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*By any yardstick, 1996 was yet another outstanding year for Channel 4. The year saw a steady share of 10.7% for television viewing, turnover of £518.6 million representing an 11.7% increase over 1995 and an impressive array of awards for films and programmes.*

The net profit before tax and the statutory payment to the ITV companies for 1996 was £134.3 million compared with £128.1 million in 1995. After a 17.7% increase in the payment to ITV of £87.1 million (1995: £74 million), the net profit after tax reduced to £29.3 million from 1995's £34.8 million. With success has come the downside of an increased payment to the ITV companies through the funding formula. This fourth annual payment brings the total of revenues that Channel 4 has had to give away to £256.6 million.

At the end of 1992 Channel 4 inherited from ITV a sales price discount which we have now eliminated, leading to substantial growth in Channel 4's advertising revenue. However, for the reasons set out below, that pattern of strong revenue and profit growth in the last four years is now over.



### Current trading

The television audience and advertising market continues to fragment and remains intensely competitive. The start of Channel 5 from spring 1997 will divert advertising revenue from ITV and Channel 4, restricting our ability to increase revenue this year. Nevertheless, in the absence of any other circumstances materially affecting our business, I am hopeful that Channel 4 will achieve another satisfactory financial result in 1997, although I believe that profit will be substantially lower than in 1996.

It is necessary to appreciate that Channel 4's revenue in the next few years is unlikely to keep pace with inflation, due to the fragmentation caused by the arrival of Channel 5 and new cable, satellite and digital services. Nonetheless, our programme budget for 1997 has been increased by £40 million as a result of the Order, passed in Parliament in December 1996, which removes the requirement to transfer additional amounts to the channel's statutory reserve fund. We hope that it will be possible for a further increase in programme expenditure, albeit by a smaller amount, in 1998. That increase, together with the starting costs of new digital services, will be enabled by the anticipated termination of the annual payments to ITV. Taking all these factors together, although Channel 4 will remain financially viable, annual profits will be minimal from 1998 onwards.

## Funding formula

The greatest uncertainty in planning for the channel's future lies in the unresolved details of the termination of the payments to ITV. During the passage of the 1996 Broadcasting Act, Parliament agreed the policy announced by Lord Inglewood:

"To introduce reductions to Channel 4 payments to Channel 3 in two phases. The first reduction will take effect from 1998; the second will take effect from 1999. It is too early to say what the new levels would be, but we have indicated that we expect significant adjustment in Channel 4's favour, and we are taking powers which would in principle enable us – if we so judge nearer the time and Parliament agrees – to reduce Channel 4 payments to Channel 3 to zero from 1999."

The Department of National Heritage has since indicated that it would expect an Order to be moved during 1997 to specify the amount which Channel 4 must pay to ITV for 1998, and at that time to indicate the amount, if any, payable for 1999. There may be a further Order in Parliament towards the end of 1998 to effect that second reduction.

Channel 4 is reconciled to having to make a payment (significantly reduced) to ITV for the 1998 calendar year, and anticipates that this will be the final payment under the terms of the 1990 Broadcasting Act's funding formula. The channel would have much preferred immediate resolution of these arrangements, as it must now plan its investment in the digital future. In the absence of clarity, Channel 4 has assumed that the funding formula payments will be terminated when the reduced amount for 1998 is paid. Should that assumption turn out to be incorrect, it must be made plain that Channel 4 would have radically to reassess its digital plans, and to reduce its planned expenditure on British films and programmes.

## Constitutional status

Channel 4's commercial success in raising its own revenue since 1993 led, perhaps inevitably, to suggestions in 1996 that it could be privatised without jeopardising its programme output. If Channel 4 as a statutory corporation can make profits while delivering the remit, ran the argument, then there is no reason why it could not do so as a private company with shareholders.

The Board of Channel 4 remains convinced that is not the case. Privatising Channel 4 would fail the essential test of public interest, namely that the standards and quality of products or services delivered by the company to be privatised would be at least maintained, if not demonstrably improved. The key factor would be the introduction of shareholders and the delivery of their legitimate expectations. Privatisation would make profit, not the fulfilment of the remit, the leading corporate priority, and in so doing would diminish the quality and range of the programme service available to viewers.

It appears that this danger has receded: the Board is pleased that the Government did not embark on a privatisation of Channel 4 either in the Queen's speech or in the 1996 budget. Should the issue ever be raised again, Channel 4 will continue vigorously to oppose it.

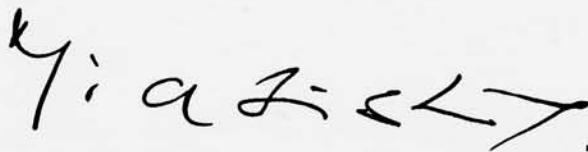
Channel 4's status has been the subject of renewed speculation that it might be altered to operate as a Trust. The Board wishes to place on record that it sees no benefit in any change from its present constitutional status as a statutory corporation. This status underpins our success and we believe that it represents the best guarantee that the channel will continue to provide the maximum benefit to viewers. The Board will strenuously resist any attempt to reconstitute the channel. Any change, however well intentioned, would require primary legislation with no certainty of outcome. What Channel 4 needs most of all now is a period of legislative stability.

## The Board and staff

Channel 4 programmes in 1996 have continued to receive critical acclaim, achieving international awards and recognition across the whole output schedule. The Board would especially wish to thank the executive directors, staff and programme makers for their continuing individual contribution to the success of Channel 4.

Since the year end our Chief Executive, Michael Grade, has decided to leave Channel 4 and take up a new career outside of broadcasting. For the past nine years he has made an effective and charismatic imprint on the direction of Channel 4 – steering it to quality television programming and outstanding financial performance. The Board members wish him well for the future, with their thanks for his special contribution in leading the channel with such distinction since 1988.

David Scott was appointed to the new position of Managing Director on 27 January 1997, and the Board will be appointing a new Chief Executive to carry forward Channel 4's unique programme remit.



Sir Michael Bishop CBE  
Chairman  
24 March 1997





1996 saw a fourth successive year of growth for Channel 4. Equally important, it was a year in which the statutory remit to innovate and to add to viewer choice was sustained with an exceptional range of programmes, ranging from Paula Milne's challenging drama series – **The Fragile Heart** to Ian Hislop's **Canterbury Tales** as well as **Broke** – a major season about poverty in Britain and **Rory Bremner... Who Else?**. Channel 4 won an impressive 156 awards including 17 British Academy of Film and Television Arts awards and 17 Royal Television Society awards.

### ITC annual performance review

In its annual performance review of 1996, the Independent Television Commission reported:

"Channel 4's programme remit, as defined in the Broadcasting Act, requires it to innovate and experiment, and to appeal to tastes and interests not generally catered for by ITV. The channel's ability to adhere to its remit, now and in the future, was an element of the extensive public debates in 1996, concerning the 'funding formula' for payments to Channel 3, and privatisation. The charge that Channel 4 has moved away from its remit is one that the ITC cannot support. The range of challenging and distinctive programmes is now significantly wider than in the early years, when a greater proportion of the material in peak time was of a kind which might have been found on ITV. Although innovation may not have worked equally well in every programme area in 1996, it was nevertheless clearly apparent, taking the output as a whole."

### Competition and Channel 4's role

This strong financial and programme performance is the solid base from which Channel 4 will face the challenges which lie ahead. Cable and satellite channels are increasing in numbers. This spring the new fifth terrestrial television channel comes on air, a new national competitor for audiences and for advertising revenue. Next year will see the start of the digital revolution, with many more channels competing for viewers' attention.

It is my belief that the need for the choice that Channel 4 provides will be greater than ever amid this new commercial competition. Its commitment to innovation and to the maintenance of a wide breadth of choice will become ever more valuable to audiences. In a multi-channel future, the overwhelming majority of commercially funded broadcasters, old and new, will be driven to maximise profits by seeking the largest possible audiences at the lowest cost. Those imperatives are likely to produce the outcome already manifest in American free-to-air television – the provision of a narrow range of popular programmes, high levels of repeats, the avoidance of risk and experiment, with programme budgets calculated solely in terms of the potential revenue generation.

Channel 4 by contrast will have the means, the motivation and the statutory responsibility to continue to provide the distinctive alternative for British viewers.

## Programme sourcing

In the new multi-channel environment Channel 4 will be a critically important engine for investment in the British production industry. A close and supportive relationship with British talent is an essential element in maintaining the ability to develop new ideas. Channel 4 has been a constant supporter of the independent production industry, and continues to be a major investor in new British films. The cost of commissioned programmes and films produced by independent producers and transmitted in 1996 amounted to £182.0 million – an increase of 19.1% from 1995. This commitment is not only valuable to the industry as a whole, but also provides the most effective and reliable means by which Channel 4 will continue to provide the wide and complementary range of quality viewing choice which is mandated by the programme remit.

Channel 4, like other broadcasters, transmits a proportion of acquired films and television programmes as part of a balanced schedule. Providing the very best of other countries' programmes will always be part of the provision of a comprehensive service to viewers. The criteria for selection will always be high, and Channel 4 will continue to seek to sustain a reputation for the quality of its US imports. One of the penalties of this policy has been the temptation for other broadcasters to bid for Channel 4's proven successes. Towards the end of 1996, for example, the channel was obliged by competitive interest to pay a much higher price for future series of **ER** and **Friends**. Channel 4 has not, however, increased its overall proportion of expenditure on imports, which remains at under 20% of its programme costs. More than 80% of Channel 4's programme budgets are allocated to original UK productions, compared with ITV's figure of 75%. In addition, investment in new British films is planned to increase from £20 million in 1996 to a total of £32 million per annum by 1999.

Channel 4 has continued to make absolutely clear that the money retained by the winding down to zero of the funding formula mechanism will be reinvested in new British production. The channel's policy is to ensure that this will benefit producers throughout Britain, not just in London. I am pleased to report that Channel 4's transmission expenditure in 1996 on films and programmes produced outside London rose by 35% (compared with 1995): it has comprised a wide range of commissions, including substantial investment in Scotland for new films and **Hollyoaks**, a new twice weekly drama serial from the north west of England.

## Public policy

Over the past three years much of my time has been spent in arguing for the ending of the funding formula arrangement, which has proved to be a one-way subsidy from Channel 4 to ITV at the expense of viewers in lost programmes and British independent production. In the past year the campaign against privatisation has also been time-consuming, particularly for the Chairman who so effectively and successfully led the campaign. I am optimistic that both of these issues will be resolved to the benefit not just of the channel itself, but of the wider public which it serves. Of necessity our advocacy of the issues has been both vocal and persistent. For this I make no apology, except to note that it has been undertaken not in any narrow sectional or profit-making interest, but for the sole purpose of ensuring that Channel 4 will continue to have the means to discharge the special responsibilities set by Parliament.

As I leave Channel 4, I have no doubt that, as the new broadcasting environment unfolds, the importance of the channel's contribution to choice, to innovation and to investment in original British production will become ever more significant.



Michael Grade  
Chief Executive  
24 March 1997

## Programme remit

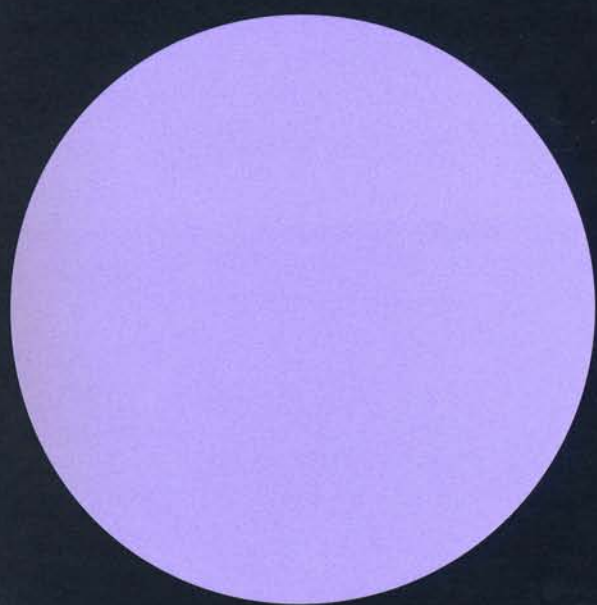
### **Channel 4 is a public service for information, education and entertainment.**

The Broadcasting Act 1990 requires that Channel 4 programmes shall:

- appeal to tastes and interests not generally catered for by ITV.
- encourage innovation and experiment.
- be distinctive.
- maintain a high general standard and a wide range.
- include a proportion which is educational.
- provide high quality news and current affairs.
- include proportions which are European and are supplied by independent producers.

Channel 4 has steadfastly maintained its commitment to this remit since the start of its transmission in 1982 and through many subsequent changes in the United Kingdom broadcasting industry.





**Programmes**



## Director of Programmes' report

1996 was yet another strong year for programmes that won audiences, critical praise and awards as well as exemplifying Channel 4's unique remit. The channel again won more BAFTA programme and film awards than any other single channel, together with the Cannes Palme d'Or (Mike Leigh's **Secrets and Lies**), the most prestigious educational prize (the Japan Prize) and the documentary Prix Italia for the second year running (**Return to the Dying Rooms**).

### Drama

The channel's highest-profile drama event was our unique collaborative transmission with BBC 1 of Dennis Potter's final two series, **Karaoke** and **Cold Lazarus**, fulfilling the playwright's dying wish with productions that matched his characteristically challenging vision. There was unparalleled diversity in the year's other drama commissions, including a rare costume piece from Mersey Television set in 1960s Liverpool, **And the Beat Goes On**, original writing from three newcomers to television in hour-long dramas under the banner **Talentspotting**, and Paula Milne's follow-up to **The Politician's Wife**, **The Fragile Heart**, a drama of uncompromising intelligence that would scarcely have found backing elsewhere, with the portrayal of the flawed but ultimately sympathetic surgeon graced by Nigel Hawthorne's fine performance.

A project even less likely to have prospered anywhere else was writer Caryl Phillips' collaboration with director Sir Peter Hall in co-producing a triumphant two-part dramatisation of **The Final Passage**, his own deeply-felt account of West Indian migration to Britain – drama that illuminated our understanding of the roots of multicultural Britain, demanding high production values in location shooting and 1950s period design but offering little chance of established

stars or a mass audience. By contrast, the major investment from NBC with the channel in **Gulliver's Travels** supported an enormous starry cast and award-winning special effects that helped to win 56 million viewers in the USA and five million here. But this was far more than a crowd-pleaser, thanks to the sheer intelligence of the interpretation by British producer Duncan Kenworthy and screenwriter Simon Moore.

The teen soap **Hollyoaks**, a centrepiece of our children's commissioning, overcame a sticky start and successfully expanded to a twice-weekly format. And meanwhile **Brookside** sustained its reputation with two special weeks, the year's top Channel 4 rating for an unparalleled feature-length edition in Christmas week, controversy for its storyline about brother-sister incest, but greater critical acclaim than ever for its writing and acting – particularly with Dean Sullivan's portrayal of the deteriorating druggie Jimmy Corkhill.

Meanwhile, Channel 4 Films had their most successful year ever, with **Trainspotting**, **Brassed Off**, **Beautiful Thing**, and Mike Leigh's **Secrets and Lies**, proved his biggest box office hit to date. On Channel 4 itself, the Film on 4 season launched with the television premiere of **The Madness of King George**.

And with **Brassed Off** on release and yet more features from Scotland – **Trainspotting** on release and **Carla's Song**, **Stella Does Tricks**, **Winter Guest**, **Bent** and **Slab Boys** in production – Channel 4 was proud to break yet another record in 1996, increasing its commitment to regional production by half as much again than in 1995. Other programmes contributing to this record £55 million of production expenditure – representing over 20% of our total annual programme budget – included **Brookside** and **Hollyoaks** from Liverpool and the transport series **Ride On** from Scotland.



**The Fragile Heart**



**Cold Lazarus**



**Gulliver's Travels**



**Trainspotting**



## Seasons

In seasons this year, Channel 4 opted for quality rather than quantity with just one intensive season about poverty in Britain today, **Broke!**, that attracted praise not just for three distinctive documentary series – **Tales from the Wasteland**, Nick Danziger's photo-journalism in **Postcards from the Edge**; and Will Hutton's analytical **False Economy** – but for the sheer commitment to an unfashionable issue. Paul Barker wrote in the *Evening Standard*: "It's left to television to carry the torch of conscience which politicians are frightened they will get burned by... Never has the existence of Channel 4 seemed more justified".

## Current affairs

Current affairs maintained its commitment to investigation, with **Channel 4 News** exposing the shackling of pregnant women prisoners and **Dispatches** following up its award-winning investigation of **The Torture Trail**, exposing Railtrack, violence in secondary schools, the real killers of WPC Yvonne Fletcher in the Libyan embassy siege, MI6 involvement in breaking the government's own arms embargo in Argentina, and the scandal of Filipino slaves in Saudi Arabia.

But current affairs was equally committed to the other 'i' word, innovation, most notably with **Scott of the Arms Antics**, a 135-minute exploration of the Scott Report and the Arms for Iraq scandal, in which the channel bred a new hybrid format embracing journalistic analysis, dramatised extracts from the tribunal and satirical sketches – including Rory Bremner's assured version of John Major. The channel mounted its third deliberative poll in **Power and the People** and ran a month-long season of **Beyond the Pale**, reflecting non-metropolitan opinion on topical issues which inverted the normal discussion format, by holding the location (a Leeds pub) and the audience constant and rotating the presenters instead. **Citizen's Arrest** investigated major complaints by members of the public – against hospitals, local authorities and a defaulting pools collector – with a set of programmes commissioned (like **Dispatches**) from individual producers but all sharing the same on-screen reporter, Joe Layburn. And, anticipating the expansion of late-night programming in 1997, current affairs successfully launched an unprecedented late-night 90-minute forum for discussing international issues, **Weekly Planet**, borrowing Jon Snow from **Channel 4 News**.



**Tales from the Wasteland**



**Weekly Planet**

### The Home



**Desperately Seeking Something**

### Documentary

**Cutting Edge** remained the channel's documentary flagship – incisive, original, sometimes highly popular (as with a programme about **Car Thieves** or **Gazza Comes Home**), but not afraid to tackle less palatable subjects, like the distressing dead ends of old age in **The Home**. But **Cutting Edge** was only one of a record seven documentary series that featured in the channel's Top 20, along with **Island of Dreams** (about real-life 'Shirley Valentines'), **Foreign Legion**, **An Inspector Calls**, **Seasiders**, **Rescue** and **Secret Lives** – which, with **Secret History**, continued to invite controversy for their revisionist interpretations of history, whether **The Battle of Goose Green**, **Harold Wilson – The Final Years** or the reinterpretations of Enid Blyton, Douglas Bader and Jeremy Thorpe in **Secret Lives**. Many documentaries continued to explore their own form, with the brilliantly stylish **Cutting Edge**, **Birth of a Salesman**, and with the more overtly authored feature-length documentaries in **True Stories**, most notably Kevin Sim's investigation into the mind of a merciless and unrepentant Russian serial killer in **Crime of the Wolf**.

### Religion

**Witness**, for long the only regular peaktime religious strand on British television, continued to provide outstanding documentaries focusing on the moral dimension in issues like the first war crime trial since Nuremberg (**Trying Tadic**), genocide in Rwanda, the motives of the Unabomber, and the pressures on unmarried mothers in the 1960s to relinquish their babies for adoption. But joining **Witness** and a second series of Pete McCarthy's acerbic study of sects in **Desperately Seeking Something** was an acclaimed four-part history of the Anglican Church this century, **Canterbury Tales**, for which Ian Hislop (better known as editor of *Private Eye* than as a committed Christian) proved inspired casting.



## Science

Science too spread beyond the established success of **Equinox**, which this year included a highly-imaginative introduction to numbers (**What's in a Number?**), scoop revelations about computerised bank robberies (**Superhighway Robbery**) and a controversial examination of the newest possibilities in human genetic engineering (**Doctor Satan's Robot**). In **Brainspotting**, Ken Campbell presented an audacious attempt to do something even more difficult on television than in other media, to think about thinking and the nature of consciousness, with video effects, academic interviewees and sketches. And **The Decision** was a new series exploring the agonising dilemmas posed by new medical opportunities, the pregnant woman with cancer who could either save herself or her baby, and the 13-year-old girl who dresses and thinks as a boy and desperately wants the operation to confirm that choice. **Triumph of the Nerds** explored the history of the nerds who built – or lost – fortunes in creating the personal computer industry, most spectacularly Microsoft's Bill Gates.

## Factual

The channel's range of factual programmes was wider than ever. Education continued to pit archaeologists against the clock in **Time Team**, and observed enthusiastic amateurs learning popular dance forms in **Strictly Dancing**.

**Inside Out** provided a peaktime slot for examining those with disabilities, including a tragic personal account of a compulsive arsonist. And **TV Dinners**, observing some obsessive hosts' individual dinner parties, proved one of the most original food formats in years.

**Nothing But the Truth** pioneered a new courtroom format, with two advocates and supporting production teams, to examine ethical issues. Susan Tully, released from *EastEnders*, presented a four-part study of women's changing role in the workplace, **Genderquake**. **Red Base One Four** was a fly-on-the-ambulance-wall study of the industrial conflict as the London Ambulance Service tried to reform its industrial relations, and cope with a new computer system. And **Black Box** was a revealing study of the causes of air crashes. The format of **The Real Holiday Show** was successfully adapted to tackle one of the three most traumatic events we can ever experience, moving house, in **Moving People**.

Equinox – Doctor Satan's Robot



TV Dinners



**Black Bag**



**Dyke TV**

## Multicultural

Channel 4 continued to reflect its multicultural commitments, not just with the drama **The Final Passage**, but with the current affairs series **Black Bag**, the comedy series **Porkpie** and **Get up, Stand Up** and the television premiere of the Channel 4 financed Indian movie **Bandit Queen**.

## Independent film and video

Independent film and video maintained its alternative internationalist role in the channel's schedules, besides its triumphant documentary Prix Italia win for **Return to the Dying Rooms**. In peaktime it provided a soapbox for opinion with comic Jenny Eclair (and her 'one man one shed' policy), Germaine Greer and 'Mad' Frankie Fraser playing fantasy politics in **If I Were Prime Minister**; and in **War Cries**, partisan documentaries including **Baseball in Irish History**, and **My Grandad was a Football Hooligan**. Most of its resources were devoted to several late-night zones, following up the previous year's **Red Light Zone** with the **Blue Light Zone**, a study of contemporary police and crime issues here and abroad; **Latino Nights**, documentaries and fiction pieces from Latin America; and a second season of **Dyke TV**. The portrayal of gays in the cinema was the subject of a two-part documentary **The Celluloid Closet**. Backed by the channel through a decade of development, it proved worth the wait and provided a peaktime focus for a wide-ranging movie season, plus a short series about **Celluloid Icons**. And under the entertainment department, another late-night season, **Fame Factor**, explored the darker side of stardom, including stalkers (**I'm Your Number One Fan**) and the phenomenon of long-suffering **Rock Wives**.



## Entertainment

Channel 4's remit for innovation applies to entertainment as strongly as anywhere else in the schedule, represented this year by **Wanted** – a live adventure manhunt show, an extremely risky idea which successfully found its feet on air though not yet the audience it deserves. And **The Mark Thomas Comedy Product** grafted satirical stunts onto stand-up comedy, most notably his exposé of the art works supposedly available to public view in lieu of inheritance tax.

1996 also saw the birth of two homegrown cults. Chris Evans' **TFI Friday** launched with more confidence than many shows that have had a far longer gestation period; an enormous success, despite the stray – but at 6.00pm quite unacceptable – swear words that caused us understandable regulatory problems. And with its second series in 1996, **Father Ted** established itself as one of the all-time comedy hits – certainly matching **Drop the Dead Donkey**, which also returned: the *Guardian* described "the unholy trinity of Ted, Dougal and Jack [as] one of the great comic trios – like Steptoe and Son and their horse, or The Goodies".

Rory Bremner went from strength to strength with two series plus his gig on the Scott Report and the **Alternative Christmas Message** as Princess Di. Jane Horrocks was superlative in her own first comedy special, **Never Mind the Horrocks**.

## Sport

Channel 4 launched its major coverage of **NBA Basketball** alongside its existing commitments to **American Football** and **Football Italia**, and **Channel 4 Racing** celebrated wresting the Cheltenham Gold Cup from the BBC. **Night Sports with Imlach** was an intriguing experiment in through-the-night sport programming, and **Lumberjacks OK!** covered Canadian lumberjack sports with homage to Monty Python.



**TFI Friday**



**Father Ted**



**NBA Basketball**



**Never Mind the Horrocks**





**Flava**



**Elgar's Tenth Muse**



**Leaving Home**

## Youth

The year's noisiest and most controversial newcomer, **The Girlie Show** was the show viewers loved to hate, but hated to miss. For all its imperfections, it proved the most successful new arrival ever in its late-night Friday slot, and certainly anticipated something in the zeitgeist which led later in the year to the phenomenon of the Spice Girls. But that was not the only innovation in our youth programmes this year, for the established **Eurotrash**, **Baadasss TV** and **Moviewatch** were joined by an unprecedented black music show **Flava** and a fashion show, **Desire**. And for children, the multi award-winning **Wise Up** was joined by **Zig and Zag's Dirty Deeds** and an original new sports magazine **Rookies**.

## Arts, music and animation

After five years, the channel's arts strand **Without Walls** bowed out with some characteristic entries, **Not Fade Away** (about Buddy Holly) and **J'accuse Comedy**, and less characteristically, a dramatised documentary, **Elgar's Tenth Muse**.

**Music and the Mind** proved a fascinating study of the profound relationship between music and the human brain, while there was acclaim for Sir Simon Rattle's ambitious seven-part 'conducted tour' of 20th-century orchestral music, **Leaving Home**.

The channel sponsored and relayed **The Turner Prize** for the sixth year running, and **Book Choice** co-operated with Waterstone's to invite voting for the Books of the Century.

Animation highlights of the year included Candy Guard's witty series **Pond Life** and a new family animation for Christmas, **Famous Fred**, with the voice of Lenny Henry.



**Pond Life**



## Schools

**Channel 4 Schools** won the world's most prestigious educational television prize, the Japan Prize with a primary school programme **Good Health – No Bullying Here**. Its programming ranged from a game show format for local history studies (**Living Proof**) to an ambitious 75-minute production of **The Merchant of Venice** starring Bob Peck as Shylock. Not only did the makers of **Eurotrash** apply their talents to helping secondary French students through **Channel Hopping**, with Antoine de Caunes introducing scenes from French television and sharing sketches with Eddie Izzard; but the *Times Educational Supplement* judged it "one of the best modern language series so far produced by schools television". At the end of the year, a 'family opera' **The Happy Prince**, specially commissioned for a primary strand, filmed with stop-frame animation and based on a fantasy by Oscar Wilde, proved such an achievement it won a swift repeat on Christmas afternoon.

## American acquisitions

No survey of the channel's programming would be complete without mention of two other cults (besides **TFI Friday** and **Father Ted**), **Friends** and **ER**. Their popularity – at the number 5 and 6 positions in our year's Top 20 – is quite justified, though it masks their even greater importance to sections of our audience, and we are pleased to have secured these shows until after the millennium. We need make no apology for importing shows of this quality, but we are also pleased to note that only one other American production (**Buffalo Girls**) features in this year's Top 20; 17 of the shows are British and 13 of those are original commissions.

John Willis.

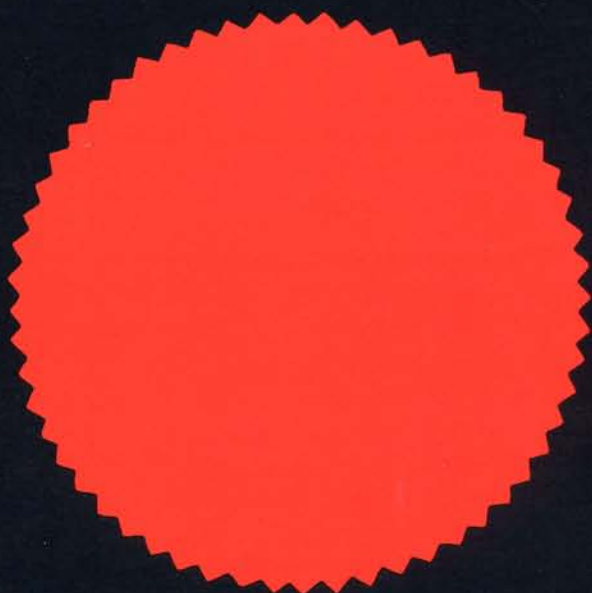
John Willis  
Director of Programmes  
24 March 1997



**The Merchant of Venice**



**Friends**



**Awards**



## Awards

- **Channel 4 won an impressive 156 awards for its programmes, films and promotions 1996** (1995: 118 awards), including 17 BAFTAs and 17 Royal Television Society Awards.
- **Secrets and Lies** swept the board at the Cannes Film Festival, carrying off the top award, the Palme d'Or as well as an award for Best Actress (Brenda Blethyn), the Fipresci Award and the Ecumenical Award. It also won the top three awards at the Los Angeles Film Critics' Association, the Golden Globe Award, the Spanish Goya Award, a French Critics' Award, two awards at the Sydney Film Festival, the 1996 South Bank Show Award for Cinema and has been nominated for no less than five Oscars.  
**A total of 13 major international awards so far.**
- **Trainspotting** completed another highly successful year for Film on 4 with awards, including a BAFTA.
- Channel 4 won the world's highest educational television accolade: The Japan Prize for **Good Health – No Bullying Here**, which also won a Royal Television Society Journalism Award.
- **Return to the Dying Rooms** won **four top awards**: an American Emmy, the Prix Italia, Banff's Best Social and Political Documentary Award and Medianet's Best Documentary Award.
- Channel 4 carried off **six top awards** at the British Comedy Awards, five for homegrown commissions, **Father Ted** and **TFI Friday**.
- Channel 4's innovative drama, **Gulliver's Travels** won **five American Emmys**.

- Channel 4 won **six major awards** for documentaries, sport, music and arts, and drama at the PACT Indie Awards, including prizes for **Secret Lives – Edward VIII**, **Tour de France**, **The White Room**, **The Dying Rooms** and **The Politician's Wife**.

**Listed are just some of the major awards won by the channel during 1996:**

### Amnesty International Press Awards

#### Delta Force

Best Television Documentary

#### Channel 4 News

Best Television News Coverage

### BAFTA (Children's Television Awards)

#### Wise Up

Winner – Children's Factual

#### Coping with Christmas

Winner – Children's Drama

### BAFTA (Films)

#### The Madness of King George

Alexander Korda Award – Outstanding British Film

Nigel Hawthorne – Best Actor in a Leading Role

Lisa Westcott – Best Hair/Make-Up

#### Trainspotting

Best Adapted Screenplay

#### Mike Leigh

Michael Balcon Award for Outstanding Contribution to British Cinema

**Secrets and Lies**



**The Madness of King George**



## BAFTA (Television & Craft)

### The Politician's Wife

Best Drama Serial

### True Stories – The Betrayed

Flaherty Documentary Award

Best Editing – Factual

Best Photography – Factual

### Father Ted

Best Comedy

### Rory Bremner – Who Else?

Best Light Entertainment Performance

### Channel 4 News

Best News Coverage

### Coping with Christmas

Best Children's Programme – Fiction

### ER

Best Foreign Television Programme

### It's Not Unusual

Best Short Film

## BANFF

### Return to the Dying Rooms

Winner – Best Social and Political Documentary Programme

## Barcelona Gay and Lesbian Festival

### Achilles

Audience Prize

## British Animation Awards

### Butcher's Hook

Winner – New Technology Award

### Triangle

Winner – Craft Award

Best Film under 15 minutes

### Stressed

Best Film under 15 minutes

## British Archaeological Awards

### Time Team

Winner – Best Television Programme

## British Comedy Awards

### Frasier

Winner – Best International Comedy Series

### Father Ted

Winner – Best Channel 4 Sitcom

Pauline McLynn – Best Female Comedy Performer

Dermot Morgan – Top Television Comedy Actor

### TFI Friday

Winner – Best Entertainment Series

### Chris Evans

Best Presenter

## Broadcast Magazine Production Awards

### Crapston Villas

Best New Programme

Rory Bremner – Who Else?



Time Team





## Cannes International Film Festival

### Secrets and Lies

Palme d'Or  
Brenda Blethyn – Best Actress  
Fipresci Award  
Ecumenical Award

## Christian Broadcasting Council Media Awards

### Christian Rave Special

Gold Award

### Zacchaeus – Channel 4 Schools

Gold Award

## Edinburgh Festival

### Trojan Eddie

Critics' Prize

## Emmys (USA)

### Return to the Dying Rooms

Outstanding Documentary of the Year

### Gulliver's Travels

Best Mini-Series  
Simon Moore – Best Writing  
Frederic Evard – Art Direction  
Tim Webber – Special Visual Effects  
Aileen Seaton – Hairstyling

### ER

Best Drama Series

### Frasier

Best Comedy

### NYPD Blue

Dennis Franz – Best Actor

## Evening Standard Film Awards

### The Madness of King George

Best Film  
Best Screenplay  
Best Technical Achievement

### Shallow Grave

Danny Boyle – Best Newcomer

## French Critics' Prize

### Secrets and Lies

Best Foreign Film of 1996

## Garden Writers Guild

### Garden Doctors

Winner – Television Award

## George Foster Peabody Awards

### The Politician's Wife

The Dying Rooms

## Golden Gate Awards – San Francisco

### Father Ted

Certificate of Merit

### Delta Force

Certificate of Merit

### Jake's Progress

Certificate of Merit

### Airplaneski

Golden Spire

### Abductees

Silver Spire

**Airplaneski**



**The Politician's Wife**



**Crapston Villas**  
Certificate of Merit

**Golden Globe Awards**

**Secrets and Lies**  
Brenda Blethyn – Best Actress

**Hiroshima Animation Festival**

**Stressed**  
Special Jury Prize

**IMZ Dance Screen Awards**

**Just Dancing Around? – William Forsythe**

**International Emmys**

**Wise Up**  
Joint Winner – Children’s

**The Saga of Life**  
Joint Winner – Documentary

**Japan Prize**

**Good Health – No Bullying Here**  
Grand Prix

**Stop Look Listen – Sikhism and the Water Carrier**  
Governor of Tokyo Prize

**London Film Critics’ Circle**

**The Madness of King George**  
Nigel Hawthorne – Best Actor

**London Lesbian & Gay Festival**

**Beautiful Thing**  
Best Feature Film

**Los Angeles Film Critics’ Association**

**Secrets and Lies**  
Best Film  
Mike Leigh – Best Director  
Brenda Blethyn – Best Actress

**Medianet**

**Return to the Dying Rooms**  
Winner

**Mental Health Media Awards**

**Shabby Treatment**  
Winner

**Monte Carlo Television Festival**

**Jake’s Progress**  
Robin LeFevre – Best Director  
Alan Bleasdale – Best Screenplay

**The Dying Rooms**  
Unesco Award

**Michael Grade**  
Lifetime Achievement Award

**North South Media Encounters**

**Delta Force**  
Winner – Geneva International Television Award

**Wise Up**



**True Stories – The Betrayed**





### **PACT Indie Awards**

#### **Secret Lives – Edward VIII**

Best Factual  
Archive Award

#### **The White Room**

Best Music & Arts

#### **The Dying Rooms**

Best Documentary

#### **Tour de France**

Best Sports

#### **The Politician's Wife**

Best Drama

### **Prix Europa**

#### **True Stories – The Betrayed**

Television Programme of the Year

### **Prix Italia**

#### **Return to the Dying Rooms**

Best Documentary

### **Prix Jeunesse**

#### **Coping with Grown Ups**

Winner

### **Royal Television Society Craft & Design Awards**

#### **Gulliver's Travels**

Howard Atherton – Best Camera  
Tim Webber – Best Visual Effects  
Roger Hall – Best Production Design

#### **The Final Passage**

Nic Knowland – Best Lighting – Drama

#### **Channel 4 Stings**

Graphics

#### **True Stories – Crime of the Wolf**

Graham Shrimpton – Best Editing

### **Royal Television Society Educational Awards**

#### **Scientific Eye – Darwin & The Dinosaurs**

Winner – Secondary Science

#### **Seeing is Believing**

Winner – Infants

#### **Good Health – No Bullying Here**

Winner – Juniors

#### **The Pulse – Breast Cancer**

Winner – Personal Education

### **Royal Television Society Journalism Awards**

#### **The Dying Rooms**

International Current Affairs Award

#### **Undercover Britain**

Production Award

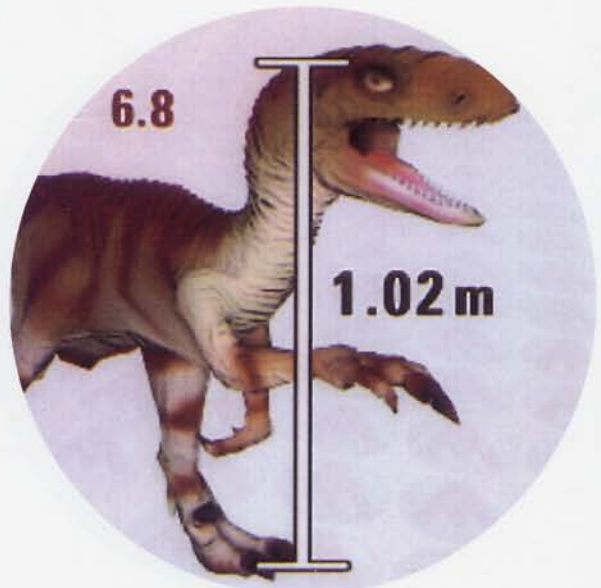
#### **Dispatches – The Torture Trail**

International Award – Current Affairs

**Return to the Dying Rooms**



**Scientific Eye – Darwin & The Dinosaurs**





## Royal Television Society Programme Awards

### The Factory

Best Documentary Series

### True Stories – The Betrayed

Best Single Documentary

### 11 Men Against 11

Best Single Drama

### Hearts and Minds

Best Drama Serial

## San Sebastian International Film Festival

### Trojan Eddie

Joint winner – Best Film Award

## South Bank Show Award for Cinema

### Secrets and Lies

## Spanish Goya Awards

### Secrets and Lies

Best Foreign Film of 1996

## Sydney Film Festival

### Secrets and Lies

Most Popular Film

Winner – Critics' Poll

## Turin Film Festival

### Achilles

Audience Prize

## Venice Film Festival

### Carla's Song

President of the Senate's Gold Medal Youth Award

## Dispatches – The Torture Trail



## Writers Guild Awards

### Coping with Christmas

Winner – Children's Programmes

### Father Ted

Winner – Best Comedy

### Rory Bremner... Who Else?

Winner – Best Light Entertainment Programme

## Promax UK Awards

### Best Outdoor Advertisement

Bronze: **NBA on 4** (Poster)

### Something For Nothing

Gold: **Clive Anderson Talks Back** (Jon Harvey)

### Best On-Air Ident (In-House)

Gold: **Basketball Ident** (Gary Keenan)

Silver: **Sci-Fi Symbols** (Mark Craig)

### Best On-Air Ident

Silver: **Kids Stings/Symbols** (Aardman Animation)

### Best Graphic Sting

Gold: **Soap Weekend Grabber/Intro** (Maylin Lee)

### Best Drama Promotion

Bronze: **ER (Generic)** (Claire Churchill)

### Best General Entertainment

Silver: **Clive Anderson Talks Back** (Jon Harvey)

## Promax USA

### Marketing Presentation Video

Gold: **My Generation** (Graham Jackson)

## The Factory



# The licence

The wide range and diversity of programmes shows that the remit is central to Channel 4's programming policy. The channel 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.

In 1996, as in all earlier years, Channel 4 met or exceeded all of the undertakings given to the ITC.

## Principal programme requirements

	Compliance minimum	1996 Actual	1995 Actual
<b>Average hours per week</b>			
Education	7	14	16
Current affairs	4	5	5
News	4	4	4
Religion	1	1	1
<b>Hours per year</b>			
Schools	330	337	369
<b>Percentage</b>			
Independent production *	25	85	86
European origin	50	57	58
European independent *	10	40	40
Subtitling for the deaf and hard-of-hearing	50 (by 1998)	53	42

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



Regulatory authorities

The number of complaints to the three regulators and those upheld was as follows:

Regulator and remit	Number of complaints considered		Number upheld or partially upheld
	1996	1995	
<b>Independent Television Commission</b> observes compliance with the Broadcasting Act and entertains complaints about independent television	<b>559</b>	2,134	7 formal interventions, (1995: 11) including 2 serious breaches (1995: 2) of the Programme Code
<b>Broadcasting Complaints Commission</b> entertains complaints about unfair treatment and infringement of privacy	<b>7</b>	6	4 were upheld (1995: 1 upheld, 2 partially upheld)
<b>Broadcasting Standards Council</b> monitors standards of taste and decency	<b>129</b>	140	19 were upheld (1995: 13), 8 partially upheld (1995: 7)

# Programme transmissions

The channel broadcast 7,908 hours in 1996 – an average of 22 hours each day. The hours and costs of the channel’s wide range of programme transmissions were as follows:

1996 Hours	1995 Hours		1996 £m	1995 £m
<b>794</b>	599	Drama (including Film on 4)	<b>60.5</b>	44.8
<b>1,738</b>	1,954	Entertainment	<b>62.5</b>	48.6
<b>278</b>	274	News	<b>17.3</b>	16.0
<b>300</b>	270	Documentaries	<b>13.9</b>	11.6
<b>452</b>	463	Current affairs	<b>16.4</b>	17.9
<b>1,834</b>	1,695	Feature films	<b>14.7</b>	13.7
<b>195</b>	177	Arts and music	<b>12.6</b>	7.9
<b>1,107</b>	1,209	Education (including schools)	<b>34.5</b>	38.3
<b>725</b>	714	Sport	<b>15.6</b>	15.8
<b>108</b>	64	Multicultural	<b>8.5</b>	3.5
<b>314</b>	238	Quiz	<b>7.0</b>	6.4
<b>63</b>	70	Religion	<b>4.0</b>	3.9
<b>7,908</b>	<b>7,727</b>		<b>267.5</b>	228.4

## Originated programmes

Channel 4 is not required by the terms of its ITC licence to provide a minimum amount of original productions and commissions. Nevertheless, this is a measure which the Board monitors. Originated programmes increased by 9.3% to 4,186 hours transmitted in 1996. Their proportion of the total transmission output was as follows:

Transmission time	1996 Hours	1996 %	1995 Hours	1995 %
0600 to 0900	<b>664</b>	<b>72</b>	624	67
0900 to 1800	<b>1,567</b>	<b>48</b>	1,422	44
1800 to 2230	<b>1,146</b>	<b>70</b>	1,089	67
2230 to 0559	<b>809</b>	<b>40</b>	694	37
<b>All hours</b>	<b>4,186</b>	<b>53</b>	3,829	50



Sources of programmes

Channel 4 commissions programmes from independent producers and the ITV companies and purchases programmes in the international markets. In keeping with our programme policy requirements, we have a wide range of suppliers.

The sources and costs of the programmes transmitted in 1996 are shown in the tables below.

	1996 First run Hours	1996 Repeats Hours	1996 Total Hours	1995 First run Hours	1995 Repeats Hours	1995 Total Hours
<b>Commissions</b>						
Independent producers	2,015	880	2,895	1,826	834	2,660
Other	986	305	1,291	1,034	135	1,169
	3,001	1,185	4,186	2,860	969	3,829
<b>Purchases</b>						
US programmes	757	617	1,374	877	619	1,496
Other purchased programmes	248	266	514	218	489	707
Feature films	491	1,343	1,834	568	1,127	1,695
<b>Total</b>	<b>4,497</b>	<b>3,411</b>	<b>7,908</b>	<b>4,523</b>	<b>3,204</b>	<b>7,727</b>

	1996 Total £m	1995 Total £m
<b>Commissions</b>		
Independent producers	182.0	152.8
Other	44.7	40.7
	226.7	193.5
<b>Purchases</b>		
US programmes	21.4	18.6
Other purchased programmes	4.7	2.6
Feature films	14.7	13.7
	267.5	228.4

Independent production companies are the most important source of commissioned programmes. In 1996, Channel 4 made programme payments to 549 independent production companies (1995: 527).

The number of companies which received programme payments from Channel 4 was as follows:

Programme payments	1996 Number of companies	1995 Number of companies
£0 – £100,000	<b>306</b>	318
£100,001 – £250,000	<b>106</b>	94
£250,001 – £500,000	<b>53</b>	44
£500,001 – £1,000,000	<b>44</b>	30
over £1,000,000	<b>40</b>	41
	<b>549</b>	527

The number of programmes or series of programmes for which the channel made payments to individual independent production companies is shown below:

Number of programmes per company	1996	1995
1	<b>355</b>	346
2–5	<b>156</b>	152
6–10	<b>32</b>	21
11 or more	<b>6</b>	8
	<b>549</b>	527

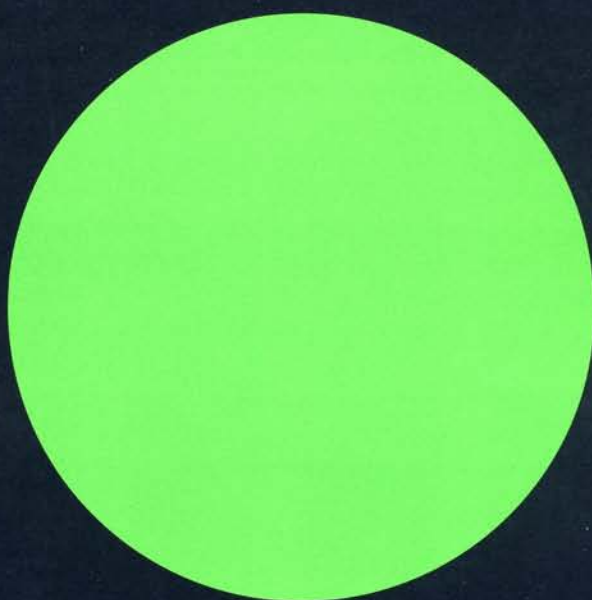
The table above includes long running strands of programmes as one programme series. The **Brookside** series, of which three episodes are transmitted each week, is therefore shown in the table as one series.

## Regional production

Channel 4 is keen to encourage film and television production throughout the United Kingdom and has a number of schemes to achieve that objective. Satisfactory progress was achieved during 1996 in increasing the volume of production in Scotland, Ireland, Wales and the English regions. The total cost of those programmes transmitted in 1996 amounted to £49.5 million, a 35% increase from £36.6 million in 1995.



**Behind the screens**





## Behind the screens

### Viewer Enquiries

In order to better reflect the channel's ongoing commitment to viewers the Duty Office was renamed Viewer Enquiries in 1996. However, the role of the department has not altered and viewers' comments are always welcome, whether praise or complaints.

Viewer Enquiries is available 24 hours a day with staff on duty from 8.30am to 11.45pm, when an answerphone service takes over.

In 1996 the Information Officers answered 136,449 telephone calls (of which 14% included a criticism) and received 40,987 letters, of which 4% included a criticism. A log of all calls from viewers is circulated to senior Channel 4 staff each day and all complaints, from people with direct interest in a programme, are dealt with as a matter of policy at commissioning editor level or higher.

### Programme Support

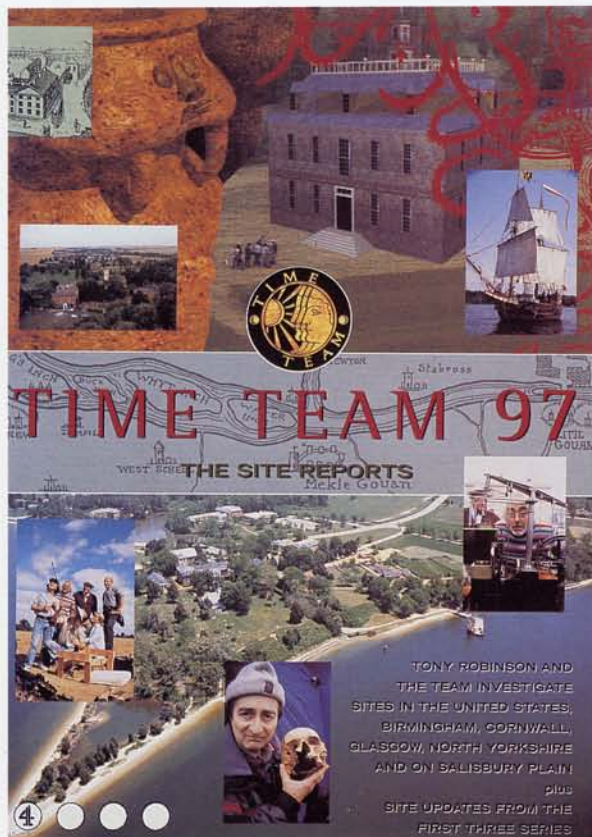
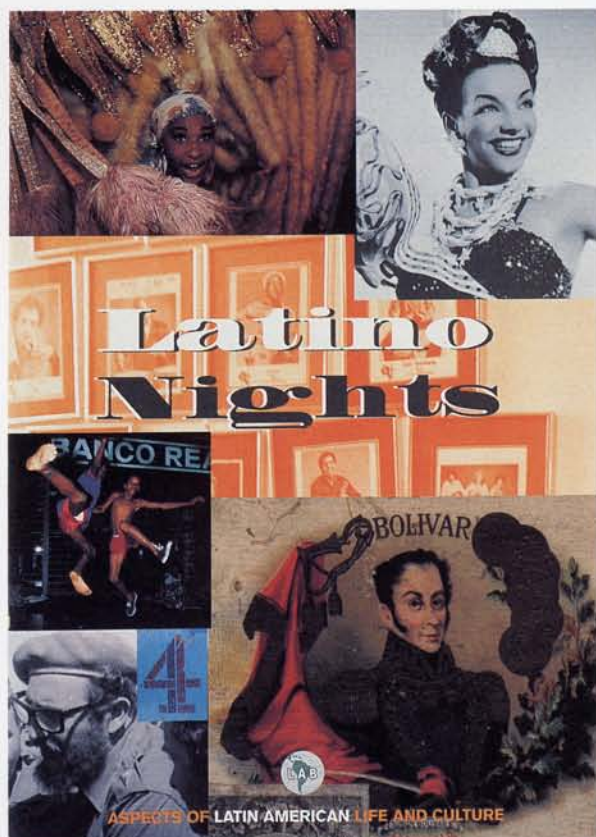
1996 was a busy year for educational support for programmes with a wide range of printed material and support services. A total of 76 programmes were supported, which meant a 49% increase in projects compared with 1995.

We are always looking for new ways to encourage viewers to follow up their interests when the programme is over. This year, for the first time, programme support was offered to viewers on audio cassette – for **Dosh**, with easy-to-follow advice on managing your finances, and for **Wise Up**, with a sparky guide for budding young reporters.

Booklets and other publications, still the biggest area of work, also saw some innovation during the year. For the second series of **Absolutely Animals** follow-up information for viewers was packaged as an in-your-face tabloid newspaper – and contact details for the organisations featured in **Desperately Seeking Something** were printed on a full-colour 'new age' poster.

Other titles published during the year ranged from a detailed report on the links between electricity pylons and cancer for **Dispatches** through the relationship between **Music and the Mind** to a celebration of Latin American life and culture for **Latino Nights**.

Budding dancers were put through their paces with the hugely popular booklet to support **Strictly Dancing**. Nine top writers, including Polly Toynbee and Miles Kington, took a Swiftian look at society today to support **Gulliver's Travels**. And Channel 4 hit the headlines with the publication of a major report by its special commission on poverty, broadcast in October as **The Great, the Good and the Dispossessed**. An additional 75,000 words of supporting evidence presented to the commission has been published on the Channel 4 web site.





By far the greatest success of the year, though, was the booklet of the site reports from the third series of **Time Team**. A total of 25,206 viewers requested the booklet, making it one of the biggest selling Channel 4 publications. That figure includes 5,000 viewers who ordered the booklet in advance through a special promotional leaflet mailed directly to buyers of other **Time Team** booklets and distributed through the British Council of Archaeology and *Current Archaeology* magazine.

### Helplines

There was a significant increase in helplines during 1996, with existing agencies such as the National Drugs Helpline and the National AIDS Helpline being used wherever possible to allow the budget to be allocated to areas where there is no existing support for viewers. Channel 4's busiest dial-and-listen service followed a **Cutting Edge** on multiple sclerosis in February – attracting over 27,500 calls.

Other helplines breaking new ground over the year supported the two part **Decision** programme on transsexuals, a helpline on abandoned babies for **Witness** and our first two helplines for **Hollyoaks** – on bereavement and on AIDS. A total of 38 programmes were supported by helplines during 1996.

### A new service for viewers

In July Programme Support launched Channel 4 Select – a monthly subscription service for viewers who receive advance information on programmes according to their interests. The subscription base has built steadily and has resulted in a steady stream of orders for publications.

### Education on the web

The main Channel 4 web site was launched in July, integrating the existing programme support and schools site, in a dynamic new on-line publishing venture. Programme Support works closely with the new web team to ensure a strong educational presence on the internet.

Programme support on the web site ranged from edited transcripts for **Trial and Error** to extensively researched modules for **Travelog** and **Ride On** and an animated version of **Electric Passions**.

### Continuing commitment on breast cancer

Channel 4's long-standing commitment to campaigning on breast cancer continued with a workshop early in the year to examine the issues around support groups for women with secondary breast cancer.

As a direct result of the workshop a steering group has been set up to continue to explore the issue and campaign for better services for women with advanced breast disease. In recognition of Channel 4's role the group decided to call itself C4Ward.

### Subtitling for the deaf

53% of Channel 4's programmes transmitted in 1996 were subtitled for the benefit of deaf or hard of hearing viewers. The channel is pleased to have exceeded the 50% licence minimum figure two years ahead of the 1998 target date.

The ITC's new code on subtitling, audio description and signing on digital terrestrial television puts heavy demands on start-up services. This is likely to prevent any further expansion of subtitling for the deaf on the analogue service.





**Public events**

The channel makes considerable effort to make contact with viewers in their own regions throughout the whole of the United Kingdom.

In 1996, the channel mounted or supported a wide range of activities that toured the country including a series of roadshows to support **Basketball** which visited Nottinghamshire, Manchester, Doncaster, Liverpool, Edinburgh, Cornwall, Malvern and London and which encouraged children and young people to participate in the game and to learn new skills. Back up was given by Channel Four Learning – the channel’s schools support company – in visiting Exeter, Reading, Birmingham, London, Staffordshire and Southampton. The Lesbian and Gay Film Festival Tour visited 26 locations and the British Animation Awards tour visited eight locations with the channel’s support. The channel had a strong presence at the Edinburgh Festival including the sixth year of its sponsorship of the Gilded Balloon’s ‘So you think you’re Funny’ competition evenings for new stand up comedy. In October support was given to the Children on Screen conference in London and Channel 4 visited Newcastle city centre with a Deaf Awareness Roadshow; in November the channel was involved with the Royal Film Performance of the Channel 4 film **True Blue**, in the presence of H.M. The Queen and

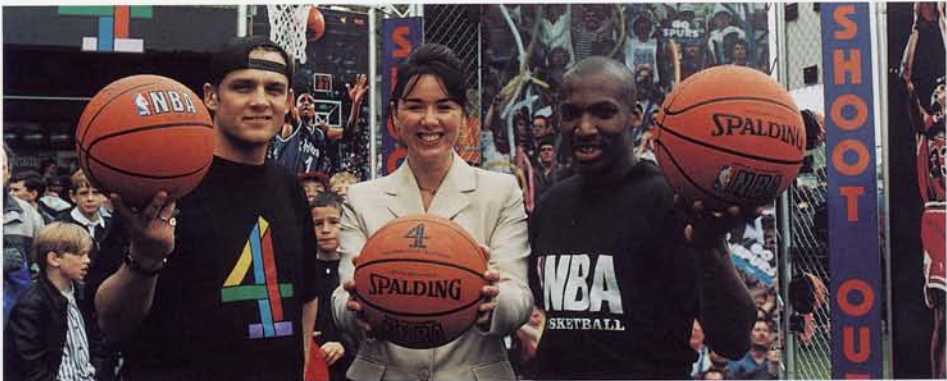
The Duke of Edinburgh, which benefited the Cinema and Television Benevolent Fund, and screenings of **The Phantom of the Opera** – the Channel 4 Silent with full symphony orchestra in London and Edinburgh.

**Sponsorships and charities**

The channel tries to support as many varied and widespread initiatives as possible with a limited budget. All sponsorships and donations reflect the channel’s programming and remit and try to ensure a balanced regional spread.

During 1996 sponsorships ranged from involvement with such prestigious projects as the refurbishment of the Royal National Theatre’s Cottesloe Theatre and the now firmly established **Turner Prize** at the Tate, through to support for festivals and events around the country including Sheffield, Leeds, Birmingham, Edinburgh and Manchester. The channel made small donations to many organisations including those concerned with: truancy in Westminster; images of disability in the media; children and politics; screen writing and performing workshops; racial and sexual equality; AIDS and many others. The 1996 Christmas card benefited **The Dying Rooms** charity which came into existence as a result of the Channel 4 programmes exposing mistreatment in orphanages in China.

*Basketball Roadshow*



*Westminster Volunteer Bureau involvement*



*The Turner Prize Exhibition*





**New promotional look for the channel**

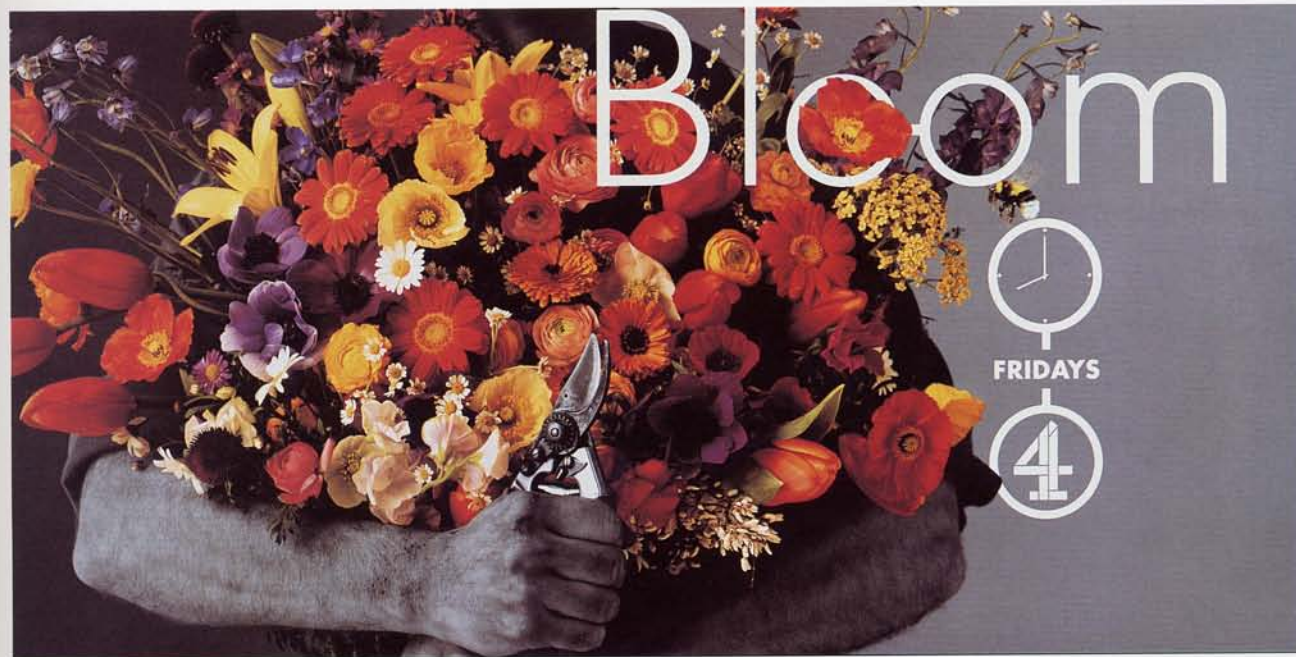
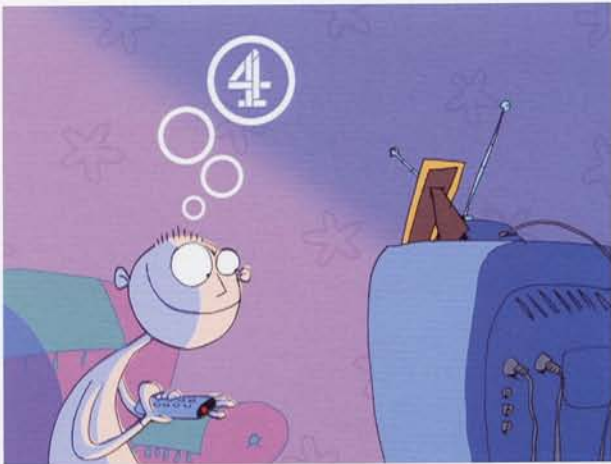
In October 1996 a new style of presentation and promotion was launched both on and off air – a project jointly managed by the presentation and marketing departments. The new look, while retaining the familiar stencilled four, has been designed to give a flexible but consistent branding framework, which reflects the channel’s distinctive personality.

The impetus for change was the desire to improve the flow of information through the junctions between programmes, to refresh the promotional output, and to give the channel a consistency of branding both on and off air.

The look itself is based on four circles, and is designed to take a step beyond television’s fixation with animated logos and fanfares, and build a new design language that is both relevant and innovative.

The concept was conceived and produced by an in-house presentation team of designers and directors, with additional development from the design group, Tomato.

The new look has now been developed across all the on-screen presentation output including schools programming and the new all night service and for all off-screen advertising and promotional work. It is viewed as a constantly evolving framework that can adapt and develop across the channel’s branding needs.



## Supporting the industry

Channel 4 continues as the largest and most consistent financier of British film production and we back Channel 4 films by support for film events throughout the country.

Support was also given to industry bodies such as the British Film Institute, Royal Television Society, Cinema and Television Benevolent Fund, British Academy of Film and Television Arts, ABSA, Women in Film and Television, Edinburgh International Television Festival, British Screen Finance, British Screen Advisory Council, The Arts Council, Scottish Film Production Fund, the Voice of the Listener and Viewer, European Film School, New Producers' Alliance, the Northern Ireland Film Council and others.

The channel's marketing department supports the Media Week awards, the British Television Advertising awards and the National Advertisers Benevolent Society.

## Working with suppliers

Channel 4 places the highest priority on relationships with independent producers, whose ideas and talent are the lifeblood of the channel. Senior executives of the channel meet members of the Producers Alliance for Cinema and Television (PACT) regularly during the year to discuss current industry issues. Commissioning editors and the Director of Programmes hold annual open days in different parts of the country when each programme area outlines its philosophy and needs for the coming year. Certain commissioning editors act as liaison points for various parts of the United Kingdom. An annual *Producers Guide* is published giving details of the channel's operation and programme priorities and how to most effectively submit a proposal.

Each year the Chief Executive presents the channel's annual report to an open meeting of independent producers and the Producers' Forum holds one day events to discuss wider issues of programme making.

During 1996, the channel significantly enhanced its commitment to developing ideas and talent outside London. An additional £100,000 was added to the Scottish/Irish and non-metropolitan development funds. The channel's objective was to increase the amount of series commissioned from outside London. Over 40 proposals were developed by each fund in 1996 as a result, representing a 25% increase on 1995.

## Industry training – key to the future

1996 saw continuing support from Channel 4 for industry training. The channel is committed to ensuring that those entering and working in independent production have access to structured and relevant training, leading where possible to recognised Skillset (the industry training body for the broadcast, film and video sector) qualifications. This commitment was evidenced by the doubling to £400,000 in 1996 of the channel's contribution to the Freelance Training Fund, and an increase of 33% in the channel's contribution to the National Film and Television School.

The Freelance Training Fund approved 236 applications for funding in 1996 (1995:105), including structured new entrant training, attachments and short courses.

Skillset made further good progress in its task of ensuring that the industry has staff with the skills necessary to retain its competitive edge. Skillset hopes to attain National Training Organisation status in 1997. One of the highlights of 1996 was the joint RTS/Skillset Conference on training, addressed by the Rt Hon Virginia Bottomley, the Secretary of State for National Heritage, which produced a Charter for Training.

## Training and development of Channel 4 staff

Channel 4 gives great importance to the continuing training and development of its staff.

In January 1996, Michael Grade, on behalf of the Channel 4 Board and staff, made the commitment to work towards the attainment of the Investors in People standard. Attainment of this standard will confirm Channel 4's commitment to ensuring that its staff are properly trained to achieve their personal objectives, those of their department and of Channel 4.

## Equal opportunities

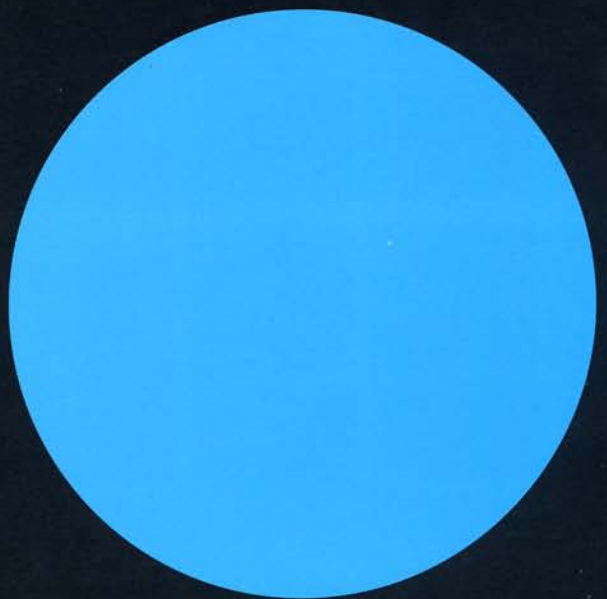
The channel's equal opportunities policy is an integral and important part of its employment practice. The representation of ethnic minorities amongst its permanent staff was 9.1% (1995: 8.8%). The channel wishes to increase this figure, particularly among senior staff.

Women form the majority (59%) of Channel 4's staff. The channel has continued to develop and promote its female staff. A childcare initiative, begun in 1992, provides additional benefits for working parents. In 1996, 25% of staff earning over £50,000 were female (1995:11%), the corresponding figure for those earning over £30,000 was 43% (1995:40%).

Like many other employers, Channel 4 has had difficulty in recruiting staff who are registered disabled. The design of the Horseferry Road building will enable more people with disabilities to be recruited in future.



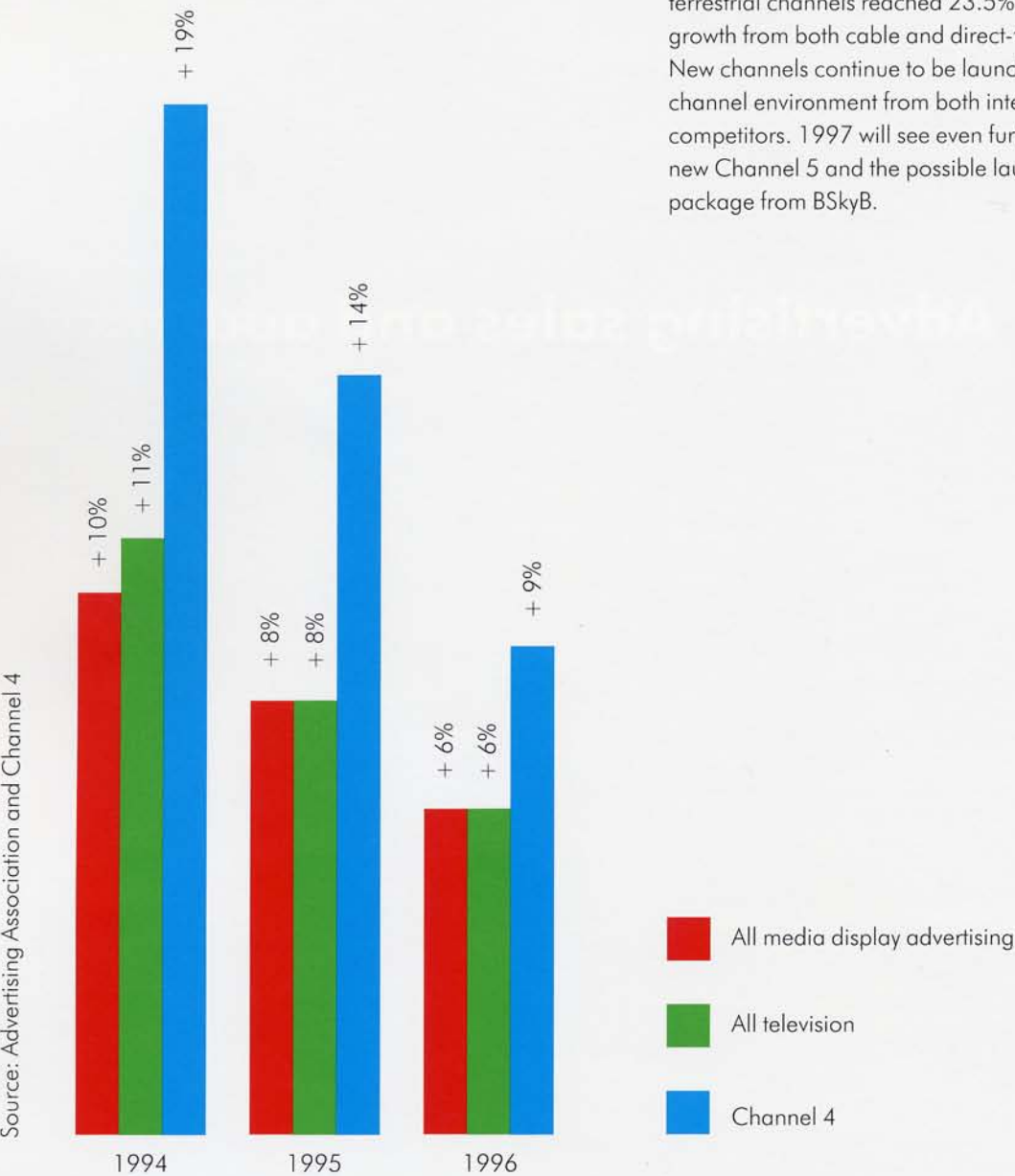
# **Advertising sales and audience**



Advertising marketplace

The media business in 1996 has had a buoyant year driven by continued real growth in advertising revenue in all sectors, though showing a small slowdown compared with the previous years. Channel 4 continued to out-perform the market and its main television rivals.

Annual change in advertising revenue



A buoyant market also leads to an increase in competition, and the competitive media environment faced by the channel in recent years shows no sign of slowing down. In the television sector, homes receiving more than the four terrestrial channels reached 23.5% in December 1996; with growth from both cable and direct-to-home satellite services. New channels continue to be launched into this UK multi-channel environment from both international and domestic competitors. 1997 will see even further competition from the new Channel 5 and the possible launch of a digital satellite package from BSkyB.

Change in advertising revenue

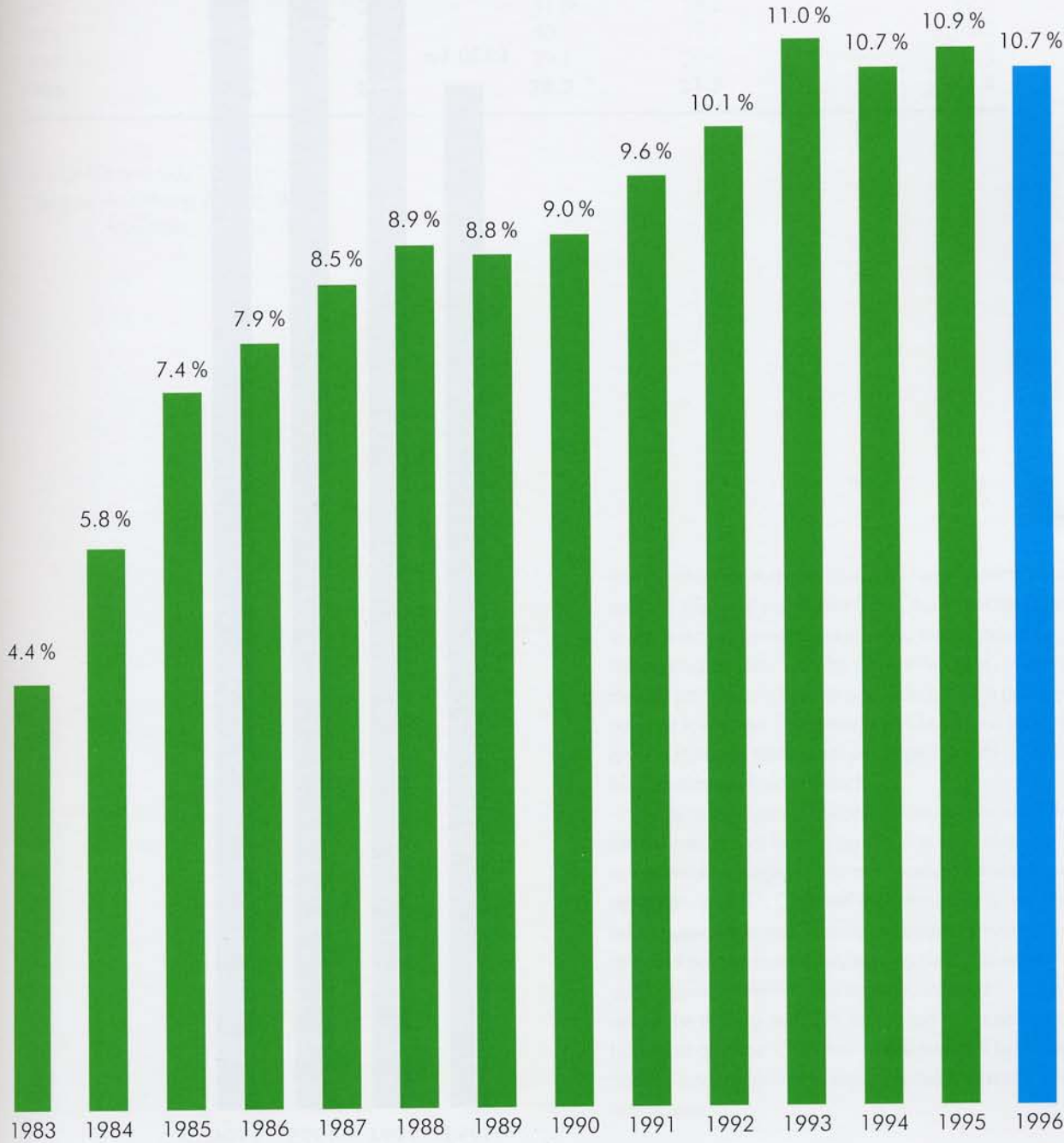


Audience

Channel 4's revenue is driven by its ability to provide an audience to advertisers. In the competitive environment of 1996, the channel performed very well, holding a 10.7% share of total viewing – the same as in 1994.

The channel's commercial proposition remains as it has been for some time – its ability to provide audiences that are attractive to advertisers – younger, more upmarket and lighter viewers of commercial television.

Channel 4 share of total television viewing



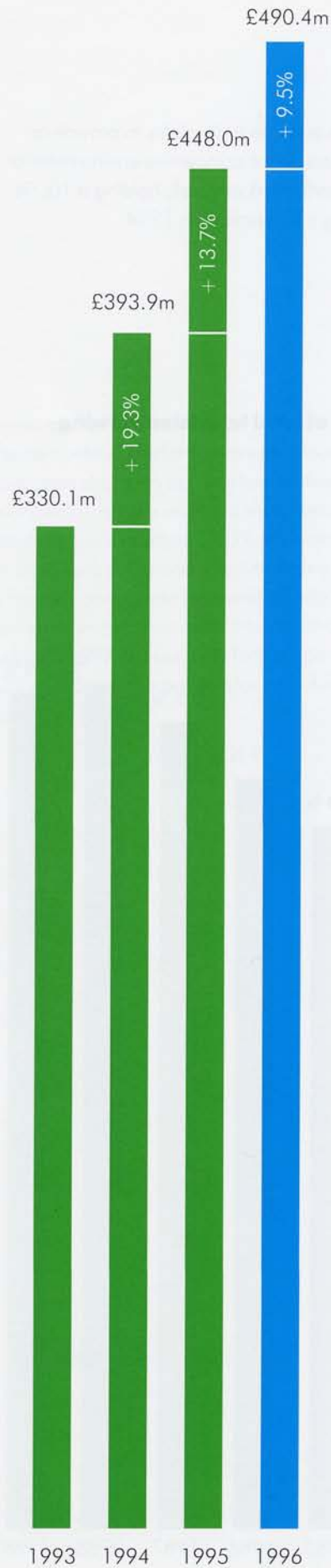
Source: BARB – all individuals, including S4C

Share of total viewing

**Channel 4 advertising revenue**

Channel 4’s advertising and sponsorship revenue showed healthy growth, for the fourth year since its new financial stand alone status. The station continued to out-perform its terrestrial competition.

**Growth in advertising and sponsorship revenue**





Having removed the historic advertising discount against ITV and replaced this with a premium, adding further value to the channel's stock will become increasingly difficult.

	Share of advertising impacts		Share of advertising revenue		Channel 4 value index
	ITV*	Channel 4	ITV*	Channel 4	
	%	%	%	%	%
1993	79.1	20.9	81.8	18.2	87.1
1994	80.0	20.0	80.3	19.7	98.5
1995	79.2	20.8	79.1	20.9	100.5
<b>1996</b>	<b>78.6</b>	<b>21.4</b>	<b>78.3</b>	<b>21.7</b>	<b>101.4</b>

\* ITV, GMTV and S4C  
 Sources: Advertising impacts: BARB  
 Advertising revenue: ITC

The revenue market was driven by large growth in certain sectors, the most significant being the increased competition in the telecommunications market; the introduction of spirits advertising to television for the first full year; a strong leisure market particularly in films and video; and a good year for new car launches. This growth was balanced by limited growth from the traditional packaged goods advertisers in food and household products.

Advertising agency consolidation continued with two further mergers of buying points. The year also saw the rather public disagreement over trading between a buying operation and ITV. Channel 4 continues to audit closely all trading contracts and monitor its ongoing trading balance to avoid potential unwieldy trading debt. However, this recent public controversy has led some advertisers to raise questions about the trading methods employed in the selling and buying of air-time. Channel 4 is committed to fair and open trading and continues to separate itself from any confusion in this area.

## Top 20 Channel 4 programmes in 1996

The basis of the channel's success is that by providing distinctive, innovative programming it can attract audiences which advertisers are willing to pay for; this investment is then returned to programming; which in turn generates audiences; and so on... the promised virtuous circle. Despite the myriad of new competition since 1991, this remains Channel 4's fundamental strength – best exemplified by the range in the channel's Top 20 programmes for 1996.

		Audience millions	
1	<b>Brookside*</b>	8.0	UK commissioned drama
2	<b>Cutting Edge*(Car Thieves)</b>	7.0	UK commissioned documentary
3	<b>Island of Dreams*</b>	6.5	UK commissioned documentary
4	<b>Gulliver's Travels</b>	5.8	UK commissioned drama
5	<b>Friends</b>	5.3	US purchase
6	<b>ER</b>	5.0	US purchase
7	<b>The Madness of King George</b>	4.9	UK commissioned drama: Film on 4
8	<b>Father Ted</b>	4.9	UK commissioned entertainment
9	<b>Countdown</b>	4.8	UK commissioned entertainment
10	<b>Foreign Legion</b>	4.8	UK commissioned documentary
11	<b>Riverdance</b>	4.7	Purchased entertainment
12	<b>Secret Lives: Errol Flynn</b>	4.6	UK commissioned documentary
13	<b>Nuns on the Run</b>	4.6	UK purchased feature film
14	<b>An Inspector Calls*</b>	4.5	UK commissioned documentary
15	<b>Buffalo Girls</b>	4.4	US purchased mini-series
16	<b>Auf Wiedersehen Pet</b>	4.3	UK: ITV drama repeat
17	<b>Drop the Dead Donkey</b>	4.3	UK commissioned entertainment
18	<b>Seasiders</b>	4.2	UK commissioned documentary
19	<b>Full Metal Jacket</b>	3.9	UK purchased feature film
20	<b>Rescue*</b>	3.9	UK commissioned documentary

\* (narrative repeats included)

Source: AGB/BARB

The strength and range of Channel 4's UK commissioned programmes is demonstrated by the number appearing within the channel's Top 20:

- All top 4 programmes in 1996 were UK commissions
- 8 of the Top 10 were UK commissions
- 13 of the Top 20 programmes were UK commissions
- Of those 13 commissions, 7 were documentaries, 3 entertainment and 3 drama
- Only 3 of the Top 20 programmes were US series (**Friends**, **ER** and **Buffalo Girls**)





## Financial review and statements

### Turnover and profit

1996 was another successful year for Channel 4's advertising sales team. Our advertising and sponsorship revenue increased by 9.5%, whereas we estimate that the total television market grew by 6.4%.

The launch of Channel 5 in 1997, together with the continued growth of satellite and cable services is now eroding the market for the existing terrestrial broadcasters. As a consequence, I believe that it is unlikely that Channel 4's advertising revenue will grow in real terms in the next five years.

Advertising revenues account for about 95% of Channel 4's income. Despite those revenues beginning to decline in real terms, the channel should be able, in the period 1997 to 1999, to continue to develop its programme service, increase its investment in British film and programme productions and introduce digital terrestrial simulcast and secondary services. Channel 4 envisages that it will be able to afford to:

- increase the programme budget from the 1996 level by:
  - £40 million in 1997 (already announced and allocated in detail);
  - a smaller amount in 1998; and
  - hold it at that level in real terms for the three years, 1999 to 2001.

This additional programme expenditure in 1997 and 1998 will enable Channel 4 to increase the number of hours and quality of British produced commissioned programmes;

- increase expenditure on new Film on 4 productions to the level of £32 million per annum by 1999, as promised to the National Heritage Committee in 1995;
- provide digital simulcast and secondary services; and
- break-even or make modest profits of about £10 million per annum.

This continued development of Channel 4's public broadcasting services will be financed by the anticipated termination of annual payments to ITV and a reduction of Channel 4's annual profitability, which is expected by the Order which Parliament enacted in December 1996 to cease transfers to the statutory reserve account, hence enabling Channel 4 to increase the proportion of its funds available for current expenditure on the programme service.

### Taxation

Channel 4 is subject to corporation tax on profits. The tax charge for 1996 was £17.9 million, £1.0 million of which related to prior years. The effective rate before this prior year charge was 36%.



Funding formula

The payment made to ITV for 1996 amounted to £87.1 million, a 17.7% increase over 1995. The total which Channel 4 has paid to ITV in the last four years amounts to £256.6 million, allocated as shown in the table below:

	1993	1994	1995	1996	Four year total
	£m	£m	£m	£m	£m
Carlton, Central and Westcountry	12.0	18.1	23.3	27.4	80.8
Granada and LWT	8.3	12.3	16.0	18.8	55.4
Meridian and Anglia	6.7	10.1	13.1	15.3	45.2
Yorkshire and Tyne Tees	4.2	6.3	8.1	9.5	28.1
HTV	2.6	3.8	4.9	5.8	17.1
GMTV	2.2	3.4	4.3	5.1	15.0
Scottish	2.1	3.1	4.1	4.8	14.1
Ulster	0.1	0.1	0.1	0.2	0.5
Grampian	—	0.1	0.1	0.1	0.3
Border	—	—	—	0.1	0.1
Channel	—	—	—	—	—
	38.2	57.3	74.0	87.1	256.6

A further payment, at about the 1996 amount, will be due for 1997. The channel awaits the Parliamentary Order which will quantify the substantial reduction for the payment which will become due for 1998. We anticipate that will be the final amount payable to ITV.

Cashflow

Channel 4 generated net cash inflow of £91.3 million from operating activities in 1996. That amount was less than the operating profit principally due to increases in stock of £38.1 million. That stock increase reflects increased expenditure in 1996 on Film on 4 productions, which will not be available for transmission until 1998, and on other programmes which were being prepared for transmission in 1997, where the annual programme transmission budget has been increased by £40 million.

The net operating cash inflow of £91.3 million in 1996, together with cash balances at the end of 1995, were utilised to pay the £74.0 million 1995 subsidy to ITV in February 1996 and £17.7 million of taxation.

The cash movements during 1996 left Channel 4 with net cash deposits at 31 December 1996 of £75.7 million (1995: £79.3 million). The payment of £87.1 million to ITV in February 1997 required Channel 4 to utilise its overdraft facility with Midland Bank plc.

Foreign currency

Channel 4 buys and sells programmes in the international markets and is a net purchaser of US dollars. Exposure to fluctuations in exchange rates is managed by transactions in the forward foreign currency markets. Channel 4 never takes speculative currency positions.

Digital services

Together with the other UK terrestrial broadcasters, Channel 4 intends to take up its digital frequency allocations. Channel 4 has established with ITV a jointly owned company to apply for the licence of the second digital multiplex. Channel 4 will have sufficient digital capacity to offer a new service or services on digital, in addition to the widescreen 'simulcast' of the existing service. The channel is presently examining the commercial feasibility of new services, and how these might be delivered to audiences.

Subsidiary companies

Our programme and film sales company, Channel Four International, continues to grow, with turnover and profit in 1996 at record levels, which has contributed to the increased programme budget for 1997. The new commercial subsidiaries, Film Four Distributors, 124 Facilities, and Channel Four Learning are settling down well and should contribute useful profits in 1997.

David Scott.

David Scott  
Managing Director  
24 March 1997

Report of the members

Principal activities

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

On 1 January 1993 the ITC issued a broadcasting licence under the terms of the Act for Channel 4 to broadcast for the ten calendar years 1993 to 2002.

Review of business and results

The Chairman's statement on pages 2 and 3 and the Chief Executive's and the Financial reviews on pages 4, 5, 42 and 43 form part of this report and provide information on the development of Channel 4's activities during the year and outlook for the future. The group's results are set out on pages 55 to 67.

Funding

Under the terms of the Act, Channel 4 is required to pay ITV half of Channel 4's calendar year qualifying revenue in excess of 14% of total qualifying revenue. The qualifying revenue to which this formula relates is the total of advertising, sponsorship, subscription and barter income of ITV, Channel 4 (and 5) and S4C.

The Act also provides that ITV would pay Channel 4 up to 2% of qualifying revenue if Channel 4's revenue, together with any balance on the statutory reserve account referred to in note 18 to the financial statements, were to be less than 14% of qualifying revenue for any calendar year. Channel 4 has stated consistently since 1989 that it has no wish or expectation of ever calling upon such a subsidy from ITV.

The Act enables the Secretary of State for National Heritage to amend the funding formula from 1997 by substituting different percentages for the 14% and 2% figures referred to in the two paragraphs above.

The Chairman's statement includes on page 3 details of the Orders, enabled by the Broadcasting Act 1996, which are expected in 1997 and 1998 to reduce and then terminate the payments to ITV.



## Members

The present members of Channel 4 are listed on page 52.

## Members' interests

As indicated on page 52, certain members are also directors of companies which supply programmes to Channel 4, and to that extent are also interested in contracts negotiated on commercial terms with Channel 4. Murray Grigor's and Sarah Radclyffe's production companies received programme production cost payments in 1996 of £28,437 and £1,143,542 respectively for programmes commissioned by Channel 4.

## Liability insurance

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

## Research and development

Channel 4 devotes substantial resources to the development of scripts and programme outlines for possible commissioning. Script and programme development expenditure charged to the profit and loss account in 1996 amounted to £5.8 million (1995: £4.0 million).

## Charitable donations

Channel 4 paid £500,000 in 1996 to the Royal National Theatre in recognition of their important role in staging experimental theatrical productions (1995: £500,000 to RADA). £17,714 was donated to other charities (1995: £11,300).

## Employment policy

Channel 4 is an equal opportunities employer. It does not discriminate on the grounds of race, sex, religion, physical handicap, marital status or political affiliation in its recruitment or other employment policies. Channel 4 has established an ethnic monitoring system for its recruitment and the ethnic composition of its staff.

Disabled people, whether registered as such or not, are fully and fairly considered for all vacancies arising within Channel 4 and are given equal opportunities with other staff in relation to training, career development and promotion.

## Employee involvement and consultation

Channel 4 informs and consults with its employees through:

- its commitment to achieving the Investors in People standard.
- regular departmental meetings where information is disseminated and staff have an opportunity to air views.
- an internal teletext-based information service available to all members of staff.
- recognition of trade unions. A minority of Channel 4's employees are in membership of one of two recognised trade unions:

BECTU (for some engineering, presentation, clerical and 124 Facilities staff);

Equity (for continuity announcers)

- an annual staff meeting, where the Chairman and the Chief Executive give presentations on Channel 4's progress and future and all staff are encouraged to ask questions.

## Going concern

Based on normal business planning and control procedures, the members have a reasonable expectation that Channel 4 has adequate resources to continue in operational existence for the foreseeable future. For this reason, the members continue to adopt the going concern basis in preparing the financial statements.

## Auditors

Coopers & Lybrand have been appointed as auditors by Channel 4 with the approval of the Secretary of State for National Heritage in accordance with the requirements of paragraph 12(2) of schedule 3 of the Broadcasting Act 1990.

Coopers & Lybrand have expressed their willingness to continue in office.



By order of the Board  
Andrew Yeates  
Secretary  
24 March 1997

## Corporate governance

In the opinion of the members, Channel 4 complied throughout the year with those provisions of the Cadbury Committee's Code of Best Practice relevant to a statutory corporation without shareholders.

## The Board

The members have full responsibility for ensuring that, in a changing public service and commercial broadcasting environment, the statutory functions of Channel 4 are discharged in accordance with the broadcasting licence from 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 consists of 14 members of whom the majority are non-executive. Accordingly, there is a strong independent element on the Board and no one individual has unfettered powers of decision. All members are of equal standing. Biographical details of the present members are given on page 52.

The Board normally meets once every month. Board meetings follow a formal agenda of matters specifically reserved for decision by the Board.

## Non-executive members

The non-executive members carry significant weight in Board decisions. They bring an independent judgement to bear on issues of strategy, performance and resources. They are independent of management and free from any business relationship which could interfere with their independent judgement.

The non-executive members are appointed for fixed terms by the ITC following consultation with Channel 4's Chairman and the approval of the Secretary of State for National Heritage.

## Executive members

Subject to periodic review and to the overall responsibility of the Board, the Board has delegated responsibility for the formulation and operation of detailed policy, in accordance with the Channel 4 remit and programme policy, and for the conduct of Channel 4's affairs to the Chief Executive and to the five other executive members. The executive members are responsible for ensuring that Channel 4's affairs are conducted in accordance with the operating procedures approved by the Board and applicable rules and regulations.

The terms of employment of the executive members are subject to the approval of the remuneration committee whose terms of reference are set out on page 47. Members' total emoluments (including bonus payments) are analysed on pages 51, 60 and 61.



## Reporting

The Board believes that the 1996 Report and Financial Statements present a balanced and understandable assessment of Channel 4's position.

### Board committees

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

#### 1. Audit committee

The audit committee's purpose is:

- to satisfy itself on all matters of financial propriety and procedure;
- to discuss with Channel 4's external auditors any matters of concern arising out of their audit; and
- to review the draft annual report and financial statements before presentation to the full Board.

Three non-executive members, Sir Michael Bishop (Chairman), David Plowright and Bert Hardy, form the membership of the audit committee.

Michael Grade, David Scott and the Coopers & Lybrand audit partner attend meetings of the committee. The audit partner has direct access to the Chairman at all times.

The audit committee is satisfied with the policies and controls applied during the year, and with the measurement and presentation of financial information in the 1996 Report and Financial Statements.

#### 2. Budget committee

The budget committee's purpose is to examine and discuss the details of the group's annual budgets 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: Sir Michael Bishop (Chairman), David Plowright, Bert Hardy, Michael Grade, David Scott and Frank McGettigan.

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

### 3. Remuneration committee

The remuneration committee's purpose is to approve in relation to the employees of Channel 4 and its subsidiary companies:

- the level of any general salary increase;
- merit or market rate increases for individuals; and
- the group's pension fund arrangements and related employee benefits.

The remuneration committee consists entirely of non-executive members. Its membership consists of Sir Michael Bishop (Chairman), David Plowright and Bert Hardy.

Michael Grade, David Scott and Frank McGettigan attend meetings as appropriate.

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

No executive member attends meetings of the remuneration committee at times when any aspect of their remuneration or terms of employment are being discussed.

The remuneration committee reports to the Board and its annual report is provided on pages 50 and 51.

### Pension plan

The six trustees of the Channel 4 Pension Plan meet with the Plan's managers, Legal & General Assurance (Pensions Management) Limited, several times each year.

The Chairman of the trustees is Sir Michael Bishop. The trustees include an independent member, Louise Botting; two of Channel 4's executive members, Frank McGettigan and David Scott; and two employee representatives, Robin Hurley and Dawn Stanley.

## **Internal financial control**

The members are responsible for Channel 4's system of internal financial control and have reviewed its effectiveness. The key procedures that they have established, which are designed to provide reasonable but not absolute assurance against material mis-statement or loss, may be summarised under the following headings:

### **Control environment**

Clear management responsibilities are established for the executive members. These are laid down in Channel 4's manual of operating procedures and terms of reference;

### **Risk management**

Management has a clear responsibility for the identification of risks facing the business and for putting in place procedures to mitigate and monitor such risks. The executive members, together with the rest of the Board, monitor this process;

### **Information systems**

A detailed annual budget is prepared for each area of the business, and is approved by the budget committee and the Board. Detailed monthly management reports are produced, comparing actual income and expenditure with budget; these are monitored by the members, and explanations are provided for significant variances from budget;

### **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; and

### **Monitoring system**

The financial controls are monitored by management review and by the audit committee.



## Report by the auditors to Channel Four Television Corporation (Channel 4) on corporate governance matters

In addition to our audit of the financial statements, we have reviewed the members' statements on pages 45 and 46 concerning Channel 4's compliance with paragraphs 1.4, 1.5, 2.3, 2.4 and 4.3 to 4.6 of the Cadbury Code of Best Practice and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which are not disclosed.

### Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the group's system of internal financial control or its corporate governance procedures nor on the ability of the group and Channel 4 to continue in operational existence.

### Opinion

With respect to the members' statements on internal financial control on page 48, and going concern on page 45 in our opinion the members have provided the disclosures required by paragraph 4.5 and 4.6 of the Code (as supplemented by the related guidance) and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain members and officers of Channel 4, and examination of relevant documents, in our opinion the members' statement on page 46 appropriately reflects Channel 4's compliance with the other paragraphs of the code specified for our review.

Coopers & Lybrand  
Chartered Accountants  
London  
24 March 1997

## Report of the remuneration committee

The Greenbury Committee on directors' remuneration published its report in 1995. Central to its recommendations was a Code of Best Practice, under which the following is reported:

### 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 47. In framing its remuneration policy, the committee has given full consideration to the best practice provisions of the Greenbury Committee report.

Channel 4 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 prevailing for executives of comparable status elsewhere in the television industry (albeit without any of the share option or incentive schemes available elsewhere).

Stewart Butterfield participates in the advertising sales bonus scheme, which is linked to advertising revenue targets. Colin Leventhal participates in Channel Four International Limited's profit bonus scheme, which is linked to profit targets. These targets are agreed by the remuneration committee before the start of each financial year.

### Pension

All executive members are eligible for membership of the Channel 4 Pension Plan. The plan is contributory, at 6% of pensionable salary, and provides members with a pension based on 1/50th of final pensionable pay for each year of service (except for Michael Grade, whose pension will be based on 1/30th of final pensionable pay) up to a maximum of two thirds of final pensionable earnings. The plan also provides a lump sum death in service benefit, and pensions for dependants of members on their death in service, or following retirement.

### Service contracts

Michael Grade has tendered his resignation as Chief Executive and will leave Channel 4 during 1997. David Scott, Colin Leventhal and Frank McGettigan have three year service contracts expiring on 31 July 1997, subject to one year's notice. John Willis has a service contract expiring on 31 December 2000. Stewart Butterfield has an open-ended contract, subject to one year's notice.

### Taxable benefits

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

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

Fees payable to non-executive Board members are determined by the ITC. They are appointed for fixed terms, and are not eligible for membership of the Channel 4 Pension Plan. They are entitled to the provision of a television and video cassette recorder for home use, and to reimbursement of travelling and accommodation expenses incurred in connection with attending Board meetings.

## Board member's remuneration

	1996 Salary and fees £000	1996 Bonus £000	1996 Benefits £000	1996 Pension £000	1996 Total £000	1995 Total £000
<b>Executive members</b>						
Michael Grade	450	–	14	69	533	618
Stewart Butterfield	165	79	6	25	275	283
Colin Leventhal	159	25	9	24	217	173
Frank McGettigan	159	–	15	24	198	187
David Scott	200	–	12	31	243	173
John Willis	250	–	9	13	272	183
<b>Non-executive members</b>						
Sir Michael Bishop	37	–	–	–	37	36
David Plowright	17	–	–	–	17	17
Murray Grigor	9	–	–	–	9	8
Bert Hardy	9	–	–	–	9	8
Mary McAleese	9	–	–	–	9	8
Sir David Nicholas	9	–	–	–	9	8
Usha Prashar	9	–	–	–	9	8
Sarah Radclyffe	9	–	–	–	9	8
	<b>1,491</b>	<b>104</b>	<b>65</b>	<b>186</b>	<b>1,846</b>	<b>1,718</b>

The value of benefits in kind received during the year relates principally to the provision of company cars and private medical insurance.

The pension amounts included in the table are the 15.3% employer contributions which Channel 4 makes for all staff in the pension plan.



## Members and advisers

### Chairman

#### **Sir Michael Bishop CBE** (age 55)

Joined the Board in 1991 as Deputy Chairman, and succeeded Lord Attenborough CBE as Chairman on 1 January 1993. His appointment runs to the end of 1997. Sir Michael Bishop is Chairman of British Midland Airways Limited.

### Deputy Chairman

#### **David Plowright** (age 66)

Joined the Board in 1992 following his retirement as Chairman of Granada Television Limited. His appointment runs to the end of 1997.

### Other non-executive members

#### **Murray Grigor** (age 57)

Joined the Board in 1995. His appointment runs to the end of 1999. He is an independent film-maker and writer.

#### **Bert Hardy** (age 68)

Joined the Board in 1992. His appointment runs to the end of 1997. He is Chief Executive of *The European* newspaper.

#### **Professor Mary McAleese** (age 45)

Joined the Board in 1992. Her appointment runs to the end of 1997. She is Director of the Institute of Professional Legal Studies and Pro-Vice-Chancellor at the Queen's University of Belfast.

#### **Sir David Nicholas CBE** (age 67)

Joined the Board in 1992. His appointment runs to the end of 1997. He is a past Chairman and Chief Executive of ITN Limited.

#### **Usha Prashar CBE** (age 48)

Joined the Board in 1992. Her appointment runs to the end of 1999. She is a member of the Arts Council and a past director of the National Council for Voluntary Organisations.

#### **Sarah Radclyffe** (age 46)

Joined the Board in 1995. Her appointment runs to the end of 1999. She is an independent film and television producer and a Governor of the British Film Institute.

## Executive members

#### **Michael Grade** (age 54)

Chief Executive since 1988. He is Chairman of First Leisure plc, VCI plc, Channel Four International Limited and 124 Facilities Limited, a non-executive director of The Open College Limited and a member of the British Screen Advisory Council. Prior to joining Channel 4 he was Controller BBC 1 (1984 to 1987), combining the post with that of Director of Programmes, Television from 1986; President Embassy Television, Los Angeles (1981 to 1984); and Director of Programmes, London Weekend Television plc (1976 to 1981).

#### **Stewart Butterfield** (age 49)

Director of Advertising Sales and Marketing since 1991. He was European Media Director for McCann-Erickson from 1989 to 1990 and had a number of other roles with McCann-Erickson from 1974 to 1990.

#### **Colin Leventhal** (age 50)

Director of Acquisition since 1988, Managing Director of Channel Four International Limited, Chairman of Film Four Distributors Limited, a director of Channel Four Learning Limited and Deputy Chairman of the British Screen Advisory Council. He joined Channel 4 in 1981 as Head of Programme Acquisition. Prior to that he was with the BBC from 1974 rising to Head of Copyright (1979 to 1981). He qualified as a solicitor in 1971.

#### **Frank McGettigan** (age 46)

Director and General Manager since 1988, Managing Director of 124 Facilities Limited, Deputy Chairman of the National Film and Television School, Chairman of Digital 3 and 4 Limited and chairman of Skillset. He joined Channel 4 as Head of Industrial Relations and Administration in 1981. Prior to that he was with the Financial Times (1977 to 1981), ACAS and the Commission on Industrial Relations (1973 to 1977).

#### **David Scott FCA** (age 42)

Managing Director since January 1997, having served as Director of Finance since 1988. He is a director of Channel Four International Limited, Film Four Distributors Limited, 124 Facilities Limited, Digital 3 and 4 Limited and British Screen Finance Limited. He joined Channel 4 as Controller of Finance and Company Secretary in 1981. Prior to that he was with Peat Marwick Mitchell (1972 to 1981).

#### **John Willis** (age 50)

Director of Programmes since 1993, Chairman of Channel Four Learning Limited, a director of Channel Four International Limited and 124 Facilities Limited. He joined Channel 4 as Controller of Factual Programmes in 1988 rising to combine the post with that of Deputy Director of Programmes from 1991. Prior to joining Channel 4 he was with Yorkshire Television plc from 1970 to 1988 in a number of roles culminating as Controller of Documentaries and Current Affairs.

**Secretary**

Andrew Yeates

**Auditors**

Coopers & Lybrand  
Chartered Accountants  
1 Embankment Place  
London WC2N 6NN

**Solicitors**

D J Freeman  
43 Fetter Lane  
London EC4A 1NA

Allen & Overy  
9 Cheapside  
London EC2V 6AD

**Bankers**

Midland Bank plc  
27/32 Poultry  
London EC3P 2BX

Samuel Montagu & Co Limited  
10 Lower Thames Street  
London EC3R 6AE

**Statement of members' responsibilities**

Channel 4 is required by the Broadcasting Act 1990 to keep proper accounts and proper records in relation to the accounts, and to prepare financial statements in respect of each financial year. The members therefore prepare financial statements in compliance, 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 of the group for that year.

The members confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1996. 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.



## Report of the auditors

### To the members of Channel Four Television Corporation (Channel 4)

We have audited the financial statements on pages 55 to 67.

#### Respective responsibilities of members and auditors

As described on page 53 Channel 4's members are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

#### Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the members in the preparation of the financial statements, and of whether the accounting policies are appropriate to Channel 4's circumstances, consistently applied and adequately disclosed.

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

#### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of Channel 4 and the group at 31 December 1996 and of the profit, total recognised gains and cashflows of the group for the year then ended and have been properly prepared in accordance with the Broadcasting Act 1990.

Coopers & Lybrand  
Chartered Accountants and Registered Auditors  
London  
24 March 1997



## Consolidated profit and loss account

For the year ended 31 December	Notes	1996 £m	1995 £m
<b>Turnover</b>	1	<b>518.6</b>	464.0
Cost of transmissions and sales	2	<b>( 358.1 )</b>	( 309.0 )
<b>Gross profit</b>		<b>160.5</b>	155.0
Administrative expenses	3	<b>( 20.6 )</b>	( 19.1 )
Depreciation	10	<b>( 7.6 )</b>	( 7.7 )
<b>Operating profit</b>		<b>132.3</b>	128.2
Net interest	7	<b>2.0</b>	( 0.1 )
<b>Profit before ITV subsidy and taxation</b>		<b>134.3</b>	128.1
Subsidy payable to ITV	8	<b>( 87.1 )</b>	( 74.0 )
<b>Profit before taxation</b>		<b>47.2</b>	54.1
Taxation	9	<b>( 17.9 )</b>	( 19.3 )
<b>Retained profit for the year</b>		<b>29.3</b>	34.8

All activities are continuing.

The group has no recognised gains or losses other than the profit for the year and therefore no statement of total recognised gains or losses is presented.

There is no difference between the profit before taxation and the retained profit for the year stated above, and their historical cost equivalents.

The notes on pages 58 to 67 form part of these financial statements.

Report of the auditors – page 54.

## Balance sheets

At 31 December	Notes	1996 Group £m	1995 Group £m	1996 Channel 4 £m	1995 Channel 4 £m
<b>Fixed assets</b>					
Tangible assets	10	<b>81.0</b>	83.3	<b>81.0</b>	83.3
<b>Current assets</b>					
Programme and film rights	12	<b>153.3</b>	115.2	<b>153.2</b>	115.2
Debtors	13	<b>74.0</b>	58.5	<b>69.0</b>	55.7
Investments	14	<b>50.9</b>	50.7	<b>50.9</b>	50.7
Cash at bank and in hand	15	<b>24.8</b>	28.6	<b>24.7</b>	28.6
		<b>303.0</b>	253.0	<b>297.8</b>	250.2
<b>Creditors</b>					
Amounts falling due within one year:					
Subsidy payable to ITV	8	<b>( 87.1 )</b>	( 74.0 )	<b>( 87.1 )</b>	( 74.0 )
Creditors	16	<b>( 41.0 )</b>	( 35.8 )	<b>( 37.4 )</b>	( 33.8 )
Corporation tax		<b>( 16.1 )</b>	( 17.4 )	<b>( 15.9 )</b>	( 17.4 )
<b>Net current assets</b>		<b>158.8</b>	125.8	<b>157.4</b>	125.0
<b>Total assets less current liabilities</b>		<b>239.8</b>	209.1	<b>238.4</b>	208.3
<b>Provisions for liabilities and charges</b>	17	<b>( 13.0 )</b>	( 11.6 )	<b>( 13.0 )</b>	( 11.6 )
<b>Net assets</b>		<b>226.8</b>	197.5	<b>225.4</b>	196.7
<b>Profit and loss account</b>	18	<b>142.0</b>	112.7	<b>140.6</b>	111.9
<b>Statutory reserve</b>	18	<b>84.8</b>	84.8	<b>84.8</b>	84.8
		<b>226.8</b>	197.5	<b>225.4</b>	196.7

**Sir Michael Bishop** Chairman  
**David Scott** Managing Director

These financial statements were approved by the Board of Members on 24 March 1997.

The notes on pages 58 to 67 form part of these financial statements.

Report of the auditors – page 54.

Consolidated cashflow statement

For the year ended 31 December	Notes	1996 £m	1996 £m	1995 £m	1995 £m
<b>Net cash inflow from continuing operating activities</b>	19		<b>91.3</b>		119.5
<b>Subsidy paid to ITV</b>			<b>( 74.0 )</b>		( 57.3 )
			<b>17.3</b>		62.2
<b>Returns on investments and servicing of finance</b>					
Interest received	7	<b>2.9</b>		1.6	
Interest paid	7	<b>( 0.9 )</b>		( 1.7 )	
			<b>2.0</b>		( 0.1 )
<b>Taxation</b>					
UK corporation tax paid		<b>( 17.3 )</b>		( 0.5 )	
Overseas tax paid		<b>( 0.4 )</b>		( 0.2 )	
			<b>( 17.7 )</b>		( 0.7 )
<b>Capital expenditure</b>					
Payments to acquire tangible fixed assets	10	<b>( 5.4 )</b>		( 4.2 )	
Receipts from sales of tangible fixed assets		<b>0.2</b>		0.3	
			<b>( 5.2 )</b>		( 3.9 )
<b>Net cash (outflow)/inflow before management of liquid resources and financing</b>			<b>( 3.6 )</b>		57.5
<b>Management of liquid resources and financing</b>					
Increase in investment in short term cash deposits			<b>( 0.2 )</b>		( 50.7 )
Increase/(decrease) in money market borrowings		<b>6.2</b>		( 2.7 )	
Repayment of loan		<b>-</b>		( 2.5 )	
			<b>6.2</b>		( 5.2 )
<b>Increase in cash in the year</b>	15		<b>2.4</b>		1.6

The notes on pages 58 to 67 form part of these financial statements.

Report of the auditors – page 54.



Principal accounting policies

Basis of accounting

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

Subsidy payable to ITV

Given the special nature of Channel 4’s business, as permitted by the Companies Act the format of the profit and loss account has been adapted to disclose separately the subsidy payable to ITV, which is the amount which section 27 of the Broadcasting Act 1990 requires Channel 4 to pay to the ITC for distribution to the ITV licensees.

Accounting policies

A summary of the more important accounting policies, all of which have been applied consistently, is set out below.

Basis of consolidation

The consolidated financial statements comprise the financial statements for Channel Four Television Corporation and all of its subsidiary undertakings made up to 31 December 1996. Channel 4 has taken advantage of the legal exemption not to present its own profit and loss account.

Advertising revenue

Advertising revenue is stated net of advertising agency commission paid.

Sale of programme and film rights

Profit is recognised on contracts for the sale of rights of completed programmes and films as payments under the contracts become due.

Deferred tax

Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise.

Programme and film rights

Programme and film rights are stated at direct cost incurred up to the balance sheet date after making provision for expenditure on programmes or films which are unlikely to be transmitted or sold. Direct cost is defined as payments made or due to production companies or programme suppliers, but excludes any costs falling due after the balance sheet date.

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 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 cost and the provision is released. At such time as it is apparent that a development will not result in a programme, the development cost and the provision are written out of the financial statements.

The direct cost of programme and film rights is wholly written off on first transmission.

Fixed assets

Fixed assets are stated at cost, together with any incidental expenses of acquisition, less depreciation.

Depreciation is calculated so as to write off the cost of the asset on a straight line basis over its estimated useful life from the date of its first utilisation. The annual rates used for this purpose are as follows:

Freehold property	2%
Technical equipment and office furniture	20%
Motor cars	25%

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates prevailing at the balance sheet date. Any resultant gain or loss on exchange is shown as part of the profit for the year.

Pensions

Channel 4 maintains a defined benefit pension scheme. Pension costs are determined by external actuaries and charged against profits each year.

## Notes to financial statements

### 1. Turnover

Turnover, excluding value added tax, arises from television and related activities as follows:

	1996 £m	1995 £m
Net advertising and programme sponsorship	490.4	448.0
Programme and film sales	23.7	14.2
Sundry income	4.5	1.8
	<b>518.6</b>	464.0

The programme and film sales business is carried out by Channel Four International Limited and Film Four Distributors Limited.

### 2. Cost of transmissions and sales

	1996 £m	1995 £m
<b>Transmissions</b>		
Direct programme costs	267.5	228.4
Indirect programme costs	29.2	27.4
Transmitter and distribution costs	28.3	27.3
ITC regulatory costs	2.1	2.3
<b>Sales</b>		
Cost of advertising and programme sales	26.7	20.1
Share of programme sales income due to independent producers and third party financiers	4.3	3.5
	<b>358.1</b>	309.0

### 3. Operating profit

	1996 £m	1995 £m
Depreciation of fixed assets (note 10)	7.6	7.7
Research and development	5.8	4.0
Operating lease rentals	1.2	2.7
Members' remuneration (note 5)	1.8	1.7
Equipment hire	0.3	0.3

Fees in respect of services provided by the auditors were:

	£000	£000
Statutory audit:		
Channel 4	20	20
Subsidiaries	17	7
Other services:		
Tax advice	35	28
Computer consultancy	32	—
	<b>104</b>	55

#### 4. Segmental information

	Turnover £m	Profit before taxation £m	Net assets £m
<b>1996</b>			
Broadcasting	<b>494.9</b>	<b>37.3</b>	<b>226.1</b>
Programme and film sales	<b>23.7</b>	<b>9.9</b>	<b>0.7</b>
	<b>518.6</b>	<b>47.2</b>	<b>226.8</b>
<b>1995</b>			
Broadcasting	449.8	48.5	196.7
Programme and film sales	14.2	5.6	0.8
	464.0	54.1	197.5

The profit before taxation for the programme and film sales activity is shown before a rights charge of £9.5 million (1995: £5.2 million) from Channel 4's broadcasting activity.

#### 5. Remuneration of the members

The members' aggregate emoluments (excluding pension contributions) were as follows:

£000	£000	1996 Number	1995 Number
5 – 10		<b>6</b>	6
15 – 20		<b>1</b>	1
35 – 40		<b>1</b>	1
150 – 155		–	2
155 – 160		–	1
165 – 170		–	1
170 – 175		<b>1</b>	–
190 – 195		<b>1</b>	–
210 – 215		<b>1</b>	–
245 – 250		<b>1</b>	–
255 – 260		<b>1</b>	–
260 – 265		–	1
460 – 465		<b>1</b>	–
555 – 560		–	1
		<b>14</b>	14

A detailed analysis of members' remuneration including salaries and performance-related bonuses, is provided in the remuneration committee's report on page 51.

Included above are amounts in respect

of Michael Grade who is the highest paid member:

	1996 £000	1995 £000
Salary	<b>450</b>	394
Bonus	–	148
Contribution to pension scheme	<b>69</b>	61
Benefits	<b>14</b>	15
	<b>533</b>	618



<b>5. Remuneration of the members (continued)</b>	<b>1996</b>	1995
	£000	£000
<b>Non-executive members</b>		
Chairman	<b>37</b>	36
Other	<b>71</b>	65
<b>Executive members</b>		
Salaries	<b>1,383</b>	1,105
Bonuses	<b>104</b>	278
Contributions to pension scheme (note 22)	<b>186</b>	168
Other benefits	<b>65</b>	66
	<b>1,846</b>	1,718

Bonuses based on Channel 4's financial performance in 1996 were paid to two executive members, Stewart Butterfield and Colin Leventhal. All bonus payments are approved by the remuneration committee.

<b>6. Employee information</b>	<b>1996</b>	1995
	£m	£m
Aggregate gross salaries	<b>21.9</b>	20.4
Employer's national insurance contributions	<b>2.0</b>	1.9
Employer's pension contributions (note 22)	<b>2.4</b>	2.2
Total direct costs of employment	<b>26.3</b>	24.5

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

	<b>1996</b>	1995
	Number	Number
<b>Channel 4</b>		
Programme commissioning and transmission	<b>280</b>	296
Advertising sales, marketing and research	<b>95</b>	90
Information systems	<b>41</b>	41
Operational management and administration	<b>72</b>	70
Corporate affairs and press office	<b>23</b>	20
<b>Subsidiary companies</b>		
Channel Four International Limited	<b>38</b>	34
Film Four Distributors Limited	<b>5</b>	5
124 Facilities Limited	<b>27</b>	—
Channel Four Learning Limited	<b>22</b>	—
	<b>603</b>	556
Full time permanent employees	<b>550</b>	512
Short term contract staff	<b>53</b>	44
	<b>603</b>	556

<b>7. Net interest</b>	<b>1996</b>	1995
	£m	£m
Interest receivable on short term deposits	<b>2.9</b>	1.6
Interest payable on bank loans and overdrafts repayable within five years	<b>(0.9)</b>	(1.7)
Net interest receivable / (payable)	<b>2.0</b>	(0.1)

## 8. Subsidy payable to ITV

The Act established a funding relationship between ITV and Channel 4 which is described in the Report of the Members on page 44. The ITC has reported that the total qualifying revenue relevant to that formula for 1996 was as follows:

	1996 £m	1995 £m
Channel 4	<b>490.4</b>	448.0
ITV (including GMTV) and S4C	<b>1,766.3</b>	1,693.4
	<b>2,256.7</b>	2,141.4

Based on the ITC's report of total qualifying revenue, the subsidy payable by Channel 4 to ITV for 1996, net of a small reduction for 1995, is £87.1 million (1995: £74.0 million), representing 50% of Channel 4's qualifying revenue in excess of 14% of the total qualifying revenue for ITV, Channel 4 and S4C. That sum was paid to the ITC in February 1997 for distribution between the ITV licensees.

## 9. Taxation

The taxation charge is based on the taxable profit for the year after deduction of the subsidy payable to ITV and comprises:

	1996 £m	1995 £m
UK corporation tax @ 33.0%	<b>16.4</b>	17.5
Deferred taxation (note 17)	<b>0.5</b>	3.0
	<b>16.9</b>	20.5
Less relief for overseas taxation	<b>(0.4)</b>	(0.2)
Overseas taxation	<b>0.4</b>	0.2
Adjustment in respect of prior year's deferred tax (note 17)	<b>1.0</b>	(1.2)
	<b>17.9</b>	19.3

## 10. Fixed assets

### Channel 4 and group

Tangible assets	Freehold properties £m	Equipment and furniture £m	Motor vehicles £m	Total £m
<b>Cost</b>				
At 1 January 1996	67.0	36.6	1.2	104.8
Additions	0.5	4.3	0.6	5.4
Disposals	—	(1.5)	(0.3)	(1.8)
<b>At 31 December 1996</b>	<b>67.5</b>	<b>39.4</b>	<b>1.5</b>	<b>108.4</b>

### Depreciation

At 1 January 1996	2.0	19.0	0.5	21.5
Charge for the year	1.4	5.9	0.3	7.6
Disposals	—	(1.5)	(0.2)	(1.7)
<b>At 31 December 1996</b>	<b>3.4</b>	<b>23.4</b>	<b>0.6</b>	<b>27.4</b>

### Net book value

At 1 January 1996	65.0	17.6	0.7	83.3
<b>At 31 December 1996</b>	<b>64.1</b>	<b>16.0</b>	<b>0.9</b>	<b>81.0</b>

## 11. Associated and subsidiary companies

The cost of investments at  
31 December was:

	1996 £000	1995 £000
Associated companies	1	—
Subsidiary companies	4	3
	<b>5</b>	<b>3</b>

There were no disposals during the year.

### Associated companies

#### British Screen Finance Limited

Channel 4 holds 1,800,030 ordinary £1 and 1,842,141 B class £1 shares in British Screen Finance Limited (British Screen), representing 43% of the ordinary share capital and 39% of the total capital. The shares were received in consideration of Channel 4 advancing £0.3 million per annum of loans from 1986 to 1991 to British Screen – a total of £1.8 million. British Screen is incorporated in England.

The ability of British Screen to pay dividends is restricted by its accumulated losses. Draft financial statements from British Screen for 1996 show accumulated losses of £9.4 million since incorporation in 1985.

Channel 4 has recognised its share of the accumulated losses made by British Screen by charging the amounts advanced as an expense. The shares are therefore held in the balance sheet at nil value. Channel 4 has no commitment or plans to advance any further funds to British Screen.

#### Digital 3 and 4 Limited

Channel 4 holds 1,000 ordinary £1 shares in Digital 3 and 4 Limited, representing 50% of the share capital. Independent Television Association Limited owns the other 50%. This company, incorporated in England, has submitted an application to the ITC to receive a licence to operate the Channel 3 and Channel 4 digital terrestrial multiplex.

### Subsidiary companies

Channel 4 owns 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>	
Channel Four International Limited	1,000
Film Four Distributors Limited	1,000
124 Facilities Limited	1,000
Channel Four Learning Limited	1,000
<b>Dormant</b>	
Channel Four Television Company Limited	100
Film on Four Limited	100
Sport on Four Limited	2
Channel Four Racing Limited	2

Channel Four International Limited manages the worldwide distribution and exploitation of Channel 4's film and programme rights.

Film Four Distributors Limited manages feature films' theatric and video releases in the United Kingdom.

124 Facilities Limited has been established to manage Channel 4's studio and technical facilities and commenced trading in 1996.

Channel Four Learning Limited manages Channel 4's educational liaison activities, and publications related to Channel 4's schools programmes. It commenced trading during 1996.



<b>12. Programme and film rights</b>	<b>1996</b>	1995
	£m	£m
Programmes and films completed but not transmitted	<b>44.9</b>	21.9
Programmes and films in the course of production	<b>64.0</b>	62.0
Purchased programme and film rights	<b>44.4</b>	31.3
	<b>153.3</b>	115.2

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

<b>13. Debtors</b>	<b>1996</b>	1995	<b>1996</b>	1995
	Group	Group	Channel 4	Channel 4
	£m	£m	£m	£m
Trade debtors	<b>57.6</b>	54.0	<b>52.7</b>	52.2
Prepayments and accrued income	<b>16.0</b>	4.5	<b>15.4</b>	3.5
Value added tax	<b>0.4</b>	—	<b>0.6</b>	—
Amounts due from subsidiaries	<b>—</b>	—	<b>0.3</b>	—
	<b>74.0</b>	58.5	<b>69.0</b>	55.7

<b>14. Investments</b>	<b>1996</b>	1995
	£m	£m
Short term cash deposits:		
Deposited for longer than three months	<b>—</b>	8.3
Deposited for less than three months	<b>50.9</b>	42.4
	<b>50.9</b>	50.7

#### **15(i) Reconciliation of net cashflow to movement in net funds**

	<b>1996</b>	1995
	£m	£m
Increase in cash for the year	<b>2.4</b>	1.6
Cash paid to increase liquid resources	<b>0.2</b>	50.7
Repayment of loans	<b>—</b>	2.5
(Increase) / decrease in money market borrowings	<b>( 6.2 )</b>	2.7
Change in net funds	<b>( 3.6 )</b>	57.5
Net cash at 1 January	<b>79.3</b>	21.8
<b>Net cash at 31 December</b>	<b>75.7</b>	79.3

<b>15(ii) Analysis of changes in net funds</b>	<b>1 January</b>	<b>Cashflow</b>	<b>31 December</b>
	<b>1996</b>	<b>1996</b>	<b>1996</b>
	£m	£m	£m
Current account balance	<b>42.3</b>	<b>2.4</b>	<b>44.7</b>
Money market borrowings	<b>( 13.7 )</b>	<b>( 6.2 )</b>	<b>( 19.9 )</b>
Cash at bank and in hand	<b>28.6</b>	<b>( 3.8 )</b>	<b>24.8</b>
Current assets: investments	<b>50.7</b>	<b>0.2</b>	<b>50.9</b>
	<b>79.3</b>	<b>( 3.6 )</b>	<b>75.7</b>

These cash balances were utilised to finance the ITV subsidy of £87.1 million paid to the ITC in February 1997.

## 16. Creditors – amounts falling due within one year

	1996 Group £m	1995 Group £m	1996 Channel 4 £m	1995 Channel 4 £m
Trade creditors	7.4	8.4	6.7	8.4
Accruals and deferred income	32.1	25.1	28.3	22.4
Social security	0.8	0.8	0.8	0.7
Value added tax	–	0.8	–	0.7
Other creditors	0.7	0.7	0.7	0.7
Amounts due to subsidiaries	–	–	0.9	0.9
	<b>41.0</b>	35.8	<b>37.4</b>	33.8

Channel 4 supports the Confederation of British Industry's prompt payment code and 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 Managing Director who will ensure that they are investigated and responded to appropriately.

## 17. Provisions for liabilities and charges

	Deferred taxation £m	Provision for rental deficits £m	Total £m
At 1 January 1996	5.3	6.3	11.6
Profit and loss account			
Charged in the year	1.5	1.2	2.7
Utilised during the year	–	(1.3)	(1.3)
<b>At 31 December 1996</b>	<b>6.8</b>	<b>6.2</b>	<b>13.0</b>

### Deferred taxation

The amounts of deferred taxation provided and the full potential liability at 31 December were as follows:

	1996 £m	1995 £m
Accelerated capital allowances	6.8	5.3

### Provision for rental deficits

The provision relates to rental deficits which will arise until 2006 on three of the buildings which Channel 4 used to occupy in Charlotte Street, London W1.

## 18. Reserves

	Profit and loss account £m	Statutory reserve £m	Total £m
<b>Group</b>			
At 1 January 1996	112.7	84.8	197.5
Retained profit for the year	29.3	—	29.3
<b>At 31 December 1996</b>	<b>142.0</b>	<b>84.8</b>	<b>226.8</b>

## Channel 4

At 1 January 1996	111.9	84.8	196.7
Retained profit for the year	28.7	—	28.7
<b>At 31 December 1996</b>	<b>140.6</b>	<b>84.8</b>	<b>225.4</b>

The statutory reserve would be drawn upon if Channel 4's qualifying revenue were ever to fall below 14% of total qualifying revenue. The Board of Channel 4 projects that Channel 4's share of qualifying revenue will remain substantially above this 14% threshold throughout the term of the present broadcasting licence which runs until 31 December 2002.

In December 1996, Parliament passed an Order which removes the requirement to transfer additional amounts to the statutory reserve fund with effect from 1 January 1996.

## 19. Cashflow

### Reconciliation of continuing operating profit to net cash inflow from operating activities

	1996 £m	1995 £m
Operating profit	132.3	128.2
Depreciation	7.6	7.7
Increase in programme and film rights	(38.1)	(11.3)
Increase in debtors	(15.5)	(2.8)
Increase / (decrease) in creditors and provisions	5.1	(2.0)
Exchange gains	—	(0.1)
Profit on disposal of fixed assets	(0.1)	(0.2)
<b>Net cash inflow from operating activities</b>	<b>91.3</b>	<b>119.5</b>

## 20. Programme and film commitments

At 31 December, Channel 4 had committed future expenditure for programmes and films due for payment as follows:

	1996 £m	1995 £m
Within one year	220.2	191.8
After one year	146.4	118.6
	<b>366.6</b>	<b>310.4</b>



## 21. Other commitments

Capital expenditure	1996 £m	1995 £m
Amounts contracted but not provided for in the financial statements	—	—
Amounts authorised for expenditure but not contracted at 31 December	4.3	5.3

### Forward foreign exchange contracts

At 31 December 1996, Channel 4 had entered into commitments to purchase foreign currencies amounting to £19.6 million (31 December 1995: £12.7 million), maturing between February and June 1997, which were entered into in order to fix the sterling cost of certain foreign programme and film purchase commitments.

## 22. Pension costs

Channel 4 operates a contributory pension scheme providing benefits based on final pay. The assets of the scheme are held separately from those of Channel 4, being invested through Legal & General Assurance (Pensions Management) Limited. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with Channel 4.

The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent independent valuation was as at December 1996. 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 pension. It has been assumed that investment returns will outstrip salary increases by 1.25% per annum and that present and future pensions will increase at the rate of 3.75% per annum.

The pension charge for 1996 was £2.4 million (1995: £2.2 million).

The actuarial valuation at December 1996 showed that the value of the scheme's assets was £39.0 million and represented 113% of the benefits which had accrued to members, after allowing for expected future increases in earnings. The contributions of Channel 4 and employees remain at 15.3% and 6% of earnings respectively.

## Historical record

<b>Profit and loss account</b>	1993	1994	1995	1996
For the year ended 31 December	£m	£m	£m	£m
<b>Turnover</b>	343.9	408.4	464.0	<b>518.6</b>
Cost of transmissions and sales	(278.4)	(285.7)	(309.0)	<b>(358.1)</b>
<b>Gross profit</b>	65.5	122.7	155.0	<b>160.5</b>
Administrative expenses and depreciation	(21.1)	(25.5)	(26.8)	<b>(28.2)</b>
Exceptional relocation expenses	—	(9.4)	—	<b>—</b>
<b>Operating profit</b>	44.4	87.8	128.2	<b>132.3</b>
Net interest	(5.5)	(4.2)	(0.1)	<b>2.0</b>
<b>Profit before ITV subsidy and taxation</b>	38.9	83.6	128.1	<b>134.3</b>
Subsidy payable to ITV	(38.2)	(57.3)	(74.0)	<b>(87.1)</b>
<b>Profit before taxation</b>	0.7	26.3	54.1	<b>47.2</b>
Taxation	0.6	(4.4)	(19.3)	<b>(17.9)</b>
<b>Retained profit for the year</b>	1.3	21.9	34.8	<b>29.3</b>

<b>Balance sheet</b>	1993	1994	1995	1996
At 31 December	£m	£m	£m	£m
Fixed assets	82.5	86.9	83.3	<b>81.0</b>
Net current assets	108.3	83.3	125.8	<b>158.8</b>
Long term creditors and deferred taxation	(50.0)	(7.5)	(11.6)	<b>(13.0)</b>
<b>Net assets</b>	140.8	162.7	197.5	<b>226.8</b>

<b>Advertising and sponsorship revenue</b>	1993	1994	1995	1996
	£m	£m	£m	£m
Channel 4	330.1	393.9	448.0	<b>490.4</b>
ITV, GMTV and S4C	1,483.1	1,602.7	1,693.4	<b>1,766.3</b>
	1,813.2	1,996.6	2,141.4	<b>2,256.7</b>

Source: Independent Television Commission

<b>Audience share</b>	1993	1994	1995	1996
	%	%	%	%
BBC 1	32.7	32.4	32.2	<b>32.5</b>
BBC 2	10.2	10.6	11.1	<b>11.5</b>
ITV and GMTV	40.0	39.5	37.3	<b>35.1</b>
Channel 4 and S4C	11.0	10.7	10.9	<b>10.7</b>
Satellite and cable	6.1	6.8	8.5	<b>10.2</b>
	100.0	100.0	100.0	<b>100.0</b>

Source: BARB: all individuals

