian	0.4	—
Granada	23.7	2.63
HTV	13.7	0.68
London Weekend	24.1	7.70
Scottish	12.6	0.46
Television South	22.5	1.30
Television South West	3.4	0.18
Thames	33.2	3.94
Tyne Tees	8.1	0.61
Ulster	0.5	0.21
Yorkshire	19.3	2.54
ITN	—	12.14
ITV Sport	—	4.29
	<u>203.4</u>	<u>39.68</u>
Less amount paid by the IBA to the Welsh Fourth Channel Authority	(40.0)	—
Channel 4's subscription received from the IBA and programme payments made to ITV companies	<u>163.4</u>	<u>39.68</u>
Net advertising revenue obtained by ITV from the sale of Channel 4's air-time	<u>213.3</u>	
Net advertising revenue obtained by ITV from the sale of S4C's air-time	<u>3.5</u>	

Source: The division of the subscription payments made by each of the ITV companies has been advised by the IBA.

The figures for payments from Channel 4 to the ITV companies for programmes include payments made to those companies' subsidiaries.

INDEPENDENT PRODUCERS

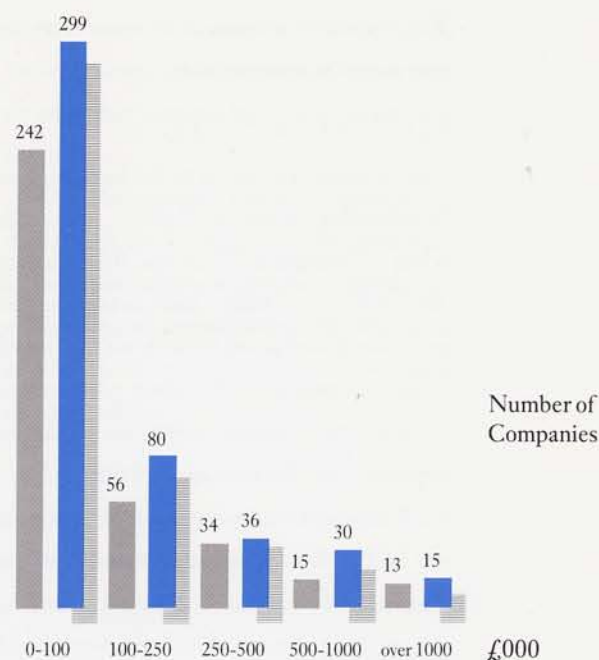
In the year to 31st March 1988, Channel 4 made programme payments to 460 independent production companies (1987: 360 companies). The chart alongside sets out the number of companies which received programme payments from the channel in each of the various bands.

In the year ended 31st March 1988 the following independent production companies received payments, for a variety of programmes, amounting in total to more than £1 million:

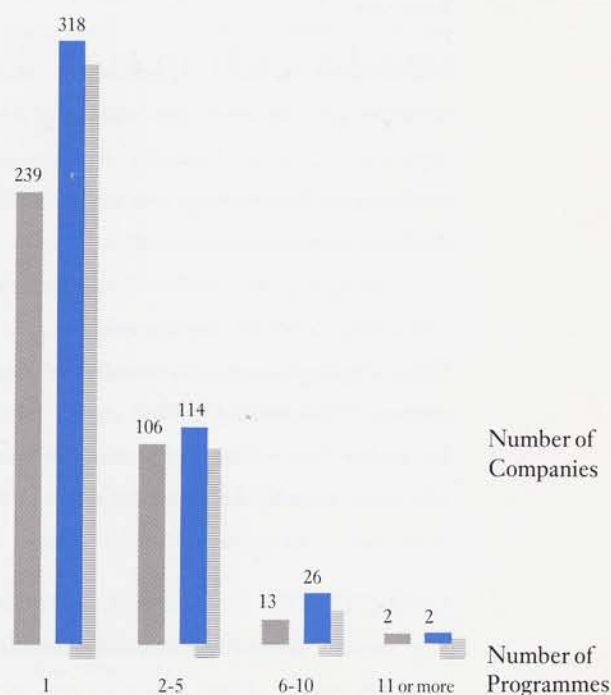
Bandung Productions
Brook Productions (1986)
Brookside Productions
Business Television
The Callender Company
Chatsworth Television
Cheerleader Productions
Comic Strip Productions
Diverse Productions
Panoptic Productions
Picture Palace Productions
Regent Productions
Skreba Productions
Video Visuals Productions
Working Title Productions

The channel trades with a large number of small independent production companies, many of which produce only one programme or series at a time.

The chart on the right shows the number of programmes or series of programmes for which the channel has made payments to individual independent production companies. The chart includes long running strands of programmes as one programme series. The BROOKSIDE series, of which two episodes are transmitted each week, is therefore shown in the chart as one series.



■ Year ended 31st March 1987
■ Year ended 31st March 1988



Directors' report

The Directors present their report for the year ended 31st March 1988.

PRINCIPAL ACTIVITIES

The company was set up by the Independent Broadcasting Authority ("IBA") under the terms of Section 12(2) of the Broadcasting Act 1981 to obtain and assemble the necessary material and to carry out such other activities involved in providing programmes for the fourth channel television service as appears to the IBA to be appropriate.

A review of the business for the year is set out in the Chairman's statement on pages 3 to 5.

RESULTS

The company derives its income from the IBA and in the year ended 31st March 1988 received £163.4 million. The amounts paid by the IBA are funded from subscriptions received by the IBA from the ITV companies.

This income is used to acquire the company's programme and film rights for transmission, and to finance capital and overhead expenditure. The balance of this income, after costs of programme transmissions and operational and administrative expenses, thus represents the principal means of financing the capital employed by the company, and is treated as deferred income in the accounts.

Funding of £181.8 million for the year to 31st March 1989 has been agreed with the IBA. Funding for the remainder of the current ITV contract period up to 31st December 1992 will be not less than 13.6 per cent of the net advertising revenue of the ITV companies in the previous year.

DIRECTORS

The present directors of the company are listed on page 2. Three executive and one

non-executive director were appointed to the board since 1st April 1987 as shown on that page.

The Rt. Hon Edmund Dell was Chairman until the completion of his term on 30th June 1987. Jeremy Isaacs was Chief Executive until his resignation on 31st December 1987. He served as a non-executive director until 31st March 1988. Paul Bonner was an executive director and Controller of Programmes until his resignation on 31st May 1987. Jennifer D'Abo and Michael Scott were non-executive directors until their resignations on 26th November 1987. Paul Fox was a non-executive director until his resignation on 15th March 1988.

All other directors served throughout the year.

Frank McGettigan and David Scott have been appointed as executive directors of the company with effect from 1st July 1988.

DIRECTORS' INTERESTS

None of the directors has any interest in the shares of the company.

As indicated in the list on page 2, a number of directors are also directors of companies which supply programmes to the company, and to that extent are also interested in the contracts of the company. In addition, note 21 to the accounts gives the information required to be disclosed in relation to material interests of one director in contracts with the company.

FIXED ASSETS

Movements of fixed assets during the year are set out in note 7 to the accounts.

RESEARCH AND DEVELOPMENT

During the year the computerised transmission system has been developed further and sales of that software to other

broadcasters have continued at a modest level. The results of this activity are included in note 5 to the accounts. The company also devoted substantial resources to the development of scripts and programme outlines for possible commissioning. Development expenditure, incurred in the year on scripts and programmes not commissioned for production by 31st March 1988, amounted to £1,431,000 (1987: £887,000).

EMPLOYEE INVOLVEMENT AND CONSULTATION

There are a number of ways in which the company informs and consults with its employees:

a) through normal collective bargaining with trade unions. Approximately half of the company's employees are in membership of one of four recognised trade unions:

BETA (for clerical and studio staff)

ACTT (for engineering and presentation staff)

EETPU (for plumbers and electricians)

Equity (for continuity announcers)

b) regular departmental meetings where information is disseminated and staff have an opportunity to air views;

c) biannual staff meetings, where the Chief Executive and the Managing Director give presentations on the company's progress and future and all staff are encouraged to ask questions; and

d) departmental presentations on their activities, open to all staff.

EMPLOYMENT POLICY

The company is an equal opportunities employer. It does not discriminate on the grounds of race, sex, religion, physical handicap or marital status in its recruitment

or other employment policies. The company has established an ethnic monitoring system for its recruitment and the ethnic composition of its staff.

Disabled people, whether registered as such or not, are fully and fairly considered for all vacancies arising within the company and are given equal opportunities with other staff in relation to training, career development and promotion.

AUDITORS

Coopers & Lybrand have expressed their willingness to continue in office in accordance with Section 384 of the Companies Act 1985. A resolution proposing their reappointment as auditors will be put to the members at the Annual General Meeting.

By Order of the Board

D. R. A. Scott

SECRETARY
21st June 1988

Report of the auditors

To the members of Channel Four Television Company Limited

We have audited the accounts on pages 26 to 38 in accordance with approved Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31st March 1988 and of its results and source and application of funds for the year then ended and comply with the Companies Act 1985.

Coopers & Lybrand

CHARTERED ACCOUNTANTS
21st June 1988 London

Income and expenditure account

Year ended 31st March	Notes	1988 £000	1987 £000
Income from the IBA	1(b)	163,400	135,870
Cost of programme transmissions	1(b)	(135,183)	(114,158)
		28,217	21,712
Operational and administrative expenses	2	(17,158)	(15,989)
		11,059	5,723
Transfer to deferred income	1(b)	(11,059)	(5,723)
Other income less expenditure	1(b), 5	2,358	1,307
Less taxation thereon	6	(828)	(450)
Surplus for the year	1(b)	1,530	857

The notes on pages 29 to 38 form part of these accounts

Report of the auditors – page 25

Statements of movements on the deferred income account and income and expenditure account are given in notes 14 and 15 on page 36.

Balance sheet

As at 31st March	Notes	1988 £000	1988 £000	1987 £000	1987 £000
Fixed assets					
Tangible assets	1(c), 7		8,603		9,130
Investment and loans	8		—		—
			8,603		9,130
Current assets					
Programme and film rights	1(b), 1(d), 9	80,280		69,097	
Debtors	10	7,479		10,960	
Cash at bank and in hand		7,240		869	
		94,999		80,926	
Creditors					
Amounts falling due within one year	11	(11,454)		(10,711)	
Net current assets			83,545		70,215
Total assets less current liabilities			92,148		79,345
Provision for liabilities and charges					
Deferred tax	12		(214)		—
			91,934		79,345
Capital					
Called up share capital £100	13		—		—
Deferred income	1(b), 14		89,467		78,408
Income and expenditure account	1(b), 15		2,467		937
			91,934		79,345

Sir Richard Attenborough
Michael Grade
DIRECTORS

These accounts were approved by the Board of Directors on 21st June 1988.

The notes on pages 29 to 38 form part of these accounts.

Report of the auditors – page 25.

Source and application of funds

Year ended 31st March	1988 £000	1988 £000	1987 £000	1987 £000
Source of funds				
Income from the IBA, less cost of programme transmissions and administrative expenses	11,059		5,723	
Surplus on other income less expenditure before taxation	<u>2,358</u>		<u>1,307</u>	
		13,417		7,030
Adjustment for items not involving the movement of funds:				
Depreciation of fixed assets	1,950		2,066	
Provision against loans (see note 8)	300		425	
Net loss/(profit) on sale of fixed assets	<u>2</u>		<u>(29)</u>	
		2,252		2,462
Total from operations		15,669		9,492
FUNDS FROM OTHER SOURCES				
Sale proceeds of fixed assets		<u>19</u>		<u>136</u>
Total sources of funds		15,688		9,628
Application of funds				
Tax paid	(479)		(22)	
Purchase of fixed assets	(1,444)		(1,995)	
Investment and loans	<u>(300)</u>		<u>(350)</u>	
		(2,223)		(2,367)
		<u>13,465</u>		<u>7,261</u>
Change in working capital				
Increase in programme and film rights		11,183		6,413
(Decrease)/increase in debtors		(3,481)		1,706
(Increase) in creditors, excluding taxation		<u>(608)</u>		<u>(1,559)</u>
		7,094		6,560
Movement of net liquid funds:				
Increase in bank and cash balances		<u>6,371</u>		<u>701</u>
		<u>13,465</u>		<u>7,261</u>

Report of the auditors –
page 25

Notes to the accounts

Year ended 31st March 1988

Note 1 Principal accounting policies

(a) ACCOUNTING CONVENTION

The accounts have been prepared under the historical cost convention.

(b) INCOME AND EXPENDITURE ACCOUNT

(i) INCOME:

a) Income from the IBA: Income from the IBA is credited to the income and expenditure account when it is received.

b) Other Income: Programme and film sales are recognised in the income and expenditure account when the sales are confirmed to the company.

(ii) COST OF PROGRAMME TRANSMISSIONS:

The direct cost of films and programmes is wholly written off on first transmission.

(iii) INCOME RECEIVED IN ADVANCE OF RELATED EXPENDITURE:

As a result of the above policies, income from the IBA may be credited in advance of the costs of films and programmes being charged in the income and expenditure account. Such income received in advance (after taking account of operational and administrative expenses) is transferred to deferred income. As programmes are transmitted, there is a corresponding transfer of the relevant income back into the income and expenditure account. The income and expenditure account therefore contains a net transfer to or from deferred income comprising these two transfers.

The balance of deferred income represents the principal means of financing the capital employed by the company, and accordingly is shown with capital and reserves in the balance sheet. This represents a departure from the normal presentation prescribed by the Companies Act 1985.

Up to 1987 the transfers to and from deferred income were calculated by reference to all the company's income and expenditure, on the basis that any surplus or deficit on activities not funded by income from the IBA would be taken account of in the next year's subscription level. However, as the formula for the income from the IBA has now stabilised as a fixed percentage of NAR, this form of presentation is no longer appropriate. Accordingly the income and expenditure account shows the surplus on other activities and the company pays corporation tax on this surplus. The comparative figures have been restated to conform to the revised presentation.

(c) FIXED ASSETS

- (i) Fixed assets are stated at cost, together with any incidental expenses of acquisition, less depreciation.
- (ii) Depreciation is calculated so as to write off the cost of the asset on a straight line basis over its estimated useful life. The principal annual rates used for this purpose are as follows:-

Assets held by the company:

Leasehold properties are amortised on a straight line basis over the remaining period of the lease.

Technical equipment and office furniture	20%
Motor cars	25%

Assets held by third parties:

Freehold properties are amortised on a straight line basis over 50 years.

Technical equipment	20% or 33%
---------------------	------------

(d) PROGRAMME AND FILM RIGHTS

- (i) Programme and film rights are stated at direct cost incurred to date after making provision for expenditure on material which is unlikely to be transmitted or sold.

Direct cost is defined as payments made or due to production companies or programme suppliers, but excludes any costs falling due after the balance sheet date.

- (ii) Development expenditure consists of funds spent on projects prior to a final decision being made on whether a programme will be commissioned.

Development expenditure is included in programme and film rights but is fully provided for. At such time as it is apparent that a development will not result in a programme, the development cost and the provision are written out of the accounts. Where development expenditure leads to the commissioning of a programme, such expenditure is transferred to programme cost and the provision is released.

Note 2	Operational and administrative expenses	1988	1987
		£000	£000
	These may be analysed as follows:		
	Employee and freelance staff costs	7,932	6,391
	Establishment costs	2,231	1,841
	Advertising and promotion	1,986	2,318
	Depreciation of fixed assets (note 7)	1,950	2,066
	Legal and professional fees	574	567
	Travel and subsistence	653	696
	Repairs and maintenance	508	444
	Computer costs	183	336
	Provision against loans (note 8)	300	425
	Other general expenses	841	905
		<u>17,158</u>	<u>15,989</u>
	and include:		
	Auditors' remuneration	21	20
	Directors' remuneration:		
	Directors' fees	88	73
	Remuneration for management, (including pension contributions)	169	190
	Equipment hire	81	43
	Operating lease rentals – company premises	<u>657</u>	<u>566</u>
Note 3	Directors' remuneration	1988	1987
		£000	£000
	The following information is given in accordance with Schedule 5 Part V of the Companies Act 1985 and excludes pension contributions:		
	Former Chairman's remuneration (to 30th June 1987)	7	27
	Present Chairman's remuneration (from 1st July 1987)	17	–
	Highest paid director's remuneration	<u>72</u>	<u>62</u>
	Other directors	Number	Number
	£0 – £5,000	15	14
	£5,001 – £10,000	2	1
	£15,001 – £20,000	1	–
	£45,001 – £50,000	–	1
	£55,001 – £60,000	–	1
	£60,001 – £65,000	1	–

Note 4	Employee information	1988	1987		
		£000	£000		
(a)	The employment costs for all employees, including executive directors, were as follows:				
	Aggregate gross salaries	6,036	4,903		
	Employer's NI contributions	484	394		
	Employer's pension contributions	828	692		
	Total direct costs of employment	<u>7,348</u>	<u>5,989</u>		
(b)	There were 38 employees (1987:26), excluding directors, who earned in excess of £30,000 in the following ranges:	Number	Number		
	£30,001 – £35,000	22	15		
	£35,001 – £40,000	8	9		
	£40,001 – £45,000	3	2		
	£45,001 – £50,000	5	–		
(c)	The average number of employees, including executive directors, during the year was	303	267		
	At 31st March the company employed	314	283		
Note 5	Other income less expenditure	1988	1988	1987	1987
		£000	£000	£000	£000
	PROGRAMME AND FILM SALES				
	Sales:				
	Films	4,018		3,336	
	Programmes	1,892		964	
	Other	827		462	
		<u>6,737</u>		<u>4,762</u>	
	Less costs of sales:				
	Direct costs	(2,411)		(1,667)	
	Share of income due to independent producers and third parties	(1,730)		(1,165)	
	Operational and administrative expenses	<u>(891)</u>		<u>(715)</u>	
			1,705		1,215
	COMPUTER SOFTWARE SALES				
	Computer software sales and consultancy	73		94	
	Costs of computer software sales	<u>(56)</u>		<u>(64)</u>	
			17		30
	OTHER INCOME				
	Interest receivable:				
	from the IBA	612		–	
	from other sources	24		33	
	Sundry other income	<u>–</u>		<u>29</u>	
			636		62
			2,358		1,307

Programme and film sales, and costs of sales, exclude £430,000 (1987: £601,000) which was integral to the funding of certain productions and therefore is in the nature of co-finance. In addition to that amount, substantial further sums of co-finance have been paid by co-financiers directly to production companies and hence do not appear in these accounts.

Note 6 Taxation

Taxation is not levied on the income from the IBA less related costs.

UK corporation tax is payable on other net income as follows:

	1988	1987
	£000	£000
UK corporation tax based on other		
net income for the year @ 35%	614	450
Double tax relief	(81)	(53)
Deferred tax	214	—
	<u>747</u>	<u>397</u>
Overseas taxation	81	53
	<u>828</u>	<u>450</u>

Note 7 Fixed assets

(a) Tangible assets

	Freehold Properties	Leasehold Properties	Furniture & Equipment	Motor Vehicles	Total
	£000	£000	£000	£000	£000
COST					
At 31st March 1987	—	5,776	10,326	118	16,220
Additions	46	5	1,326	67	1,444
Disposals	—	—	(246)	(26)	(272)
Transfers	349	(349)	—	—	—
At 31st March 1988	<u>395</u>	<u>5,432</u>	<u>11,406</u>	<u>159</u>	<u>17,392</u>
DEPRECIATION					
At 31st March 1987	—	997	6,060	33	7,090
Charge for the year	7	234	1,674	35	1,950
Disposals	—	—	(245)	(6)	(251)
Transfers	32	(32)	—	—	—
At 31st March 1988	<u>39</u>	<u>1,199</u>	<u>7,489</u>	<u>62</u>	<u>8,789</u>
NET BOOK VALUE					
At 31st March 1988	<u>356</u>	<u>4,233</u>	<u>3,917</u>	<u>97</u>	<u>8,603</u>
At 31st March 1987	<u>—</u>	<u>4,779</u>	<u>4,266</u>	<u>85</u>	<u>9,130</u>

- (b) Certain of the fixed assets owned by the company are utilised by programme makers in the independent production sector. The net book value at 31st March 1988 was located as follows:

	Freehold Properties	Leasehold Properties	Furniture & Equipment	Motor Vehicles	Total
	£000	£000	£000	£000	£000
Held by the company	—	4,233	3,763	97	8,093
Held by third parties	356	—	154	—	510
	<u>356</u>	<u>4,233</u>	<u>3,917</u>	<u>97</u>	<u>8,603</u>

- (c) The leasehold properties mainly represents work carried out on the company's offices and transmission centre at 60 Charlotte Street, London W1 which are leased for 25 years from 1981.

The freehold properties are 13 houses in Liverpool which are used as a permanent location set for the BROOKSIDE programme. The company acquired the freehold on each of these properties on 19th June 1987. Prior to that date, these properties were owned on a 999 year lease.

Note 8 Investment in and loans to British Screen Finance Limited

The company holds 6 ordinary £1 and 1,842,141 B class deferred £1 shares in British Screen Finance Limited ("British Screen"), equivalent to 35.3 per cent of the total capital, received for nil cost.

The company has entered into a financing commitment under which, at 31st March 1988, it had advanced to British Screen £725,000, in exchange for 10% unsecured loan stock redeemable at par on 1st January 2016, for the financing of British films. Further advances of £775,000 (£300,000 per annum for the next two years, £175,000 thereafter) will be made and the loans are repayable out of the exploitation proceeds of the films produced – subject to the reinvestment of all income arising in British Screen until 31st December 1988.

The ability of British Screen to pay dividends out of any profits is restricted by its present policy to reinvest all available funds in further films, and by its undertaking to the Government not to pay any dividends before 1st January 1989.

Accounts for British Screen for the year to 31st December 1987 show accumulated losses of £1.5 million to that date. The company has recognised its share of those losses made by British Screen by making full provision against the loans referred to above. The provision at 31st March 1988 amounted to £725,000 (1987: £425,000) and will be released in future years to the extent that British Screen records profits or as the advances are repaid.

Note 9	Programme and film rights	1988	1987
		£000	£000
	Programmes and films completed but not transmitted	44,004	41,213
	Programmes and films in the course of production	19,885	12,057
	Purchased film rights	16,391	15,827
		<u>80,280</u>	<u>69,097</u>

Depending on programme scheduling and programme and film sales, certain of the above programme and film rights may not be realised within one year.

Note 10	Debtors	1988	1987
		£000	£000
	Amount due from the IBA	612	4,999
	Other debtors	1,181	762
	Prepayments and accrued other income	5,686	5,199
		<u>7,479</u>	<u>10,960</u>

All the above amounts are receivable within one year.

Note 11	Creditors	1988	1987
		£000	£000
	Trade creditors	1,045	1,378
	Accruals	9,513	8,456
	Other creditors, including taxation and social security:		
	United Kingdom corporation tax, payable on 1st January 1989	533	397
	Social security	233	384
	Other creditors	130	96
		<u>11,454</u>	<u>10,711</u>

All the above amounts will fall due within one year.

Note 12	Deferred taxation	1988	1987
		Full potential liability and provision made	Full potential liability and provision made
		£000	£000
	Tax deferred on interest receivable	<u>214</u>	<u>-</u>

Note 13 **Share capital**

The authorised and allotted share capital consists of 100 ordinary shares of £1 each, fully paid.

Note 14	Deferred income	1988	1987
		£000	£000
	At 1st April 1987:		
	As previously reported	79,345	72,765
	Prior year adjustment:		
	transfer to income and expenditure account	(937)	(80)
	As restated	78,408	72,685
	Net transfer for the year	11,059	5,723
	At 31st March 1988	<u>89,467</u>	<u>78,408</u>

Note 15	Income and expenditure account	1988	1987
		£000	£000
	Restated at 1st April 1987:		
	Prior year adjustment:		
	transfer from deferred income account	937	80
	Surplus for the year	1,530	857
	At 31st March 1988	<u>2,467</u>	<u>937</u>

Note 16 **Company status**

The company is a wholly owned subsidiary of the Independent Broadcasting Authority, which is a body incorporated under Act of Parliament.

Note 17 **Programme and film commitments**

At 31st March 1988, the company had committed and approved future expenditure for programmes and films amounting to £78 million (1987: £84 million), of which £72 million (1987: £75 million) is estimated to fall due for payment in the year ending 31st March 1989 and £6 million (1987: £9 million) thereafter.

Note 18	Other commitments	1988	1987
		£000	£000
(a)	CAPITAL EXPENDITURE:		
	Amounts contracted for but not provided for in the accounts were	425	578
	Amounts authorised but not contracted for were	<u>2,850</u>	<u>1,812</u>
(b)	INVESTMENT IN BRITISH SCREEN FINANCE LIMITED:		
	The company has agreed to make certain advances to British Screen Finance Limited as detailed in note 8.		
(c)	FORWARD FOREIGN EXCHANGE CONTRACTS:		
	At 31st March 1988, the company had no outstanding commitment to purchase foreign currencies (1987: £1,500,000).		
(d)	OPERATING LEASES:		
	The company has financial commitments in respect of operating leases for its premises, which will terminate in 1996 or thereafter. The amount payable under these leases in the next year will be £634,000.		

Note 19 **Pension costs**

The company operates a contributory pension scheme providing benefits based on final pay. The assets of the scheme are held separately from those of the company, being invested through Legal & General Assurance (Pensions Management) Limited. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was as at 1st January 1988. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 9% per annum, that salary increases would average 7% per annum and that present and future pensions would increase at the rate of 5% per annum.

The pension charge for the year was £828,000 (1987: £692,000).

The most recent actuarial valuation showed that the market value of the scheme's assets was £5,307,000 and that the actuarial value of those assets represented 114% of the benefits which had accrued to members, after allowing for expected future increases in earnings. The contributions of the company and employees will remain at 15.3% and 6% of earnings respectively.

Note 20 **Contingent liabilities**

There are contingent liabilities in respect of compensation that would be payable in the event of certain production contracts being discontinued. No payments under such arrangements are currently envisaged.

Note 21 **Directors' interests in contracts**

John Gau is a director and principal shareholder of John Gau Productions Limited, an independent production company which was commissioned during the year to provide a third series of 22 MONEYSPINNER programmes. The production cost for these programmes was £1,022,664, of which £10,000 was due to Mr Gau, as executive producer, and £97,037 was the production fee to the production company. £75,356 of the production fee was paid in the year to 31st March 1988 and the balance is payable in the subsequent year. These programmes were transmitted during the period June 1987 to May 1988.

The company made further payments on the following programmes which have been commissioned from John Gau Productions Limited, 18 MONEYSPINNER (second series), 4 OTHER FAITHS programmes, HASHISH CONNECTION and SPUTNIKS, BLEEPs AND MR PERRY, and on 2 adventure documentaries (90 DEGREES SOUTH and HIDDEN KINGDOM) purchased from that company. The financial details of these programmes were reported in last year's accounts. The total payments made in the year to 31st March 1988 were £91,901 of which £12,755 was for production fees.

The company also approved the development of 2 programmes (HISTORY OF EUROPE and SOVIET SPACE) with development costs of £18,115.

John Gau acted as executive producer for a fee of £1,000 on a programme ONE EVERY MILE commissioned by the company from Gabriel Productions Limited.

Note 22 **Subsidiary companies**

The company owns the whole of the issued share capital of Sport on Four Limited, Film on Four Limited, BSFC Films Limited and Channel Four Racing Limited, being 2, 100, 43, and 2 £1 ordinary shares respectively. None of these companies has traded since incorporation and all were dormant during the year ended 31st March 1988.

Five year summary

Year ended 31st March	1984	1985	1986	1987	1988
	£m	£m	£m	£m	£m

Income and expenditure

Income from the IBA	105.2	111.0	129.1	135.9	163.4
Cost of programme transmissions	(89.3)	(95.4)	(101.3)	(114.2)	(135.2)
Operational and administrative expenses	(12.1)	(11.8)	(13.3)	(16.0)	(17.1)
Net transfer to deferred income	3.8	3.8	14.5	5.7	11.1
Other income less expenditure after taxation	(0.2)	0.2	0.1	0.8	1.5

Balance sheet

Fixed assets	9.7	9.7	9.4	9.1	8.6
Current assets	53.1	60.4	72.1	80.9	95.0
Current liabilities	(8.6)	(11.9)	(8.7)	(10.7)	(11.5)
Deferred tax	—	—	—	—	(0.2)
	54.2	58.2	72.8	79.3	91.9

Capital: £100	—	—	—	—	—
Deferred income	54.4	58.2	72.7	78.4	89.5
Income and expenditure account	(0.2)	—	0.1	0.9	2.4
	54.2	58.2	72.8	79.3	91.9

Net advertising revenue (NAR)

Total ITV & C4 NAR (excluding TV-am)	850.3	903.3	1,034.0	1,212.7	1,366.9
NAR attributable to Channel 4	45.9	75.2	112.6	155.2	213.3
Percentage of total NAR attributable to Channel 4	5.4%	8.3%	10.9%	12.8%	15.6%
Channel 4 subscription as a percentage of total NAR in the current year	12.3%	12.3%	12.5%	11.2%	12.0%

Audience

Channel 4 audience as a percentage of the total commercial television audience	8.9%	12.2%	13.9%	14.8%	17.4%
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Revenues and costs attributable to Channel 4

Year ended 31st March		1982	1983	1984	1985	1986	1987	1988	Cumulative
	Notes	£m	£m	£m	£m	£m	£m	£m	TOTAL
Actual revenues and costs									
Channel 4 actual NAR	1(a)	—	10.8	45.9	75.2	112.6	155.2	213.3	613.0
IPA/Equity dispute	1(b)	—	5.0	30.0	20.0	—	—	—	55.0
Channel 4 actual subscription from the IBA	2	(15.9)	(84.0)	(105.2)	(111.0)	(129.1)	(135.9)	(163.4)	(744.5)
		(15.9)	(68.2)	(29.3)	(15.8)	(16.5)	19.3	49.9	(76.5)
Attributable costs, not paid by Channel 4									
IBA transmitter and regulatory costs	3	—	(17.3)	(18.7)	(19.9)	(21.3)	(22.7)	(23.5)	(123.4)
ITV sales and other costs	4	(4.0)	(4.4)	(4.6)	(4.9)	(5.2)	(5.4)	(5.6)	(34.1)
(Deficit)/surplus to the ITV system, before exchequer levy and corporation tax	5	(19.9)	(89.9)	(52.6)	(40.6)	(43.0)	(8.8)	20.8	(234.0)

Notes

- (a) The actual NAR invoiced on Channel 4 (Source: IBA).

(b) The Institute of Practitioners in Advertising (IPA) and Equity were in dispute from November 1982 until October 1984. The IBA estimates that the extra 2 minutes per hour of peaktime advertising allowed between January 1983 and November 1984 earned £55 million additional revenue for ITV.
 - The subscription is the actual amount received from the IBA by Channel 4. The total received by the IBA from the ITV companies is £14.4 million higher – as a result of interest payments on the loan arranged by the IBA in 1982.
 - It has been assumed that, from 1982 onwards, 40% of the IBA's television rentals relates to Channel 4 and S4C in the proportion 90:10 (Source: IBA).
 - The ITV companies incur selling, presentation and engineering costs for Channel 4 and S4C. The IBA estimated that for the year to 31st March 1987 these costs amounted to 3.5% of the total Channel 4 and S4C NAR for that year – a total of £5.5 million.
- It is assumed that these costs are mainly attributable to Channel 4 and can not be apportioned on the 90:10 basis. S4C's share has been assessed as a nominal £100,000 per annum.
- Costs in earlier and subsequent years have been estimated by adjusting in line with the Retail Price Index.
- The deficit represents the gross cost of Channel 4. It is estimated that some 80% of this deficit has been offset by the ITV companies from exchequer levy and corporation tax savings.



CHANNEL FOUR TELEVISION

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