

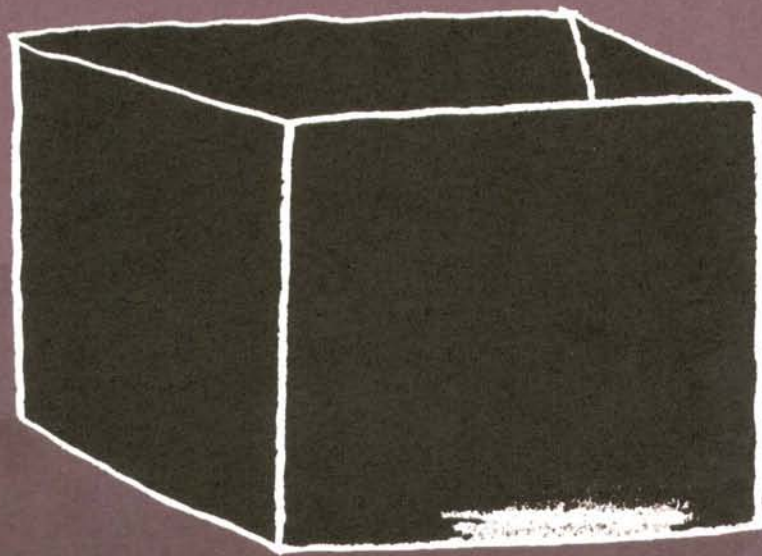
# REVIEW

CHANNEL FOUR TELEVISION CORPORATION REPORT  
AND FINANCIAL STATEMENTS 2002



I THOROUGHLY  
ENJOYED  
THE WARHOL,  
JAMIE'S KITCHEN  
AND ALL THE  
OTHERS VERY MUCH  
INDEED

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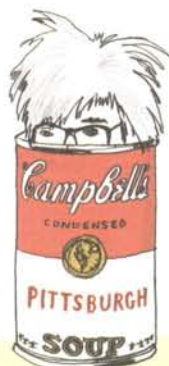




# Channel Four Television Corporation

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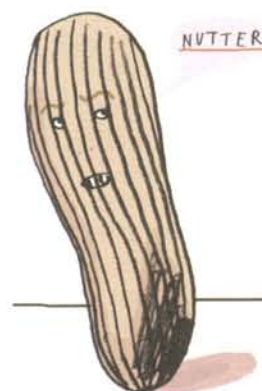
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# We go into 2003 with the largest programme budget in our history and with new programmes and series that are achieving both critical and commercial success.

**Vanni Treves** Chairman

2002 was Channel 4's twentieth year and offered as much excitement as any in its history. After the first loss-making year in a decade, we have returned to healthy profitability. Not only did the channel hold its overall share of audience, we increased it to its highest-ever level in peak time, while also increasing our share of younger viewers – the most volatile and valuable segment of the television audience. The Channel 4 'family' – Channel 4, E4 and the FilmFour channels – grew their collective presence in multi-channel homes by 12%, more than twice as much as any other terrestrial broadcaster, a real success for a public service broadcaster that takes its specific remit obligations seriously enough to have fulfilled or exceeded them in every particular. We go into 2003 with the largest programme budget in our history and, what matters most, distinctive new programmes and series that are achieving both critical and commercial success.

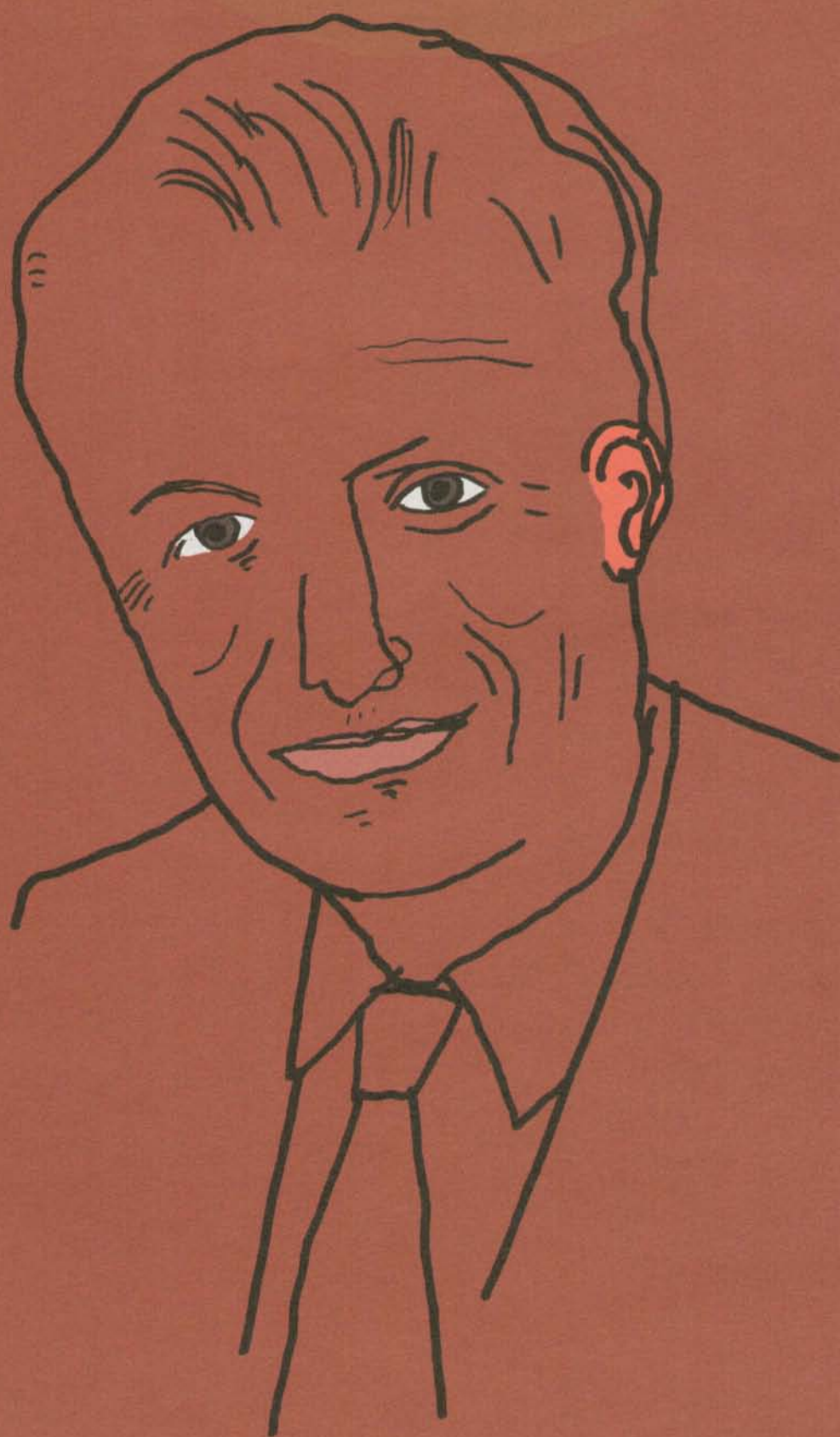
In his Chief Executive's report, Mark Thompson has highlighted the tough but necessary decisions that had to be taken during the year to reduce staff numbers and re-organise parts of the business, including restructuring FilmFour Ltd and absorbing

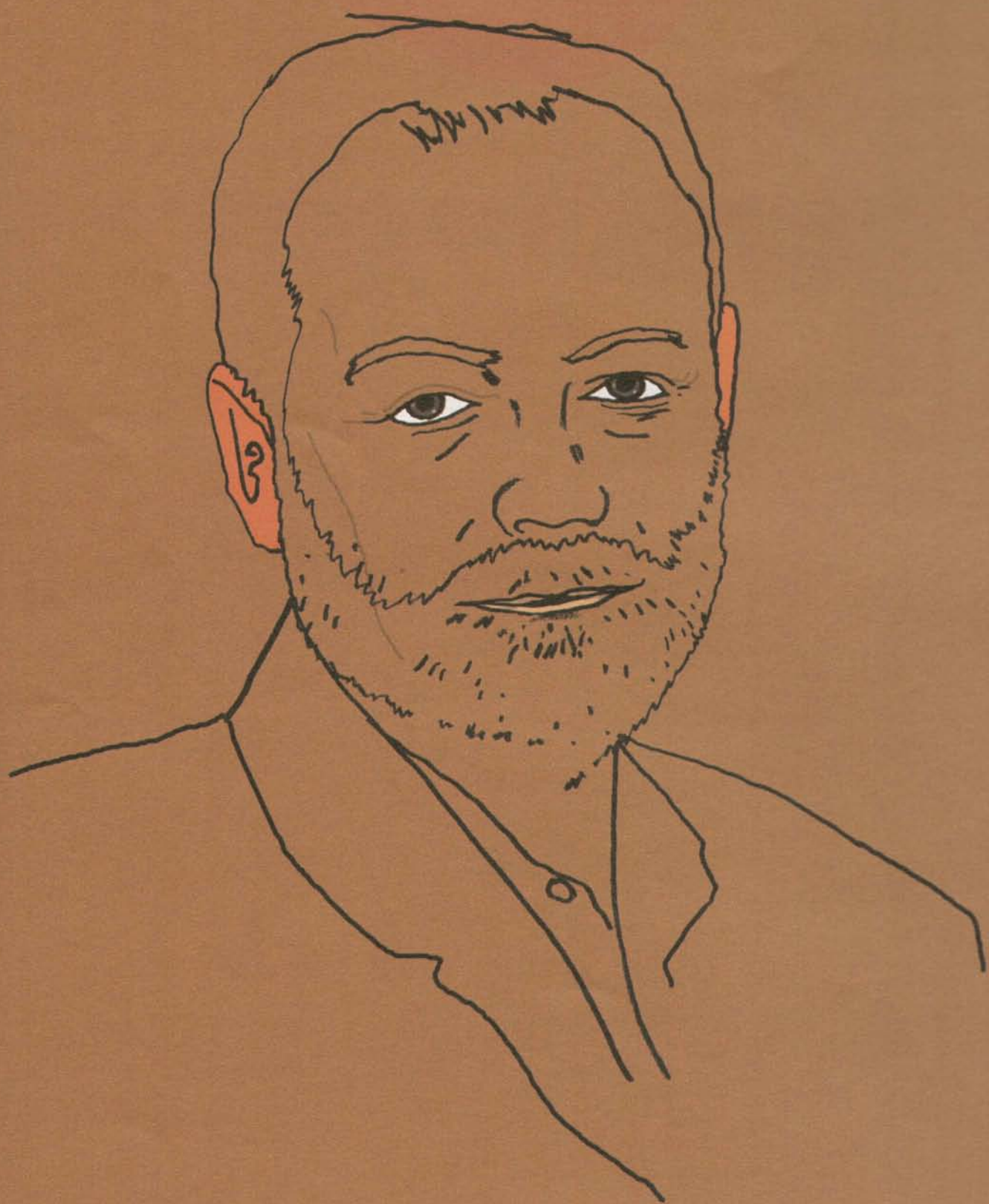
film production back into the core channel. The encouraging result is a more closely integrated group of businesses, with greater clarity in their aims and values and with non programme-related costs reduced by 20%. The process has been a great tribute to Mark, his Deputy David Scott, the whole senior team and the quality and commitment of the Channel 4 staff.

The Communications Bill has set a revised and more positive remit for Channel 4 which we warmly welcome, as we do the Bill's strong endorsement of the continuing role of public service broadcasting in UK media. But there can be little doubt that it will also be an environment that is increasingly dominated by a handful of major players, many with international and cross-media interests. In these circumstances, Channel 4's unique form of independence will become even more important than it is today and, at the same time, prove a greater challenge to sustain.

Nevertheless, as this report makes plain, we believe we are in a position to face that challenge with confidence and with an offering to British viewers which maintains our reputation as the most innovative and energetic force in British media.









My first year as Channel 4's Chief Executive has been an interesting one, to say the least. The Channel 4 I walked into last March was full of talent, with some brilliant programmes on air and one of the most admired media brands in the UK.

But in common with most commercially funded broadcasters, it also faced acute financial challenges. Costs and staff numbers were too high. There was too much bureaucracy. Some operations – notably the feature film production unit – were pursuing failing strategies. 4 Ventures had some real successes like E4 to its name, but lacked overall direction and its relationship to the core channel was uncertain. Channel 4 itself needed new investment and new creative thinking.

One year on, we've made significant progress on all these fronts. We're back in profit and, although the outlook for advertising income remains uncertain, the savings we've made in our overheads mean that we started 2003 with our largest ever programme budget, and can plan for the future with confidence.

Channel 4 is becoming a leaner, more focused, more modern organisation. We've addressed editorial and managerial issues – from *Brookside* to FilmFour Ltd. We've put Channel 4 itself back where it should be – at the centre of everything we do. 4 Ventures has a new strategy, rooted in Channel 4's own values and content, with a management team that is leading the division to profitability. Success with 4 Ventures will enable us to invest even more in our core public service provision.

But more important than all of that is the sense of the start of a new creative chapter. Channel 4 exists to do things first, to make trouble, where there is a purpose, to inspire change. In recent months we've broadcast a growing number of programmes which do just that. *Jamie's Kitchen* wasn't just entertainment; it gripped millions of viewers with the challenge of how you connect the disenfranchised and disillusioned with the possibility of training, growth and success. *Marrying A Stranger* opened minds about the world of the arranged marriage. *The Autopsy* showed a willingness to go where other broadcasters fear to tread. And in recent months in programmes from *The Salon* to *Buried* to *Without Prejudice* to *Operatunity*, creative confidence and risk have begun to return to the schedule.

Channel 4 was founded 20 years ago in a spirit of idealism and creative conviction. Our biggest priority for 2003 and beyond is to rediscover that conviction and share it with viewers every week of the year.

“Channel 4 exists to do things first, to make trouble, to inspire change.”

**Mark Thompson** Chief Executive

# "The truth is rarely pure – and never simple."

Oscar Wilde

The conventional wisdom is that all television executives live in fear of the 'overnights' – the figures published each morning by the Broadcasting Audience Research Bureau (BARB) showing what people watched on television the day before – channel by channel, programme by programme, minute by minute.

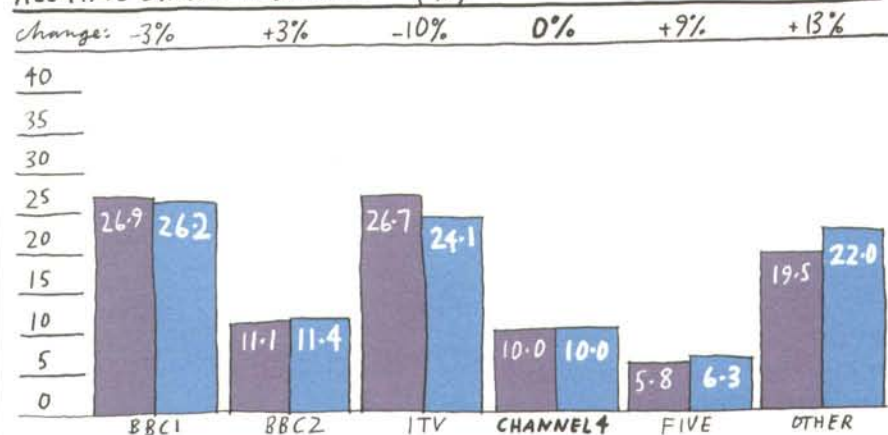
According to BARB, **Channel 4's share of the national audience was 10% in 2001 – 9.97% to be precise – and still 10% in 2002 – 10.01% to be precise** – a remarkable achievement in a market where collectively the five established terrestrial broadcasters continue to lose overall share to new digital services.

But with the television market splitting into hundreds of fragments – pay channels, free channels, youth channels, children's channels, upmarket and downmarket channels, and with half the people of Britain now living in multi-channel homes while the other half still live in five channel analogue homes, does a 10% share of the national audience actually mean anything?

Dig a little deeper into the figures and some interesting facts begin to emerge.

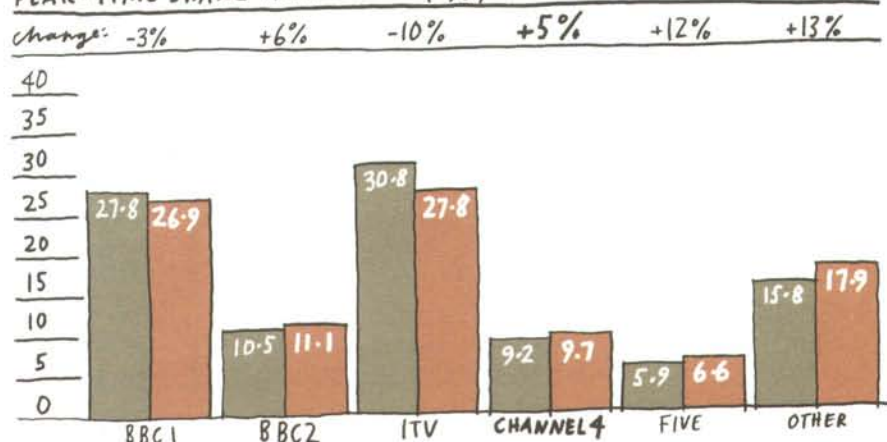
**In 2002 Channel 4 won a higher share of the peak-time audience than ever before in its 20 year history** – and peak time is where the overwhelming bulk of a broadcaster's advertising revenue is earned.

ALL-TIME SHARE INDIVIDUALS (%)



SOURCE: BARB, all hours, all homes

PEAK-TIME SHARE INDIVIDUALS (%)



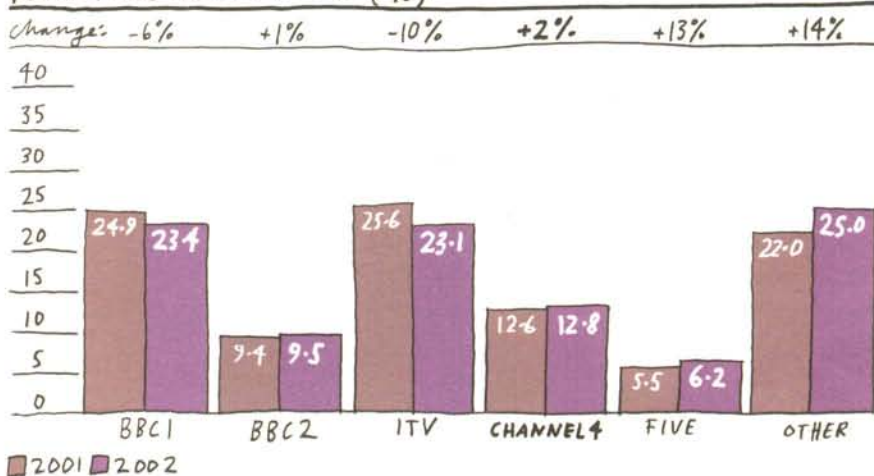
SOURCE: BARB, 17:30-23:59, all homes



Amongst the two groups of viewers which advertisers will pay a substantial premium to reach, the 16-34 year olds and the higher earning ABC1 adults, the Channel 4 story is even better: **our peak-time share of 16-34s was not 10% but 12.8%, and our share of ABC1 adults was 11%,** both of those figures being up on the previous year.

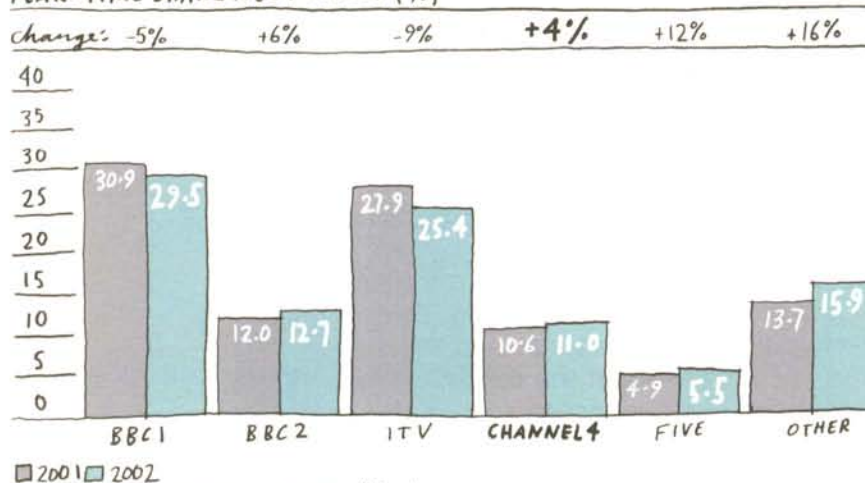
These two groups of viewers account for the bulk of Channel 4's advertising revenues, the 16-34 year old audience alone generating almost 60%. Notoriously fickle in their viewing habits, these younger viewers represent a particular challenge to all broadcasters. With its remit to be innovative and distinctive, Channel 4's programming appeals to them, right across the schedule. *Channel 4 News*, for example, enjoys one of the highest proportions of young viewers of any national news programme, even though it is generally regarded as the most heavyweight and serious news programme on British television.

PEAK-TIME SHARE 16-34s (%)



SOURCE: BARB, 17:30-23:59, all homes

PEAK-TIME SHARE ABC1 ADULTS (%)



SOURCE: BARB, 17:30-23:59, all homes

Dig deeper again and there's an even more interesting story buried in these figures. In 2003, the proportion of multi-channel homes in Britain may exceed 50%, and already includes a significant majority of households with children.

The future of Channel 4 and its public service values will be won or lost in multi-channel homes, and in those homes the battle for ratings is not the simple five-way contest of old.

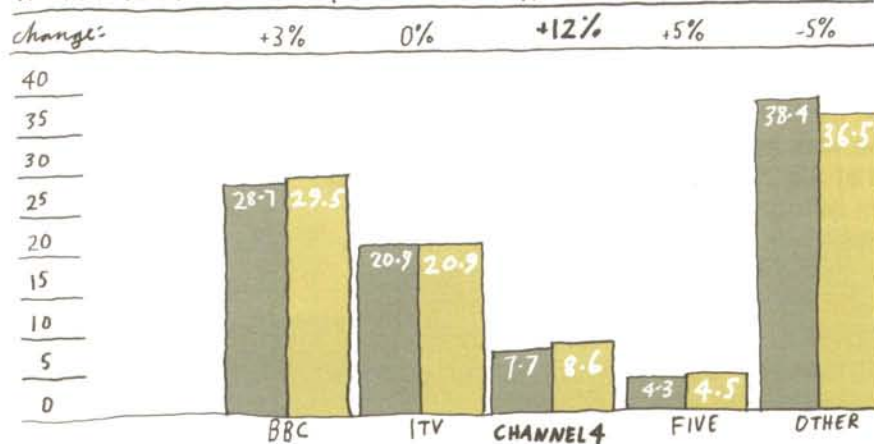
In multi-channel homes:

- the BBC is not two channels, but a large family of seven. (Not including the ten UK TV channels which are 50% owned by the BBC.)
- ITV is not one channel, but three.
- Channel 4 is not one channel, but six - Channel 4, E4 and four FilmFour channels.

When these 'families' of channels are compared, **Channel 4 increased its audience share in multi-channel homes by 12% in 2002** - twice as much as any other 'family' - and amongst ABC1 adults it has increased its share by more than twice the figure for any other family of channels.

The really surprising news is that the new digital channels which do not belong to one of these terrestrial families, have collectively lost share, suggesting that the commitment of the public service broadcasters to high quality original production across a wide variety of programmes continues to be what British viewers want.

ALL-TIME SHARE INDIVIDUALS (IN MULTI-CHANNEL), TOTAL BRAND SHARE (%)



■ 2001 ■ 2002

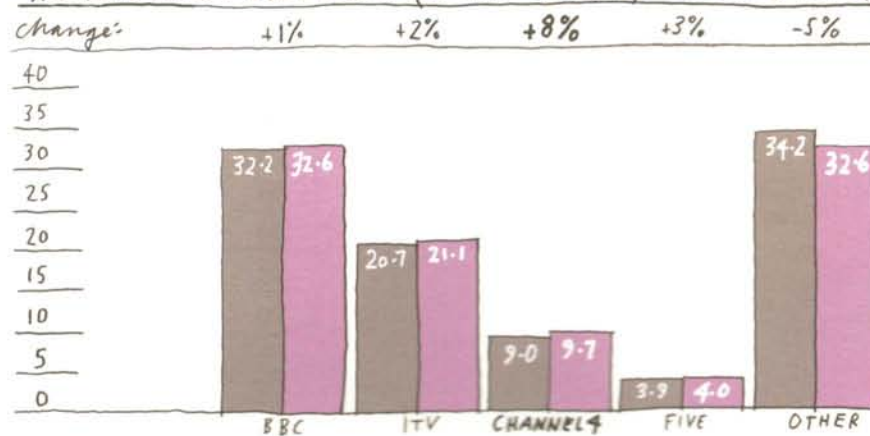
BBC = 1, 2, 3, 4, NEWS 24, CBBC, CBEEBIES; ITV = 1, 2; ITV NEWS;

CHANNEL 4 = 4, E4, FILMFOUR;

OTHER EXCLUDES DIGITAL CHANNELS WITH TERRESTRIAL PARENTS

SOURCE: BARB, all time, all multi-channel homes

ALL-TIME SHARE ABC1 ADULTS (IN MULTI-CHANNEL) TOTAL BRAND SHARE (%)



■ 2001 ■ 2002

BBC = 1, 2, 3, 4, NEWS 24, CBBC, CBEEBIES; ITV = 1, 2; ITV NEWS;

CHANNEL 4 = 4, E4, FILMFOUR;

OTHER EXCLUDES DIGITAL CHANNELS WITH TERRESTRIAL PARENTS

SOURCE: BARB, all time, all multi-channel homes

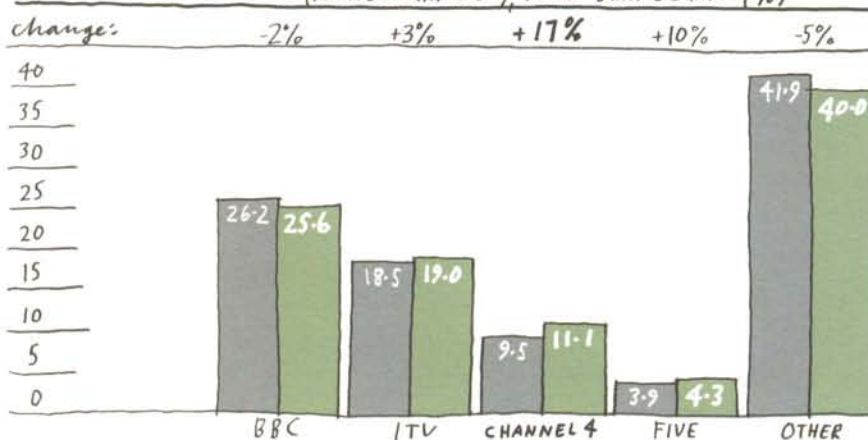


Of course, there is more to Channel 4 than chasing ratings. Ratings are only the vehicle by which we earn our revenue. Our purpose lies in our public service remit, which is set out by Parliament, to be innovative and distinctive, to take risks, to reflect the rich diversity of Britain's communities, to be the bringer of educational opportunity. But there's no point in being innovative and risky if nobody's watching, and no advertisers are paying.

The new Communications Act is likely to make Britain a tougher and colder climate for a genuinely independent broadcaster like Channel 4. We have to plan for that future. So it's good to be able to report that far from 'losing the plot' in 2002, as some of our critics would have it, the reality was:

- **Channel 4 maintained its overall audience share in a tougher market.**
- **Had a bigger share of peak-time audience than ever in its history.**
- **Had a family of channels that grew its share in multi-channel homes by 12%, twice the figure for any other broadcaster.**

**ALL-TIME SHARE 16-34s (IN MULTI-CHANNEL), TOTAL BRAND SHARE (%)**



■ 2001 ■ 2002

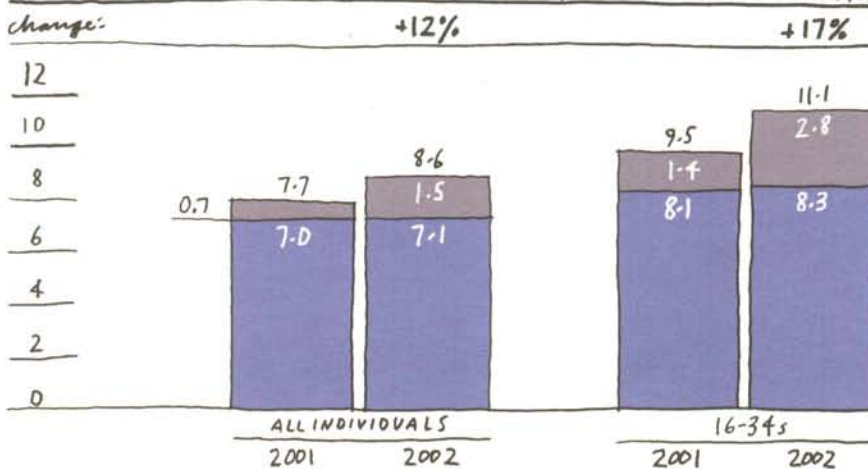
BBC = 1, 2, 3, 4, NEWS 24, CBBC, CBEEBIES; ITV = 1, 2; ITV NEWS;

CHANNEL 4 = 4, E4, FILMFOUR;

OTHER EXCLUDES DIGITAL CHANNELS WITH TERRESTRIAL PARENTS

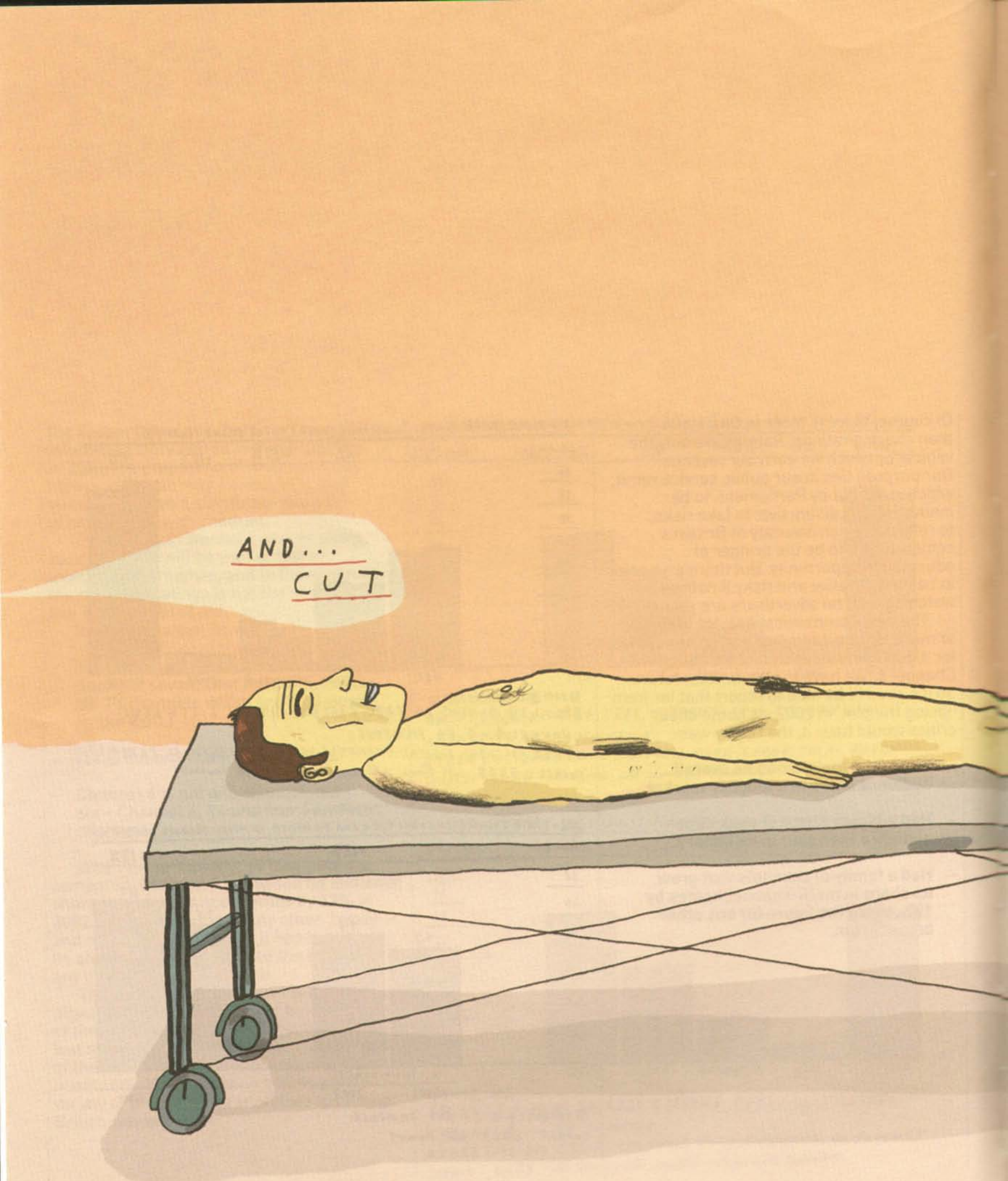
SOURCE: BARB, all time, all multi-channel homes

**ALL-TIME SHARE CHANNEL 4, E4 AND FILMFOUR, IN MULTI-CHANNEL HOMES (%)**



■ CHANNEL 4 ■ E4 AND FILMFOUR

SOURCE: BARB, all hours





# Autopsy

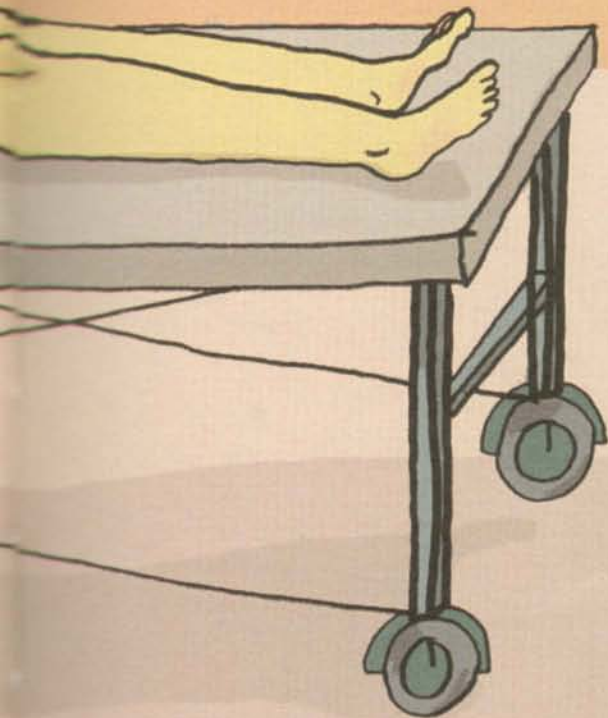
'Perverted', 'illegal', 'disgusting', were just a few of the adjectives hurled at Channel 4 following its decision to broadcast Britain's first public autopsy for 170 years.

The autopsy, performed by Professor Gunther Von Hagens at his Body Worlds exhibition in front of a large paying audience, was shown on Channel 4 later the same evening. Even on television the tension in the theatre was palpable, not least because rather than hold a studio discussion after the event, a line-up of critics, supporters and agnostics watched the autopsy from the front row and were asked to comment as it progressed.

Von Hagens' exhibition, seen by half a million people during its time in London (including many schoolchildren on organised school visits), provoked debate

and controversy at every turn. Many people accused him of being nothing but a showman and charlatan. Rachel Holmes writing in the Independent on Sunday put an alternative view – "Frankly, when I'm dead I'd much rather find myself in his hands than left alone in a room, without my consent, with one of his supercilious critics. I wouldn't feel safe with their patronising view that I have no right – dead or alive – to know my own body."

Channel 4's role as a public service broadcaster is not just to reflect the norms of life in contemporary Britain but occasionally to challenge them – to drive the national debate as well as report it.





# Funny is serious

There are few challenges in network television more difficult than creating a successful comedy drama series – and it's not made any easier if it happens to be set in Glasgow rather than New York or LA...

*The Book Group* is one of Channel 4's more unlikely success stories. Most broadcasters would have dismissed out of hand a drama series built around discussions of the work of Jack Kerouac and Gabriel Garcia Marquez. But this smart and sophisticated comedy drama, set in cosmopolitan Glasgow, is the closest any British television series has come to capturing the crackling wit and inventive writing of American shows like *Sex in the City*. Not only does it come close in quality, it captures the same kind of two million-plus audience as some of Channel 4's most successful American shows, and does so at 9.30 on a Friday evening, one of the most hotly contested prime time slots on British television.

As well as being successful television, *The Book Group* is powerful testimony to the value of sustained long-term talent development. Written, set, cast and made entirely in Scotland, its writer and producer, Annie Griffin, has worked with Channel 4 for ten years, beginning on short film schemes where she learned her craft alongside other successful alumni such as Shane Meadows, maker of FilmFour's hit film *Once upon a time in the Midlands*. In 1999 Annie went on to produce a short comedy series for Channel 4 and out of that experience grew *The Book Group*, a bold experiment that has found a much bigger audience than Channel 4 had dared to hope for.

Even the Daily Mail felt moved to comment "Original and not crass, which puts it head and shoulders above most homegrown output."







# The House of War

Channel 4 has tried to give viewers a comprehensive understanding of the war in Afghanistan and, in so doing, has produced some of the most remarkable documentary television of modern times.

Following 2001's multi-award winning *Beneath the Veil*, which portrayed the lives of women in Taliban-ruled Afghanistan, Channel 4 programmes continued to record that country's descent into the horrors of war in the wake of September 11. None was more graphic than *House of War*, with its close-up and bloody perspective of one of the most brutal battles of a war that seemed to be simultaneously hi-tech and mediaeval. Filmed entirely within the walls of an ancient mud-brick fortress, the programme catalogued a four-day uprising by Taliban prisoners which left 300 dead, including a CIA agent, and ended with the sensational capture of John Walker, a Taliban soldier and US citizen.

Rarely has the arbitrary and chaotic violence of battle been so unflinchingly portrayed on film. A CIA agent borrows the film crew's satellite phone to call in a US bomber strike – moments later the bombs arrive, hitting the wrong building and killing the wrong people. The cameraman argues furiously with a British SAS soldier over whether he has the right to film a battle in a land where neither of them belongs.

This unique and award-winning film said as much about the reporting of war as it said about war itself. The Daily Telegraph wrote "In these current TV times, the decision to show *House of War* in prime time can't have been easy. Channel 4 deserves great credit for taking it."





# "Art is meant to disturb..."

Georges Braque

Channel 4's contribution to the contemporary arts seeks to stimulate and provoke as well as entertain.

**The Art Show** was a series of uncompromisingly radical programmes dealing with contemporary arts and culture. It included portraits of the renowned German photographer Andreas Gursky and war photographer James Natchwey. *Stepford Lives* was a satirical review of over-designed contemporary life-styles. Wayne Hemingway looked at the tyranny of good taste in today's Britain. Four poets explored the modern resonances of Kipling's poem 'If'. Other subjects included a contemporary novelist and a performance artist. *The A-Z of Now* guided viewers through the shallows and depths of contemporary culture.

Singled out by almost every national newspaper as their 'pick of the day' for every week of its ten-week run, the series was triumphant proof that the avant garde can be entertaining and accessible rather than obtuse and alienating. "Challenging", "engaging", "stimulating" were some of the words the critics used to describe it. The magazine

'Sleazeneration' enthused "At last – a real antidote to the dumbed down arts coverage we've become used to of late." No wonder Channel 4 has commissioned a second series!

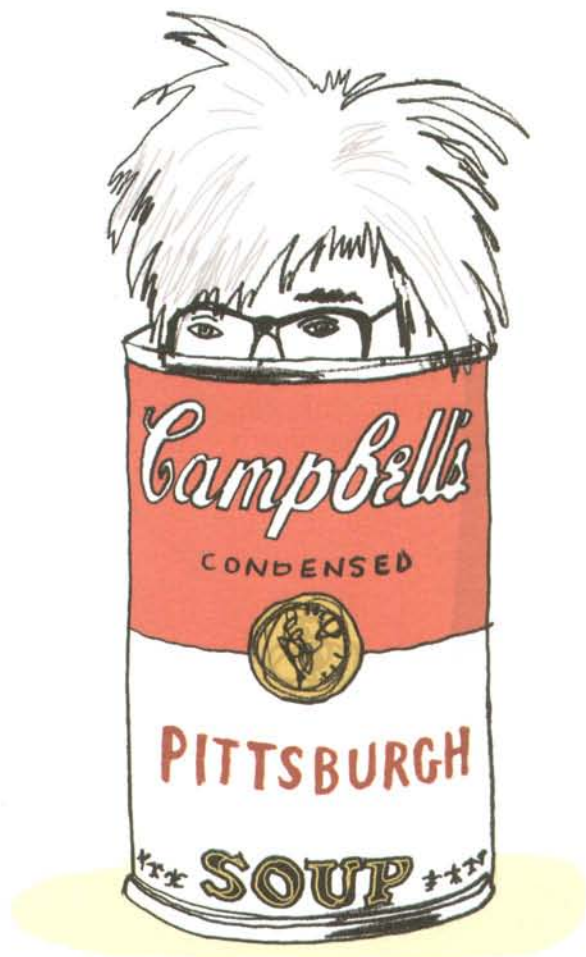
**Opera** on television is no easy business. There is an inevitable tension between the visual intimacy of television and the theatricality and scale of live opera. With eight commissioned operas in three years, Channel 4 has done more than any other broadcaster to synthesise the two, and perhaps never more effectively than with *When She Died: Death of a Princess*, a 50-minute work specially commissioned by Channel 4 from composer Jonathan Dove which sought to capture the power of shared public emotion which gripped Britain in the wake of Diana's sudden and tragic death in 1997. Time Out commented "... watching it is a thought provoking and devastatingly moving experience – something opera certainly can be but television rarely is..."



**...and a definitive biography.** *Andy Warhol:*

*The Complete Picture* was a three-part documentary series which in a previous age of television might have been called 'the definitive landmark account' of one of the twentieth century's most influential and enigmatic cultural figures. With a succession of interviewees almost as illustrious as the man himself, from Dennis Hopper to the members of the Velvet Underground, with previously unseen footage from his private film collection, with extracts from his diaries and vivid anecdotes from family and friends, this series gave viewers an extraordinarily full and three-dimensional account of the artist's life, and proved how astonishingly prophetic many of his seemingly banal statements have turned out to be.

Channel 4 promoted the programmes with giant reproductions of some of Warhol's most famous works on advertising sites spread across London, creating an impromptu open-air gallery which hundreds toured the capital to see. Coinciding with the opening of a major Warhol exhibition at Tate Modern, it seemed that the man who believed that everyone should enjoy 15 minutes of fame was getting more than his fair share.





20 years ago, no one would have imagined that a middle-aged, heavy-metal rock star, well past his sell-by date and remembered mainly for having bitten the head off a live bat on stage, would be transformed by the power of reality television into one of the world's highest earning musicians of 2002 and, more remarkably, be hailed by no less a person than the President of the United States, George W Bush, as a role model for the perfect family man. But then 20 years ago it was the prim and unbelievable Oxo family, not the noisy, argumentative and all too believable Osbourne family who provided society's benchmark for family togetherness.

In the wonderful world of *The Osbournes* literally anything goes – and, week after week, anything and everything was captured on camera as the series followed Ozzy Osbourne, his wife and manager Sharon, and their teenage children Kelly and Jack, living out their quite extraordinary yet strangely ordinary lives in a Beverly Hills mansion. Against a background of unruly children, even more unruly pets, a bizarre and eclectic group of friends, noisy neighbours, and imminent departure on a worldwide concert tour, Ozzy and Sharon emerged as a couple passionately devoted to their children and to each other. "I love you all", says a sentimental Ozzy. "I love you more than life itself, but you're all fooking mad." It was one of the most talked about and entertaining television phenomena of the year.

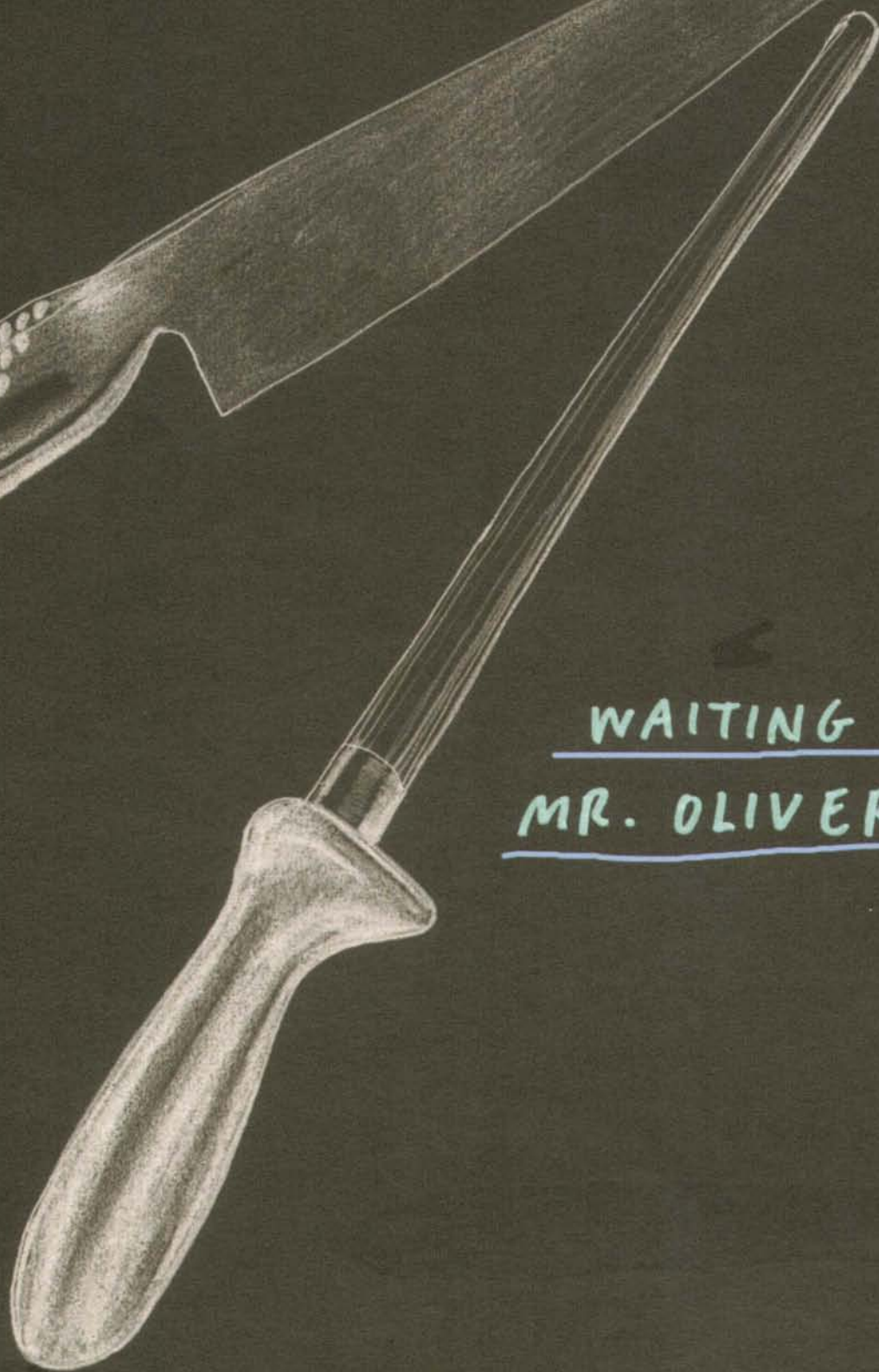
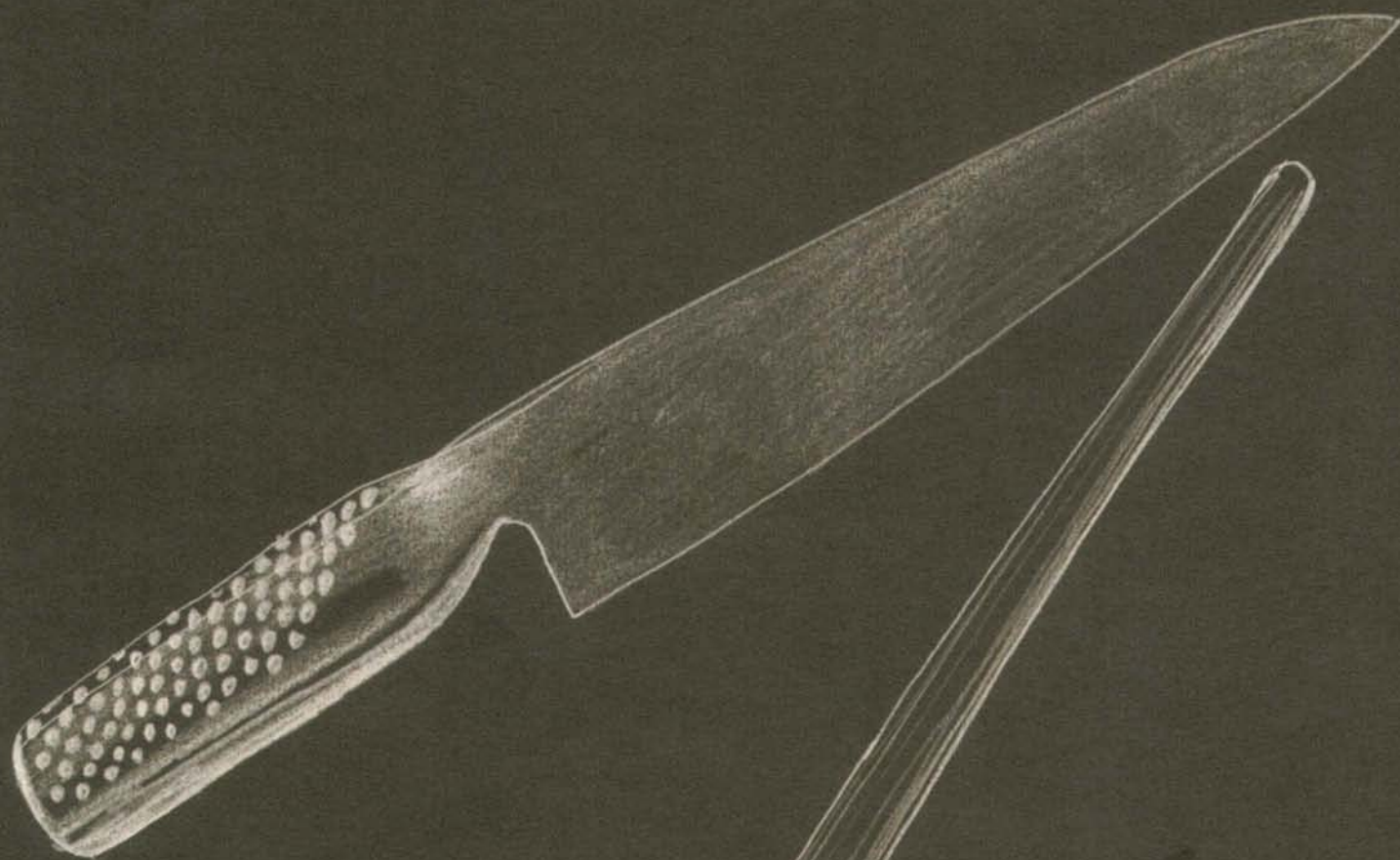


WE'VE ALL  
GROWN TO  
LOVE HIM

# From Oxo to Ozzy

The strange tale of how an ageing and dysfunctional rock star became the most loved family man on television.





WAITING FOR  
MR. OLIVER.



# If you can't stand the heat, get out of the kitchen

When so much television is boringly predictable, it's refreshing to see a series that breaks all the rules – and grabs a lot of the audience, too.

Just when celebrity chefs seemed to be on the point of being crossed off the television menu, and just when television pundits began to foretell the decline of reality TV, along came Channel 4 with *Jamie's Kitchen* – a phenomenal fusion of the two which entertained the nation and, in the words of one educationalist, did more for vocational training in Britain in five weeks than Government initiatives had accomplished in 20 years.

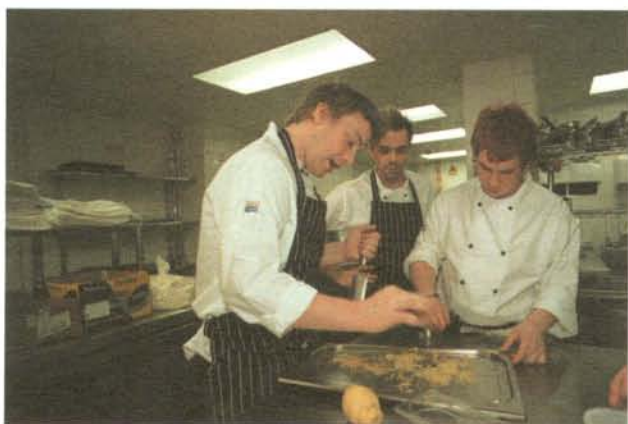
For chef Jamie Oliver, the recipe may have seemed more than a trifle risky: first, mortgage your house (without telling your pregnant wife) in order to open a brand new restaurant in a corner of East London; select 15 disenchanted, unemployed young people who can't tell ravioli from ragout and hope to train them in nine months to run the place; finally, stir in a clutch of TV cameras to ensure that the resulting drama comes quickly to the boil.

But Jamie is no ordinary chef. Having left school without any formal qualifications, he believes it is a passion for food, not academic ability, that makes a great cook. At times his nine month struggle to instill that passion in his very unpromising team seemed about to tip over from the heroic to the simply suicidal. He was forced to be, by turns, teacher, mentor, youth worker, sergeant major and parent to people who were only a few years his junior. He quickly realised that his biggest problem was not going to be weeding out the no-hopers, but hanging on to the potential successes. And as the proverbial heat in the kitchen rose, up to seven million people across the country sat glued to their television sets.

The group's education division, 4 Learning, supported the series with a website providing links to catering courses all over the country as well as a range of games and competitions.

The fairytale happy ending came not on television but in the columns of restaurant critics across London and the UK. 'Fifteen' opened to rave reviews and rapidly established itself as one of the capital city's trendiest new restaurants. At the end of the year, with every seat booked solid for three months ahead, Jamie announced that the restaurant would take no more bookings until further notice. The critics retaliated by voting it 'Restaurant of the Year'.

But perhaps the most enduring success will prove to be with the young people themselves. Trainee chef Ben Adler, 19 years old, told the London Evening Standard "Life is totally wicked, man. I've got a lot of plans - everything finally seems within my reach. You've got to turn up to work, be enthusiastic, and you can achieve anything."





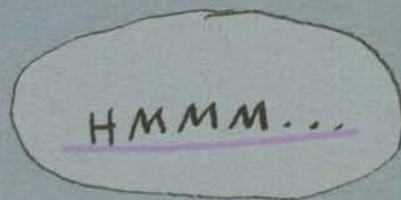
# Knowledge is Power

60% of college leavers say they want to work in the creative industries. But most of them don't know where to start.

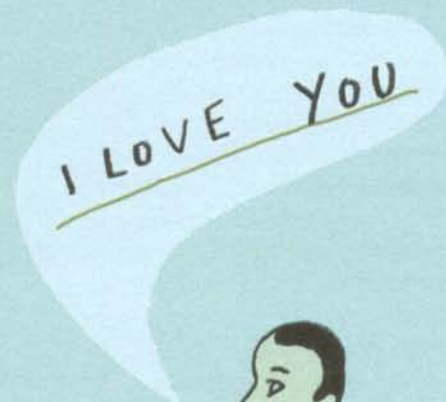
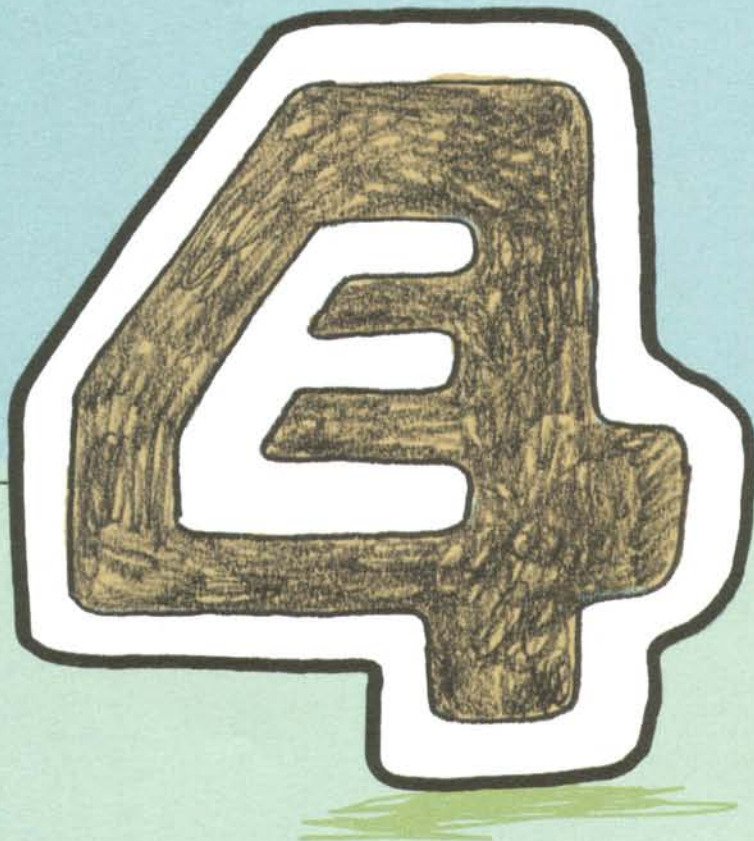
Education lies at the heart of Channel 4's remit and 2002 saw the launch of a project aimed at young people in transition between the world of learning and the world of work. *IdeasFactory* is a major on-line and off-line initiative for people who want their creativity to be part of their working lives, not just their leisure lives. Bringing together education authorities, regional development agencies and other public and private bodies, *IdeasFactory* offers a one-stop-shop for those who want to work in the creative industries or develop their entrepreneurial skills. On-line, the site provides video interviews with professionals, learning tools and games, competitions, business advice and information features. Off-line, *IdeasFactory* offers young people practical face-to-face learning opportunities. The secret lies in effective partnerships.

In Scotland, *IdeasFactory* has built a £2 million partnership with Scottish Enterprise and Highlands and Islands Enterprise, whose manager says, "Advanced technology means that a creative business can be run successfully from a rural area. But without an adequate support network, it's not surprising if people feel isolated." *IdeasFactory* provides that network.

In the West Midlands, 'Screenplay' invited young writers to submit ideas for short films, four of which will be made and screened on Channel 4 during 2003. Screenplay brings together Channel 4's resources and reputation with those of Advantage West Midlands, Screen West Midlands and a major Birmingham production company, Maverick, to offer young people an experience which, as in Scotland, no organisation or agency would be able to offer on its own.









# E4

How many times have you heard someone say the reason they decided to go digital was because they (or their kids) just had to have E4?

Since its launch in January 2001, Channel 4's digital entertainment channel, E4, has enjoyed extraordinary and consistent success, made all the sweeter by finger-wagging prophecies of doom from a long procession of media analysts.

In its second year, and despite a deep recession in the advertising market, E4 grew its income and doubled its audience share in multi-channel homes, having already exceeded all predictions for its first year. Amongst its target audience of 16-34 year olds it became the second most watched non-terrestrial channel in multi-channel homes and finished the year 15% ahead of its business plan.

Rather than cannibalising the audience of its parent channel, E4 attracted new viewers and so helped raise both the profile and the overall audience for the main Channel 4 service in multi-channel homes, defying the industry trend of growth in cable and satellite services at the expense of traditional terrestrial broadcasting.

This synergy between the two channels achieved spectacular impact during the summer when the third *Big Brother* series gave E4 as big an audience share as Five and Sky One put together (an unprecedented occurrence for a basic tier pay channel) and at the same time helped boost the audience for Channel 4 right across the schedule.

Why does any of this matter? Because in a television environment that looks likely to be more and more dominated by a handful of media giants, an independent public service broadcaster like Channel 4 can only hope to grow if it finds new ways of reaching new audiences with new ideas and new services. E4 is a vital part of that development strategy and will, in addition, be contributing revenue towards Channel 4's public service remit by 2005, or sooner if it continues to out-perform its business plan.

E4 has achieved something else, too – one of the most dedicated and enthusiastic audiences for any television channel in Britain.



# White Teeth

*Adapting a well loved book for the screen never pleases everybody – and this one attracted more controversy than most.*

Zadie Smith's award-winning debut novel, *White Teeth* became the centrepiece of Channel 4's autumn drama schedule. In a wonderfully convoluted comedy spanning several decades, the lives of three north London families intertwine through love, war, school, business, religion and drugs to create a richly-textured picture of the melting pot in which modern Britain was brewed. The saga finishes on a note of celebration and optimism. Fate and circumstance have led the characters to wash up in the non-descript London suburb of Willesden, their shared histories providing the foundation for new generations and a new future.

Like many a Zadie Smith fan, the Daily Telegraph struggled to find fault with the series and eventually admitted defeat, "It may not be the triumph many hoped for, but it is a brave, stylish, entertaining and accomplished piece of television."

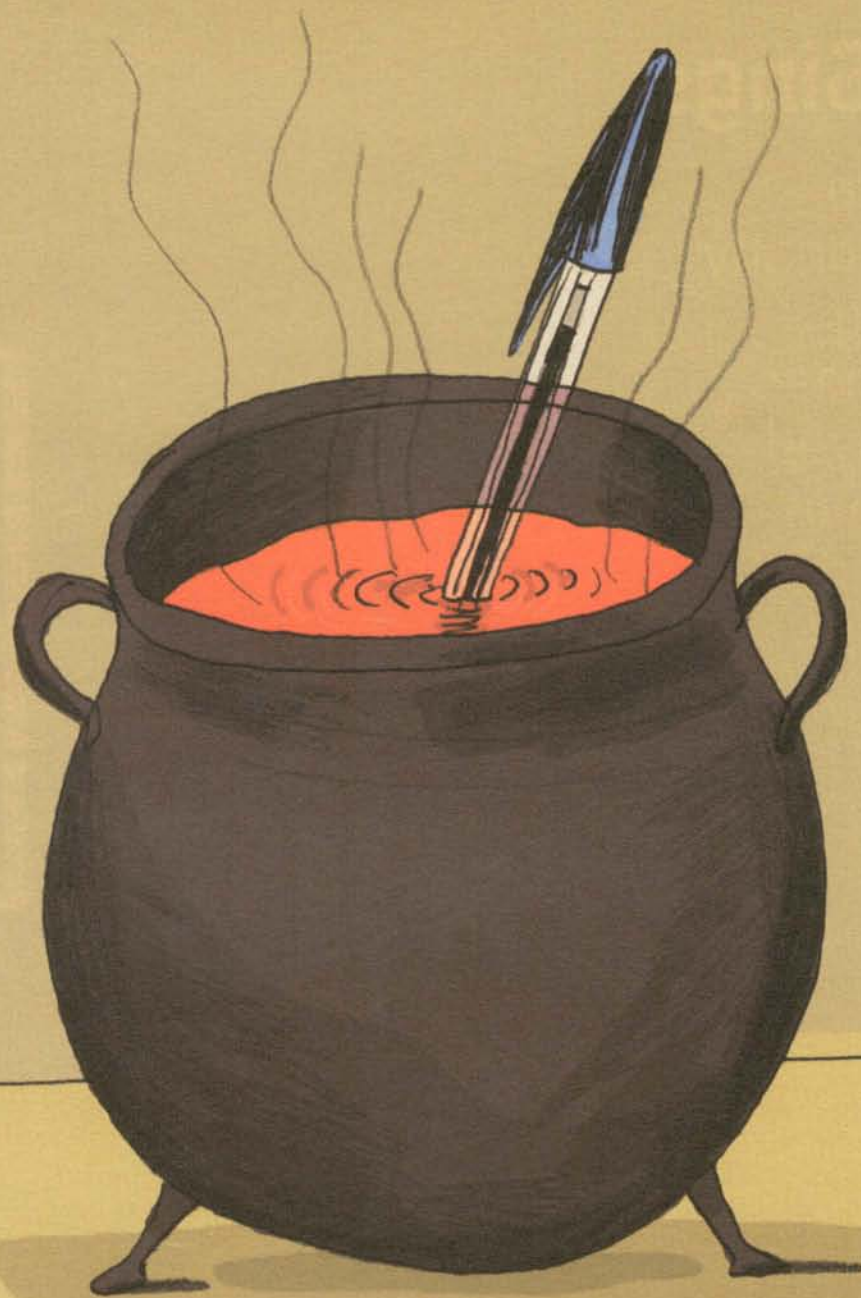
Throughout its 20-year history, part of Channel 4's purpose has been to provide a platform for new voices, to bring talented creative people and new perspectives from the margins of Britain's cultural life into the mainstream of network television. *White Teeth* shows how far British television



and British society have changed in that time. In common with other broadcasters Channel 4 is developing new ways of working and new ways of monitoring its own performance to ensure that it better reflects the realities of Britain's cultural diversity.



AND STIR

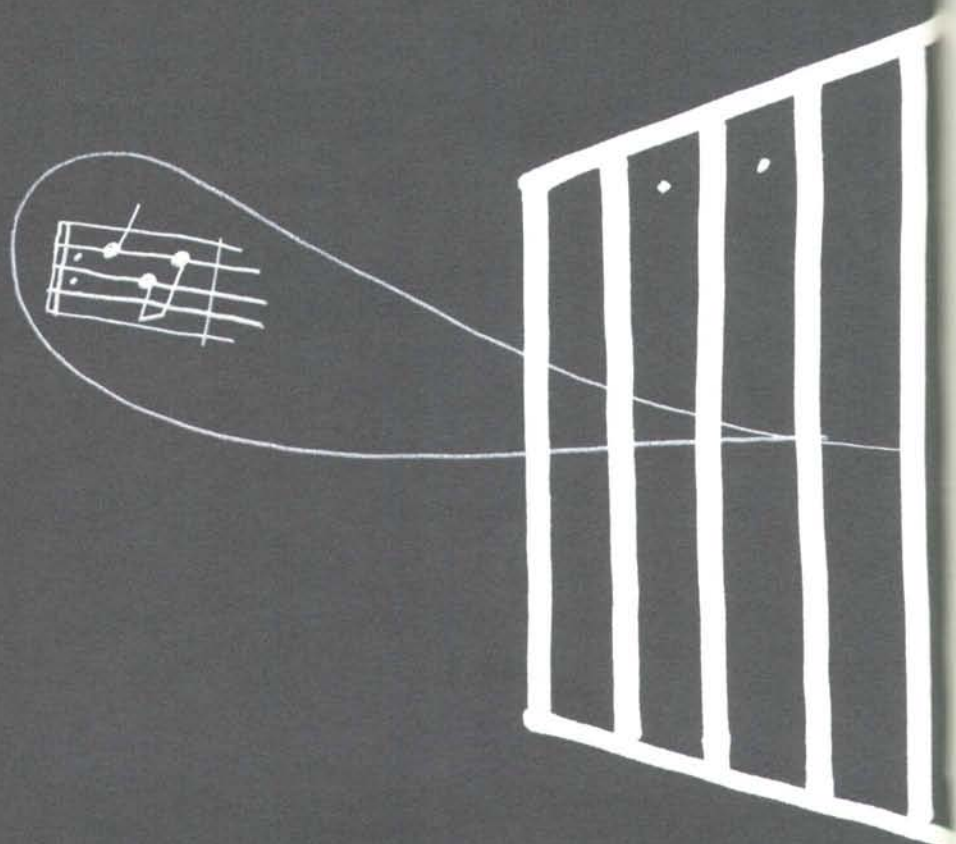




# Feltham Sings

For a prisoner to 'sing' has traditionally meant betraying accomplices. These prisoners betrayed nothing more than their dreams and their private pain.

Feltham is Europe's largest young offenders' institution and, only recently, was the subject of a damning report by Her Majesty's Inspector of Prisons. To ask its inmates to talk on television about their lives would seem the very stuff of traditional public service broadcasting. Channel 4 asked them not to talk, but to sing. The result was a succession of powerful and moving tales from some of the most marginalised and least articulate young people in our society, told in the language of hip-hop, garage and reggae. Working in collaboration with director Brian Hill and poet Simon Armitage, drug dealers and armed robbers sang of violence and despair, of dysfunctional families, of unloved childhoods and the prospect of prison as an ever-present reality in their lives. But at the same time they offered a poignant glimpse of their own creative talents and private sensitivities, transcending the boundaries of conventional documentary television. The Observer said: "It shows us the prison's garbage, lavatories, degradation; the prisoners' violent crimes and loveless lives. But this documentary is a work of art."



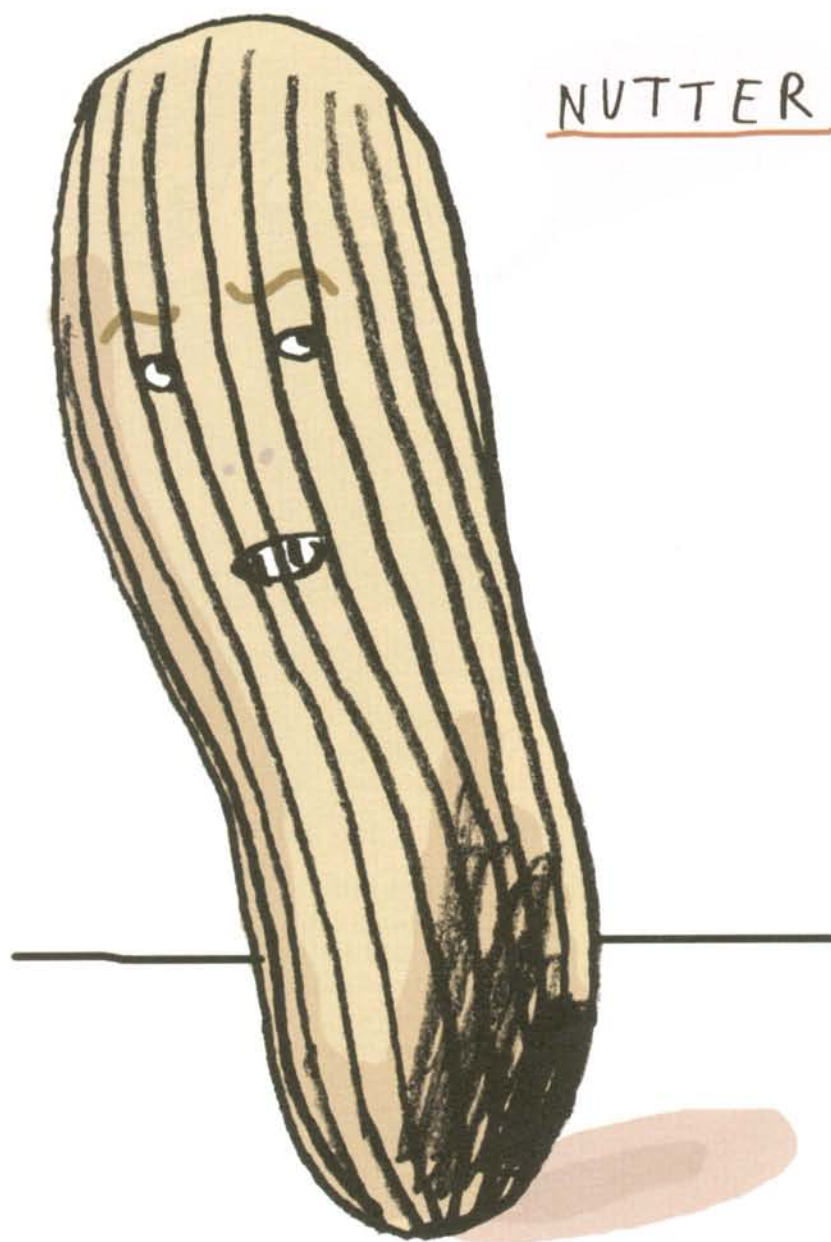


# Lucky Nut Gets Lucky Break

When the pressure on young television makers is to play safe and stick to familiar formulae, finding a prime-time slot to tell your own story in your own way is like winning the lottery.

In an increasingly crowded and constricted field of programme ideas, *Alt TV* offers new television producers and directors the opportunity to make half-an-hour of prime-time television in their own idiosyncratic way. The results are an eclectic mix of stories and styles. In *The Luckiest Nut in the World* a singing peanut presented the second programme of the series. A mixture of animation, music and archive footage swept the viewer through the life stories of the cashew, the brazil and some of their cousins – all of whom have suffered as the liberalisation of trade has squeezed commodity prices in the developing world. But there is a radically different story from America – home to the IMF, the World Bank and the mighty peanut, worth four billion dollars a year to the US economy and, by any measure, the luckiest nut in the world.

*Alt TV* gives new programme makers an opportunity – in fact actively encourages them – to experiment with highly personal films, some moving, some entertaining, some hilarious. It has provided an invaluable stepping stone for talented new directors on their way to larger and more testing projects – another example of Channel 4 offering something new and different to its audience while fulfilling its role as the R+D lab of creative television in Britain.





VERY  
SUNNY



# Indian Summer

The London Evening Standard described Channel 4's Indian Summer as "exactly the sort of project the station was granted its Government licence to schedule" – even though most of it was not on television.

When Channel 4 won the contract to televise *Test Cricket* in 1998, it made a major commitment to re-brand the game to make it more attractive to a new generation of fans representing the cultural diversity of contemporary Britain. This has included a multi-million pound programme of school and community based cricket developed with the England and Wales Cricket Board, and a host of arts and entertainment initiatives.

With a major Indian test tour of England in 2002, the stage was set for *Indian Summer* – a season of festivals, concerts, TV programmes and community projects to coincide with the televised test matches. On-screen, Channel 4 brought its viewers a comprehensive taste of contemporary Indian life and culture. Off-screen, 70,000 people enjoyed a two-day mela in London's Regents Park, just across the road from Lord's cricket ground, with traditional Indian games, and concerts by artists such as Nitin Sawhney and Asian Dub Foundation, whose performance fuses the best of contemporary music from India and the UK. A similar event added to the Leeds Mela, now one of the biggest annual celebrations of Indian culture in Britain. At both events giant screens showed Test cricket during the day and classic Indian movies by night. Emerging fashion and textile designer Zakee Shariff was commissioned to produce exclusive limited edition T-shirts and bags,



and British Indian artists worked with school and community groups to create two permanent pieces of public art, one in London, one in Leicester, both with cricketing themes.

At the end of a summer when it seemed that Indian popular culture was taking the whole of Britain by storm, Time Out commented "If it hadn't been for Channel 4, the chances are that the current craze for all things Bollywood would have been as flat as a steam-rolled chapatti."



# The Four Seasons

## SPRING



Channel 4 swept the board at the **Broadcast Magazine Awards** with the top awards for Best Comedy, Best New Programme, Best Multi-Channel Programme, Best Drama Series, Best One-Off Drama, Best Sports Programme, Best News Programme, Best Popular Factual Programme and Best Light Entertainment Programme.

**Beneath the Veil**, a highly personal observation of life in Taliban-ruled Afghanistan, made by an Afghan woman, won the Royal Television Society Programme of the Year Award. It was broadcast in 40 countries and won numerous awards around the world. Channel 4 won five other RTS Programme Awards and, in the same month, six 'Indie' Programme Awards.



**Time Team** achieved an audience of 3.3 million – including an 18% share of 16-34 year olds – extraordinary figures for an archaeology programme.

**Text Tips for Lovers** is a Channel 4 SMS messaging service providing expert and confidential advice on love and sex. One million messages were sent within three months of its launch.

The first broadcaster to achieve **Investor in People** status, Channel 4 extended career opportunities for its own staff by offering them a customised management diploma, which can be credited towards an MBA. The course won a Business AM award.

Channel 4's **So You Think You're Funny** Comedy Awards have been a consistent source of some of Britain's outstanding comedy talent in recent years. Regional heats begin in the spring and culminate in August in what has become one of the fringe highlights of the Edinburgh Festival.



SYTYF

Channel 4 was **Broadcaster of the Year** for the second year running at the Commission for Racial Equality's 'Race in the Media Awards'. As well as seeking to represent the cultural diversity of modern Britain on-screen, Channel 4 works with other broadcasters to achieve a more representative balance of ethnic backgrounds in the industry's workforce. Channel 4 maintains the Cultural Diversity Network database, available to independent producers and other broadcasters, of talented individuals and companies from ethnic minority backgrounds.

At a time when many were questioning whether it was possible to be both a good Muslim and truly British, Channel 4 gave an unequivocal answer with **Muslim and British**, a series whose candid approach to sensitive issues brought praise and criticism in equal – and equally outspoken – measure.

In the same month as winning the **Race in the Media Award**, Channel 4 won four BAFTA Craft Awards, two awards at the Chicago Festival and an unprecedented four awards at the Montreux Festival.

Channel 4 celebrated May Day in unconventional style by joining with the Daily Telegraph to co-host a **Conference on the State of Civil Liberties** in Britain. Supported by print, web and TV coverage, the conference included a debate between the Home Secretary and his Tory shadow and a discussion of the stormy public response to Channel 4's **Brass Eye Special** – a satire on paedophilia which was broadcast in 2001.

Channel 4 and the Northern Ireland Film Commission announced a joint project to create a **modern history film archive for Northern Ireland**. At the heart of the scheme was an agreement between the channel and independent production companies and other rights owners to return rights on all material selected for the archive so as to make it freely available as an educational resource.

A FUNNY THING  
HAPPENED WATCHING  
CHANNEL 4  
THE OTHER NIGHT



FilmFour Lab, Channel 4's feature film seed-bed, joined forces with the Film Council to form **Comedy Short Scheme**. This invited established comedy writers, comedians and film-makers to produce short comedy films, with a particular emphasis on work from the nations and regions of the UK and from ethnic minority communities.

## SUMMER



In its third year, Channel 4's **Researchers' Development Programme** helped ten small independent production companies outside London improve their business skills. With a licence obligation to commission 30% of its output from outside London, it is in Channel 4's own interest to help build companies with the creative and commercial skills to deliver high-quality programmes on time and on budget. The Researchers' Development Programme has enabled production companies to earn new contracts worth ten times what it costs the channel to run the scheme. Channel 4 is now developing two new strands to reach companies and researchers with ethnic minority roots.

**Cricket** lovers love Channel 4, which won three awards at the RTS Sports Awards and also won the BAFTA Award for Best Sports Programme. In partnership with the England and Wales Cricket Board, Channel 4 won Marketing Week's Corporate Citizenship Award for 2002, in recognition of a national street cricket programme and the development of a new community cricket ground in the inner London borough of Lambeth – both of them part of Channel 4's £2 million investment in grass roots cricket.

Channel 4 worked with public and private partners to create **4minutewonders.com** an initiative which simultaneously promotes new production companies and new bands. Each month a new soundtrack from a band goes up on the

4minutewonders website with an invitation to submit ideas for an accompanying video. The best proposal receives cash and in kind support to make the video a reality. Starting in Scotland in 2001 the scheme was later extended to Wales. Two of the videos have won awards in the US.



The third series of **Big Brother** was bigger than ever with ten million viewers and 22 million votes cast. The final programme of the series saw Channel 4 achieve its highest ever daily share, over 22% of the national audience, topping both ITV1 and BBC1. **Big Brother** has become the most sophisticated multi-platform project on British television and the lessons learned have been applied across the whole of Channel 4's output. For example, **Edwardian Country House**, a six-week series which vividly recreated the class divisions of British life in 1911, came with print and web-based background material and with additional TV and on-line programming to extend viewers interest into Edwardian cooking, gardening and fashion.

Channel 4 is a major sponsor and supporter of **YCTV**, a west London charity that works with mainly disadvantaged young people, using television production as a means of inspiring their creativity and their commitment to learning. In partnership with the Department for Education and Skills, and Liverpool Community College, Channel 4 helped create **Toxteth TV** as a means of spreading the successful YCTV model to other parts of the UK.



## AUTUMN



**MESH** is Channel 4's £285,000 project to nurture new talent in computer-generated animation. Run in partnership with NESTA (the National Endowment for Science, Technology and the Arts) and an independent production company, Blackwatch, MESH is now in its third year. Its four finalists screen their work at the Edinburgh International Film Festival before having it broadcast on Channel 4. The overall winner for 2002 also received a bursary to develop a film proposal for FilmFour Lab.

Launched in Newcastle, **Self-Portrait UK** was a partnership between Channel 4, Northern Arts and the National Portrait Gallery, which invited people of all ages to express their individuality by producing and displaying a self-image. Work was featured on Channel 4 television programmes and website, culminating in an exhibition at the National Portrait Gallery in London.



Mike Figgis' film **The Battle of Orgreave** re-created a brutal encounter between miners and police during the miners' strike of 1983-4. As well as being a

remarkable television film, this was an ambitious joint project between the channel and Art Angel in which the community of Orgreave relived the trauma of its recent past. Many of the cast of hundreds were veterans of the original conflict, some fighting, in costume, for the side they had opposed in real life.



**OFF** is Channel 4's guide to London fashion designers who are "too young, too small and in some cases too independent to appear on the London Fashion Week roster". Now in its fifth season, OFF has become a must-have accessory for Fashion Week – another example of how Channel 4 supports and promotes Britain's creative entrepreneurs.

Channel 4's Chief Executive, Mark Thompson, delivered the **McTaggart Lecture** at the Edinburgh Television Festival, calling on broadcasters to address the 'creative deficit' in British television and setting out Channel 4's commitment to bring innovative and new talent to the screen.

September saw a hard-hitting series of programmes on Channel 4 which challenged popular and legal prejudices about prostitutes and **prostitution** in contemporary Britain. Like other recent Channel 4 current affairs series on **homelessness, drug abuse and adoption**, this highlighted the urgent need for changes to the law.

**Sunday**, the dramatic re-enactment of Northern Ireland's Bloody Sunday of 1972 won a Prix Italia, one of the most prestigious television awards in the world.

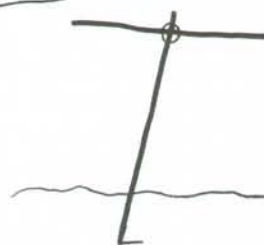
Channel 4 launched a scheme to give **disabled actors** a year's membership of the Actors Centre in London, including a networking event where they could meet producers, commissioning editors and casting agents.

Channel 4 is a major sponsor of the **Sheffield International Documentary Festival**, one of the top showcases for the world's documentary makers. As part of its support for the event in 2002, and to help new film-makers hone their business skills, the channel invited a group of young documentary-makers to 'pitch' programme proposals to a team of editors in front of a live audience, with the best pitch winning a commission for screening on the main Channel 4 service.



**The 4 Collection** is a series of limited edition garments created for Channel 4 by emerging designers. Each design is commissioned to celebrate a programme, event or season, and all incorporate the number '4'. The **fourfronts**, a re-working of the traditional British Y-fronts, celebrated Channel 4's sponsorship of the Turner Prize. Created by Jam, they join items designed by Fake London, House of Jazz and Zakee Shariff. All pieces can be bought from [channel4.com/shop](http://channel4.com/shop)

## WINTER



Wayne Hemingway, Charlie Luxton, Naomi Cleaver and Trevor Bayliss were some of the names offering highly personal bus tours of London during Design Week. **The Channel 4 100% Design Bus Tours** – a collaboration between Channel 4, creative agency Jam and 100% Design – aim to provide unique insights into London's vibrant architectural and design scene. A new series of bus tours is scheduled for Architecture Week in June 2003.



In partnership with Advantage West Midlands, Channel 4 brought together regional government officials, educationalists and independent producers for a one-day conference in Birmingham on **Creative Cities**. This was part of the channel's long-term commitment to help build sustainable clusters of creative businesses right across the UK.

**Celebrity Wheelchair Challenge** was just what it said – a chance for celebrities to experience the tough realities of life in a wheelchair. With over three million viewers, it was the biggest audience ever for a disability programme on Channel 4 and unleashed both a storm of protest and a hurricane of praise.

One of Channel 4's most successful series, **Faking It**, won an International Emmy in New York. A 4 Learning geography programme about Jamaica, presented entirely by Jamaican schoolchildren, won the President's prize at the Japan Prize awards, another of the most prestigious media awards in the world.

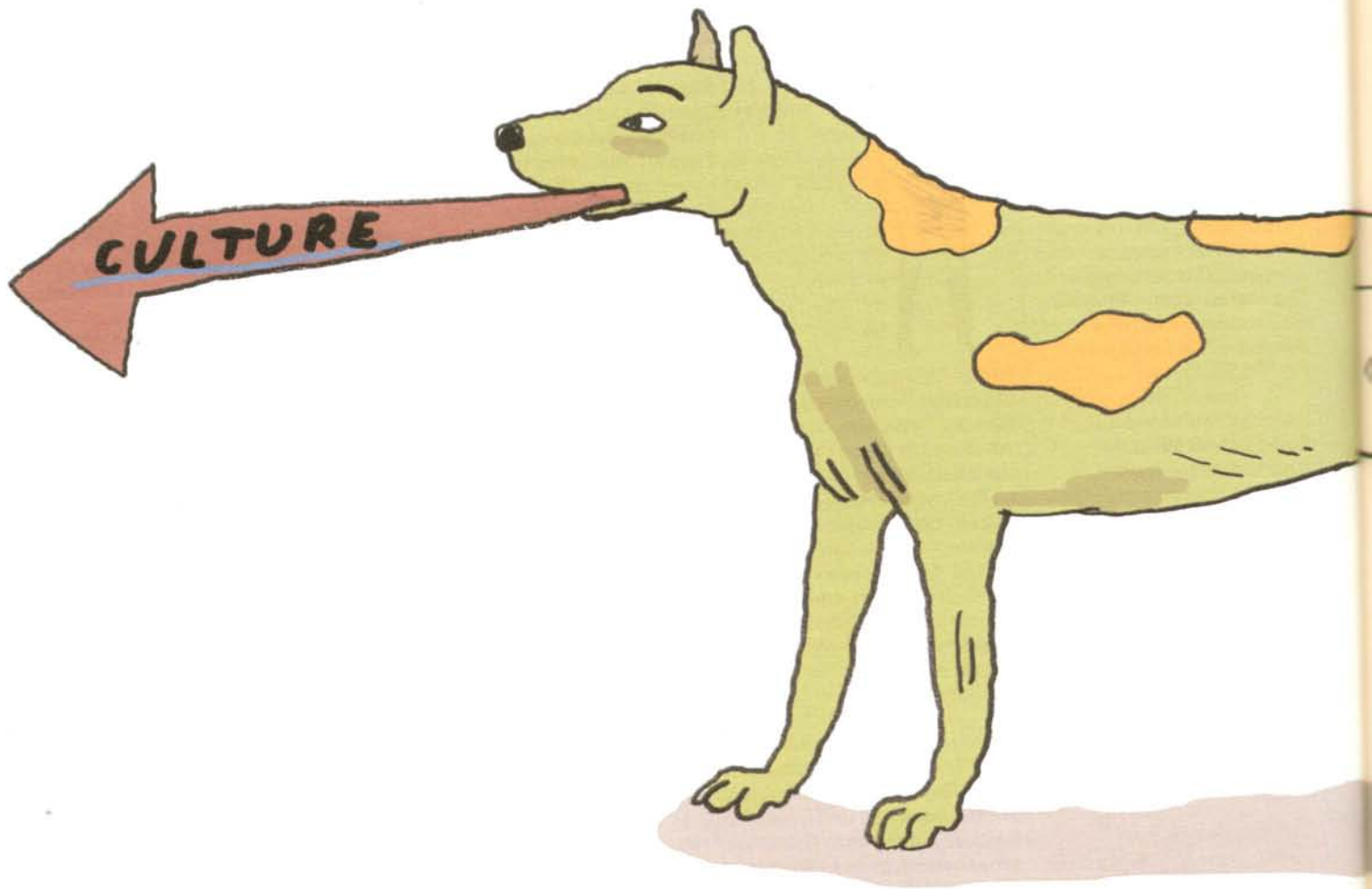


**Holy Grail** was launched as an initiative to stimulate new drama writing in Scotland, jointly funded by Channel 4, Scottish Screen, Scottish Enterprise and several Scottish independent production companies.

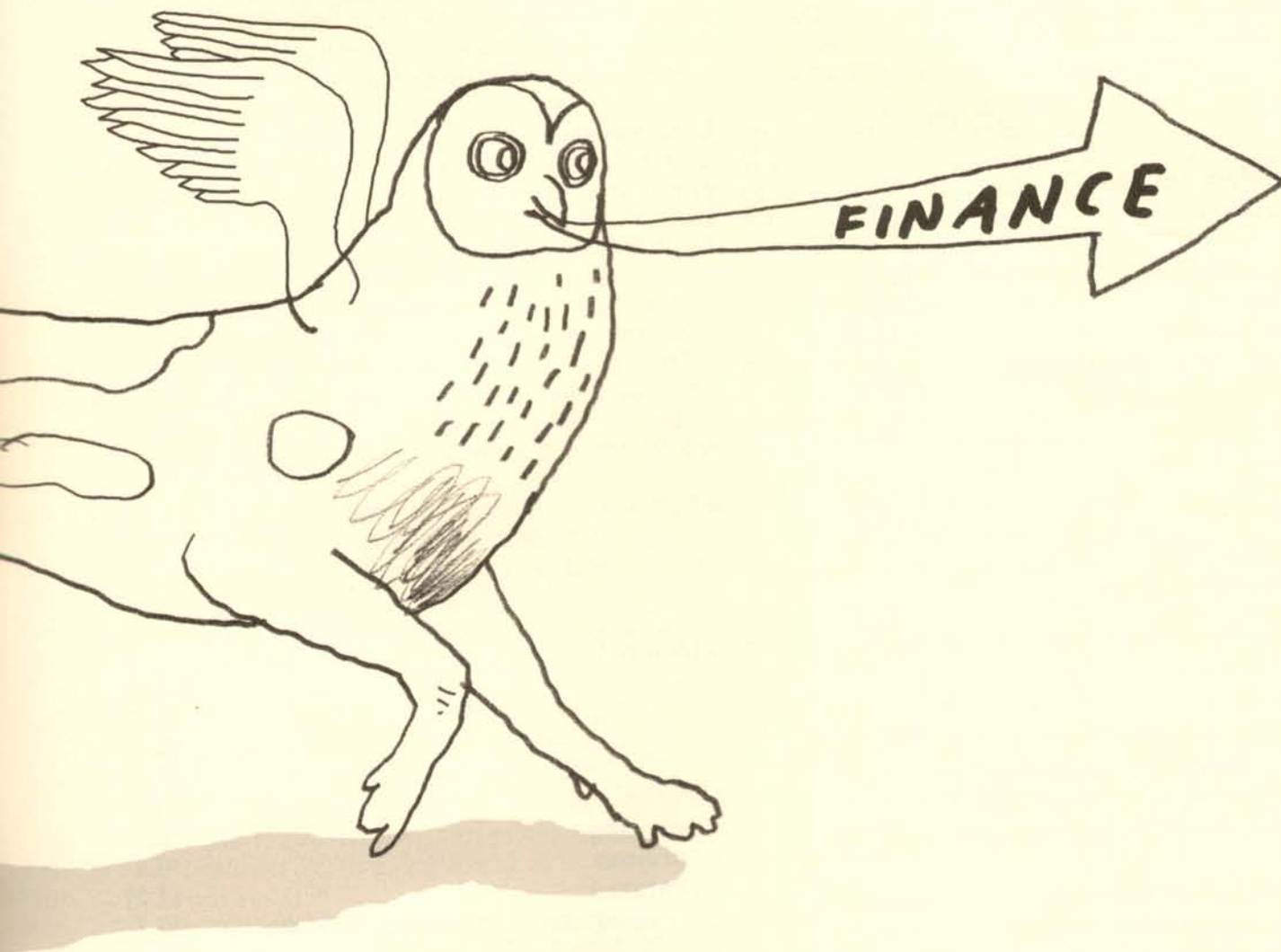
In the same month that Channel 4 offered **free training for film crews** working in areas of conflict and danger around the world, one of its own crews was thrown into prison while making a current affairs documentary in Bangladesh. International pressure eventually won their release.

Channel 4 supported 25 different **talent initiatives** and external training schemes during the course of 2002. It finished the year with a record **91 major national and international awards** for its programmes, projects and services.









# Operating and financial review for the year ended 31 December

## Group

### Turnover

Group turnover for 2002 increased by 4% to £763 million (2001: £731 million). Channel 4's 2002 advertising and sponsorship revenue increased year on year by 4% to £646 million (2001: £619 million) and represented 85% of group turnover (2001: 85%). 4 Ventures businesses contributed the remaining 15% of group turnover.

### Profit

Group profit before tax and restructuring costs for the year was £33 million, reversing the group loss in 2001 of £27 million. The year's results can be summarised as follows:

	2002 £m	2001 £m
<b>Profit/(loss) before tax and restructuring costs</b>		
Channel 4	80.2	37.9
4 Ventures (excluding FilmFour Ltd)	(27.6)	(58.7)
FilmFour Ltd	(17.5)	(5.4)
Net interest payable	(2.5)	(0.1)
Group consolidation adjustments	0.1	(0.4)
<b>Group profit/(loss) before tax and restructuring costs</b>	<b>32.7</b>	<b>(26.7)</b>
Restructuring costs:		
Channel 4	(5.0)	(1.5)
FilmFour Ltd	(11.2)	-
Tax (charge)/credit	(6.3)	7.6
<b>Group profit/(loss) after tax and restructuring costs</b>	<b>10.2</b>	<b>(20.6)</b>

## Channel 4

### Profit

Channel 4's operating profit before interest, tax and restructuring costs more than doubled year on year to reach £80 million (2001: £38 million). The key contributing factors can be summarised as follows:

	£m	£m
<b>Channel 4 profit before interest, tax and restructuring costs for 2001</b>	<b>37.9</b>	
Increase in advertising and sponsorship	26.5	
Increased investment in programmes and other content	(3.1)	
Cost reductions:		
Indirect programme costs	7.4	
Sales and marketing	5.0	
Administrative expenses	9.0	
Additional DTT costs, following closure of ITV digital	(2.4)	
Other movements	(0.1)	
	(2.5)	
<b>Channel 4 profit before interest, tax and restructuring costs for 2002</b>	<b>80.2</b>	

## Programmes and the ITC licence

Channel 4 increased expenditure on programmes and other content by £3 million to reach its highest amount ever at £435 million (2001: £432 million).

We met all our ITC licence obligations. The percentage of hours of originated programmes was 67% overall, (target 60%) and 78% in peak hours (target 70%). In peak, 85% of our hours were first run (target 80%), and we met our 60% target for first run programming in all hours. We also achieved the target of 30% (£102 million) of Channel 4's originated programming being supplied by production companies from outside the M25.

## Cost reduction

Channel 4 continued to reduce costs following the progress made in 2000 and 2001. In October 2001 we planned a £21 million year on year reduction in overhead costs for 2002. That was achieved. Significant reductions were made in building renovation and information systems costs. Salary savings were achieved across all departments as a result of the headcount reductions at the end of 2001. Further group headcount reductions were identified in the final quarter of 2002 leading to the closure of 149 posts. By the end of 2003, overhead costs will be one-third lower than they were in 2000.

## 4 Ventures

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

	2002 £m	2001 £m
<b>4 Channels</b>		
E4	(16.0)	(37.3)
FilmFour channels	(6.7)	(11.1)
4 Interactive	(3.7)	(13.7)
attheraces	(9.9)	(3.9)
<b>4 Rights</b>	<b>10.9</b>	<b>8.3</b>
<b>4 Learning</b>	<b>0.1</b>	<b>(1.8)</b>
<b>4 Services</b>	<b>0.2</b>	<b>0.4</b>
<b>4 Ventures</b>	<b>(2.2)</b>	<b>(0.5)</b>
4 Ventures consolidation adjustments	(0.3)	0.9
<b>4 Ventures excluding FilmFour Ltd</b>	<b>(27.6)</b>	<b>(58.7)</b>
<b>FilmFour Ltd</b>		
Operating loss	(17.5)	(5.4)
Restructuring costs	(11.2)	-
<b>4 Ventures including FilmFour Ltd</b>	<b>(56.3)</b>	<b>(64.1)</b>

## FilmFour Ltd

The decision was taken during the year to restructure FilmFour Ltd and transfer the group's future film financing activities into Channel 4. Existing obligations of FilmFour Ltd will continue to be met by that company. The total loss for the year was £28.7 million, £11.2 million of which has been treated as exceptional.



## Turnover

The turnover for 4 Ventures' ongoing businesses before consolidation adjustments increased year on year by 20% to £126 million (2001: £105 million).

## Performance

The 4 Ventures ongoing businesses delivered a 53% improvement in performance in the year with group losses reduced to £28 million (2001: £59 million), representing 3.6% of Channel 4 group turnover.

This improved performance has been delivered by the growth in turnover referred to above and cost reductions across 4 Ventures businesses and is after a £6 million planned increase in investment in the start up joint venture, attheraces. The key contributing factors can be summarised as follows:

	£m
<b>4 Ventures ongoing businesses 2001 loss</b>	<b>(58.7)</b>
<b>4 Channels</b>	
E4	21.3
FilmFour channels	4.4
4 Interactive	10.0
attheraces	(6.0)
General improved trading activity across other businesses	1.4
<b>4 Ventures ongoing businesses 2002 loss</b>	<b>(27.6)</b>

All new ventures remain on track against their business plans. Current projections indicate losses in 4 Ventures existing businesses will fall to below 2% of Channel 4 group turnover in 2003.

## 4 Channels

E4 and FilmFour channels, and 4 Interactive, in the 4 Channels division of 4 Ventures, delivered a strong performance for the year – increasing turnover by 33% to £62 million (2001: £46 million), and reducing losses by 57% to £26 million (2001: £62 million).

Channel 4 group has been more successful than any of its commercial terrestrial rivals at launching new digital channels.

## E4

In its second year from launch, E4 reduced its loss by £21 million to £16 million. It doubled its 16-34 year old share of viewing in multi-channel homes to 2.8% and helped to grow the combined viewing for Channel 4 and E4 in multi-channel homes by 12% to reach 8.6% for 2002 (2001: 7.7%). The strength of E4's 2002 audience share delivered advertising sales and sponsorship up 79%. E4 remains on course to break even as planned in 2005.

## FilmFour channels

The collapse of ITV digital in March 2002 had an adverse impact on the FilmFour channels planned subscriber growth. However, by strategic telemarketing of the service on alternative digital platforms, the resultant fall in turnover year on year was contained at 7%, reaching £12 million in 2002 (2001: £13 million). Cost savings enabled the FilmFour channels to reverse the impact of this reduction in turnover and report a 40% improvement in performance, reducing the loss for 2002 to £7 million (2001: £11 million).

## 4 Interactive

4 Interactive continued to progress the group's cross platform strategy with the notable success of *Big Brother 3* helping to deliver a fourfold increase in turnover to reach £7 million in 2002 (2001: £2 million). Savings in both website development and hosting costs enabled 4 Interactive to achieve a 73% improvement in performance reducing its loss to £4 million for 2002 (2001: £14 million).

## attheraces

4 Ventures jointly owns, with its partners Arena Leisure and BSkyB, the business of attheraces. In May 2002 attheraces successfully launched its digital television channel and continued the rollout of interactive betting. This planned development of the attheraces business meant that 4 Ventures share of its joint venture's loss increased by £6 million to reach £10 million in 2002 (2001: £4 million).

## Group foreign currency, cash and treasury management

Details of the group's foreign currency, cash and treasury matters are disclosed in note 16 on pages 56 to 58. The group's treasury management policies and strategies operated throughout the year, and the year-end position reflects those policies and strategies. Further details of the accounting policy for financial instruments is set out on page 42.

## Group taxation

The group is subject to corporation tax on its profits. The group profit recorded for 2002 has given rise to a £6.3 million tax charge (2001: £7.6 million tax credit). The group effective tax rate increased this year to 38% (2001: 27%), compared to the standard UK corporation rate of 30%. This increase is because not all of the group's share of the attheraces joint venture losses may be offset against group profits.



# Report of the members

The members present their report and the audited financial statements for the year ended 31 December 2002.

## Principal activities

### Channel Four Television Corporation

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

### Channel 4

Channel 4 is a public service broadcaster funded solely from commercial revenues 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.

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, with revised programme requirements published in February 1998, details of which are summarised on page 71 of this report.

Channel 4's licence was renewed by the ITC on 1 January 2003 for the ten calendar years 2003 to 2012.

### 4 Ventures

The Corporation's wholly owned subsidiary, 4 Ventures, has four divisions – 4 Channels, 4 Rights, 4 Learning and 4 Services – which operate commercial activities which are incidental and conducive to the operation of Channel 4.

## Business review

The Chairman's statement on page 2, the Chief Executive's report on page 5 and the operating and financial review on pages 34 and 35 form part of this report and provide information on the development of the group's activities during the year and the outlook for the future. The group's results are set out on pages 39 to 62.

## Members

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

The present members of the Corporation are listed on page 67. Since 1 January 2002, the following members have been appointed or retired:

Appointment	Date of appointment
Mark Thompson	4 March 2002
Retirements	Date of retirement
Millie Banerjee	25 September 2002
David Brook	16 October 2002

Details of members' remuneration are contained within the report on members' remuneration on pages 68 and 69.

## Members' interests

The Corporation 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 the group or to the members concerned.

During 2002 four members, in addition to their fees as disclosed on page 68, were interested in the following contracts negotiated at arm's length on normal commercial terms with the group:

- Peter Bazalgette is Chairman of Endemol UK Ltd and a director of Zeppotron Ltd, Victoria Real Ltd and Brighter Pictures Ltd. £18.1 million of the group's expenditure in 2002 related to programmes provided by these companies. These programmes included *Big Brother 3*, *Celebrity Big Brother 2*, *Pet Rescue*, *Chained 2* and *Diet Tips for Girls*. Peter Bazalgette played no part in the decisions to commission these programmes.
- Ian Ritchie is a director of Epic Group plc which received a total of £468,000 for website design and build services.
- Barry Cox's company, Mapledene TV Productions Ltd, received £14,100 for consultancy services.
- Channel 4 acquired 8% of Indigo Holidays Ltd in September 2001 as part of an advertising airtime trading deal. During the year airtime with a value of £1.1 million was supplied to the company but was fully provided for as at 31 December 2002. Additionally, Channel 4 exercised its right to appoint Andy Barnes to the Indigo Holidays Ltd board.

## Employment policy

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

The Corporation has established an ethnic monitoring system for its recruitment and the ethnic composition of its staff. The representation of ethnic minorities amongst its permanent staff in 2002 was 10% (2001: 9%). Women continue to form the majority of its staff at 54% (2001: 55%).

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



### Employee involvement and consultation

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

The Corporation has been accredited with the Investors In People standard since 2001.

The group informs and consults with its employees through:

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

### Research and development

The group devotes substantial resources to the development of scripts and treatments for possible commissioning. Programme development expenditure charged to the profit and loss account in 2002 amounted to £7.1 million (2001: £7.8 million).

### Charitable donations

During 2002 the group donated £5,464 to charities (2001: £1 million).

### Channel 4 website

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

### Euro

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

### Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 10 February 2003 and the members appointed its successor, PricewaterhouseCoopers LLP, as auditors 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 LLP have expressed their willingness to continue in office.

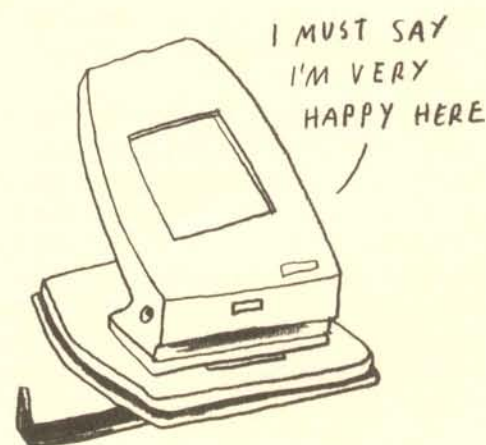
### Going concern

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

By Order of the Board:

### Mark Thompson

Chief Executive  
7 April 2003





# Report of the auditors

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

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

### **Respective responsibilities of members and auditors**

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

Our responsibility is to audit the financial statements and the auditable part of the report on members' remuneration in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Corporation's members as a body in accordance with the Broadcasting Act 1990 and direction thereunder by the Secretary of State and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the report on members' remuneration have been 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 the Corporation has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding members' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the report of the members, the unaudited part of the report on members' remuneration, the Chairman's statement, the Chief Executive's report, the operating and financial review and the corporate governance statement.

We review whether the corporate governance statement reflects the Corporation's compliance with the seven 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 the Corporation'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 and the auditable part of the report on members' remuneration. It also includes an assessment of the significant estimates and judgements made by the members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Corporation's circumstances, consistently applied and adequately disclosed.

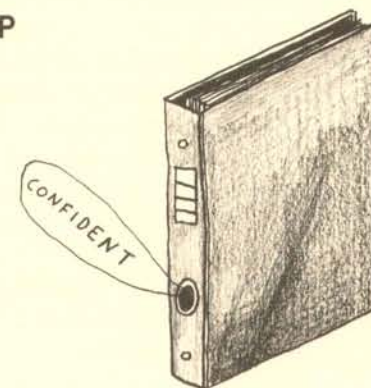
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the report on members' remuneration are free from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

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Corporation and the group at 31 December 2002 and of the profit and cash flows of the group for the year then ended, the financial statements have been properly prepared in accordance with the Broadcasting Act 1990 and direction made thereunder by the Secretary of State and those parts of the report on members' remuneration required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

### **PricewaterhouseCoopers LLP**

Chartered Accountants and  
Registered Auditors  
London  
7 April 2003





# Consolidated profit and loss account for the year ended 31 December

	Note	2002 £m	2001 £m
<b>Total turnover (including share of joint venture)</b>	1	<b>769.5</b>	734.0
Less share of joint venture's turnover	9	<b>(6.8)</b>	(3.3)
<b>Group turnover</b>		<b>762.7</b>	730.7
Cost of transmissions and sales			
recurring	2	<b>(683.2)</b>	(709.6)
exceptional	4	<b>(14.5)</b>	–
<b>Gross profit</b>		<b>65.0</b>	21.1
Administrative expenses			
recurring		<b>(23.3)</b>	(33.4)
exceptional	4	<b>(1.7)</b>	(1.5)
Depreciation	10	<b>(11.1)</b>	(10.4)
<b>Group operating profit/(loss)</b>		<b>28.9</b>	(24.2)
Share of joint venture's operating loss	9	<b>(9.9)</b>	(3.9)
<b>Total operating profit/(loss)</b>	1 and 3	<b>19.0</b>	(28.1)
Net interest payable	6	<b>(2.5)</b>	(0.1)
<b>Profit/(loss) on ordinary activities before taxation</b>		<b>16.5</b>	(28.2)
Taxation	7	<b>(6.3)</b>	7.6
<b>Profit/(loss) for the financial year</b>	17	<b>10.2</b>	(20.6)

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

	Note	2002 £m	2001 £m
<b>Profit/(loss) for the financial year</b>	17	<b>10.2</b>	(20.6)
Unrealised deficit on revaluation of buildings	10 and 17	<b>(8.3)</b>	(7.5)
<b>Total recognised gains/(losses) for the year</b>		<b>1.9</b>	(28.1)

The notes on pages 42 to 62 form part of these financial statements.



# Balance sheets

## as at 31 December

	Note	Group 2002 £m	Group 2001 £m	Channel 4 2002 £m	Channel 4 2001 £m
<b>Fixed assets</b>					
Tangible assets	10	<b>75.2</b>	92.1	<b>75.2</b>	92.1
<b>Current assets</b>					
Stock and work in progress	11	<b>189.9</b>	220.9	<b>138.9</b>	153.6
Debtors	12	<b>119.1</b>	126.6	<b>176.8</b>	193.2
Cash at bank and in hand	16c	<b>70.7</b>	53.6	<b>70.8</b>	53.8
		<b>379.7</b>	401.1	<b>386.5</b>	400.6
<b>Creditors – amounts falling due within one year</b>	13	<b>(135.8)</b>	(179.6)	<b>(87.5)</b>	(134.1)
<b>Net current assets</b>		<b>243.9</b>	221.5	<b>299.0</b>	266.5
<b>Total assets less current liabilities</b>		<b>319.1</b>	313.6	<b>374.2</b>	358.6
<b>Creditors – amounts falling due after more than one year</b>	16d	<b>(0.5)</b>	(1.4)	<b>(0.5)</b>	(1.4)
<b>Interest in net liabilities of joint venture</b>					
Share of gross assets		<b>17.3</b>	7.1	–	–
Share of gross liabilities		<b>(30.1)</b>	(11.0)	–	–
Share of net liabilities	9	<b>(12.8)</b>	(3.9)	–	–
Loans to joint venture		<b>12.5</b>	2.2	–	–
	9	<b>(0.3)</b>	(1.7)	–	–
<b>Provisions for liabilities and charges</b>	14	<b>(10.0)</b>	(4.1)	<b>(6.9)</b>	(4.1)
<b>Net assets</b>		<b>308.3</b>	306.4	<b>366.8</b>	353.1
<b>Profit and loss account</b>	17	<b>222.9</b>	212.2	<b>281.4</b>	258.9
<b>Statutory reserve</b>	17	<b>84.8</b>	84.8	<b>84.8</b>	84.8
<b>Revaluation reserve</b>	17	<b>0.6</b>	9.4	<b>0.6</b>	9.4
		<b>308.3</b>	306.4	<b>366.8</b>	353.1

The financial statements on pages 39 to 62 were approved by the Board of members on 7 April 2003 and were signed on its behalf by:

**Vanni Treves**  
Chairman

**Janet Walker**  
Director of Finance and Business Affairs

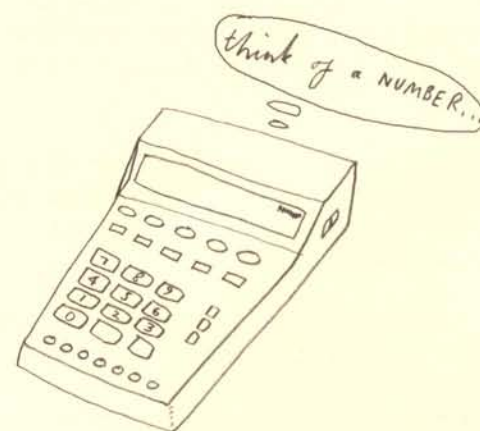
The notes on pages 42 to 62 form part of these financial statements.



# Consolidated cashflow statement for the year ended 31 December

	Note	2002 £m	2002 £m	2001 £m	2001 £m
<b>Net cash inflow/(outflow) from operating activities</b>	15		<b>81.9</b>		<b>(25.1)</b>
<b>Returns on investments and servicing of finance</b>					
Interest received	6	<b>0.4</b>		1.0	
Interest paid	6	<b>(2.5)</b>		(1.0)	
Interest element of finance lease rentals	6	<b>(0.1)</b>		(0.1)	
			<b>(2.2)</b>		<b>(0.1)</b>
<b>Taxation</b>					
UK corporation tax paid		<b>(2.5)</b>		(7.7)	
Overseas tax paid	7	<b>(0.6)</b>		(0.7)	
			<b>(3.1)</b>		<b>(8.4)</b>
<b>Capital expenditure and financial investment</b>					
Payments to acquire tangible fixed assets	10	<b>(3.1)</b>		(10.7)	
Receipts from sales of tangible fixed assets		<b>0.6</b>		1.2	
Loans made to joint venture	9	<b>(10.3)</b>		(2.2)	
			<b>(12.8)</b>		<b>(11.7)</b>
<b>Net cash inflow/(outflow) before financing</b>			<b>63.8</b>		<b>(45.3)</b>
<b>Financing</b>					
Capital element of finance lease payments			<b>(1.3)</b>		<b>(0.6)</b>
(Decrease)/increase in borrowings	15		<b>(45.4)</b>		<b>50.0</b>
<b>Increase in cash in the year</b>			<b>17.1</b>		<b>4.1</b>

The notes on pages 42 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, as modified by the revaluation of freehold properties. The financial statements have been prepared in a form as directed by the Secretary of State for Culture, Media and Sport with the approval of the Treasury and meet the 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 group accounting policies is set out below. These policies have been applied consistently.

## Basis of consolidation

The consolidated financial statements comprise the financial statements for the Corporation and all of its subsidiary undertakings, joint ventures and associates made up to 31 December 2002.

## 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 the group's programmes and films is recognised in line with the transmission schedule for each sponsorship campaign.

## Deferred tax

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.



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**Fixed assets**

Freehold land and buildings are stated at open market valuation and are revalued at 31 December each year.

Other fixed assets are stated at cost less depreciation.

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

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

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

**Pensions**

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

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

**Fixed asset investments**

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

**Joint ventures**

Investments in which the group has 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.

**Leases**

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

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



# Notes to the financial statements

## 1 Segmental analysis

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

	Turnover		Operating profit/(loss)		Net assets/(liabilities)	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
<b>Channel 4</b>						
Before restructuring costs	647.2	621.2	80.2	37.9	371.8	354.6
Restructuring costs	–	–	(5.0)	(1.5)	(5.0)	(1.5)
	647.2	621.2	75.2	36.4	366.8	353.1
<b>4 Ventures</b>						
4 Channels						
E4	42.5	31.3	(16.0)	(37.3)	(38.0)	(27.9)
FilmFour channels	12.4	13.4	(6.7)	(11.1)	(12.6)	(8.4)
4 Interactive	6.9	1.7	(3.7)	(13.7)	(12.6)	(10.3)
attheraces*	6.8	3.3	(9.9)	(3.9)	(12.8)	(3.9)
4 Rights	36.9	34.5	10.9	8.3	21.4	14.0
4 Learning**	20.9	22.3	0.1	(1.8)	0.1	–
4 Services**	6.4	6.6	0.2	0.4	0.1	(0.2)
4 Ventures	–	–	(2.2)	(0.5)	(2.3)	(0.3)
4 Ventures consolidation adjustments	(7.2)	(8.3)	(0.3)	0.9	(1.0)	(0.6)
<b>4 Ventures (excluding FilmFour Ltd)</b>	125.6	104.8	(27.6)	(58.7)	(57.7)	(37.6)
FilmFour Ltd						
Before restructuring costs	33.2	43.1	(17.5)	(5.4)	12.3	(6.8)
Restructuring costs	–	–	(11.2)	–	(11.2)	–
	33.2	43.1	(28.7)	(5.4)	1.1	(6.8)
<b>4 Ventures consolidated business</b>	158.8	147.9	(56.3)	(64.1)	(56.6)	(44.4)
Group consolidation adjustments	(36.5)	(35.1)	0.1	(0.4)	(1.9)	(2.3)
<b>Group</b>	769.5	734.0	19.0	(28.1)	308.3	306.4

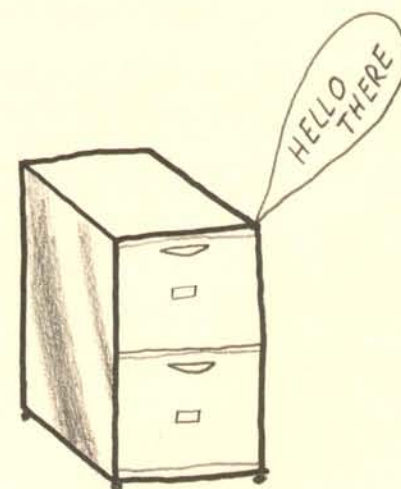
\*Only the group's share of the attheraces joint venture is included.

\*\*On 1 January 2002 4 Ventures Ltd became the operating company for 4 Learning and 4 Creative (part of 4 Services). The cumulative profits or losses of these businesses, up to the date of transfer, were retained within the reserves of the Corporation.



## 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				
<b>2002</b>							
<b>Channel 4</b>	<b>434.7</b>	<b>24.6</b>	<b>14.1</b>	<b>31.8</b>	<b>19.3</b>	<b>16.7</b>	<b>541.2</b>
<b>4 Ventures</b>							
4 Channels	51.9	–	5.9	9.9	5.8	13.4	86.9
4 Rights	3.9	–	–	–	19.0	0.5	23.4
4 Learning	13.2	–	–	–	5.7	1.0	19.9
4 Services	–	–	–	–	6.2	–	6.2
	<b>69.0</b>	<b>–</b>	<b>5.9</b>	<b>9.9</b>	<b>36.7</b>	<b>14.9</b>	<b>136.4</b>
FilmFour Ltd	29.2	–	–	–	12.1	7.7	49.0
4 Ventures consolidation adjustments	(6.0)	–	–	–	(1.0)	–	(7.0)
<b>4 Ventures consolidated business</b>	<b>92.2</b>	<b>–</b>	<b>5.9</b>	<b>9.9</b>	<b>47.8</b>	<b>22.6</b>	<b>178.4</b>
Group consolidation adjustments	(25.2)	–	–	(0.4)	(10.8)	–	(36.4)
<b>Group</b>	<b>501.7</b>	<b>24.6</b>	<b>20.0</b>	<b>41.3</b>	<b>56.3</b>	<b>39.3</b>	<b>683.2</b>
<b>2001</b>							
<b>Channel 4</b>	<b>431.6</b>	<b>25.1</b>	<b>12.1</b>	<b>39.2</b>	<b>19.5</b>	<b>21.5</b>	<b>549.0</b>
<b>4 Ventures</b>							
4 Channels	64.3	0.4	7.8	12.1	3.5	17.6	105.7
4 Rights	3.7	–	–	–	18.9	0.7	23.3
4 Learning	17.7	–	–	–	5.1	1.0	23.8
4 Services	–	–	–	–	6.2	–	6.2
4 Ventures	–	–	–	0.2	–	–	0.2
	<b>85.7</b>	<b>0.4</b>	<b>7.8</b>	<b>12.3</b>	<b>33.7</b>	<b>19.3</b>	<b>159.2</b>
FilmFour Ltd	24.8	–	–	–	14.9	6.6	46.3
4 Ventures consolidation adjustments	(7.2)	–	–	–	(0.9)	–	(8.1)
<b>4 Ventures consolidated business</b>	<b>103.3</b>	<b>0.4</b>	<b>7.8</b>	<b>12.3</b>	<b>47.7</b>	<b>25.9</b>	<b>197.4</b>
Group consolidation adjustments	(25.8)	–	–	(2.0)	(7.2)	(1.8)	(36.8)
<b>Group</b>	<b>509.1</b>	<b>25.5</b>	<b>19.9</b>	<b>49.5</b>	<b>60.0</b>	<b>45.6</b>	<b>709.6</b>





# Notes to the financial statements continued

## 3 Operating profit

Operating profit is stated after charging/(crediting):

	2002 £m	2001 £m
Depreciation of fixed assets (note 10)		
– owned	10.6	10.1
– held under finance leases	0.5	0.3
	11.1	10.4
Research and development	7.1	7.8
Training	3.9	4.2
Members' remuneration (page 68)	2.9	2.2
Equipment hire	0.3	0.3
Other operating lease rentals	2.6	2.8
Exchange losses	0.7	0.3
Profit on disposal of fixed assets	–	(0.5)
Restructuring costs (note 4)	16.2	1.5

In accordance with the exemption available under section 230 of the Companies Act 1985 the Corporation has not presented its own profit and loss account. Of the retained profit after tax of £10.2 million (2001: loss after tax of £20.6 million) recorded in the consolidated profit and loss account for the year, a profit of £22.0 million (2001: £27.4 million) results from the Corporation's accounts.

Fees in respect of services provided by the auditors were:

	2002 £000	2001 £000
Statutory audit:		
Channel 4	41	40
Subsidiaries	30	30
Non-audit fees for other services:		
Taxation services	18	32
Other services	74	282
	163	384

## 4 Restructuring costs

In the final quarter of 2001, the group planned reductions in operating costs of £21 million for 2002 and closed 83 staff posts. This gave rise to £1.5 million of exceptional costs before operating profit.

In October 2002 the decision was taken to restructure FilmFour Ltd and transfer the group's future film financing activities, which are an ITC licence condition, into Channel 4. Exceptional costs of £11.2 million were incurred from film provisions and 53 staff redundancies as a result of this restructuring.

In the final quarter of 2002 the group implemented a restructuring to achieve further cost reductions. This restructuring resulted in the closure of 149 staff posts and £5 million of exceptional costs before operating profit.

These exceptional restructuring costs have been charged in the profit and loss account as follows:

	2002 £m	2001 £m
Cost of transmissions and sales	14.5	–
Administrative expenses	1.7	1.5
	16.2	1.5



## 5 Employee information

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

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

	2002 £m	2001 £m
Aggregate gross salaries	<b>48.1</b>	45.4
Employer's national insurance contributions	<b>4.2</b>	4.3
Employer's pension contributions (note 19)	<b>6.0</b>	5.8
Total direct costs of employment	<b>58.3</b>	55.5

The aggregate gross salaries in the table above includes bonuses (mainly advertising sales) of £3.4 million in 2002 (2001: £0.9 million).

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

	2002 Number	2001 Number
<b>Channel 4</b>		
Programme commissioning	<b>192</b>	228
Transmission and engineering	<b>122</b>	130
Advertising and sponsorship sales and research	<b>117</b>	116
Information systems	<b>76</b>	81
Finance, human resources and facilities management	<b>74</b>	82
Corporate affairs and press office	<b>43</b>	42
Marketing and creative services	<b>29</b>	31
Corporate and strategy	<b>13</b>	14
	<b>666</b>	724
<b>4 Ventures</b>		
4 Channels		
E4	<b>60</b>	50
FilmFour channels	<b>42</b>	53
4 Interactive	<b>50</b>	57
4 Rights	<b>38</b>	38
4 Learning	<b>49</b>	52
4 Services	<b>42</b>	45
4 Ventures	<b>8</b>	1
FilmFour Ltd	<b>42</b>	61
	<b>331</b>	357
<b>Group total</b>	<b>997</b>	1,081
Permanent employees	<b>964</b>	1,034
Contract staff	<b>33</b>	47
	<b>997</b>	1,081
Male	<b>456</b>	488
Female	<b>541</b>	593
	<b>997</b>	1,081



# Notes to the financial statements continued

## 5 Employee information continued

Travel, subsistence and hospitality expenditure was as follows:

	2002 £000	2001 £000
Members	177	225
Other employees:		
Channel 4	1,335	1,711
4 Ventures	756	1,299
	<b>2,268</b>	<b>3,235</b>

Staff loans outstanding at 31 December were as follows:

	2002 £000	2001 £000
Season ticket loans	94	135

There were no loans to members.

## 6 Net interest payable

	2002 £m	2001 £m
Interest receivable on short-term deposits	0.4	1.0
Interest payable on bank loans and overdrafts	(2.8)	(1.0)
Interest element of finance lease rentals	(0.1)	(0.1)
Net interest payable	<b>(2.5)</b>	<b>(0.1)</b>



## 7 Tax on profit on ordinary activities

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

	2002 £m	2001 £m
Current tax:		
UK corporation tax at 30%	7.7	0.4
Less relief for overseas taxation	(0.6)	(0.4)
Overseas taxation	0.6	0.7
Adjustment in respect of prior years	0.3	(0.4)
Share of joint venture's tax credit	(1.0)	–
	7.0	0.3
Deferred tax: origination and reversal of timing differences		
Current year	1.4	(3.6)
Prior year	(2.1)	(4.3)
Tax on profit/(loss) on ordinary activities	6.3	(7.6)

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

The tax rate for the year is higher (2001: lower) than the standard UK 30% rate of corporation tax.

The differences are explained below:

	2002 £m	2001 £m
Profit/(loss) on ordinary activities before tax	16.5	(28.2)
Profit/(loss) on ordinary activities multiplied by the standard UK 30% rate of corporation tax	4.9	(8.4)
Effects of:		
Expenses not deductible for tax purposes	1.2	1.2
Share of joint venture's losses	2.0	1.2
Capital allowances in excess of depreciation	(0.4)	3.5
Release of short-term timing differences	(1.0)	0.1
Deferred tax asset not recognised for tax losses carried forward	–	2.8
Adjustments to tax charge in respect of previous periods	0.3	(0.4)
Overseas taxation	–	0.3
Current tax charge for the year	7.0	0.3



# Notes to the financial statements continued

## 8 Fixed asset investments

The cost of fixed asset investments at 31 December was:

	2002 Channel 4 £000	2001 Channel 4 £000
Subsidiary companies	1	2
Associated company	1	1
	2	3

## Subsidiary undertakings

The Corporation 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
<b>Trading</b>	
4 Ventures Ltd	1,000
Channel Four International Ltd	1,000
FilmFour Ltd	1,000
<b>Dormant</b>	
124 Facilities Ltd	1,000
Channel Four Learning Ltd	1,000
E4 Television Ltd	1,000
E4.com Ltd	1,000
Four Ventures Ltd	1,000
Channel Four Television Company Ltd	100
Film on Four Ltd	100
Channel Four Racing Ltd	2
Sport on Four Ltd	2

## Associated 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%. Digital 3 and 4 Ltd, 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 2002, 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.

## 9 Joint venture

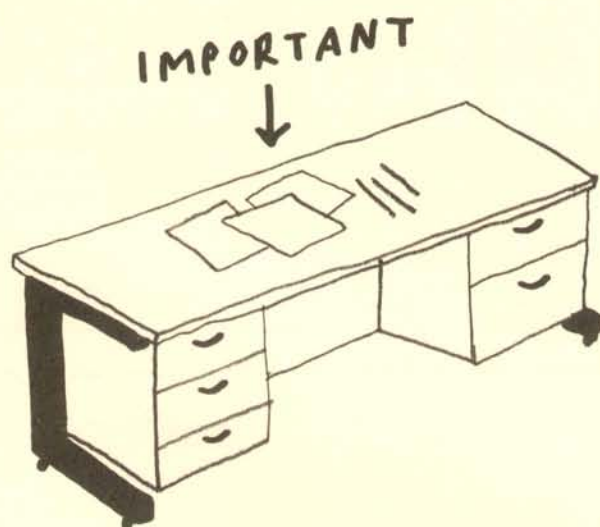
### Attheraces Holdings Ltd

4 Ventures Ltd holds 1,000 Ordinary £1 shares representing 33.3% of the issued share capital in Attheraces Holdings Ltd, a company incorporated in England. Attheraces Holdings Ltd acquired exclusive television and audio rights to 49 major British racecourses for ten years from July 2001. This company launched a website, *attheraces.co.uk* in December 2001 and a digital television channel in May 2002. 4 Ventures financial commitment to this company is capped at £23.3 million (of which £12.5 million had been advanced at 31 December 2002). The group's share of Attheraces Holdings Ltd net liabilities, net of loans advanced, is:

	2002 Group £m	2001 Group £m
At 1 January	(1.7)	–
Loans advanced	10.3	2.2
Share of joint venture's operating loss	(9.9)	(3.9)
Share of joint venture's tax credit	1.0	–
<b>At 31 December</b>	<b>(0.3)</b>	<b>(1.7)</b>

The following information is given in respect of the group's share of Attheraces Holdings Ltd:

	2002 £m	2001 £m
Turnover	6.8	3.3
Loss before tax	(9.9)	(3.9)
Taxation	1.0	–
Loss after tax	(8.9)	(3.9)
Fixed assets	1.6	0.1
Current assets	15.7	7.0
Current liabilities	(5.3)	(2.5)
Liabilities due after more than one year	(24.8)	(8.5)
Net liabilities	(12.8)	(3.9)





# Notes to the financial statements continued

## 10 Tangible fixed assets

Group and Channel 4	Freehold properties £m	Equipment and furniture £m	Total £m
<b>Cost or valuation</b>			
At 1 January 2002	66.9	75.6	142.5
Additions	–	3.1	3.1
Disposals	(0.6)	(2.6)	(3.2)
Revaluation	(9.2)	–	(9.2)
<b>At 31 December 2002</b>	<b>57.1</b>	<b>76.1</b>	<b>133.2</b>
<b>Depreciation</b>			
At 1 January 2002	0.2	50.2	50.4
Charge for the year	0.9	10.2	11.1
Disposals	–	(2.6)	(2.6)
Revaluation	(0.9)	–	(0.9)
<b>At 31 December 2002</b>	<b>0.2</b>	<b>57.8</b>	<b>58.0</b>
<b>Net book value</b>			
At 1 January 2002	66.7	25.4	92.1
<b>At 31 December 2002</b>	<b>56.9</b>	<b>18.3</b>	<b>75.2</b>

Included in equipment and furniture are assets held under finance leases with a net book value of £1.5 million (2001: £2.0 million).

### Valuation of freehold properties

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

	2002 £m	2001 £m
At valuation	<b>56.7</b>	66.0
At cost	<b>0.2</b>	0.7
	<b>56.9</b>	66.7

The freehold property, comprising the office, studio and transmission centre at 124 Horseferry Road, London SW1, was valued as at 31 December 2002, by external valuers Fuller Peiser Property Consultants, in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors. The property was valued on the basis of open market value. The open market value for this property was £53.0 million.

The freehold property at 76 Charlotte Street was sold in March 2003 for £3.7 million. The property has been revalued to that amount at 31 December 2002 to reflect the open market valuation of the property at that date. The sale included associated assets which realised a further £0.4 million.

The net reduction in valuation of £8.3 million in the year (2001: £7.5 million) has been taken through the revaluation reserve (note 17).

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

	2002 £m	2001 £m
Cost	<b>66.5</b>	67.0
Accumulated depreciation	<b>(10.2)</b>	(9.2)
Net book value based on cost	<b>56.3</b>	57.8

## 11 Stock and work in progress

	2002 Group £m	2001 Group £m	2002 Channel 4 £m	2001 Channel 4 £m
Programmes and films completed but not transmitted	97.4	104.9	67.6	72.0
Acquired programme and film rights	39.3	44.9	27.1	29.4
Programmes and films in the course of production	53.2	71.1	44.2	52.2
	<b>189.9</b>	<b>220.9</b>	<b>138.9</b>	<b>153.6</b>

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

## 12 Debtors

	2002 Group £m	2001 Group £m	2002 Channel 4 £m	2001 Channel 4 £m
Trade debtors	92.0	100.5	73.5	71.2
Amounts due from subsidiaries	–	–	81.5	104.7
Prepayments and accrued income	22.7	22.1	15.4	13.6
Corporation tax	–	0.3	2.4	0.2
Deferred tax	4.4	3.7	4.0	3.5
	<b>119.1</b>	<b>126.6</b>	<b>176.8</b>	<b>193.2</b>

Amounts due from subsidiaries are unsecured and interest free.

A deferred tax asset has been recognised as follows:

Group	Decelerated capital allowances £m	Other short-term timing differences £m	Total £m
At 1 January 2002	3.5	0.2	3.7
Credited to the profit and loss account	0.6	0.1	0.7
<b>At 31 December 2002</b>	<b>4.1</b>	<b>0.3</b>	<b>4.4</b>
<b>Channel 4</b>			
At 1 January 2002	3.4	0.1	3.5
Credited/(charged) to the profit and loss account	0.6	(0.1)	0.5
<b>At 31 December 2002</b>	<b>4.0</b>	<b>–</b>	<b>4.0</b>

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

A further deferred tax asset of £1.3 million (2001: £2.8 million) has not been recognised. This asset includes £1.1 million relating to tax losses carried forward in 4 Ventures Ltd and £0.2 million in respect of capital losses carried forward in Channel 4 at 31 December 2002.

No provision has been made for deferred tax on gains recognised on revaluing property to its market value, because this gain could be covered by the group's capital losses. The total amount unprovided for is £0.2 million (2001: £2.8 million).



# Notes to the financial statements continued

## 13 Creditors – amounts falling due within one year

	2002 Group £m	2001 Group £m	2002 Channel 4 £m	2001 Channel 4 £m
Bank loans (note 16)	–	50.0	–	50.0
Bank overdraft (note 16)	4.6	–	4.6	–
Trade creditors	5.6	8.6	5.5	8.2
Obligations under finance leases	0.8	1.2	0.8	1.2
Corporation tax	1.8	–	–	–
National insurance	0.1	1.4	0.1	1.2
Other creditors	6.0	2.4	4.9	0.5
Accruals	103.9	106.8	59.7	65.5
VAT	13.0	9.2	11.9	7.5
	<b>135.8</b>	<b>179.6</b>	<b>87.5</b>	<b>134.1</b>

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 2002 was 28 (2001: 29). Programme suppliers are generally paid more quickly as Channel 4's cash advances are usually required more promptly to meet production needs.

## 14 Provisions for liabilities and charges

Group and Channel 4	Channel 4		FilmFour Ltd		Group
	Rental deficits £m	Restructuring costs £m	Total £m	Restructuring costs £m	Total £m
At 1 January 2002	3.3	0.8	4.1	–	4.1
(Credited)/charged to the profit and loss account	(0.6)	5.0	4.4	11.2	15.6
Utilised in the year	(0.2)	(1.4)	(1.6)	(8.1)	(9.7)
<b>At 31 December 2002</b>	<b>2.5</b>	<b>4.4</b>	<b>6.9</b>	<b>3.1</b>	<b>10.0</b>

### 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.

### Restructuring costs

This relates to the restructuring described in note 4. The Channel 4 provision is for redundancy payments. The FilmFour Ltd provision is for redundancy payments, film provisions and professional fees.

## 15 Cashflow

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

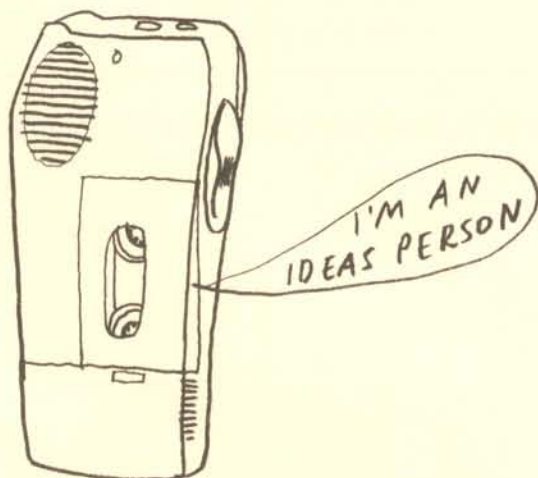
	2002 £m	2001 £m
Operating profit/(loss)	28.9	(24.2)
Depreciation	11.1	10.4
Decrease/(increase) in stock and work in progress	31.0	(1.6)
Decrease/(increase) in debtors	7.9	(33.2)
Increase in creditors and provisions	3.0	24.0
Profit on disposal of fixed assets	–	(0.5)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>81.9</b>	<b>(25.1)</b>

### Reconciliation of net cashflow to movement in net funds

	2002 £m	2001 £m
Increase in cash for the year	17.1	4.1
Cash outflow/(inflow) from decrease/(increase) in debt	45.4	(50.0)
New finance leases	–	(3.2)
Capital element of finance lease payments	1.3	0.6
Increase/(decrease) in net funds	63.8	(48.5)
Net funds at 1 January	1.0	49.5
<b>Net funds at 31 December</b>	<b>64.8</b>	<b>1.0</b>

### Analysis of changes in net funds

	1 January 2002 £m	Cashflow 2002 £m	Other movements 2002 £m	31 December 2002 £m
Cash at bank and in hand	53.6	17.1	–	70.7
Debt due within one year	(50.0)	45.4	–	(4.6)
Finance leases due within one year	(1.2)	–	0.4	(0.8)
Finance leases due after one year	(1.4)	–	0.9	(0.5)
<b>Net funds</b>	<b>1.0</b>	<b>62.5</b>	<b>1.3</b>	<b>64.8</b>





# Notes to the financial statements continued

## 16 Derivatives and other financial instruments

### a) Treasury

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

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

The Corporation has a £55 million syndicated loan facility. The facility reduces to £45 million on 8 April 2003 and has a maturity date of 8 April 2004. The Corporation also has a £30 million 364-day revolving credit facility with HSBC Bank plc, with a maturity date of 7 October 2003, and provision for a six month extension. The interest rates on advances under these facilities are determined by reference to LIBOR, plus premiums of 0.45% and 0.75% respectively, at the time of the advance and are fixed over the term of the advance. The Corporation also has available a £10 million overdraft facility which incurs interest at 1% over base. Amounts drawn against these facilities are unsecured.

### c) Interest rate profile

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

	Total £m	Financial assets on which no interest is paid £m	Fixed rate assets		
			£m	Weighted average interest rate %	Weighted average for which period is fixed Days
<b>2002</b>					
Sterling	67.5	67.5	–	n/a	n/a
Euro	1.0	–	1.0	3.5	2
US dollar	2.2	–	2.2	1.0	2
Total	70.7	67.5	3.2	1.8	2
<b>2001</b>					
Sterling	51.1	49.4	1.7	4.3	2
Euro	2.4	–	2.4	3.0	5
US dollar	0.1	0.1	–	n/a	n/a
Total	53.6	49.5	4.1	3.5	4

The financial assets on which no interest is paid are cheques that were banked on 30 December 2002 but did not clear until 2 January 2003.

**16 Derivatives and other financial instruments** continued

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

	Total £m	Floating rate financial liabilities £m	Financial liabilities on which no interest is paid £m	Fixed rate liabilities		
				£m	Weighted average interest rate %	Weighted average for which period is fixed Days
<b>2002 Sterling</b>	<b>15.9</b>	<b>4.6</b>	<b>10.0</b>	<b>1.3</b>	<b>2.5</b>	<b>617</b>
2001 Sterling	55.9	–	3.3	52.6	4.5	61

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

The floating rate financial liability consists of amounts drawn on the Corporation's overdraft facility.

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

**d) Maturity of financial liabilities**

The maturity profile of the group's and Channel 4's financial liabilities, other than short-term creditors, at 31 December 2002 was as follows:

	Overdraft £m	Finance leases £m	Rental deficits £m	Restruct- uring costs £m	2002 Total £m	2001 Total £m
Within one year	4.6	0.8	0.3	7.5	13.2	51.7
Between one and two years	–	0.5	0.3	–	0.8	1.3
Between two and five years	–	–	1.9	–	1.9	2.9
	4.6	1.3	2.5	7.5	15.9	55.9

Obligations under finance leases are in respect of computer hardware. Repayments of interest and capital averaging £0.3 million (2001: £0.2 million) were made each quarter. The finance leases are secured over the associated assets.



# Notes to the financial statements continued

## 16 Derivatives and other financial instruments continued

### 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	
	2002 £m	2001 £m
Euro	1.0	2.4
US dollar	2.2	0.1
	3.2	2.5

### f) Gains and losses on hedging contracts

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

At 31 December 2002, the group had entered into commitments to purchase foreign currencies amounting to £98.4 million (2001: £150.7 million), maturing throughout 2003 and 2004, in order to fix the sterling cost of satellite transponder capacity and of programme and film purchase commitments.

Unrealised losses on forward foreign exchange hedging contracts to purchase US dollars amounted to £10.1 million at the balance sheet date. There were no other significant unrealised losses on hedging contracts at the year end.

## 17 Reserves

Group	Profit and loss account £m	Statutory reserve £m	Revaluation reserve £m	Total £m
At 1 January 2002	212.2	84.8	9.4	306.4
Retained profit for the year	10.2	–	–	10.2
Transfer of excess depreciation	0.5	–	(0.5)	–
Deficit on revaluation of property	–	–	(8.3)	(8.3)
<b>At 31 December 2002</b>	<b>222.9</b>	<b>84.8</b>	<b>0.6</b>	<b>308.3</b>

Channel 4	Profit and loss account £m	Statutory reserve £m	Revaluation reserve £m	Total £m
At 1 January 2002	258.9	84.8	9.4	353.1
Retained profit for the year	22.0	–	–	22.0
Transfer of excess depreciation	0.5	–	(0.5)	–
Deficit on revaluation of property	–	–	(8.3)	(8.3)
<b>At 31 December 2002</b>	<b>281.4</b>	<b>84.8</b>	<b>0.6</b>	<b>366.8</b>

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 10.

## 18 Commitments

### a) Programme and film

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

	2002 Group £m	2001 Group £m	2002 Channel 4 £m	2001 Channel 4 £m
Within one year	289.5	327.9	250.5	282.8
After one year	292.0	203.2	278.0	179.4
	581.5	531.1	528.5	462.2

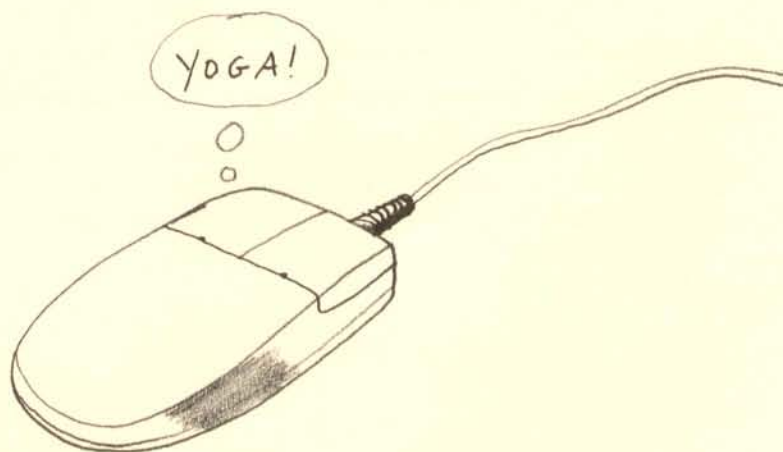
### b) Digital 3 and 4 Ltd

Under the terms of the shareholder agreement for Digital 3 and 4 Ltd, the Corporation 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 eight 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. The group's share is estimated to amount to £9 million per annum.

### c) Operating lease commitments

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

	2002 £m	2001 £m
Operating leases which expire:		
Within one year	0.2	0.2
Within two to five years	1.7	0.2
After five years	2.8	4.3
	4.7	4.7





# Notes to the financial statements continued

## 19 Pension costs

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

The contributions are determined by a qualified independent actuary on the basis of triennial valuations using the projected unit method. The most recent independent valuation was as at 1 January 2003 which showed that the actuarial value of the scheme's assets represented 85% of the benefits which had accrued to members. The mid market value of the scheme's assets at that date was £71.0 million. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. The valuation assumed that investment returns would outstrip salary increases by 2.25% per annum and that present and future pensions would increase at a rate of 2.5% per annum.

The pension charge for 2002 was £6.0 million (2001: £5.8 million). The contributions of the group companies and employees remained throughout 2002 at 15.3% and 6% of earnings respectively, but will increase to 16.5% and 6.5% respectively from 1 April 2003.

## FRS 17 disclosures

The pension scheme assets and liabilities have been revalued at 31 December 2002 in accordance with FRS 17 'Retirement benefits'. The assumptions which have the most significant effect on the results of the valuation at 31 December 2002 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:

	2002 %	2001 %
Discount rate	<b>5.50</b>	5.75
Rate of increase in salaries	<b>3.75</b>	4.25
Rate of increase in pensions	<b>2.50</b>	2.50
Inflation	<b>2.50</b>	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 similar to that set by the Government as the Bank of England's inflation target.

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 at the amount of the related obligations. The assets in the scheme and expected rates of return were:

	Long-term rate of return expected at 31 December		Value at 31 December	
	2002 %	2001 %	2002 £m	2001 £m
Equities	<b>8.00</b>	7.00	<b>51.6</b>	61.2
Fixed interest	<b>4.50</b>	5.75	<b>15.9</b>	14.8
Secured annuities	<b>5.50</b>	5.75	<b>3.4</b>	3.4
Cash	<b>4.50</b>	5.75	<b>0.4</b>	0.1
			<b>71.3</b>	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.

**19 Pension costs** continued

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

	2002 £m	2001 £m
Total market value of assets	<b>71.3</b>	79.5
Present value of scheme liabilities	<b>(92.9)</b>	(78.9)
(Deficit)/surplus in scheme	<b>(21.6)</b>	0.6
Related deferred tax asset/(liability)	<b>6.5</b>	(0.2)
Net pension (liability)/asset	<b>(15.1)</b>	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 would have been as follows:

	2002 £m	2001 £m
Net assets excluding pension (liability)/asset	<b>308.3</b>	306.4
Pension (liability)/asset	<b>(15.1)</b>	0.4
Net assets including pension (liability)/asset	<b>293.2</b>	306.8
Profit and loss reserve excluding pension reserve	<b>222.9</b>	212.2
Pension reserve	<b>(15.1)</b>	0.4
Profit and loss reserve including pension reserve	<b>207.8</b>	212.6

The following amounts would have been recognised in the financial statements for the year ended 31 December 2002 under the requirements of FRS 17:

	2002 £m
Operating profit:	
Current service cost	<b>5.2</b>
Past service cost	—
<b>Total charge to operating profit</b>	<b>5.2</b>
Other finance income:	
Expected return on pension scheme assets	<b>6.1</b>
Interest on pension scheme liabilities	<b>(4.6)</b>
<b>Total amount credited to other finance income</b>	<b>1.5</b>



# Notes to the financial statements continued

## 19 Pension costs continued

	2002 £m
Statement of total recognised gains and losses (STRGL):	
Actual return less expected return on the pension scheme assets	(21.7)
Experience gains arising on the pension scheme liabilities	0.4
Changes in actuarial assumptions underlying the present value of the scheme liabilities	(3.2)
Actuarial loss recognised in STRGL	(24.5)
Surplus in scheme at 1 January	0.6
Movement in year:	
Current service cost	(5.2)
Contributions	6.0
Other finance income	1.5
Actuarial loss	(24.5)
Deficit in scheme at 31 December	(21.6)

## Details of experience gains and losses for the year to 31 December 2002

	2002 £m	2002 %
Difference between the expected and actual return on scheme assets:	(21.7)	
Percentage of scheme assets		30.4
Experience gains on scheme liabilities:	0.4	
Percentage of the present value of the scheme liabilities		0.4
Total actuarial loss recognised in the STRGL:	(24.5)	
Percentage of the present value of the scheme liabilities		26.4

## 20 Related party transactions

Details of transactions in which members have an interest are disclosed on page 36.

During 2002 Channel 4 purchased £2.2 million of terrestrial racing rights and sold £1.3 million of television pictures to Attheraces Holdings Ltd.

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





# Corporate governance

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

## 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 the group are discharged in accordance with the broadcasting licences 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 member, ensure there is a strong independent element to the Board and that 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 67.

The non-executive members carry significant weight in Board decisions. They bring an independent judgment 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 the group'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 the Corporation, the following procedures are in place:

- the Corporation's annual report is sent to the Secretary of State for Culture, Media and Sport 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

The Corporation 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 cashflows of the group for that year.

The members confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements for the year ended 31 December 2002. 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.



# Corporate governance continued

## 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 the nature, extent and value for money of non-audit services supplied by the auditors.
- to discuss with the Corporation'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 Combined Code'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, Rob Woodward 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 several times each year, and with the Plan's investment managers, Legal & General Assurance (Pensions Management) Ltd, Capital International SA, Henderson Global Investors and Deutsche Asset Management at least once a year.

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 2002 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 profit of the group for that year.

## Internal control

The Board has overall responsibility for the group'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 Combined Code's 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 Corporation's Board 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.

Under the terms of our new ITC Licence, which came into effect on 1 January 2003, Channel 4 is required to ensure that any new venture has been subjected to a rigorous review and that:

- the use of Corporation funds is appropriate and consistent with the provisions of the Broadcasting Acts 1990 and 1996.
- its business plan offers a reasonable prospect of breaking even on a reasonable timescale and providing a proper return over time on the Corporation's investment, that return being measured either in financial terms or in the form of other benefits delivered to the main channel.
- any services, products or rights of the Corporation or of its subsidiaries used by the new ventures are acquired on an arm's length basis and all shared costs are attributed on an equitable basis, having

regard to the cost of provision and, where appropriate, comparable market rates.

In addition, the new ITC licence requires that Channel 4 appoints reporting accountants, independent of its auditors, to confirm, with regard to its new ventures, that:

- the Board has considered business plans which show a reasonable rate of return, as described above, and continue to monitor their performance.
- the Corporation has established and applied procedures and controls which provide reasonable assurance that intra group trading is carried out on an arm's length basis and with shared costs attributed as described above.

### Members' statement on new Ventures

The Board anticipated and reported in the 2001 Financial Statements on the ITC's new licence conditions as set out above. Channel 4 appointed Deloitte & Touche to provide an independent review and opinion in respect of the group's compliance with those conditions for 2001.

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 three ventures were approved by the Board before each of them was established. Those business plans demonstrated 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 delivered to the main channel. Performance of these businesses is closely and continually monitored.

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

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

No new ventures were established in 2002. Deloitte & Touche's review and opinion for 2002 has therefore focused on confirming that arm's length trading arrangements continue between Channel 4 and its new ventures, FilmFour channels, E4 and attheraces.



# Corporate governance continued

## Report to the members by Deloitte & Touche

Our role is to undertake an independent review of Channel 4, in respect of its compliance with ITC licence conditions concerning new ventures, intra-group trading and shared costs. The members are responsible for ensuring that Channel 4 meets all the requirements set out in the ITC licence, determining the procedures and controls that ensure compliance, and monitoring such activities.

No new ventures were established in 2002. Accordingly, we have examined and report that services, products or rights of the Corporation or of its subsidiaries used by FilmFour channels, E4 and attheraces continue to be attributed on an equitable basis, having regard to the cost of provision and, where appropriate, comparable market rates.

## Basis of opinion

Detailed instructions and the scope of our work were agreed with the members and are set out in our engagement terms. Our work has been carried out in accordance with those terms and as such does not constitute an audit in accordance with UK auditing standards. We have carried out a programme of review of Channel 4's procedures and controls, as described in the members' statement, to enable us to establish their appropriateness. We have tested a sample of transactions to give reasonable assurance that those procedures and controls have been applied throughout the year ended 31 December 2002. We have made enquiry of management and reviewed documentary evidence and financial reporting systems operated by Channel 4 in arriving at our findings.

Our report has been prepared solely for the use of the members for the purpose of fulfilling their ITC licence conditions and we assume no responsibility to any other party.

## Opinion

- The Board had been presented with and considered business plans and investment summaries for all new ventures, upon which investment decisions were made and continue to monitor their performance. The plans show that these new ventures are intended to break even on a reasonable timescale and to make a contribution to Channel 4.
- Channel 4 has established and applied procedures and controls, which provide reasonable assurance that, where appropriate, intra-group trading is carried out on an arm's length basis and that all shared costs are attributed on an equitable basis, having regard to the cost of provision and, where appropriate, comparable market rates.
- Based on our review of the procedures and controls and documentary evidence supplied by the members, we can confirm that in respect of FilmFour channels, E4 and attheraces, any services, products or rights of the Corporation or of its subsidiaries used by these ventures continued during 2002 to be acquired on an arm's length basis and all shared costs continued to be attributed on an equitable basis, having regard to the cost of provision and, where appropriate, comparable market rates.

## Deloitte & Touche

Reporting Accountants  
31 March 2003





# Members

## Non-executive members

Chairman

**Vanni Treves** (age 62)

Appointed Chairman in January 1998. His appointment runs to 31 December 2003. He was for 30 years a partner (for 12 of them senior partner) in the City solicitors, Macfarlanes, and is Chairman of The Equitable Life Assurance Society, the London Business School and Intertek Group plc.

Deputy Chairman

**Barry Cox** (age 60)

Appointed Deputy Chairman in February 1999. His term of appointment was extended during the year until 31 January 2005. He is a consultant with ITN and chairs the Stakeholders Spectrum Group and the Digital Television Stakeholders' Group.

**Peter Bazalgette** (age 49)

Joined the Board in 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 Zeppotron Ltd.

**Andrew Graham** (age 60)

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

**Robin Miller** (age 62)

Joined the Board in February 1999. His term of appointment was extended during the year until 31 January 2005. He is a former Chief Executive of EMAP plc.

**Ian Ritchie** CBE (age 52)

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 45)

Joined the Board in April 1998. His appointment runs until 31 March 2004. He was, until January 2003, Chief Executive, Newspapers, for Trinity Mirror plc.



## Executive members

**Mark Thompson** (age 45)

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

**David Scott** FCA (age 48)

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

**Andy Barnes** (age 47)

Sales Director since October 2002, having been 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.

**Tim Gardam** (age 46)

Director of Television since October 2002, having been 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 49)

Director of Finance and Business Affairs since 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 43)

Commercial Director of Channel 4 since October 2002 and Managing Director of 4 Ventures Ltd since August 2001. He is a Director of FilmFour Ltd, Channel Four International Ltd and Attheraces Holdings Ltd. Prior to joining Channel 4 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 2002.



# 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, and Rob Woodward participates in the 4 Ventures bonus scheme. The targets for these schemes 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 five 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, and membership of a private medical insurance scheme which is open to all staff. These benefits are not pensionable.

## Remuneration policy for non-executive members of the Board

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

	Salary and fees £000	Bonus £000	Benefits £000	Compensation for loss of office £000	2002 Total £000	2001 Total £000
<b>Executive members</b>						
Mark Thompson (appointed 4 March 2002)	348	–	–	–	348	–
David Scott	360	–	20	–	380	373
Andy Barnes	243	175	3	–	421	287
Tim Gardam	255	–	10	–	265	260
Janet Walker	248	20	3	–	271	246
Rob Woodward	262	36	–	–	298	128
<b>Non-executive members</b>						
Vanni Treves	66	–	–	–	66	64
Barry Cox	20	–	–	–	20	20
Peter Bazalgette	16	–	–	–	16	11
Andrew Graham	16	–	–	–	16	15
Robin Miller	16	–	–	–	16	15
Ian Ritchie	16	–	–	–	16	15
Joe Sinyor	16	–	–	–	16	15
<b>Retired members</b>						
Millie Banerjee (resigned 25 September 2002)	12	–	–	–	12	15
David Brook (resigned 16 October 2002)	205	–	9	568	782	270
Michael Jackson (resigned 31 October 2001)	–	–	–	–	–	434
	<b>2,099</b>	<b>231</b>	<b>45</b>	<b>568</b>	<b>2,943</b>	<b>2,168</b>

None of the executive members has received a salary increase since June 2001.



## 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 one-fiftieth 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 2002 were as follows:

	Members' contributions during 2002 £000	Increase in accrued pension entitlement during 2002 £000	Total accrued pension entitlement at 31 December 2002 £000	Transfer value at 1 January 2002 £000	Increase/ (decrease) in transfer value less directors' contributions £000	Transfer value at 31 December 2002 £000
Mark Thompson	7	2	2	–	14	21
David Scott	22	8	153	1,865	(354)	1,533
Andy Barnes	10	2	74	896	(202)	704
Tim Gardam	10	3	13	120	(9)	121
Janet Walker	10	3	15	149	(8)	151
Rob Woodward	10	3	4	12	12	34
David Brook (resigned 16 October 2002)	10	3	16	143	(28)	125

- The total accrued pension entitlement shown is that which would be paid annually on retirement from the age of 60 but based on service to the end of 2002.
- The increase in accrued pension during the year excludes any increase for inflation.
- The accrued benefits for all members, other than David Scott who joined the scheme before June 1989, have been restricted as a result of the impact of the Inland Revenue's earnings cap.
- Members who are not subject to the earnings cap have the option to pay Additional Voluntary Contributions (AVCs) to a separate scheme. Neither the AVCs made nor the resulting benefits accrued have been included in the above table.
- All transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. They do not represent sums payable to individual directors.

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

- Normal retirement age is 60.
- There is a spouse's pension of one-half of a scheme member's pension in the event of death in retirement and of one half of a scheme member's present expected pension in the event of death in service. There is an additional benefit equal to one half of the benefit payable to the spouse in respect of each child up to the age of 18, or 23 if in full-time education, subject to a maximum of two children.
- Pensions in the course of payment, in excess of the Guaranteed Minimum Pension, increase at 5% per annum compound, or the increase in the retail prices index if lower.
- 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.



# Programmes and the licence

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

Independent production companies are the most important source of originated programmes. 318 independent companies provided programmes transmitted on the main Channel 4 service in 2002 (2001: 345).

The source and cost of the programmes transmitted on the main Channel 4 service in 2002 are shown in the table below:

	2002 Hours	2001 Hours	2002 £m	2001 £m
<b>Originated</b>				
Independents	3,786	3,636	227.1	201.7
Other	2,127	2,384	111.1	143.0
	5,913	6,020	338.2	344.7
<b>Acquired</b>	2,847	2,740	87.8	78.3
<b>Programmes total</b>	8,760	8,760	426.0	423.0
<b>Other direct programme costs</b>			8.7	8.6
<b>Channel 4 programme and other content</b>			434.7	431.6

The main Channel 4 service broadcast 8,760 hours in 2002 (2001: 8,760) – 24 hours each day, and is transmitted on analogue and digital terrestrial, cable and satellite. The hours and costs of the wide range of programme transmissions were as follows:

## Channel 4: hours and costs of programmes

	2002 Hours	2001 Hours	2002 £m	2001 £m
Entertainment	1,622	1,708	100.9	96.6
Drama	1,244	930	87.2	71.7
Education	1,327	1,231	58.7	61.4
Sport	1,133	1,033	39.5	39.0
Feature films	1,052	1,129	24.8	27.9
Other factual	414	509	23.4	26.9
News	280	305	19.9	20.6
Documentaries	286	322	19.7	20.1
Current affairs	250	261	14.8	14.6
Quiz and gameshows	461	374	10.0	8.8
Arts and music	250	290	9.9	11.7
Multicultural	209	210	9.4	11.3
Children	180	385	4.1	7.5
Religion	52	73	3.7	4.9
	8,760	8,760	426.0	423.0

## FilmFour channels

The FilmFour channels broadcast for 12,227 hours in 2002 (2001: 10,300) with 57% of these hours being subtitled (2001: 55%).

## E4

E4 broadcast for 5,717 hours in 2002 (2001: 5,014) with 34% of these hours being subtitled (2001: 35%).

## ITC

The ITC monitors compliance with broadcasters' licence obligations (including compliance with its regulatory codes) and deals with complaints about programmes. In spite of the group's rigorous compliance procedures, the ITC recorded eight breaches of its Programme Code by the main Channel 4 service in 2002 (2001: five), but none was judged serious enough to merit a sanction (2001: one).

## Broadcasting Standards Commission

The Broadcasting Standards Commission entertains complaints about:

- unfair treatment and/or infringement of privacy. In 2002 no complaints about Channel 4's programmes were upheld (2001: two) and one was partially upheld (2001: one).
- standards of taste and decency. In 2002 six were upheld (2001: four) and none was partially upheld (2001: one).

## 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	2002	2001
<b>Average hours per week</b>			
Education	7	<b>12</b>	12
News	4	<b>5</b>	5
Current affairs	4	<b>5</b>	5
Multicultural	3	<b>4</b>	4
Religion	1	<b>1</b>	1
<b>Hours per year</b>			
Schools	330	<b>672</b>	565
<b>Percentage</b>			
Original production			
- overall	60	<b>67</b>	69
- in peak time (6pm to 10.30pm)	70	<b>78</b>	82
First run			
- overall	60	<b>60</b>	61
- in peak time	80	<b>85</b>	81
Independent production*	25	<b>65</b>	61
European independent production*	10	<b>42</b>	42
European origin	50	<b>72</b>	73
Subtitling for the deaf and hard-of-hearing	72	<b>84</b>	81
Production expenditure outside London (by 2002)	30	<b>30</b>	29
Training and development (% of qualifying revenue)	0.5	<b>0.6</b>	0.7

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



# 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	2002 £m
<b>Group turnover</b>	464.0	518.6	552.7	590.5	642.1	716.4	730.7	<b>762.7</b>
Cost of transmissions and sales	(309.0)	(358.1)	(406.9)	(467.4)	(564.1)	(643.1)	(709.6)	<b>(683.2)</b>
<b>Gross profit</b>	155.0	160.5	145.8	123.1	78.0	73.3	21.1	<b>79.5</b>
Administrative expenses	(19.1)	(20.6)	(21.2)	(25.7)	(24.4)	(29.0)	(33.4)	<b>(23.3)</b>
Depreciation	(7.7)	(7.6)	(7.9)	(8.9)	(8.7)	(10.5)	(10.4)	<b>(11.1)</b>
<b>Operating profit/(loss) before operating exceptional items</b>	128.2	132.3	116.7	88.5	44.9	33.8	(22.7)	<b>45.1</b>
Operating exceptional items – restructuring costs:								
Channel 4	–	–	–	–	–	–	(1.5)	<b>(5.0)</b>
FilmFour Ltd	–	–	–	–	–	–	–	<b>(11.2)</b>
<b>Operating profit/(loss) after operating exceptional items</b>	128.2	132.3	116.7	88.5	44.9	33.8	(24.2)	<b>28.9</b>
Share of joint venture's loss	–	–	–	–	–	–	(3.9)	<b>(9.9)</b>
Net interest	(0.1)	2.0	2.4	3.8	1.1	2.0	(0.1)	<b>(2.5)</b>
<b>Profit/(loss) before ITV subsidy and taxation</b>	128.1	134.3	119.1	92.3	46.0	35.8	(28.2)	<b>16.5</b>
Subsidy payable to ITV	(74.0)	(87.1)	(89.9)	(66.0)	–	–	–	<b>–</b>
<b>Profit/(loss) before taxation</b>	54.1	47.2	29.2	26.3	46.0	35.8	(28.2)	<b>16.5</b>
Taxation	(19.3)	(17.9)	(10.7)	(8.6)	(13.1)	(14.3)	7.6	<b>(6.3)</b>
<b>Retained profit/(loss) for the year</b>	34.8	29.3	18.5	17.7	32.9	21.5	(20.6)	<b>10.2</b>

## Advertising and sponsorship revenue

	1995 £m	1996 £m	1997 £m	1998 £m	1999 £m	2000 £m	2001 £m	2002 £m
Channel 4	448.0	490.4	513.4	559.6	600.5	651.7	619.4	<b>645.9</b>
ITV, GMTV, S4C and Five	1,693.4	1,762.2	1,876.8	2,023.0	2,176.9	2,315.7	2,012.4	<b>2,031.6</b>
	2,141.4	2,252.6	2,390.2	2,582.6	2,777.4	2,967.4	2,631.8	<b>2,677.5</b>
	%	%	%	%	%	%	%	%
Channel 4	20.9	21.8	21.5	21.7	21.6	22.0	23.5	<b>24.1</b>
ITV, GMTV, S4C and Five	79.1	78.2	78.5	78.3	78.4	78.0	76.5	<b>75.9</b>
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	<b>100.0</b>

## Audience share

	1995 %	1996 %	1997 %	1998 %	1999 %	2000 %	2001 %	2002 %
BBC 1	32.2	32.5	30.8	29.5	28.4	27.2	26.9	26.2
BBC 2	11.1	11.5	11.6	11.3	10.8	10.8	11.1	11.4
ITV and GMTV	37.3	35.1	32.9	31.7	31.2	29.3	26.7	24.1
<b>Channel 4 and S4C</b>	<b>10.9</b>	<b>10.7</b>	<b>10.6</b>	<b>10.3</b>	<b>10.3</b>	<b>10.5</b>	<b>10.0</b>	<b>10.0</b>
Five	–	–	2.3	4.3	5.3	5.7	5.8	6.3
Satellite and cable	8.5	10.2	11.8	12.9	14.0	16.5	19.5	22.0
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: BARB all individuals





**Which one have you got?**  
 Channel 4 has a 10% share of UK television viewing, but it's not just for 10% of viewers. Three-quarters of Britain's television audience tunes in to Channel 4 in the course of an average week – almost 40 million people – each with their own interests and expectations. The four viewers on our four different covers represent that diversity.

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# REVIEW

CHANNEL FOUR TELEVISION CORPORATION REPORT  
 AND FINANCIAL STATEMENTS 2002



REMARKABLE  
 EXTRAORDINARY  
 AMAZING  
 INNOVATIVE  
 HILARIOUS  
 HILARIOUS  
 HILARIOUS



# REVIEW

CHANNEL FOUR TELEVISION CORPORATION REPORT  
 AND FINANCIAL STATEMENTS 2002



I THOROUGHLY  
 ENJOYED  
 THE WAKHAI  
 JAMES KITCHEN  
 AND ALL THE  
 OTHERS VERY MUCH  
 INDEED



# REVIEW

CHANNEL FOUR TELEVISION CORPORATION REPORT  
 AND FINANCIAL STATEMENTS 2002



IT SEEMS  
 MORE INDEPENDENT  
 THAN THE  
 OTHERS



# REVIEW

CHANNEL FOUR TELEVISION CORPORATION REPORT  
 AND FINANCIAL STATEMENTS 2002



IT'S GREAT  
 WHEN YOU'RE  
 SURPRISED BY  
 THE PROGRAMME





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