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Channel Four Television Corporation

Report and Financial Statements 1997



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## Chairman's statement

### 1997 results

1997 proved to be yet another excellent year for Channel 4. Despite the launch of Channel 5 and increased cable and satellite penetration, our own audience share remained steady at 10.6% (as compared to 10.7% in 1996). The annual turnover of £552.7 million represented a 6.6% increase over 1996.

### Funding formula

In July, Chris Smith, the Secretary of State for Culture, Media and Sport, announced that he intended that the funding formula should be phased out by 1999 with a reduced but final payment of about £60 million in respect of 1998.

The Board warmly welcomed this announcement. The formula has cost Channel 4 £89.9 million for 1997 and nearly £350 million since January 1993 – money that would have been spent by Channel 4 on programmes but which instead has helped boost ITV's growing profits. In line with the Secretary of State's wishes the new settlement will enable Channel 4 to proceed with its plans for digital services, to extend its commitment to British film production and to embrace enthusiastically its revised licence commitments to commission more originated programmes from around the United Kingdom.

### Privatisation

Following Channel 4's determined efforts to explain the adverse consequences for the range and quality of our programme service if the channel were to be privatised, as some politicians had proposed, we warmly welcome the statement made, so soon after the General Election, by the Secretary of State, Chris Smith that "we have no intention of privatising Channel 4 or selling it off" (11 May 1997 Radio 4) and by the Government's Deputy Chief Whip in the House of Lords, Lord McIntosh of Haringey that "this Government have no intention of privatising Channel 4" (Hansard 15 December 1997). I myself subscribe wholeheartedly to the view that privatisation of Channel 4 would be a calamity.

### The Board and staff

Early in 1997, Michael Grade announced his decision to leave Channel 4 to take up a new career outside of broadcasting. The Board would like to thank him for the outstanding job he did for the channel. His skills as a broadcaster, as an executive and as a leader were legendary, and properly so.

The channel has been uniquely fortunate in the success of its first two Chief Executives, who between them served 16 years. Our third, Michael Jackson, who was appointed in May and started on 1 July 1997, promises to continue their achievements. Michael was a vocal and effective supporter at the very creation of Channel 4 – both as a lobbyist for independent access and as the producer of *The Sixties*, one of its very first commissions. On joining the BBC, his innovative flair and competitive instincts helped him to build an impressive career as founding editor of *The Late Show*, Head of Music and Arts and Controller of BBC 2, and then Director of Television and Controller of BBC 1. Part of his task is to refresh the editorial priorities of Channel 4. To achieve this, he is initially performing the dual roles of Chief Executive and Director of Programmes.

In the light of Michael's appointment, John Willis resigned as Director of Programmes. The year also saw the departure of Stewart Butterfield who took on the role of Managing Director at the Granada Media Group and Colin Leventhal who left to launch a new British film company in partnership with Miramax Films. They formed part of the executive team which helped to create the stability, creative reputation and financial viability which underpin the channel's current success.

In January 1997 David Scott was promoted to the new post of Managing Director and later in the year two new Executive Directors were appointed: Andy Barnes as Director of Advertising and Marketing, and David Brook, formerly Director of Marketing at Channel 5, who was recruited to the new post of Director of Strategy and Development. Janet Walker, formerly Deputy Director of Finance at Channel 4 (1990 to 1994) and latterly Finance Director of Granada Media Group, has been appointed, and started on 14 April 1998, as Director of Business Affairs, succeeding Colin Leventhal.

December 1997 saw the expiry of Sir Michael Bishop's term of office at the channel and also that of the Deputy Chairman, David Plowright, together with the departure of two non-executive directors: Sir David Nicholas and Professor Mary McAleese, the latter becoming President of Ireland. My own appointment as Chairman was announced by the ITC at the beginning of 1998 and Bert Hardy – an existing member of the Board – has taken over as Deputy Chairman for the duration of 1998. Andrew Graham and Joe Sinyor were appointed to the Board on 1 April 1998. The remaining vacancy for a non-executive member will be announced soon.

The present Board thanks each of the departing members for their individual contributions to deliberations at Board meetings and, together with all the staff, the growth and development of Channel 4.

### Channel 4's purpose

It will be very hard to follow someone with Michael Bishop's talents: he is a wise, conscientious and tolerant man, and Channel 4 owes him a good deal. However, I am pleased to be succeeding him now. Channel 4 provides a vital and vibrant part of public service broadcasting in the United Kingdom. Because it is able to put viewers (rather than shareholders) first, it can make the kinds of programmes that the commercial market cannot be relied upon to make, as well as providing creative competition for the BBC.

The new multi-channel environment, together with the opportunity to deploy the money now released from the funding formula towards British made films, programmes and digital services, will combine to make the next few years a challenging time for us all. The financial review later in this report explains the increased expenditure which is being implemented to develop our programme and film investment activities and to introduce new digital services. We therefore expect a considerable reduction in Channel 4's profits in the next two years, as the funds earned by Channel 4 are deployed fully on the tasks allocated to us. However, we aim to deal with those challenges in the same imaginative, distinctive and successful way as we have with many others in the past 16 years.

*Vanni Treves*

Vanni Treves  
Chairman  
8 April 1998



## Chief Executive's report

1997 was inevitably a year of transition for Channel 4 with the most substantial change and renewal in senior staff in any one year during the channel's 15 years on air. The year ended with a season over Christmas, *Growing Up with 4*, to mark that 15th anniversary and assess the contribution the channel has made to Britain and British television over the decade and a half. While addressing the controversies and criticisms the channel has attracted over the years and – through the *Adam and Joe Show* – some of the moments that editors would rather have forgotten, it stood overall as a tribute to my predecessors and their colleagues.

Further tribute comes from the 100 or so major awards that the channel and its films and programmes won during 1997, most notably the outstanding achievement award at Banff, where Michael Grade, John Willis and their editorial colleagues were feted by international broadcasters, while at home Michael Grade received the Gold Award from the Royal Television Society. Between them Michael and John led the channel with distinction over a considerable period.

The British Academy of Film and Television Arts awarded its prestigious Michael Balcon Award to *Film on Four* for the tradition of distinctive and increasingly successful film commissioning established by David Rose and continued until the end of 1997 by David Aukin. It recognised that Channel Four Films – premiered on British television in the channel's *Film on Four* strand – has established what I termed a 'gold standard' in British movie-making, exemplified by *Trainspotting*, which the channel transmitted in November 1997, and by *Secrets and Lies*, which won BAFTA's Alexander Korda Award for the Outstanding British film of the year, as well as best screenplay for writer/director Mike Leigh and the best actress award for Brenda Blethyn. With the appointment of Paul Webster as Head of Film to succeed David Aukin, our decision to reorganise all our film operations – together with their international sales and domestic distribution – into a vertically-integrated subsidiary, should strengthen our contribution to the British film industry. The channel's long-standing commitment is now enshrined for the first time in the channel's new licence and will be backed by increased investment in film production.

Yet further tribute to the channel's editorial effort comes in the resilience with which the channel weathered what might otherwise have been an unsettling period. The channel withstood increased competition from satellite and cable – and the arrival of Channel 5 – with stable ratings. Our overall 10.6% share of viewing was only a whisker down from our 1996 figure of 10.7%. However, while our documentary series make a welcome contribution to peaktime, there has not been enough drama or entertainment that can match the appeal – or indeed the distinctiveness – of such American shows as *ER*, *Frasier*, *Friends* and *King of the Hill*.



**Father Ted**  
1997 Winner of

Indie Awards –  
Best entertainment series.

**Trainspotting**  
1997 Winner of

BAFTA Scotland –  
Best feature film;  
Best actor.

ALFS Awards of the London Film  
Critics' Circle –  
Best British actor;  
Best British producer.

Empire Magazine Awards –  
Best debut;  
Best British film;  
Best British actor;  
Best British director.

Brits Music Awards –  
Best film music.

Evening Standard Awards –  
Best screenplay.



One of our key tasks for the future is to develop more home-grown programmes that can match their combination of popularity and originality. We will seek to reinvigorate our longest-running hit, **Brookside**, and develop more shows like **Father Ted** and **Drop the Dead Donkey** – they were both absent in 1997, with their latest and probably last series not ready until 1998.

While our digital plans and other projects to develop the enviable Channel 4 brand could not bear fruit until 1998 at the earliest, we scored increasing success with one major innovation, the Channel 4 Website, acclaimed by early adopters of the Internet as one of the best – certainly from any established media owner. This was confirmed by a host of awards including the Promax UK Silver Award for best Website and the cult 'Cool Site' award from Project Cool in the USA. Intriguingly the best new programme in our **Growing Up with 4** season was the **Equinox Special, The King of Chaos**, that looked forward 15 years to anticipate that traditional television broadcasting had been totally transformed by its convergence with the Internet.

Channel 4 now inherits the fruits of the political campaign waged so effectively by Michael Grade and Sir Michael Bishop to end the iniquitous funding formula. After the payment for 1998, we will pay no money to our largest commercial competitor, ITV, and will be able to plough all our commercial income – after tax and our own overheads – back into the production of more and better programmes and films. In return, we have a new licence from the ITC, which imposes more precise obligations upon us, which we are only too happy to embrace, and which should help us to clarify the essential Channel 4 difference and thereby serve British viewers better.

Our increased commitment to production in the nations and regions should help us to reflect the whole of British life back to our national audience across the United Kingdom with greater confidence. With our largest and longest-running drama commission, **Brookside**, in Liverpool and the enviable reputation of recent features from Scotland – with **Shallow Grave**, **Trainspotting** and **The Acid House Trilogy** – there is a firm foundation to build upon. Setting up our first programme commissioning base outside London, with Stuart Cosgrove as Head of Programmes (Nations and Regions) in our new Glasgow office will help.

Our internal reorganisation is designed to help us plan more strategically for the future and invest our increased programme budget more wisely. As one of the many who started their careers as independent producers for the nascent Channel 4, I am particularly keen to strengthen the channel's partnership with the independent producers without whom the channel would be nothing – both the larger independents that are emerging as key players and the hundreds of other smaller operations that the channel will continue to commission every year. We want those key players, whom all broadcasters are targeting, to bring their best and most original ideas to us first; we also want those other producers, in whom other broadcasters may have little interest, to continue to feel nurtured by the channel, so that ultimately we have a more vigorous industry for our suppliers and a livelier schedule for our viewers. However, these are challenging and competitive times for all British television channels. Extending and improving Channel 4 is essential but it will not happen overnight.

*Michael Jackson*

Michael Jackson  
Chief Executive  
8 April 1998



**Secrets and Lies**

1997 Winner of

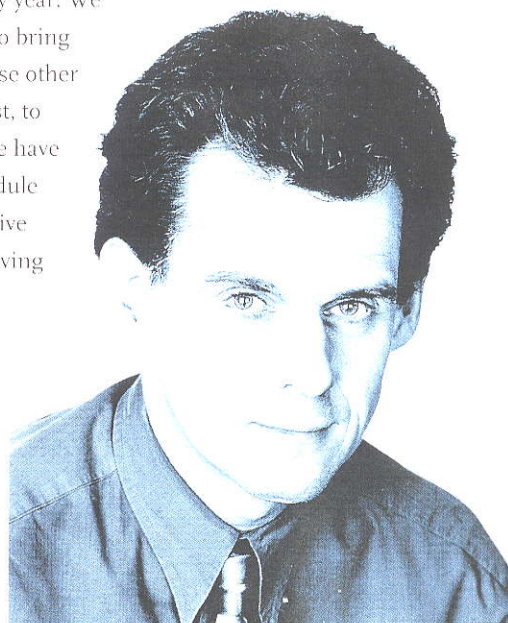
Alexander Korda Award –  
Best film of the year;  
Best performance  
by a leading actress;  
Best screenplay.

ALFS Awards of the  
London Film Critics' Circle –  
Best British film;  
Best British director;  
Best British actress.

Independent Spirit Awards (US) –  
Best foreign film.

Golden Globe Awards –  
Best actress.

Empire Magazine Awards –  
Best British actress.





# outspoke



**dangerous**  
**thoughtful**



# irrepressible energetic



# direct mischievous

**bold**

insightful

cheeky



## Programmes

Channel 4's best-loved strands sustained themselves well in 1997 – from **TFI Friday** and **Rory Bremner – Who Else?** to **Cutting Edge** and **Brookside**. At the year's end, **Channel 4 News** was beginning to benefit from a new senior editorial team to support the on-air journalism led by the incomparable Jon Snow. And **The Big Breakfast** was regaining its original form and vigour, thanks to the partnership of Johnny Vaughan and Denise van Outen.

### Innovation

Those necessary foundations for innovation – ambition and risk-taking – remained. The most audacious and controversial commission was certainly Chris Morris' **Brass Eye**. His wayward genius raises many problems for editors and lawyers as he crosses the boundaries between different genres and lurches along the boundaries of taste, but the result was one of the most brilliantly subversive comedy series of the decade.

Another innovative cult hit is the invigorating bedsit-based **Adam and Joe Show**. Their *faux naïf* style grew out of Adam's presentation of the access series, **Takeover TV**, but their media parodies with stuffed toys – **Toy Trainspotting**, and the toy version of **The English Patient** – play sophisticated wit against the deliberately clunky home video style.

Innovation is not always quite so successful – **The Show** tried to deconstruct the chat show by intercutting the actual interviews and performance with camcorder material shot behind the scenes that revealed the editorial process in action with presenter Bob Mills, its LWT production team and the commissioners at Channel 4. Though neither compelling enough as media critique nor as an alternative chat show, it was an intriguing experiment that was well worth trying – *The Independent's* Tom Sutcliffe said "Any programme, which arouses your suspicions about television, rather than merely sedating them, deserves a round of applause." **Films of Fire** pushed the boundaries of peaktime personal opinion with Marc Karlin's idiosyncratic dramatised personal essay about the power of Rupert Murdoch, **The Serpent**, that made few concessions to its subject or its audience.

One of the channel's most successful innovations in 1997 has been its daytime schedule – surprisingly so, since the daytime audience would hardly seem the ideal target for the channel's boldest new ideas, and you might not readily expect innovation where financial reality demands that programmes be stripped and produced economically. However, **Pet Rescue** and **Collectors' Lot** both demonstrated that it is possible to make successful daytime shows on location with high production values and escaping the confines of the studio. **Collectors' Lot** was a rare contribution from a regional company based in Plymouth, not just beyond the M25, but beyond the established centres for network production. More significantly, **Light Lunch** has evolved a brand new format – a melange of talk show, comedy and cookery – and developed two new television stars in Mel and Sue. It is also a more ironic programme than any conventional daytime offering, and attracts a smaller but younger audience than any other daytime commission. Its audience is highly committed to responding via the Internet.

Late night slots provide another laboratory for experiment, with this past year seeing a new kind of talk show, **For the Love Of...**, that gently explores strange obsessions, modern anorak-wearing variants of trainspotters – whether tree lovers or enthusiasts for radio and television transmitter masts. The **Right to Reply** team



**TFI Friday**  
1997 Winner of

**Broadcasting Press Guild Awards –**  
Best entertainment show.



**Brass Eye**  
1997 Winner of

**Broadcast Production Awards –**  
Best new programme.

1

2

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3

5

- 1 Adam and Joe Show
- 2 Light Lunch
- 3 Weekly Planet
- 4 Rory Bremner – Who Else?
- 5 The Big Breakfast

extended its commitment to viewers' access with **Nightwatch**, a live show that added phone-ins to its discussions of current broadcasting issues and managed to attract as many as 50,000 calls – a quite remarkable level of response from an estimated audience of 400,000. Other late-night series have included **Weekly Planet**, a 90-minute discussion series about world issues with Jon Snow, and a through-the-night sports phone-in show, **Under the Moon**, as well as the return of **The Shooting Gallery**, the showcase for original short films by emerging directors, and **Renegade TV**, a new zone for independent film and video's bold commissions and purchases. For Saturday night, a quintet of new talk show pilots was piloted on air, with one resulting commission: **The Sundays**, a live discussion presented by Melvyn Bragg around the contents of the next morning's papers.

### Tastes and interests: multicultural

Under its new licence, Channel 4 will be committed to broadcasting three hours a week of multicultural programmes. It achieved an average of around two-and-a-half hours in 1997, with the peaktime documentary strand **Black Bag**, two drama series, and two special seasons.

The channel produced two novel twists on established genres, with the controversial observational series, **Jamaica ER**, observing the appalling conditions facing doctors in a Kingston hospital (and giving a whole new meaning to the phrase 'fly on the wall'), and a detective drama series, **Bombay Blue**, a co-production between a Scottish and an Indian company. It explored the clash of cultural identities through the story of a young Glaswegian Asian policeman, who finds himself more Scottish than Asian when transported to Bombay on the trail of international drug smugglers.

**Bombay Blue** was launched as part of the **Indian Summer** season marking the 50th anniversary of Indian independence and the creation of Pakistan. The season also included two **Secret History** documentaries, a series by the most respected British journalistic observer of contemporary India, **Mark Tully's Faces of India**, Asian music, a specially commissioned feature-length drama, **Train to Pakistan**, and a fascinating series about Britain's surviving architectural legacy in the sub-continent, **Stones of the Raj**, that discovered a new television personality in presenter William Dalrymple.

Channel 4 also launched a pioneering late-night zone, **The Ba Ba Zee**, devoted to the black experience around the world through documentary and fiction. It featured several documentaries that subsequently won awards, including **The Farm**, about a peculiarly oppressive prison farm in Louisiana (with an overwhelming majority of black inmates), which won the top documentary prize at The Sundance Festival; and



**Hitler's Forgotten Victims**  
1997 Winner of

New York Festival –  
Unesco bronze award.

**The Ba Ba Zee – The Farm**  
1997 Winner of

Sundance Film Festival –  
Best documentary.



**Hitler's Forgotten Victims**, the previously neglected story of the blacks persecuted by the Nazis with eloquent testimony from survivors.

### Other special interests

Channel 4 devoted some of its other seasons to particular interests. **Access! All Areas** provided a focus for the channel's programmes confronting stereotypes about disability, including **House Gang**, an irreverent domestic comedy from Australia enacted by a group of young people with learning disabilities; a documentary, **Fight for Love**, about the adult years of Thalidomide survivor Terry Wiles (the subject of a BBC drama about his childhood 20 years ago); and a documentary about activists protesting about inadequate access to the Tube in **Going Underground**. **Queer Street** provided a new zone for gay and lesbian programming, supported by a distinctive peaktime documentary to mark the 30th anniversary of homosexual law reform, **A Bill Called William**. And another special interest group, **Petrolheads**, tuned in by the million to a Saturday night of documentaries about their sport, including a brand new **Secret Lives** about Colin Chapman.

While youth programming has substantially merged into entertainment – continuing with **Eurotrash** and the black music show **Flava** – the channel has increasingly identified a distinctive role for children's programmes, luring Ant and Dec from the BBC for a new entertainment format, launching the first animated versions of Terry Pratchett's Discworld novels with **The Wyrd Sisters**, and continuing the multi-award-winning **Wise Up**, which won an International Emmy for an unprecedented third year running. And the channel replaced its programmes for deaf adults with a highly imaginative new magazine format for deaf children, **The Vibe**.



**Wise Up**  
1997 Winner of

Royal Television Society  
Programme Awards –  
Children's Factual Programme.

International Emmy Awards –  
Best Children's and Young People.



Bombay Blue



The Vibe



Black Bag

**outrageous**  
**innovative**  
**raw**



**accessible**  
**invigorating**

**inventive**  
**inclusive**

**fresh**  
**audacious**



**imaginative**  
**compassionate**

## Film on Four

In the cinema Channel Four Films had a good year for releases with **Brassed Off**, **Fever Pitch** and **Welcome to Sarajevo**. **Trainspotting** – one of the channel's greatest cinema successes – reached British television in the latest **Film on Four Premiere** season. And **Short and Curlies** continued to provide a nursery for new film talent with its 11-minute shorts, including Kfir Yevet's award-winning **It's Not Unusual**, and Sarah Kane's screenwriting debut, **Skin**.

The channel's independent film and video department backed the completion of a feature length movie version of Irvine Welsh's **The Acid House Trilogy** – the first highly controversial part, **The Granton Star Cause**, received its television premiere this year in the **Renegade TV** season while the other two were in production. And in association with the BFI, the department backed an outstanding directorial debut, Carine Adler's **Under the Skin**.



**Brassed Off**  
1997 Winner of

Evening Standard Awards –  
Comedy award.

Berlin Film Festival –  
Best comedy.

Tokyo Film Festival –  
Special Jury prize.

Ghent International Film Festival –  
Student and audience prize.

The Writers' Guild –  
Best screenplay.

## Drama

1

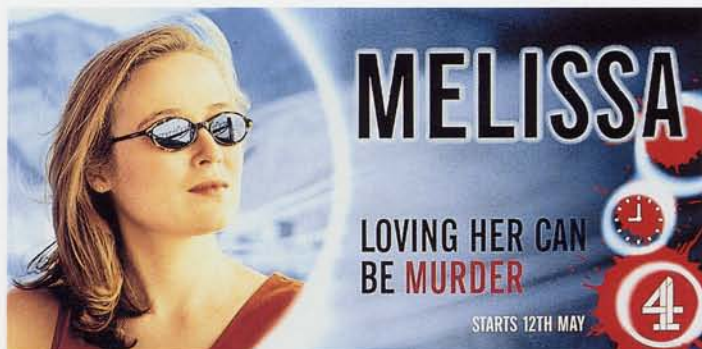
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- 1 Dance to the Music of Time
- 2 Underworld
- 3 Under the Skin

The drama highlight of the year was undoubtedly **A Dance to the Music of Time**, a dramatisation, in four two-hour episodes, of Anthony Powell's collection of a dozen novels spanning more than half a century of upper class and literary life. This project – wholly financed by Channel 4 and without any co-production money – displayed the kind of cultural ambition many critics allege died out in television years ago. Hugh Whitemore's screenplay was a skilful attempt to distil for a wider audience what many regard as one of the greatest achievements in English literature this century, although opinions varied about the scale of compression involved. But there were no doubts about Simon Russell Beale's commanding central performance as Widmerpool.

Alongside the well reviewed adaptation of Nina Bawden's novel **Family Money**, and Alan Bleasdale's re-interpretation of a key television drama genre through one of its classics, **Melissa**, major new drama writing came from the entertainment department with Andy (Drop the Dead Donkey) Hamilton's admirable attempt to combine thriller, comedy and the real pathos of goodness under stress in **Underworld**.



Melissa



Channel 4 News

1997 Winner of

Royal Television Society –  
Journalism Awards – Sports News  
(Olympic Money).

Glaxo Science Writers' Awards –  
Best item on a science subject  
(Julian Rush).

One World Broadcasting Trust –  
Action Aid Untold Stories Prize  
(Peter Morgan – Eritrea).

Amnesty International –  
UK overall winner  
Lindsey Hilsum (Rwanda).

Best Television News  
(Afghanistan).



Dope Sheet

If Princess Diana's death was the year's major news story, **Channel 4 News** made a strong, if controversial, contribution to its reporting – and also attracted its largest ever audience for its special edition on the night of her funeral. But the year's major political story was of course the General Election, and current affairs deployed its widest-ever range of formats to reflect a wider agenda based on what people were thinking rather than what politicians were saying. It was sadly the last election for the much-missed Vincent Hanna, who died in July 1997. The centrepieces of the coverage, a seven-day **Channel 4 News**, and weeknight **Midnight Specials**, and **A Week in Politics** (featuring a weekly soap opera from another Downing Street – in Chippenham) were complemented by **Thatcher's Children**, nightly vignettes from young first-time voters born in the year Mrs Thatcher became Tory leader.

**Dispatches** investigated the previous election campaign; **Spot the Difference** used a quiz show format to probe similarities between the parties; and in **1964 and All That**, Sir David Frost examined parallels between the 1964 and 1997 elections. **Power and the People** used the deliberative polling techniques pioneered by Channel 4 to brief a representative group of voters about economic issues and let them interview potential chancellors. And another special programme, **Voters Can't Be Choosers** provided a forum for frustrated voters who could find no party espousing the causes they believed in.

Rory Bremner delivered two specials and his partners Johns Bird and Fortune contributed two **Long Johns Election Specials**. Rory returned later in the year to reveal that the change of government, far from blunting his satirical scalpel, had simply given it new targets – and an opportunity for a new tool, the use of real-time animation techniques for his animated virtual Peter Mandelson. While a decade ago, **Max Headroom** imagined a computerised presenter as a fantasy far into the future, new technology has brought it to us – and the channel's new on-air animation magazine, **Dope Sheet**, used the same techniques to create its virtual animated presenter, Eric Dope.

Current affairs was equally diverse in the techniques it deployed elsewhere during the year, with a two-part dramatisation of Britain's longest libel trial, brought by McDonald's, **McLibell**, and an acclaimed drama, **The Investigator**, based on a real-life case of a military policewoman who found herself victimised for her own lesbianism. And in the **Dispatches**, **Lie of the Land**, Mark Thomas and his production team, used his mixture of stand-up comedy and purposeful stunts for a serious investigation of the Conditionally Exempt Land Bill which allows landowners to trade off tax against secret agreements to grant access to the public – who cannot find out about this access.

**Dispatches** had another strong year of *exposés*, revealing through secret filming the complicity of Sotheby's staff in auctioning smuggled Italian art works. Another programme located the trawler Gaul and filmed her on the ocean bed, a task deemed impossible by the government over the 23 years since she was lost – allegedly while involved in espionage. And the **Dispatches** on Gulf War syndrome was described by *The Times*' Matthew Bond as "outstanding, energetic, well-argued and agenda-setting, everything that investigative journalism is supposed to be, but rarely is".



McLibell

## Factual

Agenda setting journalism was not confined to current affairs. **Countryside Undercover** deployed miniature cameras to such powerful effect on the vivisection laboratory Huntington Life Sciences that it prompted a Home Office enquiry. And the makers of **The Dying Rooms** travelled the world to reveal man's inhumanity to child beyond China in **Innocents Lost**.

Leading the channel's main factual strands, **Cutting Edge** featured Madonna Benjamin's **The Builders are Coming**, Paul Watson's **The Dinner Party**, **Football Wives**, and **The Bed** (tracing the successive occupants of an NHS hospital bed). **True Stories** including the channel's 1997 Prix Italia entry, **The Grave**, about a chilling exhumation of Bosnian war crimes; and **Rats in the Ranks**, a highly entertaining study of local Australian politics. **Secret History** included **Lords of the Underworld**, telling the shocking story of the 1960s political and media cover-up to protect politician Bob Boothby and Tom Driberg that allowed their friends the Kray brothers to sustain their murderous criminality for many years; **Secret Lives** tackled Scientologist founder L. Ron Hubbard, Billy Butlin, Margot Fonteyn and JFK. Princess Diana's death gave new poignancy to **Royals and Reptiles**, a series already in production about the troubled relationship between the Royal family and the media. Other series included Rex Bloomstein's examination of the **Roots of Evil**, Howard Jacobson's study of humour, **Seriously Funny**, and Ian Hislop's educational history class, **School Rules**.

Other seasons examined the reality of prison life in **Banged Up**, with examinations of sex in prisons (**Barred Love**), a critique of British prisons by a former prison training administrator and a former prisoner (**Hard Cell**) and in **Stir Fry**, chef Anthony Worrall Thompson confronted a key issue of prison life – food – by trying to feed prisoners better on a budget of £1.37 per day.



Innocents Lost

And **Whose Choice?** marked the 30th anniversary of the 1967 Abortion Act by revisiting the debates with documentaries and a special **After Dark**.



True Stories – The Grave



Royals and Reptiles

## Education and leisure

Channel 4 extended its most successful formula for popular education with **Time Team Live**, returning every few hours to a dig over the August Bank Holiday weekend. **Health Alert** hit a highly topical nerve in **Mine's an Alcopop**. **Natural Born Healers** provided a dispassionate account of complementary medicine, testing its effectiveness upon some patients with chronic illness. **Love Life** eavesdropped on counselling for married couples, aiming for illumination rather than voyeurism. **The Trouble with Kids** observed a course in which parents of difficult children were given generally effective tips on how to cope with everyday situations. And **The People's Parliament** moved north of the border for a third series of the format allowing citizens to debate fundamental issues that concern them.

In **Dan Pearson – Routes around the World**, the young garden designer compared gardens on several continents. Hugh Fearnley-Whittingstall found the winning recipe twice with **A Cook on the Wild Side** and with **TV Dinners**, a classic format for observing people entertaining friends or colleagues at home. **Mrs Cohen's Money** discovered this columnist and self-taught investment expert was a television natural, pursuing her city interviewees with terrier-like determination on behalf of the punters. And Robbie Coltrane drew on his obsession with engines to explore the history of machines in **Coltrane's Planes and Automobiles**. Elsewhere, the camcorder techniques, already adapted from **The Real Holiday Show** to **Moving People**, found yet another application to **Deals on Wheels**, observing people selling – or trying to sell – their old cars.



Coltrane's Planes and Automobiles



Time Team



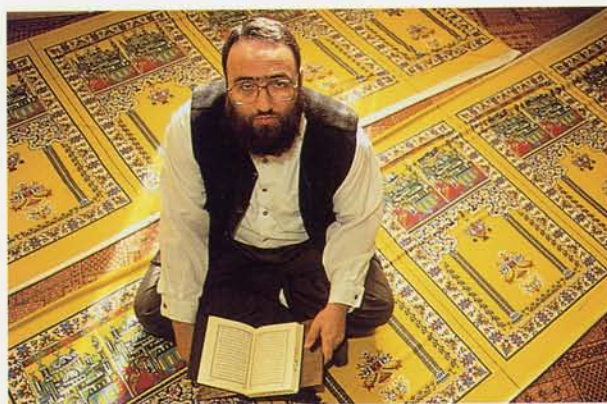
**The Lost Gardens of Heligan**  
1997 Winner of

Garden Writers' Guild –  
Best TV broadcast of the year.

## Religion and science

Channel 4 sustains British television's only regular peaktime religious strand, **Witness**, with a wide range of documentary subjects including **Babies Behind Bars**, Mormon polygamists in the USA, several films about child sexual abuse and an award-winning film by Jewish journalist Jon Ronson on an outspoken British moslem, **Tottenham Ayatollah**. And extending the coverage of strange belief, **Fortean TV** wryly considered some of the weirder phenomena, presented by the singing biker priest Father Lionel Fanthorpe.

**Equinox** ranged widely again in science, from **Black Holes** to the history of our own deterrent, **A Very British Bomb**, from autism (**Mindreaders**) to the billion dollar world of biotech crime (**Conspiracy of Science**). **The Deep** was a three-part series, revealing life forms in the ocean depths on our planet – far weirder than most sci-fi depictions of extra-terrestrial life. And **Against Nature** proved an immensely controversial, polemical attack on the environmental consensus that dominates most debate. The ensuing controversy saw two unconnected pre-emptive attacks in the same edition of *The Guardian*, and robust support from *The Financial Times* television writer Christopher Dunkley who welcomed "one of the most brilliantly successful and persuasive pieces of polemic it has ever been my pleasure to watch on television... The makers may be wrong, of course, and the Greens may have been right all along, but at least television is finally finding time to put the opposing view which, throughout the past 30 years, it has virtually ignored."



**Witness – Tottenham Ayatollah**  
1997 Winner of

Broadcast Production Awards –  
Best documentary.

**Equinox – Black Holes**  
1997 Winner of

New York Festival –  
Gold Medal –  
Best science documentary.



**Against Nature**



### Channel 4 Schools

1997 Winner of

#### RTS Educational Television Awards

Winner pre-school and infants –  
**Stop Look Listen – Stories of Faith – Sikhism.**

Winner Junior 7-9 year olds –

**Living Proof – Britain in World War II.**

Winner Junior 9-11 year olds –

**History Through Art.**



**Howard Goodall's Organ Works**

1997 Winner of

**New York Festival –**

**Best arts programme.**

### Dancing for Dollars – The Bolshoi in Las Vegas

1997 Winner of

**International Emmys –**

**Best arts documentary.**

## Schools

Channel 4 Schools won all three Royal Television Society awards for primary school programmes, and extended its pioneering news programme for schools,

**First Edition**, made in association with ITN and presented by Jon Snow. Individual highlights included a sparkling dramatisation of **Bill's New Frock**, Anne Fine's comedy of transvestism in primary schools; and **A Life of Ecstasy**, a real-life drama by Paula Milne paired with a dispassionate documentary examination of the use and effects of the drug.



**First Edition – Bill's New Frock**

## Arts

Channel 4 launched **Arthouse** as a new strand for well crafted hour-long arts documentaries, maintaining the channel's catholic arts agenda– from **The Van Gogh Fakes** to the restoration of a Hungarian dwarf theatre; from Ralph Fiennes and the Almeida production of **Ivanov Goes to Moscow** to Tony Kaye and Tricky.

**Post Mortem** considered the influence of mental and physical illness on such diverse artists as Beethoven, Virginia Woolf, Francis Bacon and Montgomery Clift. **The Music School** observed Chetham's in Manchester, and **Howard Goodall's Organ Works** communicated the composer's infectious enthusiasm for this most complex instrument, while **Dancing for Dollars** captured the confrontation of Russian post-Soviet ballet with American impresarios so acutely, in the case of **The Bolshoi in Las Vegas** – where the hapless entrepreneurs could scarcely give tickets away – that it won an International Emmy.

Damien Hirst and other leading artists were invited to create works especially for the small screen in **TV Sculpture**. Channel 4 supplemented its exclusive coverage and sponsorship of **The Turner Prize** by taking back coverage of **The Booker Prize**; and was the partner in two intriguing public polling exercises, **Books of the Century** and **Music of the Millennium**.



**Music of the Millennium**

## Entertainment

Alongside the continuing success of **Rory Bremner – Who Else?** and **TFI Friday**, the channel gave the first series opportunities to two idiosyncratic stand-up comedians, Phil Kay and Harry Hill, and managed to inveigle a third, Eddie Izzard, onto the box by handing him a whole evening for **Channel Izzard**. The rising duo **Armstrong and Miller** also got their first series on terrestrial television. Sadly, the latest brave attempt to provide a new show for Saturday night, Patrick Kielty's **Last Chance Lottery**, failed.

Although the channel continued its **Sitcom Festival** at The Riverside Studios, any benefits will be reaped in future years. Meanwhile, the channel attracted considerable interest for its **Sitcom Weekend**, which examined the gay contribution to sitcom (**Tickled Pink**), the *double entendre* (**Anyone Seen My Pussy?**) and the obsessive fans of particular sitcoms (**Luvvly Jubbly**). But some of the most ingeniously funny



Channel Izzard

moments on the channel came from two series commissioned by the animation department, the conclusion of Candy Guard's **Pond Life**, and the second series of Sarah Ann Kennedy's collaboration with Spitting Image, **Crapston Villas**.

### Pond Life

1997 Winner of

Indie Awards –

Best animation award.

Los Angeles Animation Celebration –

Best animation produced

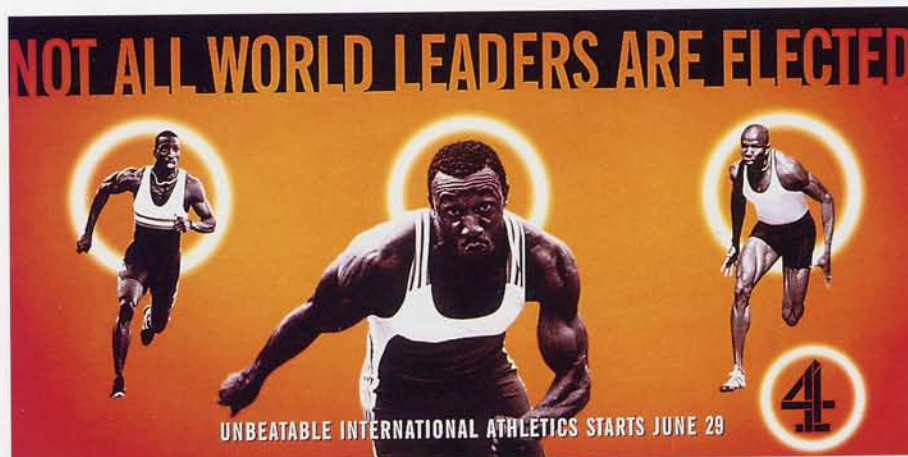
for prime time series/

Best animation direction.



## Sport

Channel 4 brought a fresh, if controversial, approach to covering athletics through its exclusive deal for **British Athletics**. *Scotland on Sunday* columnist Ian Bell declared: "Channel 4 does not do very much sport, but its modest output is selected with discrimination, and broadcast with imagination and skill. Everyone knows it covers horse racing better than its rivals and that its capture of **Italian Football** was a masterstroke. For this armchair racer's money, nevertheless, there is nothing it does better than the **Tour de France**."



British Athletics

acute

challenging  
brave  
surprising  
intelligent  
inspiring



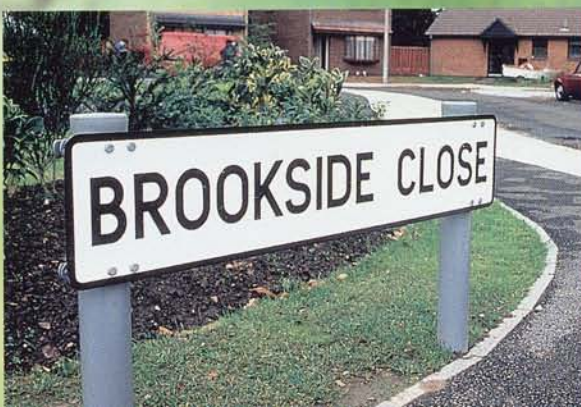
energetic



original

insightful

provocative



## Top 20 Channel 4 programmes in 1997

Channel 4's success is based on its continued ability to provide distinctive and innovative programmes and the channel's strength amongst the young, upmarket and lighter television viewers is a result of this diverse and targeted programming. This is reflected in The Top 20 programmes for the year, 12 of which were specially commissioned by the channel. These include two top films in which the channel invested, **Four Weddings and a Funeral** and **Trainspotting**.

	Audience millions	
1 <b>Brookside*</b>	7.9	UK commissioned drama
2 <b>Four Weddings and a Funeral</b>	7.3	UK commissioned <b>Film on Four</b>
3 <b>Friends</b>	6.0	US purchased series
4 <b>Cutting Edge – The Builders are coming</b>	5.2	UK commissioned documentary
5 <b>Dark Skies</b>	5.1	US purchased series
6 <b>Secret Lives – Princess Margaret</b>	4.9	UK commissioned documentary
7 <b>Shawshank Redemption</b>	4.9	US purchased feature film
8 <b>ER</b>	4.8	US purchased series
9 <b>Countdown</b>	4.8	UK commissioned game show
10 <b>Melissa</b>	4.7	UK commissioned drama
11 <b>Trainspotting</b>	4.6	UK commissioned <b>Film on Four</b>
12 <b>Hollyoaks*</b>	4.4	UK commissioned drama
13 <b>The Entertainers</b>	4.3	UK commissioned documentary
14 <b>Heroes of Comedy</b>	4.2	UK commissioned series
15 <b>Riverdance</b>	4.0	UK purchased entertainment
16 <b>Real Holiday Show</b>	3.9	UK commissioned series
17 <b>Sink the Bismark</b>	3.9	UK purchased feature film
18 <b>Roseanne</b>	3.8	US purchased series
19 <b>Carry on Matron</b>	3.8	UK purchased feature film
20 <b>TFI Friday*</b>	3.7	UK commissioned entertainment

\* (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:

- Two out of the five feature films were commissioned by Channel 4.
- Of those three other feature films, two were British and one from America.
- The top 20 programmes were made up of five factual, three original dramas, two entertainment, two US dramas, two US sitcoms, one game show and five feature films.
- Only five out of the top 20 programmes were American purchases.



- 1 Cutting Edge – The Builders are Coming
- 2 Four Weddings and a Funeral
- 3 Friends
- 4 Secret Lives – Princess Margaret
- 5 Brookside



Countdown



The Real Holiday Show

## 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 1997, as in all earlier years, Channel 4 met or exceeded all of the undertakings given to the ITC.

### Principal programme requirements

	Compliance minimum	1997 Actual	1996 Actual
<b>Average hours per week</b>			
Education	7	13	14
Current affairs	4	5	5
News	4	5	4
Religion	1	1	1
<b>Hours per year</b>			
Schools	330	426	337
<b>Percentage</b>			
Independent production *	25	83	85
European origin	50	63	57
European independent *	10	46	40
Subtitling for the deaf and hard-of-hearing	50 (by 1998)	56	53

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

## New licence conditions

In February 1998 the ITC published a revised Channel 4 licence which extends and clarifies the Channel 4 remit and its public service commitments.

The changes, which are outlined in a new Statement of Programme Policy, have been drawn up by Channel 4 in the light of discussions with the ITC. Many of the changes flow from the decision by Chris Smith, the Secretary of State for Culture, Media and Sport to phase out the Channel 4 funding formula, permitting increased resources to be deployed in programming and other key areas such as training. The new licence also reflects a variety of points raised in the public consultation on the licence revisions.

The main points in the new licence are:

- The redefinition of the Channel 4 remit in relation to all channels, not just ITV, and further commitment to innovation and experiment.
- A revised and strengthened statement on education.
- A new commitment to provide at least three hours on average per week of multicultural programmes, and also to schedule some of these in peaktime.
- A major commitment to the British film industry, giving some preference to innovative and risky subjects and treatments.
- A new commitment to programmes for and about people with disabilities.
- An increased requirement of 60% of programmes to be specially commissioned for the channel by 1999.
- A new commitment for production outside London, including a minimum requirement that the channel will originate 30% of UK programmes by production spend from outside London by 2002.
- New maxima for repeats – that the channel will ensure that by 1999 the overall amount of repeat material is less than 40% of total hours and 20% of peak hours broadcast.
- A new minimum requirement to spend 0.5% of qualifying revenue on staff training, film and television training for the industry and the development of new talent.
- A new requirement of diversity in peaktime scheduling, including news, current affairs, educational, religious and multicultural programmes.
- Revised commitments to ensure that from 2004 or earlier at least 80% of programme hours are subtitled, and other commitments for those with hearing and sight impairments.

## Regulatory authorities

Channel 4 takes seriously its compliance responsibilities to the Independent Television Commission and other regulatory authorities. The vast majority of programmes are transmitted without regulatory problem, and the channel's staff work carefully with external suppliers, who provide virtually all of Channel 4's programmes, to seek to ensure that all output adheres to the channel's compliance procedures and regulatory codes and requirements. Nevertheless, on a few occasions, judgements are made with which regulatory authorities subsequently disagree, and lapses occur due to human fallibility within the channel or at production companies. On those occasions, Channel 4 aims to admit mistakes openly and re-examine procedures to prevent, wherever possible, a recurrence of a problem.

The number of complaints to the broadcasting regulators and those upheld were as follows:

Regulator and remit	Number of complaints considered		Number upheld or partially upheld
	1997	1996	
<b>Independent Television Commission</b> Observes compliance with the Broadcasting Act and entertains complaints about independent television	522	559	14 formal interventions (1996: nine) including four separate breaches of the programme code resulting in a formal warning. Two of the 14 interventions represented serious breaches resulting in statutory sanctions (1996: two).
<b>Broadcasting Standards Commission</b> Entertains complaints about unfair treatment and/or infringement of privacy	8	7	Two were upheld (1996: four upheld).
Entertains complaints concerning standards of taste and decency	106	129	21 were upheld (1996: 19). Eight partially upheld (1996: eight).

The Broadcasting Standards Commission was established on 1 April 1997 and subsumed the regulatory roles of the Broadcasting Complaints Commission and the Broadcasting Standards Council. The comparative figures for 1996 and the first three months of 1997 are shown as if the Broadcasting Standards Commission had existed throughout these two years.

## Programme transmissions

The channel broadcast 8,734 hours in 1997 – 24 hours each day. The hours and costs of the channel's wide range of programme transmissions were as follows:

1997	1996		1997	1996
Hours	Hours		£m	£m
870	794	Drama (including <b>Film on Four</b> )	80.6	60.5
1,296	1,153	Entertainment	59.4	59.8
1,145	1,107	Education (including schools)	44.1	33.6
621	452	Current affairs	23.0	16.4
282	278	News	17.3	17.3
865	725	Sport	17.1	15.6
1,824	1,834	Feature films	15.6	14.7
323	300	Documentaries	15.3	13.9
239	195	Arts and music	12.1	12.6
131	108	Multicultural	8.5	8.5
335	314	Quiz and game shows	7.4	7.0
730	585	Children	6.8	3.6
73	63	Religion	3.0	4.0
8,734	7,908		310.2	267.5

### Originated programmes

Originated programmes increased by 21% to 5,072 hours transmitted in 1997.

Their proportion of the total transmission output was as follows:

	1997	1997	1996	1996
Transmission time	Hours	%	Hours	%
0600 to 0900	633	58	664	72
0900 to 1800	1,810	55	1,567	48
1800 to 2230	1,241	76	1,146	70
2230 to 0559	1,388	51	809	40
All hours	5,072	58	4,186	53

## 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 1997 are as shown in the tables below.

	1997 First run Hours	1997 Repeats Hours	1997 Total Hours	1996 First run Hours	1996 Repeats Hours	1996 Total Hours
<b>Commissions</b>						
Independent producers	2,614	1,308	3,922	2,015	880	2,895
Other	780	370	1,150	986	305	1,291
	3,394	1,678	5,072	3,001	1,185	4,186
<b>Purchases</b>						
US programmes	753	780	1,533	757	617	1,374
Other purchased programmes	142	163	305	248	266	514
Feature films	637	1,187	1,824	491	1,343	1,834
<b>Total</b>	<b>4,926</b>	<b>3,808</b>	<b>8,734</b>	<b>4,497</b>	<b>3,411</b>	<b>7,908</b>

	1997 total £m	1996 total £m
<b>Commissions</b>		
Independent producers	217.9	182.0
Other	48.4	44.7
	266.3	226.7
<b>Purchases</b>		
US programmes	23.6	21.4
Other purchased programmes	4.7	4.7
Feature films	15.6	14.7
<b>Total</b>	<b>310.2</b>	<b>267.5</b>

Independent production companies are the most important source of commissioned programmes. In 1997, Channel 4 made programme payments to 714 independent production companies (1996: 549).

	1997	1996
Programme payments	Number of companies	Number of companies
£0 – £100,000	470	306
£100,001 – £250,000	100	106
£250,001 – £500,000	52	53
£500,001 – £1,000,000	41	44
over £1,000,000	51	40
	714	549

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	1997	1996
1	430	355
2 – 5	221	156
6 – 10	39	32
11 or more	24	6
	714	549

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.

### Production outside London

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 1997 in increasing the volume of production in Scotland, Ireland, Wales and the English regions. The total cost of those programmes transmitted in 1997 amounted to £67.1 million, a 36% increase from £49.5 million in 1996, (which was 35% more than the £36.6 million in 1995).

## Supporting the industry

Working with Suppliers – Channel 4 places the highest priority on its relationships with independent producers. As the catalyst for the formation of the independent sector, the channel is increasingly aware of the changing nature and needs of the industry, whose ideas and talent are the lifeblood of the channel.

Regular PACT meetings are held throughout the year in different parts of the United Kingdom, when each programme area outlines its needs and philosophy. To this has been added regular more focused sessions with the Chief Executive and individual production companies. The annually published *Producer's Guide* has been expanded and will in future be regularly updated with headline news, and changes in programme personnel and responsibilities.

Plans were put into operation during 1997 to open the channel's editorial office in Glasgow, under the direction of Stuart Cosgrove, Head of Programmes (Nations and Regions). Channel 4 has improved the volume of its regional commissioning year-on-year but there is still a belief that we could do better. In order to tackle this issue, the channel's new editorial office in Scotland is geared towards achieving a coherent policy of de-centralisation and to creating a more level playing field for producers outside London.

The channel's commitment to ensuring that its staff have the necessary training and development to achieve personal, departmental and Channel 4's objectives is reflected in our ambition to achieve the Investors In People standard. During 1997 significant progress was made in this regard which will be continued in 1998. During the past year there were 1,796 days of professional, managerial, technical, information technology and other training for the channel's staff.

In 1997, 56% of Channel 4's transmitted programmes were subtitled for the deaf and hard of hearing. The channel agreed with the ITC a new target of achieving 80% of programmes to be subtitled by 2004.



The Madness of King George

Channel 4 continues its pioneering and enormously successful work in financing British films. We back **Channel Four Films** by support for related events throughout the country – not only film festivals and screenings but activities such as script-writing forums, seminars and discussion sessions. Support was also given to industry bodies and activities such as the British Film Institute, the Royal Television Society, the Cinema and Television Benevolent Fund, the British Academy for Film and Television Arts, the Association of Business Sponsors for the Arts, Women in Film and Television, Edinburgh International Television Festival, British Screen Finance, British Screen Advisory Council, Scottish Film Production Fund, the Voice of the Listener and Viewer, New Producers' Alliance, the Northern Ireland Film Council. The channel's marketing department supports the British Television Advertising awards and the National Advertisers Benevolent Society.

## Equal opportunities

Channel 4 retains its commitment to equal opportunities and the practical implication of this commitment underpins many of the Human Resource initiatives that take place at the channel.

The channel does not discriminate on grounds of sex, sexual orientation, marital status, race, colour, ethnic origin, disability, age, political or religious belief in its recruitment or other employment policies. As a result, the prevailing ethos created and maintained at Channel 4 for both applicants and staff is that everyone matters.

The representation of ethnic minorities amongst its permanent staff was 9.5% (1996: 9.1%) and women continue to form the majority of the channel's staff (58.2%).

The channel continues to encourage applications from people with disabilities. The policy of the channel is to recruit, train and provide career development opportunities to disabled persons on the same basis as for other staff and to make every effort to retain and assist any individuals disabled during their employment.



Shallow Grave



True Blue



The Woodlanders

## Viewer services

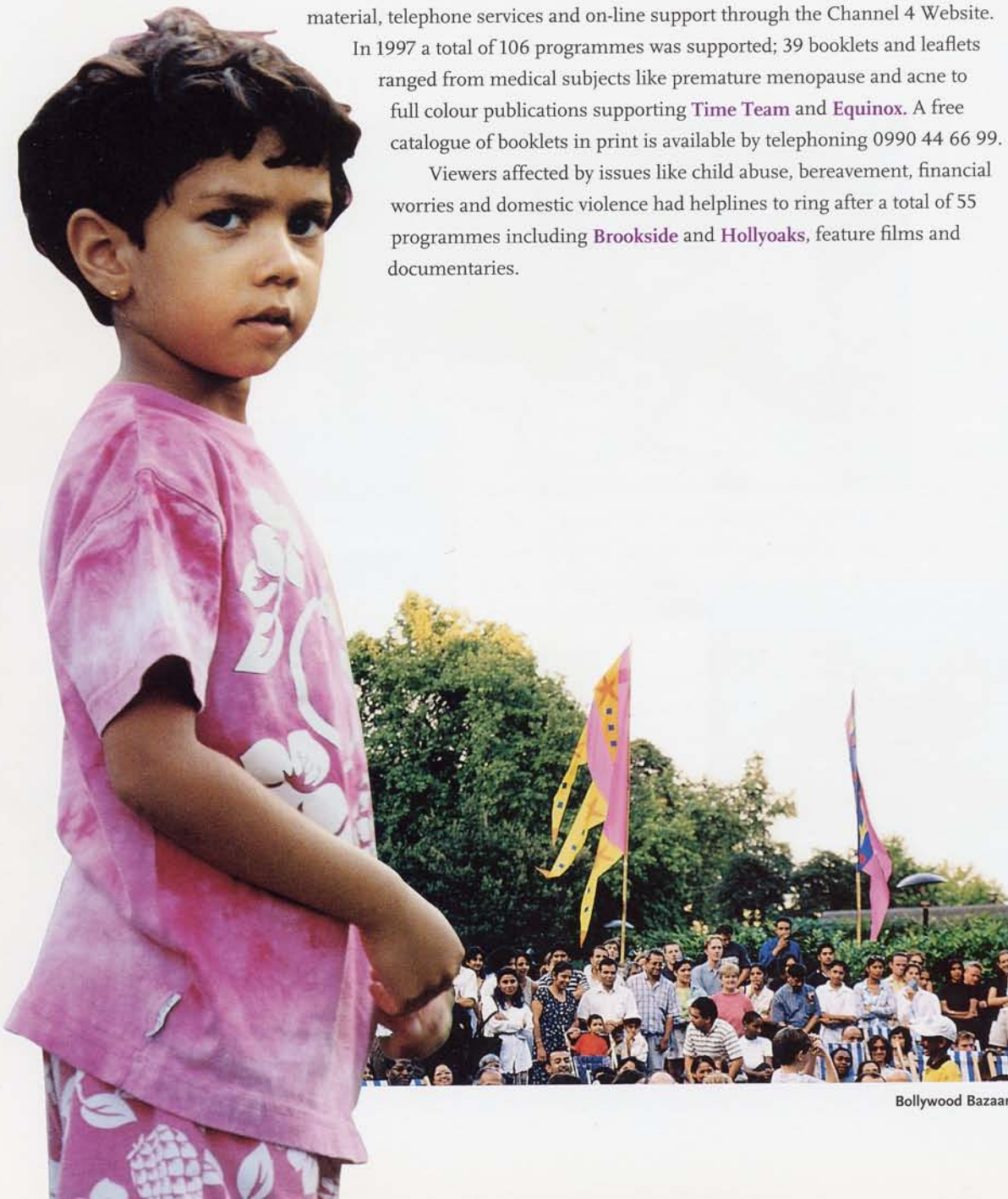
The channel is committed to maintaining as broad a dialogue as possible with its viewers. This is achieved in many different ways and on many levels and the channel is constantly seeking new and innovative means of reaching out to its audience.

The viewer enquiries department welcomes viewers' comments whether praise or complaint and is open 24 hours a day – staffed from 8.30am until 11.00pm on weekdays and from 10.00am to 11.00pm at weekends. An answerphone is available outside these hours. In 1997 its Information Officers answered 147,000 telephone calls (7.7% increase on the previous year) – 9.5 % of calls included a criticism. The department received 43,690 letters (6.5% increase on 1996) – of these, 6% included a criticism. A log of all calls is circulated to senior Channel 4 staff each day and specific programme complaints are dealt with at commissioning editor or higher level as a matter of policy.

The channel's programme support department provides a wide range of printed material, telephone services and on-line support through the Channel 4 Website.

In 1997 a total of 106 programmes was supported; 39 booklets and leaflets ranged from medical subjects like premature menopause and acne to full colour publications supporting **Time Team** and **Equinox**. A free catalogue of booklets in print is available by telephoning 0990 44 66 99.

Viewers affected by issues like child abuse, bereavement, financial worries and domestic violence had helplines to ring after a total of 55 programmes including **Brookside** and **Hollyoaks**, feature films and documentaries.



Bollywood Bazaar



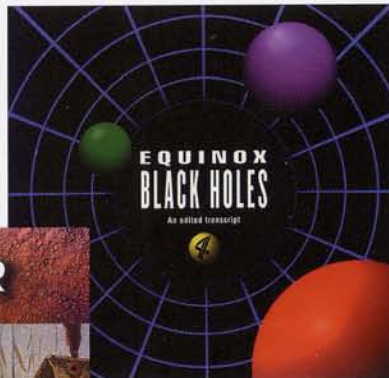
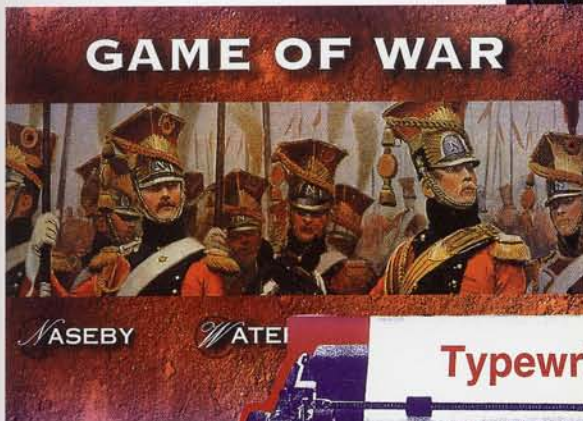
Light Lunch Website

The department worked closely with the Channel 4 web team to provide support to viewers who have access to the Internet for 34 programmes including **Time Team Live**, **Trial and Error**, **Absolutely Animals** and **Health Alert**. Reports of telephone helplines are published on the Website.

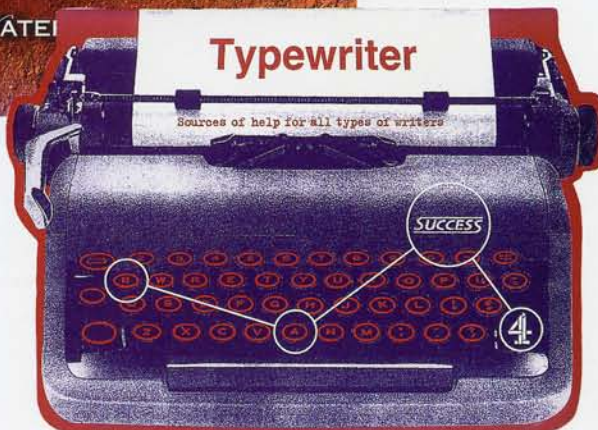
The Channel 4 Website, started in 1997 with a new look and many innovative features complementing the channel's first night and daytime schedules, with interactive elements for **Under the Moon**, **Pet Rescue**, **Collectors' Lot**,

**Wanted** and **Light Lunch**. Our **Midnight Special** site during the General Election campaign offered a late-night forum for reflection on the issues of the day and 1997 also saw the relaunch of the Channel 4 Schools site, offering a wide range of material and information for the education community. This site is due to expand in 1998 as part of a major online initiative to encourage learning on the Net.

The Website's greatest technical challenge to date was presented by **Time Team Live** over the August Bank Holiday weekend when the Website offered live hourly updates and pictures of the remarkable archaeological finds at the Roman villa in Gloucestershire. The site has won a host of awards including the New Media Age Effectiveness Award for Entertainment Online, the Promax UK silver award for Best Website and the cult 'Cool Site' award from Project Cool in the USA.



Channel 4 booklets

Close Encounters –  
Filmmaking Forum

As part of the channel's commitment to forge links with viewers, the channel visits as many different parts of the country as possible each year with roadshows, sponsored events, tours, a presence at exhibitions and other means of contact. In 1997 the Channel 4 roadshow visited Cornwall with a gardening show; an athletics roadshow visited Birmingham, Sheffield, Gateshead, and London and the arts and internet roadshow visited Bath, Bradford and Exeter. The Channel 4 sponsored Lesbian and Gay Film Festival toured 21 regional centres, including Belfast, Dublin, Edinburgh and Glasgow and Channel 4 Learning visited Birmingham and Scarborough as well as London-based events.

The channel spreads a limited sponsorship and donations budget as widely as possible and support in 1997 included activities ranging from the prestigious **Turner Prize** at the Tate Gallery, through the London, Edinburgh, Birmingham and Leeds film festivals, involvement with both Race in the Media and Disability in the Media awards, the Bradford Asian Film and Animation Festivals, the Bristol Short Film Festival, through to involvements such as a Liverpool Arts and Disability project, support for Deaf Film Makers and many others. To mark the 50th anniversary of Indian Independence, the channel co-sponsored with the Institute of Contemporary Arts a Bollywood Bazaar free concert and party in the park in the summer.



Edinburgh International Film Festival

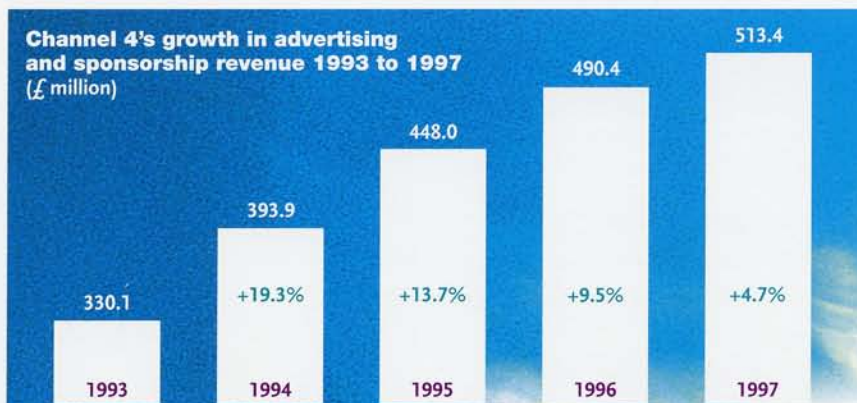


The Turner Prize

## Revenue

Channel 4 had another excellent year with its advertising and sponsorship revenue growing by 4.7% – out performing the brand leader, ITV, which it is estimated grew by only 1.5%.

Channel 4's total revenue from advertising and sponsorship for the year amounted to £513.4 million, despite the fierce competition which continues to grow; satellite and cable penetration reached 34% of the United Kingdom population by the end of the year and Channel 5, which launched at the end of March 1997, had an annual audience share of 3.1%. Despite the new competition, for every extra £1 spent by advertisers on ITV and Channel 4, Channel 4 received almost 50p.



## Audience

Revenue is dependent on audience size and audience profile. In 1997 Channel 4 showed a minimal decline in audience share, down just 0.1% from 10.7% to 10.6%. However, Channel 4's targeted programming consistently delivers those groups which are particularly sought after by advertisers – the upmarket and young audiences – and audience share for these groups has improved year on year.

The audience share for the upmarket socio-demographic group, ABC1 adults, grew from 10.7% to 10.8%. Channel 4's highest indexing programmes for ABC1 adults in 1997 were **Henry V at the Globe** and the run-down of the nation's favourite albums of all time, **Music of the Millennium**. The ABC1 adults profile of both of these programmes was over 71%.

Channel 4's audience share amongst 16 to 24 year olds, grew by over half a percentage point, from 12.3% to 12.9%. The youth drama **Hollyoaks** attracted a particularly young audience – over 75 % of viewers in 1997 were under 34.

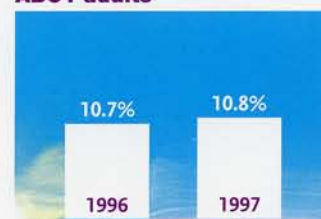
The result of Channel 4 out performing the average in 1997 amongst these young and upmarket viewers is recognised by the share of impacts (i.e. people watching commercials) for these groups delivered by the channel compared to the share of 'all persons' impacts. Thus the index of share of impacts for 16 to 24 year olds, based on the all individuals share is 118 – the channel achieved an 18% better delivery. For ABC1 adults the index was 109 – a 9% better delivery.

An elusive group that advertisers wish to reach is the lightest commercial viewing third of the population. For this audience, Channel 4 delivered, in 1997, almost a quarter better than the average (i.e. index 123). The highest rated Channel 4 programme for light viewers was the documentary **Thatcher's Children**: 45% of the audience were light viewers.

### Channel 4 share of viewing all individuals



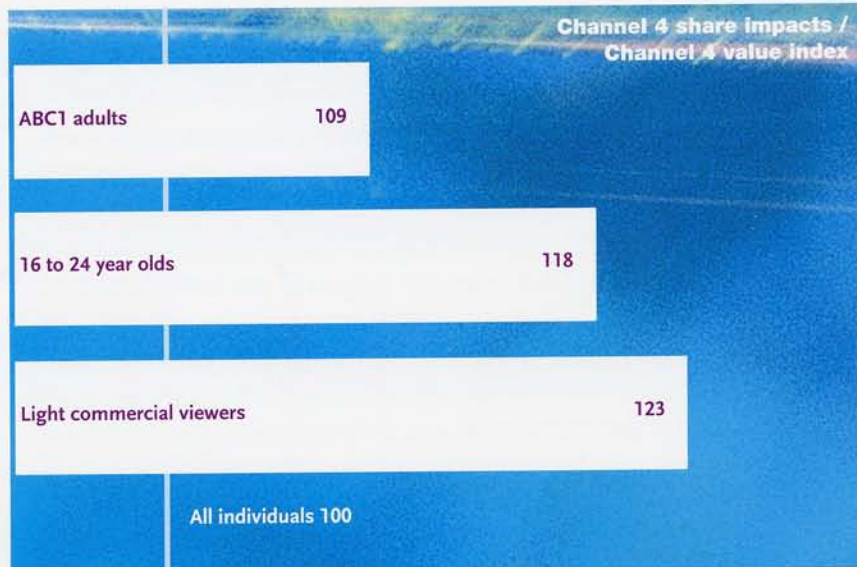
### Channel 4 share of viewing ABC1 adults



### Channel 4 share of viewing 16 to 24 year olds



Source: BARB



Source: BARB (Impacts are commercials seen in 1997)

### New developments

Channel 4 maintains a strategic approach to changes in the marketplace and throughout the year the sales department continued to explore the development of new revenue streams.

- Further inroads were made into the motoring, telecommunications and leisure advertising markets.
- The channel enhanced its lead in Direct Response Television Advertising by continued concerted sales and research effort.
- Revenue from sponsorship continued to grow as sponsors realised the special benefits that direct association with a Channel 4 programme can bring.
- To take full opportunity of the expansion of Channel 4's involvement in video releases, a specialised position was created to sell advertising and sponsorship onto video material.
- A manager was appointed to spearhead the sale of advertising and sponsorship on the award winning Channel 4 Website.

Channel 4 continued its successful policy of fair and open trading which again led to there being no significant debts on any Channel 4 deals. This unique sales performance was reflected in an industry survey carried out amongst advertising agency media directors by an independent consultancy HC Media Limited. The findings from this survey showed the Channel 4 sales team to be the best media sales force for 'Acting in a professional way' and was also the leading sales force in many of the other criteria. As a result it came as no surprise that Channel 4 had the best overall score within this survey – which included all media.

## Financial review and statements



## Financial review

### Turnover

Against an increasingly competitive market and for a fifth consecutive year, the Channel 4 advertising sales team achieved a year on year increase in our advertising and sponsorship revenue.

Faced with the launch of Channel 5 and the continued growth of cable and satellite services, our advertising and sponsorship revenue increased by 4.7% on the previous year. This compares to an estimated total television market growth of 5.9% and represents 93% (1996: 95%) of Channel 4's total income. The effect of increased competition in the market and the additional digital channels being planned for launch in 1998, will make further real increases in our advertising revenue stream more difficult to achieve.

As more new commercial television channels are launched, there will be an increasing value for the public in the programme output of a successful self-financing public service broadcaster whose first and overriding priority is not the delivery of profits but rather the delivery of programme choice and programme quality.

### Funding formula

1997 saw the satisfactory conclusion to our campaign for the abolition of the funding formula. The amount payable to ITV for 1998 will be reduced by a third and then set at zero for 1999 and onwards. This will provide Channel 4 with the resources needed to move forward with confidence to meet the new licence conditions, to develop the core programme quality and choice, and to develop new digital programme services.

Channel 4 has made a commitment that the funds released by the termination of the funding formula will be applied to commissioning more original British programmes and feature films. Those funds will finance new commitments under the digital multiplex licence granted by the ITC on 19 December 1997 and the requirements in the new Channel 4 Programme Policy Statement contained in our amended ITC licence which was published on 23 February 1998.

The consequence of these new expenditure commitments will be a substantial reduction in Channel 4's profits in the next two years.

The payment made to ITV for 1997 amounted to £89.9 million, making a total of £346.5 million which Channel 4 has paid to ITV in the last five years, allocated as shown in the table below:

	1993	1994	1995	1996	1997	Five year total
	£m	£m	£m	£m	£m	£m
Granada, LWT, Yorkshire and Tyne Tees	12.5	18.6	24.1	28.3	29.2	112.7
Carlton, Central and Westcountry	12.0	18.1	23.3	27.4	28.3	109.1
Meridian, Anglia and HTV	9.3	13.9	18.0	21.1	21.8	84.1
GMTV	2.2	3.4	4.3	5.1	5.3	20.3
Scottish and Grampian	2.1	3.2	4.2	4.9	5.0	19.4
Ulster	0.1	0.1	0.1	0.2	0.2	0.7
Border	—	—	—	0.1	0.1	0.2
Channel	—	—	—	—	—	—
	38.2	57.3	74.0	87.1	89.9	346.5

## **Taxation**

Channel 4 is subject to corporation tax on profits. The tax charge for 1997 was £10.7 million, £0.6 million of which related to prior years. The effective rate before this prior year charge was 35%.

## **Cash**

Channel 4 had net cash deposits at 31 December 1997 of £92.7 million (1996: £75.7 million) which was required to fund the payment of £89.9 million to ITV in February 1998.

## **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.

## **Channel Four International Limited**

Our programme and film sales company, Channel Four International, continues to grow, with turnover and profit in 1997 at record levels.

## **Film Four Limited**

Since the year end, the Board has agreed a plan to integrate Channel 4's film financing, distribution and international sales activities into a single company, Film Four Limited. This development reflects the growing scale and significance of this core part of Channel 4's business.

## **Digital**

During 1997 Channel 4 continued to develop plans for the launch of Digital Terrestrial Television (DTT).

Digital 3 and 4 Limited, which Channel 4 jointly owns with Independent Television Association Limited, was granted a DTT multiplex licence by the ITC on 19 December 1997. DTT services are scheduled to start transmission before the end of 1998.

Channel 4 will simulcast its present analogue service on DTT and also intends to launch new services, which it plans to make available to satellite and cable viewers as well. These new programme services will include a subscription film channel and some free to air services which develop Channel 4's strengths in education programming. These new services are planned to cost Channel 4 over £30 million in 1999 which will be financed by funds saved by the termination of the funding formula.

## **Year 2000 compliance**

The channel has implemented a project to identify all computer systems and processes that are critical to the business which are not year 2000 compliant, to identify costs of rectification and to ensure that such systems become compliant before the year 2000. The channel has also requested information from significant customers, suppliers and relevant third parties to assess the year 2000 risks posed to the channel by such parties. The project has not yet been completed and the overall costs of the required changes therefore are still to be determined, but are presently anticipated not to exceed £2million.

## 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. That licence has been amended by the ITC, which published revised programme requirements in February 1998, details of which are summarised on page 21 of this report.

### Review of business and results

The Chairman's statement on pages 2 and 3 and the Chief Executive's report on pages 4 and 5 and the Financial review on pages 34 and 35 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 49 to 62.

### 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, Channel 5 and S4C.

Parliament passed an Order in December 1997 reducing the amount which Channel 4 will pay to ITV for 1998 to one third of Channel 4's 1998 qualifying revenue in excess of 14% of total qualifying revenue.

A further Parliamentary Order is anticipated later in 1998 to terminate these payments from the end of this year. The funds released will enable Channel 4 to finance its digital programme services which are planned to start at the end of 1998; and finance the additional film and programme investments required under the new licence conditions.

## Members

The present members of Channel 4 are listed on page 46.

Since 1 January 1997, the following members have been appointed or retired from the Board:

<i>Appointments</i>	<i>Date of appointment</i>
Vanni Treves	9 January 1998
Michael Jackson	1 July 1997
Andy Barnes	16 July 1997
David Brook	17 November 1997
Janet Walker	14 April 1998
Andrew Graham	1 April 1998
Joe Sinyor	1 April 1998

<i>Retirements</i>	<i>Date of retirement</i>
Sir Michael Bishop	31 December 1997
David Plowright	31 December 1997
Mary McAleese	3 November 1997
Sir David Nicholas	31 December 1997
Michael Grade	31 May 1997
Stewart Butterfield	31 August 1997
Colin Leventhal	31 December 1997
John Willis	31 August 1997

## Members' interests

Certain members are interested in contracts negotiated on commercial terms with Channel 4.

- Sarah Radclyffe's production companies received programme production cost payments in 1997 of £67,042 for programmes commissioned by Channel 4.
- Michael Grade (Chief Executive of Channel 4 until 31 May 1997) is chairman of Video Collection International (VCI). During the year VCI group companies negotiated a number of arms length commercial deals with various Channel 4 group subsidiaries for video retail release and distribution of certain Channel 4 films and programmes. Revenue recognised by Channel 4 in 1997 amounted to £2.6 million. Michael Grade took no part in these negotiations.
- John Willis received £23,576 for continuing consultancy work on specific Channel 4 commissioned programmes after ceasing to be a member of 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 1997 amounted to £5.5 million (1996: £5.8 million).

### Charitable donations

During 1997 Channel 4 donated £30,935 to charities (1996: £500,000 to the Royal National Theatre and £17,714 to other charities).

### Employment policy

Channel 4 is an equal opportunities employer. It does not discriminate on the grounds of sex, sexual orientation, marital status, race, colour, ethnic origin, disability, age or political or religious beliefs 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).
- meetings where the Chairman and the Chief Executive give presentations on Channel 4's progress and future and all staff are encouraged to ask questions.

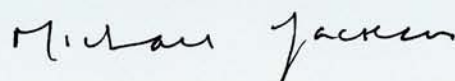
### Going concern

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 Culture, Media and Sport 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

Michael Jackson

Chief Executive

8 April 1998

## Corporate governance

In the opinion of the members, Channel 4 complied throughout the year with those provisions of the Cadbury Committee's and Greenbury Committee's Codes 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 15 members of whom the majority are non-executive. (At present there are 13 members, one vacant non-executive post and it is intended that a director of programmes will be appointed before the end of 1998). 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 46.

The Board met ten times during 1997. 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 Culture, Media and Sport.

### 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 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 40. Members' total emoluments (including bonus payments) are analysed on pages 44 and 45 and on page 54.

## Reporting

The Board believes that the 1997 Report and Financial Statements present a balanced and understandable assessment of Channel 4's financial 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.
- to review the draft annual report and financial statements before presentation to the full Board.

Three non-executive members, Vanni Treves (Chairman), Bert Hardy and Sarah Radclyffe form the membership of the audit committee.

Michael Jackson, 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 1997 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: Vanni Treves (Chairman), Bert Hardy, Sarah Radclyffe, Michael Jackson, 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 increases.
- merit or market rate increases for individuals.
- the group's pension fund arrangements and related employee benefits.

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

The remuneration committee consists entirely of non-executive members. Its members are Vanni Treves (Chairman), Bert Hardy and Sarah Radclyffe. Michael Jackson, David Scott and Frank McGettigan attend meetings as appropriate.

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 43 to 45.

### **Pension plan**

The six trustees of the Channel 4 Pension Plan meet with the Plan's investment managers, Legal & General Assurance (Pensions Management) Limited, several times each year. The Chairman of the trustees is Vanni Treves. The trustees include an independent member, Louise Botting; two of Channel 4's executive members, Frank McGettigan and David Scott; and two employee representatives, Richard Hurst and Nicky Stannett.

### **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.

#### **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 38 and 39 concerning Channel 4's compliance with paragraphs 1.4, 1.5, 2.3, 2.4, 3.1 to 3.3 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 to continue in operational existence.

### **Opinion**

With respect to the members' statements on internal financial control on page 41, and going concern on page 38 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 39 appropriately reflects Channel 4's compliance with the other paragraphs of the Code specified for our review.

**Coopers & Lybrand**  
**Chartered Accountants**  
**London**  
**8 April 1998**

## 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 40. 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).

Andy Barnes participates in the advertising sales bonus scheme, which is linked to advertising revenue targets. These targets are agreed by the remuneration committee before the start of each financial year.

### Service contracts

Michael Jackson was appointed Chief Executive on 1 July 1997. He has a contract for three years.

David Scott, Andy Barnes, David Brook, Frank McGettigan and Janet Walker have service contracts 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. 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 members' remuneration**

		1997 Salary £000	1997 Compensation for loss of office £000	1997 Bonus £000	1997 Benefits £000	1997 Total £000	1996 Total £000
<b>Executive members</b>							
Michael Jackson	(6 months)	175	—	—	4	179	—
Michael Grade	(4 months)	84	—	—	6	90	464
David Scott		255	—	—	13	268	212
Frank McGettigan		175	—	—	15	190	174
David Brook	(1½ months)	66	—	—	—	66	—
Stewart Butterfield	(8 months)	120	—	—	9	129	250
Andy Barnes	(5½ months)	82	—	137	6	225	—
Colin Leventhal		182	—	—	14	196	193
John Willis	(8 months)	178	710	—	9	897	259
<b>Non-executive members</b>							
Sir Michael Bishop		37	—	—	—	37	37
Bert Hardy		9	—	—	—	9	9
Murray Grigor		9	—	—	—	9	9
Usha Prashar		9	—	—	—	9	9
Sarah Radclyffe		9	—	—	—	9	9
David Plowright		17	—	—	—	17	17
Mary McAleese	(10 months)	7	—	—	—	7	9
Sir David Nicholas		9	—	—	—	9	9
		1,423	710	137	76	2,346	1,660

Michael Grade's remuneration is net of £104,000 received by Channel 4 for the early release of his contract.

David Brook's remuneration includes a bonus of £43,000 paid to compensate him for a bonus which he forfeited on leaving Channel 5.

Bonuses based on Channel 4's financial performance were paid to one executive member, Andy Barnes.

John Willis left Channel 4 on 31 August 1997. His contract ran until 31 December 2000. The value of the compensation for his loss of office is set out in the above table. Included in this sum is £548,000 total cash and non-cash benefits received by him up to 31 December 1997. The balance of £162,000 of the compensation payment is payable in 1998, 1999 and 2000.

## Pension

All executive members are eligible for membership of the Channel 4 Pension Plan on the same basis as all other members of staff. The plan is contributory, at 6% of pensionable salary, and provides members with a pension based on 1/50th of final pensionable pay for each year of service up to a maximum of two thirds of final pensionable earnings. Michael Grade accrued pension benefits on the basis of 1/30th of final pensionable pay.

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

The executive members of the plan during 1997 were as follows:

	Age at 31 December 1997	Month of start of pensionable service	Member's contributions during year £000	Increase in accrued pension entitlement during year £000	Total accrued pension entitlement at 31 December 1997 or date of leaving £000
Michael Jackson	39	July 1997	4	1	1
Michael Grade	55	January 1988	11	4	141
David Scott	43	November 1981	15	21	84
Frank McGettigan	46	July 1981	10	4	59
Stewart Butterfield	49	April 1991	6	2	18
Andy Barnes	42	December 1991	8	7	51
David Brook	37	December 1997	1	—	—
Colin Leventhal	50	July 1981	11	13	88
John Willis	51	January 1993	16	2	13

- The pension entitlement shown is that which would be paid annually on retirement from the age of 60 but based on service to the end of 1997, or date of leaving if earlier. There is a provision for a member to exchange part of the retirement pension for cash.
- The increase in accrued pension during the year excludes any increase for inflation.
- Members have the option to pay Additional Voluntary Contributions to a separate scheme. Neither the AVC contributions nor the resulting benefits are included in the above table.
- The accrued benefits for Michael Jackson, Stewart Butterfield, Andy Barnes, David Brook and John Willis, each of whom joined the scheme after June 1989, have been restricted as a result of the impact of the Inland Revenue's 1989 'earnings cap'.

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

- Normal retirement age is 60.
- There is a spouse's pension of one half of a scheme member's pension in the event of death in retirement and of one half of a scheme member's present expected pension in the event of death in service. There is an additional benefit equal to one half of the benefit payable to the spouse in respect of each child up to the age of 18, or 23 if in full time education, subject to a maximum of two children.
- Pensions in course of payment, in excess of the Guaranteed Minimum Pension, increase at 5% per annum compound, or the increase in the retail prices index if lower.
- Scheme members who leave before completing two years service receive a refund of their own contributions. Scheme members who leave having completed two years service receive a benefit from normal retirement date preserved within the scheme, calculated as above, but relating to pensionable service and pensionable earnings up to the date of leaving.
- An early retirement option exists from the age of 50. Any scheme member taking an early retirement option receives a pension at a discounted rate.

## Members and advisers

### Chairman

**Vanni Treves** (age 57)

Succeeded Sir Michael Bishop CBE as Chairman in January 1998. His appointment runs to the end of 2001. He is senior partner of the city solicitors, Macfarlanes and Chairman of three listed companies.

### Deputy Chairman

**Bert Hardy** (age 69)

Joined the Board in 1992. His appointment runs to the end of 1998. He is Chief Executive of European Press Holdings Ltd.

### Other non-executive members

**Andrew Graham** (age 55)

Joined the Board in April 1998. His appointment runs until March 2001. He is Acting Master of Balliol College, Oxford.

**Murray Grigor** (age 58)

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

**Usha Prashar CBE** (age 49)

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

**Sarah Radclyffe** (age 47)

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.

**Joe Sinyor** (age 40)

Joined the Board in April 1998. His appointment runs until March 2001. He was until recently Managing Director of Dillons Bookstores.

There is presently a vacancy for one non-executive member.

### Executive members

**Michael Jackson** (age 39)

Chief Executive since July 1997. He is Chairman of Channel Four International Limited and Film Four Limited. Prior to joining Channel 4 he was an independent producer (1981 to 1989); with the BBC as: editor of *The Late Show* (1989); Head of Music and Arts (1991); Controller BBC 2 (1993) and Director of Television and Controller of BBC 1 (1996).

**David Scott FCA** (age 43)

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

**Andy Barnes** (age 42)

Director of Advertising Sales and Marketing since July 1997. He is a director of Channel Four International Limited. He joined Channel 4 in 1991 as Head of Advertising Sales. Prior to that he was Deputy Sales Director of TVS.

**David Brook** (age 37)

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

**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 of Skillset and a member of the British Screen Advisory Council. 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).

**Janet Walker ACA** (age 44)

Recently appointed Director of Business Affairs, she takes up her post on 14 April 1998. She was Deputy Director of Finance at Channel 4 between 1990 and 1994. Since then, she has been Financial Controller, BBC Regional Broadcasting (1994 to 1996) and Finance Director of Granada Media Group.

**Secretary**  
Andrew Yeates

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

**Solicitors**

D J Freeman	Allen & Overy
43 Fetter Lane	9 Cheapside
London EC4A 1NA	London EC2V 6AD

**Bankers**

Midland Bank plc	Samuel Montagu & Co Limited
27/32 Poultry	Vintners Place
London EC3P 2BX	68 Upper Thames Street
	London EC4V 3BJ

## Statement of members' responsibilities

Channel 4 is required by the Broadcasting Act 1990 to keep proper accounts and proper records in relation to the accounts, and to prepare financial statements in respect of each financial year in a form as directed by the Secretary of State for Culture, Media and Sport with the approval of the Treasury. The members therefore prepare financial statements in compliance with this direction and, to the extent applicable, with the provisions of the Companies Act 1985 and accounting standards currently in force, that give a true and fair view of the state of affairs of Channel 4 and the group as at the end of the financial year and of the profit or loss 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 1997. 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 49 to 62.

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

As described on page 47 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 1997 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 and directions made thereunder by the Secretary of State.

**Coopers & Lybrand**

**Chartered Accountants and Registered Auditors**

**London**

**8 April 1998**

## Consolidated profit and loss account

For the year ended 31 December		1997	1996
	Notes	£m	£m
<b>Turnover</b>	1	<b>552.7</b>	<b>518.6</b>
Cost of transmissions and sales	2	(406.9)	(358.1)
<b>Gross Profit</b>		<b>145.8</b>	<b>160.5</b>
Administrative expenses		(21.2)	(20.6)
Depreciation	10	(7.9)	(7.6)
<b>Operating profit</b>	3	<b>116.7</b>	<b>132.3</b>
Net interest receivable	7	2.4	2.0
<b>Profit before ITV subsidy and taxation</b>		<b>119.1</b>	<b>134.3</b>
Subsidy payable to ITV	8	(89.9)	(87.1)
<b>Profit before taxation</b>		<b>29.2</b>	<b>47.2</b>
Taxation	9	(10.7)	(17.9)
<b>Retained profit for the year</b>		<b>18.5</b>	<b>29.3</b>

All activities are continuing.

## Statement of total recognised gains and losses

For the year ended 31 December		1997	1996
		£m	£m
<b>Profit for the year</b>		<b>18.5</b>	<b>29.3</b>
Unrealised surplus on revaluation of buildings	10	0.5	—
<b>Total recognised gains for the year</b>		<b>19.0</b>	<b>29.3</b>

The notes on pages 52 to 62 form part of these financial statements.

Report of the auditors – page 48.

## Balance sheets

At 31 December		1997 Group £m	1996 Group £m	1997 Channel 4 £m	1996 Channel 4 £m
	Notes				
<b>Fixed assets</b>					
Tangible assets	10	77.2	81.0	77.2	81.0
<b>Current assets</b>					
Programme and film rights	12	164.0	153.3	163.6	153.2
Debtors	13	76.5	74.0	69.8	69.0
Investments	14	65.5	50.9	65.5	50.9
Cash at bank and in hand	16	27.2	24.8	27.3	24.7
		333.2	303.0	326.2	297.8
<b>Creditors</b>					
Amounts falling due within one year:					
Subsidy payable to ITV	8	(89.9)	(87.1)	(89.9)	(87.1)
Creditors	15	(50.9)	(41.0)	(47.3)	(37.4)
Corporation tax		(13.2)	(16.1)	(12.6)	(15.9)
<b>Net current assets</b>		<b>179.2</b>	<b>158.8</b>	<b>176.4</b>	<b>157.4</b>
<b>Total assets less current liabilities</b>		<b>256.4</b>	<b>239.8</b>	<b>253.6</b>	<b>238.4</b>
<b>Provisions for liabilities and charges</b>	17	<b>(10.6)</b>	<b>(13.0)</b>	<b>(10.6)</b>	<b>(13.0)</b>
<b>Net assets</b>		<b>245.8</b>	<b>226.8</b>	<b>243.0</b>	<b>225.4</b>
Profit and loss account	18	160.5	142.0	157.7	140.6
Statutory reserve	18	84.8	84.8	84.8	84.8
Revaluation reserve	18	0.5	—	0.5	—
		245.8	226.8	243.0	225.4

Vanni Treves  
Chairman

David Scott  
Managing Director

These financial statements were approved by the Board of Members on 8 April 1998.

The notes on pages 52 to 62 form part of these financial statements.

Report of the auditors – page 48.

## Consolidated cashflow statement

For the year ended 31 December	Notes	1997 £m	1997 £m	1996 £m	1996 £m
<b>Net cash inflow from continuing operating activities</b>	16		<b>120.9</b>		<b>91.3</b>
<b>Subsidy paid to ITV</b>			<b>(87.1)</b>		<b>(74.0)</b>
			<b>33.8</b>		<b>17.3</b>
<b>Returns on investments and servicing of finance</b>					
Interest received		<b>2.8</b>		<b>2.9</b>	
Interest paid		<b>(0.3)</b>		<b>(0.9)</b>	
			<b>2.5</b>		<b>2.0</b>
<b>Taxation</b>					
UK corporation tax paid		<b>(15.2)</b>		<b>(17.3)</b>	
Overseas tax paid		<b>(0.6)</b>		<b>(0.4)</b>	
			<b>(15.8)</b>		<b>(17.7)</b>
<b>Capital expenditure</b>					
Payments to acquire tangible fixed assets	10	<b>(3.8)</b>		<b>(5.4)</b>	
Receipts from sales of tangible fixed assets		<b>0.3</b>		<b>0.2</b>	
			<b>(3.5)</b>		<b>(5.2)</b>
<b>Net cash inflow/(outflow) before management of liquid resources and financing</b>			<b>17.0</b>		<b>(3.6)</b>
<b>Management of liquid resources and financing</b>					
Increase in investment in short term cash deposits	16		<b>(14.6)</b>		<b>(0.2)</b>
(Decrease)/increase in money market borrowings	16		<b>(0.9)</b>		<b>6.2</b>
<b>Increase in cash in the year</b>	16		<b>1.5</b>		<b>2.4</b>

The notes on pages 52 to 62 form part of these financial statements.

Report of the auditors – page 48.

## Principal accounting policies

### Basis of accounting

The financial statements have been prepared under the historical cost convention, modified by the revaluation of freehold properties. The financial statements have been prepared in a form as directed by the Secretary of State for Culture, Media and Sport with the approval of Treasury and 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 1997. 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, other than the freehold land and buildings which are shown at valuation, are stated at cost, together with any incidental expenses of acquisition, less depreciation.

Depreciation is calculated so as to write off the cost or valuation 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 the financial statements

### 1. Turnover

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

	1997 £m	1996 £m
Net advertising and programme sponsorship	513.4	490.4
Programme and film sales	34.3	23.7
Other income	5.0	4.5
	<b>552.7</b>	<b>518.6</b>

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

	1997 £m	1996 £m
<b>Transmissions</b>		
Direct programme costs	310.2	267.5
Transmitter and distribution costs	27.9	28.3
Indirect programme costs	27.4	29.2
ITC regulatory costs	2.0	2.1
Digital costs	0.5	–
<b>Sales</b>		
Cost of advertising and programme sales	32.3	26.7
Share of programme sales income due to independent producers and third party financiers	6.6	4.3
	<b>406.9</b>	<b>358.1</b>

### 3. Operating profit

	1997 £m	1996 £m
Operating profit is stated after charging:		
Depreciation of fixed assets (note 10)	7.9	7.6
Research and development	5.5	5.8
Operating lease rentals	1.5	1.2
Members' remuneration (note 5)	2.3	1.7
Equipment hire	0.3	0.3
Fees in respect of services provided by the auditors were:	£000	£000
Statutory audit:		
Channel 4	28	20
Subsidiaries	22	17
Other services:		
Tax advice	29	35
Computer consultancy	99	32
	<b>178</b>	<b>104</b>

#### 4. Segmental information

	Turnover £m	Profit before taxation £m	Net assets £m
<b>1997</b>			
Broadcasting	518.4	13.6	244.3
Programme and film sales	34.3	15.6	1.5
	<b>552.7</b>	<b>29.2</b>	<b>245.8</b>
<b>1996</b>			
Broadcasting	494.9	37.3	226.1
Programme and film sales	23.7	9.9	0.7
	<b>518.6</b>	<b>47.2</b>	<b>226.8</b>

The profit before taxation for the programme and film sales activity is shown before a rights charge of £13.9 million (1996: £9.5 million) from Channel 4's broadcasting activity.

#### 5. Remuneration of the members

A detailed analysis of members' remuneration including salaries and performance-related bonuses, is provided in the remuneration committee's report on pages 43 to 45.

	<b>1997</b> £000	1996 £000
Non-executive members		
Aggregate emoluments	<b>106</b>	108
Executive members		
Aggregate emoluments	<b>1,530</b>	1,552
Compensation for loss of office	<b>710</b>	—
	<b>2,346</b>	1,660

## 6. Employee information

	1997 £m	1996 £m
Aggregate gross salaries	23.8	21.9
Employer's national insurance contributions	2.0	2.0
Employer's pension contributions (note 21)	2.7	2.4
Total direct costs of employment	28.5	26.3

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

	1997 Number	1996 Number
<b>Channel 4</b>		
Programme commissioning and transmission	284	280
Advertising sales, marketing and research	97	95
Information systems	44	41
Operational management and administration	68	72
Corporate affairs and press office	23	23
Digital	4	—
<b>Subsidiary companies</b>		
Channel Four International Limited	39	38
Film Four Distributors Limited	8	5
124 Facilities Limited	29	27
Channel Four Learning Limited	24	22
	620	603
Full time permanent employees	566	550
Short term contract staff	54	53
	620	603
Male	260	253
Female	360	350
	620	603

Travel, subsistence and hospitality expenditure in the year was as follows:

	1997 £000	1996 £000
Members	217	173
Other employees	1,178	1,333
	1,395	1,506

Staff loans outstanding at 31 December were as follows:

	1997 £000	1996 £000
Season ticket	111	102
Other loans	7	4
	118	106

There are no loans to members.

## 7. Net interest receivable

	1997 £m	1996 £m
Interest receivable on short term deposits	3.3	2.9
Interest payable on bank loans and overdrafts repayable within five years	(0.3)	(0.9)
Other interest payable	(0.6)	—
Net interest receivable	2.4	2.0

## 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 36. The ITC has reported that the total qualifying revenue relevant to that formula for 1997 was as follows:

	1997 £m	1996 £m
Channel 4	513.4	490.4
ITV (including GMTV), S4C and Channel 5	1,872.7	1,762.2
	2,386.1	2,252.6

Based on the ITC's report of total qualifying revenue, the subsidy payable by Channel 4 to ITV for 1997, including a small increase for 1996, is £89.9 million (1996: £87.1 million), representing 50% of Channel 4's qualifying revenue in excess of 14% of the total qualifying revenue for ITV, Channel 4, Channel 5 and S4C. That sum was paid to the ITC in February 1998 for distribution between the ITV licensees.

As explained on page 36, Parliament passed an Order in December 1997 reducing the amount Channel 4 will pay to ITV for 1998 to one third of Channel 4's 1998 qualifying revenue in excess of 14% of total qualifying revenue.

## 9. Taxation

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

	1997 £m	1996 £m
UK corporation tax @ 31.5% (1996: 33%)	10.1	16.4
Deferred taxation (note 17)	—	0.5
	10.1	16.9
Less relief for overseas taxation	(0.5)	(0.4)
Overseas taxation	0.5	0.4
Adjustment in respect of prior years	0.6	1.0
	10.7	17.9

## 10. Fixed assets

<b>Channel 4 and group</b>	<b>Freehold Properties</b>	<b>Equipment and furniture</b>	<b>Motor vehicles</b>	<b>Total</b>
Tangible assets	£m	£m	£m	£m
<b>Cost or valuation</b>				
at 1 January 1997	67.5	39.4	1.5	108.4
Additions	—	3.3	0.5	3.8
Disposals	—	(0.2)	(0.5)	(0.7)
Reclassification	(4.3)	4.3	—	—
Revaluation	3.3	—	—	3.3
<b>At 31 December 1997</b>	<b>66.5</b>	<b>46.8</b>	<b>1.5</b>	<b>114.8</b>
<b>Depreciation</b>				
at 1 January 1997	3.4	23.4	0.6	27.4
Charge for the year	1.4	6.2	0.3	7.9
Disposals	—	(0.2)	(0.3)	(0.5)
Reclassification	(0.3)	0.3	—	—
Revaluation	2.8	—	—	2.8
<b>At 31 December 1997</b>	<b>7.3</b>	<b>29.7</b>	<b>0.6</b>	<b>37.6</b>
<b>Net book value</b>				
at 1 January 1997	64.1	16.0	0.9	81.0
<b>At 31 December 1997</b>	<b>59.2</b>	<b>17.1</b>	<b>0.9</b>	<b>77.2</b>

### Valuation of freehold properties

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

	<b>1997</b>	<b>1996</b>
	£m	£m
Office, studio and transmission centre:		
Valuation in year	58.5	—
Cost	—	63.4
Other properties at cost	0.7	0.7
	<b>59.2</b>	<b>64.1</b>

The other properties are used as permanent location sets for **Brookside** and **The Big Breakfast** programmes.

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

	<b>1997</b>	<b>1996</b>
	£m	£m
Cost	63.2	67.5
Accumulated depreciation	(4.5)	(3.4)
Net book value based on cost	<b>58.7</b>	<b>64.1</b>

The freehold property comprising the office, studio and transmission centre at Horseferry Road, London SW1 was valued as at 31 December 1997 by external valuers, Messrs Fuller Peiser, Property Consultants. The parts of the property occupied by Channel 4 were valued on a depreciated replacement cost basis. The remainder of the property was valued on the basis of open market value. Attention was drawn to the fact that the value reported on the depreciated replacement cost basis is in excess of open market value for use as conventional office accommodation.

The surplus of £0.5m arising from the revaluation has been transferred to the revaluation reserve (note 18).

## 11. Associated and subsidiary companies

The cost of investments at 31 December was:	1997 £000	1996 £000
Associated companies	1	1
Subsidiary companies	4	4
	5	5

### 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 for British Screen for 1997 show accumulated losses of £8.5 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 A class 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 been granted by the ITC a licence to operate the Channel 3 and Channel 4 digital terrestrial multiplex.

At 31 December 1997, Channel 4's share of the net assets of Digital 3 and 4 Limited amounted to £1,000.

### 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. This company changed its name on 20 March 1998 to Film Four Limited.

124 Facilities Limited manages Channel 4's studio and technical facilities.

Channel Four Learning Limited manages Channel 4's educational liaison activities and publications related to Channel 4's schools programmes.

**12. Programme and film rights**

	1997 £m	1996 £m
Programmes and films completed but not transmitted	58.9	44.9
Programmes and films in the course of production	57.5	64.0
Purchased programme and film rights	47.6	44.4
	<b>164.0</b>	<b>153.3</b>

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

**13. Debtors**

	1997 Group £m	1996 Group £m	1997 Channel 4 £m	1996 Channel 4 £m
Trade debtors	66.0	57.6	59.7	52.7
Prepayments and accrued income	10.1	16.0	8.9	15.4
Value Added Tax	0.4	0.4	0.5	0.6
Amounts due from subsidiaries	—	—	0.7	0.3
	<b>76.5</b>	<b>74.0</b>	<b>69.8</b>	<b>69.0</b>

**14. Investments**

	1997 £m	1996 £m
Short term cash deposits:		
Deposited for less than three months	65.5	50.9

**15. Creditors – amounts falling due within one year**

	1997 Group £m	1996 Group £m	1997 Channel 4 £m	1996 Channel 4 £m
Trade creditors	8.2	7.4	7.7	6.7
Accruals and deferred income	41.3	32.1	36.6	28.3
Social security	0.9	0.8	0.8	0.8
Other creditors	0.5	0.7	0.5	0.7
Amounts due to subsidiaries	—	—	1.7	0.9
	<b>50.9</b>	<b>41.0</b>	<b>47.3</b>	<b>37.4</b>

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.

## 16. Cashflow

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

	1997 £m	1996 £m
Operating profit	116.7	132.3
Depreciation	7.9	7.6
Increase in programme and film rights	(10.7)	(38.1)
Increase in debtors	(2.0)	(15.5)
Increase in creditors and provisions	9.1	5.1
Profit on disposal of fixed assets	(0.1)	(0.1)
<b>Net cash inflow from operating activities</b>	<b>120.9</b>	<b>91.3</b>

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

	1997 £m	1996 £m
Increase in cash for the year	1.5	2.4
Cash used to increase liquid resources	14.6	0.2
Decrease/(increase) in money market borrowings	0.9	(6.2)
Increase/(decrease) in net funds	17.0	(3.6)
Net funds at 1 January	75.7	79.3
<b>Net funds at 31 December</b>	<b>92.7</b>	<b>75.7</b>

### Analysis of changes in net funds

	1 January 1997 £m	Cashflow 1997 £m	31 December 1997 £m
Current account balance	44.7	1.5	46.2
Money market borrowings	(19.9)	0.9	(19.0)
Cash at bank and in hand	24.8	2.4	27.2
Current assets: investments	50.9	14.6	65.5
	75.7	17.0	92.7

These cash balances were utilised to finance the ITV subsidy of £89.9 million paid to the ITC in February 1998.

The money market borrowings noted above were negotiated on a short term basis at the prevailing money market interest rates at the time of borrowing.

## 17. Provisions for liabilities and charges

	Deferred taxation £m	Provision for rental deficits £m	Total £m
At 1 January 1997	6.8	6.2	13.0
Charged to the profit and loss account	—	1.3	1.3
Utilised in the year	—	(1.6)	(1.6)
Transfer to the corporation tax creditor	(2.1)	—	(2.1)
<b>At 31 December 1997</b>	<b>4.7</b>	<b>5.9</b>	<b>10.6</b>

### Deferred taxation

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

	1997 £m	1996 £m
Accelerated capital allowances	4.7	6.8

### Provision for rental deficits

The provision relates to rental deficits 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	Revaluation reserve £m	Total £m
<b>Group</b>				
At 1 January 1997	142.0	84.8	—	226.8
Retained profit for the year	18.5	—	—	18.5
Surplus on revaluation of property	—	—	0.5	0.5
<b>At 31 December 1997</b>	<b>160.5</b>	<b>84.8</b>	<b>0.5</b>	<b>245.8</b>
<b>Channel 4</b>				
At 1 January 1997	140.6	84.8	—	225.4
Retained profit for the year	17.1	—	—	17.1
Surplus on revaluation of property	—	—	0.5	0.5
<b>At 31 December 1997</b>	<b>157.7</b>	<b>84.8</b>	<b>0.5</b>	<b>243.0</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 removed the requirement to transfer additional amounts to the statutory reserve fund with effect from 1 January 1996.

The revaluation reserve arises on the revaluation of freehold property as at 31 December 1997, details of which are disclosed in note 10.

## 19. Programme and film commitments

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

	1997 £m	1996 £m
Within one year	231.1	220.2
After one year	136.0	146.4
	<b>367.1</b>	<b>366.6</b>

## 20. Other commitments

### Capital expenditure

	1997 £m	1996 £m
Amounts contracted but not provided for in the financial statements	—	—
Amounts authorised for expenditure but not contracted at 31 December	6.3	4.3

### Forward foreign exchange contracts

At 31 December 1997, Channel 4 had entered into commitments to purchase foreign currencies amounting to £12.3 million (31 December 1996: £19.6 million), maturing in January 1998, in order to fix the sterling cost of certain foreign programme and film purchase commitments. Further hedging cover of £12.2 million has been contracted in January 1998 maturing in July 1998.

### Digital 3 and 4 Limited

Under the terms of Channel 4's shareholder agreement for Digital 3 and 4 Limited, Channel 4 is committed to meeting its share of contracted costs entered into by that company. Since 31 December 1997, Digital 3 and 4 Limited has contractually committed £16 million per annum over 12 years for digital transmission and distribution. The exact monetary commitment will vary in earlier years to take account of the time and coverage of roll-out of the new digital transmission network. Channel 4's share is estimated to amount to £8 million per annum.

## 21. 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 2% per annum and that present and future pensions will increase at the rate of 4.5% per annum.

The pension charge for 1997 was £2.7 million (1996: £2.4 million).

The actuarial valuation at December 1996 showed that the market value of the scheme's assets was £39.0 million and that the actuarial value of those assets 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.

## 22. Related party transactions

Details of transactions in which members have an interest are disclosed on page 37.

Details of arrangements with associated companies are disclosed on page 58.

## Historical record

### Profit and loss account

For the year ended 31 December	1993	1994	1995	1996	1997
	£m	£m	£m	£m	£m
<b>Turnover</b>	343.9	408.4	464.0	518.6	552.7
Cost of transmissions and sales	(278.4)	(285.7)	(309.0)	(358.1)	(406.9)
<b>Gross profit</b>	65.5	122.7	155.0	160.5	145.8
Administrative expenses and depreciation	(21.1)	(25.5)	(26.8)	(28.2)	(29.1)
Exceptional relocation expenses	—	(9.4)	—	—	—
<b>Operating profit</b>	44.4	87.8	128.2	132.3	116.7
Net interest	(5.5)	(4.2)	(0.1)	2.0	2.4
<b>Profit before ITV subsidy and taxation</b>	38.9	83.6	128.1	134.3	119.1
Subsidy payable to ITV	(38.2)	(57.3)	(74.0)	(87.1)	(89.9)
<b>Profit before taxation</b>	0.7	26.3	54.1	47.2	29.2
Taxation	0.6	(4.4)	(19.3)	(17.9)	(10.7)
<b>Retained profit for the year</b>	1.3	21.9	34.8	29.3	18.5

### Balance Sheet

At 31 December	1993	1994	1995	1996	1997
	£m	£m	£m	£m	£m
Fixed assets	82.5	86.9	83.3	81.0	77.2
Net current assets	108.3	83.3	125.8	158.8	179.2
Long term creditors and deferred taxation	(50.0)	(7.5)	(11.6)	(13.0)	(10.6)
<b>Net assets</b>	140.8	162.7	197.5	226.8	245.8

### Advertising and sponsorship revenue

	1993	1994	1995	1996	1997
	£m	£m	£m	£m	£m
Channel 4	330.1	393.9	448.0	490.4	513.4
ITV, GMTV, S4C and Channel 5	1,483.1	1,602.7	1,693.4	1,762.2	1,872.7
	1,813.2	1,996.6	2,141.4	2,252.6	2,386.1

Source: Independent Television Commission

### Audience share

	1993	1994	1995	1996	1997
	%	%	%	%	%
BBC1	32.7	32.4	32.2	32.5	30.8
BBC2	10.2	10.6	11.1	11.5	11.6
ITV and GMTV	40.0	39.5	37.3	35.1	32.9
Channel 4 and S4C	11.0	10.7	10.9	10.7	10.6
Satellite and cable	6.1	6.8	8.5	10.2	11.8
Channel 5	—	—	—	—	2.3
	100.0	100.0	100.0	100.0	100.0

Source: BARB all individuals

## General information

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