

review

CHANNEL FOUR TELEVISION CORPORATION
REPORT AND FINANCIAL STATEMENTS 2001

MAKING WAVES





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Making Waves

Channel 4 Summer Tour, Brighton

Channel 4 reflects the social, cultural and political realities of Britain. But it does more. It also challenges and shapes those realities. Its role is to be innovative and experimental, to represent the rich diversity of contemporary society. Making waves is a central part of its purpose as a broadcaster. This review is a glimpse of how that purpose was fulfilled in 2001.

- A devastating film about the oppression of women in Taliban-ruled Afghanistan, broadcast three months before 11 September
- A provocative series on changing attitudes to drugs; another on racism in Britain; a third on the failure of politics to connect with the electorate
- A satire on paedophilia that unleashed a passionate national debate on freedom of expression
- The most talked about entertainment event of the year, Big Brother
- The most ambitious drama project of the year, Beckett on Film
- The most innovative religious programme of the year, a month-long daily report from India's Kumbh Mela festival with a linked website
- A daily news programme whose audience grew faster and was younger than any other news programme on British television
- A film that drew together the themes of racist violence against asylum seekers and the threat of bio-terrorism, Gas Attack, conceived as fiction, but turned suddenly into horrible reality...

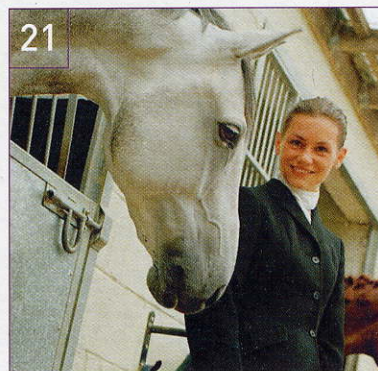
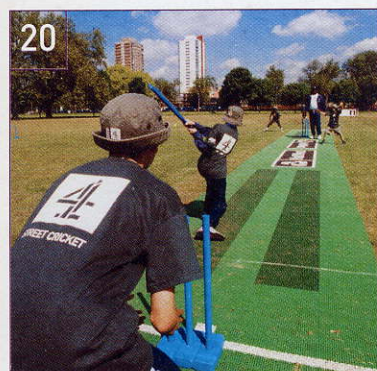
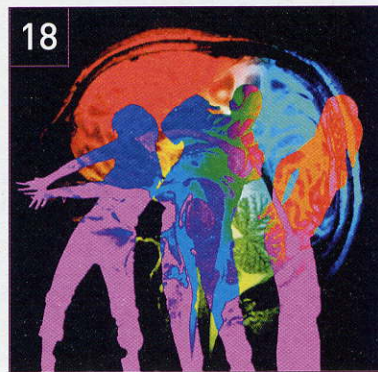
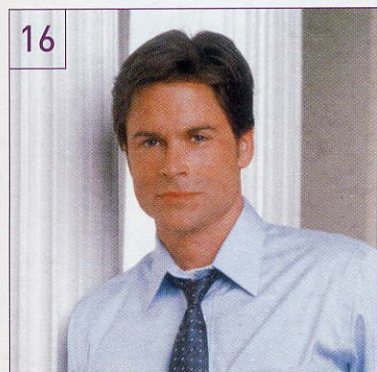
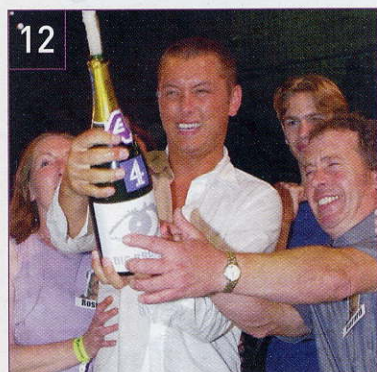
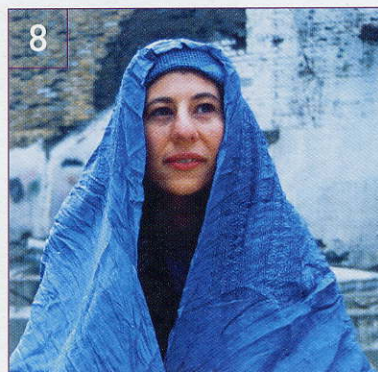
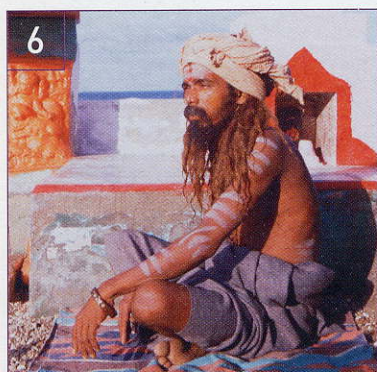
At key moments of the year it seemed that Channel 4 had its finger on the pulse of life in Britain and on world events.

In the words of the channel's Statement of Promises, made at the beginning of the year to the Independent Television Commission (ITC), 'We will engage with the issues that define the pressure points in contemporary society'. We did.





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Chairman's Statement



Vanni Treves Chairman

'From **Brass Eye** to **Testing God**, from **Black Books** to **Kumbh Mela**, Channel 4, in the words of one broadsheet critic 'continued to come up with material which would probably not get a slot on any other channel'. That purpose continues to be at the heart of all we do.'

2001 was a year of great critical success for Channel 4 with national and international awards, high-profile drama and entertainment, the successful launch of new digital services and, perhaps most important of all, an already enviable reputation for news and current affairs raised higher still by its coverage of the tragic events of 11 September and their immediate aftermath.

It was also an unexpectedly testing year. A decline in the television advertising market, already apparent by the summer, accelerated dramatically after 11 September. By taking swift and decisive action to reduce costs right across the channel, we maintained the programme budget almost unscathed and we draw some comfort from the fact that Channel 4's revenues held up significantly better than any of its advertising funded competitors. Nevertheless, the group finished the year with a loss, its first for ten years, of £21 million after tax. That this downturn should have coincided with the year of greatest planned investment in new services made the challenge to Channel 4's staff, and in particular the senior executives, all the more demanding.

2001 was also a year of major staff changes. In July Michael Jackson announced that he would be leaving in the autumn to take a post in the United States and the Board faced the responsibility of choosing only the fourth Chief Executive in the channel's history. There can be little doubt that Michael's greatest achievement in his four whirlwind years in office was to reposition the channel for success in a multi-platform, multi-channel digital future. We are very grateful to him. We appointed with pleasure Mark Thompson, the Director of Programmes for the BBC, as his successor. Mark's outstanding skills, experience and proven reputation as a bold and creative executive promise

an invigorating next chapter in the story of Channel 4. On behalf of the whole channel I welcome him and wish him well. This process of appointment meant that for several months David Scott was Acting Chief Executive and I would like to record here the thanks of the Board and staff for his performance of that role. His calm and steady judgement ensured the smoothest possible ride through a half year that had more than its share of shocks and surprises.

During the course of the year 4 Ventures became fully operational, with Rob Woodward joining as its Managing Director. It is a remarkable tribute to all those involved that, despite the difficult circumstances created by the downturn in the advertising market and the wider economic slowdown, 4 Ventures exceeded its first year targets. Our digital entertainment channel, E4, for example, finished the year ahead of budget and ahead of predictions for share of audience. It also helped raise the audience share for the main Channel 4 service in multi-channel homes and fulfilled creative expectations by developing six new programme ideas which were strong enough to be transferred to the main Channel 4 service.

These new activities, essential though we believe them to be for the longer term future of Channel 4, are only made possible by the vitality and quality of the main television service. From **Brass Eye** to **Testing God**, from **Black Books** to **Kumbh Mela**, Channel 4, in the words of one broadsheet critic, 'continued to come up with material which would probably not get a slot on any other channel'. That purpose continues to be at the heart of all we do.

This clear evidence of bold programming and strong management best rebutted the accusations from some critics that the

channel was abandoning its remit and mis-using its resources. Once again the channel exceeded, in most cases by a very substantial margin, all the public service requirements imposed by legislation and by the ITC. Furthermore, it continued to contribute to the quality of life in Britain well beyond the television screen, in online and other off-air forms of education, through its continuing support for independent production businesses throughout the nations and regions of the UK, through its cultural sponsorship and its community cricket initiatives. These are not 'add-ons'. We see them as an integral part of what we are expected to do. Channel 4 remains committed to the ambition set out in the White Paper, 'The Future of Communications', that public service broadcasting should potentially have an even more important role in the digital future than it has today.

Whether we shall be able to fulfil that ambition depends in large measure on the powers, remit and conditions set out for us by the government's Communications Bill, due later this year, and on the successful resolution of major questions that remain over the process of digital switch-over, the government's approach to it and the threat of a possible tax on the spectrum we use for transmission. It also depends, as ever, on the commitment and creative talent of all those who work for the channel and the hundreds of independent businesses that supply us with programmes and services. It is thanks to them that 20 years after its establishment Channel 4 is still the most innovative force in British television, still entertaining audiences and still making waves.

Vanni Treves
Chairman
25 March 2002

Chief Executive's Report



Mark Thompson Chief Executive

'Maximising Channel 4's impact on British society cannot come from chasing ratings any more than it can come from a rigid adherence to particular formulaic obligations. It can only come from an uncompromising commitment to creative excellence and diversity, underpinned and made possible by commercial strength.'

Channel 4 is a unique creative force and it is a great challenge to be asked to lead it. It is also a privilege to join an enterprise which, despite the impact of reduced advertising revenues and the wider economic slowdown, is in fundamentally good health, with a strong schedule of programmes and a hugely talented workforce. In an increasingly crowded and undifferentiated television market, Channel 4's brand, and the distinctiveness of its values and its attitudes stand out. We will build on that tradition of distinctiveness and courage in the months and years ahead.

As this Review makes plain, Channel 4's audiences enjoyed a year of richly provocative, perceptive and entertaining programmes in 2001, from **Big Brother** to the plays of **Samuel Beckett**, from the cross-platform complexity of **Test Cricket** to the classic simplicity of Saira Shah's powerful and moving documentary, **Beneath the Veil**. A broad range of high quality original programming is at the heart of all public service television and the need to safeguard both variety and quality is the rationale for broadcasting regulation. But quality and diversity will never be achieved merely by a regulator imposing definitions and quotas. In Channel 4's case it comes from the creative freedom made possible by public ownership and the consequent lack of shareholder pressure. It comes from the broad and positive ambition to be innovative and experimental, which is set out in the channel's remit, rather than in the narrow obligations of particular programme genres. The spirit of freedom and experimentation is not just theoretical; it is something you can feel the moment you step through the door.

Maximising Channel 4's impact on British society cannot come from chasing ratings any more than it can come from a rigid adherence to particular formulaic obligations. It can only come from an

uncompromising commitment to creative excellence and diversity, underpinned and made possible by commercial strength.

That is why we welcome the trend towards self-regulation. We have made our commitment to it a prominent feature of this Review. Properly managed, self-regulation holds out the possibility of an evolutionary process which will allow broadcasters like Channel 4 to respond positively to increasingly rapid changes in audience behaviour and in technology. If this is genuinely to replace existing systems of content regulation, rather than simply being added to them, it will require a relationship of robust engagement and mutual respect between broadcaster and regulator. The channel enjoys just such a relationship with the present ITC. We will work to build a similar relationship with OFCOM.

Television is changing. Fragmentation of audiences and the arrival of new technologies and new media all point to the need for Channel 4 to reach the public in new ways, by developing new services and new revenue streams. Any other approach would be 'catastrophic', as the Financial Times put it recently. 4 Ventures and the new services it is developing are not a distraction, they are an absolute essential. But if the strategy of diversification is to help define Channel 4's future role as a public broadcaster as well as help secure its future commercially, the new ventures must be carefully chosen and developed and the balance of creative and financial resource devoted to the core channel and the new activities judiciously struck. And there must be transparency both of objectives and of the processes by which funding and intellectual property moves from Channel 4 to 4 Ventures and back again. Considerable progress was made on all these fronts in 2001, but they will be a key focus of our attention in 2002 and beyond.

Channel 4 is 20 years old in 2002. From the very beginning its success has been intimately bound up with the fortunes of the independent production sector in the UK and there is every reason to expect that this creative partnership will continue to flourish for the next 20 years, benefiting audiences and industry. New services and new platforms should mean new opportunities for Channel 4 and its numerous suppliers. In addition, the channel's strong and growing commitment to commissioning and training throughout the nations and regions of Britain will continue to build successful new creative businesses.

A major government Communications Bill, expected towards the end of 2002, is likely to shape the media landscape for the next decade. There can be no doubt that the skills of Channel 4's workforce, the robustness of its strategy and the strength of its brand give it the potential to play as prominent a part in the future of British media as it has for the last two decades. That depends on the new legislation giving the channel the flexibility and the powers to fully realise its potential. We very much hope it will do so.

Mark Thompson
Chief Executive
25 March 2002

Statement of Promises

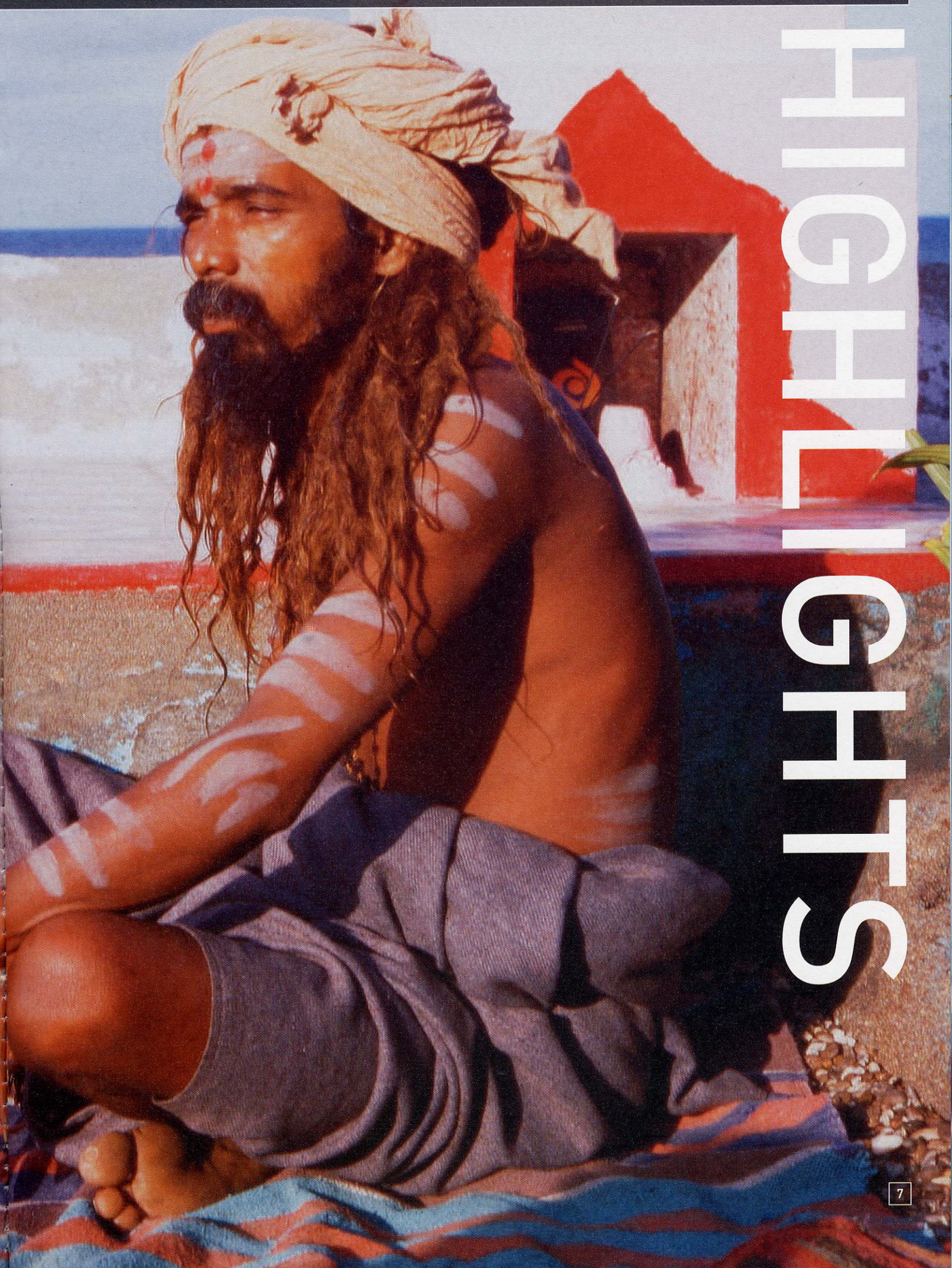
Kumbh Mela

A government Communications Bill, expected towards the end of 2002, is likely to propose new systems of accountability for Britain's public service broadcasters, with a strong emphasis on self-regulation. In anticipation of this shift, Channel 4 and its regulator, the ITC, are exploring a system of programme promises to be made at the beginning of each year by Channel 4 and reviewed at the end of the year by the ITC. Channel 4 welcomes this as a practical means of encouraging broadcasters to set themselves clear ambitions. Channel 4's Statement of Promises for 2001, a comprehensive 5,000 word document which can be read in full on the Channel 4 website, included the following pledges:

- We will use our reputation for risk and non-conformism to engage a younger generation in the values of public service broadcasting.
- We aim to be the destination of first choice for the independent programme maker.
- We are committed to representing the cultural diversity of Britain within our mainstream programming.
- We will champion new talent in comedy.
- We will make room for contrary opinion and non-conformist thinking from all sides of the ideological agenda.
- We will question the role of politics in a modern society and ask why it is seen as of less relevance to people's lives than in the past.
- We will identify events, series and individual voices that reflect the range of faiths and beliefs in our society.
- We will ensure that at least eight hours of our programmes each week are supported by individually tailored support services, either printed material, online or telephone helplines.


The following pages show how these and other promises were delivered during the course of 2001.

HIGHLIGHTS



Beneath the Veil





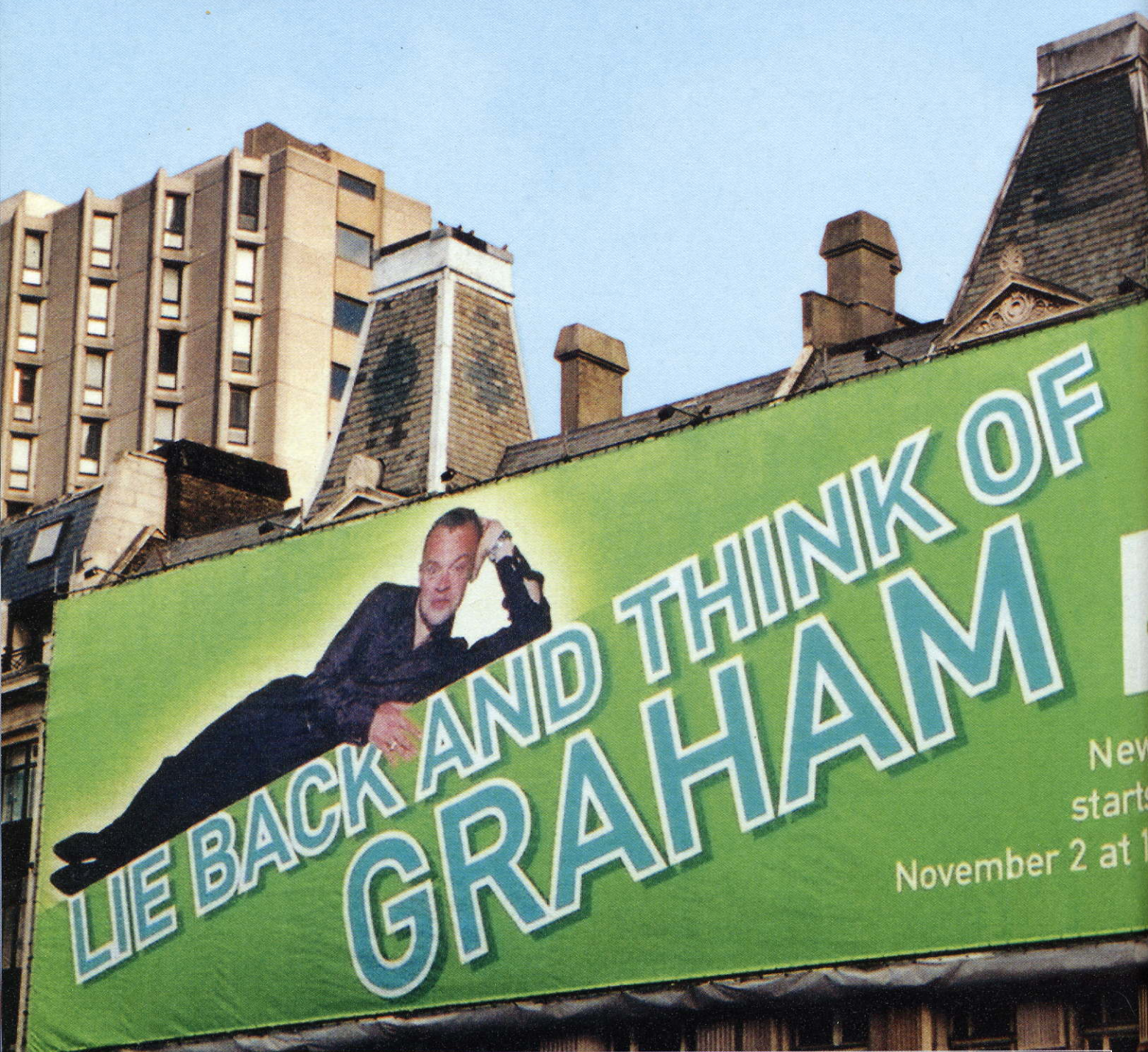
'We will re-invigorate personal view programmes.' Statement of Promises, 2001

Saira Shah's extraordinary film **Beneath the Veil** was broadcast by Channel 4 in June 2001, three months before the events of 11 September put the terrible reality of life under Afghanistan's Taliban regime on the world's front pages. Since then, the film has been shown around the world. It was described by Larry King of CNN as 'one of the best documentaries we have ever aired'.

Filmed at immense personal risk by Saira, herself an Afghan, the programme provided a merciless picture of the systematic brutality, degradation and humiliation which the Taliban inflicted on the women of Afghanistan and on the children they cared for.

Following the attacks on the World Trade Center, Saira returned to Afghanistan for Channel 4 to investigate the way in which the war on terrorism was affecting ordinary Afghans. The outcome was **Unholy War**, a powerful and personal view of the way in which some of the poorest people on earth coped with being caught up in 'the first war of the 21st Century'.

This was only one of a series of special programmes commissioned in the immediate aftermath of 11 September. They included an analysis of American and British war aims, an investigation into biological weapons and a detailed study of why the world's most sophisticated intelligence agencies had failed to destroy the al-Qaeda terrorist network. In **Unreported World - Islam and America**, Imran Khan asked why the USA is despised throughout the Islamic world. **How The Twin Towers Collapsed** used eyewitnesses and 3D computer animations to reveal the second-by-second story of what happened after the terrorist attack. And in **Heroes of Ground Zero** New York's fire fighters told the story of how two city firehouses struggled to cope with the aftermath of the tragedy.



'We will champion new talent in comedy and entertainment.'

Five of the 11 BAFTAs Channel 4 picked up in 2001 were awarded for comedy, underlining Channel 4's continuing reputation for some of the most original entertainment on British television. The multi-award winning **Black Books** was hailed as one of the most innovative sitcoms of recent years. The Daily Mail said, 'Black Books has everything that the run-of-the-mill British sitcom doesn't have – an original idea, an unusual setting, genuinely fresh minted jokes, and a gloriously shamolic central character.'

Another comedy success was **Banzai**, the anarchic spoof Japanese gambling show. Launched on E4 it rapidly acquired cult status and became one of six new programme ideas to move from E4 onto the main Channel 4 service. Part of Channel 4's strategy for E4 is to use it in this way as a testing ground for new entertainment ideas.

Graham Norton returned this year for a fifth series of his inimitable talk show. With rival broadcasters trying to tempt him away Channel 4 was delighted to see him continue his late night talk show and a number of one-off entertainment projects. With more glamorous guests,

outrageous audience revelations and bizarre phone calls than ever, Graham has become one of Britain's most loved and distinctive television personalities. His talent has won him plenty of imitators and a string of awards including the BAFTA for Best Entertainment Programme and Performer, the Television and Radio Industry award for Best TV Presenter and the Royal Television Society Award for Best Presenter.

'Our history series will increasingly extend beyond 20th century subjects.'

Channel 4's series on England in the 17th century, **Plague, Fire, War, Treason: A Century of Troubles**, suddenly acquired a contemporary feel because of events in the US. 'When the Gunpowder Plot is described as the greatest terrorist conspiracy Britain has ever known, you want to get inside the heads of those 17th century terrorists and know what made them tick,' said The Sunday Times.

The opening film of the series traced the advance of the Great Plague and its devastating impact on the people

of London. Recreating life in Cock and Key Alley, a residential street in the heart of the City, it used previously unseen contemporary records to trace the lives, work, living conditions and tragic deaths of the actual families who lived there.

Another film explored the life of Oliver Cromwell, a man who has been seen as both the hero and villain of the English Civil War.

The Fire of London used new historical evidence and forensic techniques to tell the story of five momentous days in the life of the City, and the final film

of the series examined the conspiracy of **The Gunpowder Plot**.

Attracting widespread acclaim in the press, the series was both engaging entertainment and compelling history. One national newspaper advised parents, 'If your children are struggling with their history GCSE, not to worry. Just sit them down in front of the telly. Channel 4 is doing the 17th century...'. For the really serious student a website provided comprehensive supporting material.

Big Brother



'Channel 4 will increasingly grow its strengths from its core of terrestrial broadcasting to provide creative content across different media platforms.'

Love it or hate it, you couldn't fail to notice the return of **Big Brother**. Channel 4's big hit was hugely enhanced by a parallel service on its new digital entertainment channel, E4. As well as nightly shows on the main Channel 4 service, viewers to E4 could enjoy 21 hours a day of interactivity, none of it available the year before. They could choose which of four video feeds to watch – or watch them all at the same time. Five million people cast their

votes using their remote controls and a further 11 million voted by phone.

Once again the Big Brother website dominated the internet with nearly two million unique visitors to a site which featured live video streaming and 'Fave Cam', a constant video stream dedicated to the most popular housemate with biographies, background information, chat rooms and a virtual tour of the Big Brother house. Dedicated fans could keep up to date wherever they were with text messages and a special hotline.

An average 4.5 million viewers watched the daily show for ten weeks and

7.5 million tuned in for the final eviction. The Times was in no doubt as to what it all added up to – 'The second series of Big Brother has been the UK's most successful venture into interactive television.'

Channel 4's growing expertise in complex cross-platform projects was also in evidence in the summer's cricket coverage and during the extraordinary **Kumbh Mela** in India, a festival which drew tens of millions of devout Hindus to the banks of the Ganges river. Channel 4 offered viewers a daily television programme live from the festival and a website whose hits exceeded all expectations.

'Channel 4 sets out to be the place where writers, directors and producers choose to bring their most original work because of the creative freedom allowed them.'

In 1999 Penny Woolcock made the award winning **Tina Goes Shopping**, a story of life on some of Leeds' toughest housing estates. A year later, she returned to make **Tina Takes a Break** with the same humour and brutal honesty of the original and, once again, with a cast of non-professional actors, including residents of the estates where the action was set. The film, broadcast in 2001, tells the story of Tina's two children and their

desperate attempts to be taken away on holiday. Their dream is eventually realised – thanks to a stolen car, a pathetically bungled robbery committed by their mother and a pile of misappropriated drugs money. **Tina Takes a Break** is an unnerving piece of social commentary about life in urban Britain.

'Reality doesn't get much more extreme than life on a lawless council estate in Leeds as depicted in Penny Woolcock's brilliant and bewitching follow-up,' said The Times.

Other drama highlights of the year included: **Men Only**, a disturbing look at

the dark side of modern masculinity, and **Swallow**, Tony Marchant's unconventional love story, centred on a new anti-depressant 'wonder drug' and its impact on the pharmaceutical spin doctor who promotes it and the user who suffers its side effects. Ken Loach made a powerful return to the screen with **The Navigators**, a bleak tale of railway maintenance workers struggling to maintain their livelihoods and their integrity in the wake of rail privatisation.

Brass Eye Special

Outcry over spoof paedophilia

'We will make room for contrary opinion and non-conformist thinking.'

which fooled stars

'We will make room for contrary opinion and non-conformist thinking.'

Chris Morris's Brass Eye Special.

Chris Morris's **Brass Eye Special**, a satire on paedophilia, unleashed a storm of controversy. The programme sought to challenge the way the media

sensationalise paedophile crime and highlighted media obsession with celebrity endorsement by persuading a number of public figures to lend their names to spurious campaigns on the dangers of child abuse. Rarely

has a single television programme generated such passionate debate. Some newspapers attacked it as the 'sickest TV show ever', while others counter-attacked with equal vigour.

'They are fuelling exactly the obsessive bonfires of outrage that Brass Eye sought to satirise,' said The Daily Telegraph, 'Endless media and political sexualisation of children is a fitting subject for mature exploration. Channel 4 made clear that this was a satirical programme for an adult audience.'

The ITC, the Broadcasting Standards Council (BSC) and Channel 4 itself received thousands of complaints, but almost as many letters and calls

expressing support and, in some cases, appreciation for having had the courage to broadcast the programme. In a letter to Channel 4, the ITC wrote, 'We fully uphold Channel 4's right to include even the most biting satire in the public interest,' and the BSC stated that they 'did not consider that the programme sought to normalise paedophilia or belittle the suffering of its victims.'

Nevertheless, the ITC ruled that the warning broadcast before the programme went on air had been in breach of sections of the regulatory code and Channel 4 was obliged to broadcast an apology.

Channel 4 remains unwavering in its support both for Chris Morris and the **Brass Eye Special**. When the common criticism of broadcast television is its blandness and conformity, Channel 4 believes that a central part of its remit is to challenge and question the values and assumptions that prevail within the public and media. It will continue to do so.

12 COMMENT



DAILY EXPRESS

245 BLACKFRIARS ROAD, LONDON SE1 9UX
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Beware the Nanny State in the Brass Eye furore

PAEDOPHILIA is never an easy subject to tackle, let alone make a joke out of. So the makers of the Channel 4 satire *Brass Eye* cannot be surprised that there has been a huge outcry over an episode which focused on the issue, albeit with the

How were stars fooled so easily by Brass Eye?

Needlessly shocking, or a satirist in the

BY TOM LEONARD
AND MATT BORN

TABLOIDS, charities and ministers may be spitting tacks over his latest programme but anyone who thinks Chris Morris, the creator and presenter of *Brass Eye*, is perturbed would be way off the mark, a friend and collaborator insisted yesterday.

Morris, currently on holiday in the south of France (which he booked long before transmission), will be following the continuing furore over his Channel 4 satire on the media's treatment of paedophilia.

- albeit the most successful
- example of a crusade to challenge moral taboos and media and political hypocrisy.

His surreal brand of comedy, which has included the radio shows *Blue Jam* and *On The Hour*, the television series *The Day Today* and *Brass Eye* and a spoof column in the *Observer* by a supposedly dying man, has inevitably polarised opinions.

While his fans hail him as a comic genius and satirist in the best traditions of Hogarth and Swift, his detractors

38, honed his skills on local radio where he was repeatedly sacked for stunts such as editing the Queen's Speech to include a lewd reference to George V and George VI.

He later got his own Saturday morning slot on the BBC London station GLR but broadcast items such as "Kiddies' Outing" in which a small child would name some public figure as a homosexual. He was sacked again.

On Radio 4, he for-

A distasteful spectacle

A disaster in spoof

No fewer than three Labour ministers have now attacked Channel 4 over its spoof documentary, *Brass Eye*. The "minister for children's issues," one Beverley Hughes, has described the programme as "unspeakably sick". The Home Secretary, David Blunkett, went so far as to let it be known that he was unhappy with Culture, Media and Sport, Tessa Jowell, the Independent Television Commission, who feels that such programmes ought to be censored.

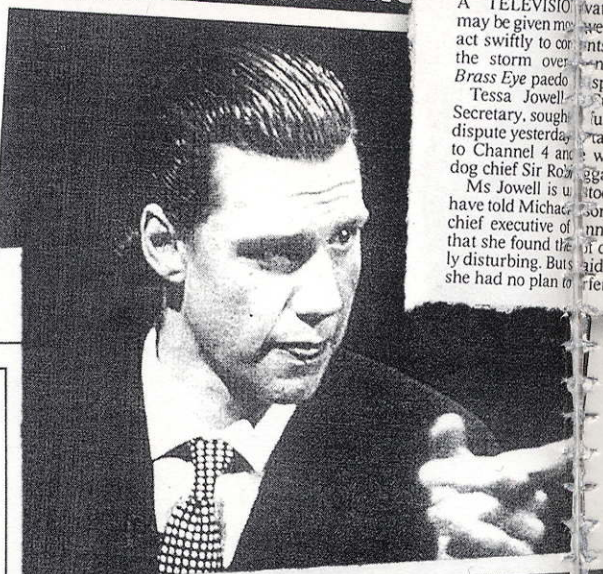
It is not clear whether Ms Jowell has seen *Brass Eye*. Hughes admits that she has only seen it abroad, presumably relying wholly on reports from home.

Not that this has deterred most commentators. It is evidently enough of a success to attract a cult following, and that, being the case, it is bound to continue.

A free country

BY ANDY MCSMITH
CHIEF POLITICAL
CORRESPONDENT
AND MATT BORN

BEVERLEY HUGHES, the Home Office minister who has been leading the protests against the spoof Channel 4 documentary about the riots, said yesterday that

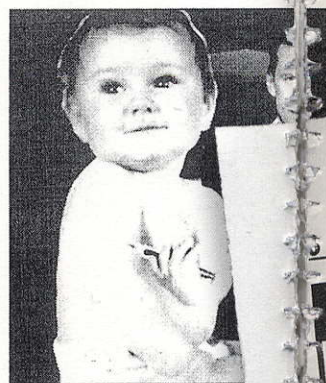


Channel 4 faces anger over paedophilia story

Matt Wells

Television watchdogs launched an investigation into Channel 4 yesterday after its Brasserieerie programme was criticised for the media's treatment of the case.

In one scene, presenter Chris Morris took a young boy into the studio and asked a "paedophile" locked in stocks if he wanted to have sex with him. In another segment, the DJ "DJ" Dr Fox was seen hammering a nail into a crab shell, leaving viewers paedophiles aware more in common genetically with the crustacean than with other humans. Morris also posed as a rapper called J.L.B.B who dated children as young as seven and performed with a dummy of a child attached to his crotch. The programme raised questions about the ease with which well-known figures allowed themselves to be drawn into making ridiculous claims. The comedian Richard Black said that paedophiles



Chris Morris in a scene from

4. He infuriated Noel Edmonds, Bernard Manning and assorted politicians by duping them into going on camera to wear a ~~hat~~

Minister in Brasse

against Government censorship. "I think it's a lot of fuss and nonsense over nothing," he said. "I saw the programme and it made me laugh. Ministers should stay out of things like this. It's a question of censorship."

Miss Hughes' described the broadcast as "unspeakably sick." She accused those who made it of diverting attention away from

chdog may win more power after Brass Eye row

programme content. Instead she told Sir Robin, chairman of the Independent Television Commission, that she plans to give him greater power to act.

Mr Jackson said he told his Jowell that Channel 4 stood by its decision to broadcast the programme and that he had complaints to Channel 4 and the ITC. About 50 people have contacted the programme.

Downing Street was not a place where the programme was shown. The programme was shown on Channel 4.

boundaries show: "In a point; the inadequate me like such an not the determin TV, casters licence regu- pply."

age 12 age 13



(c) Steve Fricker and J.

Meddling ministers who can't tell satire from voyeurism

tradition of Hogarth?

Channel 4 chief, Michael Grade. He rewarded Grade's decision to cut a sketch about a musical on the life of Peter Sutcliffe.

who was intending to kill himself, incensed readers who felt he was mocking

Obscene but funny, Brass Eye was at least not homophobic

phile is portrayed stalking youngsters". On the pages before, the Mail printed a large colour picture of the "bikini princesses" — the

would be upset by it — but do television stop showing car chase and crashes for fear of upsetting

TUESDAY JULY 31 2001 DAILY EXPRESS

NEWS

MINISTER CALLS OFF CENSORSHIP THREAT OVER 'SICK' PAEDOPHILIA SHOW

TV spoof climbdown

Eye protest has not even seen it

"She added: "For a channel repeats the programme in a very short space of time, it realises it's caught publication. I think one can only question whether the serious here was TV ratings and not a real wish to generate a serious programme."

essa Jowell, the Culture Secretary, who has watched the programme

ing the content of TV programmes," she said. "That is not a job for a politician."

"But I do have a role in making sure the ITC is equal to the task of representing the concerns of the public to broadcasters."

"The Brass Eye programme, and the fact that it was repeated after only 24 hours, suggests that there is a need for a rethink about the ITC's powers."

considerable concern that the boundaries of decency have been breached."

"The point for the Government is whether the regulatory framework is sufficient to deal flexibly with issues like this."

Channel 4 expressed regret yesterday that some viewers had found the programme offensive but stood by its decision to broadcast.

Michael Jackson said that the

show mocking victims of paedophilia."

● The BBC2 comedy *The League of Gentlemen* comes under fire from the Broadcasting Standards Commission today after viewers complained that an episode mocked children with learning difficulties.

The episode, which was broadcast two days after Christmas last year, angered some viewers by using the word "mongers". The Commission agreed that using the





'We are there to offer a benchmark of quality and innovation, providing competition to commercial and public service broadcasters alike.'

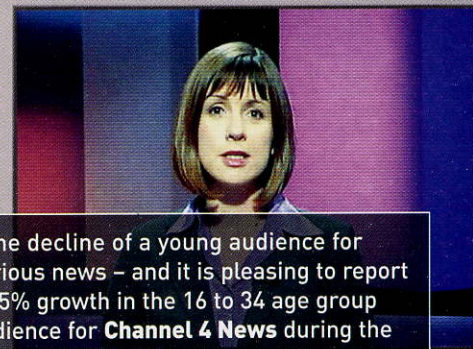
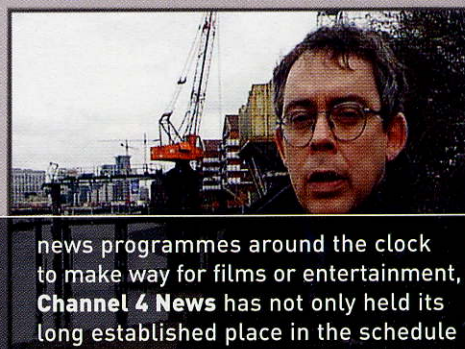
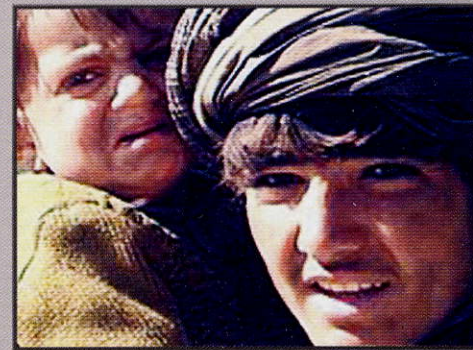
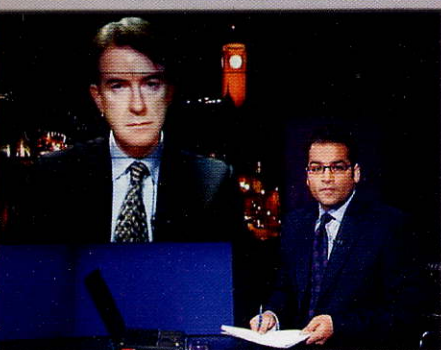
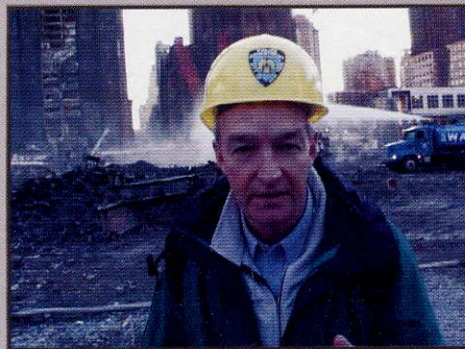
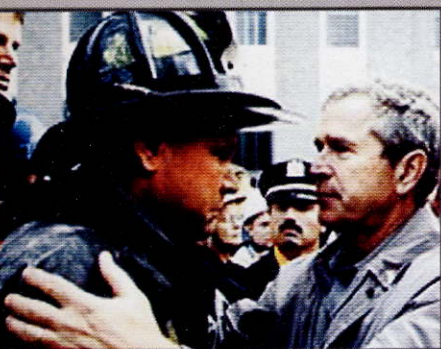
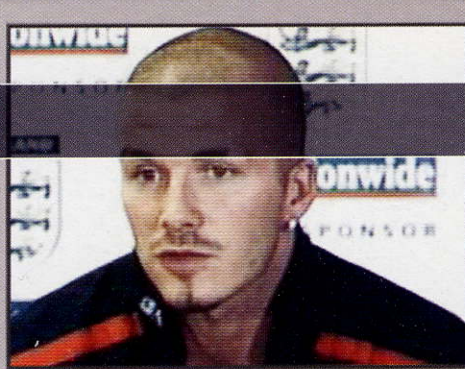
Judging by the number of calls to Channel 4 for tapes of missed episodes, **West Wing** has become compulsory viewing for senior politicians and the journalists who write about them.

The award winning drama set in the ultimate corridor of power, the **West Wing** of the White House, is that unusual phenomenon – a drama which portrays politicians as people of integrity striving to act in the best interest of their

country. But President Josiah Bartlet's advisors, dedicated and hard-working though they be, seem more adept at creating crises than resolving them. No wonder Downing Street loves it!

The feisty New York power girls returned in **Sex and the City**, for their third year on Channel 4 with resident 'sexpert' and fashion icon, Carrie Bradshaw, delving into the lives of her closest friends for her weekly column in the New York Star, and asking the questions that are on every woman's mind. Another familiar face on Channel 4 was Tony, the psychotic but loveable mob boss in the multi-award winning **The Sopranos**.

The West Wing, **Sex and the City** and **The Sopranos** are the latest in a long line of acquisitions made by Channel 4 to bring the best of US programming to Britain. From **Hill Street Blues** in the mid-eighties to **Frasier**, **ER**, **Ally McBeal** and **Friends** of more recent times, Channel 4 has always complemented the original UK programmes which make up more than 80% of its peaktime schedule with the very best of what American television does better than anyone else.



'Channel 4 is committed to its in-depth news seven days a week in peaktime.'

'Grown up news for the spin age' was the accolade awarded to **Channel 4 News** by The Daily Telegraph for its challenging in-depth analysis and ability to get 'at the real questions' following the terrorist attacks in the United States and the resulting war in Afghanistan.

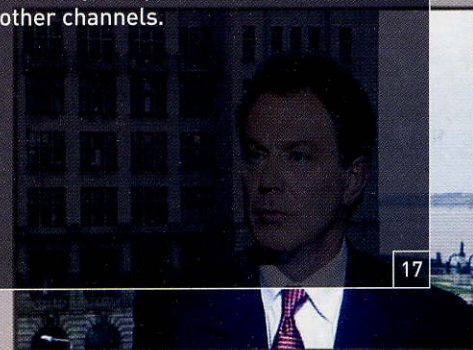
Jon Snow, now one of the most familiar faces on British television, leads a news team with an enviable reputation for intelligence and integrity.

While other broadcasters have shuffled

news programmes around the clock to make way for films or entertainment, **Channel 4 News** has not only held its long established place in the schedule but extended it to seven nights a week and is now the only such mainstream news programme on broadcast television in the UK. Its hour long format allows for comprehensive analysis as well as news reporting.

Channel 4 News has seen a consistent rise in its audience figures over the last 18 months and increased its audience share by 50% following the terrorist attacks in the United States. It defies one of television's more worrying trends

– the decline of a young audience for serious news – and it is pleasing to report a 15% growth in the 16 to 34 age group audience for **Channel 4 News** during the course of 2001. They now constitute one in four of the programme's regular viewers – a significantly higher figure than for any comparable programme on other channels.



The Drugs Laws Don't Work

'We will reflect the complexity of Britain back to itself.'

This major series explored the social consequences of illegal drugs and questioned why the government ignores its own research in insisting that the war on drugs is winnable.

One programme made a provocative case for the decriminalisation of heroin. Others looked at popular attitudes to illegal drugs, their use and their relative harmfulness. The drug laws were put 'on trial' with arguments for and against current legislation.

Chris Dunkley wrote in the Financial Times of one programme 'Every now and then – well, once in a blue moon to be honest – a television critic previews a programme which seems so good or important that his instinct is to avoid saying anything except: 'Look, just watch it, OK?'...'

Once again Channel 4 seemed to catch the public mood for change. By the summer of 2001 even the politicians, in government and opposition, began to shift their ground.

In much the same way, **How Racist is Britain?** proved to be a timely comment on the racial tension that exploded on the streets of towns in northern England last summer. The series challenged the taboos of political correctness, asking whether to ignore the fears of some white communities was simply resulting in misguided policies, and exposing the conspiracy of silence around the racial tension between West Indians and Africans.

Another series, **Politics isn't Working**, asked what has gone wrong with the political process in Britain and how can public interest be re-energised? Broadcast during the General Election campaign it touched on key issues of popular concern which the main parties were not addressing – the power of global corporations, the growing inequalities of wealth and the dumbing down of politics. The New Statesman called it 'the most sustained, analytical and powerful attempt to burst the New Labour bubble... Channel 4 has become the de facto leader of the media opposition'.







'We will support cricket in our off-air educational and marketing activities.'

According to The Guardian, 'Channel 4 is already being branded with making cricket trendy'. In partnership with the England and Wales Cricket Board, Channel 4 aims to make cricket not just trendy, but genuinely popular again. A key part of that effort is an ambitious £2 million initiative to help re-establish the sport in multicultural inner-city communities.

A week after riots erupted in Bradford, Australian cricketers were teaching kids batting skills on a sandy beach

in front of Bradford City Hall – one of the cities visited by Channel 4's travelling cricket beach – 15 tons of sand complete with palm trees and beach huts.

Meanwhile, on a real beach in Brighton, thousands watched live Test cricket on a giant screen and stayed on to enjoy Groove Armada and Fat Boy Slim perform after play had finished for the day. A similar event was held on Clapham Common.

Sir Viv Richards accepted an invitation to head up a programme of cricket-focused summer activity on inner-city estates.

Coaching courses for local volunteers and a Community Development Fund help ensure these initiatives are genuinely sustainable – not just quickly forgotten moments of summer fun.

The Howzat education pack, being sent to all 25,000 schools in England and Wales, is helping to revitalise cricket in schools, backed up by the personal support and involvement of ECB and County cricket officials.



'We will experiment with programmes at the boundary of drama and documentary.'

Faking It appeals to the basic human desire to pretend to be what we are not – and to do it with sufficient skill and confidence to fool even the experts.

Can Ed the burger-flipper acquire the skills – and the arrogance – to convince a panel of experienced judges that he is a genuine haute cuisine chef after a mere four weeks' training? Can Gavin, the farmer's son from Donegal, progress from shearing sheep to trimming models at an international hairdressing

competition? Even more daunting, will a male ballet dancer survive as a professional wrestler, or a nightclub dancer who has never been near a horse in her life learn enough in four weeks not only to fool the judges of a prestigious show jumping competition, but also fool the horse into believing that she knows what she is doing?

These and other minor triumphs of the human spirit proved irresistible viewing to Channel 4 viewers and the series regularly attracted audiences of up to three million. The Independent on Sunday commented 'One of the consistent pleasures of **Faking It** is the way its

guinea pigs start out insouciant about their chances and invariably become committed to pulling it off'.

Other innovative programmes that broke through the conventional boundaries of differing television genres in 2001 included **Lost**, in which teams dropped in remote corners of the world with little money or information, raced each other home, and **Perfect Match**, an entertaining exploration of psychology as a tool for choosing the perfect marriage partner.

In 2001, 4 Ventures became fully operational and a significant part of the group's overall activity with a turnover of £156 million. 4 Ventures has an essential and integral role in carrying Channel 4's values and audiences into the multi-platform, multi-channel future. Its ten businesses are all intended to complement and enhance Channel 4's position, raising the profile of the brand in multi-channel and digital homes and reinforcing its reputation as a broadcaster which is ahead of the field in developing new ideas, new services and new ways of extending the enjoyment of its viewers.

By drawing into a single unit all Channel 4's services and businesses outside the core television channel, 4 Ventures is able to drive greater operational efficiencies, identify new sources of strategic funding and develop a broader range of joint venture partners. Despite the uncertainties of the latter part of the year, 4 Ventures exceeded its targets – convincing testimony to the value of the strategy and the quality of the people who have implemented it.

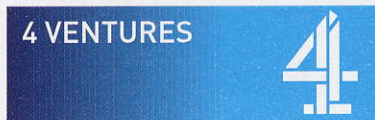
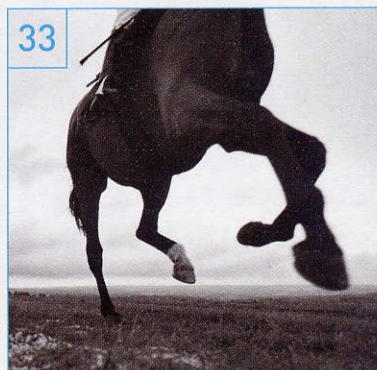
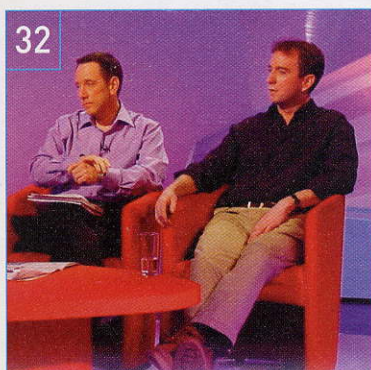
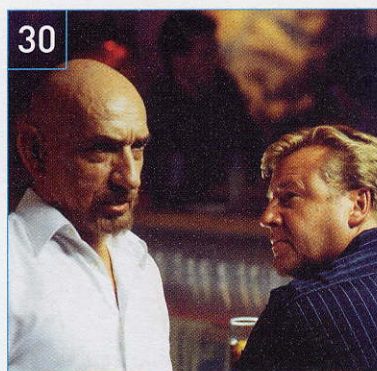
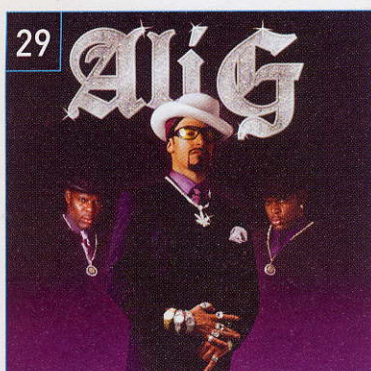
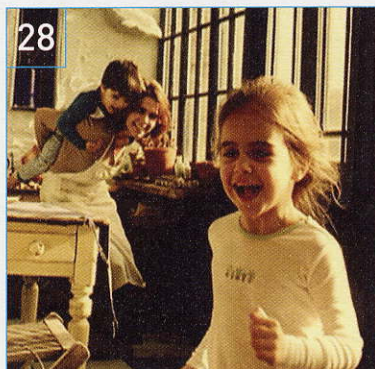
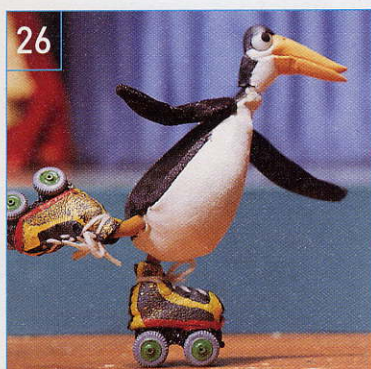
In its Annual Performance Review for 2000, the ITC commented: 'The ITC supports the channel's move into new services... if successful they will strengthen the core channel, add value to viewers and build assets for the future'. The 4 Ventures businesses show every sign of fulfilling all three of those ambitions.

New procedures have been developed during the year to ensure clarity and transparency in the financial relationship between each of the businesses and Channel 4. Investment by Channel 4 in the 4 Ventures businesses peaked in 2001 at 9% of group turnover. In 2002 this will decline to 5% and is not intended to rise significantly thereafter.

'Just like the BBC, Channel 4 must grow into new territories to stay strong. Failure to launch new services as the diversity of digital media grows would be catastrophic for an organisation focused on the young.'

Financial Times, November 2001

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4 VENTURES

FILMFOUR



Buena Vista Social Club

The FilmFour channels performed strongly, expanding from a single service to four and increasing subscription revenue by 36%. They remain on budget and on target to break even in 2005.

FilmFour +1, FilmFour World and FilmFour Extreme launched on Sky Digital in April 2001 and on ntl digital in November. These new services are available at no extra cost to all existing digital platforms, demonstrating that creative use of digital bandwidth, good programming and better value for money wins new subscribers and helps retain existing ones.

FilmFour +1 is a one hour delayed timeshifted transmission of FilmFour. The new themed services, FilmFour World and FilmFour Extreme, increase choice for subscribers and reinforce Channel 4's strong reputation for foreign language cinema and controversial programming. FilmFour World (the only dedicated foreign language film channel in the English-speaking world)

screened over 120 different titles in 2001 including highlights such as Krzysztof Kieslowski's **Three Colours** trilogy and a Cuba Day, featuring FilmFour's **Buena Vista Social Club**.

FilmFour Extreme continues to break many traditional boundaries with screenings of the director's cut of **Natural Born Killers** and the first uncut transmission of **Salo** and **The Evil Dead**.

These new services have enhanced the profile and reputation of the core FilmFour channel which, in 2001, saw UK television premieres of **The War Zone**, **The Limey**, **East is East** and **Gregory's Two Girls**. Stanley Kubrick's **A Clockwork Orange** was screened for the first time on subscription television.



Banzai

Despite the volatility of the advertising market, E4 finished the year well ahead of its business plan. This had projected a first year investment by Channel 4 of £42 million, declining to £20 million in 2002 and tapering away until E4 becomes cash-positive in 2005 – a total investment of £80 million. In fact E4's final result was £4 million better than budget in 2001.

Launched in January 2001, E4 quickly established itself as the third most watched digital entertainment channel in Britain amongst adults, behind Sky One and UK Gold, and the second equal most watched amongst 16 to 34 year olds. It achieved its target audience share of 0.8% of all adult viewing in multi-channel homes. During **Big Brother** E4 became the most watched digital entertainment channel amongst adults, averaging a 3.5% viewing share amongst adults in digital homes, with a 5.5% share amongst 16 to 34 year olds – higher than BBC2, Channel 5 or Sky One.

By the end of the year E4 was available as part of the basic tier packages to nine million multi-channel subscribers, on all platforms. With a distinctive Channel 4 feel of cutting edge entertainment, it was designed to reinforce Channel 4's presence in the competitive television landscape, to sustain Channel 4's share of viewing in digital homes, to allow greater scope for new entertainment talent, and, ultimately, to generate revenue for Channel 4.

Its first year has been, in every respect, a success. As well as exceeding its own audience targets it has, remarkably, helped raise the main Channel 4 audience share in multi-channel and digital homes. With a third of its programme budget devoted to original work, such as **Banzai**, E4 was able to commission 19 original productions, six of which subsequently aired on the main channel.



The Numbercrew

4 Learning continued to provide an award winning schools service with series such as **The Numbercrew** and, in 2001, co-commissioned the internationally acclaimed series of films of Samuel Beckett's plays. Many of its most innovative services are not on television at all – during the year 4 Learning launched 90 websites and published 20 information booklets. About 12 hours of Channel 4's output each week are accompanied by support material – in print, online or through call-lines.

Real Teachers, launched in 2001, is a website offering advice to teachers on lesson plans and teaching materials, including the chance to see successful teachers at work in their classrooms by streaming video to the website. Other new sites included **Health House**, with practical information on health issues which has proved particularly popular with young men – a group notoriously reluctant to address personal health issues. **Real Deal** and **Brilliant Careers**

aim to help young adults into the world of work with advice on career opportunities and starting up in business.

Homework High, Channel 4's award winning homework site, continued to provide millions of young people with highly valued and much acclaimed study support. Building on this success, 4 Learning led a partnership which won the £7 million government contract to devise and run **Gridclub**, a national curriculum related website for 7 to 11 year olds. In October, it won the BAFTA award for best educational website of the year.

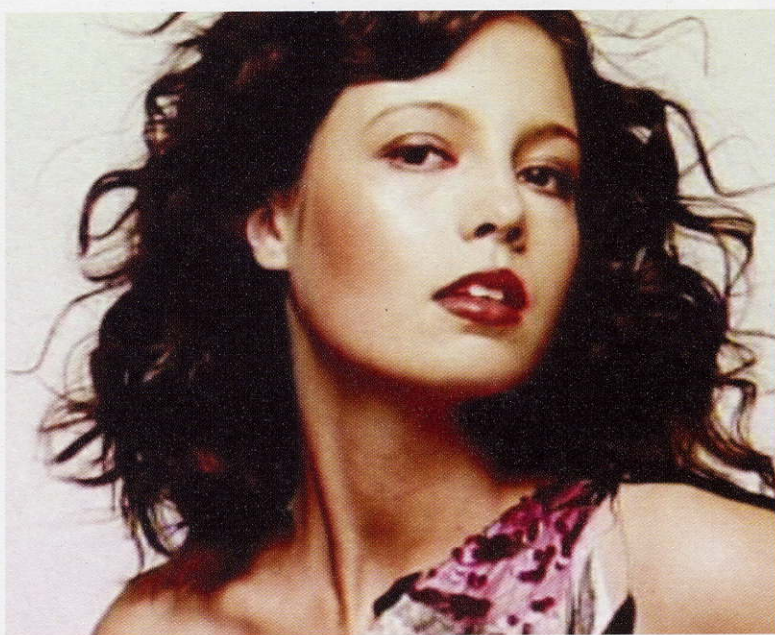
On television there were 125 episodes of **The Hoobs**, Channel 4's original new series for 3 to 5 year olds, while at the other end of the school age-range, **The A-Z of Love and Sex** and **Looking after the Penneys** gave young people frank advice on how to deal responsibly with sex and money.

modelbehaviour

> home
FAQs
forum

news archive
final 6 now
vote for girls
vote for boys
vote for both
send a photo
check a score
girls' league
boys' league
winners

theseries



Model Behaviour

channel4.com continued to go from strength to strength in 2001, ranking amongst the UK's top five entertainment sites, a considerable achievement in a brutally competitive market. Once again **Big Brother** was the most visited site in Europe. These two sites achieved more than 307 million page impressions. Other notable sites included **Kumbh Mela**, built for the Hindu religious festival in India, **Model Behaviour**, an online league table for prospective models, and **YR.1**, a nationwide photography competition.

During 2001 the channel launched **filmfour.com**, which quickly became the UK's leading film site and **e4.com**, a cutting edge, broadband entertainment site. Both sites bring added value – and new audiences – to the FilmFour and E4 television channels.

The year saw Channel 4's first steps into interactive television with **Big Brother** and the spoof Japanese gambling show **Banzai**.

Big Brother on Sky Digital allowed five million viewers to vote during the **Big Brother** show using their remote controls, proof of a huge public appetite for interactivity. With its significant potential for revenue generation and viewer enjoyment, interactive television has been identified as an area for further development in 2002.

In 2002 the group has amalgamated all its online assets on a single **channel4.com** 'supersite', making it possible to develop a higher profile and greater impact with consumers and advertisers alike. Experiments will continue with WAP technology, the SMS text-based products behind **T4**, **Test Cricket**, FilmFour and **Big Brother** having proved the effectiveness of this medium for revenue generation.



Channel 4 cinema ad

4 Creative was launched in October 2000 to focus Channel 4's marketing and creative expertise for projects falling outside regular programme and channel promotions.

4 Creative offers a versatile resource combining on and off screen design, production, advertising, marketing and publishing talent. It is intended to fill a substantial gap in the market by being able to draw on its unique broadcast perspective and experience in producing creative content for print, screen and the web. It runs as an independent business, competing for work both within and beyond Channel 4.

In its first year it has secured a wide range of work, including sponsorship credits, title sequences, advertising campaigns, on and off-air design work and magazine publishing.

Over 200 projects were undertaken, including the BTCellnet sponsorship credits for **Big Brother 2**, the launch advertising campaign for **attheraces.co.uk**, and cinema advertisements for both FilmFour and Channel 4.

With a target of breaking even in 2001, 4 Creative in fact returned a small net profit to the group on a turnover of £2.2 million. In several areas it has brought further significant cost savings to Channel 4 by reducing dependency on external agencies.

The strategy for 2002 is to consolidate its relationship with potential brand partners and pursue new external business more energetically so as to return a more substantial net profit to the group.



Ali G DVD and video

2001 was another highly successful year for 4 Ventures' Consumer Products division, which is responsible for Channel 4's books, videos, music and merchandising. After allowing for all costs, Consumer Products was able to return a net profit to the group of £2.4 million on a turnover of £9.2 million.

The Video and DVD business had a good year with a new release from Ali G (**Ali G Bling Bling**), the second series of **Trigger Happy TV**, and the signing of David Blaine to Channel 4 Video.

Since its launch in 1998, Channel 4 Books has become a respected force in the television tie-in retail book market. Highlights in book publishing included **Big Brother**, which sold over 100,000 copies, and **The 1940s House** which sold 40,000.

The success of **Trigger Happy TV** merchandise demonstrated business potential beyond the children's sector and the division will look to generate new, innovative franchises in 2002.

Trigger Happy TV was also the music publishing highlight of the year with the original soundtrack albums from the show's two series selling over 100,000 copies between them.

FILMFOUR



Sexy Beast

2001 was a year in which FilmFour Ltd did not manage to find a breakout film. It invested £31 million in production and development and participated in films with a total production value of £112 million.

This reflected a strategy for more ambitious, bigger budget productions, including Robin Williams and Edward Norton in Danny DeVito's **Death to Smoochy**, Robert Carlyle and Kathy Burke in Shane Meadows's **Once Upon a Time in the Midlands** and **Buffalo Soldiers** with Joaquin Phoenix and Ed Harris. An important joint acquisition agreement with Pathe will allow the two companies to share costs for larger budget titles in the future.

FilmFour's newly established Los Angeles office continued to develop relationships with US talent and partners. **Sexy Beast** was a critically acclaimed hit in America. FilmFour International secured American sales on all its 2001 slate, including

multi-territory deals for **The Warrior** with Miramax and **The Emperor's New Clothes** with Paramount Classics. The launch of **Charlotte Gray**, the first film made through FilmFour's co-production alliance with Warners, leads the way for the ten major US releases planned for 2002.

At home, FilmFour dominated the British Independent Film Awards scooping a record eight awards, with **Sexy Beast** winning in four categories including Best Film.

FilmFour Lab continued to identify and support new creative talent, including Penny Woolcock's **The Principles of Lust**, and Simon Pummell's **BodySong**, a groundbreaking cross-media project celebrating the story of the human life cycle. The FilmFour Lab announced the launch of the FilmFour Orange Short Film Prize, a major collaboration to discover new and vibrant voices for film in the UK.



Nigella Bites

Channel 4 International performed exceptionally well in 2001 increasing turnover by 11% to £25 million. Business was generated from every part of Channel 4's catalogue, underlining the breadth and quality of the programming on offer.

The epic drama **Shackleton**, a co-production with the US and Australia, sold to the major European markets and Japan, while the range of factual programming was demonstrated by such diverse successes as **Nigella Bites**, **Extinct**, **The Six Wives of Henry VIII** and **Cannibal**.

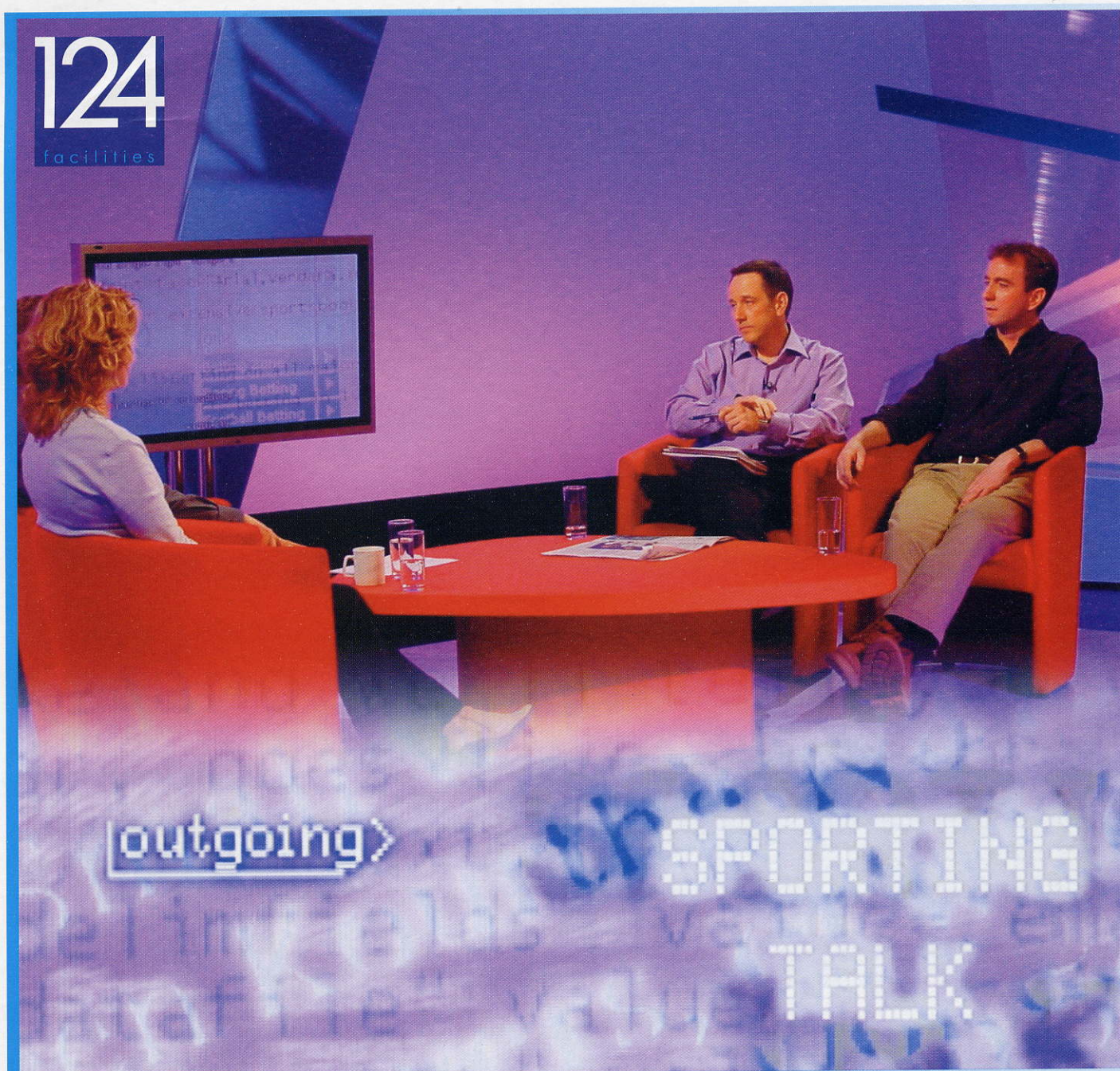
In the United States, **So Graham Norton**, transmitting on BBC America, won a prestigious Emmy Award and **Nigella Bites** became an instant hit for Entertainment Networks.

Elsewhere in the US, Showtime followed up the success of the first series of their version of **Queer as Folk** with a second

series. **Lost** premiered on the US network NBC and the Warner Brothers Network commissioned a US version of the Channel 4 hit **A Young Person's Guide to Becoming a Rockstar**.

2001 also saw the first multi-platform co-production between the US Public Broadcasting Service and Channel 4 with the expedition to locate and film the wrecks of **HMS Hood** and the German battleship **Bismarck**. This proved to be a major event for both broadcasters, on-screen and online.

With the co-production market becoming ever more complex, Channel 4 International's ability to generate co-finance was greatly enhanced through partnerships with the US Public Broadcasting Service; The Discovery Channel; National Geographic Channel; The History Channel; ABC Australia; and ZDF in Germany.



Sporting Talk

Channel 4's studio and post production house, 124 Facilities, was integrated into 4 Ventures in January 2002 offering programme makers a wide range of editing and studio facilities. In 2001, 124 increased turnover to £4.4 million and made a small profit.

Since being established in 1996, 124 has consistently responded to client needs and kept pace with new technologies. In the last two years 124 invested over £1.8 million in new equipment to establish one of the most state-of-the-art editing and studio facilities available in the UK.

This investment has included Quantel's EditboxFx high-end graphics/editing/compositing system for spectacular digital effects, used on many Channel 4 promotions and titles for programmes such as **Sporting Talk**. 124 has also installed the group's first network of Avid non linear editing systems,

to link together 124, 4 Creative, FilmFour and E4 with a large media server managed by 124.

During 2001 124 redesigned and upgraded the equipment in all its edit suites including the purchase of two new Kalypso production centres for its high-end digital tape suites and became the first studio in the UK to install the new Calrec Alpha 100 digital sound mixer.

The strategy for 2002 is to continue supporting internal clients and to actively pursue new clients using its rebuilt suites and offering the combination of cutting edge technology with creative expertise.



attheraces.co.uk



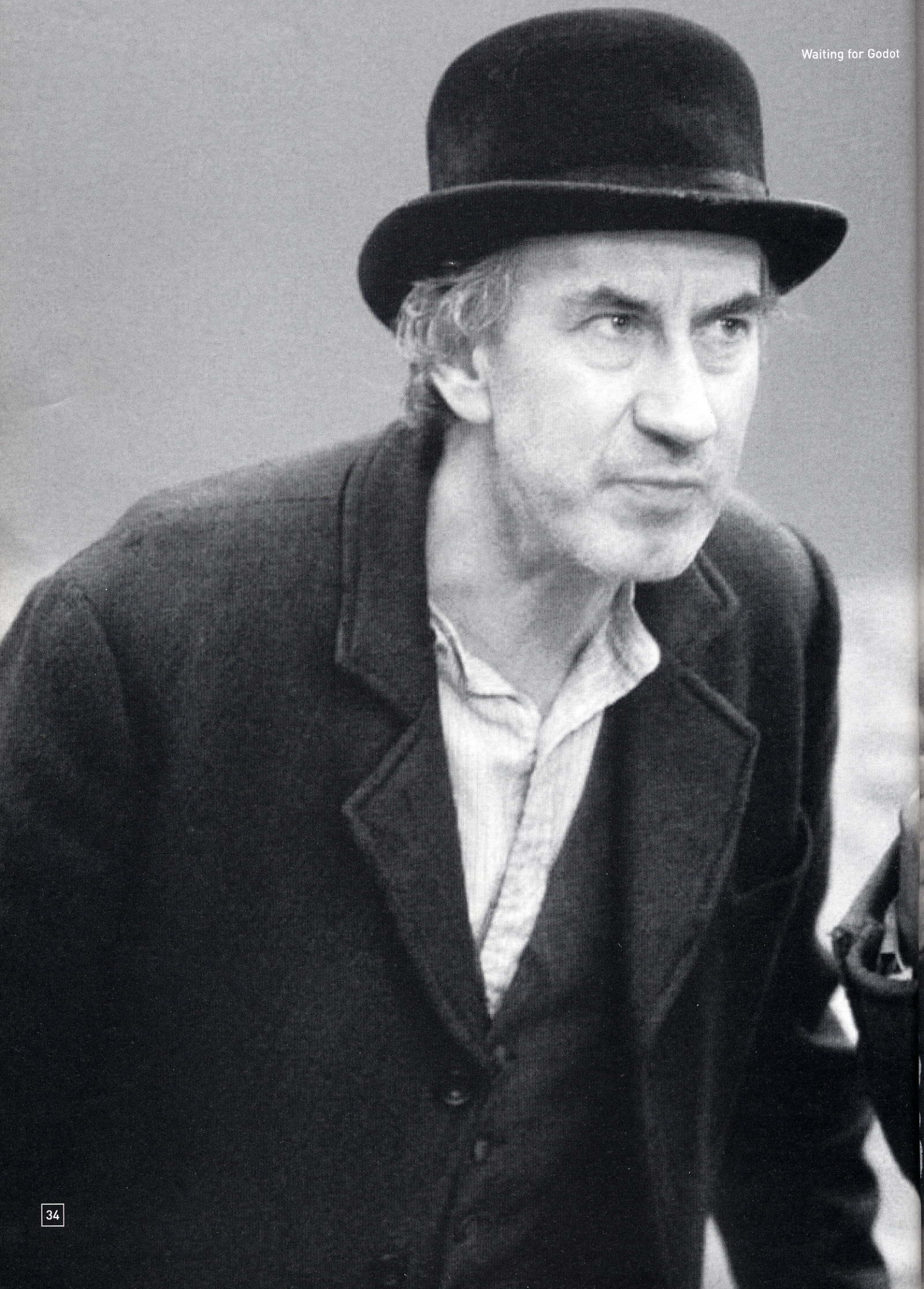
attheraces is a joint venture involving Arena Leisure, BSkyB and Channel 4 which builds on Channel 4's long-established reputation as the best racing service on television. In June 2001, the consortium successfully acquired comprehensive broadcast rights from 49 British racecourses for ten years with the aim of revolutionising coverage and promotion of British horseracing through a variety of global media platforms including television, interactive TV, the web, print and mobile phone services.

attheraces expects to be able to tap into an off-course betting market worth £7 billion per annum in the UK and a worldwide racing betting market worth ten times that amount.

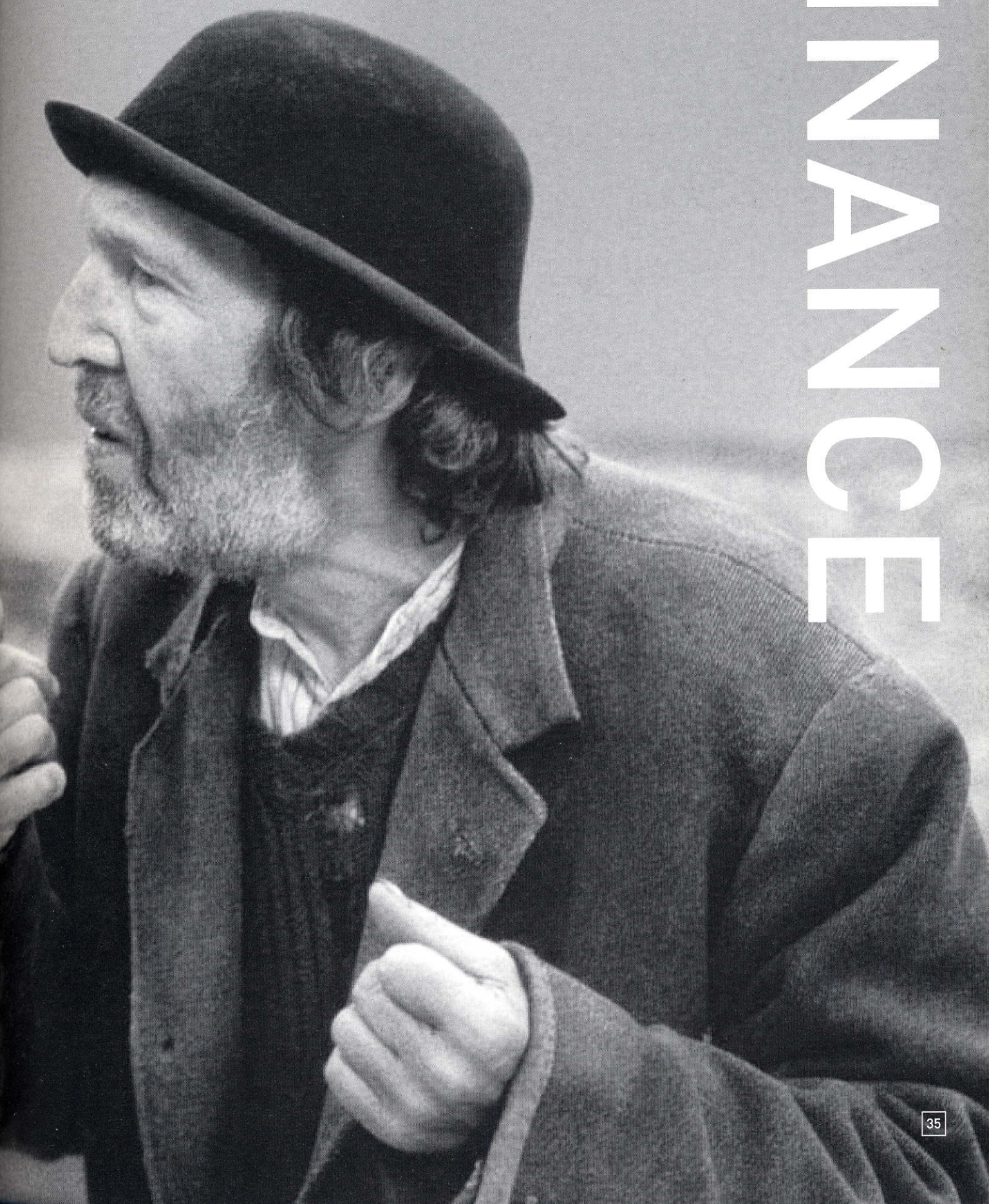
The **attheraces** channel will launch in the summer of 2002. It will be part of the basic tier of digital television pay services and will complement Channel 4's existing racing coverage **The Morning Line** and **Channel 4 Racing**. It will allow viewers to use their TV handsets to place interactive bets on British horseracing

and give them access to a dedicated information service, combined with unique live footage and audio feeds of races. The **attheraces.co.uk** website, launched in December 2001, has already been hailed as a technological revolution in racing coverage. It will complement the television coverage by offering current betting information and a full video archive.

attheraces allows the group to further develop its expertise in innovative cross-platform services and interactivity. It will give viewers a radically better and more comprehensive experience while saving significantly on some of the costs incurred in delivering the existing broadcast service. 4 Ventures' cash investment in 2001 was £2.2 million. 4 Ventures' maximum cash investment is capped at £23 million over the life of the project.



FINANCE



Operating and Financial Review

Group turnover

Group turnover for the year increased by 2% to £731 million (2000: £716 million). Channel 4's advertising and sponsorship revenue amounted to 85% of group turnover in 2001 (2000: 91%). The remaining 15% (2000: 9%) represented the increased contribution being made by our 4 Ventures businesses.

Group results

The group results may be summarised as follows:

	2001 £m	2000 £m
Channel 4 profit before tax	36.4	71.4
4 Ventures loss before tax	(65.0)	(35.4)
Consolidation adjustments	0.5	(2.2)
Net interest (payable)/receivable	(0.1)	2.0
Group (loss)/profit before tax	(28.2)	35.8
Tax credit/(charge)	7.6	(14.3)
Group (loss)/profit after tax	(20.6)	21.5

With over 85% of revenue derived from television advertising and sponsorship, the group remains highly sensitive to the economic health of the advertising sales market. The worldwide advertising downturn coincided with our peak investment year for 4 Ventures, and the combination of these two events has given rise to this deterioration in group profitability.

The relative contributions of Channel 4 and the 4 Ventures businesses to overall group performance are shown in detail on page 46.

Channel 4

Profitability

Channel 4's operating profit for 2001 was £36 million (2000: £71 million). The reduction in profit was a direct result of a decline of £32 million in advertising and sponsorship revenues.

We maintained the cost of on screen programme content at £426 million (2000: £426 million).

A cost reduction programme was initiated across Channel 4 during 2001. Expenditure other than on direct programme content was reduced year on year by 6.5%, saving £9 million. Further reductions in these costs will be achieved in 2002.

Advertising and sponsorship

Channel 4's advertising and sponsorship revenue reduced by 5% in the year to £619 million (2000: £652 million). We outperformed the market – UK television advertising overall fell by 9.8% in 2001. ITV saw a decline of 13.4%. As a result, Channel 4's share of terrestrial advertising increased to 23.5% (2000: 22.0%).

Audience share

Channel 4's overall audience share for 2001 was 10% (2000: 10.5%). Within that total, Channel 4's share in terrestrial homes was 12.6% (2000: 12.7%), and in multi-channel homes 7.0% (2000: 7.2%). Whilst share in each of those categories was stable, the continued growth of multi-channel households – up to 41.9% of households at 31 December 2001 (2000: 36.2%) – resulted in the small overall decline of Channel 4's audience share.

In an increasingly competitive environment, Channel 4 once again achieved increases in delivery of its core ABC1 and 16 to 34 year old demographics – both registered a 1% increase in audience share to reach shares in peak of 10.6% and 12.6% respectively for the year as a whole.

Programmes and ITC licence

Costs of on screen programme content were £426 million (2000: £426 million) and are detailed on page 66. We met all our ITC licence commitments in 2001, as in earlier years. The percentage of hours of originated programmes was our highest ever, with 69% overall (target 60%) and 82% in peak hours (target 70%). At 81% we exceeded both the first run peak target of 80%, and the overall first run target of 60% with a final outturn of 61%.

We remain committed to the regional spend target for 30% of Channel 4's originated programming in 2002 to be supplied by production companies from Scotland, Northern Ireland, Wales and the English regions. In 2001, £101 million, which is 29% of Channel 4's originated programme spend, was allocated to production companies outside of London (2000: £102 million and 29%).

4 Ventures

Profitability

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

	2001 £m	2000 £m
FilmFour channels	(11.1)	(14.8)
E4 (launched 2001)	(37.3)	(2.1)
4 Learning	(1.8)	(5.1)
4 Interactive	(13.7)	(14.9)
4 Creative	0.1	–
Consumer Products	2.4	2.2
FilmFour Ltd	(5.4)	(3.0)
Channel 4 International Ltd	5.9	2.2
124 Facilities Ltd	0.3	0.1
attheraces	(3.9)	–
4 Ventures	(0.5)	–
	(65.0)	(35.4)

We appointed Deloitte & Touche to undertake a review to demonstrate that there is a framework for the approval and monitoring of business plans for new ventures; that intra-group trading is carried out on an arm's length basis; and that overhead cost is appropriately shared. Their confirmation of this is included in the Corporate Governance section on page 65.

4 Ventures is integral to our strategy of carrying Channel 4's values and audiences into the multi-platform, multi-channel world. In 2001, with the launch of E4, the group's overall loss from these businesses reached £65 million (2000: £35 million). This represents a peak cost of 4 Ventures at 9% of group turnover.

All new ventures remain on track against their business plans. Current projections show losses in 4 Ventures to fall to less than 5% of group turnover in 2002, as each business progresses towards a positive contribution to group profits.

During the year, 4 Ventures initiated a cost reduction programme. Previously approved investment levels for all businesses, including E4 in its launch year, were reduced by more than £7 million in 2001.

Turnover

4 Ventures businesses' turnover in 2001 increased by 54% to £156 million (2000: £101 million). Of that £55 million increase, £31 million was contributed by subscription and advertising revenue on E4 in its launch year. The remainder of the turnover growth reflects increased activity across all 4 Ventures businesses.

E4

E4 proved to be the group's second successfully launched digital channel, winning Media Week's 'Best Launch Strategy' award. E4 gained an audience share of 0.8% in multi-channel homes, a little ahead of its 2001 plan. Most significantly though, the combined adult viewing of Channel 4 and E4 in digital homes increased by 21% when compared with Channel 4's share pre-launch. Promotion of Channel 4 in digital homes was a key objective set when launching E4.

FilmFour channels

In April 2001, the FilmFour channel was expanded by the launch of FilmFour +1, FilmFour World and FilmFour Extreme. These additional FilmFour channels add value to subscribers on the digital satellite platform and, since November 2001, to ntl digital cable subscribers. The additional channels are available to the other digital platforms, who were unable to carry them due to capacity constraints.

Cost of programmes, transmissions and sales

With new 4 Ventures businesses becoming fully operational in 2001, the cost of programmes, transmissions and sales increased by £75 million to reach £206 million for the year (2000: £131 million). E4's launch year programmes cost £44 million and that, together with related transmission and marketing costs, accounted for 87% or £65 million of this increase.

Overall, the investment in E4 in 2001 was £4 million less than allocated in the pre-launch business plan approved by the Board of Channel 4. As a consequence of projected growth and further cost savings initiatives, current projections are for

E4's loss to reduce by more than 48% or £18 million in 2002.

attheraces

Together with our partners BSkyB and Arena Leisure, 4 Ventures successfully launched the business of Attheraces Holdings Ltd during 2001. After lengthy negotiation, that company secured the exclusive worldwide audio visual rights from 49 of the 59 British racecourses for a ten year period.

In December 2001 attheraces launched its website with streamed picture, information and online betting functionality.

In 2002, attheraces will launch a digital television channel in the UK, and exploit the rights around the world.

Group administrative expenses

Administrative expenses increased by £5.9 million to total £34.9 million representing 4.8% of group turnover. Included within this total were costs of £1.5 million for redundancies. A further £1.9 million of this cost increase can be attributed to expenses in the launch year of E4. The remainder of the increase of £2.5 million reflects the costs incurred in order to accommodate the growing 4 Ventures businesses.

Now that the accommodation programme is completed and cost reduction initiatives have been implemented, group administrative expenses will reduce in 2002.

Group foreign currency, cash and treasury management

Details of the group's foreign currency, cash and treasury matters are disclosed in note 15 on pages 57 to 59.

The group's treasury management policies and strategies operated throughout the year and the year end position, as described in note 15 on pages 57 to 59, reflects those policies and strategies.

Further details of the accounting policy for financial instruments is set out on page 44.

Group taxation

The group is subject to corporation tax on its profits. However, the group loss recorded for 2001 has given rise to a £7.6 million tax credit for the current year (2000: £14.3 million tax charge).

The deferral of capital allowance claims has resulted in a current year tax credit and deferred tax asset of £3.7 million. This current year tax credit along with the reversal of the prior year deferred tax provision account for the full year £7.6 million tax credit.

The decrease in the group effective tax rate this year to 27% (2000: 40%) when compared to an expected rate of 30%, is mainly due to unrelieved group losses in the year which have not been recognised as a deferred tax asset.

Principal activities

Channel 4 is a public service broadcaster funded solely from commercial revenues which it earns. Channel 4 receives free spectrum in return for fulfilling public service obligations as set out in the 1990 and 1996 Broadcasting Acts and the ITC licence.

The Broadcasting Act 1990 (the 1990 Act) established Channel Four Television Corporation to secure the continued provision of the television broadcasting service known as Channel 4, which started transmissions in 1982, and to carry out any activities which are incidental or conducive to the operation of Channel 4. On 1 January 1993 Channel 4 inherited, under the terms of the 1990 Act, the business, assets and liabilities of Channel Four Television Company Limited, which had provided the Channel 4 service from 1982 to 1992.

On 1 January 1993 the ITC issued a broadcasting licence under the terms of the 1990 Act for Channel 4 to broadcast for the ten calendar years 1993 to 2002. That licence was amended by the ITC, which published revised programme requirements in February 1998, details of which are summarised on page 67 of this report. Channel 4's licence will be renewed by the ITC for a new period of ten years from 1 January 2003.

The Broadcasting Act 1996 (the 1996 Act) broadened Channel 4's powers so that it may be involved in the UK or any other country with the provision of one or more services which are licensed by the ITC or by the Radio Authority or which, if provided in the UK, would be required to be so licensed.

Business review

The Chairman's statement on pages 2 and 3, the Chief Executive's report on pages 4 and 5 and the operating and financial review on pages 36 and 37 form part of this report and provide information on the development of the group's activities during the year and outlook for the future.

The group's results are set out on pages 41 to 62.

Members

The members of the Board have full responsibility and discretion for deciding and operating Channel 4's policies and for the conduct of Channel 4's affairs in accordance with the provisions of the 1990 and 1996 Broadcasting Acts and the ITC licence dated 1 January 1993 in respect of the Channel 4 service.

The present members of Channel 4 are listed on page 70.

Since 1 January 2001, the following members have been appointed to, or retired from, the Board:

Appointments	Date of appointment
Mark Thompson	4 March 2002
Rob Woodward	13 August 2001
Peter Bazalgette	1 April 2001
Retirement	Date of retirement
Michael Jackson	31 October 2001

Members' interests

Channel 4 fully embraces the principles of good corporate governance and, to this end, makes full disclosure of all members' interests, irrespective of the materiality those interests may have to Channel 4 or to the member concerned.

During 2001 five members were interested in the following contracts negotiated at arm's length on normal commercial terms with Channel 4:

- In addition to non-executive member fees, as disclosed on page 68, Barry Cox's company, Mapledene TV Productions Ltd, received £12,600 and Andrew Graham received £7,350 during 2001 for consultancy services.
- Robin Miller is Chief Executive of EMAP plc. In 2001 the group advanced £62,000 to Slam Digital Ltd, a company in which Channel 4 and EMAP plc each own 50% of the shares.

- Peter Bazalgette is Chairman of Endemol UK Ltd and a director of Zeppotron Ltd, Victoria Real Ltd and Brighter Pictures Ltd. In 2001 £22 million of the group's spend related to programmes provided by these companies. These programmes included **Big Brother 2** and **Celebrity Big Brother**, **Bar Wars**, **Pet Rescue**, **Flava**, **Number One**, **Chained** and **Great Estates**. Peter Bazalgette played no part in the decision to commission these programmes.

- Ian Ritchie is a director of Epic Group PLC and Active Navigation Ltd. During the year these companies were paid a total of £153,000 for internet related consultancy services.

Liability insurance

A liability insurance policy has been effected for members and officers in respect of their duties.

Employment policy

Channel 4 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 Channel 4 for both job applicants and staff is that everyone matters.

Channel 4 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 was 9% (2000: 8%) and women continue to form the majority of its staff at 55% (2000: 56%).

Channel 4 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.

Employee involvement and consultation

The quality, commitment and effectiveness of Channel 4's staff are crucial to its continued success. Channel 4 has continued to invest significantly in its staff through training and development.

Channel 4 has been accredited with the Investors In People standard since 2000.

Channel 4 informs and consults with its employees through:

- meetings hosted by executive members where staff are briefed on recent developments and strategic plans.
- regular departmental meetings where information is disseminated and staff have an opportunity to air their views.
- recognition of trade unions. A minority of Channel 4's employees are in membership of one of two recognised trade unions, BECTU or Equity.
- an internal intranet information service available to all members of staff.

Research and development

Channel 4 devotes substantial resources to the development of scripts and programme outlines for possible commissioning. Script and programme development expenditure charged to the profit and loss account in 2001 amounted to £7.8 million (2000: £7.0 million).

Charitable donations

During 2001 the group donated £1,011,767 to charities (2000: £23,778). £991,597 of this related to income received from the public voting process on **Celebrity Big Brother** and **Big Brother 2**.

Channel 4 website

In keeping with our strategy to connect with viewers across all platforms, Channel 4 has published this report on its website, channel4.com.

Euro

The Board does not at this stage foresee any significant cost or impact arising on the operations of the group were the UK to introduce the euro.

Going concern

The current ITC licence to broadcast expires in December 2002. Channel 4's licence will however be renewed by the ITC, under the terms of Section 24(4) of the 1996 Act, from 1 January 2003 for a period of ten years from that date.

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.

Auditors

PricewaterhouseCoopers have been appointed as auditors by Channel 4 with the approval of the Secretary of State for Culture, Media and Sport in accordance with the requirements of paragraph 12(2) of schedule 3 of the Broadcasting Act 1990.

PricewaterhouseCoopers have expressed their willingness to continue in office.

Mark Thompson

Chief Executive
25 March 2002

Report of the Auditors

Independent auditors' report to the members of Channel Four Television Corporation (Channel 4)

We have audited the financial statements on pages 41 to 62.

Respective responsibilities of members and auditors

The members' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out on in the Statement of Members' Responsibilities on page 63.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Broadcasting Act 1990 and direction thereunder by the Secretary of State. We also report to you if, in our opinion, the Report of the Members is not consistent with the financial statements, if Channel 4 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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the corporate governance statement on page 63 reflects Channel 4's compliance with those provisions of the Combined Code specified for our review relevant to a statutory corporation 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 to form an opinion on the effectiveness of Channel 4's corporate governance procedures or its risk and control procedures.

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. 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 Channel 4's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of Channel 4 and the group at 31 December 2001 and of the loss and cash flows of the group for the year then ended and have been properly prepared in accordance with the Broadcasting Act 1990 and direction made thereunder by the Secretary of State.

PricewaterhouseCoopers

Chartered Accountants
and Registered Auditors
London
25 March 2002

Consolidated Profit and Loss Account

For the year ended 31 December

	Notes	2001 £m	2000 £m
Turnover	1	734.0	716.4
Less share of joint venture		(3.3)	–
Group turnover		730.7	716.4
Cost of transmissions and sales	2	(709.6)	(643.1)
Gross profit		21.1	73.3
Administrative expenses		(34.9)	(29.0)
Depreciation	8	(10.4)	(10.5)
Operating (loss)/profit before share of joint venture's operating loss	3	(24.2)	33.8
Share of joint venture's operating loss	9	(3.9)	–
Operating (loss)/profit	1	(28.1)	33.8
Net interest (payable)/receivable	5	(0.1)	2.0
(Loss)/profit before taxation		(28.2)	35.8
Taxation	6	7.6	(14.3)
(Loss)/profit for the financial year	16	(20.6)	21.5

All activities are continuing. There is no material difference between the results reported above and their historical cost equivalents.

Statement of Total Recognised Gains and Losses

For the year ended 31 December

	Notes	2001 £m	2000 £m
(Loss)/profit for the financial year	16	(20.6)	21.5
Unrealised (deficit)/surplus on revaluation of buildings	8 and 16	(7.5)	5.6
Total recognised (losses)/gains for the year		(28.1)	27.1

The notes on pages 44 to 62 form part of these financial statements.

Balance Sheets

As at 31 December

	Notes	2001 Group £m	2000 Group £m	2001 Channel 4 £m	2000 Channel 4 £m
Fixed assets					
Tangible assets	8	92.1	95.2	92.1	95.2
Current assets					
Stock and work in progress	10	220.9	219.3	153.6	169.4
Debtors	11	126.6	89.5	193.2	133.3
Cash at bank and in hand	15c	53.6	49.5	53.8	49.2
Creditors – amounts falling due within one year	12	401.1 (180.4)	358.3 (111.0)	400.6 (134.9)	351.9 (105.9)
Net current assets		220.7	247.3	265.7	246.0
Total assets less current liabilities		312.8	342.5	357.8	341.2
Creditors – amounts falling due after more than one year	15d	(1.4)	–	(1.4)	–
Interest in net liabilities of joint venture					
Share of gross assets		11.2	–	–	–
Share of gross liabilities		(15.1)	–	–	–
Share of net liabilities		(3.9)	–	–	–
Loans to joint venture		2.2	–	–	–
	9	(1.7)	–	–	–
Provisions for liabilities and charges	13	(3.3)	(8.0)	(3.3)	(8.0)
Net assets		306.4	334.5	353.1	333.2
Profit and loss account	16	212.2	232.8	258.9	231.5
Statutory reserve	16	84.8	84.8	84.8	84.8
Revaluation reserve	16	9.4	16.9	9.4	16.9
		306.4	334.5	353.1	333.2

These financial statements were approved by the Board on 25 March 2002 and were signed on its behalf by:

Vanni Treves
Chairman

Janet Walker
Director of Finance and Business Affairs

The notes on pages 44 to 62 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December

	Notes	2001 £m	2001 £m	2000 £m	2000 £m
Net cash (outflow)/inflow from operating activities	14		(25.1)		27.7
Returns on investments and servicing of finance					
Interest received	5	1.0		2.0	
Interest paid	5	(1.0)		-	
Interest element of finance lease rentals	5	(0.1)		-	
			(0.1)		2.0
Taxation					
UK corporation tax paid		(7.7)		(13.5)	
Overseas tax paid		(0.7)		(0.3)	
			(8.4)		(13.8)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(10.7)		(11.4)	
Receipts from sales of tangible fixed assets		1.2		0.9	
Loans made to joint venture		(2.2)		-	-
			(11.7)		(10.5)
Net cash (outflow)/inflow before management of liquid resources and financing			(45.3)		5.4
Management of liquid resources					
Decrease in short-term investments			-		10.1
Financing					
Capital element of finance lease payments			(0.6)		-
Increase in borrowings			50.0		-
Increase in cash in the year			4.1		15.5

The notes on pages 44 to 62 form part of these financial statements.

Principal Accounting Policies

Basis of accounting

The financial statements have been prepared under the historical cost convention, 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 requirements, in so far as they are applicable, of the Companies Act 1985 and UK accounting standards.

Accounting policies

A summary of the more important accounting policies is set out below. These policies have been applied consistently with the exception of deferred tax where, as described below, the new Financial Reporting Standard ('FRS') 19 'Deferred tax', has been adopted for the first time.

FRS 18 'Accounting policies' has been adopted in the current year. This did not result in any changes to the group's accounting policies.

The group has complied with the transitional arrangements of FRS 17 'Retirement benefits'.

Basis of consolidation

The consolidated financial statements comprise the financial statements for Channel 4 and all of its subsidiary undertakings, joint ventures and associates made up to 31 December 2001.

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 digital and pay television services is recognised over the period of the subscription.

Revenue from sponsors of Channel 4's programmes and films is recognised in line with the transmission schedule for each sponsorship campaign.

Deferred tax

As a consequence of adopting FRS 19 'Deferred tax' the group has changed its accounting policy. Compliance with this standard has not resulted in any significant changes to the group's deferred tax provision and, as such, prior year numbers have not been restated.

Deferred tax liabilities are recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Deferred tax assets are recognised only to the extent that it is probable that there will be sufficient future taxable profits against which the deferred tax asset may be offset.

Deferred tax is recognised on revalued freehold property only where a binding contract to sell the asset had been entered into and the group does not intend to roll over any gain realised.

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 both US dollars and euros. Exposure 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.

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 expenditure on programmes 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.

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.

Fixed assets

Freehold land and buildings are stated at open market valuation. In previous periods the valuation has been based on a depreciated replacement cost basis. The members believe stating freehold land and buildings at open market value better reflects their value to the group. The effect of this change in basis of valuation is set out in note 8 on pages 52 and 53.

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%

Pensions

Channel 4 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.

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.

Fixed asset investments

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

Joint ventures

Investments in which the group has an 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.

Notes to the Financial Statements

1. Segmental analysis

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

	Turnover		Operating (loss)/profit		Net assets /(liabilities)	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
Channel 4*	621.2	662.1	36.4	71.4	354.3	333.2
4 Ventures						
FilmFour channels	13.4	8.8	(11.1)	(14.8)	(8.4)	—#
E4	31.3	—	(37.3)	(2.1)	(27.9)	—#
4 Learning*	22.3	14.3	(1.8)	(5.1)	(1.3)	—#
4 Interactive	1.7	0.7	(13.7)	(14.9)	(10.3)	—#
4 Creative*	2.2	—	0.1	—	0.1	—
Consumer Products	9.2	7.6	2.4	2.2	1.8	—#
FilmFour Ltd	43.1	42.7	(5.4)	(3.0)	(6.8)	(2.8)
Channel Four International Ltd	25.3	22.8	5.9	2.2	12.2	8.0
124 Facilities Ltd	4.4	4.1	0.3	0.1	(0.2)	(0.4)
attheraces**	3.3	—	(3.9)	—	(3.9)	—
4 Ventures	—	—	(0.5)	—	(0.3)	—
	156.2	101.0	(65.0)	(35.4)	(45.0)	4.8
Consolidation adjustments	(43.4)	(46.7)	0.5	(2.2)	(2.9)	(3.5)
	734.0	716.4	(28.1)	33.8	306.4	334.5

#On 1 January 2001 4 Ventures Ltd became the operating company for the FilmFour channels, E4, 4 Interactive and Consumer Products. The cumulative profits or losses of these businesses, up to the date of transfer, were retained within the reserves of Channel Four Television Corporation. Also on 1 January 2001 4 Ventures Ltd acquired the whole share capital of FilmFour Ltd and Channel Four International Ltd at cost. This group restructuring has led to a reallocation of the prior year net assets/liabilities of these businesses in the table above.

On 1 January 2002 4 Ventures Ltd acquired the entire share capital of 124 Facilities Ltd and became the operating company for 4 Creative and 4 Learning. The table above represents all group activities under this new structure.

*The activities identified above made up the constituent parts of Channel Four Television Corporation as at 31 December 2001.

**Only the group's share of attheraces is included.

2. Cost of transmissions and sales

	Programme and other content £m	Transmitter and regulatory costs		Indirect programme costs £m	Cost of sales £m	Cost of marketing £m	Total £m
		Analogue £m	Digital £m				
2001							
Channel 4	425.5	25.1	12.1	45.3	19.5	21.5	549.0
4 Ventures							
FilmFour channels	10.8	0.4	4.2	1.8	0.5	5.9	23.6
E4	44.1	–	3.6	4.3	3.0	11.7	66.7
4 Learning	15.6	–	–	–	7.2	1.0	23.8
4 Interactive	9.4	–	–	6.0	–	–	15.4
4 Creative	–	–	–	–	2.1	–	2.1
Consumer Products	–	–	–	–	6.8	–	6.8
FilmFour Ltd	24.8	–	–	–	14.9	6.6	46.3
Channel Four International Ltd	3.7	–	–	–	12.1	0.7	16.5
124 Facilities Ltd	–	–	–	–	4.1	–	4.1
4 Ventures	–	–	–	0.2	–	–	0.2
	108.4	0.4	7.8	12.3	50.7	25.9	205.5
Consolidation adjustments	(33.0)	–	–	(2.0)	(8.1)	(1.8)	(44.9)
	500.9	25.5	19.9	55.6	62.1	45.6	709.6
2000							
Channel 4	425.6	29.0	11.5	45.7	29.8	16.1	557.7
4 Ventures							
FilmFour channels	10.4	1.7	4.1	1.7	0.5	4.7	23.1
E4	–	–	–	0.9	0.8	0.1	1.8
4 Learning	14.2	–	–	–	4.1	0.7	19.0
4 Interactive	8.3	–	–	7.4	–	–	15.7
Consumer Products	–	–	–	–	5.4	–	5.4
FilmFour Ltd	26.9	–	–	–	11.3	5.1	43.3
Channel Four International Ltd	2.1	–	–	–	15.6	0.5	18.2
124 Facilities Ltd	–	–	–	–	3.9	0.1	4.0
	61.9	1.7	4.1	10.0	41.6	11.2	130.5
Consolidation adjustments	(29.6)	–	–	(0.6)	(14.9)	–	(45.1)
	457.9*	30.7	15.6	55.1*	56.5	27.3	643.1

*These prior year numbers have been restated to ensure consistency with current year classifications.

Notes to the Financial Statements

3. Operating profit

Operating profit is stated after charging/(crediting):

	2001 £m	2000 £m
Depreciation of fixed assets (note 8)		
– owned	10.1	10.5
– held under finance leases	0.3	–
Research and development	7.8	7.0
Training	4.2	4.6
Members' remuneration (page 68)	2.1	2.3
Equipment hire	0.3	0.4
Other operating lease rentals	2.8	2.9
Exchange losses/(gains)	0.3	(0.2)
Profit on disposal of fixed assets	(0.5)	(0.2)

Channel 4 has taken advantage of the legal exemption not to present its own profit and loss account. Of the retained loss after tax of £20.6 million (2000: profit of £21.5 million) recorded in the consolidated profit and loss account for the year, a profit of £27.4 million (2000: £24.2 million) results from Channel Four Television Corporation's accounts.

Fees in respect of services provided by the auditors were:

	2001 £000	2000 £000
Statutory audit:		
Channel 4	40	39
Subsidiaries	30	26
Non-audit fees for other services:		
Taxation services	32	38
Other services	282	334
	384	437

4. Employee information

A detailed analysis of members' remuneration, including salaries and performance-related bonuses, is provided in the Report on Members' Remuneration on page 68.

	2001 £m	2000 £m
Aggregate gross salaries of all employees		
Aggregate gross salaries	45.4	41.0
Employer's national insurance contributions	4.3	3.8
Employer's pension contributions (note 18)	5.8	4.8
Total direct costs of employment	55.5	49.6

4. Employee information (continued)

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

	2001 Number	2000 Number
Channel 4		
Programme commissioning	228	210
Transmission and engineering	130	121
Advertising and sponsorship sales and research	116	111
Finance, human resources and facilities management	82	81
Information systems	81	79
Corporate affairs and press office	42	37
Marketing and creative services	31	31
Corporate and strategy	14	17
	724	687
4 Ventures		
FilmFour channels	53	45
E4	50	14
4 Learning	52	35
4 Interactive	57	23
4 Creative	4	–
Consumer Products	11	17
FilmFour Ltd	61	55
Channel Four International Ltd	27	25
124 Facilities Ltd	41	33
4 Ventures	1	–
	357	247
Permanent employees	1,034	901
Contract staff	47	33
	1,081	934
Male	488	408
Female	593	526
	1,081	934

Travel, subsistence and hospitality expenditure was as follows:

	2001 £000	2000 £000
Members	225	261
Other employees:		
Channel 4	1,711	1,840
4 Ventures	1,299	1,104
	3,235	3,205

Staff loans outstanding at 31 December were as follows:

	2001 £000	2000 £000
Season ticket loans	135	113

There were no loans to members.

Notes to the Financial Statements

5. Net interest (payable)/receivable

	2001 £m	2000 £m
Interest receivable on short-term deposits	1.0	2.0
Interest payable on bank loans and overdrafts	(1.0)	—
Interest element of finance lease rentals (note 15)	(0.1)	—
Net interest (payable)/receivable	(0.1)	2.0

6. Taxation

The taxation (credit)/charge is based on the taxable profit for the year and comprises:

	2001 £m	2000 £m
Current tax:		
UK corporation tax at 30%	0.4	13.2
Less relief for overseas taxation	(0.4)	(0.2)
Overseas taxation	0.7	0.2
Adjustment in respect of prior years	(0.4)	1.1
	0.3	14.3
Deferred tax: origination and reversal of timing differences		
Current year	(3.6)	—
Prior year	(4.3)	—
Total tax (credit)/charge for the year	(7.6)	14.3

Factors affecting the tax (credit)/charge for the year

The tax rate for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2001 £m	2000 £m
(Loss)/profit on ordinary activities before tax	(28.2)	35.8
(Loss)/profit on ordinary activities before tax multiplied by the standard rate of corporation tax	(8.4)	10.7
Effects of:		
Expenses not deductible for tax purposes	2.4	2.5
Deferred tax asset not recognised	2.8	—
Adjustments to tax charge in respect of previous periods	(4.7)	1.1
Overseas taxation	0.3	—
Current tax (credit)/charge for the year	(7.6)	14.3

7. Fixed asset investments

The cost of fixed asset investments at 31 December was:

	2001 Channel 4 £000	2000 Channel 4 £000
Subsidiary companies	2	9
Associated company	1	1
	3	10

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:

	Issued ordinary £1 shares
Trading	
4 Ventures Ltd (trading from 1 January 2001)	1,000
Channel Four International Ltd*	1,000
FilmFour Ltd*	1,000
124 Facilities Ltd (100% owned by 4 Ventures Ltd since 1 January 2002)	1,000
Dormant	
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

*On 1 January 2001 4 Ventures Ltd acquired 100% of the share capital of these companies at cost.

Associated company

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%. This company, incorporated in England, has been granted a licence by the ITC to operate the Channel 3 and Channel 4 digital terrestrial multiplex. At 31 December 2001, 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.

Investment

Indigo Holidays Ltd

In September 2001 Channel 4 acquired 160,000 B class ordinary 0.1p shares in Indigo Holidays Ltd, a company providing tailor-made holidays to individuals and groups, representing 8% of the issued share capital. This investment has been made as part of an advertising airtime trading deal. Under the terms of that agreement Channel 4 will supply airtime over four years from September 2001. At 31 December 2001 the carrying value of this investment was nil.

Notes to the Financial Statements

8. Tangible fixed assets

Channel 4 and group

Tangible assets

	Freehold properties £m	Equipment and furniture £m	Total £m
Cost or valuation			
At 1 January 2001	88.9	61.2	150.1
Additions	–	15.5	15.5
Disposals	–	(1.1)	(1.1)
Revaluation	(22.0)	–	(22.0)
At 31 December 2001	66.9	75.6	142.5
Depreciation			
At 1 January 2001	13.9	41.0	54.9
Charge for the year	0.8	9.6	10.4
Disposals	–	(0.4)	(0.4)
Revaluation	(14.5)	–	(14.5)
At 31 December 2001	0.2	50.2	50.4
Net book value			
At 1 January 2001	75.0	20.2	95.2
At 31 December 2001	66.7	25.4	92.1

Included in equipment and furniture are assets held under finance leases with a net book value of £2.0 million (2000: nil).

Valuation of freehold properties

The net book value of freehold properties shown at cost or valuation comprises:

	2001 £m	2000 £m
At valuation	66.0	74.3
At cost	0.7	0.7
	66.7	75.0

8. Tangible fixed assets (continued)

The freehold properties comprising the office, studio and transmission centre at 124 Horseferry Road, London, SW1 and the offices at 76 Charlotte Street, London, W1, were valued as at 31 December 2001 by external valuers, Fuller Peiser Property Consultants, in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors. The properties were valued on the basis of open market value for existing use. The open market value for these two properties was £66.0 million.

In previous years the Horseferry Road property has been valued on the depreciated replacement cost basis. At 31 December 2001 the depreciated replacement cost value was £10.1 million higher than the open market valuation and, hence, it was not considered a prudent basis on which to continue to value the property.

The change of valuation basis to open market value has been dealt with as follows:

	2001 £m
Adjustment to open market valuation of £66 million	22.0
Write back of depreciation	(14.5)
Net reduction in valuation	7.5

The net reduction in valuation of £7.5 million in the year (2000: surplus of £5.6 million) has been taken through the revaluation reserve (note 16).

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

	2001 £m	2000 £m
Cost	67.0	67.0
Accumulated depreciation	(9.2)	(8.4)
Net book value based on cost	57.8	58.6

Notes to the Financial Statements

9. Joint venture

Attheraces Holdings Ltd

4 Ventures Ltd holds 1,000 ordinary £1 shares in Attheraces Holdings Ltd, a company incorporated in England, representing 33.3% of the issued share capital. Attheraces Holdings Ltd acquired exclusive television and audio rights to major British racecourses for ten years from July 2001. This company launched a website, attheraces.co.uk, in December 2001 and plans to launch a digital television channel in the summer of 2002. That channel will screen live racing and incorporate interactive betting. Channel 4 purchased £1.1 million of terrestrial racing rights from this company during 2001. 4 Ventures Ltd's financial commitment to this company is capped at £23.3 million (including the £2.2 million already advanced at 31 December 2001).

	Group £000	Channel 4 £000
At 1 January 2001	-	-
Additions	1	-
Loans advanced	2,200	-
Share of joint venture's loss	(3,930)	-
At 31 December 2001	(1,729)	-

10. Stock and work in progress

	2001 Group £m	2000 Group £m	2001 Channel 4 £m	2000 Channel 4 £m
Programmes and films completed but not transmitted	104.9	68.1	72.0	53.8
Purchased programme and film rights	44.9	63.5	29.4	49.4
Programmes and films in the course of production	71.1	87.7	52.2	66.2
	220.9	219.3	153.6	169.4

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

11. Debtors

	2001 Group £m	2000 Group £m	2001 Channel 4 £m	2000 Channel 4 £m
Trade debtors	100.5	77.2	71.2	64.0
Amounts due from subsidiaries	-	-	104.7	57.5
Prepayments and accrued income	22.1	12.1	13.6	11.4
VAT	-	0.2	-	0.4
Corporation tax	0.3	-	0.2	-
Deferred tax	3.7	-	3.5	-
	126.6	89.5	193.2	133.3

Amounts due from subsidiaries are unsecured and interest free.

11. Debtors (continued)

A deferred tax asset has been recognised as at 31 December as follows:

	2001 Group £m	2000 Group £m	2001 Channel 4 £m	2000 Channel 4 £m
Decelerated capital allowances	3.5	–	3.4	–
Other short-term timing differences	0.2	–	0.1	–
	3.7	–	3.5	–

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

A further deferred tax asset of £2.8 million has not been recognised. This asset relates to tax losses carried forward in 4 Ventures Ltd at 31 December 2001.

No provision has been made for deferred tax on gains recognised on revaluing property to its market value. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total amount unprovided for is £2.8 million. At present it is not envisaged that any such tax will become payable in the foreseeable future.

12. Creditors – amounts falling due within one year

	2001 Group £m	2000 Group £m	2001 Channel 4 £m	2000 Channel 4 £m
Bank loans	50.0	–	50.0	–
Trade creditors	8.6	10.5	8.2	10.2
Amounts due to subsidiaries	–	–	0.1	2.8
Obligations under finance leases	1.2	–	1.2	–
Corporation tax	–	7.9	–	8.2
National insurance	1.4	1.6	1.2	1.5
Other creditors	2.4	4.3	0.4	2.5
Accruals	107.6	86.7	66.3	80.7
VAT	9.2	–	7.5	–
	180.4	111.0	134.9	105.9

Amounts due to subsidiaries are unsecured and interest free.

The group supports the Better Payment Practice Code, copies of which can be obtained from the Better Payment Practice Group Orderline, Admail 528, London, SW1W 8YT.

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 and Business Affairs, 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 2001 was 29 (2000: 27). Programme suppliers are generally paid more quickly as Channel 4's cash advances are usually required promptly to meet production needs.

Notes to the Financial Statements

13. Provisions for liabilities and charges

Group	Deferred taxation £m	Rental deficits £m	Total £m
At 1 January 2001	4.2	3.8	8.0
Credited to the profit and loss account	(7.9)	(0.5)	(8.4)
Transferred to debtors (note 11)	3.7	–	3.7
At 31 December 2001	–	3.3	3.3

Channel 4	Deferred taxation £m	Rental deficits £m	Total £m
At 1 January 2001	4.2	3.8	8.0
Credited to the profit and loss account	(7.7)	(0.5)	(8.2)
Transferred to debtors (note 11)	3.5	–	3.5
At 31 December 2001	–	3.3	3.3

Provision for rental deficits

The provision relates to rental deficits on two buildings which Channel 4 no longer occupies in Charlotte Street, London, W1. The provision represents the future net rental commitments to the end of the current leases in 2006 and 2014, based on current market conditions.

14. Cashflow

Reconciliation of operating (loss)/profit to net cash (outflow)/inflow from operating activities

	2001 £m	2000 £m
Operating (loss)/profit before share of joint venture	(24.2)	33.8
Depreciation	10.4	10.5
Increase in stock and work in progress	(1.6)	(33.9)
Increase in debtors	(33.2)	(10.6)
Increase in creditors and provisions	24.0	28.1
Profit on disposal of fixed assets	(0.5)	(0.2)
Net cash (outflow)/inflow from operating activities	(25.1)	27.7

Reconciliation of net cashflow to movement in net funds

	2001 £m	2000 £m
Increase in cash for the year	4.1	15.5
Cash inflow from increase in debt	(50.0)	–
Decrease in liquid resources	–	(10.1)
New finance leases	(3.2)	–
Capital element of finance lease payments	0.6	–
(Decrease)/increase in net funds	(48.5)	5.4
Net funds at 1 January	49.5	44.1
Net funds at 31 December	1.0	49.5

14. Cashflow (continued)

Analysis of changes in net funds

	1 January 2001 £m	Cashflow 2001 £m	Other movements 2001 £m	31 December 2001 £m
Cash at bank and in hand	49.5	4.1	–	53.6
Debt due in less than one year	–	(50.0)	–	(50.0)
Finance leases due within one year	–	0.6	(1.8)	(1.2)
Finance leases due after one year	–	–	(1.4)	(1.4)
Net funds	49.5	(45.3)	(3.2)	1.0

15. 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. Transactional decisions of a material nature are referred to the Director of Finance and Business Affairs 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 and Business Affairs and operate within clear parameters approved by the Board. 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

Channel 4 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.

Channel 4 has a £55 million syndicated loan facility, with a maturity date of 8 April 2004, and a £55 million 364 day revolving credit facility with HSBC Bank plc, which has a maturity date of 7 October 2002, and provision for a one year extension, to meet its funding requirements in the short and medium-term. The interest rates on advances under these facilities are determined by reference to LIBOR, plus a premium of 0.45% and 0.65% respectively, at the time of the advance and are fixed over the term of the advance. Amounts drawn against these facilities are unsecured.

Until 8 October 2001, when the £55 million 364 day revolving credit facility was signed, Channel 4 utilised fixed rate money market borrowings to meet its short-term cash needs. The interest rate on these borrowings was determined by UK money market rates prevailing at the time of borrowing and was fixed over the term of the borrowing.

Notes to the Financial Statements

15. Derivatives and other financial instruments (continued)

c) Interest rate profile

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

	Total £m	Fixed rate financial assets £m	Financial assets on which no interest is paid £m	Fixed rate assets	
				Weighted average interest rate %	Weighted average for which period is fixed Days
2001					
Sterling	51.1	1.7	49.4	4.3	2
Euro	2.4	2.4	–	3.0	5
US dollar	0.1	–	0.1	n/a	n/a
Total	53.6	4.1	49.5	3.5	4
2000					
Sterling	48.0	–	48.0	n/a	n/a
Euro	1.5	–	1.5	n/a	n/a
US dollar	–	–	–	n/a	n/a
Total	49.5	–	49.5	n/a	n/a

The financial assets on which no interest is paid comprise of cheques that were banked on 28 December 2001 but did not clear until 2 January 2002.

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

	Total £m	Fixed rate financial liabilities £m	Financial liabilities on which no interest is paid £m	Fixed rate liabilities	
				Weighted average interest rate %	Weighted average for which period is fixed Days
2001 Sterling	55.9	52.6	3.3	4.5	61
2000 Sterling	3.8	–	3.8	n/a	n/a

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

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

15. Derivatives and other financial instruments (continued)

d) Maturity of financial liabilities

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

	Debt £m	Finance leases £m	Rental provision £m	2001 Total £m	2000 Total £m
Within one year	50.0	1.2	0.5	51.7	0.6
Between one and two years	–	0.8	0.5	1.3	0.5
Between two and five years	–	0.6	2.3	2.9	2.7
	–	1.4	2.8	4.2	3.2
	50.0	2.6	3.3	55.9	3.8

The £50 million debt represents borrowings under Channel 4's syndicated loan facility. No amounts were drawn down on the 364 day revolving credit facility.

Obligations under finance leases are in respect of computer hardware. Repayments of interest and capital averaging £0.2 million were made each quarter. Interest is charged at 2.6%. The finance leases are secured over the associated assets.

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 monetary assets and liabilities of the group 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	
	2001 £m	2000 £m
Euro	2.4	0.3
US dollar	0.1	1.7
	2.5	2.0

f) Gains and losses on hedging contracts

The group undertakes transactions in international markets. 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 its exposure to movements in exchange rates by entering into forward foreign exchange contracts. These contracts allow the group to settle transactions at known exchange rates, thereby eliminating this uncertainty. The principal foreign currencies that the group transacts in are US dollars and euros.

At 31 December 2001, the group had entered into commitments to purchase foreign currencies amounting to £150.7 million (2000: £79.9 million), maturing throughout 2002 and 2003, in order to fix the sterling cost of satellite transponder capacity and of programme and film purchase commitments.

There were no significant net unrealised gains or losses on hedging contracts as at the balance sheet date.

Notes to the Financial Statements

16. Reserves

	Profit and loss account £m	Statutory reserve £m	Revaluation reserve £m	Total £m
Group				
At 1 January 2001	232.8	84.8	16.9	334.5
Retained loss for the year	(20.6)	–	–	(20.6)
Deficit on revaluation of property	–	–	(7.5)	(7.5)
At 31 December 2001	212.2	84.8	9.4	306.4
Channel 4				
At 1 January 2001	231.5	84.8	16.9	333.2
Retained profit for the year	27.4	–	–	27.4
Deficit on revaluation of property	–	–	(7.5)	(7.5)
At 31 December 2001	258.9	84.8	9.4	353.1

The statutory reserve was established under the terms of the 1990 Broadcasting Act, as amended by subsequent Parliamentary Orders.

The revaluation reserve arises on the revaluation of freehold property, details of which are disclosed in note 8.

17. Commitments

Programme and film

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

	2001 Group £m	2000 Group £m	2001 Channel 4 £m	2000 Channel 4 £m
Within one year	327.9	235.2	282.8	221.0
After one year	203.2	210.0	179.4	209.8
	531.1	445.2	462.2	430.8

Capital expenditure

Channel 4 and group

	2001 £m	2000 £m
Amounts contracted but not provided for in the financial statements	–	1.6
Amounts authorised for expenditure but not contracted at 31 December	4.4	15.1

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 nine years for digital transmission and distribution. The exact annual monetary commitment will be dependent upon the time and coverage of roll-out of the digital transmission network. Channel 4's share is estimated to amount to £9 million per annum.

17. Commitments (continued)

Operating lease commitments

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

	2001 £m	2000 £m
Operating leases which expire:		
within one year	0.2	0.8
after one year and within five years	0.2	0.2
after five years	4.3	3.6
	4.7	4.6

18. 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 jointly invested through Legal & General Assurance (Pensions Management) Ltd, Henderson Global Investors Ltd, Capital International Fund SICV, 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 31 December 1999 which showed that the actuarial value of the scheme's assets represented 118% of the benefits which had accrued to members. 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 1.75% per annum and that present and future pensions would increase at a rate of 3.75% per annum.

The pension charge for 2001 was £5.8 million (2000: £4.8 million) and the contributions of the group companies and employees remain at 15.3% and 6% of earnings respectively.

FRS 17 disclosures

The pension scheme assets and liabilities have been valued at 31 December 2001 in accordance with FRS 17 'Retirement benefits'. The assumptions which have the most significant effect on the results of the valuation at 31 December 2001 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:

	%
Discount rate	5.75
Rate of increase in salaries	4.25
Rate of increase in pensions	2.50
Inflation	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 represent a prudently broad margin over inflation when compared to recent and projected salary increases. Inflation has been applied at a rate equivalent to that set by the government as the Bank of England's inflation target.

Notes to the Financial Statements

18. Pension costs (continued)

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 2001 %	Value at 31 December 2001 £m
Equities	7.00	61.2
Fixed interest	5.75	14.8
Secured annuities	5.75	3.4
Current assets and cash	5.75	0.1
		79.5

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

The following amounts at 31 December 2001 were measured in accordance with FRS 17 'Retirement benefits':

	£m
Total market value of assets	79.5
Present value of scheme liabilities	(78.9)
Surplus in scheme	0.6
Related deferred tax liability	(0.2)
Net pension asset	0.4

If the above amounts had been recognised in the financial statements, the group's net assets and profit and loss reserve at 31 December 2001 would be as follows:

	£m
Net assets excluding pension asset	306.4
Pension asset	0.4
Net assets including pension asset	306.8
Profit and loss reserve excluding pension asset	212.2
Pension reserve	0.4
Profit and loss reserve	212.6

19. Related party transactions

Details of transactions in which members have an interest are disclosed on page 38.

Details of arrangements with joint ventures and associated companies are disclosed in notes 7 and 9 on pages 51 and 54.

Channel 4 has taken advantage of the exemption permitted in FRS 8 'Related party disclosures' not to disclose transactions with subsidiary group companies, on the basis that these subsidiaries are wholly owned by Channel 4.

The group is committed to high standards of corporate governance.

The group's corporate governance procedures, adopted by the Board, have been designed to enable the group to comply with the Combined Code and the Turnbull Working Party recommendations. These procedures define the duties, constitution and responsibilities of the Board and the various Board committees.

The Board has full responsibility for maintaining high standards of corporate governance. The information and statements below describe how the principles identified in the Combined Code and the Turnbull Working Party recommendations, relevant to a statutory corporation without shareholders, were applied.

Statement of compliance

The Board believes that the group has, throughout the accounting period, complied with the provisions set out in Section 1 of the Combined Code except that, given its constitution, Channel 4 cannot sensibly have a formal nomination committee. However, the following formal nomination procedures are in place:

- non-executive members are appointed for fixed terms by the ITC following consultation with Channel 4'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.

The Board

The members, who constitute the Board, have full responsibility for ensuring that, in a changing public service and commercial broadcasting environment, the statutory functions of Channel 4 are discharged in accordance with the broadcasting licence issued by the ITC and policies regulated by the Board and in accordance with arrangements and procedures which have, to the extent required, the approval of the ITC.

The Board meets regularly and consists of between 13 and 15 members of whom the majority are independent non-executives. It has a formal schedule of matters reserved to it for decision and information is supplied to it in a timely manner. The roles of Chairman and Chief Executive are separate with a clear division of responsibilities between them. The division of these roles and the presence of a non-executive Deputy Chairman as senior independent director ensure there is a strong independent element to the Board and no one individual has unfettered powers of decision. All other non-executive members are of equal standing. Biographical details of the present members are given on page 70.

The non-executive members carry significant weight in Board decisions. They bring an independent judgement to bear on issues of strategy, performance and resources.

On appointment, all members are advised that they have access to advice and the services of the Corporation Secretary and, additionally, that they are entitled to seek independent professional advice in the furtherance of their duties, if necessary, at Channel 4's expense.

As a statutory corporation certain principles and provisions of the Combined Code in respect of relations with shareholders are not directly applicable. However, for those principles and provisions disclosed in Section C of the Combined Code that are relevant to Channel 4, the following procedures are in place:

- the ITC publishes an annual review of Channel 4's performance and compliance with the provisions as laid out in the broadcast licence.
- Channel 4's annual report is sent to the Secretary of State who lays copies of it before each House of Parliament.
- the terms of employment of the executive members are subject to the approval of the remuneration committee.

Statement of members' responsibilities

Channel 4 is required by the Broadcasting Act 1990 to keep proper accounts and proper records in relation to the accounts, and to prepare financial statements in respect of each financial year in a form as directed by the Secretary of State for Culture, Media and Sport with the approval of the Treasury. The members therefore 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 or loss and cash flows of the group for that year.

The members confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2001. The members also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The members are 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 maintenance and integrity of the Channel 4 website is the responsibility of the members; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors do not accept responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Board committees

The Board has established the following three committees which each meet at least once every year:

Audit committee

The audit committee's purpose is:

- to satisfy itself on all matters of financial propriety and procedure.
- to review the scope, results and cost effectiveness of the audit, the objectivity and independence of the auditors, and additionally the nature, extent and value for money of non-audit services supplied by the auditors.
- to discuss with Channel 4's external auditors any matters of concern arising out of their audit.
- to review the draft annual report and financial statements before presentation to the full Board.
- to monitor and ensure compliance with the Turnbull Working Party's guidance on internal control.

Three non-executive members, Vanni Treves (committee Chairman), Robin Miller and Joe Sinyor form the membership of the audit committee.

At the Chairman's invitation, Mark Thompson, David Scott, Janet Walker and the PricewaterhouseCoopers audit partner attend meetings of the committee. The audit partner has direct access to the Chairman at all times.

Budget committee

The budget committee's purpose is to examine and discuss the details of the group's annual budget and any other significant financial matters which the full Board may wish to refer to the budget committee for detailed consideration.

The budget committee has six members: Vanni Treves (committee Chairman), Robin Miller, Joe Sinyor, Mark Thompson, David Scott and Janet Walker.

The budget committee reports to the Board, which retains the right of approval of the annual budget and business plan.

Remuneration committee

The remuneration committee's purpose is to approve the level of any general salary

increases, merit or market rate increases for individuals and the group's pension fund arrangements and related employee benefits.

Fees payable to the non-executive Board members are determined by the ITC.

The remuneration committee consists entirely of independent non-executive members. Its members are Vanni Treves (committee Chairman), Barry Cox, Andrew Graham and Robin Miller. Mark Thompson, David Scott and Janet Walker attend meetings as appropriate.

No executive member attends meetings of the remuneration committee at times when any aspect of his or her remuneration or terms of employment are being discussed. The report on members' remuneration is provided on pages 68 and 69.

Pension plan

There are six trustees of the Channel 4 Staff Pension Plan who meet with the plan's investment managers, Legal & General Assurance (Pensions Management) Ltd, several times each year. At the end of 2001, the trustees appointed Capital International Fund, Henderson Global Investors and Deutsche Asset Management also to act as investment managers. The same reporting structures that apply to Legal & General Assurance (Pensions Management) Ltd will apply. The trustees are Vanni Treves (Trustees Chairman); an independent member, Louise Botting; two of Channel 4's executives, David Scott and Peter Meier; and two employee representatives, Andrew Brenson and Julie Bunn.

Reporting

The Board believes that the 2001 report and financial statements present 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 loss of the group for that year.

Internal control

The Board has overall responsibility for Channel 4's system of internal control and for reviewing its effectiveness. The role of management is to implement Board policies on risk and control. The system

of internal control is designed to manage rather than eliminate the risk of failure in the achievement of business objectives. In pursuit of these objectives, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss. The key procedures that the Board has established can be summarised under the following headings:

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, internal control and business 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 Turnbull guidance on internal controls and is reviewed by the audit committee on an annual basis.

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. 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.

New ventures

The launch of, and participation in the FilmFour channels, E4 and attheraces helps Channel 4 maintain its salience in a multi-channel world. These new ventures are an integral part of the group's strategy to transform itself from a single television channel into a network of media businesses on a range of platforms. They are intended to help secure Channel 4's position in the long-term by making a positive financial contribution and by building the Channel 4 audience and programming. These ventures are clearly connected, and conducive, to the operation of Channel 4. The ITC has agreed with the Board of Channel 4 that the funding of these ventures is appropriate and consistent with the provisions of the 1990 Act.

ITC regulation

Channel 4, like other organisations, is subject to domestic and European competition law, as well as regulation by the ITC. Given its role as a public

service broadcaster, funded solely from commercial revenues, Channel 4 appointed Deloitte & Touche to undertake an external review to demonstrate that:

- it has a framework to approve and monitor the business plans for the FilmFour channels, E4 and attheraces businesses.
- intra-group trading is carried out on an arm's length basis controlled by a framework of formal arrangements.
- personnel, establishment and administrative costs are shared amongst the group's businesses on an arm's length basis.

Members' statement on new ventures

The FilmFour channels, E4 and attheraces are based on fully costed business plans and investment summaries with any services, products or rights used by the ventures being acquired at a fair rate,

reflecting either the cost of provision or a market rate. The business plans for these ventures have been approved by the Board and demonstrate that each new venture is intended to break even on a reasonable timescale and to make a contribution to Channel 4, that contribution being measured either in financial terms or in the form of other benefits derived by the main channel.

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

Channel 4 ensures that shared costs are equitably attributed to each group business by reference to usage of services by those businesses.

Report to the members by Deloitte & Touche

Our role is to undertake an independent review of Channel 4, in respect of their compliance with ITC requirements concerning the 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 ITC. They determine the procedures and controls that ensure compliance and monitor such activities.

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 2001. 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 their fulfilling their ITC regulatory obligations 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 has considered business plans and investment summaries for each of the new ventures, upon which investment decisions have been based

and has continued to monitor their performance. Such 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 are attributed on an equitable basis to the businesses that use the underlying services and products.

Deloitte & Touche
Reporting Accountants
18 February 2002

Programmes and the Licence

Channel 4 commissions programmes from a wide range of suppliers, including independent producers and the ITV companies, and purchases programmes in the international markets.

Independent production companies are the most important source of originated programmes. 345 independent companies provided programmes transmitted on the main Channel 4 service in 2001 (2000: 391). This small reduction in independent producers supplying programmes to Channel 4 has been caused in part by consolidation within the independent production sector and the acquisition of some of those companies by television broadcasters which results in a loss of independent producer status.

The source and cost of the programmes transmitted on the main Channel 4 service in 2001 are shown in the table below:

	2001 Hours	2000 Hours	2001 £m	2000 £m
Originated				
Independents	3,636	3,638	201.7	226.5
Other	2,384	2,132	143.0	118.5
	6,020	5,770	344.7	345.0
Acquired	2,740	3,014	78.3	78.3
Programmes total	8,760	8,784	423.0	423.3
Subtitling, signing and audio description			2.5	2.3
Channel 4 programme and other content			425.5	425.6

The main Channel 4 service broadcast 8,760 hours in 2001 (2000: 8,784) – 24 hours each day. The hours and costs of the wide range of programme transmissions were as follows:

Channel 4: hours and costs of programmes

	2001 Hours	2000 Hours	2001 £m	2000 £m
Entertainment	1,708	1,702	96.6	88.8
Drama	930	1,001	71.7	92.4
Education	1,231	1,000	61.4	61.6
Sport	1,033	1,036	39.0	36.3
Feature films	1,129	1,100	27.9	28.2
Other factual	509	467	26.9	20.7
News	305	305	20.6	19.2
Documentaries	322	310	20.1	14.2
Current affairs	261	247	14.6	17.6
Arts and music	290	247	11.7	13.0
Multicultural	210	231	11.3	11.4
Quiz and gameshows	374	345	8.8	8.5
Children	385	721	7.5	6.7
Religion	73	72	4.9	4.7
	8,760	8,784	423.0	423.3

FilmFour channels

The FilmFour channels broadcast for 10,300 hours in 2001 (2000: 4,456) with 55% of these hours being subtitled (2000: 53%).

E4

E4 commenced broadcasting on 18 January 2001 and broadcast for 5,014 hours in 2001 with 35% of these hours being subtitled.

ITC

The ITC monitors compliance with broadcasters' licence obligations (including compliance with its regulatory codes) and entertains complaints about programmes. The ITC recorded five breaches of its code by the main Channel 4 service in 2001 (2000: 11), but only one was judged serious enough to merit a sanction.

Broadcasting Standards Commission

The Broadcasting Standards Commission entertains complaints:

- about unfair treatment and/or infringement of privacy. In 2001, two complaints about Channel 4's programmes were upheld (2000: none) and one was partially upheld (2000: two).
- concerning standards of taste and decency. In 2001 four were upheld (2000: six) and one was partially upheld (2000: six).

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 the ITC, in addition to stipulating the need to meet the remit, places certain specific programme obligations on Channel 4.

Principal licence requirements

	Compliance minimum	2001	2000
Average hours per week			
Education	7	12	11
News	4	5	5
Current affairs	4	5	5
Multicultural	3	4	4
Religion	1	1	1
Hours per year			
Schools	330	565	380
Percentage			
Original production			
– overall	60	69	66
– in peaktime (6 pm to 10.30 pm)	70	82	81
First run			
– overall	60	61	62
– in peaktime	80	81	82
Independent production*	25	61	66
European independent production*	10	42	41
European origin	50	73	70
Subtitling for the deaf and hard-of-hearing	60	81	69
Production expenditure outside London	30 (by 2002)	29	29
Training and development (% of qualifying revenue)	0.5	0.7	0.7

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

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 64. 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. These targets are agreed by the remuneration committee before the start of each financial year.

Service contracts

Mark Thompson has a service contract for 18 months from March 2002, and thereafter subject to six months' notice. Each of the other six executive members has a service contract subject to one year's notice.

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; membership of a private medical insurance scheme, which is open to all staff; and the provision of a television and video for home use. These benefits are not pensionable.

Remuneration policy for non-executive members of the Board

The ITC appoints non-executive Board members for fixed terms and determines their fees. They are entitled to the provision of a television and video for home use, and to reimbursement of travelling and accommodation expenses incurred in connection with attending Board meetings.

	2001 Salary and fees £000	2001 Bonus £000	2001 Benefits £000	2001 Total £000	2000 Total £000
Executive members					
David Scott	354	–	19	373	392
Andy Barnes	232	40	15	287	335
David Brook	255	–	15	270	286
Tim Gardam	247	–	13	260	265
Janet Walker	244	–	2	246	259
Rob Woodward (appointed 13 August 2001)	103	–	–	103	–
Non-executive members					
Vanni Treves	64	–	–	64	62
Barry Cox	20	–	–	20	19
Millie Banerjee	15	–	–	15	15
Peter Bazalgette (appointed 1 April 2001)	11	–	–	11	–
Andrew Graham	15	–	–	15	15
Robin Miller	15	–	–	15	15
Ian Ritchie	15	–	–	15	15
Joe Sinyor	15	–	–	15	15
Retired members					
Michael Jackson (retired 31 October 2001)	427	–	7	434	545
Frank McGettigan	–	–	–	–	17
	2,032	40	71	2,143	2,255

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% 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 2001 were as follows:

	Month of start of pensionable service	Members' contributions during 2001 £000	Increase in accrued pension entitlement during 2001 £000	Total accrued pension entitlement at 31 December 2001 £000
Michael Jackson	July 1997	8	2	14
David Scott	November 1981	21	16	145
Andy Barnes	December 1991	9	4	85
David Brook	December 1997	9	4	13
Tim Gardam	December 1998	9	4	10
Janet Walker	May 1998	9	4	12
Rob Woodward	September 2001	3	1	1

- the 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 2001.
- the increase in accrued pension during the year excludes any increase for inflation.
- the accrued benefits for all the 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 1989 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.

- 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 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.
- scheme members who leave before completing two years' service receive a refund of their own contributions.

- scheme members who leave having completed at least two years' service 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 is a provision for a member to exchange part of the retirement pension for cash.

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

Members

Non-executive members

Chairman

Vanni Treves (age 61)

Appointed Chairman in January 1998. During the year his term was extended to the end of 2003. He is a partner in the City solicitors, Macfarlanes, and Chairman of The Equitable Life Assurance Society and of the London Business School.

Deputy Chairman

Barry Cox (age 59)

Appointed Deputy Chairman in February 1999. His appointment runs until 31 January 2003. He is a consultant with ITN and chairs the Advisory Board on DTT Frequency Planning and the Digital Television Stakeholders Group.

Millie Banerjee (age 54)

Joined the Board in January 2000. Her appointment runs until the end of 2003. She is an independent consultant in the telecommunications field, a Commissioner for Judicial Appointments, non-executive director of the Management Board of the Cabinet Office and a member of the Nurses Pay Review Board.

Peter Bazalgette (age 48)

Joined the Board on 1 April 2001. His appointment runs until 31 March 2004. He is Chairman of Endemol UK Ltd and a non-executive director of Brighter Pictures Ltd, Victoria Real Ltd and Zepotron Ltd.

Andrew Graham (age 59)

Joined the Board in April 1998. His appointment runs until 31 March 2004. He is Master of Balliol College, Oxford and Acting Director of the Oxford Internet Institute.

Robin Miller (age 61)

Joined the Board in February 1999. His appointment runs until 31 January 2003. He is Chief Executive of EMAP plc.

Ian Ritchie (age 51)

Joined the Board in January 2000. His appointment runs until the end of 2003. He is the non-executive Chairman of four technology start-up companies and serves on the board of Scottish Enterprise.

Joe Sinyor (age 44)

Joined the Board in April 1998. His appointment runs until 31 March 2004. He is Chief Executive, Newspapers, for Trinity Mirror plc.

Executive members

Mark Thompson (age 44)

Chief Executive since March 2002. He is the Chairman of 4 Ventures Ltd and FilmFour Ltd. Prior to joining Channel 4, he was Director of Television at the BBC.

David Scott FCA (age 47)

Managing Director since January 1997, having been Director of Finance since 1988. He is Chairman of Attheraces Holdings Ltd, a director of 4 Ventures Ltd and FilmFour Ltd and a member of the British Screen Advisory Council. He joined Channel 4 as Controller of Finance in 1981. Prior to that he was with Peat Marwick Mitchell (1972 to 1981).

Andy Barnes (age 46)

Commercial Director since July 1997. He is a director of British Audience Research Bureau Ltd (BARB) and Indigo Holidays Ltd. He joined Channel 4 in 1991 as Head of Advertising Sales. Prior to that he was Deputy Sales Director of TVS.

David Brook (age 41)

Director of Strategy and Development since November 1997 and a director of 4 Ventures Ltd. Prior to joining Channel 4 he was Director of Marketing and Communications at Channel 5 (1996 to 1997) and Marketing Director at the Guardian Media Group (1990 to 1996).

Tim Gardam (age 45)

Director of Programmes since December 1998. He is Chairman of Channel Four International Ltd. Prior to joining Channel 4 he was Controller, News and Current Affairs and Documentaries, for Channel 5 (1996 to 1998) and Head of Current Affairs for the BBC (1993 to 1996). He is a former Editor of Newsnight and Panorama and Executive Producer of Timewatch.

Janet Walker ACA (age 48)

Director of Finance and Business Affairs since April 1998. She is a director of Channel Four International Ltd and 4 Ventures Ltd, and a governor of the National Film and Television School. She was Deputy Director of Finance at Channel 4 between 1990 and 1994, Financial Controller, BBC Regional Broadcasting (1994 to 1996) and Finance Director of Granada Media Group (1996 to 1998).

Rob Woodward (age 42)

Managing Director of 4 Ventures Ltd since August 2001, and a director of FilmFour Ltd and Channel 4 International Ltd. Prior to that he was a Managing Director in Corporate Finance at UBS Warburg and co-headed the bank's European technology team.

Secretary

Andrew Brann

The ages shown above are at 31 December 2001.

Historical Record

Profit and loss account

For the year ended 31 December	1995 £m	1996 £m	1997 £m	1998 £m	1999 £m	2000 £m	2001 £m
Group turnover	464.0	518.6	552.7	590.5	642.1	716.4	730.7
Cost of transmissions and sales	(309.0)	(358.1)	(406.9)	(467.4)	(564.1)	(643.1)	(709.6)
Gross profit	155.0	160.5	145.8	123.1	78.0	73.3	21.1
Administrative expenses	(19.1)	(20.6)	(21.2)	(25.7)	(24.4)	(29.0)	(34.9)
Depreciation	(7.7)	(7.6)	(7.9)	(8.9)	(8.7)	(10.5)	(10.4)
Operating profit/(loss)	128.2	132.3	116.7	88.5	44.9	33.8	(24.2)
Share of joint venture's loss	—	—	—	—	—	—	(3.9)
Net interest	(0.1)	2.0	2.4	3.8	1.1	2.0	(0.1)
Profit/(loss) before ITV subsidy and taxation	128.1	134.3	119.1	92.3	46.0	35.8	(28.2)
Subsidy payable to ITV	(74.0)	(87.1)	(89.9)	(66.0)	—	—	—
Profit/(loss) before taxation	54.1	47.2	29.2	26.3	46.0	35.8	(28.2)
Taxation	(19.3)	(17.9)	(10.7)	(8.6)	(13.1)	(14.3)	7.6
Retained profit/(loss) for the year	34.8	29.3	18.5	17.7	32.9	21.5	(20.6)

Historical Record

Advertising and sponsorship revenue

	1995	1996	1997	1998	1999	2000	2001
	£m	£m	£m	£m	£m	£m	£m
Channel 4	448.0	490.4	513.4	559.6	600.5	651.7	619.4
ITV, GMTV, S4C and Channel 5	1,693.4	1,762.2	1,876.8	2,023.0	2,176.9	2,315.7	2,012.4
	2,141.4	2,252.6	2,390.2	2,582.6	2,777.4	2,967.4	2,631.8
	%	%	%	%	%	%	%
Channel 4	20.9	21.8	21.5	21.7	21.6	22.0	23.5
ITV, GMTV, S4C and Channel 5	79.1	78.2	78.5	78.3	78.4	78.0	76.5
	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Audience share

	1995	1996	1997	1998	1999	2000	2001
	%	%	%	%	%	%	%
BBC 1	32.2	32.5	30.8	29.5	28.4	27.2	26.9
BBC 2	11.1	11.5	11.6	11.3	10.8	10.8	11.1
ITV and GMTV	37.3	35.1	32.9	31.7	31.2	29.3	26.7
Channel 4 and S4C	10.9	10.7	10.6	10.3	10.3	10.5	10.0
Channel 5	—	—	2.3	4.3	5.3	5.7	5.8
Satellite and cable	8.5	10.2	11.8	12.9	14.0	16.5	19.5
	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: BARB all individuals

Big Brother



Designed by Sheppard Day



Cover image – **Beneath the Veil**

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