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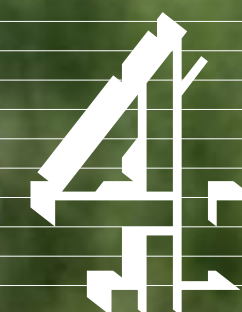
**...intelligent, incisive,
full of originality and
beautiful to look at – and
above all it was great fun.**

Sunday Telegraph, Status Anxiety

Channel Four Television Corporation Report and Financial Statements 2004

Review

Channel Four Television Corporation
Report and Financial Statements 2004



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Chairman

Luke Johnson



We are determined to ensure Channel 4 remains as relevant to British society in the future as it has in the past. It will need the full support of all its stakeholders – Government, regulators and the public – if it is to sustain its role as the alternative public service broadcaster.

Challenging. Fresh. Quirky. Anti-establishment. Entertaining. Difficult. Occasionally obscure. Funny. Thought provoking. Noisy. Unpredictable. Funky. Channel 4 is all these things – and more. It sets out to stir things up and get attention. It offers a distinctive, diverse picture of the world. That's why it's fun, and why it's important. Channel 4 is a major contributor to the cultural life of our nation, and has a history of breakthrough television programmes that no other comparable media organisation can match.

Channel 4 is unique – not just a British one-off, but around the world. As a public corporation, it is owned by every citizen, but it has always paid its way in the market place by selling advertising to fund programme making. Very few state assets have ever been as inventive, creative, entrepreneurial and successful as Channel 4 – all without direct tax subsidy. We have consistently managed to attract new talent and remain popular – yet also broadcast serious, interesting stuff that no-one else would have shown to wide audiences. We specialise in personal, one-off shows and short series seen nowhere else on terrestrial television. It is this combination of the mainstream and the offbeat which has made Channel 4 such a winning formula for almost 23 years.

We face the future with more imminent threats to this advertising-funded model than ever before. The relentless growth of multi-channel digital television, the advent of digital video recorders, increasing broadband penetration – all these make the status quo less viable in the long term. Channel 4 must adapt to these pressures. We are determined to ensure Channel 4 remains as relevant to British society in the future as it has in the past. It will need the full support of all its stakeholders – Government, regulators, and the public – if it is to sustain its role as the alternative public service broadcaster.

So we shall spend 2005 and beyond reinventing ourselves – as Channel 4 has done repeatedly in the past. Just as our new on-screen identity is a cool reinterpretation of our original image, so Channel 4 must embrace new technology and new income streams to cope with changing consumer tastes and commercial realities. As ever, we intend to mix a mission to experiment with good business sense – a remarkable blend that is the envy of state broadcasters everywhere. We must remain flexible and creative if we are to prosper. Brilliant, exciting content is the purpose of Channel 4. It is the only way to compete against the three giant organisations that dominate the British television industry.

Last year was a strong one in programming and advertising terms. We transmitted a range of outstanding and original drama, comedy and documentaries with our highest ever programming spend. We maintained our audience share, while almost all other terrestrial broadcasters saw theirs fall. We fulfilled our remit and met or exceeded the requirements of our licence. These achievements owe much to the excellent management and staff across all departments within the Corporation, now joined by a dynamic new Chief Executive. And thanks as ever are due to our partners, the 300 or so independent production companies who make our shows. Their ideas and talents are what Channel 4 is really about.

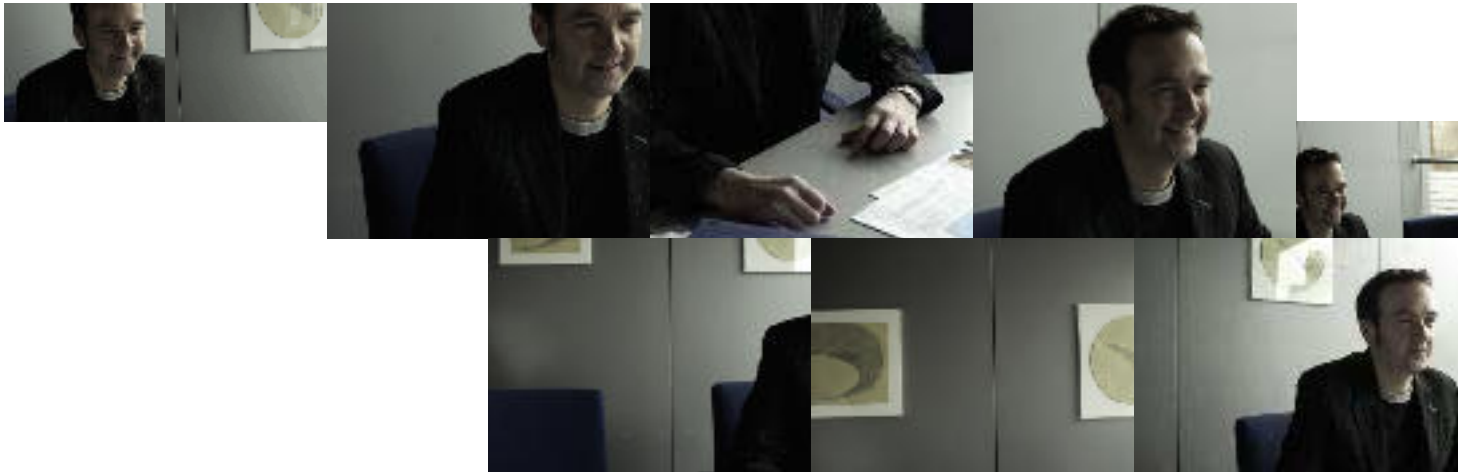
The prospects for the current year look good, with a decent advertising market and a fine line-up of programmes across all the genres. We plan to launch new channels and services in the coming months to maintain our relationship with viewers in a fast-changing media landscape. We shall continue our discussions with Ofcom and the Government to ensure Channel 4 remains vibrant and healthy in the years to come. And we hope Channel 4 will continue to startle, outrage and amuse the public as much as ever.





Chief Executive

Andy Duncan





It was a privilege to join Channel 4 as Chief Executive last summer, during one of the most remarkable years in its history. With dramas like *Hamburg Cell*, *Shameless*, *Omagh*, *Sex Traffic*; documentaries as varied as *The Boy Whose Skin Fell Off*, *Touching the Void*, *My Crazy Parents* and *Death in Gaza*; and shows as entertaining as *Wife Swap*, *Supernanny*, *Brat Camp* and *Big Brother*, Channel 4 has been setting the pace for the rest of British television.

So it should. That is our public purpose and the reason for Channel 4's existence as a publicly owned not-for-profit broadcaster. Our remit requires us to be innovative, experimental, educative and diverse. In practice we have been much more than that – a uniquely creative and provocative contribution to the public life of Britain. In 2004, that contribution has been recognised with a galaxy of national and international awards, including four International Emmys, amongst them an unprecedented second consecutive Emmy for Channel 4 News.

What has made 2004 even more of a landmark is that we also increased our audience, with an all-time record share in the crucial peak-time hours and with our key target groups, the 16-34 year-olds and the up-market ABC1s. When all the trends for established mainstream terrestrial broadcasters are pointing the other way, this is a tribute to the quality of the Channel's commissioning team and to the hundreds of companies from every part of the UK that supply us with programmes and ideas. Our future success is dependent on a productive, collaborative, transparent relationship with the independent sector, and an important part of our remit is to nurture talented individuals and production companies wherever they may be in the UK.

We also had a very successful year financially with a strong performance in a recovering advertising market, and good progress in our 4 Ventures businesses. Rob Woodward, our Commercial Director, who announced his resignation at the end of the year, played an important role in helping to drive this process and turning round the fortunes of 4 Ventures. I thank him for the contribution he has made to Channel 4's present commercial vitality. Combined with a lean and mean cost base, this performance helped us achieve an overall surplus of £46 million and significantly improve our cash position. Much of this is needed simply to keep the organisation moving forward but, with the certainty of growing pressures in the future, it is also vital that we use the window of opportunity afforded by present success to make the necessary investments now with this surplus to safeguard our long-term financial viability.

2004 has provided the best possible platform from which to deliver three messages to Government and to our regulator, Ofcom.

The first is that the Board and staff of Channel 4 are absolutely committed to its continuing role as a public asset, in business to deliver a public service.

We are not like the other advertising-funded commercial public service broadcasters, ITV and Five. Their primary purpose is to maximise profit for their shareholders; public service is the price they pay for doing business. For us, commercial success is simply the means that allows us to deliver high-quality programmes and services to fulfil our public service remit.

The second message is that Channel 4's role will become more, not less important in the multi-channel, multi-platform digital future. As the public service contribution of ITV and Five declines, we will become the only effective public service alternative to the BBC, providing real competition for them and, more importantly, real choice for viewers. We want to ensure that Channel 4 is big enough and secure enough to play that role going forward, not just for the next year or two but for decades to come.

The third message is that if we are to play that role in the long term we will need, as Luke Johnson emphasises over the page, the full support of all our stakeholders. This means securing appropriate forms of indirect support to replace the declining value of our free spectrum and keeping open the option of direct public support that may be needed in the longer term.

At the close of 2004 we were able to say with some confidence that both Government and Ofcom acknowledged the significance and urgency of these messages, and the need for a clear roadmap to take us through the uncertain transition to a fully digital world.

As we move into 2005 I want to see a Channel 4 team that is as lean, efficient and motivated as any media business anywhere in the world. And I want it to be focused on a three-legged strategy to make sure we succeed in a fully digital world:

- to further strengthen our main Channel 4 service – sparking debate, polarising opinion, entertaining audiences and winning awards. To drive this we will be investing a record programme budget of £485 million in the core Channel 4.
- to grow those creative qualities to more channels so that we can serve our viewers better and compete more effectively in the multi-channel world with the launch of a new public remit channel, More4, which will be an exciting addition to our portfolio this Autumn, with a particular focus on factual and documentary programmes; and with a major increase in our programme budget for E4.
- to play a leading role in bringing the values and variety of our public remit to the new media space, especially broadband and mobile, including the launch of 4Docs – the world's first broadband documentary channel.

With the terrific team of people we have working at and with Channel 4, I am confident we will do that, and confident we can continue to meet the expectation of tens of millions of viewers that Channel 4 is where they know they will find something new, stimulating, entertaining – and worth watching.



Channel 4 has been setting the pace for the rest of British television. So it should. That is our public purpose and the reason for Channel 4's existence as a publicly owned not-for-profit broadcaster.

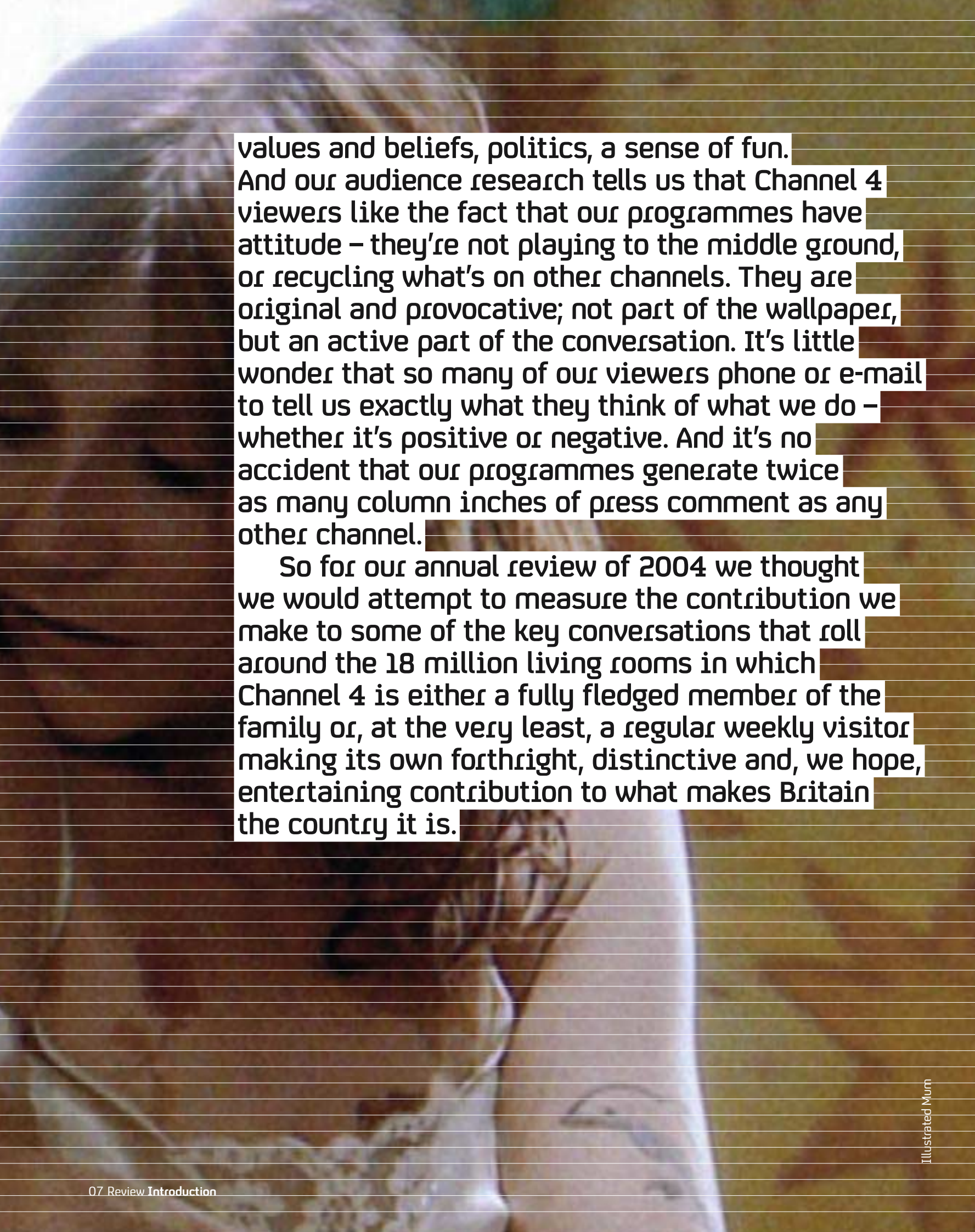


Introduction

Public service broadcasting in Britain is not an institution; it's a system. The Communications Act of 2003 sets out a range of programmes which the five main public service channels, "taken together" as the Act puts it, should provide for Britain's viewers. Channel 4's particular role within this system is to be innovative, experimental, educative, distinctive and diverse. So we generate more new programmes and new formats than any other broadcaster. We also have a series of very specific requirements to produce particular types of programme – news programmes, schools programmes, original programmes, programmes made in the regions. We consistently hit, and usually exceed by a wide margin, all the targets that Parliament and Ofcom set for us.

But the system is breaking up. Ofcom recognises that the public service contribution of ITV and Five is declining and will continue to do so. Specialist pay channels provide more choice, much of it in areas which, even a few years ago, were regarded as core 'public service'.

What makes television such a massively powerful force in shaping the world and the way we see it is something more than variety, range and choice, important though they are. For most of us, the TV sets in our homes are much more than outlets for information and entertainment; they are like members of the household with insights of their own and points of view about the issues that are of interest to us all – health, a sense of personal identity, the rules and conventions of family life,



values and beliefs, politics, a sense of fun. And our audience research tells us that Channel 4 viewers like the fact that our programmes have attitude – they're not playing to the middle ground, or recycling what's on other channels. They are original and provocative; not part of the wallpaper, but an active part of the conversation. It's little wonder that so many of our viewers phone or e-mail to tell us exactly what they think of what we do – whether it's positive or negative. And it's no accident that our programmes generate twice as many column inches of press comment as any other channel.

So for our annual review of 2004 we thought we would attempt to measure the contribution we make to some of the key conversations that roll around the 18 million living rooms in which Channel 4 is either a fully fledged member of the family or, at the very least, a regular weekly visitor making its own forthright, distinctive and, we hope, entertaining contribution to what makes Britain the country it is.

Conflict

Situations of human conflict, whether in news and current affairs, in drama, or reality shows, present programme-makers with some of their most difficult editorial decisions and, equally, require regulators to produce their most finely balanced judgements. What one viewer regards as moving and compelling television, another condemns as cheap sensationalism. What one feels is appropriate discretion, another denounces as unacceptable censorship.

The one inescapable fact is that if television is to have real relevance to private lives and public events, confronting conflict is going to be at the heart of it, every day of the week. 2004 provided plenty of moments to test the judgement of Channel 4's writers, film-makers, commissioning editors – and regulators.



He isn't as nice as that
chap on Ready, Steady...
is he? I shan't be
watching again.

Viewer, Ramsay's Kitchen Nightmares



1 **Omagh** told the story of the greatest terrorist outrage of the Northern Ireland troubles.



2 **Who You Callin' a Nigger** lifted the lid on prejudice and violence in some of Britain's black and Asian communities.



3 **Death in Gaza** A child's eye view of one of the world's most brutal conflicts.



4 **Ramsay's Kitchen Nightmares** How tough love – and tough language – helped save failing restaurants.



5 **Dispatches: Keep Them Out** provided a powerful lesson in the corrosive effects of prejudice and paranoia.



6 **Channel 4 News** is widely acknowledged as the best daily news programme on television.



The drama **Omagh (1)** recounted the events, and the aftermath, of August 15, 1998, when the Real IRA killed 29 people in a small town in Northern Ireland, the greatest single loss of life in almost forty years of strife. The Observer wrote: "This film has not been made for the victims, but for the wider community so as to tell them what terrorism really does, and about the grief and striving to achieve justice that follows in its wake. If that message gets through, it will have succeeded." The response from the families of the Omagh victims, and from the general public, suggested that, in those terms at least, the film certainly did succeed.

A much less visible conflict was examined in **Who You Callin' a Nigger (2)**, a film made by the veteran observer of Britain's changing communities, Darcus Howe, in which he reported on the prejudice and violence that exists between some of Britain's black and Asian communities. Praising the film, one newspaper described it as "...a snapshot of communities we just never see on our screens". But it did not make for comfortable viewing. One viewer called our helpline to say "I can't believe you could broadcast this programme. You make me puke."

Death in Gaza (3) provided another rarely seen perspective on television – the conflict between the Israeli army and Palestinian fighters seen through the eyes of some of its most vulnerable victims – children. With a mixture of playfulness, bravado and obvious distress, children talked about lives circumscribed by poverty, violence and the ever-present possibility of a bullet killing or maiming a parent, sibling or friend. The programme took on a horribly macabre dimension, recording the killing by Israeli soldiers of the film-maker James Miller, a victim of the violence he sought to report to the rest of the world.

Ramsay's Kitchen Nightmares (4), a series which followed celebrity chef Gordon Ramsay as he strove to spice up the act of struggling restaurants around the UK, generated almost as much hot air in the newspapers as it did in the restaurant kitchens where he ladled out his candid criticisms. The chefs may have been left sweating, but the viewers loved it. The Mirror called it "...the most effortlessly entertaining television of the week – Michelin 3-star..." while the Observer added: "Frankly, a public service." Some viewers were not so easily won over. One called Channel 4 to say: "He isn't as nice as that chap on Ready, Steady... is he? I shan't be watching again."

Dispatches: Keep Them Out (5) followed a year-long campaign by residents of Lee-on-Solent, supported by their local councillors and MP, to ensure that a disused naval base did not become a reception centre for asylum seekers. The campaigners were in no doubt about the nature of the threat, one of them explaining that the typical asylum seeker was "quite likely to have a hostile look, a foreign look, and a bit of a beard". Nor was there any doubt that the principal pre-occupations of the asylum seekers would be planting bombs and raping the young women of Lee. But this film by David Modell managed to be both a surprisingly warm portrait of a close-knit community and at the same time an object lesson in the corrosive effects of prejudice and paranoia.

Finally, **Channel 4 News (6)**, reporting conflict on an almost daily basis, continues to command a reputation as the most comprehensive and soberly analytical news programme on British television. Bucking wider industry trends, Channel 4 has increased its news output by 60% over the past five years and in 2005 will more than double the hours devoted to its acclaimed current affairs strand 'Dispatches'.

If you want ballsy, provocative, red-meat news these days you have to turn to Channel 4 News.

The Sunday Telegraph, Channel 4 News

This film has not been made for the victims, but for the wider community so as to tell them what terrorism really does, and about the grief and striving to achieve justice that follows in its wake. If that message gets through, it will have succeeded.

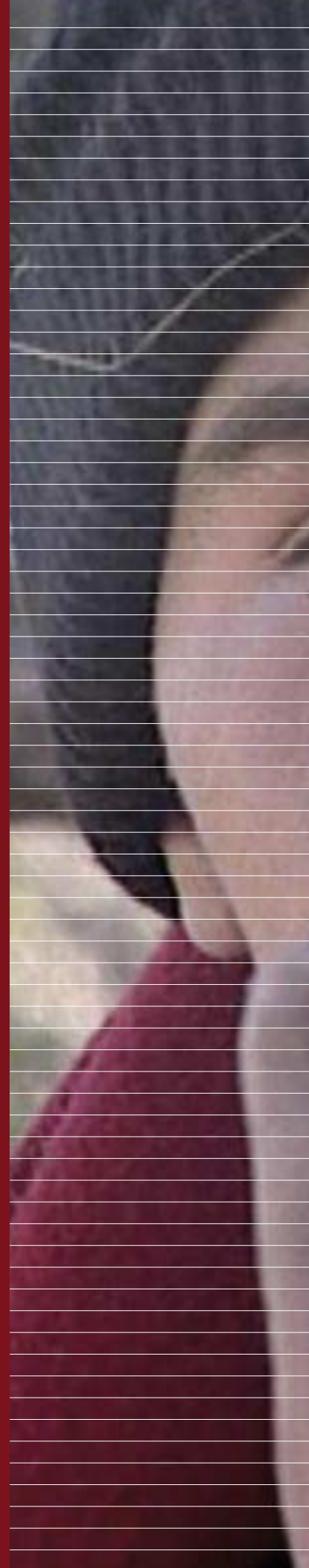
The Observer, Omagh

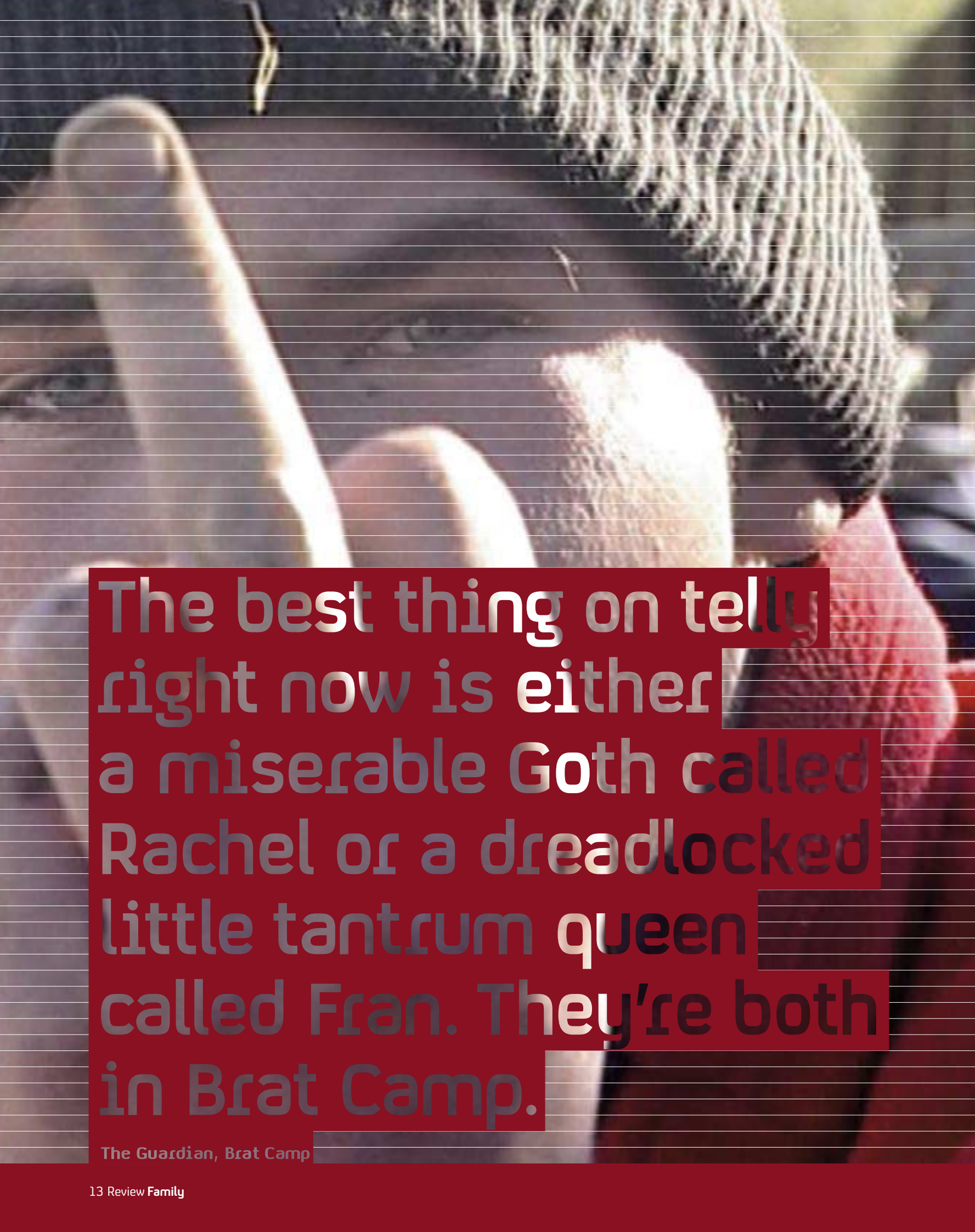


Family

A surprise finding during the year was that people are watching less television on their own, and more of it in the company of others. Despite the growth of new media technologies and distribution systems, despite the second, third and fourth TVs in bedrooms and kitchens, television viewing is still very much a family and friends affair.

Channel 4 is watched by three-quarters of Britain's television viewers every week and, with a particularly strong presence in young and up-market homes, it's a safe bet that in many of them there are on going debates about relationships, responsibilities and parenting. Our programmes had plenty to contribute to the discussion.





The best thing on telly
right now is either
a miserable Goth called
Rachel or a dreadlocked
little tantrum queen
called Fran. They're both
in Brat Camp.

The Guardian, Brat Camp

A woman with long brown hair, wearing a dark jacket, stands in a library. She has her hand to her chin in a thoughtful pose. In the background, there are bookshelves filled with books. One book spine is visible with the text 'STRENGTHEN'.

...very funny,
extremely
rude and
brimming with
inventiveness.

Sunday Telegraph, Shameless





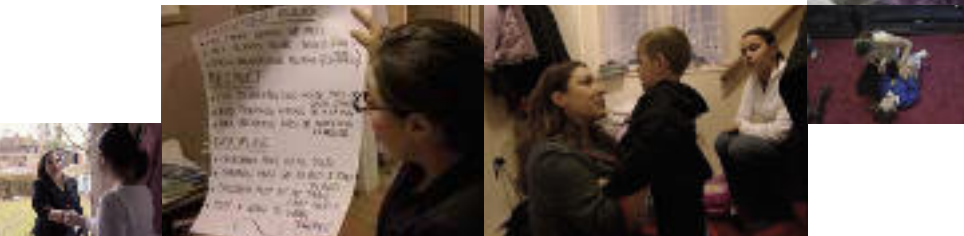
1 Shameless
subverted all the conventions of the traditional TV family – and was a smash hit.



2 The Simpsons
The best-known television family in the world settled into Channel 4.



3 Wife Swap
Everything you need to know about family life in Britain today, from child rearing to class prejudice.



4 Supernanny
provided practical tips for despairing parents.

5 Brat Camp taught wayward teenagers to face up to their own destructive behaviour.



6 My Crazy Parents
The poignant story of children who have to become their parents' carers.



7 The Illustrated Mum This screen adaptation of Jacqueline Wilson's novel won the Children and Young People's Award at the International Emmys in New York.

8 Geldof on Fathers
sparked a furious debate in newspapers and homes across the land.





In January the first of seven episodes of **Shameless (1)** burst into Britain's living rooms. Drawing on his own experience of family life in Burnley, writer Paul Abbot housed the fictional Gallaghers in a scruffy Manchester housing estate where their chaotic lives wove together strands of lawlessness and loyalty in a way that subverted all the conventions of the traditional TV family. The series won cult status almost overnight, leading the Mail on Sunday's critic to write: "If there's been anything better in the last year, then we haven't seen it". And as the final episode went out on air the Guardian lamented: "A mighty sad moment this, as one of the finest series for aeons

training, during the course of which they learn how to face up to their own destructive and anti-social behaviour. As the children struggled to come to terms with themselves, back in Britain their parents were being taught tips on where they, too, might have gone wrong and might need to change their behaviour to bring harmony back to their households. After the series, parents all over the country besieged Channel 4 to find out how their troublesome teenagers might enrol for a similar experience.

My Crazy Parents (6) looked at families in which the severe mental health problems of a parent had cast one of their own children into the role



Thank you so much for finding a slot for such an interesting programme. This made me realise that I am not alone in living with a victim of mental illness. 19-year-old viewer, **My Crazy Parents**

draws to a close." But Paul Abbot was already hard at work writing a hugely successful Christmas special and an entire new series for 2005.

The close of the year saw a very different, if equally dysfunctional, family move in to Channel 4 – **The Simpsons (2)**. They seemed to fit in so well, that after a week or two it was impossible to believe they hadn't been part of our schedule for years. Probably the best-known family on television anywhere in the world, the Simpsons were once described by Time magazine, quite simply, as "the best TV show ever". What more need be said?

Between the arrival of the Gallaghers and the Simpsons came another series of **Wife Swap (3)**, shining its unrelenting light into the tangled complexities of modern day marriage, child rearing, aspiration and class prejudice. If ever a programme has defied the conventional division of television into genre categories such as 'entertainment' and 'documentary', Wife Swap is it. It may be raucous entertainment, but it is a great deal more than that. The Times called it "The most politically charged programme on television. It makes Newsnight look like a WI meeting."

Some of the Wife Swap families would probably have welcomed a visit from Jo Frost, the terrifyingly firm but fair star of **Supernanny (4)**. In this three-part series she came to the rescue of parents – and siblings – whose lives were being wrecked by unruly, badly behaved kids. Jo's no-nonsense approach and common-sense advice clearly struck a chord in households across the country as the show became the unexpected smash hit of the summer, attracting more viewers than Wife Swap and, on occasion, even more viewers than another well-loved show focused on the antics of a tempestuous household – Big Brother.

What Supernanny did for tots, **Brat Camp (5)** did for adolescents. The series followed six wayward teenagers, the despair of their parents, as they faced the challenges of life in a Utah 'wilderness camp'. These camps, long popular with American parents, put children through several weeks of tough survival

of family carer. With one in four adults in Britain suffering mental illness at some point in their lives, the series highlighted an issue which receives woefully inadequate public attention. The children spoke in a disarmingly direct way about the harshness and heroism of their lives, prompting the Guardian to comment that the programmes were "...sensitively and compassionately handled, but very difficult to watch all the same".

In the same vein, an adaptation of Jacqueline Wilson's novel, **The Illustrated Mum (7)** traced the story of a tattooed, manic-depressive, heavy-drinking single mother and her two daughters, struggling to keep their family together as their mother slowly succumbed to a disabling mental illness. In a review of the drama, at the time that it won the Children and Young People's Award at the International Emmys in the US, the New York Times wrote: "Sometimes wrenching, The Illustrated Mum evokes sympathy for all its characters, ultimately leading them to hope as well as heartbreak".

At the end of a year in which some fathers were moved to perform outrageous stunts to draw attention to the pain of separation from their own children, following divorce or relationship breakdown, Channel 4 provided a platform for divorced father Bob Geldof to set out his own unambiguous and passionate views on the subject. **Geldof on Fathers (8)** sparked an energetic, and sometimes furious, debate in newspapers – and homes – across the land. This was no dispassionate documentary, but an angry and agonised polemic, arguing that the present state of access rules for fathers separated from their children is nothing less than a travesty of justice. AA Gill wrote in the Sunday Times: "This is what broadcasting can and should do much more often".

Channel 4 offers its viewers websites, publications and information helplines to support and enrich much of our television programming. One example of this during 2004 was the booklet Little Darlings, with tips to help parents and children communicate better with each other.



Belief

Channel 4's licence to broadcast, agreed with our regulator Ofcom, states that: "The Channel 4 service is not required... to carry programmes recognisably religious in aim, but the Corporation includes programmes in the Channel 4 service about religion, faith and belief in peak viewing time... and looks for distinctive work to enlarge its scope and reach".

Issues of belief and personal faith are increasingly significant and contentious in our society. The devout religious convictions of some must co-exist with a profound scepticism and even ignorance in others about the main religions practised in Britain today. For Channel 4, charged with a remit to reflect the diversity of contemporary Britain, this paradox poses some sensitive questions about the kind of programmes we should be commissioning for our viewers.

Touching the Void has all the requirements of Greek tragedy, from the hubris of the young climbers to the revenge of the mountain gods.

The Evening Standard, Touching the Void

...a religious docu
provides the wee
moment of TV.

The Guardian, God is Black



Documentary k's water-cooler



1 Hamburg Cell
The story of the men who brought down the Twin Towers.



2 Inside the Mind of a Suicide Bomber
What motivates young men to kill themselves and innocent bystanders, told in their own words.



3 Texas Teenage Virgins
looked at a town where chastity has become an article of faith.



4 Karbala, City of Martyrs
The first ever film report of one of Islam's most important festivals.



5 God is Black
While England's parish churches are emptying, a new black Anglican church is on the march.



6 Jewish Law
showed a twenty-first century community contentedly living by laws laid down three thousand years ago.



7 Touching the Void
An extraordinary testament to the power of self-belief – and the most successful British documentary ever in UK cinemas.



The first serious attempt by any broadcaster in the world to explore what motivated the men who brought down the Twin Towers on 9/11, **Hamburg Cell (1)** demonstrated that sometimes drama, rather than documentary, is the most effective way of understanding the dynamics of contemporary events. Widely praised, and subsequently sold to TV networks around the world, the film told how a group of young men metamorphosed from dislocated foreign students in Hamburg to fundamentalist fanatics. Painstaking research and extraordinary casting produced a narrative which seemed to move seamlessly between documentary and drama. The Sunday Telegraph commented that it would "...probably be criticised for being too even-handed. This would miss the point. In humanising these men, the film makes what they did seem more monstrous, not less."

While Hamburg Cell could only speculate on what motivated the 9/11 hi-jackers, **Inside the Mind of a Suicide Bomber (2)** confronted viewers with the reality of a bleak and poignant series of interviews with young would-be suicide bombers, mostly in their teens, held in Israeli prisons after their devices had failed to explode, or when a last-minute change of heart had saved their own lives and those of many innocent people. One 17-year old explained how at the last minute he became convinced that "God wanted me to stay alive. He said 'go home'". Two other interviewees, who built the bombs and recruited the bombers, were untroubled by any conflicting messages. They had no doubts that it was their destiny to live while sending others to what they expected to be certain death.

Texas Teenage Virgins (3) visited the town of Lubbock, Texas, to report on a community which subjects many of its teenagers to an unrelenting propaganda barrage, in schools and churches, to remain virgins until their wedding day. With sex education in schools illegal, it is left to a handful of hard-pressed community health workers to counter much of what the kids are being told, from pulpits and in classrooms, about the horrors of sex and sexual disease. Young people talked about their attempts

of the founder of their sect, Hussein, the grandson of the Prophet, on the anniversary of his murder at the hands of Sunnis in one of Iraq's most ancient and holy cities. Long suppressed by Saddam Hussein, 2004 saw the first open celebration of this festival for thirty years. In **Karbala, City of Martyrs (4)**, Channel 4 followed visitors from Britain, the US and Iraq itself as they made their pilgrimage, undeterred by terrorist bombs which killed more than a hundred of their number and wounded hundreds more. Narrated with humour and dignity by the pilgrims themselves, and filmed at extraordinary personal risk this was, by any definition, a remarkable television project.

In a highly personal view of the Anglican church, **God is Black (5)**, theologian Dr Robert Beckford drew attention to the fact that while the traditional parish churches of England appear to be in inexorable decline, a new and dynamic evangelical Anglicanism is burgeoning in Africa and spreading to black congregations in the UK. With divisions opening up between Anglicans on everything from basic doctrine to the acceptability of homosexual clergy, the series pointed to an impending crisis at the heart of the worldwide Anglican Communion. Not used to getting itself embroiled in theological debates, the Guardian expressed astonishment that "...a religious documentary provides the week's water-cooler moment of TV".

How do ultra-Orthodox Jews manage to live in the twenty-first century by laws laid down some three thousand years ago? **Jewish Law (6)**, a three-part documentary series, showed the constraints, but also the joys, of life in a community in Manchester, tightly regulated by its own rabbinical court, the Beth Din. The Sunday Times gave it a double commendation: "This fascinating documentary accesses a world seldom seen on TV, and returns to an old-fashioned style of programme-making where the camera crew is content to remain off-screen".

It would be hard to imagine a more convincing illustration of the power of self-belief and the human will to survive than **Touching the Void (7)**, the true

I'm a British Shia Muslim, and this is the first time in my life such an in-depth film on Shi'ism has been shown in the UK, and I hope it will continue.

Viewer, Karbala, City of Martyrs

to reconcile the obvious conflicts between faith, respect for their elders and the temptations of Saturday night. Meanwhile, the sad reality is that Lubbock has one of the highest instances in the US of teenage pregnancy and sexually transmitted diseases.

The most important event in the calendar for the world's millions of Shia Muslims is a visit the tomb

story of a two-man mountaineering expedition in the remote Andes that went catastrophically wrong. Before being screened on television, this FilmFour production made history as the most successful documentary ever in UK cinemas, part of Channel 4's sustained commitment to championing contemporary British cinema.

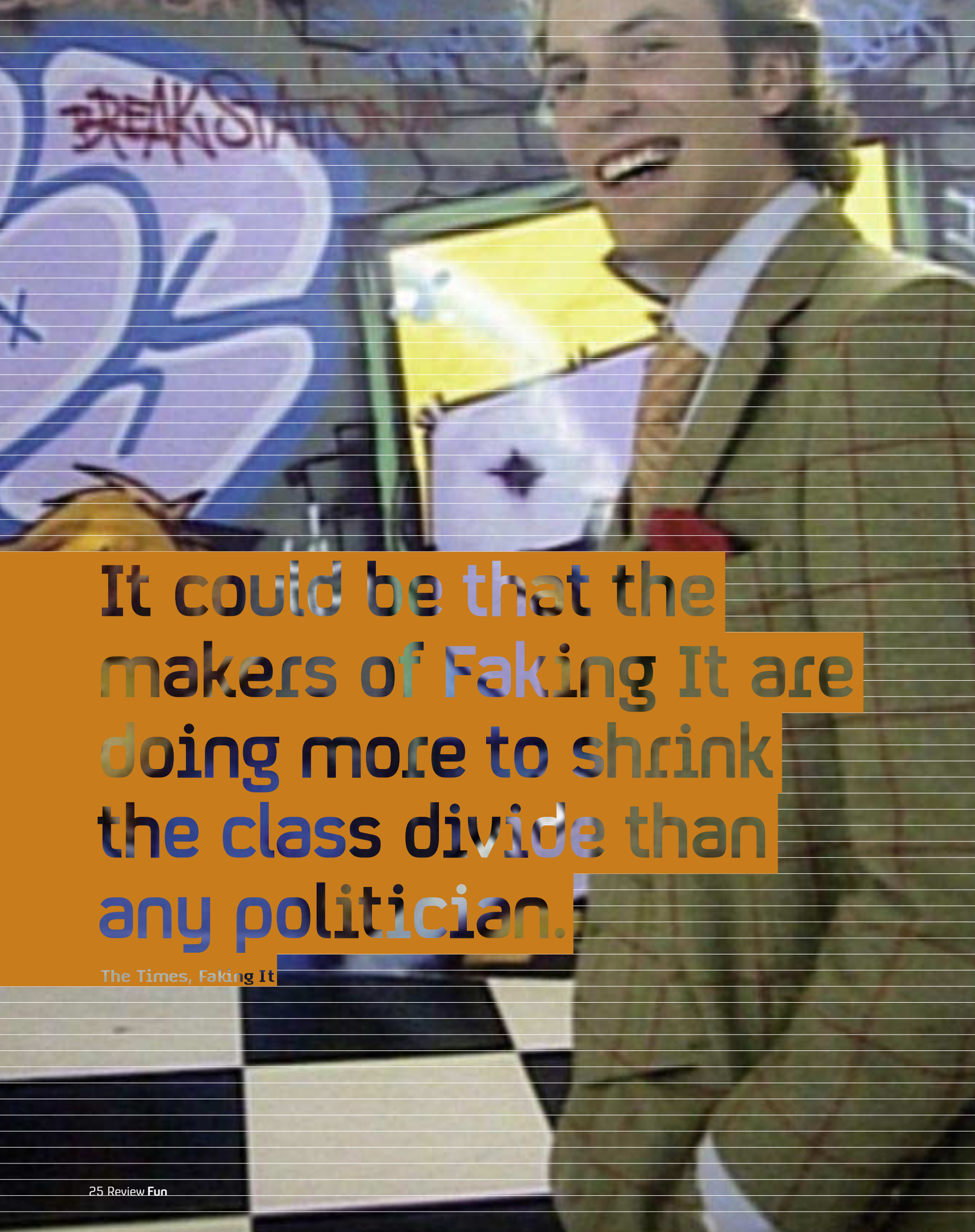




As politicians and TV executives debate definitions of public service broadcasting, it's easy to forget that most people watch television to be entertained. It's even easier to forget that to make entertaining television can be just as creatively demanding, commercially risky and terrifyingly expensive as a lavish historical drama or a painstakingly researched documentary.

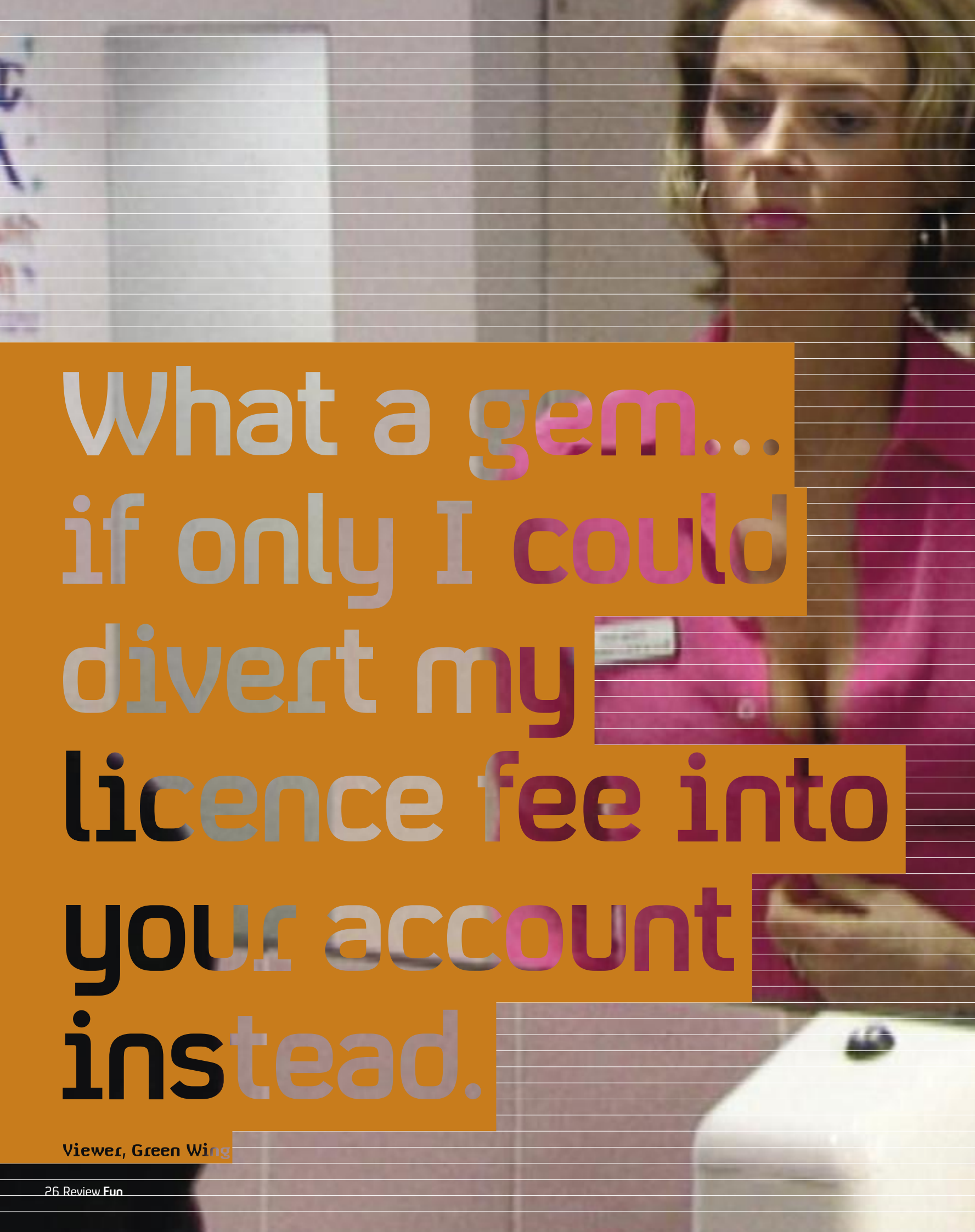
Original scripted comedy barely exists outside public service television – it's an accountant's nightmare. It is true that pay-channels also have plenty of comedy shows in their schedules, but what they are broadcasting has, almost without exception, either been bought from public service broadcasters or from the US studios whose economies of scale allow very different dynamics from the UK.

Channel 4's remit to be innovative, distinctive and diverse is probably more difficult to deliver consistently in the area of entertainment than any other. Having said which, 2004 was, by any reckoning, a vintage year...

A man in a brown suit and tie is holding several papers, including a yellow one, in front of a wall covered in graffiti. The graffiti includes the words "BREAK" and "STATION". The man has a surprised or excited expression on his face.

**It could be that the
makers of Faking It are
doing more to shrink
the class divide than
any politician.**

The Times, Faking It

A woman with blonde hair, wearing a pink shirt, is looking down at a white sink. The background is a blurred office or public space.

What a gem...
if only I could
divert my
licence fee into
your account
instead.

Viewer, Green Wing





1 Green Wing The most innovative, and silliest, comedy of the year.



2 Musicality described by one newspaper as "reality TV's biggest success story".



3 Max and Paddy's Road to Nowhere How a pair of worn-out night-club bouncers escaped club land for a life on the open road.



4 Motorcycle Diaries told the story of two young men who set out looking for fun but found something much more significant.

5 Faking It Doing more to shrink the class divide than any politician.



6 No Angels pulled no punches as it followed the lives and loves of four young women nurses.





This is a wonderful programme. Show it to that horrible Simon Cowell. **Viewer, Musicality**

People talk about comedy breaking new ground. The sheer good nature of this programme feels revolutionary. **The Times, Max and Paddy's Road to Nowhere**



The Guardian described **Green Wing (1)** as “the most original, the silliest and the funniest thing on for ages”. The Sun was more concise: “...bonkers but consistently brilliant”. A drama series that frequently slipped into the surreal, Green Wing was a hospital comedy shorn of all medical content and with not a patient in sight – the interactivity of the medical staff seemed quite capable, on its own, of generating as much of a plot as was needed. Over nine hour-long episodes it established itself as one of the cult TV shows of the year and prompted one viewer to call in to say: “we ache laughing – and it’s about time a really good comedy got a full hour on the box”.

Love ‘em or loathe ‘em, there’s scarcely a TV viewer in the land who hasn’t sat through a few musicals on television. But **Musicality (2)** gave two thousand high-kicking, toe-tapping members of the public the chance to get out of their armchairs and compete for a role in a televised performance of Chicago from London’s West End. After a gruelling process of auditions and training, five wannabes made the grade and, in the process, won the hearts of five million viewers. Building on the success of Channel 4’s award-winning series Operatunity, Musicality was described by London’s Evening Standard as: “reality TV’s biggest success story” while Charlie Catchpole confessed in the Daily Express: “I don’t even like musicals, but I’ve been captivated by Musicality... thank you Channel 4. Thank you so much”.

Max and Paddy’s Road to Nowhere (3), a six-part comedy series which was also an extraordinary and whimsical road movie, followed the adventures of Peter Kay and Paddy McGuinness as two night-club bouncers who escape club-land for life on the open road in a very suburban camper van.

The Times commented: “People talk about comedy breaking new ground. The sheer good nature of this programme feels revolutionary.”

A radically different kind of road movie, **Motorcycle Diaries (4)**, followed the future hero of the Cuban revolution, Che Guevara, and a student friend as they toured 1950’s Latin America on an ancient Norton motorbike. What starts as a light-hearted adventure by two privileged middle-class students, metamorphoses into a far more significant voyage of self-discovery. Based on Che Guevara’s own diaries, this Spanish language film was a box office success throughout Latin America as well as in much of Europe. Developed and financed by FilmFour, it demonstrated Channel 4’s consistent commitment to the best of high-quality, low-budget contemporary cinema and went on to win an Oscar and two BAFTAs in 2005.

With a format that has been repeated and imitated around the world, **Faking It (5)** continues to prove that ordinary people can surprise themselves and fool sceptical experts by mastering, in just four weeks, technical and social skills they think are well beyond their reach. As an entertaining demonstration of the triumph of the human spirit and self-confidence it would be hard to beat. The Times saw another, sharper, edge to the fun – “It could be that the makers of Faking It are doing more to shrink the class divide than any politician”.

Tracking the lives and loves of four young women nurses in an imaginary hospital in Leeds, the ten-part drama series **No Angels (6)** triggered a rise in blood pressure for some representatives of the nursing profession, but entertained millions with its warmth and humour – and with what many health professionals acknowledged to be its accuracy and candour.



Body

Television feeds us with images of ourselves in a way that no other medium can match. That power, coupled with our society's obsession with physical perfection, makes it inevitable that the condition of the human body is one of the strongest themes running through the output of any general interest broadcaster such as Channel 4. Toned to perfection by exercise, rebuilt or modified by new medical technologies, or torn apart by war and disaster, human bodies feature on our screens and in our conversation in ways that could not have been imagined a couple of decades ago. Channel 4 covered the territory – from head to toe.

I think it was the most
uplifting and courageous
piece of television that
you've ever done.

Viewer, *The Boy Whose Skin Fell Off*



1 The Transplant Trade looked at a worldwide business where market forces and people's health collide with horrible consequences.

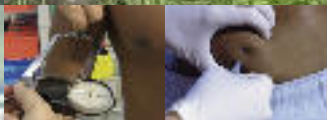
2 You Are What You Eat for good or ill!



3 Ten Years Younger proved that you can't judge a book by looking at the cover.



4 Living with Hunger offered a dramatic insight into the suffering and stamina of some of Africa's poorest families.



5 Cheating at Athens showed the real impact of drug-taking on world-class athletes.

6 Nip/Tuck The kind of drama you can't turn off but have to watch through your fingers.



7 The Boy Whose Skin Fell Off "The most extraordinary people and the greatest spirits often pass their lives in total obscurity."



The jarring inequalities of wealth in the world could not be more cruelly illustrated than by looking at **The Transplant Trade (1)**. The makers of this documentary travelled across five continents to map an illegal trade in organs and body parts, and the brokers who drive it. With 20,000 people in Britain alone desperate for a new kidney and only 1,700 legal donors last year, the programme posed the question of how to balance the power of the market with individual human rights and ethical behaviour.

You Are What You Eat (2) revealed some of the most unhealthy people and diets in Britain. Nutritionist Gillian McKeith offered analysis and prescription, inviting viewers, and victims, to see the radical change that could be achieved by six weeks of healthy eating.

Offering an even faster transformation, **Ten Years Younger (3)** applied the combined resources of cosmetic surgeons, dentists, hairdressers, make-up artists – and a new wardrobe – to demonstrate that it was possible to reduce someone's apparent age by ten years in as many days. In each programme of the series someone who had been ravaged by time or lifestyle faced a poll in which a hundred people guessed their age. After ten days' intensive treatment, they attempted to persuade another random poll of passers-by to guess their age at ten years younger.

Living with Hunger (4) showed how a very different kind of physical change imposes itself on innocent victims in parts of Africa. The programme followed the celebrated journalist Sorious Samoura as he spent a month living with a family of subsistence farmers in Ethiopia sharing, in every respect, their lives and their diet. A powerful indictment of an inadequate international effort to provide food aid to some of the world's poorest people, the film also highlighted their extraordinary stamina – and the pressure on them to abandon the misery of rural life for a better chance in the city. But the most memorable element of the programme was the metamorphosis of Sorious

himself. The Guardian described as “harrowing” the spectacle of “...a confident outgoing man reduced to begging for food from his own camera crew and living on weeds”.

In the run-up to the Athens Olympics, Channel 4 invited three teams of world-class athletes to train and compete over six weeks in a variety of track and field events to create the programme **Cheating at Athens (5)**. One team's training regime was augmented by the use of banned steroids, another with performance-enhancing supplements, such as caffeine, which are allowed under Olympic rules, and the third team were given simple placebos. The results demonstrated that, despite the dangers to health and reputation, illegal drugs can indeed make a tempting difference to an individual athlete's performance.

Nip/Tuck (6), a slick, stylish drama series, cut through both skin and taboos to make caustic comment on the extent to which cosmetic surgery uses the promise of physical enhancement to mask what are essentially psychological flaws in its patients. At the same time, the series gave viewers a dark but hilarious perspective on human nature, with the Star warning: “You might find yourself watching much of it through your fingers”.

Without any doubt, the most powerful and moving programme about the human body on Channel 4 in 2004 was **The Boy Whose Skin Fell Off (7)**, a documentary about the last few months in the life of Johnny Kennedy, a 36-year-old sufferer from Dystrophic Epidermolysis Bullosa – a condition which meant his skin, literally, fell off at the slightest touch, leaving his body covered in sores and leading to the growth of what proved to be a terminal cancer. One of four Channel 4 programmes to win an international Emmy during the year, the Times wrote: “The most extraordinary people and the greatest spirits often pass their lives in total obscurity... we often think of television as a debased medium but it is unique in bringing such people into our homes.”



...thank you for this excellent programme. The appalling poverty it portrayed makes me very ashamed to belong to a country that has so much.

Viewer, *Transplant Trade*

What a remarkable and wonderful piece of television. ...It's difficult to say that you should be proud of it but I think he would be very happy with what you did. We will now be supporting the efforts of his charity.

Viewer, *The Boy Whose Skin Fell Off*



The World

A recent report on international news coverage, 'The World on the Box', produced by the Third World Environment and Broadcasting Project (3WE), in conjunction with the University of Westminster and the Rowntree Trust, said "Channel 4 News has been astonishingly consistent over the years with around 40% of its coverage devoted to foreign issues... there is a more reflective editorial policy focusing on international events even when they are not the subject of immediately breaking news." It went on to say "Our analysis demonstrated that of all the channels, Channel 4 appears to be the best performer and should be acknowledged on both its news and factual programme output as abiding by its remit."

This 3WE Report analysed news and current affairs, but Channel 4 also looks at other formats, including drama and highly personal television essays, to give its viewers a window on the world. 2004 saw reports from every corner of the globe but, perhaps inevitably in a year dominated by war in Iraq and a Presidential election in the US, much of Channel 4's best international coverage revolved around the power and politics of the USA.



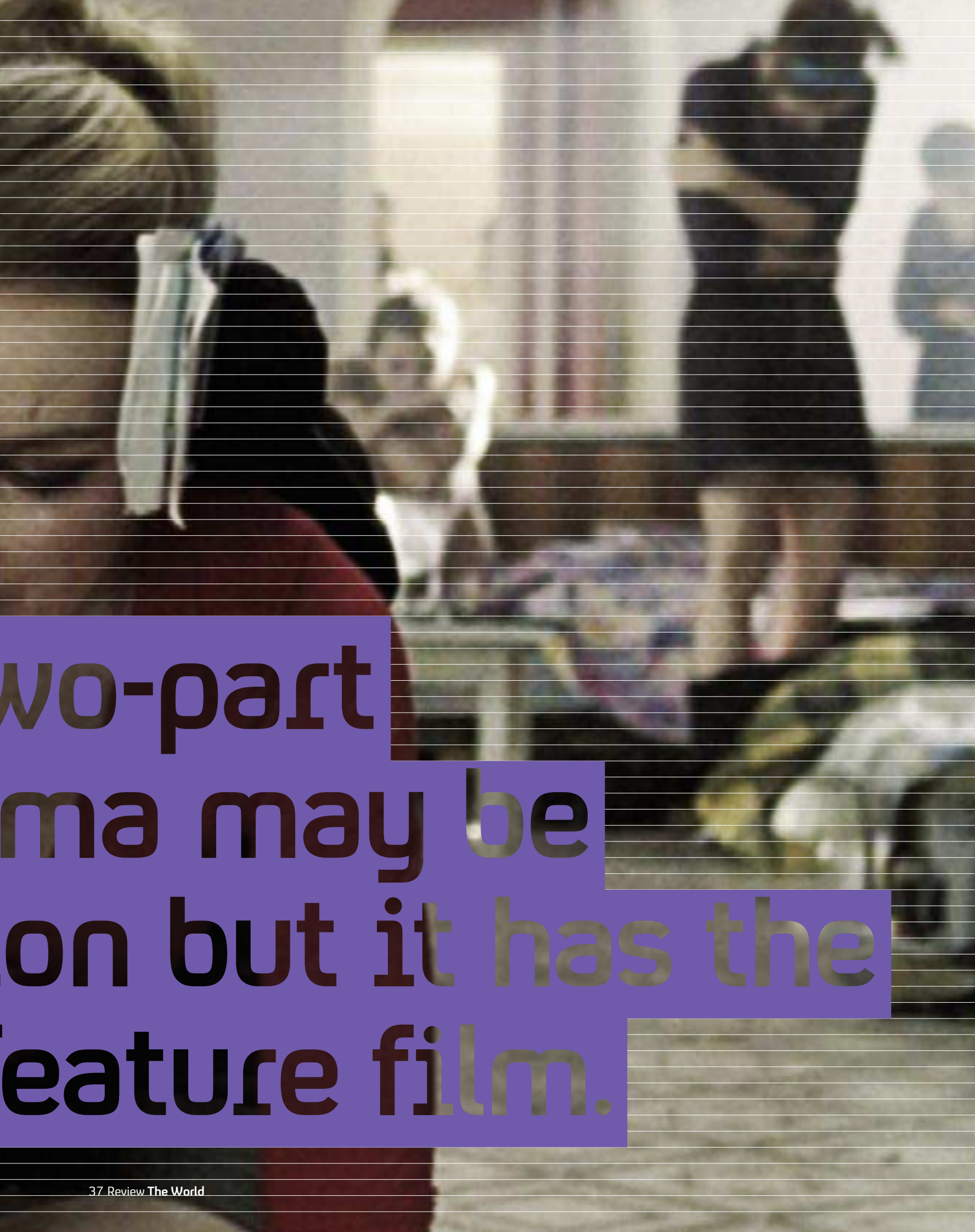
**The moral authority
of Unreported World
puts most television
programmes to shame.**

The Times, Unreported World



**This harrowing tv
documentary dra
made for televisi
grand scale of a f**

Daily Mail, Sex Traffic



Two-part
ma may be
on but it has the
feature film.

1 Unreported World
brings viewers
in-depth reports from
parts of the world
other documentaries
never reach.



2 American Colossus
argued that US
imperialism is not
just a fact of life –
it's a force for good.



3 White House For Sale
How corporate
money calls the tune
for both of America's
main political parties.



4 Dirty Race for the White House
Not everything is as it
should be in the land
of the free and the
home of the brave.



5 Texas Season
included a visit to
Houston – 'America's
fattest City'.



6 Sex Traffic
uncovered the billion
dollar slave trade
that blights Europe
at the start of the
twenty-first century.





In its eighth series, **Unreported World (1)** set out once again to illuminate issues which are not disaster-driven headline grabbers but which nevertheless have a profound impact on the people and politics of the developing world. Vote-rigging in Venezuela, the rising influence of pentecostal Christianity in Vietnam, a civil war in Congo which had cost four million lives in five years but been largely ignored because of the international news media's preoccupation with Iraq, events in Chechnya, Bolivia, Mauritius, Uzbekistan, Aceh, Haiti and Ivory Coast all featured in this peak-time series. In a report from Afghanistan, reporter Sam Kiley revealed that, far from being able to impose

Still in the US, a five-part **Texas Season (5)** was based on the belief that if you want to understand where America is going, you need to see where George W Bush came from. The American-based British journalist Christopher Hitchens, a strong supporter of US action in Afghanistan and Iraq, attempted to get inside the head and heart of Texas and its people. With a very different starting point, Marcel Theroux looked at how Texans view crime and punishment in a state where crime is at a 30-year low but the prisons have the busiest 'death rows' in the American penal system. Another programme examined the rising crisis of obesity in the US, and



As an exploration into the implications of US dominance, *American Colossus* made for fascinating, if not comforting, viewing.

The Independent, American Colossus

peace on that country, a thinly spread US military presence was doing little more than "renting peace" by paying local warlords to provide mercenaries whose reliability went no further than their most recent wage packet. Little wonder that the Mail on Sunday described *Unreported World* as the current affairs programme "reporting from parts of the world other documentaries don't reach". What's more, The Times said, "The moral authority of *Unreported World* puts most television programmes to shame".

In **American Colossus (2)** Prof Niall Ferguson suggested that US influence around the world is now so great, and its foreign policy approach so interventionist, that it constitutes, in effect, a global imperial presence. More controversially, he argued that this new imperialism was a force for good and could change the world for the better if only the American people would acknowledge, and adequately fund it, rather than denying its existence.

Two highly personal views of the state of American democracy, broadcast during the Presidential election campaign in the Autumn, put forward a rather more sceptical analysis of the role and mission of the US at the start of the twenty-first century. Jon Snow's **White House For Sale (3)** and Spectator columnist Peter Osborne's **Dirty Race for the White House (4)** catalogued the financial corruption of electoral politics and the power of corporate money in deciding the fortunes of the two main political parties, accusing the US of lacking any moral legitimacy in its claim to be a champion of democratic values elsewhere in the world.

why in a country where two-thirds of the population are overweight and one-third are officially obese, the Texan city of Houston still manages to win the unenviable title of 'America's Fattest City'. Two programmes looked at issues of religious faith: one examining the unexpected phenomenon of a growing community of Muslim converts in Texas, and a second that uncovered an almost hysterical campaign against pre-marital teenage sex run by the clergymen and teachers of the town of Lubbock (and described more fully on page 23 of this Review).

Based on detailed research undertaken with leading international human rights agencies, **Sex Traffic (6)**, a two-part drama, revealed the brutality of an international billion-dollar business which trafficks women and children from East to West Europe as sex slaves. A semi-fictionalised account of the odyssey of two young women, lured to Britain by the promise of good jobs and steady pay, only to find themselves literally raped and bludgeoned into prostitution, the film provided a horrifying illustration of one of the darker aspects of globalisation. Sparking widespread comment in the press and other media, and adding weight to the argument for new thinking and more effective action at national and European Union level, the drama made a unique contribution to an important public debate. But it was also riveting television. As the Daily Telegraph said, it "...beautifully combined its urgent political message with an exciting thriller".

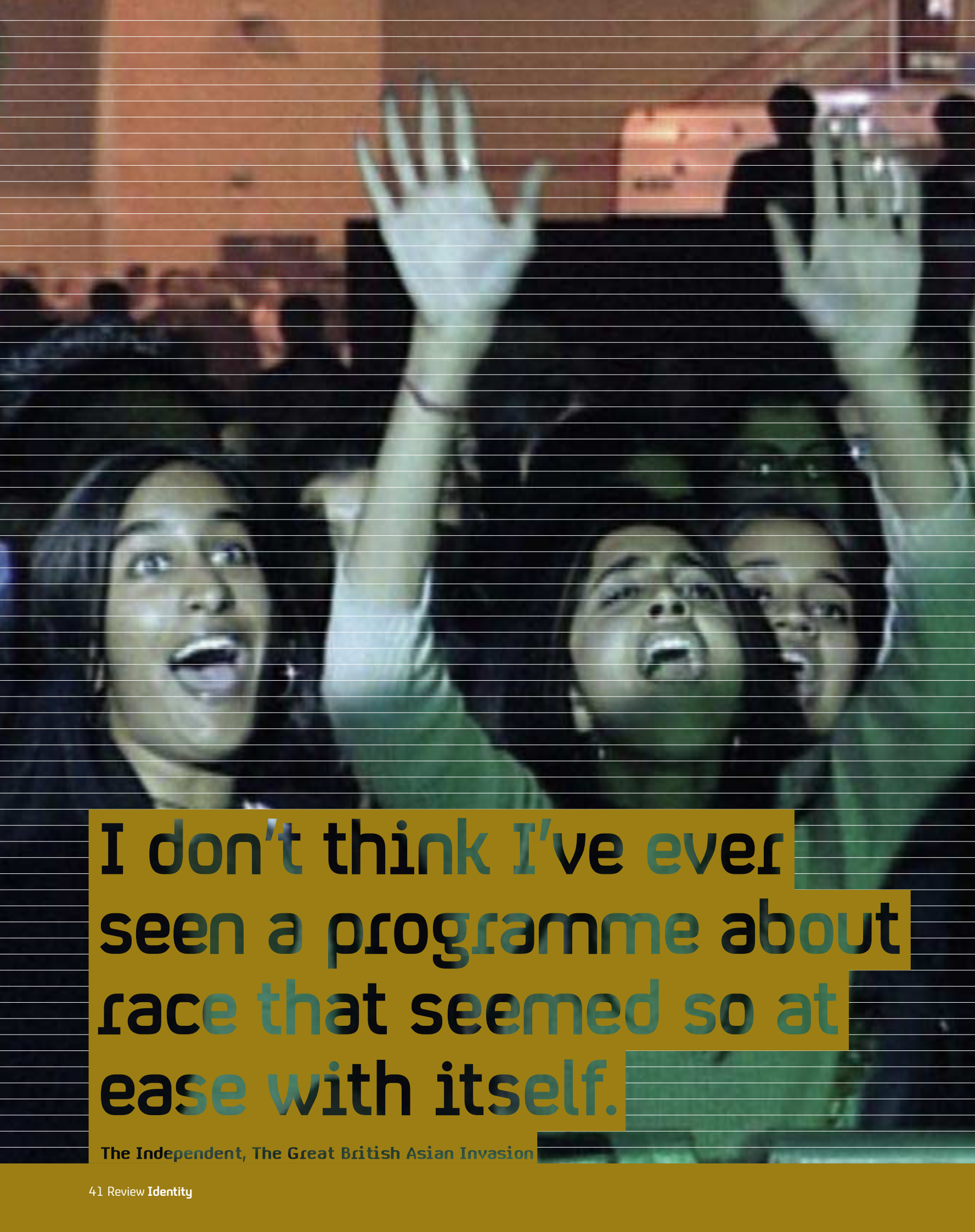


Identity

Part of Channel 4's public service remit is to "reflect the tastes and interests of a diverse society". Throughout its history, Channel 4 has explored issues of race, gender and sexuality, often bringing what has been on the outer margins of television into the mainstream, whether in drama, documentary or entertainment. It has made the 'authored documentary' one of its specialities, providing a platform for the expression of strongly held personal views and energetic public debate.

Most of all, it has celebrated individuality and difference. Series such as *Wife Swap* and *Faking It* have been amongst the most popular entertainment formats of recent years, but they have also succeeded in getting under the skin of contemporary society with compelling and important observations about how we in Britain see ourselves – and how we see each other.





**I don't think I've ever
seen a programme about
race that seemed so at
ease with itself.**

The Independent, The Great British Asian Invasion

1 The Great British Asian Invasion
provided a beginner's guide to the who, what and where-from of Britain's Asian communities.



2 I Won't Marry White

Three young British Asians explain that although they have dated white partners, when it comes to settling down they want a partner from their own community.



3 Human Face Transplant
set out the complex ethical issues at one of medical technology's most advanced frontiers.



4 Stealing Lives

How criminals steal people's identities to gain access to their bank accounts.



5 Children of Abraham

Christians, Muslims and Jews share common spiritual roots and a commitment to mutual respect and peace. So why do they spend so much time fighting each other?



6 Status Anxiety

suggested that although most of us crave wealth, what we really want is status.



More like this please. Could we please have this broadcast again soon? Also, I was very taken with the presenter. Viewer, *Status Anxiety*

I thought the programme was fabulous! Being a Muslim, it was great to finally see both sides portrayed fairly with their goodness and their extremes. Viewer, *Children of Abraham*



The Great British Asian Invasion (1) set out, in just two hours, to disentangle the diverse stories of the many British communities that are so often labelled simply 'Asian' – and the equally varied reasons why their forebears came to Britain. It went on to look at the experience and expectations of the second and third generations of those communities, through the eyes of some of their most successful and high-profile members, with the writer of the piece, Manzoor Safraz offering the thought that "Britishness has always been a work in progress". Candid but entertaining in tone, the programme prompted the Independent's critic to write: "I don't think I've ever seen a programme about race that seemed so at ease with itself".

Pursuing a parallel theme, **I Won't Marry White (2)**, followed three young British Asians who had each had white partners but were determined that, when it came to settling down permanently, they wanted a partner from their own community. A careful and sympathetic exploration of the sensitivities of religion, culture, personal and parental expectation, the programme also triggered a substantial measure of hostility, typified by one entry in the Channel 4 message log which read: "caller had not watched the programme but asserts that the content is blatantly racist against white people".

Technically possible but still never performed, a complete **Human Face Transplant (3)** is so complex as to be life-threatening for the patient while not, in the strict clinical sense, life-saving. Nevertheless, for people so disfigured by birth or accident that they cannot live a normal life, a face transplant could be genuinely life-transforming. But what of the psychological consequences of acquiring someone else's face? And what might be the impact on the family and friends of the dead donor? This extraordinary documentary set out some of the ethical issues that lie at one of medical technology's most advanced frontiers.

The drama **Stealing Lives (4)** looked at a very different kind of identity problem, the theft of personal details and identities to allow criminals access to people's bank accounts. Chronicling Britain's fastest growing category of crime, *Stealing Lives* was based on the true and successful prosecution of a Nigerian credit-card gang, a story which highlighted the difficulty of gathering solid evidence in an arena where everything moves at the speed of an electronic signal.

In **Children of Abraham (5)**, a Catholic who had trained for the priesthood, travelled to the Holy land, Egypt, Turkey, Bosnia and the US to ask why Christians, Muslims and Jews – all 'children of Abraham' – so readily demonise each other rather than looking for the mutual respect, unity and peace toward which their common scriptural roots point them.

Philosopher Alain de Botton looked at secular rather than religious sources of distinction between people in **Status Anxiety (6)**. He argued that whatever our background, social class or age, what we all want, even more than wealth, is status. Unlike the stratified societies of old where 'everyone knew their place', modern meritocratic societies leaves no place for the poor to retain their dignity; – because they are poorer than their neighbours, they are branded as failures, with no-one to blame but themselves. Talking to a wide variety of troubled citizens in Britain and the United States, Alain de Botton attempted to get to the root of this very modern malaise, and offer some suggestions of how we might escape from it.

Some years ago, Channel 4 launched the Black and Asian History Map, a web-site which allowed anyone, but especially school-children, to help chart the history of Britain's black and Asian communities by recording the stories of their own families and their neighbours. In 2004, we expanded the scope of the project to include all the communities of the UK, under the new title *Origination*.



Awards

Oscars

- *Motorcycle Diaries* (South Fork Pictures and Tu Va Voir Productions)
Best Original Song
- *Wasp* (Cowboy Films)
Best short film – live action

International Emmys

- *The Boy Whose Skin Fell Off* (Yipp Films)
Documentary Award
- *The Illustrated Mum* (Granada Kids)
Children and Young People Award
- *Brat Camp* (Twenty Twenty Television)
Non-Scripted Entertainment Award

International News Emmys

- *Channel 4 News* (ITN)
News Coverage Award (for the Madrid bombings)

Prix Italia

- *Shameless* (Company Pictures)
Best Drama Series or Serial

Montreux Television Festival

- *Wife Swap* (RDF)
Reality Show
- *Peep Show* (Objective)
Sitcom
- *My New Best Friend* (Tiger Aspect)
Game Show

Banff Television Awards

- *The True Face of War* (Lion Television)
Best Information and Current Affairs Programme
- *The Origins of AIDS* (co-production)
Best Popular Science and Natural History Programme
- *Animated Minds, The Slot* (APT Productions)
Best Animation Programme, Student Jury Award for Best Animation Programme

Golden Gate Awards (San Francisco)

- *Cutting Edge, Bad Behaviour* (Lion Television)
Best International Documentary

Toronto Film Festival

- *Omagh*
(Tiger Aspect/Hell's Kitchen Productions)
Discovery Award

San Sebastian Film Festival

- *Omagh*
(Tiger Aspect/Hell's Kitchen Productions)
CICAE Award for Best European Film

Videodanse (Athens)

- *Cost of Living* (DV8 Productions)
People's Choice Award

Irish Film and Television Awards

- *Omagh*
(Tiger Aspect/Hell's Kitchen Productions)
Best Irish Film, Best Actor (Gerard McSorley), Best Actress (Michele Forbes), Best Director (Pete Travis), Best Cinematography (Donal Gilligan), Best Script (Guy Hibbert/Paul Greengrass)
- *The Bronx Bunny* (Double Z Enterprises)
Best Entertainment Show

Vienna TV Awards

- *The Death of Klinghoffer* (Blast! Films)
TV Award

Broadcast Awards

- *Wife Swap* (RDF)
International Programme Sales Award

- *Wife Swap* (RDF)
Best Popular Factual Programme
- *Wife Swap* (RDF)
Best New Programme
- *Bo Selecta* (Talkback)
Best Comedy Programme
- *Operatunity* (Diverse Productions)
Best Documentary Series
- *Cutting Edge, Bad Behaviour* (Lion Television)
Best Documentary Programme

RTS Television Journalism Awards

- *Channel 4 News* (ITN)
News Event Award (for Iraq War coverage)

Indie Awards

- *DNA The Story of Life* (Windfall Films)
Technology/Natural History Award
- *The Book Group* (Pirate Productions)
Scripted Comedy Award
- *Wife Swap* (RDF)
Reality Award
- *Philip Larkin, Life and Death in Hull* (Oxford Film and Television)
Music and Arts
- *Ancient Egyptians* (Wall to Wall Productions)
Historical Documentary Award
- *Inside the Mind of a Suicide Bomber* (October Films)
Current Affairs Award
- *Tales from the River Cottage* (Keo Films)
Information/Instruction Award

RTS Programme Awards

- *The Last Peasants* (October Films)
Documentary Series
- *Georgian Underworld, Invitation to a Hanging* (Juniper Productions)
History Programme or Series
- *The Deal* (Granada Television)
Actor (David Morrissey)
- *Pleasureland* (Kudos Productions)
Best Newcomer on Screen (Katie Lyon)
- *Operatunity* (Diverse Productions)
Arts Programme or Series

BAFTA Television Awards

- *Buried* (World Productions)
Drama Serial
- *The Deal* (Granada)
Single Drama
- *Wife Swap* (RDF)
Features
- *Channel 4 News* (ITN)
News Coverage (The Fall of Saddam)

BAFTA Craft Awards

- *Operatunity* (Diverse Productions)
Sound Factual
- *Ancient Egyptians* (Wall to Wall Productions)
Photography Factual

TV Quick Awards

- *Wife Swap* (RDF)
Best Factual Entertainment
- *E4*
Best Digital Channel
- *How Clean is Your House?* (Talkback/Thames)
Best Lifestyle Show

National Television Awards

- *Big Brother* (Endemol UK)
Most Popular Reality Programme
- *Wife Swap* (RDF)
Most Popular Factual Programme

Grierson Awards

- *Terror in Moscow*
(Mentorn Barraclough Carey)
Best Documentary on a Contemporary Issue
- *The Boy Whose Skin Fell Off* (Yipp Films)
Best Newcomer (Patrick Collerton)

Rory Peck Awards

- *Channel 4 News* (ITN)
Hard News Award (Martin Adler, On Patrol with Charlie Company)
- *Channel 4 News* (ITN)
International Impact Award (Philip Cox, Inside Darfur – First Images of the Crisis)
- *Death in Gaza* (Frostbite Films)
Features Award (James Miller)

RTS Craft and Design Awards

- *Omagh* (Tiger Aspect/Hell's Kitchen Productions)
Special Effects (Kevin Byrne/Team FX)
- *Fashion Rocks* (Initial Productions)
Lighting Photography Camera, Lighting for Multi-Camera
- *Men of Iron* (Windfall Films)
Picture Enhancement Award (Aidan Farrell)

British Animation Awards

- *Dad's Dead* (Slinky Pictures)
Best Short Film, Best Film at the Cutting Edge
- *How to Cope with Death* (Tandem Films Entertainment) – Public Choice Award
- *EXT 21* (Finetake Productions)
Best Music Award

Royal Philharmonic Society RPS Music Awards

- *Operatunity* (Diverse Productions)
RPS Music Award for Radio, Television and Video Audience Development Award

Amnesty International Media Award

- *Channel 4 News* (ITN)
Television News Award (Lindsey Hilsum, for Equatorial Guinea)

One World Media Awards

- *Lindsey Hilsum*
Journalism Award
- *The Day I'll Never Forget* (Shine Productions)
Women in Society Award

Mental Health Media Awards

- *Channel 4 News* (ITN)
Winner, Television and Radio Category
(Death by Restraint: The Rocky Bennett Story)

Bar Council Legal Reporting Awards

- *Dispatches: Judges in the Dock* (ITN)
Winner Broadcast category

In addition, Channel 4's **Marketing department** won eight Promax awards for its Channel and programme promotions; our **Legal and Compliance department** won the TMT Inhouse Legal Team of the Year Award from the Lawyer magazine; our **Information Systems department** won an 'Excellence in Business' award for technical innovation; our **Interactive team** won a BIMA (British Interactive Media Association) award for one of Channel 4's many websites; our **Security team** won the award for 'Best Manned Guarding Company' – for the third consecutive year – at the Security Excellence Awards; our **Acquisition team** had the pleasure of seeing the US programmes they bought for Channel 4 win 16 Emmys and five Golden Globes; and we even won three awards for our annual Review, including the prestigious I.D. Design Award in the US.

Finance



More than just a TV company

As a major publicly owned business, we believe our social responsibility goes well beyond our core functions as a broadcast business. If Channel 4 is to flourish and also make its proper contribution to the quality of public life in the UK, it must live by the same values it demonstrates in its programmes: a commitment to innovation and experiment; the celebration of diversity; and an ability to think independently. These qualities cannot be extras for us; they have to be a central part of how we run our business.

Channel 4 is the biggest investor in independent creative businesses in Britain

Channel 4 commissions programmes from more than 300 companies spread across every nation and region of the UK. In an industry dominated by a London-centric view, we invest £113 million per annum in production outside the London area and thereby provide employment for an estimated 7,000 skilled people. Over many years, Channel 4 has developed initiatives that help our programme suppliers to grow and prosper, from the smallest start-ups to the bigger, well-established companies whose creative energy and good management are essential to Channel 4's own fortunes. We run many of these initiatives in collaboration with other organisations, including the Producers Alliance for Cinema and Television (PACT), the trade association to which most of our suppliers belong.

- Channel 4 is the major sponsor of the Research Centre for Television and Interactivity, hosted in our Glasgow offices. The Centre provides independent support for small and medium-sized television production companies based outside the London area, with a portfolio of services to help them become more competitive.
- our Researchers' Development Programme allows 12 non-London production companies to employ a full-time research and development worker for a year and gives them special access to senior commissioning editors across all television networks.
- in 2004 we invested more than £0.5 million pounds in schemes designed specifically to bring more young people from minority communities into the television industry. We provide a year's on-the-job training for young researchers and for trainee commissioning editors and production staff.
- our company development fund grants sums of up to £50,000 to small and medium sized production companies to help them realise their ambitions for business growth.
- we work with our suppliers to encourage inter-company collaboration, and the development of relevant post-graduate courses with local universities.
- in 2004, we took 11 independent producers to the US to meet key broadcasters and learn some of the secrets of operating in the international market-place.

Channel 4 also supports a broad range of initiatives that foster individual talent at every stage of its development, including:

- schemes for school-age children interested in making films and television.
- schemes that develop the skills of writers and film-makers from minority communities.
- schemes that give young film-makers their first chance to make a programme for network television.
- competitions, training workshops and on-going support for comedians, animators, actors, theatre directors, writers and production staff.
- special courses for film-makers working in war zones or areas of danger and conflict.
- special courses for actors and production staff with physical disabilities.

During 2004, Channel 4 supported or sponsored around 30 initiatives devoted to developing new talent and skills relevant to the TV industry. As with our company development schemes, many of these initiatives run in collaboration with other organisations and sponsors.

Channel 4 is committed to developing the talent and diversity of its own staff

Channel 4 was the first major broadcaster to achieve Investors In People status four years ago. In 2004, we provided 476 different types of courses for our staff, ranging from a six-day MBA (developed in-house by our Human Resources department and subsequently franchised to other companies), to courses on creative thinking, deaf awareness, time management and business planning.

Channel 4 is a member of the Cultural Diversity Network which encourages all major broadcasters to achieve an appropriate diversity in their workforce and their on-screen representation. Channel 4 has set itself targets of 13% of its overall workforce and 9% of its senior management from black and ethnic minority communities. The current figures are 12% and 6% respectively. Each commissioning department has on-screen diversity targets, which are monitored, and production companies supplying programmes to Channel 4 are required to complete a form indicating the level of on-screen representation of ethnic diversity in each programme and setting out in what way the programme reflects Channel 4's commitment to promoting and celebrating cultural diversity.

Channel 4 is also a member of the Broadcasters and Creative Industries Disability Network and we maintain a web-based Disability Directory to enable more people with disabilities to find work in the television industry. In addition, we offer dedicated employment and training schemes, focusing particularly on people working for our magazine series for the deaf, Vee-TV.

In 2004, based on an organisation-wide staff survey, we have worked with staff to implement flexible working options and a flexible benefits scheme which allows individuals to tailor their benefits package to suit their personal priorities and stage of life.

We are in the process of implementing a new appraisal process to improve the quality of communication between staff, and new leadership training programmes.

We routinely measure air quality, energy, water use and the volume of waste in our office areas. We make practical provision for recycling and for the conservation of energy by automatically shutting down lighting and equipment whenever practical.

Channel 4 sponsors and supports events that contribute to the quality of Britain's cultural life

In 2004, Channel 4 contributed £1.3 million to registered charities, primarily to organisations that contribute to industry related training. Our wider cultural sponsorship ranges from the Hay-on-Wye literary festival to the So You Think You're Funny comedy awards which, from regional heats to the final event at the Edinburgh Festival, have become one of the recognised routes for young comedians to come to public notice. Our Animators in Residence scheme at the National Museum of Photograph, Film and Television in Bradford is an inspiration to young animators and a source of award-winning animations at national and international level. On-air, we support such major events in the arts calendar as the Turner Prize and the Stirling Prize; off-air, we support a wide range of initiatives which in 2004 included a season of Tarantino films at the Institute of Contemporary Arts, a series of live music events to celebrate the West Indian cricket tour of the UK, the development of our own in-house art collection, Art 4, which focuses on the work of emerging artists in the UK, a newly established Asian Women's Film Festival and a variety of live debates and seminars prompted by some of our own programme output.

Channel 4 supports charitable giving and community action

Our programme support and online services offer information on volunteering opportunities which, in 2004, included an on-air competition inviting young people to propose projects to benefit communities in the developing world. The three best proposals were each given £10,000 and the realisation of the projects in Gambia, Cambodia and Bolivia was shown as part of a television series on social entrepreneurialism. Our Brilliant Career and IDEASfactory websites promote involvement in voluntary organisations as an effective means for young people to find both personal and career development opportunities. Channel 4 is a core sponsor of the Media Trust and of its Community Channel. We support local and national charities and not-for-profit organisations by making our own facilities and expert staff available, as well as by providing financial assistance. Channel 4 staff are encouraged to offer their services as volunteers and mentors and to take part in fund-raising activities for local and national charities. Staff are also encouraged to contribute to charities through a GAYE scheme.

Channel 4 is required to enrich at least eight hours of TV programming each week with telephone help-lines, publications and online information and advice. In practice, we provided programme support for more than 12 hours a week during 2004. We also offer online discussion forums, many related to particular television programmes, while others, such as our 4Health website which attracted 1.2 million visits in 2004, provide services of more general interest to our viewers. The Time Team Club, based on Channel 4's long-running and popular archaeology programme, is one of the biggest and most active history societies in the UK.

Developing corporate social responsibility

In 2004, Channel 4 decided to review what it was already doing as a good employer and a good corporate citizen with a view to developing a more formal corporate social responsibility strategy. We joined the CSR Media Forum, an informal organisation to which many leading broadcasters and telcos belong. A working group was established within the Corporation, with expert support from the organisation Forum for the Future, to review the Corporation's activities, consult staff and stakeholders and identify a programme for change, with appropriate targets and priorities, to be overseen by the Channel 4 Board. This resulted in the adoption of the following statement:

"Channel 4's role goes beyond creating powerful television. In terms of corporate responsibility our mission is to inspire and challenge the behaviour of our people, producers and suppliers and audiences to promote positive social, environmental and personal change."

To begin to give this statement practical expression, we have identified five objectives for the year ahead:

- we will encourage a step-change in leadership and organisational effectiveness through the introduction of an improved appraisal process and the implementation of a new leadership training programme designed to support and strengthen the capabilities of our managers.
- we will establish a group to draw up and oversee the Corporation's charitable policy, establishing a range of action-oriented ways to support not-for-profit organisations in our chosen fields.
- we will assign formal responsibility for the setting and management of environmental policies and targets, audit our current practice and set ourselves stretching targets for improvement. We will publish and communicate this environmental policy.
- we will communicate our corporate responsibility activities more systematically, to internal and external audiences, and will set up dedicated sites on our intranet and on channel4.com.
- we will adopt stretching and comprehensive diversity targets, and a well-communicated strategy for achieving them.

Operating and financial review

Objectives

Channel 4 primarily exists to provide a range of innovative, creative and distinctive programming to cater for the ever changing society we live in today.

Investing in original programming

Once again we succeeded in substantially increasing our investment in programming. The total cost of programming on Channel 4 was £485.5 million compared with £457.5 million in 2003. This was made possible by an excellent financial performance across our range of businesses and translated into a diverse, high quality and provocative schedule, reflected by our success in numerous awards (see page 44).

Preparing for the future

The UK television market is changing rapidly. It will be necessary for us to invest substantially over the coming years to ensure that Channel 4 is fully prepared for the challenges that will accompany the transition to a fully digital environment.

The recently announced review of the organisational structure of the group and particularly 4 Ventures will help to consolidate and strengthen our core channels businesses. We will continue to develop our other ventures including New Media and Rights and seek out commercial investment opportunities that can exploit and strengthen our core activities.

The surplus achieved in 2004 will enable us to make the necessary investments to future proof the Corporation, including plans to extend our presence in multi-channel and multi-platform, and help retain our unique position in the UK television market.

Audience

Our commercial performance is dependent on delivering valuable airtime to advertisers. All aspects of audience data (including total audience, audience share, demographics and commercial impacts) are monitored closely throughout the year and compared with previously agreed targets. Channel 4 achieved all its audience share targets in 2004 and increased its overall share to 9.8% (2003: 9.6%).

Group

Turnover

The group recorded significant revenue growth in 2004. Group turnover amounted to £841.4 million (2003: £769.6 million), this growth being driven by improvements in all areas of the business. Channel 4 performed broadly in line with the market, with growth in advertising revenue of 8%. All 4 Ventures business divisions recorded considerable increases in revenue – many achieving double digit growth. Revenue earned by 4 Ventures ongoing businesses represented 19% of group turnover (2003: 19%).

Profit

The increased turnover translated into an increase in profit before tax of £20.4 million, to give a full year profit before tax of £65.7 million (2003: £45.3 million). The year's results can be summarised as follows:

	2004 £m	2003 £m
Profit/(loss) before interest, tax and restructuring costs		
Channel 4	60.3	59.4
4 Ventures (ongoing businesses)	12.1	3.2
attheraces	–	(10.5)
Profit on sale of attheraces	1.3	–
FilmFour Ltd	0.5	(1.0)
Net interest	3.4	0.2
Total consolidation adjustments	0.1	0.8
Group profit before tax and restructuring costs	77.7	52.1
Restructuring costs		
Channel 4	(11.7)	(4.1)
FilmFour Ltd	(0.3)	(2.7)
Group profit before tax	65.7	45.3
Tax charge	(19.7)	(11.0)
Group profit after tax	46.0	34.3

Channel 4

Profit

Channel 4's operating profit before restructuring costs rose to £60.3 million (2003: £59.4 million). The key contributing factors can be summarised as follows:

	£m
Channel 4 operating profit before restructuring costs for 2003	59.4
Increased advertising and sponsorship revenue	49.2
Increased investment in programmes	(34.3)
Increased promotion of programming	(8.0)
Change in treatment of film amortisation	6.3
Reduction in the valuation of the Horseferry Road building	(7.7)
Other movements	(4.6)
Channel 4 operating profit before restructuring costs for 2004	60.3

The increased promotion of programming includes funds allocated to marketing and to develop the profile of the Channel (such as the new corporate identity which was launched at the end of 2004) and promote major programme events. These initiatives will help strengthen the Channel 4 brand and form a vital part of our longer-term strategy – the stronger the Channel is now, the better we will be able to manage the transition to a more fragmented digital market.

Allowance has been made for bonuses payable to staff in recognition of the outstanding performance in the year.

It was also necessary to account for reductions in the value of the Horseferry Road building, reflecting the continued weakening of the commercial property market in the Victoria area due to the volume of newly built offices.

Restructuring costs

Further investment was made to improve efficiency in the longer term. Following the reductions in staff levels achieved over recent years, we have decided to dispose of two of our leased properties and consolidate all personnel in the Horseferry Road building and one leased property. Further restructuring also took place, which will help reduce our ongoing costs.

Programmes and the Ofcom licence

In 2004 Channel 4 increased expenditure on programmes to record levels once again. Total expenditure on programmes was £485.5 million – an increase of £28 million (2003: £457.5 million). We met all our Ofcom licence obligations. The percentage of hours of originated programmes was 62% overall (target 60%) and 79% in peak hours (target 70%). In peak, 87% of our hours were first run (target 80%), and overall 62% of programming was first run (target 60%). We also achieved the target of 30% (£112.5 million) of Channel 4's originated programming being supplied by production companies from outside the M25.

4 Ventures

Building on the success of recent years, in 2004 the 4 Ventures group as a whole returned an operating profit for the first time.

The operating profits/(losses) of the constituent parts of 4 Ventures were as follows:

	2004 £m	2003 £m
4 Channels	(1.8)	(7.8)
4 Rights	13.1	11.5
4 Learning	2.1	1.4
4 Services	2.3	1.5
4 Ventures corporate	(3.6)	(3.4)
4 Ventures (ongoing businesses)	12.1	3.2
attheraces	–	(10.5)
FilmFour Ltd	0.5	(1.0)
4 Ventures' consolidation adjustments	(0.1)	0.8
Operating profit/(loss)		
before restructuring costs	12.5	(7.5)
Restructuring costs	(0.3)	(2.7)
4 Ventures profit/(loss)	12.2	(10.2)

Performance (ongoing businesses)

Turnover

The turnover for 4 Ventures' ongoing businesses increased year on year by 11% to £161.0 million (2003: £145.1 million). This was delivered by growth across all divisions.

Profitability

With the exception of 4 Channels, which recorded a small loss following the decision to invest further in the E4 programme schedule (£2.8 million), all operating divisions of 4 Ventures reported profit. Profit for the ongoing businesses more than tripled from 2003, this being delivered by further growth in turnover and continued efficiencies in costs. The key contributing factors can be summarised as follows:

	£m
4 Ventures ongoing businesses 2003	
operating profit	3.2
4 Channels' improved performance	6.0
4 Rights' improved performance	1.6
Improved performance in other businesses	1.3
4 Ventures ongoing businesses 2004	
operating profit	12.1

The 4 Channels division, made up of the two E4 and three FilmFour channels, had another successful year of improved performance. The future for the 4 Channels business includes increased investment in E4 programming and the launch of More4, which is scheduled for autumn 2005.

4 Rights performed well, although the impact of the Programme Supply Review (PSR) will significantly reduce returns from the exploitation of secondary rights over the coming years.

Profits in 4 Services increased by more than 50% as a result of increased activity across the business, and particularly on telephone services.

Higher profits were earned in 4 Learning from increased sales of educational products.

Group foreign currency, cash and treasury management

Details of the group's foreign currency, cash and treasury matters are disclosed in note 16. The group's treasury management policies and strategies operated throughout the year, and the year-end position reflects those policies and strategies. Further details of the accounting policy for financial instruments is set out on page 56. The excellent financial performance has allowed us to build up cash reserves which will help us make the necessary investments to future proof Channel 4 as the UK broadcast market develops and diversifies.

Group taxation

The group is subject to corporation tax on its profits. The group profit recorded for 2004 has given rise to a £19.7 million tax charge (2003: £11.0 million). The group effective tax rate this year of 30% (2003: 24%) is in line with the standard UK corporation tax rate.

Report of the members

The members present their report and the audited financial statements for the year ended 31 December 2004.

Principal activities

Channel Four Television Corporation

Channel Four Television Corporation (the Corporation) is a statutory corporation, without shareholders, established under the terms of the Broadcasting Act 1990. The Corporation encompasses Channel 4 and its principal subsidiary, 4 Ventures Ltd (4 Ventures).

Channel 4

Channel 4 is a public service broadcaster funded solely from commercial revenues. Channel 4 receives free spectrum in return for fulfilling public service obligations as set out in the 1990 and 1996 Broadcasting Acts and the licence issued by Ofcom, which came into effect from 1 January 2004. This replaced the 10-year licence issued by the ITC on 31 December 2002.

Commercial activities

In addition to the core public service Channel, the group pursues various commercial activities which are incidental and conducive to the operation of Channel 4. These include:

- E4 and FilmFour Channels: subscription based TV channels specialising in entertainment programming and films respectively.
- Exploitation of secondary rights through the sale of programmes and associated products (DVDs, books etc).
- 4 Learning which manages the Channel's education and support material across all media.
- New Media businesses including internet advertising and telephony services.
- 124 Facilities providing post production and studio facilities.
- 4 Creative providing creative design and production services.

Business review

The Chairman's statement on page 2, the Chief Executive's report on page 4 and the operating and financial review on pages 48 to 49 form part of this report and provide information on the development of the group's activities during the year and the outlook for the future. The group's results are set out on pages 53 to 76.

Members

The members of the Board have full responsibility and discretion for deciding and operating the group's policies and for the conduct of the group's affairs.

The present members of the Corporation are listed on page 83. Since 1 January 2004, the following members have been appointed or retired:

Appointments	Date of appointment
Luke Johnson	28 January 2004
Karren Brady	13 July 2004
Andy Mollett	13 July 2004
Andy Duncan	19 July 2004
Tony Hall	1 April 2005
Retirements	Date of retirement
Vanni Treves	25 January 2004
Mark Thompson	9 June 2004
Peter Bazalgette	30 June 2004
Joe Sinyor	30 June 2004
Rob Woodward	31 January 2005
Andrew Graham	31 March 2005

Details of members' remuneration are contained within the report on members' remuneration on pages 84 and 85.

Paola Tedaldi was appointed as corporation secretary on 31 March 2004, replacing Andrew Brann who retired on that date.

Members' interests

The Corporation fully embraces the principles of good corporate governance and, to this end, makes full disclosure of all members' interests. During 2004, members, in addition to their non-executive member fees as disclosed on page 84, were interested in the following contracts negotiated at arm's length on normal commercial terms with the group:

- Ian Ritchie is a director of Active Navigation Ltd and the Edinburgh International Film Festival. In 2004, these companies received a total of £8,100 for commercial services provided to Channel 4.
- Barry Cox's company, Mapledene TV Productions Ltd, received £24,000 for consultancy services.
- Luke Johnson is a director of the Cobden Club, which received £5,100 for services provided.
- Andy Mollett is a director of EMI Music Publishing Ltd. EMI group companies received a total of £141,700 during 2004 for music licences.
- Peter Bazalgette is Chairman of Endemol UK plc and a director of Zeppotron Ltd, Victoria Real Ltd and Brighter Pictures Ltd. In 2004, £52.9 million of the group's expenditure related to programmes provided by these companies. These programmes included Big Brother 5, The Games, Kings of Comedy and Fool Around With.... Peter Bazalgette played no part in the decisions to commission these programmes.

Employment policy

The Corporation is an equal opportunities employer and does not discriminate on grounds of sex, sexual orientation, marital status, race, colour, ethnic origin, disability, age or political or religious belief in its recruitment or other employment policies. The ethos of the group for both job applicants and staff is that everyone matters.

The Corporation has established an ethnic monitoring system for its recruitment and the ethnic composition of its staff. The representation of ethnic minorities amongst its permanent staff in 2004 was 12% (2003: 12%). Women continue to form the majority of its staff at 51% (2003: 51%).

The group encourages applications from people with disabilities. The policy is to recruit, train and provide career development opportunities to disabled people, whether registered as such or not, on the same basis as that of other staff. In the event of an employee becoming disabled, every effort is made to ensure that his or her employment with the group continues.

Employee involvement and consultation

The quality, commitment and effectiveness of the group's staff are crucial to its continued success. The Corporation has continued to invest significantly in its staff through training and development. The Corporation has been accredited with the Investors In People standard since 2001. In addition, the group informs and consults with its employees through:

- an internal intranet information service available to all members of staff.
- meetings hosted by executive members during which staff are briefed on recent developments and strategic plans.
- regular departmental meetings during which information is disseminated and staff have an opportunity to air their views.
- recognition of trade unions. A minority of the group's employees are members of one of two recognised trade unions, BECTU or Equity.
- an internal communications function, which aids effective communication across the organisation, co-ordinates internal culture activities and helps to implement business change projects.

Charitable donations

During 2004, the group donated £1.3 million to charities (2003: £1.2 million).

Channel 4 is required under its licence to contribute 0.5% of qualifying revenue to training and development. Of this amount, £1.2 million (2003: £1.1 million) was paid to charities to provide training that will improve the overall expertise of television staff in the industry. In addition to these amounts, £0.1 million (2003: £0.1 million) was donated to other charities.

Research and development

The group devotes substantial resources to the development of scripts and treatments for possible commissioning. Programme development expenditure charged to the profit and loss account in 2004 amounted to £9.1 million (2003: £7.5 million).

Channel 4 website

In keeping with our strategy to connect with viewers across all platforms, the Corporation has published this report on its website, channel4.com

International Financial Reporting Standards (IFRS)

In 2002, the European Commission decided that with effect from 1 January 2005, all listed companies in Europe will have to comply with IFRS. Although not a listed company, Channel 4 will adopt IFRS from that date, and the 2005 Financial Statements to be published in 2006 will be drawn up under IFRS.

A project to examine the implications of this change and identify the major areas of impact has been in progress throughout 2004. Channel 4's profits are not expected to be materially altered, but the following areas will be affected:

- the assets and liabilities of the group's pension scheme will be shown on the group balance sheet.
- certain developed software costs which were written off under UK GAAP will be recognised on the group balance sheet and amortised over an appropriate period.

Auditors

Following a tendering process during 2004, and with the approval of the Secretary of State for Culture, Media and Sport, KPMG LLP were appointed as auditors to the Corporation and have expressed their willingness to continue in office.

Going concern

Based on normal business planning and control procedures, the members have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the members continue to adopt the going concern basis in preparing the financial statements.

By Order of the Board:

Andy Duncan
Chief Executive
4 April 2005

Report of the auditors

Independent auditors' report to the members of Channel Four Television Corporation (the Corporation)

We have audited the financial statements on pages 53 to 76. In addition to our audit of the financial statements, the members have engaged us to audit the information in the members' remuneration report that is described as having been audited, which the members have prepared as if the Corporation were a listed company and which is thus compliant with Schedule 7A to the Companies Act 1985.

This report is made solely to the Corporation's members, as a body, in accordance with the Broadcasting Act 1990 and direction thereunder by the Secretary of State. Our audit work has been undertaken so that we might state to the Corporation's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation and the Corporation's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of members and auditors

The members are responsible for preparing the Annual Report and the members' remuneration report. As described on page 77, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the members' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 as if the disclosure and measurement requirements of the Act had applied to these financial statements. We also report to you if, in our opinion, the members' report is not consistent with the financial statements, if the Corporation 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 members' remuneration and transactions with the group is not disclosed.

In addition to our audit of the financial statements, the members have engaged us to review their corporate governance statement as if the Corporation were required to comply with the Financial Services Authority listing rules in relation to these matters. We review whether the statement on page 77 reflects the Corporation's compliance with the nine provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement and the unaudited part of the members' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 part of the members' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Corporation's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Corporation and the group as at 31 December 2004 and of the profit of the group for the year then ended; the financial statements have been properly prepared in accordance with the Broadcasting Act 1990 and direction made thereunder by the Secretary of State and the part of the members' remuneration report to be audited has been properly prepared in accordance with the Companies Act 1985 as if the disclosure and measurement requirements of that Act had been applied to these financial statements.

KPMG LLP

Chartered Accountants
Registered Auditors
London
4 April 2005

Consolidated profit and loss account for the year ended 31 December

	Note	2004 £m	2003 £m
Total turnover (including share of joint venture)	1	841.4	779.3
Less share of joint venture's turnover	9	–	(9.7)
Group turnover		841.4	769.6
Operating expenditure			
recurring		(760.7)	(704.6)
exceptional	4	(19.7)	(9.4)
Total operating expenditure	2	(780.4)	(714.0)
Group operating profit		61.0	55.6
Share of joint venture's operating loss	9	–	(10.5)
Total operating profit	1 and 3	61.0	45.1
Profit on sale of investment in attheraces	9	1.3	–
Net interest receivable	6	3.4	0.2
Profit on ordinary activities before taxation		65.7	45.3
Taxation	7	(19.7)	(11.0)
Profit for the financial year	17	46.0	34.3

All results relate to continuing operations.

Statement of total recognised gains and losses for the year ended 31 December

	Note	2004 £m	2003 £m
Profit for the financial year	17	46.0	34.3
Unrealised deficit on revaluation of buildings	10	–	(0.6)
Total recognised gains for the year		46.0	33.7

The notes on pages 56 to 76 form part of these financial statements.

**Viewer who loathes cricket with a bitter
passion called to express his disgust
at length. Doesn't believe that anyone would
prefer to watch the game rather than Friends
repeats or Bewitched.**

Viewer, Cricket

Balance sheets

as at 31 December

	Note	Group 2004 £m	Group 2003 £m	Channel 4 2004 £m	Channel 4 2003 £m
Fixed assets					
Tangible assets	10	51.4	61.0	51.4	61.0
Current assets					
Stock and work in progress	11	171.9	200.9	149.6	165.9
Debtors	12	120.9	121.4	101.9	121.8
Current asset investments	16c	60.0	–	60.0	–
Cash at bank and in hand	16c	128.4	80.3	128.3	80.3
		481.2	402.6	439.8	368.0
Creditors – amounts falling due within one year	13	(133.0)	(113.9)	(86.8)	(66.4)
Net current assets		348.2	288.7	353.0	301.6
Total assets less current liabilities		399.6	349.7	404.4	362.6
Interest in net liabilities of joint ventures	9	–	(1.7)	–	–
Provisions for liabilities and charges	14	(11.6)	(6.0)	(8.9)	(3.2)
Net assets		388.0	342.0	395.5	359.4
Profit and loss account	17	388.0	342.0	395.5	359.4
		388.0	342.0	395.5	359.4

The financial statements on pages 53 to 76 were approved by the Board of members on 4 April 2005 and were signed on its behalf by:

Luke Johnson
Chairman

Andy Duncan
Chief Executive

The notes on pages 56 to 76 form part of these financial statements.

Consolidated cashflow statement for the year ended 31 December

	Note	2004 £m	2004 £m	2003 £m	2003 £m
Net cash inflow from operating activities	15		123.1		34.4
Returns on investments and servicing of finance					
Interest received		3.8		0.8	
Interest paid		—		(0.6)	
			3.8		0.2
Taxation					
UK corporation tax paid			(11.9)		(11.3)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets	10	(5.3)		(3.3)	
Receipts from sales of tangible fixed assets		—		4.1	
Loans made to joint venture	9	(1.7)		(9.1)	
			(7.0)		(8.3)
Acquisitions and disposals					
Proceeds from sale of investment in joint venture	9		1.3		—
Management of liquid resources					
Increase in current asset investments	16c		(60.0)		—
Net cash inflow before financing			49.3		15.0
Financing					
Capital element of finance lease payments	15		(0.5)		(0.8)
Increase in cash in the year	15		48.8		14.2

The notes on pages 56 to 76 form part of these financial statements.

I can't believe this f**king language on this f**king programme. For f**k's sake it's only ten minutes after the f**king 9pm watershed. How would you like your f**king kids to hear this language? I would like a f**king response if you have any f**king courtesy. I shall be calling back tomorrow.

Viewer, Ramsay's Kitchen Nightmares

Principal accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of freehold properties. The financial statements have been prepared in a form as directed by the Secretary of State for Culture, Media and Sport with the approval of the Treasury and meet the disclosure and measurement requirements, in so far as they are applicable, of the Companies Act 1985 and UK accounting standards.

Accounting policies

A summary of the group accounting policies that are material in the context of the accounts is set out below. These policies have been applied consistently.

Basis of consolidation

The consolidated financial statements comprise the financial statements for the Corporation and all of its subsidiary undertakings, joint ventures and associates made up to 31 December 2004.

Revenue recognition

Advertising revenue is recognised on transmission of the advertisement and is stated net of advertising agency commission and value added tax.

Revenue from the sale of film and television rights is recognised on the later of signature of the contract, delivery of the relevant rights and the start of the licence period.

Subscription fee revenue earned in relation to pay television services is recognised over the period of the subscription.

Revenue from sponsors of the group's programmes and films is recognised in line with the transmission schedule for each sponsorship campaign.

Deferred tax

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have been accrued at the balance sheet date. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

Foreign currencies and financial instruments

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates prevailing at the balance sheet date or the contracted rate where the underlying exposure has been hedged using a forward exchange contract. Any resultant gain or loss on exchange is shown as part of the results for the year.

The group buys and sells programmes and films in the international markets and leases satellite transponder capacity and is a net purchaser of euros. Certain exposures to fluctuations in exchange rates are managed by transactions in the forward foreign exchange markets. The group does not hold or issue derivative financial instruments for speculative purposes. Changes in the fair value of derivative financial instruments are not recognised in the financial statements until these hedged transactions mature.

Fixed assets

Freehold land and buildings are stated at open market valuation and are revalued at 31 December each year. Directions from the Secretary of State for Culture, Media and Sport require land and buildings to be valued at current value. The members believe that open market value approximates to current value.

Other fixed assets are stated at cost less depreciation.

Depreciation is calculated so as to write off the cost or valuation of the asset evenly, on a straight line basis, over its estimated useful life from the date of its first utilisation. Useful lives are estimated taking into account the rate of technological change and the intensity of use of each asset. Freehold land is not depreciated. The annual rates used for this purpose are as follows:

Freehold buildings	2%
Computer hardware	25%-50%
Office equipment and fixtures and fittings	25%
Technical equipment	20%-25%

Any fixed assets held under finance leases are depreciated over the period of the lease.

Stock and work in progress

Stocks are valued at the lower of cost or net realisable value.

Broadcast programme and film rights are stated at direct cost incurred up to the balance sheet date after making provision for programmes and films which are unlikely to be transmitted or sold. Direct cost is defined as payments made or due to programme suppliers.

Broadcast research and development expenditure, consisting of funds spent on projects prior to a final decision being made on whether a programme will be commissioned, is included in broadcast programme and film rights but is fully provided for. Where research and development expenditure leads to the commissioning of a programme, such expenditure is transferred to programme content and the provision is released.

The cost of broadcast programme and film rights is wholly written off on first transmission, except for certain feature films which are written off over more than one transmission in line with expected revenue. This is a revision of estimate from previous years when the full cost of all films was written off on first transmission. A review of recent film transmissions indicated that in certain cases, a material value could be attributed to subsequent transmissions. The impact of this change in accounting estimate in 2004 was to reduce programme costs by £6.3 million.

Developed film rights are stated at direct cost incurred up to the balance sheet date. Provision is made for any excess over the value of the film held in stock and the revenues the film is anticipated to earn. The main assumptions employed to estimate future revenues are minimum guaranteed contracted revenues and sales forecasts by territory.

Film rights are amortised in the profit and loss account in the proportion that the revenue bears in the year to the estimated ultimate revenue after provision for any anticipated shortfall.

Pensions

The group maintains a defined benefit pension scheme. Pension costs are charged against profits each year so as to spread the expected cost of pensions over the employees' working lives with the group.

The group has complied with the transitional arrangements of Financial Reporting Standard ('FRS') 17 'Retirement benefits'.

Fixed asset investments

Fixed asset investments are stated at cost, less any provision for impairment.

Joint ventures

Investments in which the group has a continuing interest, and which are jointly controlled by the group and one or more other parties, are treated as joint ventures and are accounted for using the gross equity method.

Leases

Assets held under finance leases and other similar contracts are treated as tangible fixed assets and depreciation is charged accordingly. The capital elements of future obligations are recorded as liabilities. Interest is charged to the profit and loss account over the period of the lease in proportion to the capital outstanding.

All other leases are treated as operating leases. The rental costs arising from operating leases are charged to the profit and loss account in the year in which they are incurred.

Notes to the financial statements

1 Segmental analysis

Analysis of turnover, operating profit and net assets by activity:

	Turnover		Operating profit/(loss)		Net assets/(liabilities)	
	2004 £m	2003 £m	2004 £m	2003 £m	2004 £m	2003 £m
Channel 4						
Before exceptional costs	693.5	645.0	68.0	62.0	414.9	366.1
Revaluation	–	–	(7.7)	(2.6)	(7.7)	(2.6)
Before restructuring costs	693.5	645.0	60.3	59.4	407.2	363.5
Restructuring costs	–	–	(11.7)	(4.1)	(11.7)	(4.1)
	693.5	645.0	48.6	55.3	395.5	359.4
4 Ventures						
4 Channels	77.0	70.8	(1.8)	(7.8)	(41.7)	(40.1)
4 Rights	38.1	33.3	13.1	11.5	7.8	5.3
4 Learning	23.5	21.4	2.1	1.4	2.6	1.1
4 Services	22.4	19.4	2.3	1.5	(5.7)	(7.1)
4 Ventures corporate	–	0.2	(3.6)	(3.4)	32.5	26.6
4 Ventures (ongoing businesses)	161.0	145.1	12.1	3.2	(4.5)	(14.2)
attheraces	–	9.7	–	(10.5)	–	(1.7)
FilmFour Ltd						
Before restructuring costs	22.0	24.2	0.5	(1.0)	(1.3)	1.1
Restructuring costs	–	–	(0.3)	(2.7)	(0.3)	(2.7)
	22.0	33.9	0.2	(14.2)	(1.6)	(3.3)
4 Ventures' consolidation adjustments	(9.5)	(10.5)	(0.1)	0.8	(0.3)	(0.3)
4 Ventures' consolidated business	173.5	168.5	12.2	(10.2)	(6.4)	(17.8)
Group consolidation adjustments	(25.6)	(34.2)	0.2	–	(1.1)	0.4
Group	841.4	779.3	61.0	45.1	388.0	342.0

Group consolidation adjustments relate to the elimination of intra-group trading sales and profits.

Putting adverts in the middle of The Simpsons is an act of barbarism of which you should be ashamed. It... shows your contempt for high art...

Viewer, The Simpsons

2 Total operating expenditure

	2004 £m	2003 £m
Cost of transmissions and sales		
recurring	719.4	665.5
exceptional	0.6	5.7
Total cost of transmissions and sales	720.0	671.2
Administrative expenses		
recurring (including depreciation)	41.3	39.1
exceptional revaluation	7.7	2.6
exceptional restructuring	11.4	1.1
Total administrative expenses (including depreciation and exceptional revaluation and restructuring costs)	60.4	42.8
Total operating expenditure	780.4	714.0

Cost of transmissions and sales – recurring

	Programme and other content £m	Transmitter and regulatory costs £m		Indirect programme costs £m	Cost of sales £m	Cost of marketing £m	Total £m
		Analogue	Digital				
2004							
Channel 4	485.5	26.5	21.3	21.0	20.9	22.0	597.2
4 Ventures							
4 Channels	54.2	–	9.0	2.5	1.7	9.8	77.2
4 Rights	–	–	–	–	21.7	1.2	22.9
4 Learning	10.2	–	–	0.7	5.7	2.9	19.5
4 Services	0.9	–	–	5.2	11.6	0.4	18.1
FilmFour Ltd	65.3	–	9.0	8.4	40.7	14.3	137.7
4 Ventures' consolidation adjustments	12.5	–	–	–	7.6	0.7	20.8
	(1.5)	–	–	(0.9)	(6.7)	(0.4)	(9.5)
4 Ventures' consolidated business	76.3	–	9.0	7.5	41.6	14.6	149.0
Group consolidation adjustments	(20.8)	–	(0.4)	(2.0)	(2.6)	(1.0)	(26.8)
Group	541.0	26.5	29.9	26.5	59.9	35.6	719.4
2003							
Channel 4	457.5	26.8	19.7	19.0	19.8	13.1	555.9
4 Ventures							
4 Channels	51.8	–	5.5	2.3	6.3	11.4	77.3
4 Rights	–	–	–	–	18.7	1.2	19.9
4 Learning	10.3	–	–	0.7	5.1	1.9	18.0
4 Services	0.8	–	–	4.7	10.2	0.3	16.0
4 Ventures corporate	–	–	0.1	–	–	–	0.1
FilmFour Ltd	62.9	–	5.6	7.7	40.3	14.8	131.3
4 Ventures' consolidation adjustments	21.7	–	–	–	2.6	0.7	25.0
	(4.1)	–	–	(0.6)	(6.1)	(0.3)	(11.1)
4 Ventures' consolidated business	80.5	–	5.6	7.1	36.8	15.2	145.2
Group consolidation adjustments	(27.2)	–	(0.5)	(1.4)	(5.5)	(1.0)	(35.6)
Group	510.8	26.8	24.8	24.7	51.1	27.3	665.5

Notes to the financial statements continued

3 Operating profit

Operating profit is stated after charging/(crediting):

	2004 £m	2003 £m
Depreciation of fixed assets (note 10)		
– owned	6.5	9.4
– held under finance leases	0.7	0.8
	7.2	10.2
Research and development	9.1	7.5
Training	3.6	3.5
Members' remuneration (page 84)	2.8	3.4
Equipment hire	0.1	0.2
Other operating lease rentals	2.6	2.6
Exchange (gain)/loss	(0.1)	0.3
Loss on disposal of fixed assets	–	0.1

In accordance with the exemption available under section 230 of the Companies Act 1985 the Corporation has not presented its own profit and loss account. Of the retained profit after tax of £46.0 million (2003: £34.3 million) recorded in the consolidated profit and loss account for the year, a profit of £36.1 million (2003: loss of £6.8 million) results from the Corporation's accounts.

Fees in respect of services provided by the auditors were:

	2004 £000	2003 £000
Statutory audit:		
Channel 4	54	55
Subsidiaries	42	44
Non-audit fees for other services:		
Taxation services	–	7
Information technology services	–	90
Further assurance services	–	7
	96	203

In addition to the above services, the group's auditors acted as auditors to the Channel 4 Staff Pension Plan. The appointment of auditors to the Channel 4 Staff Pension Plan and the fees paid in respect of those audits are agreed by the trustees of the Plan, who act independently from the management of the group.

4 Exceptional costs

The exceptional revaluation charge of £7.7 million relates to the reduction in the value of the Horseferry Road building (2003: £2.6 million), based on the open market value of the property at 31 December 2004. This is discussed further in note 10, Tangible fixed assets.

As part of the ongoing process to reduce costs, additional staff restructuring took place in 2004 which resulted in exceptional costs of £2.6 million (2003: £3.4 million).

Work has continued to make more efficient use of the group's office space, which will deliver savings in rent and associated expenses. The decision has been taken to dispose of two of our leased properties and consolidate all London-based personnel in the Horseferry Road building and one leased property. Costs relating to this process including provision for rental deficits, amounted to £7.8 million (2003: £0.7 million). This project will continue into 2005.

Other projects to increase the operational efficiency of the group's support functions resulted in costs of £1.3 million in 2004 (2003: nil).

Whilst there was no further restructuring of FilmFour Ltd during 2004, additional costs of £0.3 million (2003: £2.7 million) were incurred relating to the 2002 restructure. These costs were mainly in respect of legal expenses.

The majority (£19.1 million) of these 2004 exceptional costs have been allocated to administrative expenses (2003: £3.7 million) and the remainder (£0.6 million) to cost of transmissions and sales (2003: £5.7 million).

These exceptional costs result in a reduction to the tax charge for the year of £3.4 million (2003: £2.0 million).

5 Employee information

A detailed analysis of members' remuneration, including salaries and performance-related bonuses, is provided in the report on members' remuneration on page 84.

The aggregate gross salaries of all employees, including members, were as follows:

	2004 £m	2003 £m
Aggregate gross salaries	53.4	41.9
Employer's national insurance contributions	5.4	4.1
Employer's pension contributions (note 19)	5.1	5.7
Total direct costs of employment	63.9	51.7

The average number of employees, including executive members, was as follows:

	2004 Number	2003 Number
Channel 4		
Programme commissioning	185	178
Transmission and engineering	104	115
Advertising and sponsorship sales and research	120	110
Information systems	61	67
Finance, human resources and facilities management	60	66
Corporate affairs and press office	39	32
Marketing and creative services	34	25
Corporate and strategy	17	13
	620	606
4 Ventures		
4 Channels	79	79
4 Rights	31	38
4 Learning	48	43
4 Services	91	86
4 Ventures	12	13
FilmFour Ltd	3	3
	264	262
Group total	884	868
Permanent employees	826	834
Contract staff (full-time equivalent)	58	34
	884	868
Male	433	429
Female	451	439
	884	868

Notes to the financial statements continued

5 Employee information continued

Travel, subsistence and hospitality expenditure was as follows:

	2004 £000	2003 £000
Members	110	84
Other employees:		
Channel 4	1,400	1,264
4 Ventures	701	560
	2,211	1,908

Staff loans outstanding at 31 December were as follows:

	2004 £000	2003 £000
Season ticket loans	121	107

There were no loans to members.

6 Net interest receivable

	2004 £m	2003 £m
Interest receivable on short-term deposits	4.1	0.8
Interest payable on bank loans and overdrafts	–	(0.6)
Exchange adjustment	(0.7)	–
Net interest receivable	3.4	0.2

Your weather forecaster is misinforming the whole country. In maths we have been studying negative numbers and your weather forecaster is saying "minus" instead of "negative". Negative numbers are numbers under nought and minus is an operation where you take away one number from another number. It isn't fair that people are trying to work and children are trying to learn and you come on TV and tell everybody "minus" when it's not and children will get confused.

Viewer, C4 News

7 Tax on profit on ordinary activities

The taxation charge is based on the taxable profit for the year and comprises:

	2004 £m	2003 £m
Current tax:		
UK corporation tax at 30%	22.3	10.7
Less relief for overseas taxation	(0.3)	(0.3)
Overseas taxation	0.5	0.3
Adjustment in respect of prior years	(3.4)	0.5
	19.1	11.2
Deferred tax: origination and reversal of timing differences		
Current year	0.5	0.8
Prior year	0.1	(1.0)
Tax on profit on ordinary activities	19.7	11.0

Factors affecting the tax charge for the year

The tax rate for the year is lower (2003: lower) than the standard UK 30% rate of corporation tax.

The differences are explained below:

	2004 £m	2003 £m
Profit on ordinary activities before tax.	65.7	45.3
Profit on ordinary activities before tax multiplied by the standard UK 30% rate of corporation tax	19.7	13.6
Effects of:		
Expenses not deductible for tax purposes	3.1	1.7
Tax credit for provision against loan to attheraces	–	(7.0)
Share of attheraces' losses	–	3.2
Capital allowances in excess of depreciation	(0.5)	(0.4)
Release of short-term timing differences	–	(0.4)
Adjustments to tax charge in respect of previous periods	(3.4)	0.5
Overseas taxation	0.2	–
Current tax charge for the year	19.1	11.2

Notes to the financial statements continued

8 Fixed asset investments

The cost of fixed asset investments at 31 December was:

	2004 Channel 4 £000	2003 Channel 4 £000
Subsidiary companies	1	1

Subsidiary undertakings

Channel 4 owns, directly* or indirectly, the whole of the issued share capital of the following companies, each of which is incorporated in England:

	Activity	Issued ordinary £1 shares
Trading		
4 Ventures Ltd*	Pay channels, new media, educational and related services	1,000
Channel Four International Ltd	Exploitation of secondary rights	1,000
FilmFour Ltd	Film distribution	1,000
Dormant		
124 Facilities Ltd		1,000
Channel Four Learning Ltd		1,000
E4 Television Ltd		1,000
E4.com Ltd		1,000
Four Ventures Ltd		1,000
Channel Four Television Company Ltd		100
Film on Four Ltd		100
Channel Four Racing Ltd		2
Sport on Four Ltd		2

Associated companies

Popworld Ltd

During 2004, Channel 4 acquired 11,867,932 ordinary £0.001 shares in Popworld Ltd, representing 29% of the share capital for consideration of £0.2 million. Popworld Ltd, incorporated in England, exploits a pop music brand. Given the uncertainties in existence over its future trading the investment has been provided for in full. The shares are therefore held in the balance sheet at nil value.

Broadcasters' Audience Research Board Ltd (BARB)

BARB is a not-for-profit company limited by guarantee. Channel 4 is a joint member with other broadcasters.

Fantastic programme. At the moment,
Channel 4 is the best. The whole week
I just watch Channel 4. Better than the BBC,
at the moment. I only like Channel 4. Please
play the show about the cannibal again,
I missed it.

Viewer, Brat Camp

9 Joint ventures

attheraces

At the start of the year 4 Ventures Ltd held 1,000 ordinary shares representing 33.3% of the issued share capital of Attheraces Holdings Ltd (attheraces), a company incorporated in England. 4 Ventures' financial commitment to this company was capped at £23.3 million with £23.3 million being advanced to attheraces as at 30 April 2004. The full £23.3 million had been charged to the profit and loss account as at 31 December 2003. The group considered the future of the business to be uncertain and no further funding was to be provided to attheraces.

On 30 April 2004 the group's shareholding in attheraces and loan notes were sold for a cash consideration of £1.3 million and the benefit of tax relief on losses. A tax benefit of £1.8 million has been taken in 2004.

The group's share of attheraces net liabilities, net of loans advanced, was:

	2004 £m	2003 £m
At 1 January	(1.7)	(0.3)
Loans advanced	1.7	9.1
Share of joint venture's operating loss	–	(10.5)
At 31 December	–	(1.7)

The following information shows the group's share of attheraces:

	2004 £m	2003 £m
Turnover	–	9.7
Loss before tax	–	(10.5)
Taxation	–	–
Loss after tax	–	(10.5)
Fixed assets	–	0.4
Current assets	–	4.6
Current liabilities	–	(5.4)
Liabilities due after more than one year	–	(22.9)
Net liabilities	–	(23.3)

Digital 3 and 4 Ltd

Channel 4 holds 1,000 A class ordinary £1 shares in Digital 3 and 4 Ltd, representing 50% of the share capital. ITV Network Ltd owns the other 50%. Digital 3 and 4 Ltd, incorporated in England, has been granted a licence by Ofcom to operate the Channel 3 and Channel 4 digital terrestrial multiplex. At 31 December 2004, Channel 4's share of the net assets of Digital 3 and 4 Ltd amounted to £1,000. The company acts as an agent for its shareholders. In previous years, Digital 3 and 4 Ltd was classified as an associate. The members now believe this investment is more accurately disclosed as a joint venture.

TV Eye Ltd

Channel 4 holds one ordinary £1 share in TV Eye Ltd, representing 20% of the share capital. ITV plc, Channel 5 Broadcasting Ltd, and GMTV Ltd own the other 80%. The company is incorporated in England and provides advertising agency credit assessment services.

Notes to the financial statements continued

10 Tangible fixed assets

Group and Channel 4	Freehold land and buildings £m	Fixtures, fittings and equipment £m	Total £m
Cost or valuation			
At 1 January 2004	49.0	77.9	126.9
Additions	–	5.3	5.3
Disposals	–	(4.2)	(4.2)
Revaluation	(8.4)	–	(8.4)
At 31 December 2004	40.6	79.0	119.6
Depreciation			
At 1 January 2004	–	65.9	65.9
Charge for the year	0.7	6.5	7.2
Disposals	–	(4.2)	(4.2)
Revaluation	(0.7)	–	(0.7)
At 31 December 2004	–	68.2	68.2
Net book value			
At 31 December 2004	40.6	10.8	51.4
At 1 January 2004	49.0	12.0	61.0

Valuation of freehold properties

The freehold property, comprising the office, studio and transmission centre at 124 Horseferry Road, London SW1, was valued as at 31 December 2004, by external valuers Fuller Peiser Property Consultants, in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors. The property was valued on the basis of open market value. The open market value (which the members believe approximates to current value) for this property was £40.6 million.

The net reduction in valuation of £7.7 million in the year (2003: £3.2 million) has been taken directly to the profit and loss account. In 2003, £0.6 million was taken through the revaluation reserve and the £2.6 million remainder taken directly to the profit and loss account.

If freehold property had not been revalued it would have been included in the financial statements at the following amounts:

	2004 £m	2003 £m
Cost	62.3	62.3
Accumulated depreciation	(11.5)	(10.7)
Net book value based on cost	50.8	51.6

11 Stock and work in progress

	2004 Group £m	2003 Group £m	2004 Channel 4 £m	2003 Channel 4 £m
Programmes and films completed but not transmitted	68.1	102.9	61.8	82.3
Acquired programme and film rights	47.9	41.4	35.8	29.4
Programmes and films in the course of production	55.9	56.6	52.0	54.2
	171.9	200.9	149.6	165.9

Due to the uncertainty of programme scheduling, certain programme and film rights may not be realised within one year.

12 Debtors

	2004 Group £m	2003 Group £m	2004 Channel 4 £m	2003 Channel 4 £m
Trade debtors	84.7	92.0	67.4	76.7
Amounts due from subsidiaries	—	—	14.5	23.7
Prepayments and accrued income	32.2	24.8	16.8	17.6
Deferred tax	4.0	4.6	3.2	3.8
	120.9	121.4	101.9	121.8

Amounts due from subsidiaries are unsecured and as of 1 January 2004, bear interest at the Bank of England base rate.

A deferred tax asset has been recognised as follows:

Group	Decelerated capital allowances £m	Other short-term timing differences £m	Total £m
At 1 January 2004	3.8	0.8	4.6
Charged to the profit and loss account	(0.6)	—	(0.6)
At 31 December 2004	3.2	0.8	4.0
Channel 4			
At 1 January 2004	3.8	—	3.8
Charged to the profit and loss account	(0.6)	—	(0.6)
At 31 December 2004	3.2	—	3.2

This deferred tax asset will be recovered against Channel 4's future taxable profits.

A further deferred tax asset of £1.4 million (2003: £1.0 million) has not been recognised. This asset relates to capital losses carried forward in Channel 4 at 31 December 2004.

Notes to the financial statements continued

13 Creditors – amounts falling due within one year

	2004 Group £m	2003 Group £m	2004 Channel 4 £m	2003 Channel 4 £m
Trade creditors	10.7	10.2	10.2	10.2
Obligations under finance leases	–	0.5	–	0.5
Corporation tax	11.3	4.6	7.1	0.2
National insurance	0.9	0.7	0.9	0.7
Other creditors	3.0	2.4	3.0	1.4
Accruals	101.9	87.1	61.7	45.9
VAT	5.2	8.4	3.9	7.5
	133.0	113.9	86.8	66.4

The group supports the Better Payment Practice Code, copies of which can be obtained from the Better Payment Practice Group (website.payontime.co.uk).

The group endeavours to pay all invoices in accordance with contract terms and, unless agreed payment terms specify otherwise, within 30 days of the date of the invoice. Any complaints about failure to pay on time should be addressed to the Director of Finance, who will ensure that they are investigated and responded to appropriately.

The average number of days to pay suppliers of services other than programmes in 2004 was 27 (2003: 28). Programme suppliers are generally paid more quickly as Channel 4's cash advances are usually required more promptly to meet production needs.

14 Provisions for liabilities and charges

	Channel 4		FilmFour Ltd	Group
	Rental deficits £m	Restructuring costs £m	Total £m	Total £m
At 1 January 2004	2.2	1.0	3.2	6.0
Charged to the profit and loss account	4.1	7.6	11.7	12.0
Utilised in the year	(0.3)	(5.7)	(6.0)	(6.4)
At 31 December 2004	6.0	2.9	8.9	11.6

Rental deficits

The provision relates to rental deficits on four buildings which are surplus to requirements. The provision represents the future net rental commitments to the end of the current leases in 2006, 2014 and 2020, based on current market conditions.

Restructuring costs

The Channel 4 provision is for redundancy payments and other initiatives to increase the operational efficiency of the group's support functions. The FilmFour Ltd restructuring costs are for film related provisions and legal expenses.

15 Cashflow from operating activities**Reconciliation of operating profit to net cash inflow from operating activities**

	2004 £m	2003 £m
Operating profit	61.0	55.6
Depreciation	7.2	10.2
Revaluation	7.7	2.6
Decrease/(increase) in stock and work in progress	29.0	(11.0)
Increase in debtors	(0.1)	(2.1)
Increase/(decrease) in creditors and provisions	18.3	(21.0)
Loss on disposal of fixed assets	–	0.1
Net cash inflow from operating activities	123.1	34.4

Reconciliation of net cashflow to movement in net funds

	2004 £m	2003 £m
Increase in cash for the year	48.8	14.2
Capital element of finance lease payments	0.5	0.8
Movement in current asset investments	60.0	–
Exchange adjustment	(0.7)	–
Increase in net funds	108.6	15.0
Net funds at 1 January	79.8	64.8
Net funds at 31 December	188.4	79.8

Analysis of changes in net funds

	1 January 2004 £m	Cashflow 2004 £m	Other movements 2004 £m	31 December 2004 £m
Cash at bank and in hand	80.3	48.8	(0.7)	128.4
Finance leases due within one year	(0.5)	–	0.5	–
Current asset investments	–	60.0	–	60.0
Net funds	79.8	108.8	(0.2)	188.4

**I'm shocked and disgusted to see that
Freddie isn't actually singing! Where is
he and who's the guy singing with Queen?**

Viewer, UK Music Hall of Fame

Notes to the financial statements continued

16 Derivatives and other financial instruments

a) Treasury

Treasury related matters are dealt with by the group treasury function whose role is to implement the group's treasury policies and strategies. It reports cashflow movements and forecasts daily, and foreign currency information on a monthly basis, to senior management. Decisions about material transactions are referred to the Director of Finance for approval. These policies and strategies have been in operation throughout the year.

The group's treasury management policies and strategies are agreed by the Director of Finance. The objectives are:

- to minimise foreign currency exposure that may arise as a result of the group's business activities.
- to maximise the returns from available cash funds without exposing the group to any unnecessary risk.
- to ensure that the group has sufficient cash resources to meet its obligations on a continuing basis.

The group does not undertake speculative treasury transactions.

b) Cash and borrowings

The group invests short-term surplus cash in fixed rate money market deposits. Funds are invested only with an agreed list of organisations that carry an A1/P1 rating by the major credit agencies.

The Corporation has available a £10 million overdraft facility which incurs interest at 1% over base rate, on any amounts drawn.

Amounts drawn against this facility are unsecured.

c) Interest rate risk profile

The interest rate risk profile of the group's financial assets at 31 December was:

	Total £m	Financial assets on which no interest is received £m	Fixed rate assets		
			£m	Weighted average interest rate %	Weighted average for which period is fixed Days
2004					
Sterling	167.1	15.6	151.5	4.2	27
US dollar	19.3	0.7	18.6	2.1	13
Euro	2.0	2.0	–	–	–
Total	188.4	18.3	170.1	4.0	25
2003					
Sterling	67.9	62.0	5.9	3.0	5
US dollar	12.4	0.3	12.1	0.7	5
Total	80.3	62.3	18.0	1.5	5

The financial assets on which no interest is received represent cheques that were banked in December 2004 but did not clear until January 2005.

Included within the sterling fixed rate asset of £151.5 million (2003: £5.9 million) is £60.0 million (2003: nil) of current asset investments. These represent cash deposits for fewer than three months.

16 Derivatives and other financial instruments continued

The interest rate risk profile of the group's financial liabilities at 31 December was:

	Total £m	Financial liabilities on which no interest is paid £m	Fixed rate liabilities		
			£m	Weighted average interest rate %	Weighted average for which period is fixed Days
2004 Sterling	11.6	11.6	–	–	–
2003 Sterling	6.5	6.0	0.5	2.5	304

As permitted by FRS 13, short-term debtors and creditors have been excluded from the above interest rate risk profiles.

Fair value equates to the book value for the group's assets and liabilities disclosed above.

d) Maturity of financial liabilities

The maturity profile of the group's and Channel 4's financial liabilities, other than short-term creditors, at 31 December was as follows:

	Rental deficits £m	Restructuring costs £m	2004 Total £m	2003 Total £m
Within one year	0.5	5.6	6.1	4.6
Between one and two years	1.0	–	1.0	0.3
Between two and five years	4.5	–	4.5	1.6
	6.0	5.6	11.6	6.5

Obligations under finance leases, in respect of computer hardware, were satisfied during 2004. Repayments of interest and capital averaging £0.1 million (2003: £0.2 million) were made each quarter.

e) Currency exposures

The table below shows the group's currency exposures at 31 December. These are the transactional exposures that give rise to net currency gains and losses. Such exposures comprise the cash balances at year end that are not denominated in sterling. The amounts shown take into account the effect of forward currency contracts the group has entered into to manage its currency requirements.

	Net foreign currency assets	
	2004 £m	2003 £m
US dollar	19.3	12.4
Euro	2.0	–
	21.3	12.4

Viewer called to say they were incensed that thirty minutes into the programme there was no sign of the promised scenes of a sexual nature. Disgusting! Misrepresentation, even!

Viewer, Green Wing

Notes to the financial statements continued

16 Derivatives and other financial instruments continued

f) Gains and losses on hedging contracts

The group undertakes transactions in international markets, principally US dollars and euros. Due to movements in exchange rates over time, the amount that the group expects to receive or pay when it enters into a transaction may differ from the amount that it actually receives or pays when it settles the transaction. The group manages certain exposures to movements in exchange rates by entering into forward foreign exchange hedging contracts. These contracts allow the group to settle transactions at known exchange rates, thereby eliminating this uncertainty.

At 31 December 2004, the group had no commitments to purchase foreign currency (2003: £17.2 million).

There were no unrealised losses on forward foreign exchange hedging contracts to purchase US dollars and euros (2003: £2.0 million), at the balance sheet date. There were no other hedging contracts at year end.

17 Reserves

	Profit and loss account £m
Group	
At 1 January 2004	342.0
Retained profit for the year	46.0
At 31 December 2004	388.0
Channel 4	
At 1 January 2004	359.4
Retained profit for the year	36.1
At 31 December 2004	395.5

Outraged by Richie Benaud's comment that something was "as much use as an ashtray on a motorcycle". Caller used to have an ashtray attached to his bike's windshield, and smoked quite happily as he rode. Feels this is an "insult to motorcyclists" and demands an on-air apology.

Viewer, Cricket

18 Commitments

a) Programme and film

At 31 December, committed future expenditure for programmes and films due for payment were as follows:

	2004 Group £m	2003 Group £m	2004 Channel 4 £m	2003 Channel 4 £m
Within one year	305.0	291.1	274.4	263.4
After one year	232.4	293.6	214.3	267.8
	537.4	584.7	488.7	531.2

b) Digital 3 and 4 Ltd

Under the terms of the shareholder agreement for Digital 3 and 4 Ltd, Channel 4 is committed to meeting its share of contracted costs entered into by that company. Digital 3 and 4 Ltd has contractually committed £18 million per annum over the next six years for digital transmission and distribution. The exact annual monetary commitment will be dependent upon the time and extent of the roll-out of the digital transmission network. The group's share of the present commitments is estimated to amount to £9 million per annum.

c) Operating lease commitments

At 31 December the group had annual commitments under non-cancellable operating leases, all of which were for land and buildings, as set out below:

	2004 £m	2003 £m
Operating leases which expire:		
Within one year	0.2	0.2
Within two to five years	1.5	1.6
After five years	2.9	2.8
	4.6	4.6

d) Capital commitments

At 31 December the group had contracted commitments, as set out below:

	2004 £m	2003 £m
Tangible fixed assets:		
Contracted but not provided in the financial statements	1.9	0.8

Notes to the financial statements continued

19 Pension costs

The group operates a defined benefit pension scheme providing benefits based on final pay. The assets of the scheme are held separately from those of the group, being invested through Legal & General Assurance (Pensions Management) Ltd, Henderson Global Investors Ltd, Capital International SA, and Deutsche Asset Management Life & Pensions Ltd.

The contributions are determined by a qualified independent actuary on the basis of triennial valuations using the projected unit method. The most recent independent valuation was as at 1 January 2003 which showed that the actuarial value of the scheme's assets represented 85% of the benefits which had accrued to members. The mid market value of the scheme's assets at that date was £71 million. 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. The valuation assumed that investment returns would outstrip salary increases by 2.25% per annum and that present and future pensions would increase at a rate of 2.5% per annum.

The pension charge for 2004 was £5.1 million (2003: £5.7 million). The contributions of the group and employees were 16.5% and 6.5% of earnings respectively throughout the year.

FRS 17 disclosures

The pension scheme assets and liabilities have been revalued at 31 December 2004 in accordance with FRS 17 'Retirement benefits'. The assumptions which have the most significant effect on the results of the valuation at 31 December 2004 are those relating to the rate of interest applied to discount the estimated cashflows arising under the liabilities and the rates of increase in salaries and pensions. The major assumptions used by the actuary were:

	2004 %	2003 %	2002 %
Discount rate	5.30	5.30	5.50
Rate of increase in salaries	3.00	2.90	3.75
Rate of increase in pensions	2.75	2.90	2.50
Inflation	2.75	2.90	2.50

The assumed discount rate is the current rate of return of high quality corporate bonds. The rate of increase in salaries is considered to be a prudent reflection of recent and projected salary increases, taking account of inflation. Inflation has been applied based on the yield available on long-term Government fixed interest and index linked bonds.

The valuation of assets in the scheme is not affected by the actuarial assumptions because the assets are measured at fair value. For those pensions which have been secured by the purchase of annuities, the fair value is measured as the amount of the related obligations. The assets in the scheme and expected rates of return were:

	Long-term rate of return expected at 31 December			Value at 31 December		
	2004 %	2003 %	2002 %	2004 £m	2003 £m	2002 £m
Equities	8.00	8.00	8.00	71.7	65.3	51.6
Fixed interest	4.80	4.80	4.50	28.2	21.4	15.9
Secured annuities	5.30	5.30	5.50	3.7	3.7	3.4
Cash	4.00	4.00	4.50	0.8	0.8	0.4
				104.4	91.2	71.3

It is assumed that fixed interest, secured annuities and current assets will generate a return in line with appropriate low-risk investments. Due to their higher risk profile, equity investments are expected to outperform lower-risk investments over the long term and are therefore projected to appreciate at a premium above the other assets in the fund.

19 Pension costs continued

The following amounts at 31 December were measured in accordance with FRS 17 'Retirement benefits':

	2004 £m	2003 £m	2002 £m
Total market value of assets	104.4	91.2	71.3
Present value of scheme liabilities	(129.8)	(114.9)	(92.9)
Deficit in scheme	(25.4)	(23.7)	(21.6)
Related deferred tax asset	7.6	7.1	6.5
Net pension liability	(17.8)	(16.6)	(15.1)

The increase in the present value of scheme liabilities to £129.8 million (2003: £114.9 million) is mainly due to members accruing further benefits, interest on prior years' liabilities and differences between the assumptions made at the beginning of the year and the actual experience of the plan.

If the above amounts had been recognised in the financial statements, the group's net assets and profit and loss reserve at 31 December would have been as follows:

	2004 £m	2003 £m
Net assets excluding pension liability	388.0	342.0
Pension liability (net of deferred tax)	(17.8)	(16.6)
Net assets including pension liability	370.2	325.4
Profit and loss reserve, excluding pension reserve	388.0	342.0
Pension reserve	(17.8)	(16.6)
Profit and loss reserve	370.2	325.4

The following amounts would have been recognised in the financial statements for the year ended 31 December under the requirements of FRS 17:

	2004 £m	2003 £m
Operating profit:		
Current service cost	5.1	5.5
Total charge to operating profit	5.1	5.5
Other finance income:		
Expected return on pension scheme assets	6.5	5.3
Interest on pension scheme liabilities	(6.1)	(5.5)
Total credit/(charge) to other finance income	0.4	(0.2)

Notes to the financial statements continued

19 Pension costs continued

	2004 £m	2003 £m
Statement of total recognised gains and losses (STRGL):		
Actual return less expected return on the pension scheme assets	1.9	7.8
Experience losses arising on the pension scheme liabilities	(4.2)	(0.9)
Changes in actuarial assumptions underlying the present value of the scheme liabilities	0.7	(9.0)
Actuarial loss recognised in the STRGL	(1.6)	(2.1)
Deficit in scheme at 1 January	(23.7)	(21.6)
Movement in year:		
Current service cost	(5.1)	(5.5)
Contributions – employer (net of charges)	4.6	5.7
Other finance income/(costs)	0.4	(0.2)
Actuarial loss	(1.6)	(2.1)
Deficit in scheme at 31 December	(25.4)	(23.7)

Details of experience gains and losses for the year to 31 December

	2004 £m	2004 %	2003 £m	2003 %	2002 £m	2002 %
Difference between the expected and annual return on scheme assets:	1.9		7.8		(21.7)	
Percentage of scheme assets		1.8		8.6		30.4
Experience losses on scheme liabilities:	(4.2)		(0.9)		0.4	
Percentage of the present value of the scheme liabilities		3.3		0.8		0.4
Total actuarial loss recognised in the STRGL:	(1.6)		(2.1)		(24.5)	
Percentage of the present value of the scheme liabilities		1.2		1.8		26.4

20 Related party transactions

Details of transactions in which members have an interest are disclosed on page 50.

During 2004, Channel 4 purchased no terrestrial racing rights (2003: £2.2 million) from, and sold £0.8 million (2003: £2.2 million) of television pictures to, Attheraces Holdings Ltd.

During 2004, Channel 4 purchased £2.0 million of television programmes from Popworld Ltd (2003: £2.3 million) and £1.2 million of research services from BARB (2003: £1.1 million).

At 31 December 2004, the group was committed to £28.9 million of programme purchases from Endemol UK plc (2003: £13.4 million).

In accordance with the exemption permitted in FRS 8 'Related party disclosures', Channel 4 does not disclose transactions with subsidiary group companies because these subsidiaries are wholly owned.

Caller is concerned that his 80-year-old mother will not live long enough to see this series which is spread over four years. "Why can't you just show it all now?"

Viewer, Monarchy

Corporate governance

The group is committed to high standards of corporate governance.

Since the publication of the new Combined Code, we have been working to ensure Channel 4 continues to comply with corporate governance best practice.

Channel 4's status as a statutory corporation without shareholders means those provisions concerning relations with shareholders are not directly applicable. Also instead of a nominations committee, there are formal nominations procedures which are described on page 80. The Combined Code recommends that the audit committee should consist of at least three members. Due to various changes in the structure of the Board, in the period from January 2004 to June 2004, there were only two members of the audit committee.

Whilst in most areas we are now fully compliant with the new Combined Code, further work is required to establish the necessary evaluation processes for the Board, its members and its committees. The Corporation's terms of reference are currently under review and are being updated prior to approval by the Board. Once approved by the Board they will be made available publicly.

The Board

Channel Four Television Corporation is controlled through its Board of members. The Board's main roles are to provide entrepreneurial leadership of the group, to approve the group's strategic objectives and to ensure that the Corporation's responsibilities are discharged in accordance with all applicable laws and regulations. The Board, which meets at least ten times a year, has a schedule of matters reserved for its approval.

The following matters must be referred to the full Board:

- the Corporation's annual budget (programme and non-programme).
- the appointment and re-appointment of the Chief Executive.
- confirmation of the appointment and re-appointment of the other Executive members nominated by the Chief Executive and the Chairman acting jointly.
- banking arrangements and loan facilities.
- the Corporation's headcount.
- any proposal outside the ordinary course of the Corporation's business.
- the appointment and re-appointment of the Corporation Secretary.
- the appointment and re-appointment of auditors.
- the audited accounts of the Corporation presented by the audit committee.
- the establishment, purchase or acquisition of any qualifying company and the approval or variation of terms of reference for any Corporation subsidiary.
- such other matters as the Board may from time to time resolve to review or decide.

The Board has delegated authority for certain other activities to a number of sub-committees and groups.

Statement of members' responsibilities

The Corporation is required by the Broadcasting Act 1990 to keep proper accounting records and proper records in relation to the accounts, and to prepare financial statements in respect of each financial year in the form as directed by the Secretary of State for Culture, Media and Sport with the approval of the Treasury. The members are therefore required to prepare financial statements in compliance with this direction and, to the extent applicable, with the provisions of the Companies Act 1985, and accounting standards currently in force, that give a true and fair view of the state of affairs of Channel 4 and the group as at the end of the financial year and of the profit and loss and cash flows for the group for that year.

In preparing those financial statements the members are required to:

- select suitable accounting policies and apply them consistently.
- make judgements and estimates that are reasonable and prudent.
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- prepare the financial statements on the going concern basis unless it is inappropriate to do so.

In addition, the members have voluntarily decided to comply with the disclosure provisions of the Financial Services Authority Listing Rules, where applicable. The members are also responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of Channel 4 and the group, and to prevent and detect fraud and other irregularities.

The roles of the Chairman and Chief Executive

The division of responsibilities between the Chairman of the Board, Luke Johnson, and the Chief Executive, Andy Duncan, is clearly defined as described below.

The Chairman has the responsibility for leading the Board in setting the values and standards of the Corporation and of maintaining a relationship of trust with and between the executive and non-executive members. The Chairman is responsible for inter alia:

- leadership of the Board, ensuring its effectiveness on all aspects of its role including the setting of the agenda.
- ensuring that all members receive accurate, timely and clear information.
- ensuring that all members continually update their skills and the knowledge and familiarity with the Corporation required to fulfil their role both on the Board and on committees.
- facilitating the effective contribution of non-executive members and ensuring constructive relations between executive and non-executive members.

The role of the Chief Executive is to run the business of the Corporation under the delegated authority from the Board and to implement the policies and strategy agreed by the Board. In addition, the Chief Executive, on behalf of the Board, should ensure effective communication with Ofcom and other key stakeholders.

Corporate governance continued

Senior independent member

The Board has appointed Barry Cox as Deputy Chairman and senior independent member.

Members and members' independence

The Board currently comprises the Chairman, eight non-executive members and four executive members. The names of the members together with their biographical details are set out on page 83. The non-executive members constructively challenge and help develop proposals on strategy, bring strong, independent judgement, knowledge, and experience to the Board's deliberations. The non-executive members are of sufficient calibre and number that their views carry significant weight in the Board's decision making.

The members are given access to independent professional advice at the group's expense, when the members deem it is necessary in order for them to carry out their responsibilities. Details of the Chairman's professional commitments are included in the Chairman's biography. These do not impact on his role with Channel 4.

The Board considers all its non-executive members to be independent in character and judgement. No non-executive member:

- has been an employee of the group within the past five years.
- has, or has had within the past three years, a material business relationship with the group.
- receives remuneration other than their member's fee (although attention is drawn to the related party transactions on page 50).
- has close family ties with any of the group's advisers, members or senior employees.
- holds cross-directorships or has significant links with other members through involvement in other companies or bodies.
- has served on the Board for more than nine years.

Professional development

On appointment, the members take part in an induction programme when they receive information about the group, the role of the Board and the matters reserved for its decision, the terms of reference and membership of the principal Board and management committees, and the powers delegated to those committees, the group's corporate governance practices and procedures, including the powers reserved to the group's most senior executives, and the latest financial information about the group. This is supplemented by meetings with members of the senior management team.

On appointment, all members are advised that they have access to advice and the services of the Corporation Secretary.

Throughout their period in office the members are continually updated on the group's business, the environments in which it operates and other changes affecting the group and the industry it operates in as a whole, by written briefings and meetings with senior executives.

Performance evaluation

A project is under way to develop a formal evaluation programme for the Board, its members and its committees. Given the various changes in the composition of the Board it was not possible to introduce this evaluation process during 2004.

The Corporation Secretary

Under the direction of the Chairman, the Corporation Secretary's responsibilities include ensuring good information flows within the Board and its committees and between senior management and non-executive members, and assisting with professional development as required.

The Corporation Secretary is responsible for advising the Board through the Chairman on all governance matters.

The Corporation Secretary is available to provide advice and services to all members, to ensure compliance with Board procedures.

Information

Regular reports and papers are circulated to the members in a timely manner in preparation for Board and committee meetings. These papers are supplemented by information specifically requested by the members from time to time. Each executive member circulates a report in advance of each Board meeting, and on a quarterly basis provides a review of performance, together with comments on future plans and outlook.

Internal control

In accordance with the guidance of the Turnbull committee the Board of members:

- is responsible for the company's system of internal control;
- sets appropriate policies on internal control.
- seeks regular assurance that enables it to satisfy itself that the system is functioning effectively.
- ensures that the system of internal control is effective in managing risks in the manner which it has approved.

Control environment

Clear management responsibilities are established for the executive members. These are laid down in the group's terms of reference manual.

Risk management

Management has a clear responsibility for the identification of risks facing the business and for putting in place procedures to monitor and mitigate such risks. The Board operates a group-wide, risk evaluation process. This process is designed to identify, evaluate and ensure effective management of significant business, operational, financial and compliance risks. This business risk evaluation process accords with the Combined Code's guidance on internal controls. The quarterly reports prepared by the executive members include a summary of risks and the corresponding action taken to mitigate those risks.

Management systems

Detailed annual budgets and business plans are prepared for each area of the business, and are approved by the budget committee and the Board. Detailed monthly management reports are produced, comparing actual income and expenditure with budgets and prior year. Full-year forecasts are prepared throughout the year. These reports are monitored by the members, and explanations are provided for all significant variances.

Control procedures

All expenditure has to be authorised in line with limits set out in a comprehensive authorisation manual. During the year, an electronic authorisation process was implemented to further improve the control environment. Authorisation and payment duties are strictly segregated, and bank signatory limits are clearly defined by bank mandate. The financial controls are monitored by management review and by the audit committee.

The members have continued to review and improve the effectiveness of the group's system of financial and non-financial controls, including operational and compliance controls, risk management and the group's high-level internal control arrangements. These reviews have included an assessment of internal controls, and in particular internal financial controls, by:

- reports from management.
- a project carried out by external experts.
- reports from the external auditors on matters identified in the course of its statutory audit work.

Board meetings

The number of full Board meetings and committee meetings attended by each member during the year was as follows:

	Number of meetings attended		
	Corporation Board	Audit committee	Remuneration committee
Executives			
Andy Duncan	6 (6)		
David Scott	9 (10)		
Andy Barnes	10 (10)		
Kevin Lygo	10 (10)		
Non-executives			
Luke Johnson	10 (10)		
Barry Cox	10 (10)		5 (5)
Sue Ashtiany	9 (10)		
Karren Brady	4 (6)	1 (2)	
Robin Miller	8 (10)	2 (3)	4 (5)
Andy Mollett	6 (6)	2 (2)	
Ian Ritchie	10 (10)		
Retired members			
Mark Thompson	3 (3)		
Rob Woodward	9 (10)		
Joe Sinyor	4 (4)	1 (1)	
Peter Bazalgette	4 (4)		
Andrew Graham	9 (10)		3 (5)

Figure in brackets indicate maximum number of meetings in the period in which the individual was a Board member.

Remuneration committee

During the year the remuneration committee comprised Barry Cox (Chairman), Andrew Graham and Robin Miller. All the members of the committee are independent non-executive members. The remuneration committee met five times during the year.

Luke Johnson, Andy Duncan and David Scott attend meetings as appropriate. No executive member attends meetings of the remuneration committee at times when any aspect of his remuneration or terms of employment are being discussed.

The committee's principal responsibilities are:

- approving the level of any annual salary increases and the structure of remuneration for executive members and senior management.
- approving the terms of employment of the executive members.
- agreeing significant merit or market rate increases for individuals or posts over and above the general award.
- approving the Corporation's vehicle policy.
- agreeing the structure of bonus schemes and approving the amounts paid under these schemes.
- reviewing any other significant change in the Corporation's remuneration package.
- the Corporation's pension fund arrangements and related employee benefits. In particular, the remuneration committee will consider the pension consequences and associated costs to the Corporation of basic salary increases and any other changes in pensionable remuneration, especially for members close to retirement.

Further details concerning members' remuneration is shown in the report on members' remuneration on pages 84 and 85.

Corporate governance continued

Nomination committee

Given its constitution, the Corporation does not have a formal nomination committee. However, the following formal nomination procedures are in place:

- non-executive members are appointed for fixed terms by Ofcom following consultation with the Corporation's Chairman and the approval of the Secretary of State for Culture, Media and Sport.
- the Chief Executive is appointed by the Board.
- other executive members are appointed to the Board after nomination by the Chief Executive and the Chairman acting jointly.

Audit committee

The audit committee comprises Andy Mollett, Karren Brady and Robin Miller. Andy Mollett is Chairman of the committee. All the members of the committee are independent non-executive members. The audit committee met three times during the year.

Andy Mollett was appointed to the audit committee following Joe Sinyor's retirement from the Board. At the same time, Karren Brady was appointed to the committee.

At the committee Chairman's invitation, Luke Johnson, Andy Duncan, David Scott and the KPMG LLP audit partner attend meetings of the committee. The audit partner has direct access to the Chairman as required.

The committee has at least one member possessing what the Smith Report describes as recent and relevant experience. Andy Mollett, a chartered accountant, is Chief Financial Officer of EMI Music Publishing Ltd. It will be seen from the members' biographical details, appearing on page 83, that the other members of the committee bring to it a wide range of experience from positions at the highest level.

The audit committee's key responsibilities are:

- to monitor the integrity of the financial statements of the Corporation and any formal announcements relating to the Corporation's financial performance, reviewing significant financial reporting judgements contained in them.
- to review the Corporation's internal financial controls and the Corporation's internal control and risk management systems.
- to make recommendations to the Board in relation to the appointment, reappointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors.
- to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process taking into consideration relevant UK professional and regulatory requirements.
- to develop and implement policy on the engagement of the external auditors to supply non-audit services taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the Board identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

- to regularly update the Board about the audit committee's activities and make appropriate recommendations.
- to ensure the Board is aware of matters that may significantly impact on the financial condition or affairs of the business. If necessary, the audit committee can instigate special investigations and, if appropriate, engage special counsel or experts to assist.

The committee meets with the executive members and management and the Chairman of the audit committee meets privately with the external auditors.

In 2004 the audit committee discharged its responsibilities by:

- reviewing the group's draft financial statements prior to Board approval and reviewing the external auditors' detailed reports thereon.
- reviewing the appropriateness of the group's accounting policies.
- reviewing regularly the potential impact in the group's financial statements of certain matters such as impairments of fixed asset values and proposed International Financial Reporting Standards.
- reviewing and approving the audit fee and reviewing non-audit fees payable to the group's external auditors.
- reviewing the external auditors' plan for the audit of the group's accounts, which included key areas of extended scope work, key risks on the accounts, confirmations of auditors independence and the proposed audit fee.
- commissioning a report by external experts on the financial controls in place across the group.

The audit committee also monitors the group's whistle blowing procedures, ensuring that appropriate arrangements are in place for employees to be able to raise matters of possible impropriety in confidence, and with suitable subsequent follow-up action. An alternative reporting channel has been created whereby perceived wrongdoing may be reported via telephone and or in writing, anonymously if necessary.

During 2004, the Corporation undertook a tendering process for the external audit. The final choice of KPMG LLP was confirmed by the members of the audit committee and the Board, before being approved by the Secretary of State.

Channel 4 will not use the external auditors to provide other services unless it is efficient and effective to do so. In 2004, KPMG LLP provided no services to Channel 4 other than for the external audit. KPMG LLP also make an annual statement to the audit committee to confirm their independence.

Internal audit

The Corporation does not have an internal audit function. The need for an internal audit function was reviewed at the audit committee meeting in October 2004. As a result of this meeting various options for developing an internal audit or similar function for the group in the near future are being examined.

Pension plan

There are six trustees of the Channel 4 Staff Pension Plan who meet several times each year, and with the Plan's investment managers, Legal & General Assurance (Pensions Management), Capital International Fund, Henderson Global Investors and Deutsche Asset Management at least once a year.

The trustees are Luke Johnson (trustees' Chairman); an independent member, Louise Botting; two of Channel 4's executives, David Scott and Diane Herbert; and two employee representative trustees. These employee representative posts are filled by Julie Kortens and Neil Pepin.

Ofcom regulation

Channel 4 like other organisations is subject to domestic and European competition law, and is regulated by Ofcom. On 29 December 2003 Channel 4 received a variation to its former licence. This variation was intended to extend the material terms of the existing licence ahead of a major change in the licensing structure which took place at the end of 2004. There were some technical changes to the licence but no major changes of substance. The major changes contained in the Digital Replacement Licence dated 17 December 2004 will be reported in the 2005 Annual Report.

Members statement on new ventures

No new ventures were established in 2004. Performance of FilmFour channels and E4 is continually monitored against business plans approved by the Board and both businesses have exceeded these plans since launch.

Channel 4 carries out intra-group trading on an arm's length basis, subject to open market pressures; appropriate authorisation and approval processes are established at Board and senior management level; and formal arrangements are set out both with other investors, through shareholder agreements, and third party trading partners, for example, advertisers and programme producers.

Channel 4 ensures that shared costs are attributed on an equitable basis, having regard to the cost of provision and, where appropriate, comparable market rates.

**Why do you never let us see a stalker?
You always pan away nowadays. Yet once
upon a time, on the BBC, you always saw
them bouncing about. You spoilsports.**

Viewer, Cricket

Corporate governance continued

Report to the members by Deloitte & Touche LLP

Our role is to undertake an independent review of Channel 4, in respect of their compliance with Ofcom licence conditions concerning new ventures, intra group trading and shared costs. The members are responsible for ensuring that Channel 4 meets all the requirements set out by the Ofcom licence. They determine the procedures and controls that ensure compliance and monitor such activities. No new ventures were established in 2004. Accordingly, we have examined and report that services, products or rights of the Corporation or of its subsidiaries used by FilmFour Channels, E4 and Attheraces (until the date of disposal) continue to be attributed on an equitable basis, having regard to the cost of provision and, where appropriate, comparable to market rates.

Basis of opinion

Detailed instructions and the scope of our work were agreed with the members and are set out in our engagement terms. Our work has been carried out in accordance with those terms and as such does not constitute an audit in accordance with UK Auditing Standards. We have carried out a programme of review of Channel 4's procedures and controls, as described in the members' statement, to enable us to establish their appropriateness. We have tested a sample of transactions to give reasonable assurance that those procedures and controls have been applied throughout the year ended 31 December 2004. We have made enquiry of management and reviewed documentary evidence and financial reporting systems operated by Channel 4 in arriving at our findings. Our report has been prepared solely for the use of the members for the purpose of fulfilling their Ofcom licence conditions and we assume no responsibility to any other party.

Opinion

Based on our review of the procedures and controls and documentary evidence supplied by the members, we can confirm that:

- The Board has been presented with and considered business plans and investment summaries for all new ventures, upon which investment decisions are made and continue to monitor their performance. The plans show that these new ventures are intended to break even on a reasonable timescale and to make a contribution to Channel 4.
- Channel 4 has established and applied procedures and controls, which provide reasonable assurance that, where appropriate, intra group trading is carried out on an arm's length basis.
- Channel 4 has established and applied procedures and controls, which provide reasonable assurance that all shared costs continued to be attributed on an equitable basis to the businesses, having regard to the cost of provision, and where appropriate, comparable market rates.

Deloitte & Touche LLP

3 March 2005

Members

Non-executive members

Chairman

Luke Johnson

Appointed Chairman in January 2004. His appointment runs until 28 January 2007. He is Chairman of Signature Restaurants and a Governor of the University of the Arts, London.

Deputy Chairman

Barry Cox^R

Appointed Deputy Chairman in February 1999. His appointment runs until 31 January 2006. He is Chairman of Switchco, and a consultant with ITN.

Sue Ashtiany

Joined the Board in July 2003. Her appointment runs until 30 June 2006. She is a Solicitor and a partner in the city firm of Nabarro Nathanson. She is also a Commissioner for the Equal Opportunities Commission, a member of the Court of Oxford Brookes University and an Honorary Fellow of Harris Manchester College, Oxford.

Karren Brady^A

Joined the Board in July 2004. Her appointment runs until 30 June 2007. She is Managing Director of Birmingham City Football Club, Chairman of Emap's Kerrang digital radio station and a non-executive Director of Mothercare.

Tony Hall

Appointed to the Board on 1 April 2005. His appointment runs until 31 March 2008. He is Chief Executive of the Royal Opera House and a former Chief Executive of BBC News.

Andy Mollett^A

Joined the Board in July 2004. His appointment runs until 30 June 2007. He is Chief Financial Officer and Director of EMI Music Publishing Ltd, Director of EMI Songs Ltd and various EMI subsidiary companies. He is also a non-executive Director of Incentivated Ltd.

Andrew Graham^R

Joined the Board in April 1998. His appointment ran to 31 March 2005. He is Master of Balliol College, Oxford.

Sir Robin Miller^{AR}

Joined the Board in February 1999. His appointment runs until 31 January 2006. He is Chairman of HMV plc and the former Chief Executive of EMAP plc.

Ian Ritchie CBE

Joined the Board in January 2000. His appointment runs until 31 December 2005. He is a Director of the Edinburgh International Film Festival and serves on the board of Scottish Enterprise.

^AMember of the audit committee

^RMember of the remuneration committee

Executive members

Andy Duncan

Appointed Chief Executive in July 2004. Prior to this he was the Director of Marketing, Communications and Audiences at the BBC from 2001, on the BBC's Executive Board. He also led the project to launch Freeview and was Chairman of the joint venture with BBC, Sky and Crown Castle for its first two years. Prior to that he worked at Unilever for more than 16 years.

David Scott FCA

Managing Director and Deputy Chief Executive since October 2002, having been Managing Director since 1997 and Director of Finance from 1988 to 1997. He is Chairman of Digital 3 and 4 Ltd and TV Eye Ltd, a Director of 4 Ventures Ltd and Channel Four International Ltd and a member of the British Screen Advisory Council.

Andy Barnes

Sales Director since October 2002, having been Commercial Director since July 1997. He is a Director of Broadcasters' Audience Research Board Ltd (BARB). He joined Channel 4 in 1991 as Head of Advertising Sales.

Kevin Lygo

Director of Television since November 2003. Prior to joining Channel 4 he was Director of Programmes at Five. He had worked for Channel 4, as Head of Entertainment from 1998 to 2001, and at the BBC.

Secretary

Paola Tedaldi

Report on members' remuneration

Remuneration policy for executive members of the Board

The remuneration of executive Board members is determined by the remuneration committee, the membership and terms of reference of which are detailed on page 79. In framing its remuneration policy, the committee has given full consideration to the best practice provisions of the Combined Code.

The group aims to attract, motivate and retain high calibre staff and executive Board members by rewarding them with competitive salary and benefit packages. These are established by reference to those salaries and benefit packages prevailing for executives of comparable status in the television industry, but without any of the share option schemes available elsewhere.

Any bonus payments made to executives are based on performance and recommended and approved by the remuneration committee. Andy Barnes participates in the advertising sales bonus scheme, which is linked to advertising revenue targets. The maximum bonus payable under that scheme is 75% of salary. The other executive members participate in the Channel 4 Executive Bonus Scheme, which in 2004 set maximum bonus which could be payable at 40% of salary. In 2005, that cap has been reduced to 30%. The targets and terms for these schemes are agreed by the remuneration committee.

Service contracts

The service contracts of all the executive members are subject to notice periods of one year or less. The service contracts for certain members include specific provision for severance payments that would be due on termination of employment with the Corporation. Members are also entitled to compensation for loss of office in line with the Corporation's standard policy.

Taxable benefits

Executive members are eligible for a range of taxable benefits which include the provision of a company car and payment of its operating expenses, and membership of a private medical insurance scheme which is open to all staff. These benefits are not pensionable.

Remuneration policy for non-executive members of the Board

Ofcom appoints non-executive Board members for fixed terms and determines their fees. They are entitled to reimbursement of travel and accommodation expenses incurred in connection with attending Board meetings.

	Salary and fees £000	Bonus £000	Benefits £000	2004 Total £000	2003 Total £000
Executive members					
Andy Duncan (appointed 19 July 2004) ¹	183	58	6	247	—
David Scott ³	407	161	20	588	502
Andy Barnes	258	193	13	464	296
Kevin Lygo	418	158	13	589	383
Non-executive members					
Luke Johnson (appointed 28 January 2004) ²	94	—	—	94	—
Barry Cox	27	—	—	27	24
Sue Ashtiany	20	—	—	20	10
Robin Miller	20	—	—	20	18
Ian Ritchie	20	—	—	20	18
Karren Brady (appointed 13 July 2004)	10	—	—	10	—
Andy Mollett (appointed 13 July 2004)	10	—	—	10	—
Tony Hall (appointed 1 April 2005)	—	—	—	—	—
Retired members					
Andrew Graham (resigned 31 March 2005)	20	—	—	20	18
Rob Woodward (resigned 31 January 2005) ³	300	119	13	432	355
Peter Bazalgette (resigned 30 June 2004)	10	—	—	10	18
Joe Sinyor (resigned 30 June 2004)	10	—	—	10	18
Mark Thompson (resigned 9 June 2004)	222	—	8	230	581
Vanni Treves (resigned 25 January 2004)	7	—	—	7	73
Tim Gardam (resigned 31 December 2003)	—	—	—	—	566
Janet Walker (resigned 30 June 2003)	—	—	—	—	514
	2,036	689	73	2,798	3,394

¹In addition to the amounts shown above, a long-term loyalty scheme exists for Andy Duncan. This scheme requires Andy to remain with Channel 4 for at least three years and accrues at a rate of £150,000 per annum up to a maximum of £450,000 which will become payable on 19 July 2007. The 2004 financial statements include provision for Andy's accrued entitlement (£75,000) at the end of 2004.

²The salary and fees figure for Luke Johnson includes an amount of £32,593 in respect of the period between the retirement of Mark Thompson and the appointment of Andy Duncan during which he acted as Executive Chairman.

³In October 2004, it was announced that Deputy Chief Executive David Scott would resign from his post in September 2005. Provision has been made for payments due to him when he leaves Channel 4. Similarly in December 2004 it was announced that Rob Woodward would resign from his post as Commercial Director and provision has been made for amounts paid to him when he left Channel 4 in January 2005.

Pension

Executive members are eligible for membership of the Channel 4 Staff Pension Plan on the same basis as all other members of staff. The plan is contributory, at 6.5% of pensionable salary, and provides members with a pension based on 1/50th of final pensionable pay for each year of service up to a maximum of two-thirds of final pensionable earnings.

Non-executive members are not eligible for membership of the Channel 4 Staff Pension Plan.

The executive members of the plan during 2004 were as follows:

	Increase in accrued pension entitlement during 2004 £000	Total accrued pension entitlement at 31 December 2004 £000	Transfer value of increase in accrued pension entitlement less members' contributions £000	Transfer value at 1 January 2004 £000	Increase in transfer value less members' contributions £000	Members' contributions during 2004 £000	Transfer value at 31 December 2004 £000
Mark Thompson (resigned 9 June 2004)	2	7	13	56	21	4	81
David Scott	29	189	314	1,753	455	26	2,234
Andy Barnes	8	84	80	796	145	11	952
Kevin Lygo	—	12	—	121	28	—	149
Rob Woodward (resigned 31 January 2005)	4	11	24	68	31	11	110

- the total accrued pension entitlement shown is that which would be paid annually on retirement from the age of 60 but based on service to the end of 2004.
- the accrued benefits for all members, other than David Scott who joined the scheme before June 1989, have been restricted as a result of the impact of the Inland Revenue's earnings cap.
- members who are not subject to the earnings cap have the option to pay Additional Voluntary Contributions (AVCs) to a separate scheme. Neither the AVCs made nor the resulting benefits accrued have been included in the above table.
- all transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. They do not represent sums payable to individual members.

The benefits provided to all members of the Channel 4 Staff Pension Plan (the Plan) are as follows:

- normal retirement age is 60.
- there is a spouse's pension of one-half of a scheme member's pension in the event of death in retirement and of one-half of a scheme member's present expected pension in the event of death in service. There is an additional benefit equal to one-half of the benefit payable to the spouse in respect of each child up to the age of 18, or 23 if in full-time education, subject to a maximum of two children.
- pensions in the course of payment, in excess of the Guaranteed Minimum Pension, increase at 5% per annum compound, or the increase in the retail prices index if lower.
- from 1 May 2003, new employees are required to complete two years' continuous service with the Corporation before they can join the Plan. During the two-year waiting period employees are covered for death in service benefits.
- scheme members who leave within two years of joining the Plan receive a refund of their own contributions.
- scheme members who leave after being in the Plan for two years receive a benefit from normal retirement date preserved within the scheme, calculated as above, but relating to pensionable service and pensionable earnings up to the date of leaving.
- an early retirement option exists from the age of 50. Any scheme member taking an early retirement option receives a pension at a discounted rate.
- there are provisions for a member to exchange part of the retirement pension for cash.

Auditable information

The information in the remuneration and pension tables have been audited by the Corporation's auditors, KPMG LLP, as required by Schedule 7A to the Companies Act 1985.

Programmes and the licence

Channel 4 commissions originated programmes from a wide range of suppliers and acquires programmes in the international markets.

Independent production companies are the most important source of originated programmes. 305 independent companies provided programmes transmitted on the main Channel 4 service in 2004 (2003: 312).

The source and cost of the programmes transmitted on the main Channel 4 service are shown in the table below:

	2004 Hours	2003 Hours	2004 £m	2003 £m
Originated				
Independent production companies	4,316	3,823	271.6	238.6
Other	1,147	2,360	97.7	138.3
	5,463	6,183	369.3	376.9
Acquired	3,321	2,577	108.2	71.7
Programmes total	8,784	8,760	477.5	448.6
Other direct programme costs	–	–	8.0	8.9
Channel 4 programme and other content	8,784	8,760	485.5	457.5

Production outside London

Channel 4 is keen to encourage film and television production throughout the Nations and Regions of the United Kingdom and has a number of schemes to achieve that objective. The total cost of those programmes in 2004 amounted to £112.5 million (2003: £114.2 million).

Channel 4: hours and costs of programmes

The main Channel 4 service broadcast 8,784 hours in 2004 (2003: 8,760) – 24 hours each day. The hours and costs of the wide range of programme transmissions were as follows:

	2004 Hours	2003 Hours	2004 £m	2003 £m
Entertainment	1,732	1,791	101.7	108.1
Drama	1,217	929	101.7	81.6
Education	1,541	1,426	92.0	74.4
Sport	1,074	1,041	40.0	40.6
Feature films	906	1,061	25.4	19.4
Other factual	557	530	28.2	29.3
News	313	346	20.9	22.5
Documentaries	214	295	18.3	17.6
Current affairs	213	225	18.0	12.7
Quiz and gameshows	433	448	8.4	10.9
Arts and music	267	247	12.7	9.3
Multicultural	162	191	5.7	12.0
Children	96	175	0.8	5.0
Religion	59	55	3.7	5.2
Other direct programme costs	–	–	8.0	8.9
	8,784	8,760	485.5	457.5

E4 and FilmFour channels

E4 broadcast for 12,782 hours in 2004 (2003: 9,922) with 41% of these hours being subtitled (2003: 29%). The FilmFour channels broadcast for 11,083 hours in 2004 (2003: 11,460) with 49% of these hours being subtitled (2003: 51%).

Ofcom

Ofcom monitors compliance with broadcasters' licence obligations (including compliance with its regulatory codes) and deals with all complaints about programmes, including those concerning standards in programmes and complaints of unfair treatment and/or infringement of privacy. Ofcom will consider complaints to have been resolved on occasions where the broadcaster has taken appropriate action in response to an issue.

Channel 4

Ofcom recorded four breaches of its Programme Code on standards in programmes by the main Channel 4 service in 2004 (2003: 11), but none was judged serious enough to merit a sanction (2003: none). Seven complaints were treated as resolved by Ofcom in 2004.

In 2004 no complaints about fairness/privacy in Channel 4's programmes were upheld (2003: three) and one complaint was considered resolved.

E4/FilmFour

Two recorded breaches of the Programme Code on standards in programmes were noted against E4 in 2004 (2003: two), and none for FilmFour (2003: none).

In 2004 no complaints about fairness/privacy on E4 and FilmFour programmes were upheld (2003: none).

2003 Update

The final bulletin for the Broadcasting Standards Commission was published on 4 April 2004. This bulletin recorded one finding on standards (upheld) and one on fairness (upheld).

Channel 4: the licence

The wide range and diversity of programmes shows that the remit is central to Channel 4's programming policy. Channel 4 takes pride and pleasure in the challenge of fulfilling it in different ways each year. Our licence from Ofcom, in addition to stipulating the need to meet the remit, places certain specific programme obligations on Channel 4.

Principal licence requirements

	Compliance minimum	2004	2003
Average hours per week			
Education	7	16	13
News			
– overall	4	6	6
– in peak-time (6 pm to 10.30 pm)	4	4	n/a
Current affairs			
– overall	4	4	4
– in peak-time (6 pm to 10.30 pm)	1.54	2	n/a
Multicultural	3	3	4
Religion	1	1	1
Hours per year			
Schools	330	673	695
Percentage			
Original production			
– overall	60	62	71
– in peak-time (6 pm to 10.30 pm)	70	79	83
First run			
– overall	60	62	62
– in peak-time	80	87	89
Independent production *	25	85	63
European independent production *	10	54	45
European origin	50	71	77
Subtitling for the deaf and hard-of-hearing	80	82	83
Audio description	6	10	8
Signing	3	3	2
Production expenditure outside London	30	30	30
Regional hours	30	35	–
Training and development (% of qualifying revenue)	0.5	0.5	0.6

* There are material differences in the definitions contained in the European and UK legislation for qualifying independent production.

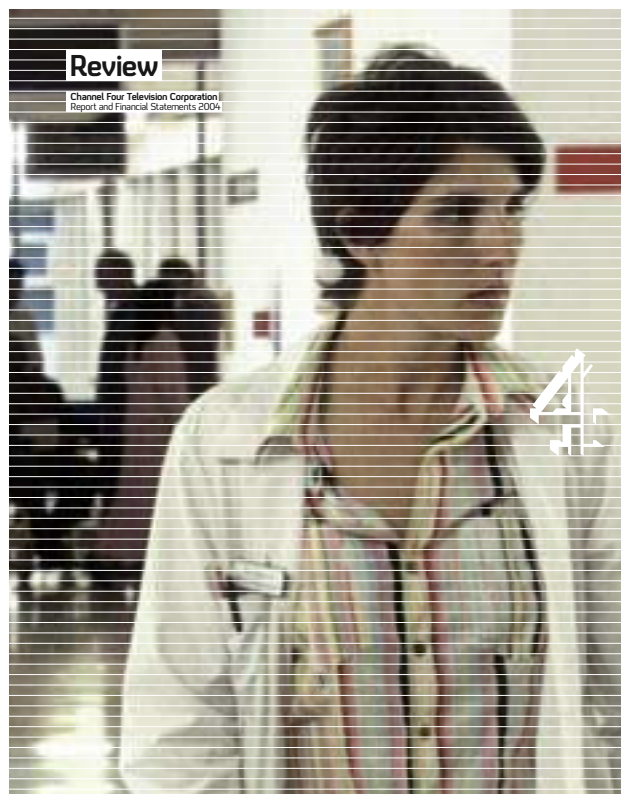
Historical record

	2000 £m	2001 £m	2002 £m	2003 £m	2004 £m
Consolidated results:					
Group turnover	716.4	730.7	766.9	769.6	841.4
Group operating profit/(loss)	33.8	(24.2)	28.9	55.6	61.0
Share of joint venture's loss	–	(3.9)	(9.9)	(10.5)	–
Total operating profit/(loss)	33.8	(28.1)	19.0	45.1	61.0
Profit on sale of investment in attheraces	–	–	–	–	1.3
Net interest	2.0	(0.1)	(2.5)	0.2	3.4
Profit/(loss) before taxation	35.8	(28.2)	16.5	45.3	65.7
Taxation	(14.3)	7.6	(6.3)	(11.0)	(19.7)
Retained profit/(loss) for the year	21.5	(20.6)	10.2	34.3	46.0
Advertising and sponsorship revenue					
	2000 £m	2001 £m	2002 £m	2003 £m	2004 £m
Channel 4	651.7	619.4	645.9	643.0	692.1
ITV, GMTV, S4C and Five	2,315.7	2,012.4	2,031.6	1,993.8	2,106.5
	2,967.4	2,631.8	2,677.5	2,636.8	2,798.6
	%	%	%	%	%
Channel 4	22.0	23.5	24.1	24.4	24.7
ITV, GMTV, S4C and Five	78.0	76.5	75.9	75.6	75.3
	100.0	100.0	100.0	100.0	100.0
Audience share					
	2000 %	2001 %	2002 %	2003 %	2004 %
BBC 1	27.2	26.9	26.2	25.6	24.7
BBC 2	10.8	11.1	11.4	11.0	10.0
ITV and GMTV	29.3	26.7	24.1	23.7	22.8
Channel 4 and S4C	10.5	10.0	10.0	9.6	9.8
Five	5.7	5.8	6.3	6.5	6.6
Satellite and cable	16.5	19.5	22.0	23.6	26.1
	100.0	100.0	100.0	100.0	100.0

Source: BARB all individuals

Just interested to see that the Channel 4
News guy was wearing bright red socks with
his suit! Lovely!

Viewer, Channel 4 News



A typical Channel 4 programme?

Channel 4 has an overall 10% share of the UK television audience, but that figure conceals the fact that three-quarters of all viewers find something they want to watch on Channel 4 each week. The four covers of our annual Review reflect the diversity of their taste and interest. **Karbala, City of Martyrs**, broadcast on a Monday night at 7.30, in the heart of peak-time, won an audience of 600,000, a 3% share of viewers at that time. The first six-part series of the drama **Shameless**, broadcast on Tuesdays at 10pm, attracted an average audience of 2.6 million – a 14%

audience share. With a nine-week run of hour-long episodes of untried and innovative comedy, broadcast in peak viewing time at 9.30 pm, **Green Wing** took some big risks but was rewarded with an audience that reached almost two and a half million, an average 11% share. **Status Anxiety** represented a different kind of risk – two hours of philosophy at 7pm on a Saturday night. It attracted an audience of 1.2 million, a 5% share of viewers that evening.

Designed by Browns
Printed by St Ives Westerham Press