# CHANNEL FOUR TELEVISION CORPORATION

REPORT & FINANCIAL STATEMENTS 2007

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**BROADCASTING ACT 1990**

Presented to Parliament pursuant to Paragraph 13(1) of Schedule 3 to the Broadcasting Act 1990

# Luke Johnson

## Chairman

> WE ARE DETERMINED TO REAFFIRM CHANNEL 4'S VALUES: DISTINCTIVE TELEVISION FROM A RANGE OF DIVERSE VOICES, OFFERING FRESH PERSPECTIVES ON THE WORLD

A famous man once said that boredom was the greatest enemy. Channel 4's role in life is to fight that never-ending battle against boredom, and make life in Britain intrinsically more interesting. I believe it has succeeded in that task for every one of its 25 years of existence.

Unquestionably 2007 was an eventful year for us – and not just because we celebrated our quarter century anniversary. We showed many outstanding programmes, but like all major broadcasters we suffered much criticism – some of it deserved. We have learned from the mistakes made over *Celebrity Big Brother* and the use of premium-rate phone contests, and I believe these problems will not recur. And we started to experience real financial pressure on our business model, as our accounts show.

Despite these issues, we are determined to reaffirm Channel 4's values: distinctive television from a range of diverse voices, offering fresh perspectives on the world. To that end, in March 2008 we launched a new vision for the future, to remind stakeholders what we are for and what we can do.

Meanwhile, we continue every week to commission television that matters, that is different, that stirs public debate, and is of a remarkable range and quality. Across the 4 network we transmit 260 documentaries a year, including the award-winning *Dispatches*, *Unreported World* and *Cutting Edge* strands. That alone is a remarkable achievement. We make ground-breaking new youth drama like *Skins*. We show compelling reality TV like *Ramsay's Kitchen Nightmares*. We back stunning films at Film4 like *This is England*. We commission extraordinary one-off programmes like *Deep Water* and *Longford*. We schedule bold seasons like our *Lost for Words* season on child literacy. We pioneer new comedy like *Modern Toss* and *The IT Crowd*. No one else will do all this.

Television is at heart a mass medium, and it works in society and for advertisers because it has impact. But audiences are fragmenting. In the digital age, public service broadcasters have a greater challenge than ever before: they need to constantly balance the desire to show important but difficult programmes with more popular fare. The online revolution means the competition for eyeballs and advertisers is more intense than ever. We have to work harder and harder to attract audiences and find original ideas that will make compelling viewing.

In 2007, the organisation continued to broaden its offerings across not just Channel 4, E4, More4 and Film4, but with a new catch-up channel in Channel 4+1. We led a consortium which won the new DAB multiplex, and increased our investment in online services.

The Board believes the stakeholders of Channel 4 – the Government, Ofcom, the viewers, the independent producers, the staff – need to agree a new formula for the future. We need a revised remit, which reflects today's media universe. We need a funding mechanism to replace the diminishing value of our gifted spectrum. And we need the continued freedom to champion television that questions, that provokes, that entertains, and that sparkles. Above all, Channel 4 must be allowed to transmit shows that are opinionated and irreverent, and occasionally a little dangerous. That is what a modern democracy is about – free speech. We help keep the BBC honest, and maintain a vigorous plurality of public service provision, which I believe is so important in the complicated world of the 21st century.

# Andy Duncan

## Chief Executive

> *We identified a set of four core purposes designed to allow Channel 4 to play an even more exciting role in a digital world*

Channel 4's 25th anniversary year was more than just a significant milestone. It marked a watershed. We celebrated with some outstanding programmes; we continued our journey to becoming a multi-media company with continued digital channel growth, a strikingly successful first year for video-on-demand service 4oD, the award of the second national commercial digital radio multiplex licence, and our biggest ever acquisition through our music joint venture with Emap. Most important, we started a process of creative renewal that will shape Channel 4's output and aspirations for years to come.

During the year, Channel 4 showed engaging and thought-provoking programmes that were recognised with a host of awards, including our fifth Oscar in four years, for *Peter and the Wolf*. In factual, no documentary matched the emotional power of *China's Stolen Children* and *Once Upon a Time in Iran*, or shone such discomforting light on society as *Meet the Natives*, *My New Home* and *The Seven Sins of England*. No multi-media campaign moved so many to action as our *Lost for Words* literacy season. Drama tackled difficult subjects with intelligence and sensitivity in *The Mark of Cain*, *Britz*, *Boy A* and *Secret Life*. And *Skins*, the witty E4 teen drama, drew in the hard-to-catch YouTube generation.

2007 was of course a notable year in a less welcome respect. A number of important measures were put in place following the *Celebrity Big Brother* race incident and the fakery and premium-rate telephony controversies that affected the wider industry: we appointed Channel 4's first Viewers' Editor, established an online discussion forum for viewers, returned a regular right-to-reply programme to the schedule, and announced our complete withdrawal from the use of premium-rate telephony for profit. In other programme challenges Channel 4 was on firmer ground: complaints about the documentary *Diana: the Witnesses in the Tunnel*, and about *Dispatches: Undercover Mosque*, were rejected by the regulator, and both programmes fully vindicated.

The conditions in which we delivered our on-screen success remained challenging. After a run of growth in audience share that has more than held up against the competition in recent years, we did experience a drop in all-time share on the core channel, although within this the peak-time schedule performed better. Across the digital channel portfolio we enjoyed an all-time high in peak time and our second strongest portfolio performance ever. Nevertheless, the revenue trend is clear and our surplus was only just above break-even. The financial pressures that we will face in the transition to digital were confirmed by the independent financial review commissioned by Ofcom from strategy consultants LEK. The need to agree an updated form of public support to replace the historic subsidy of analogue spectrum is growing in urgency.

Against that backdrop, we made substantial progress in developing our thinking about our future role and purpose, with extensive consultation during the year with viewers and stakeholders. We set out this thinking in Next on 4, our strategic blueprint published in March 2008. We identified a set of four core purposes designed to allow Channel 4 to play an even more exciting role in a digital world. These purposes are focused on nurturing new talent, championing alternative voices, challenging people to see the world differently and inspiring change in people's lives. We will continue to offer something for everyone some of the time, but will place particular emphasis on serving younger and minority audiences. We will focus on delivering publicly valuable content across a range of digital platforms, and building on our strengths in bringing creative innovation from the margins into the mainstream. In everything we do, our aim will be to take creative risks and offer our audiences the best programmes and content, whatever the platform.

In what was in many respects a challenging year, we also had many successes and made considerable progress in moving Channel 4 forwards. I'd like to thank all our staff and external partners, especially in the independent production sector, for their continuing contribution.

**In the following pages we highlight some of the programmes from 2007 that demonstrate the qualities that make Channel 4 so distinctive – and so valuable a part of Britain's cultural and democratic life.**

# SOWING THE SEEDS OF CHANGE

Programmes that make things happen

In a crowded world of multimedia choice, individual programmes on important subjects can struggle to get the attention they deserve. To put little-aired public issues centre-stage, Channel 4 has over the years mounted high-profile peak-time 'seasons' that aim to inform, entertain and effect change. In 2000 for example, **Adoption on Trial** showed how thousands of children in care were waiting to be found permanent families because of failures in the adoption system. At a low point for UK adoption rates, this three-week season boosted public awareness of the many children waiting for families and hastened the introduction of a much-needed national register of available adopters.

In autumn 2007, **Lost for Words** aimed to expose poor child literacy rates in Britain and do something about it. A major on-screen and billboard campaign promoted the season, which launched with a **Dispatches** special revealing the shocking scale of functional illiteracy among under-11s and its human and social cost later in life. **Last Chance Kids** followed young readers at Monteagle Primary School in Dagenham for a year to see if using Synthetic Phonics could improve standards.

**...ASTOUNDING**
**...UPLIFTING**
**...ACUTELY MOVING**
**...INSPIRING**

From press reviews of *Last Chance Kids*

The results were hard-won but inspirational: the school doubled the number of children meeting required reading standards, turning resentful non-readers into enthusiastic library users. A special edition of **Richard and Judy's Book Club** featured children's books; a website packed with ideas and information encouraged parents to get involved; and a web forum hosted lively exchanges on how to foster happy readers. About 90,000 people accessed the **Lost for Words** site in the following weeks and in December Anthony Horowitz, Andrew Motion, Ian Rankin, Joanna Trollope and over 500 other prominent British writers presented letters to Prime Minister Gordon Brown calling for urgent policy action on child literacy. Channel 4 seasons help sow the seeds of change.

Lynna Thompson (Head) & pupils from Monteagle Primary School

# REAL LIFE DRAMA

## Channel 4 has never been afraid to tackle controversial subjects through powerful story-telling

Channel 4 has an exceptional record, unique in UK broadcasting, of tackling difficult issues through drama, championing writers and film-makers with sometimes discomforting perspectives on life in contemporary Britain. This tradition of illuminating current debates through gripping human stories goes back a long way. **GBH**, Alan Bleasdale's epic tale of local Labour politics in the Thatcher era, ranks among the most powerful UK dramas ever made. In 1991, it was Channel 4's riskiest project ever in terms of length, cost and creative ambition. That risk was rewarded with immediate critical and popular success, with productive controversy and a lasting reputation.

In 2007, Channel 4 was still taking risks by investing in dramas on important subjects that other broadcasters prefer to avoid: British troops under pressure in Iraq (**The Mark of Cain**), homophobic violence (**Clapham Common**), paedophiles living in the community (**Secret Life**) and the rehabilitation of a juvenile killer (**Boy A**, described by the Daily Telegraph as "*exciting, moving and terrifying in turns. A brilliant example of Channel 4 drama*").

> A chilling, highly charged portrait of a rotten, damaged, frightened society
>
> The Scotsman on *Britz*

Peter Kosminsky's two-part **Britz** attacked the sensitive subject of home-grown Islamic terrorism from the point of view of two British-born Muslim siblings who choose devastatingly different paths. Based on extensive research with young British Muslims, it explored the root causes of Islamic radicalism in the UK, prompting controversy and productive press and online debate in the weeks around transmission – "*the kind of talking-point production Channel 4 should be about*", said the Mail on Sunday. Powerful story-telling with a wider public purpose.

Peter Kosminsky, Director – *Britz*


Kayvan Novak – *Fonejacker*

# GROWING TALENT

Finding the comedy names of the future is a serious business

**A new way of doing television… so original it hurts… stands out from the crowd… the most original and innovative programme on the list**

Judges citation for *Fonejacker*, winner of the Broadcast Awards Best New Programme

Kayvan Novak's **Fonejacker** joins an impressive roll-call of today's most distinctive and successful comedy talents that includes Russell Brand, Ricky Gervais, Peter Kay, Stephen Marchant and Mitchell and Webb. All were unknown when they got their first screen break on **Comedy Lab**, the showcase that gives new writers and performers free rein in a half-hour late night slot. Finding and developing new talent is one of the most important jobs, Channel 4 does. Its appeal to the under-35s and its capacity to take risks other broadcasters can't or won't, all make it a natural home for emerging talent. Investing in new comedy talent is a high-risk business: the failure rate is daunting and the successes are often lured to other channels. But comedy is a rich source of innovation, and innovation is Channel 4's life blood.

**Comedy Lab**, which celebrated its tenth ground-breaking year in 2007, is Channel 4's most productive talent nursery. Innovation is its hallmark: it introduced Peter Kay as a writer/performer in an early mock-documentary **The Services**, reinvented *Candid Camera* in **Trigger Happy TV** (1998), brought the **Modern Toss** cartoons to life (2005), and elevated prank calling to an art form in **Fonejacker**. On and off-screen talents uncovered by **Comedy Lab** has gone on to produce some of Channel 4 and E4's most striking recent comedy successes including **Phoenix Nights**, **Smack the Pony**, **Green Wing**, **Fonejacker**, and **Peep Show**, which scooped Best TV Comedy and Best Comedy Actor for David Mitchell in the 2007 Comedy Awards.

The tenth anniversary series continued that honourable tradition with fresh talent and novel formats – among them the world's first documentary sketch show, a multicultural sketch show, and the riotous BAFTA-winning **Blowout**. Its ten-year track record proves this is the space to watch for comedy names of the future.

# CONNECTING ARTS & AUDIENCES

Channel 4 arts programmes aim to go well beyond what happens on screen


An abandoned Margate funfair. A mainly amateur cast – including local children, skinheads and immigrants. A giant Waste Man created by artist Antony Gormley from the detritus of a consumer society. A packed day of free arts and performance events. And a director, Penny Woolcock, with a vision to retell the Old Testament story to explore 21st-century social exclusion, race hatred, retribution and deliverance. All came together to make an innovative multi-media arts project in association with Artangel and part-funded by Arts Council England. The on-screen result, the genre-defying feature **Exodus**, premiered at the Venice Film Festival. But **Exodus** was much more than a beautifully-made morality tale about Moses in Margate. It also brought hundreds of local people together to work with each other and with professional artists on their first community arts project – an exhilarating and memorable experience for everyone involved.

**... a massive project, visually arresting and memorable**

Daily Express on *Exodus*

Impact beyond the screen was also the hallmark of **Big Art**, the most ambitious public art commissioning project ever undertaken. The £2m project was launched in 2007 with a specially commissioned installation outside Channel 4's Horseferry Road headquarters, and six communities – in North Belfast, Burnley, Cardigan, East London, Sheffield and the Isle of Mull – were selected from 1400 public nominations to work with curators to commission their own public art work. The results will be seen on screen in 2008.

Making things happen both on and off-screen isn't new. Channel 4's involvement with the **Turner Prize** began in 1991, creating the annual showcase for contemporary British artists and the focus for public debate about modern art. Though Channel 4's sponsorship of the Prize has now come to an end, in 2007 the finalists talked about their work in **Three Minute Wonders**, a peak-time slot just after **Channel 4 News**.

Penny Woolcock, Director – *Exodus*


# 25 YEARS OF GREAT BRITISH FILMS

Walter
The Ploughman's Lunch
Letter to Brezhnev
My Beautiful Laundrette
Howards End
The Draughtsman's Contract
East is East
Four Weddings and a Funeral
The Crying Game
Mona Lisa
Shallow Grave
Bhaji on the Beach
Trainspotting
The Madness of King George
Brassed Off
Distant Voices, Still Lives
Ladybird, Ladybird
Sexy Beast
Secrets and Lies
The Motorcycle Diaries
Touching the Void
Venus
The Road to Guantánamo
This is England
The Last King of Scotland
Brick Lane
Hallam Foe
And When Did You Last See Your Father?
Joe Strummer: the Future Is Unwritten

Over 25 years Channel 4 has supported a unique strand of film-making – modestly budgeted, creatively inventive, socially progressive and with special resonance for British audiences. It has nurtured new writers and directors and given leading film-makers – including Danny Boyle, Shane Meadows and Michael Winterbottom – their big-screen breakthroughs. **My Beautiful Laundrette**, the low-budget feature that made director Stephen Frears' name, was a critical sensation for its fearless portrayal of race, class and sexuality in 1980s Britain. Frears went on to make more films for Channel 4 and is one of Britain's most distinguished directors. Film4 Productions works with the best of established and emerging British talent in full-length features and shorts: at the 2008 Orange British Academy Film Awards (BAFTAs) Shane Meadows' **This is England** won Best British Film and **Dog Altogether**, actor Paddy Considine's directorial debut, won Best Short Film. Channel 4-funded films have won five Oscars since 2005.

In 2007, director Kevin Macdonald – whose breakthrough film **Touching the Void** was made for Film4 – made his international reputation with **The Last King of Scotland**. This striking critical and box-office success took $45m worldwide and won three BAFTAs, and an Oscar for its leading actor. With a screenplay by Peter Morgan, Macdonald's film follows the trajectory of a fictional relationship between the charismatic Ugandan dictator Idi Amin (Forest Whitaker) and an ambitious young Scottish medic (James McAvoy). In capturing the horror of Amin's murderous regime and the complicity of Uganda's former colonial masters, it combines a cracking story with moral depth. Like all the best Channel 4 films since 1982, it engages the brain as well as the emotions.

# BEING HUMAN

Still breaking boundaries to bring disability into the mainstream

## THOUGHT-PROVOKING DRAMA… EXCELLENT IF DIFFICULT TO WATCH AT TIMES

Daily Mail on *Richard Is My Boyfriend*

On its opening night Channel 4 put down a marker for a new kind of television representation of disability. **Walter**, Stephen Frears' debut drama for Film on Four about a learning disabled man thrown into the chaos of a Victorian institution after the death of his mother, was indeed shocking; nothing like it had been seen on television before. But it did more than shock. It showed Walter – Ian McKellen in a compellingly empathetic performance – as an individual with recognisable feelings trying to cope in nightmarish circumstances. Later described by the British Film Institute as *'a celebration of individual spirit and a critique of social responses to disability'*, **Walter** created a new benchmark for programmes about disability.

Times and attitudes have changed since 1982, but Channel 4 still sets the standard, challenging prejudice with authentic portrayals of disabled people. In 2007, compelling performances and the unflinching confrontation of complex ethical and emotional issues placed **Richard is My Boyfriend** firmly in this tradition.

This single drama told the story of Anna, a young woman with a mental age of five, who meets Richard – who has Down's syndrome – at a day centre. Their relationship results in a miscarried pregnancy, and provokes strong but different reactions from Anna's concerned parents. Should she be sterilised for her own protection? Lesley Manville and Ian Puleston-Davies played the parents, with newcomers Amanda Hale and Elliot Rosen as the young couple. Experienced lawyers, social workers and psychologists played themselves. Based on 15 real-life cases, the drama's fact-based approach lent authenticity to its exploration of the difficult issues of informed consent to sex and enforced sterilisation. Most affectingly, **Richard is My Boyfriend** showed the value of a loving relationship in the lives of two young people with disabilities.

Elliot Rosen, Actor – *Richard Is My Boyfriend*

# GLOBAL REALITIES

Channel 4 documentaries bring major international stories to the UK audience


Brian Woods, Producer – *China's Stolen Children*

One of Channel 4's purposes is to give people in Britain a wider perspective on the world. More than any other UK broadcaster, it is committed to commissioning film-makers to bring home stories of international significance from other countries and cultures. Sometimes these come from the most inhospitable places and make difficult viewing.

One of the most distressing films of 2007 was Brian Woods' **China's Stolen Children**: *"Desperately sad, heartbreaking, and one of the few documentaries I'll never forget,"* wrote Michele Hanson in the Guardian. This two-hour peak-time **Dispatches** special – winner of the 2007 RTS international current affairs award – revealed China's shocking trade in children, where it is estimated 70,000 young children a year are abducted and girl babies are sold for as little as £200. Interviews with distraught parents and film of brazen trafficking made this an exceptionally affecting documentary. This wasn't the first time distinguished film-maker Brian Woods had upset the Chinese government with stark evidence of the human cost of its one-child policy.

> **Without Channel 4 this important film wouldn't have been made. From *The Dying Rooms* to *China's Stolen Children*, Channel 4 has given us the opportunity, the time and the budget to produce some of our most outstanding films**
>
> Brian Woods, Producer – *China's Stolen Children*

His award-winning 1995 documentary **The Dying Rooms** uncovered the systematic neglect of children in state-run orphanages and caused outrage in the UK, leading to international pressure on China for change and a surge in efforts by British couples to adopt Chinese children. Together with regular international current affairs strand **Unreported World**, beautifully made and viscerally effective documentaries like these shine light into dark corners overlooked by other mainstream media.

# SOME—THING FOR THE KIDS

Channel 4 has always captured the authentic voice of youth

Actors: Joseph Dempsie, Larissa Wilson, Kaya Scodelario, April Pearson, Nicholas Hoult, and Mike Bailey – *Skins*

## British teenage life in all its scary, decadent, defiant and dangerous confidence

The Independent on *Skins*

When writer Bryan Elsley asked his teenage son what he'd like to see on TV, he was told: *"You should do something for kids; but not the usual crap. Get rid of the moralising, the fantasy sequences, the flashbacks, the wobbly camera work…"* So he gathered an extraordinary group of young writers – average age 22 – and produced **Skins**, about 17-year-olds in Bristol. The result was E4's first landmark drama and the most talked-about series of the year: *"This show may just capture some of the chutzpah and peril of being young in Britain today – which makes it something akin to public service"* (The Independent); *"It's official: we're addicted to Skins!"* (Heat). An innovative marketing campaign using online previews targeted older teens and attracted an audience of 1.4m – E4's second highest ever.

What makes **Skins** different? *"I think it's that it reflects the nuances of teenagers' lives,"* says Elsley, *"which are as complex and emotionally rich as any adult's."*

Channel 4's youth credentials go back to the beginning. From **The Tube** and **Network 7** in the 1980s, **The Word**, **TFI Friday** and **Don't Forget Your Toothbrush** in the 1990s, to **Big Brother** and **Bo' Selecta!**, risk-taking, inventiveness and humour have helped make Channel 4 the broadcaster of choice for 16 to 34-year-olds for 25 years. With E4 and youth-targeted content now available on all the platforms young adults use, that distinctive appeal is set to continue into a more crowded media world.

# *Moving performances*

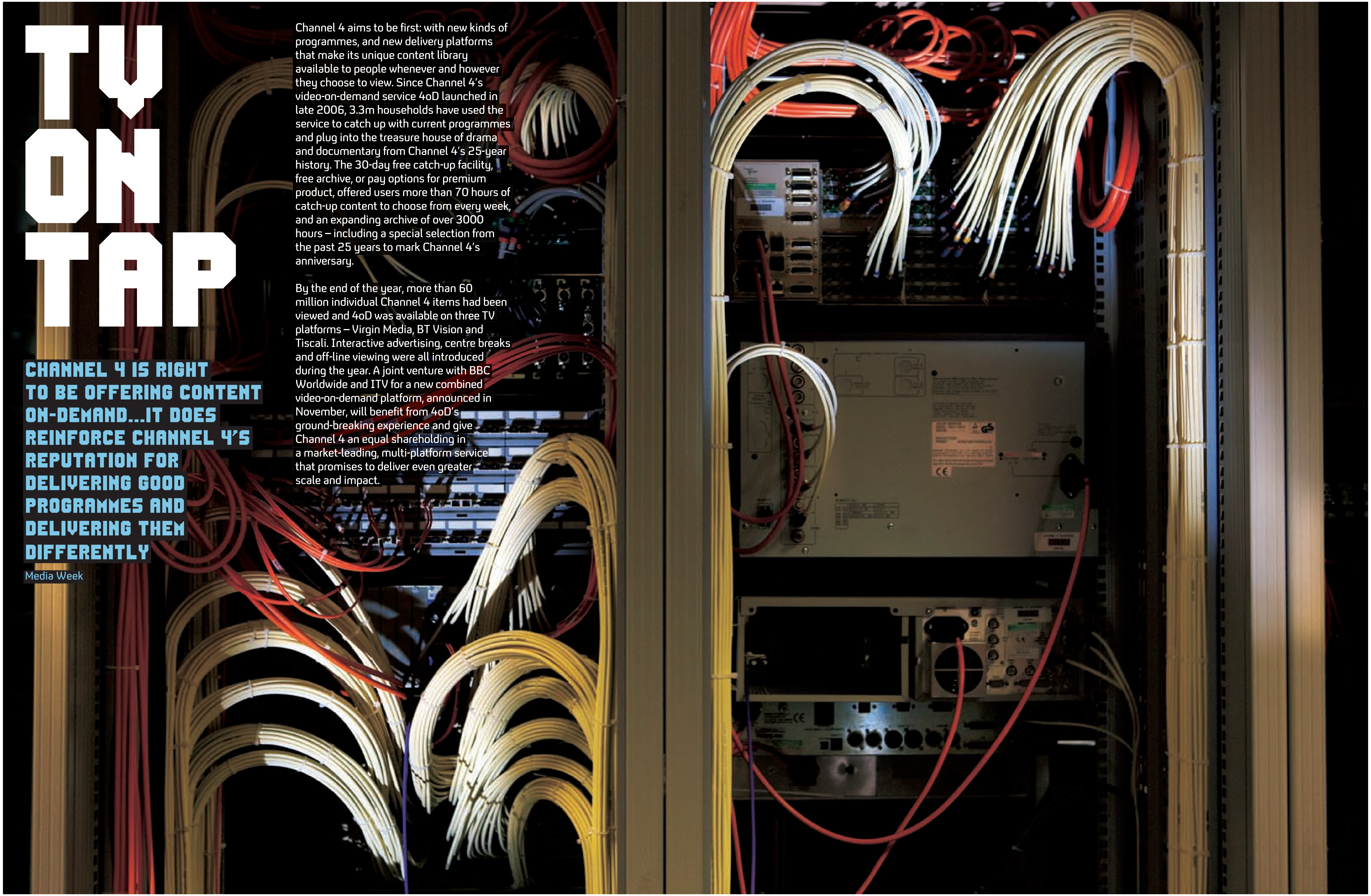
More4's emphasis on thought-provoking programmes brought together exciting premieres and the best of Channel 4's rich archive

In 2007, More4 consolidated its reputation as the first place to see the best of UK and international factual material and, in this anniversary year, reminded viewers of Channel 4's unique inventory of quality programmes from the past. With a monthly reach of 17m (compared with BBC4's 13.5m) and a healthy 24% share of 16 to 34-year-old viewers, it enjoyed a solid year of growth, and earned its place in the top 10 performing digital channels for ABC1 adults. More4's distinctive offer provided an intelligent oasis in a raucous digital world, premiering arts events and the work of distinguished film-makers from the UK and abroad. The **True Stories** strand of international documentaries, hypothetical drama **The Trial of Tony Blair**, a new all-star production of Harold Pinter's **Celebration**, the critically-acclaimed premiere of music film **War Oratorio** and a selection from Channel 4's 25-year archive, all made More4 a distinctive and distinguished adjunct to the core channel.

> What marked *Ghosts* out was not only its compassion [but] the extraordinary sense of realism that Broomfield's documentary style brought to the story
>
> The Daily Telegraph

A highlight of the year was the television premiere of Nick Broomfield's Film4 drama-documentary feature **Ghosts**. Using a largely non-professional cast, it was inspired by the story of the Chinese migrant workers who drowned as they picked cockles in Morecambe Bay in February 2004. Its powerful message about the global implications and human cost of cheap imported labour moved audiences and critics. To add poignant authenticity, many of the cast had first-hand experience as migrant workers. Ai Qin Lin, who played the central role after first arriving in Britain as an illegal immigrant, wanted the film to make a lasting impression on the UK audience: *"Maybe Ghosts will help the British people understand us. I hope so."*


Ai Qin Lin, Actor – *Ghosts*



# TV ON TAP

**CHANNEL 4 IS RIGHT TO BE OFFERING CONTENT ON-DEMAND...IT DOES REINFORCE CHANNEL 4'S REPUTATION FOR DELIVERING GOOD PROGRAMMES AND DELIVERING THEM DIFFERENTLY**
Media Week

Channel 4 aims to be first: with new kinds of programmes, and new delivery platforms that make its unique content library available to people whenever and however they choose to view. Since Channel 4's video-on-demand service 4oD launched in late 2006, 3.3m households have used the service to catch up with current programmes and plug into the treasure house of drama and documentary from Channel 4's 25-year history. The 30-day free catch-up facility, free archive, or pay options for premium product, offered users more than 70 hours of catch-up content to choose from every week, and an expanding archive of over 3000 hours – including a special selection from the past 25 years to mark Channel 4's anniversary.

By the end of the year, more than 60 million individual Channel 4 items had been viewed and 4oD was available on three TV platforms – Virgin Media, BT Vision and Tiscali. Interactive advertising, centre breaks and off-line viewing were all introduced during the year. A joint venture with BBC Worldwide and ITV for a new combined video-on-demand platform, announced in November, will benefit from 4oD's ground-breaking experience and give Channel 4 an equal shareholding in a market-leading, multi-platform service that promises to deliver even greater scale and impact.

# AWARDS

## JANUARY

**Broadcast Film Critics' Association Awards**
– *The Last King of Scotland*
Best Actor (Forest Whitaker)

**Sundance Film Festival**
– *Ghosts*
Grand Jury Prize – World Cinema Dramatic

**Golden Globe Awards**
– *The Last King of Scotland*
Best performance by an Actor (Forest Whitaker)
– *Elizabeth I*
Best Mini-Series/Motion Picture made for Television, Best performance by an Actress in a Mini-Series/ Motion Picture made for Television (Helen Mirren), Best Performance by an Actor in a Supporting Role in a Series/Mini-Series or Motion Picture made for Television (Jeremy Irons)
– *Ugly Betty*
Best Television Series, Musical or Comedy, Best Performance by an Actress in a Television Series/Musical/Comedy (America Ferrera)

**Screen Actors Guild Awards**
– *The Last King of Scotland*
Outstanding Male Actor (Forest Whitaker)
– *Elizabeth I*
Outstanding Performance by a Female Actor in a TV Movie/ Mini-Series (Helen Mirren), Outstanding Performance by a Male Actor in a TV Movie/ Mini-Series (Jeremy Irons)

**Work World Media Awards**
– *Dispatches*
Public Service/Private Profit – Best Television Programme
– Faisal Islam (*Channel 4 News*)
Broadcast News Journalism Award

## FEBRUARY

**British Academy Film & Television Awards (BAFTAs)**
– *The Last King of Scotland*
Alexander Korda Award for the Outstanding British Film of the Year, Best Adapted Screenplay (Peter Morgan/ Jeremy Brock), Best Actor in a Leading Role (Forest Whitaker)

**Evening Standard Film Awards**
– *The Last King of Scotland*
Best Screen Play (Peter Morgan – also for *The Queen*), Best Cinematography (Anthony Dod Mantle – also for *Brothers of the Head*)

**Berlin Film Festival**
– *Hallam Foe*
Best Film Music (Silver Bear)

**New York Festivals**
– *Channel 4 News*
Gold Medal for their ongoing coverage of Afghanistan, 'Finalist' status: Reportage on the *Pakistan Earthquake* and on *Heroin Smuggling*
– *More4 News*
Bronze Award for Investigative Coverage of Darfur

**RTS Journalism Awards**
– *Channel 4 News* (ITN for Channel 4)
News Event – *War in Lebanon*
Presenter of the Year (Jon Snow), Specialist Journalism – From Iran
– *Iraq – The Death Squads* (Quicksilver Media Productions for Channel 4)
Current Affairs – International
– *Dispatches: War Torn – Stories of Separation* (David Modell Productions for Channel 4)
Innovation and Multimedia

**Academy Awards**
– *The Last King of Scotland*
Best Actor (Forest Whitaker)

**E4 Awards – Broadcast Digital Awards**
– *E4 Marketing Team*
Best Channel Marketing

## MARCH

**Oscars**
– *The Last King of Scotland*
Best Actor (Forest Whitaker)

**Image Awards**
– *The Last King of Scotland*
Outstanding Actor in a Motion Picture (Forest Whitaker)

**RTS Programme Awards**
– *Death of a President* (Borough Films for More4)
Digital Channel Programme Award
– Sacha Dhawan – *Bradford Riots* (An Oxford Film & Television Production in Association with Great Meadow Productions for Channel 4)
Breakthrough Award – On Screen
– *True Stories: Sisters In Law* (A Vixen Film for More4)
Single Documentary – General
– *Low Winter Sun* (A Tiger Aspect Production for Channel 4)
Drama Serial
– *Longford* (A Granada Production for Channel 4 in association with HBO Films)
Writer – Drama (Peter Morgan)

**British Video Association**
– *Deal or No Deal* (4dvd)
Best Marketing Initiative for an Interactive DVD

**Broadcasting Press Guild Awards**
– *Longford*
Best Single Drama, Best Actor (Jim Broadbent)
– Russell Brand
Best Television Performer in a Non-Acting Role

**BAFTA Television Craft Awards**
– *Longford*
Best Writer (Peter Morgan), Editing Fiction/Entertainment (Melanie Oliver)
– *FourDocs*
Interactive Innovation

## MAY

**Cannes**
– *Garage*
Prix Art Et Essai

**Sony Radio Academy Awards**
– *My Streets: A Rudeboy's Guide to Peckham*
Bronze Award
– *Popworld Radio*
Music Programme Award

**Rose D'or Awards (Lucerne)**
– *Young@Heart* (Bluebird Films)
Best of 2007 Special Prize Arts Documentary Award
– *Secret Millionaire* (RDF Media)
Reality Programme Award
– *Peter & the Wolf* (BreakThru Films)
Performing Arts Awards
– *Man on the Moon*
Opera Award

**BAFTA Television Awards**
– *Longford* (Granada/HBO)
Best Actor (Jim Broadbent)
– *Nuremberg – Goering's Last Stand* (3bm Films)
Specialist Factual

**RTS Sports Television Awards**
– *Cheltenham Gold Cup Day* (C4 Racing – Highflyer Prods)
Sports Programme of the Year

## JUNE

**BANFF Television Awards**
– *Death of a President* (Borough Films)
Made for TV Movie Award

**RTS Educational Television Awards**
– *Giving Up The Weed* (Maroon Productions for Channel 4)
Schools 11 – 16 years
– *Crip On A Trip* (Twofour Productions for Channel 4)
14 – 19 years
– *Judah & Mohammad* (A Provid Production for Channel 4)
Adult Education – Single Programme
– *Howard Goodall*
Judges' Award
– *Animals In The Womb* (Pioneer Prods/Inclubator & Fox Television in association with National Geographic)
Popular Science and Natural History Award

**One World Broadcasting Trust Media Awards**
– *Unreported World* (Sharmeen Obaid-Chinoy)
Broadcast Journalist of the Year

**Monte Carlo Television Festival**
– *Peep Show* (Objective Productions)
Outstanding European Comedy TV Series
– *My Name Is Earl*
Outstanding Actress (Jaime Pressly)
– *Desperate Housewives*
Best Comedy TV Series – International TV Audience
– *Longford*
Best Script (Peter Morgan – Television Films), Best Direction (Tom Hooper – Television Films)
– A World Without Water (True Vision)
Prince Rainer III Special Prize

**Annecy International Animation Festival**
– *Peter & The Wolf*
The Annecy Cristal Award, The Prix du Public Award

**Newspaper Marketing Association's Awards**
– 4Creative: ads for *Cutting Edge – Meet the Foxes*

## SEPTEMBER

**TV Quick/TV Choice Awards**
– *How To Look Good Naked* (Maverick Television)
Best Lifestyle Programme
– *Desperate Housewives* (ABC Disney)
Best International Programme

**US Emmys Awards**
– *The Daily Show with Jon Stewart* (More4)
Outstanding Variety, Music or Comedy Series
– *The Sopranos*
Outstanding Drama Series Writer, Director
– *Ugly Betty*
Outstanding Actress in a Comedy Series (America Ferrera), Outstanding Directing for a Comedy Series
– *My Name Is Earl*
Outstanding Supporting Actress in a Comedy Series (Jaime Pressly)
– *Brothers and Sisters*
Outstanding Lead Actress in a Drama Series (Sally Field)

**London's Design Festival**
– *Empire's Children Online* (Illumina Digital)
Y Design Award for Best Community Website

## OCTOBER

**Conch Sound Awards**
– *War Oratorio*
Best Television Documentary Audio Award

**Association of Online Publishers Award**
– *Lost* Experience
The Cross Media Project Award
– *4oD*
Best Launch

**Dinard Film Festival (France)**
– *Brick Lane*
Silver Hitchcock Award
Grand Marnier Jury Award
– *Garage*
Exhibitors' Prize
– *Hallam Foe*
Golden Hitchcock Award
Kodak Prize

**Perspektive – The International Human Rights Film Festival (Nuremberg)**
– *Sisters In Law*
Audience Award

## NOVEMBER

**International Emmys**
– *Death of a President* (More4)
Best TV-Movie

**Institute of Practitioners in Advertising Awards**
– *E4*'s Launch Campaign for *Skins*
Best Media Award, Best New Learning Award, Gold Award

**European Radio Awards**
– 4Radio's *My Streets*
Best Original Content Podcast

**RTS Innovation Awards**
– *Big Art Mob*
On the Move Award

**Sheffield Documentary Festival**
– *Talk To Me* and *We Are Together* (Part of the Channel 4 British Documentary Film Foundation)
Two of the three Grierson Awards

**Rory Peck Awards**
– *Dispatches: Fighting The Taliban* (Sean Langan – October Films)
Rory Peck Award for Features

**Grierson Awards**
– *Consent* (Century Films)
Best Drama
– *Deep Water* (APT Films & Stir Fried Productions)
Best Cinema Documentary

**BAFTA Scotland**
– *The Last King of Scotland*
Best Actor (James McAvoy), Best Feature Film, Best Screenplay
– *Hallam Foe*
Best Actress (Sophia Myles)
– *Blowout*
Best Comedy or Entertainment
– *Losing Myself: Annie* (3MW)
Best Short Film
– *Potapych – The Bear Who Loved Vodka*
Best Animation

**RTS North West Awards**
– *Cutting Edge: The Dangerous School for Boys* (Clearcut TV)
Best Network Single Documentary

**RTS Craft and Design Awards**
– *War Oratorio* (Oxford Film & Television for More4/Channel 4)
Sound – Entertainment & Non-Drama Productions
– *Fonejacker* (Hat Trick Productions for E4)
Tape & Film Editing – Entertainment & Situation Comedy, Graphic Design – Programme Content Sequences
– *Skins* (Company Pictures/ Storm Dog Films for E4)
Production Design – Drama
– *Forgiven* (Betty for Channel 4)
Tape and Film Editing – Drama
– *Human Footprint* (Touch Productions for Channel 4)
Production Design – Entertainment & Non- Drama Productions
– *The Mark of Cain* (Red Production Company for Channel 4)
Make-up Design – Drama

## DECEMBER

**Chicago Film Critics' Association Awards**
– *The Last King of Scotland*
Best Actor (Forest Whitaker)

**British Comedy Awards**
– *Curb Your Enthusiasm* (More4)
Best International Programme
– *Peep Show* (Objective Productions – E4)
Best Comedy Programme
– Alan Carr
Best Stand-up

**PAWS Awards**
– *Animals* (More4)
Midas Prize – Best TV Drama in Europe (Science & Technology)

# CORPORATE RESPONSIBILITY

*As a public service broadcaster, Channel 4's job is to deliver public value to viewers through programmes and other content. As a British business and a major employer, it also has broader responsibilities as a good corporate citizen and aims to inspire its staff, producers, suppliers and audiences to promote positive social, environmental and personal change.*

## BEYOND PROGRAMMES

In 2007, innovative online and new media resources extended the impact of Channel 4's programmes, giving viewers the opportunity to interact with people and subjects featured on screen, and inviting them to create their own content. *Big Art Mob*, an initiative in conjunction with Arts Council England and the Department of Culture, Media and Sport, aimed to create the UK's first comprehensive survey of public art in the UK using photos uploaded to the site from contributors' camera phones. By recording the wealth of artworks in public places, it served as the focus of a dynamic national conversation about the role of art in people's lives, in preparation for a peak-time series, *Big Art*, in 2008. In another example of new media extending the value of the on-screen experience, the *Empire's Children* website encouraged viewers to research and add their own and their family's personal stories of Empire to those featured in the series of the same name, making a unique social history resource for others to share and learn from.

## ENVIRONMENT

Channel 4 takes seriously its responsibilities to minimise the impact of its activities on the environment. In 2007, both a new environmental policy statement and an in-house campaign increased employees' awareness of the environmental impact of their everyday decisions at work. Water and energy-conserving measures included reducing thermostat settings, replacing roof-top chillers with more efficient models, incorporating water-saving devices in toilets and fitting LED lighting in communal areas. Channel 4 continued to monitor both its environmental impact and the effectiveness of its mitigation measures.

## NEW TALENT

Channel 4 commissions programmes from more than 300 production partners each year – more than any other broadcaster – and in 2007 strengthened its central role in promoting the health and diversity of the UK's creative sector by committing to work with small and medium size companies, where emerging talent and innovation are often to be found. At least a fifth of commissions will now be from companies with an annual turnover of less than £2m.

Channel 4 also supports talent development and company growth through direct funding, training, and development schemes in partnership with suppliers based in the nations and regions. This targeted support helps ensure a lively creative sector outside London, and provides Channel 4 with programmes that give a fuller picture of life in the UK. About a third of Channel 4 programmes – by volume and by value – were made outside London in 2007.

Identifying and nurturing new talent is one of Channel 4's major off-screen roles, brought together under the 4Talent brand. In 2007, a £10m programme of talent initiatives aimed to bring new talent into television, encouraged a more diverse talent base in the industry, and helped individuals with bursaries and valuable work experience, with ring-fenced strands for drama, documentary and comedy on Channel 4. These took many different forms. For example, the online documentary resource *FourDocs* partnered with Mediabox, a Department for Children, Schools and Families fund, to give ten disadvantaged young people aged 13 to 19 the opportunity to write, direct and produce their own short documentaries. The winner was Georgina Studd, who has cerebral palsy; Georgina became the youngest disabled person ever to have a documentary broadcast on Channel 4.

4Talent joined forces with organisations like the NSPCC and Cancer Research to produce films that gave young people a platform to address difficult issues as diverse as teen identity and the dangers of smoking. And the Richard Whiteley Memorial Bursary, established after the popular presenter's death in 2005, gave young people from Yorkshire a start in broadcasting with entry-level opportunities.

Channel 4 also built on the range of opportunities available to its own employees to put their expertise at the service of charities and young people by partnering with the Media Trust to launch their Youth Mentoring Programme.

More information about the range of Channel 4's talent programmes is available on channel4.com/4talent.

## DIVERSITY

Channel 4 continues to lead other broadcasters in the on-screen portrayal of minority groups. In 2007 it invested over £700,000 in schemes to improve the representation of ethnic minorities and those with disabilities both on and off screen. These included a traineeship at *Channel 4 News*, three one-year Deputy Commissioning Editor attachments, a researchers' training programme which included new media experience, and supported placements for disabled producer-directors. A new 12-part documentary strand, *New Shoots*, gave disabled directors the opportunity to gain a first major broadcast credit. More information about these and other schemes are available on channel4.com/about4/diversity.

Channel 4 is committed to ensuring that its own organisation reflects the make-up of modern Britain. In 2007, a comprehensive Summer School provided a diverse range of students with short-term attachments in different departments at Channel 4's Horseferry Road headquarters. Diversity awareness was built into induction training, and an independent audit into the make-up of the organisation's current workforce and the impact of its HR policies and practices enabled Channel 4 to identify areas for further improvement.

# SUPPORTING TALENT & CREATIVITY

*Channel 4 makes a significant contribution off-screen, through investment in creative content from a diverse range of producers from right across the UK and through the support of new talent.*

**Investment in creative content**

- Total investment in programmes and content across all Channel 4 services during the year was the highest ever at just under £625m. Programme investment in the core channel was also a record, at just under £537m.[1]
- Specially commissioned programmes made up 76% of peak time hours and 64% of all hours on the core channel, well above the minimum licence requirements of 70% and 60% respectively.
- Over a third (35%) of these programmes were commissioned from companies operating outside London, representing an investment of £124.9m in the UK's nations and regions.
- During the year, Channel 4 worked with 312 independent production companies to provide programmes on the core channel.
- Channel 4 showed more new titles between 6pm and midnight than any other broadcaster (over 350, according to Attentional data, compared with around 300 on BBC2, around 200 on BBC1, around 175 on ITV1, and around 125 on Five).

**Support for emerging talent**

- Through 4Talent, new talent schemes and slots dedicated specifically to talent new to television made a significant contribution to innovation and diversity on Channel 4 – in 2007 and for the longer term – representing a total investment of around £10 million.
- In 2007, Channel 4 ran regular strands dedicated to showcasing the work of new writing, performing and directing talent.
- In factual: *Three Minute Wonder*, a peak-time slot following *Channel 4 News* for short films from new directors; First Cut, 15 half-hours in peak time on More4 for new documentary directors, with the opportunity for further exposure on the main channel; and *New Shoots*, 12 documentary slots and a training and support scheme for disabled directors.
- In drama: *Coming Up*, a unique talent scheme for emerging film-makers to make an authored drama for guaranteed network broadcast; Film4 Productions' low-budget studio Warp X produced three films with new writers, director and actors; and the winning entry in the MyMovieMashup competition with MySpace to find new young directors went into production.
- In entertainment and comedy: *Comedy Lab* and *Funny Cuts* both gave new writers and performers their first network TV exposure.

**Delivering audience impact**

- In an extremely competitive environment, Channel 4's portfolio of channels and services grew its peak-time share to an all-time high of 11.9%.[2]
- *Channel 4 News* attracted a higher proportion of Black, Asian and ethnic minority viewers than any other peak-time terrestrial news programme: 15.2% of viewers were Black, Asian or ethnic minority, compared with 5.4% for all peak-time terrestrial news programmes together.[3]

[1] Total investment was £624.2m (2006: £607.6m; 2005: £573.2m). Core channel programme expenditure was £536.5m (2006: £515.7m; 2005: £499.3m).
[2] BARB/Infosys 2007. Individuals 4+. Peak defined as 1730-2400.
[3] BARBBARB/Infosys 2007. Individuals 4+; C4 News includes +1; weekday news bulletins only; excludes guest viewing, not coded, refused to answer, and regional programme variations. The BARB definition of BAME audiences includes people from the following ethnic backgrounds: Black Caribbean, Black African, Black other, Indian, Pakistani, Bangladeshi, Chinese, any other Asian, mixed race – Black Caribbean and white, mixed race – Black African and white, mixed race – Asian and white, mixed race – any other, and any other.



# FINANCIAL REPORT & STATEMENTS

# Operating and financial review

**Introduction**
Channel 4 is a unique organisation: a public service broadcaster with a distinctive creative remit, funded within the marketplace. Channel 4's vision for the future is to remain an independent organisation, focused on delivering the values enshrined within its remit across a range of programmes and services so that we can maintain our audience reach and social impact in the digital world.

Channel 4 exists to provide a range of innovative, creative and distinctive content to cater for the rapidly changing society we live in today. In order to fulfil our remit in a fully digital world and to optimise commercial revenue in a multi-channel, multi-platform environment, our strategy is to maintain a strong core Channel 4, to develop a multi-channel portfolio in preparation for digital switchover and to develop a position on other digital platforms.

**Principal activities**
Channel Four Television Corporation (Channel 4) is a statutory corporation, without shareholders, established under the terms of the Broadcasting Act 1990.

Channel 4 is a public service broadcaster funded solely from commercial revenues. Channel 4 receives free analogue spectrum in return for fulfilling public service obligations as set out in the 1990 and 1996 Broadcasting Acts and the licence issued by Ofcom, which came into effect on 28 December 2004. The group also pursues various commercial activities which are incidental and conducive to the operation of Channel 4.

At an operational level our business is based around 5 operating segments:

Channel 4
The public service channel is available on both analogue and the main digital broadcast platforms maintaining a core focus on the values of innovation, creativity and diversity. It also encompasses our delayed transmission service Channel 4+1 and high definition service, 4HD, both launched in 2007.

4 Channels
Within 4 Channels there are three free-to-air digital channels to help maintain Channel 4's commercial scale and creative impact in a growing multichannel world. They build on the core values of Channel 4 and offer both further opportunities to see Channel 4 programming as well as originally commissioned programming. The channels are:
– E4 – focusing on comedy, drama and entertainment including original commissions, US acquisitions and further opportunities to see Channel 4 output.
– More4 – offering a combination of new commissions, acquisitions and programmes from the core channel across multiple genres, including news, current affairs, drama, factual, entertainment and documentary.
– Film4 – the UK's leading dedicated film channel, which offers a mix of the best British, European, US and International cinema.

4 Rights
4 Rights includes our UK secondary rights business generating income through the distribution of programmes, DVDs and other associated products.

New Media
Channel 4 has used interactive platforms to help extend the depth and impact of its programming output for more than a decade and it continues to use the internet and new technologies both to develop new commercial opportunities and also to reinforce its public service contribution. These include:
– 4oD – which offers the best of Channel 4's programming on an on-demand basis on cable and broadband platforms.
– Channel4.com – which hosts numerous subsites covering the breadth of Channel 4's output, from news to entertainment.

Other
Other includes the provision of post production facilities, creative design and production services, pre-launch expenditure on 4 Radio and premium rate telephony.

**Key Performance Indicators**
The Channel's primary purpose is the fulfilment of its public service remit, which was most recently defined in the 2003 Communications Act. This states that "the public service remit for Channel 4 is the provision of a broad range of high quality and diverse programming which, in particular:
– demonstrates innovation, experiment and creativity in the form and content of programmes;
– appeals to the tastes and interests of a culturally diverse society;
– makes a significant contribution to meeting the need for the licensed public service channel to include programmes of an educational nature and other programmes of educative value;
– exhibits a distinctive character."

Set out below are the Key Performance Indicators that we use to monitor how our business is performing. We use a combination of financial and non-financial measures to assess how successful we have been in achieving our objectives. These measures are:

1. Channel 4 audience share
A key measure of how we are delivering on our remit is the impact of Channel 4's programming, which we measure in terms of our share of audience. Audience viewing shares are measured by the Broadcasters' Audience Research Board (BARB), of which Channel 4 is a member, and we measure our share of 'all individuals' viewing.

Over the five year period to 2007, Channel 4's audience share held-up better than any other terrestrial broadcaster. However in 2007, our share of audience fell to 8.7% (2006: 9.8%), in a year when all of the main terrestrial channels lost audiences to multi-channel television.

Channel 4 also uses a range of other measures to allow the Board to assess the delivery of the remit, including programming data on the volume and value of programming by genre, measures to assess the performance and impact of our activities beyond the core channel, a range of audience research measures including regular tracking studies on the organisation's output, and a variety of other measures of our on and off-screen activities and impact.

2. Multi-channel share
With the growth of multi-channel television eroding the viewing share of our core public service channel, our portfolio of digital channels allows us to deliver 4-branded content to a wider audience and generate new revenue streams. They allow us to deliver ground-breaking, provocative and intelligent programming that reinforces areas of reputational strength whilst staying true to our values of innovation, experimentation, creativity and diversity.

Our digital channels grew their share of viewing by 0.9% in the year. Although the group's portfolio audience share fell slightly to 11.9% (2006: 12.1%) as a result the decline noted above for Channel 4, this was still our second highest ever portfolio share.

3. Ofcom requirements
As a public service broadcaster, the Channel is set various licence obligations from Ofcom each year the delivery of which are seen as central to Channel 4's public service role. There are set targets for a range of production and transmission measures. These are set out on page 85. In 2007 and 2006 we have met all our licence requirements.

During 2007 the channel achieved 64% overall of hours of originated programmes (target 60%) and 76% in peak hours (target 70%). We also exceeded our target of 30% of programme production outside London with 35% (£124.9 million) of Channel 4's originated programming being supplied by production companies from outside the M25.

4. Total television advertising revenue
Channel 4 is funded solely from commercial activities without direct public subsidy and the revenue that the group derives from advertising drives overall financial performance and impacts the delivery of our remit. Our commercial performance is dependent on delivering valuable airtime to advertisers which accounts for 87% (2006: 83%) of total revenue.

Although core Channel 4 contributes much of our advertising revenues, our digital channels are increasingly important in mitigating any fall in Channel 4 advertising revenues in a fully digital world. Our television advertising revenue grew to £825.2 million in 2007, an increase of £48.1 million (6.2%) compared to 2006, meaning that our portfolio share of the total television advertising market grew from 23.5% in 2006 to 24.1% in 2007, our highest ever share.

5. Operating (loss)/profit
This is used as a measure of the financial performance and our ability to continue fulfilling our remit. It does not take into account interest, share of profits from joint ventures or taxation. The principal factors behind our operating loss in 2007 of £8.8 million (2006 profit: £14.0 million) are explained on page 36.

**Financial Review**
The financial pressure on core Channel 4 continues as a result of the drive towards digital switchover. The migration to digital (and increasing competition from additional channels available) will cause a decline in Channel 4's audience share and hence a decline in the amount of advertising revenue Channel 4 is able to generate. The growing contribution from the digital channels is helping to mitigate, but is not expected to eliminate, the impact of declining audience share and advertising revenue.

During the year, to increase the timeframe in which viewers can watch our core service we launched the first time-shifted version of a main terrestrial channel in the UK. In another first, we were the first UK broadcaster to launch a simulcast high definition service.

A significant development in the year was the 4 Digital Group (of which Channel 4 is the leading member) winning the commercial radio multiplex bid which was announced in July.

In July, Channel 4 acquired 50 per cent of Box Television Ltd with the aim of creating the UK's number one music TV provider. In addition to operating and seeking to grow the seven digital music TV channels currently run by Box Television, the joint venture will seek to exploit new and emerging digital growth opportunities beyond traditional broadcast streams.

4oD, the 'on Demand' service launched at the end of 2006, has seen further development during 2007 with the announced link up with the BBC and ITV plc through Project Kangaroo. This joint venture will develop a video download service which will create a media player for viewers to download their favourite TV shows and allow viewers to enjoy Channel 4 programmes at their convenience. For Channel 4, it is a way to ensure Channel 4 stays at the forefront of new media development and generates new revenue.

We disposed of our subsidiary Channel 4 International Ltd during the year as the market became more competitive and less profitable and therefore it was less desirable for Channel 4 to use resources in the area. Our commercial 4 Learning operation was sold to Espresso Broadband Ltd in the year in exchange for a 10% stake in the enlarged group. 4 Learning is expected to benefit from the scale and business focus of the new group. We also decided to withdraw from operating premium telephony services on Channel 4 on a 'for profit' basis.

In an effort to improve Channel 4's operational efficiency, it has been announced that our broadcast and transmission service will be outsourced to Red Bee Media Ltd. This will help us respond to future technological changes and further reduce the Channel's fixed overhead.

We entered into a joint venture in the year to distribute Channel 4's film catalogue. The new venture, Protagonist Pictures Ltd, will distribute the FilmFour catalogue alongside new films funded by the joint venture partners. This will be a film distribution business with significant scale in the UK.

The increase in headcount from 917 to 965 reflects business disposals in the year, offset by additional staff to support business development including 4Radio, New Media and 4oD.

**Financial performance**
As shown in the table below, our revenues have increased by 0.9% from 2006. Our operating loss is £8.8 million (2006 operating profit: £14.0 million).

| | TV advertising revenue £m | Other revenue £m | Total revenue £m | Operating (loss)/profit £m |
|---|---|---|---|---|
| **2007** | | | | |
| Channel 4 | 676.8 | 38.5 | 715.3 | (7.8) |
| 4 Channels | 148.4 | 8.0 | 156.4 | 16.2 |
| 4 Rights | – | 42.6 | 42.6 | 7.5 |
| New Media | – | 26.7 | 26.7 | (15.4) |
| Other | – | 22.1 | 22.1 | (9.3) |
| Eliminations | – | (18.2) | (18.2) | – |
| | **825.2** | **119.7** | **944.9** | **(8.8)** |
| **2006** | | | | |
| Channel 4 | 664.4 | 31.5 | 695.9 | 21.8 |
| 4 Channels | 112.7 | 15.9 | 128.6 | (17.6) |
| 4 Rights | – | 60.8 | 60.8 | 7.8 |
| New Media | – | 18.5 | 18.5 | (6.0) |
| Other | – | 56.7 | 56.7 | 8.0 |
| Eliminations | – | (23.6) | (23.6) | – |
| | **777.1** | **159.8** | **936.9** | **14.0** |

Channel 4
Revenues have increased by £19.4 million to £715.3 million in 2007 (2006: £695.9 million) helped by growth in the television advertising market of 3.2% year on year. Advertising revenues grew by £12.4 million (1.9%), less than the rate of inflation.

Further investment in programming and cost increases more than offset the additional revenue and the core channel operating loss is £7.8 million (2006 operating profit: £21.8 million).

4 Channels
Revenues have grown year on year from £128.6 million in 2006 to £156.4 million in 2007, with growth in audience share driving higher advertising revenues as the free-to-air channels mature. 4 Channels generated an operating profit of £16.2 million in 2007 (2006 operating loss: £17.6 million).

4 Rights
Revenues have decreased to £42.6 million in 2007 (2006: £60.8 million) as a result of lower year on year sales from our international rights business, Channel 4 International Ltd, which was disposed of in November 2007 and our commercial learning operation, 4 Learning, which was sold in March 2007.

New Media
New Media generated revenues of £26.7 million in 2007 (2006: £18.5 million). The increase arises principally from a full year of 4oD trading. The operating loss of £15.4 million (2006: £6.0 million) arises as a result of early trading losses for this new business and related platform investment.

Other
The reduction in revenue and surplus arises principally due to reduced premium rate telephony and the disposal in November 2006 of our subsidiary Ostrich Media Ltd, which operated Quizcall.



**Financial Position**
The balance sheet on page 42 of the financial statements shows that Channel 4 has increased its net assets through its investment in The Box Television Ltd joint venture, the revaluation of freehold land and buildings during the year and increased cash balances.

**Acquisitions and disposals**
During 2007 Channel 4 acquired three companies from Life TV Ltd and entered into a 50% joint venture with Emap Consumer Ltd (recently acquired by Heinrich Bauer Verlag KG) for Box Television Ltd. The investment in Box Television Ltd provides Channel 4 with access to seven branded music TV channels (note 9). As a result of the Life aquisition, all Channel 4 services on the Sky platform are now presented together (note 8).

During 2007 Channel 4 disposed of its ownership interests in Channel 4 International Ltd, Oneword Radio Ltd and the commercial operations of 4 Learning. Channel 4 International was sold for £3.9 million with a loss on disposal of £1.8 million resulting (note 8). A profit on disposal of £1.6 million was recognised on the disposal of Oneword Radio Ltd, representing Channel 4's minority share of losses previously provided against in accordance with IFRS (note 8). The 4 Learning operation was disposed of in exchange for a £2.1 million investment in Espresso Broadband Ltd (note 10).

**Cashflow**
As shown in the group cashflow statement on page 43, the profit for the year of £0.5 million resulted in a £51.6 million operating cash inflow due to working capital improvements around programme and film rights and other inventories, payables and receivables. Purchases of property, plant and equipment, financial deposits and corporate acquisitions resulted in a net cash outflow from investing activities. Group cash and cash equivalents reduced to £139.2 million at 31 December 2007 from £180.4 million in 2006 with a further £56.0 million held in deposits maturing between three and six months (2006: £nil).

**Pension**
The plan assets and liabilities of the Channel Four Television Staff Pension Plan have been revalued at 31 December 2007 in accordance with IAS 19 'Employee benefits' and the net accounting deficit of £9.4 million has been recorded on the year end balance sheet (2006: £14.9 million).

**Risks**
Outlined below are the key risks that the group faces, together with how we take steps to mitigate them. Further details around our governance structure are provided in the Corporate Governance section on pages 75 to 80.

1. Dependence on advertising revenues
More than 87% of Channel 4's revenue is derived from advertising. This dependency upon on one form of revenue means that the Channel is susceptible to fluctuations as well as structural changes in the advertising market. Advertising income is extremely variable and has the potential to change significantly during the course of a year as a result of changes in audience share or broader market conditions. The majority of Channel 4 costs are fixed within a year which means that Channel 4 has limited ability to respond to short term downturns in advertising income.

In order to mitigate this risk Channel 4 monitors the advertising market and its share of the market very closely throughout the year to identify trends and to allow time to respond. As far as possible the group maintains a flexible cost base. Channel 4 also maintains cash reserves to help protect against short term fluctuations in revenue. The Treasury Policy Committee reviews the group's cashflow forecast and requirements for cash.

2. Ofcom Licence Obligations
A significant risk to Channel 4 would be any failure to fulfil its statutory duties and functions in order to ensure the successful delivery of Channel 4's remit and other public service responsibilities.

In December 2004 Channel 4 was issued with a detailed Digital Replacement Licence ("DRL") which sets out all of its formal obligations, including detailed programming obligations.

Channel 4 falls within Ofcom's overall obligations to assess the delivery of public service broadcasting taken collectively, carried out through its Annual Reports and the quinquennial Public Service Broadcasting Review.

The Channel 4 Board is the main body for ensuring that Channel 4 meets all of its public service responsibilities. Current programming output and the delivery of Channel's programming obligations are reviewed regularly by the Board. The Board also has instigated an annual process of independent assessment of Channel 4's delivery of its remit.

Channel 4 also publishes an Annual Statement of Programme Policy ("SoPP") alongside an Annual Review of performance against this SoPP, as required under its DRL and consistent with the other public service broadcasters.

3. Legal and Regulatory Obligations
There are principally three significant risks in relation to the publication of content by Channel 4:
- Breach of the Ofcom Broadcasting Code resulting in the imposition of a statutory sanction.
- Breach of the civil law (to which we have no defence in law).
- Breach of the criminal law (to which we have no defence in law).

There are a number of detailed legal and compliance procedures and protocols designed to ensure that such risks are identified and appropriately reduced. These procedures are mandatory for all relevant staff. At the heart of these procedures is Channel 4's Internal Procedures for Referral-up and Compliance which is also mandatory for all relevant staff. The referral-up process involves senior editoral staff and ultimately the Director of Television and Content and the Chief Executive. This process also requires that independent producers working with Channel 4 ensure that they have their own internal procedures so that legal and compliance issues are referred to senior executives and Channel 4 as and when appropriate. Such procedures exist to ensure that difficult and fine-cut decisions on legal and compliance matters are properly considered by the most experienced editorial and programme lawyers and senior executives within Channel 4.

During 2007 we reviewed and strengthened procedures as appropriate in the light of the issues which arose in relation to 'Celebrity Big Brother' and the viewer competitions 'You Say, We Pay' and 'Deal or No Deal'. In addition we announced in August 2007 that Channel 4 would no longer profit from premium rate voting and our withdrawal from premium rate viewer competitions.

# Report of the members

The members present their report and the audited financial statements for the year ended 31 December 2007.

**Business review and principal activities**
Channel Four Television Corporation (Channel 4) is a statutory corporation, without shareholders, established under the terms of the Broadcasting Act 1990.

Channel 4 is a public service broadcaster funded solely from commercial revenues. Channel 4 receives free spectrum in return for fulfilling public service obligations as set out in the 1990 and 1996 Broadcasting Acts and the licence issued by Ofcom, which came into effect on 28 December 2004.

The core public service channel is available on both analogue and the main digital broadcast platforms. The group also pursues various commercial activities which are incidental and conducive to the operation of Channel 4.

A review of the business of the group, outlining its development and performance during the financial year together with its position at 31 December 2007, is provided in the Operating and Financial Review on pages 34 to 37. This outlines the principle risks and uncertainties facing Channel 4. The group's financial statements are set out on pages 41 to 74.

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

The present members of Channel 4 are listed on page 81. Since 1 January 2007, the following members have been appointed or have retired:

| **Appointments** | **Date of appointment** |
|---|---|
| Jon Gisby | 3 December 2007 |
| Nathalie Schwarz | 1 February 2008 |
| **Retirements** | **Date of retirement** |
| Ron Henwood | 17 December 2007 |

In July 2006, Ofcom confirmed the re-appointment of Luke Johnson as Chairman for a further three years from January 2007.

Details of members' remuneration are contained within the report on members' remuneration on pages 82 and 83.

**Members' interests**
Channel 4 fully embraces the principles of good corporate governance and, to this end, makes full disclosure of all members' interests. During 2007, members, in addition to their non-executive member fees as disclosed on page 82, were interested in the following contracts negotiated at arm's length on normal commercial terms with the group:
– Andy Mollett was a director of EMI Music Publishing Ltd until 31 August 2007. EMI group companies received a total of £652,125 during 2007 for programme related costs. Channel 4 received £108,857 from EMI relating to sales of music soundtracks related to Channel 4 programmes.

**Employment policy**
Channel 4 is an equal opportunities employer and does not discriminate on grounds of sex, sexual orientation, marital status, race, colour, ethnic origin, disability, age or political or religious belief in its recruitment or other employment policies.
The ethos of the group for both job applicants and staff is that everyone matters.

Channel 4 has established an ethnic monitoring system for its recruitment and the ethnic composition of its staff.
The representation of ethnic minorities amongst its permanent staff in 2007 was 11% (2006: 11%). Women continue to form the majority of its staff at 53% (2006: 55%).

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

**Employee involvement and consultation**
The quality, commitment and effectiveness of the group's staff are crucial to its continued success. Channel 4 has continued to invest significantly in its staff through training and development. Channel 4 has been accredited with the Investors In People standard since 2001. In addition, the group informs and consults with its employees through:
– an internal intranet information service available to all members of staff.
– meetings hosted by executive members during which staff are briefed on recent developments and strategic plans.
– regular departmental meetings during which information is disseminated and staff have an opportunity to air their views.
– recognition of trade unions. The group has two recognised trade unions, BECTU and Equity.
– an internal communications function, which aids effective communication across the organisation, co-ordinates internal culture activities and helps to implement business change projects.
– employee forum, which allows the sharing of information and an exchange of views with an elected group of employees on key matters affecting the Channel's business, structure and organisation.

**Environmental matters**
Channel 4 has an environmental policy which it monitors and adheres to (see Corporate Responsibility on pages 30 and 31 for further details).

**Charitable donations**
During 2007, the group donated £3.2 million to charities (2006: £3.4 million). Of this amount, £1.4 million (2006: £1.5 million) was paid to charities to provide training that will improve the overall expertise of television staff in the industry. A charity payment was made for each vote cast relating to 'Big Brother' with charity donations for the eighth series totalling £0.2 million (2006: £1.3 million) paid to three charities. In addition £0.7 million (2006: £0.6 million) was donated to other charities in relation to the 2007 series of 'Celebrity Big Brother'. The remainder represents charity payments made in relation to premium rate telephony services totalling £0.9 million in respect of the competitions, 'You Say, We Pay' and 'Deal or No Deal'.

**Development**
The group devotes substantial resources to the development of scripts and treatments for possible commissioning. Programme development expenditure charged to the income statement in 2007 amounted to £8.6 million (2006: £11.3 million).

**Group foreign currency, cash and treasury management**
The group' s treasury management operates within defined treasury policies determined by the Board. Details of the group's foreign currency, cash and treasury matters are disclosed in note 19, including information on the group's exposure to market, foreign currency, interest rate, liquidity and credit risk .

Channel 4 has adopted in the year a new standard, International Financial Reporting Standard 7 (IFRS 7) 'Financial Instruments: Disclosures'. This IFRS requires Channel 4 to provide disclosures in the consolidated financial statements that enable users to evaluate the significance of financial instruments on Channel 4's financial position and performance. It also requires the disclosure of the nature and extent of risks arising from financial instruments to which Channel 4 is exposed during the year and at the reporting date, and how those risks are managed. This information is set out in note 19 to the consolidated financial statements.

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

**Disclosure of information to auditors**
Each of the persons who is a member at the date of approval of this annual report confirms that:
– so far as the member is aware, there is no relevant audit information of which the group's auditors are unaware; and
– the member has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

**Auditors**
KPMG LLP have been appointed as auditors to Channel 4 with the approval of the Secretary of State for Culture, Media and Sport, and have expressed their willingness to continue in office.

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

By Order of the Board:

**Andy Duncan**
Chief Executive
17 March 2008

# Report of the auditors

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

We have audited the financial statements of the group and Channel 4 (the "financial statements") for the year ended 31 December 2007 which comprise the group Consolidated income statement, the group and Channel 4 Balance sheets, the group and Channel 4 Cashflow statements, the group and Channel 4 Statements of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

In addition to our audit of the financial statements, the members have engaged us to audit the information in the members' remuneration report that is described as having been audited, which the members have decided to prepare (in addition to that required to be prepared) as if Channel 4 were required to comply with the requirements of Schedule 7A to the Companies Act 1985.

This report is made solely to Channel 4's members, as a body, in accordance with the Broadcasting Act 1990 and direction thereunder by the Secretary of State and the terms of our engagement. Our audit work has been undertaken so that we might state to Channel 4's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Channel 4 and Channel 4's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of members and auditors**
The members' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of members' responsibilities on page 75.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) and, under the terms of our engagement letter, to audit the part of the members' remuneration report that is described as having been audited.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Members' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985, as if those requirements were to apply. We also report to you whether in our opinion the information given in the Members' Report is consistent with the financial statements. The information given in the Members' Report includes that information presented in the Chairman's and Chief Executive's Statements and the Operating and Financial Review that is cross referred from the Business Review section of the Members' Report. In addition we report to you if, in our opinion, Channel 4 has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding members' remuneration and other transactions is not disclosed.

In addition to our audit of the financial statements, the members have engaged us to review their Corporate Governance Statement as if Channel 4 were required to comply with the Listing Rules of the Financial Services Authority in relation to those matters. We review whether the Corporate Governance Statement reflects Channel 4's compliance with the nine provisions of the 2006 Combined Code specified for our review by those rules, and we report if it does not. We are not required by the terms of our engagement to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, and consider the implications for our report if we become aware of any apparent misstatements within it. Our responsibilities do not extend to any other information.

**Basis of audit opinion**
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the members' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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 and the part of the members' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the members' remuneration report to be audited.

**Opinion**
In our opinion:
- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 December 2007 and of its profit for the year then ended;
- Channel 4's financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2007;
- the financial statements have been properly prepared in accordance with the Broadcasting Act 1990 and the Companies Act 1985, to the extent that those provisions are applicable;
- the part of the members' remuneration report which we were engaged to audit has been properly prepared in accordance with Schedule 7A to the Companies Act 1985, as if those requirements were to apply to Channel 4; and
- the information given in the Members' Report is consistent with the financial statements.

**KPMG LLP**
Chartered Accountants
Registered Auditor
London
17 March 2008



# Consolidated income statement
## for the year ended 31 December

| | Note | Group 2007 £m | Group 2006 £m |
|---|---|---|---|
| **Revenue** | 1 | **944.9** | 936.9 |
| Cost of transmission and sales | 2 | **(888.5)** | (881.5) |
| **Gross profit** | | **56.4** | 55.4 |
| Other operating expenditure | 2 | **(65.2)** | (41.4) |
| **Operating (loss)/profit** | 3 | **(8.8)** | 14.0 |
| Financial income | 6 | **19.5** | 15.7 |
| Financial expense | 6 | **(9.5)** | (8.4) |
| **Net financial income** | | **10.0** | 7.3 |
| **Share of the profit of investments accounted for using the equity method (net of income tax)** | 9 | **0.4** | – |
| **Profit before tax** | | **1.6** | 21.3 |
| Income tax expense | 7 | **(1.1)** | (6.8) |
| **Profit for the year** | | **0.5** | 14.5 |
| **Attributable to:** | | | |
| Channel Four Television Corporation | 20 | **1.2** | 14.5 |
| Minority interest | 20 | **(0.7)** | – |

# Statement of recognised income and expense
## for the year ended 31 December

| | Note | Group 2007 £m | Group 2006 £m | Channel 4 2007 £m | Channel 4 2006 £m |
|---|---|---|---|---|---|
| Net actuarial gains in pension scheme | 22 | **4.0** | 11.7 | **4.0** | 11.7 |
| Deferred tax on pension scheme recognised directly in equity | 13 | **(1.1)** | (3.5) | **(1.1)** | (3.5) |
| Revaluation of freehold land and buildings | 11 | **9.9** | – | **9.9** | – |
| **Total gains and losses recognised directly in equity** | | **12.8** | 8.2 | **12.8** | 8.2 |
| Profit for the year | 20 | **0.5** | 14.5 | **2.5** | 22.8 |
| **Total recognised income for the year** | | **13.3** | 22.7 | **15.3** | 31.0 |
| **Attributable to:** | | | | | |
| Channel Four Television Corporation | 20 | **14.0** | 22.7 | **15.3** | 31.0 |
| Minority interest | 20 | **(0.7)** | – | **–** | – |

The notes on pages 44 to 74 form part of these financial statements.

# Balance sheets
## as at 31 December

| | Note | Group 2007 £m | Group 2006 £m | Channel 4 2007 £m | Channel 4 2006 £m |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Investments in subsidiaries | 8 | **–** | – | **–** | – |
| Investments accounted for using the equity method | 9 | **32.1** | 1.6 | **–** | – |
| Equity investments | 10 | **2.1** | – | **–** | – |
| Freehold land and building | 11 | **58.3** | 47.5 | **58.3** | 47.5 |
| Fixtures, fittings and equipment | 11 | **16.5** | 22.2 | **16.5** | 22.2 |
| Intangible assets | 12 | **8.6** | 4.4 | **4.5** | 3.6 |
| Deferred tax assets | 13 | **8.1** | 6.0 | **6.5** | 5.5 |
| **Total non-current assets** | | **125.7** | 81.7 | **85.8** | 78.8 |
| Programme and film rights and other inventories | 14 | **206.8** | 237.3 | **186.4** | 211.9 |
| Trade and other receivables | 15 | **135.7** | 152.3 | **167.5** | 135.9 |
| Other financial assets | 16 | **56.4** | – | **56.4** | – |
| Cash and cash equivalents | 16 | **139.2** | 180.4 | **139.2** | 180.4 |
| Assets held for sale | 4 | **–** | 2.0 | **–** | – |
| **Total current assets** | | **538.1** | 572.0 | **549.5** | 528.2 |
| **Total assets** | | **663.8** | 653.7 | **635.3** | 607.0 |
| **Liabilities** | | | | | |
| Employee benefits – pensions | 22 | **(9.4)** | (14.9) | **(9.4)** | (14.9) |
| Provisions | 18 | **(2.6)** | (2.8) | **(2.6)** | (2.8) |
| Deferred tax liabilities | 13 | **(4.9)** | (1.3) | **(1.3)** | (1.1) |
| Other financial liabilities | 19 | **(0.3)** | (0.6) | **(0.3)** | (0.6) |
| **Total non-current liabilities** | | **(17.2)** | (19.6) | **(13.6)** | (19.4) |
| Trade and other payables | 17 | **(178.6)** | (192.2) | **(120.4)** | (116.5) |
| Current tax liabilities | 17 | **(2.5)** | (2.2) | **(2.7)** | (0.9) |
| Provisions | 18 | **(13.8)** | (1.3) | **(13.8)** | (0.7) |
| Liabilities held for sale | 4 | **–** | (1.4) | **–** | – |
| **Total current liabilities** | | **(194.9)** | (197.1) | **(136.9)** | (118.1) |
| **Total liabilities** | | **(212.1)** | (216.7) | **(150.5)** | (137.5) |
| **Net assets** | | **451.7** | 437.0 | **484.8** | 469.5 |
| **Equity attributable to:** | | | | | |
| Channel Four Television Corporation | 20 | **451.0** | 437.0 | **484.8** | 469.5 |
| Minority interest | 20 | **0.7** | – | **–** | – |
| **Total equity** | | **451.7** | 437.0 | **484.8** | 469.5 |

The financial statements on pages 41 to 74 were approved by the Board of members on 17 March 2008 and were signed on its behalf by:

**Luke Johnson**
Chairman

**Andy Duncan**
Chief Executive

The notes on pages 44 to 74 form part of these financial statements.

# Cashflow statements
## for the year ended 31 December

| | Note | Group 2007 £m | Group 2006 £m | Channel 4 2007 £m | Channel 4 2006 £m |
|---|---|---|---|---|---|
| **Cashflow from operating activities** | | | | | |
| Profit for the year | | **0.5** | 14.5 | **2.5** | 22.8 |
| **Adjustments for:** | | | | | |
| Income tax expense | 7 | **1.1** | 6.8 | **1.9** | 12.9 |
| Depreciation | 3 | **8.9** | 6.5 | **8.9** | 6.5 |
| Amortisation of intangible assets | 3 | **3.7** | 2.0 | **3.0** | 1.8 |
| Net financial income | 6 | **(10.0)** | (7.3) | **(12.1)** | (10.3) |
| Impairment of property, plant and equipment | 3 | **8.0** | – | **8.0** | – |
| Share of profit of investments accounted for using the equity method | 9 | **(0.4)** | – | **–** | – |
| Reversal of impairment of property, plant and equipment | 3 | **(1.5)** | (5.1) | **(1.5)** | (5.1) |
| **Operating cashflow before changes in working capital and provisions** | | **10.3** | 17.4 | **10.7** | 28.6 |
| **Changes in working capital:** | | | | | |
| Decrease/(increase) in programme and film rights and other inventories | 14 | **30.5** | (27.4) | **25.5** | (20.8) |
| Decrease/(increase) in trade and other receivables | 15 | **16.6** | (11.8) | **(35.0)** | (17.4) |
| Movement in assets held for sale | 4 | **2.0** | (2.0) | **–** | – |
| (Decrease)/increase in trade and other payables | 17 | **(13.6)** | 32.6 | **3.9** | 21.0 |
| Movement in liabilities held for sale | 4 | **(1.4)** | 1.4 | **–** | – |
| Increase/(decrease) in provisions | 18 | **12.3** | (2.0) | **12.9** | (2.0) |
| Movement associated with equity investments | 10 | **(2.1)** | – | **–** | – |
| **Cash generated from operations** | | **54.6** | 8.2 | **18.0** | 9.4 |
| Tax paid | | **(3.0)** | (10.1) | **(1.2)** | (14.6) |
| Additional contribution to employee benefits – pensions | 22 | **–** | (5.7) | **–** | (5.7) |
| **Net cashflow from operating activities** | | **51.6** | (7.6) | **16.8** | (10.9) |
| **Cashflow from investing activities** | | | | | |
| Investment in Life One Broadcasting Ltd | 8 | **(3.6)** | – | **–** | – |
| Investment in joint venture | 9 | **(29.2)** | (1.4) | **–** | – |
| Proceeds from sale of subsidiaries net of cash disposed | 8 | **1.9** | – | **–** | – |
| Purchase of property, plant and equipment | 11 | **(10.6)** | (14.5) | **(10.6)** | (14.5) |
| Internally developed software | 12 | **(3.9)** | (1.2) | **(3.9)** | (1.2) |
| Net interest received | 6 | **8.2** | 7.3 | **12.1** | 9.4 |
| (Increase)/decrease in other financial assets | 16 | **(56.0)** | 30.0 | **(56.0)** | 30.0 |
| **Net cashflow from investing activities** | | **(93.2)** | 20.2 | **(58.4)** | 23.7 |
| **Cashflow from financing activities** | | | | | |
| **Net cashflow from financing activities** | | **–** | – | **–** | – |
| **Net (decrease)/increase in cash and cash equivalents** | | **(41.6)** | 12.6 | **(41.6)** | 12.8 |
| Cash and cash equivalents at 1 January | | **180.4** | 167.9 | **180.4** | 167.7 |
| Effect of exchange rates on cash held | 6 | **0.4** | (0.1) | **0.4** | (0.1) |
| **Cash and cash equivalents at 31 December** | | **139.2** | 180.4 | **139.2** | 180.4 |

# Significant accounting policies

Channel Four Television Corporation (Channel 4) is a statutory corporation domiciled in the United Kingdom. The consolidated financial statements of Channel 4 for the year ended 31 December 2007 comprise Channel 4 and its subsidiaries (together referred to as the "group") and the group's investments accounted for using the equity method. Channel 4's financial statements present information relating to Channel 4 as a separate entity and not about its group.

The financial statements were authorised for issue by the members on 17 March 2008. The registered office of Channel 4 is 124 Horseferry Road, London, SW1P 2TX.

**Statement of compliance**
Both Channel 4's and the consolidated financial statements have been prepared and approved by the members in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs). On publishing the Channel 4 financial statements here together with the group financial statements, Channel 4 is taking advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements.

**Basis of preparation**
The financial statements have been prepared under the historical cost convention, except that the following assets and liabilities are stated at fair value: derivative financial instruments, other financial assets and freehold properties; and are presented in pounds sterling, rounded to the nearest one hundred thousand. The financial statements have been prepared in a form as directed by the Secretary of State for Culture, Media and Sport with the approval of the Treasury and meet the disclosure and measurement requirements, in so far as they are applicable, of the Companies Act 1985 and Adopted IFRSs.

The preparation of financial statements in conformity with Adopted IFRSs requires the use of estimation and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by management in the application of Adopted IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below.

Recoverability of trade debtors
Trade debtors are reflected net of an estimated provision for doubtful accounts. This provision is based primarily on a review of all outstanding accounts and considers the past payment history and creditworthiness of each account and the length of time that the debt has remained unpaid. The actual amounts of debts that ultimately prove irrecoverable could vary from the provision made.

Intangible assets
When the group makes an acquisition, the members review the business and assets acquired to determine whether any intangible assets should be recognised separately from goodwill. If such an asset is identified, then it is valued by discounting the probable future cashflows expected to be generated by the asset, over the estimated life of the asset. Where there is uncertainty over the amount of future economic benefit and the useful life this is factored into the calculation. Details of intangible assets are given in note 12.

Impairment of goodwill
The group determines whether goodwill is impaired at a minimum on an annual basis. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating value in use requires the group to make an estimate of the future cash flows from the cash generating unit that holds the goodwill at a determined discount rate to calculate the present value of those cash flows. The methodology for the testing of impairment is outlined on page 47.

Employee post retirement benefit obligations
The group operates a defined benefit pension plan. The obligations under the plan are recognised in the balance sheet and represent the present value of the obligation calculated by independent actuaries, with input from the members. These actuarial valuations include assumptions such as discount rates, return on assets, salary progression and mortality rates. These assumptions vary from time to time according to prevailing economic and social conditions. Details of assumptions used are provided in note 22.

Deferred tax
Deferred tax assets and liabilities require members' judgement in determining the amounts to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised with consideration to the timing and level of future taxable income.

Income tax
The actual tax on the result for the year is determined according to complex tax laws and regulations. Where the effect of these laws and regulations is unclear, estimates are used in determining the liability for tax to be paid on past profits which are recognised in the financial statements. The group considers the estimates, assumptions and judgements to be reasonable but this can involve complex issues which may take a number of years to resolve. The final determination of prior years tax liabilities could be different from the estimates reflected in the financial statements.

Claims
In making provision for claims, the members base their judgment on the circumstances relating to each specific event, internal and external legal advice, knowledge of the industry and market, prevailing commercial terms and legal precedents. The group's legal claims are reviewed on a monthly basis.



**Accounting policies**
A summary of the group and Channel 4 accounting policies that are material in the context of the accounts is set out below. The accounting policies have been, unless otherwise stated, applied consistently to all periods presented in these financial statements.

The following new standards, amendments and interpretations became effective in 2007 and where appropriate have been applied by the group in these financial statements:

- IFRS 7 'Financial Instruments: Disclosures'
- IAS 1 amendment 'Presentation of Financial Statements'
- IFRIC 9 'Reassessment of Embedded Derivatives'

The following Adopted IFRS was available for early adoption but has not been applied by the group in these financial statements:

- IFRS 8 'Operating Segments'

The members anticipate that the adoption of this Standard in future will not have no material impact on the financial statements of the group.

**Basis of consolidation**
Subsidiaries are entities controlled by the group. Control exists when the group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences to the date that control ceases.

Investments accounted for using the equity method comprise associates and joint ventures.

Associates are those entities in which the group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases or when the associate is classified as held for sale in accordance with IFRS 5. When the group's share of losses exceeds its interest in an associate, the group's carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of an associate.

Joint ventures are entities over whose activities the group has joint control established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions. The consolidated financial statements include the group's share of total recognised gains and losses using the equity method of accounting from the date that joint control commences to the date it ceases or when the jointly controlled entity is classified as held for sale in accordance with IFRS 5.

As explained in note 9, certain of the group's joint ventures are not-for-profit organisations. Cost contributions to those organisations are charged to the income statement in the period that they occur.

Intragroup balances and any unrealised gains and losses or income and expense arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions investments accounted for using the equity method are eliminated to the extent of the group's interest in the equity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**Revenue recognition**
Advertising revenue is recognised on transmission of the advertisement and is stated net of advertising agency commission and value added tax. Revenue from sponsors of the group's programmes and films is recognised on a straight line basis in accordance with the transmission schedule for each sponsorship campaign.

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

Subscription fee revenue is recognised over the period of subscription.

Revenue from the provision of premium rate telephony services is recognised in line with contestant call volumes.

**Taxation**
Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary timing differences are not provided for: the initial recognition of goodwill; the initial recognition of assets and liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

**Net assets classified as held for sale**
A disposal group (being a group of assets to be disposed of together in a single transaction, and the liabilities directly associated with those assets) is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

On initial classification as held for sale, disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to the income statement.

If an operating segment has been discontinued during the year then this is reported as a discontinued operation on the face of the income statement and notes. Discontinued areas of segments are reported in the notes to the accounts.

**Investments in subsidiaries and investments accounted for using the equity method in Channel 4's accounts**
Investments are stated at cost, less any provision for impairment.

**Equity investments**
Equity investments represent equity holdings without significant influence. These investments are carried at fair value (note 10).

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

Any gain arising from a change in fair value is recognised directly in equity, unless the gain reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case it is also recognised in the income statement. Any loss arising from a change in fair value is charged directly to equity to the extent of any credit balance existing in the revaluation surplus of that asset. Otherwise the loss is recognised in the income statement.

Fixtures, fittings and equipment are stated at cost less accumulated depreciation.

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

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

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

**Intangible assets and goodwill**
Expenditure on internally developed computer software applications is capitalised to the extent that the project is technically and commercially feasible, sufficient resources exist to complete the development and it is probable that the asset will generate future economic benefits. The expenditure capitalised includes the cost of software licences, direct staff costs and consultancy costs.

Amortisation on capitalised software development costs is charged to the income statement on a straight line basis over the estimated useful lives of the assets from the date that they are available for use. For capitalised computer software, the estimated useful life is five years.

Other intangible assets that are acquired by the group are stated at cost less accumulated amortisation and any impairment loss.

At 31 December 2007, this balance represents broadcast licences held by the group 's subsidiary Life One Broadcasting Ltd (note 8) and Box Television Ltd joint venture (note 9). Assets are considered to have finite lives and amortisation is charged to the income statement on a straight line basis over the life of the licence (six and eight years respectively).

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on the acquisition of subsidiaries, associates or jointly controlled entities where a difference exists between the cost of the acquisition and the fair value of the net identifiable assets acquired. Identifiable intangible assets are those which can be sold separately or arise from legal rights regardless of whether those rights are separable.

Goodwill in respect of associates and jointly controlled entities is included in the carrying value of the associate or jointly controlled entity.

Goodwill is stated at cost less impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment whether or not an indication of impairment exists.

On first time adoption of IFRS the group chose not to restate business combinations that took place prior to 1 January 2004 in accordance with IFRS 3.

**Impairment**
The carrying values of the group's assets, except deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. Value in use is determined by discounting the future net cashflows for the specific asset, or if the asset does not generate independent cashflows, the discounted future net cashflows for the cash generating units to which it belongs. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group's of assets.

**Reversal of impairments**
An impairment loss in respect of freehold land and buildings is reversed in the event of a subsequent increase in fair value. Such a gain is recognised in the income statement.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

**Cash and cash equivalents**
Cash and cash equivalents comprise cash balances and deposits of less than three months duration and are stated at fair value.

**Other financial assets**
Other financial assets comprise deposits of between three and six months duration and financial instruments with debit balances and are stated at fair value.

**Foreign currency**
Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

**Derivative financial instruments**
The group transacts in a number of currencies as well as Sterling, and is a net purchaser of Euros. Certain exposures to fluctuations in exchange rates are managed by transactions in the forward foreign exchange markets. These derivative financial instruments are stated at fair value based on quoted market rates. Changes in the fair value of these derivative financial instruments are recognised in the income statement. The group does not hold or issue derivative financial instruments for trading purposes.

The group has not sought to apply hedge accounting treatment for any of its foreign exchange hedging activity in any of the periods presented. As a result, changes in the fair value of hedging instruments have been recognised in the income statement as they have arisen.

Where the group has identified forward foreign exchange derivative instruments within certain contracts (embedded derivatives), these have been included in the balance sheet at fair value.

Fair value of these derivatives is determined by reference to quoted market rates. The value of the derivatives is reviewed on an annual basis or when the relevant contract matures.

# Significant accounting policies continued

**Leases**
Assets held under finance leases (those in which the group assumes substantially all the risks and rewards of ownership) are treated as property, plant and equipment and depreciation is charged accordingly. The capital elements of future obligations are recorded as liabilities. Interest is charged to the income statement over the period of the lease in proportion to the capital outstanding. All other leases are treated as operating leases. The rental costs arising from operating leases are charged to the income statement on a straight line basis.

**Trade and other receivables**
Trade and other receivables are initially recognised at fair value and subsequently amortised cost.

**Segment reporting**
A segment is a distinguishable component of the group that is engaged in providing products or services (business segment).

**Provisions**
A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cashflows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**Employee benefits – pensions**

Defined benefit scheme
The group maintains a defined benefit pension scheme. The net obligation under the scheme is calculated by estimating the future benefits that employees have earned in return for their service in the current and prior periods, discounting to determine its present value and deducting the fair value of scheme assets at bid price. The assumed discount rate for the liabilities is the current rate of return of high quality corporate bonds with similar maturity dates. The calculation is performed by a qualified actuary using the projected unit credit method.

Actuarial gains and losses that arise in calculating the group's obligation in respect of the plan are recognised within the consolidated statement of recognised income and expense in the period in which they arise. The current service cost, interest cost and return on plan assets are recognised in the income statement in the current period.

Defined contribution scheme
Obligations under the group's defined contribution scheme are recognised as an expense in the income statement as incurred.

**Programme rights and other inventories**
Inventories are valued at the lower of cost or net realisable value. Programme and film rights are stated at direct cost incurred up to the balance sheet date after making provision for programmes and films which are unlikely to be transmitted or sold. Direct cost is defined as payments made or due to programme suppliers.

Development expenditure, consisting of funds spent on projects prior to a final decision being made on whether a programme will be commissioned, is included in broadcast programme and film rights after making provision for any development expenditure that is not expected to lead to a commissioned programme.

The cost of broadcast programme and film rights is wholly written off on first transmission, except for certain feature films, the costs of which are written off over more than one transmission in line with expected revenue.

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

Film rights are amortised in the income statement in the proportion that the revenue in the year bears to the estimated ultimate revenue after provision for any anticipated shortfall.

Other inventories principally comprise DVDs and other physical inventories held within the 4 Rights segment and are stated at the lower of cost or net realisable value.



# Notes to the financial statements

## 1 Segment reporting*

Segment information is only included in the primary format, business segment, which is based on the group's management and internal reporting structure. Geographical segments outside the UK account for approximately 3% of the group's activities (2006: 3%) and are therefore not presented.

Segment results, assets and liabilities include items directly attributable to a segment, along with certain costs which are allocated on an equitable basis.

Inter-segment pricing is determined on an arm's length basis.

| Year ended 31 December 2007 | Channel 4 £m | 4 Channels £m | 4 Rights £m | New Media £m | Other £m | Eliminations £m | Group £m |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| External sales | 715.3 | 153.4 | 36.3 | 19.7 | 20.2 | – | 944.9 |
| Inter-segment sales | – | 3.0 | 6.3 | 7.0 | 1.9 | (18.2) | – |
| **Total revenue** | **715.3** | **156.4** | **42.6** | **26.7** | **22.1** | **(18.2)** | **944.9** |
| **Result** | | | | | | | |
| Gross profit/(loss) | 40.1 | 18.7 | 9.1 | (6.2) | (5.3) | – | 56.4 |
| Other operating expenditure | (47.9) | (2.5) | (1.6) | (9.2) | (4.0) | – | (65.2) |
| **Operating (loss)/profit** | **(7.8)** | **16.2** | **7.5** | **(15.4)** | **(9.3)** | **–** | **(8.8)** |
| Net financial income | | | | | | | 10.0 |
| Share of profit of investments accounted for using the equity method net of income tax | | | | | | | 0.4 |
| **Profit before tax** | | | | | | | **1.6** |
| Income tax expense | | | | | | | (1.1) |
| **Profit for the year** | | | | | | | **0.5** |
| **Other information** | | | | | | | |
| Capital additions (notes 11 & 12) | 19.1 | – | – | – | – | – | 19.1 |
| Depreciation (note 11) | 8.9 | – | – | – | – | – | 8.9 |
| Amortisation (note 12) | 3.0 | – | – | – | 0.7 | – | 3.7 |
| Impairment of fixtures, fittings and equipment (note 11) | 8.0 | – | – | – | – | – | 8.0 |

| As at 31 December 2007 | Channel 4 £m | 4 Channels £m | 4 Rights £m | New Media £m | Other £m | Eliminations £m | Group £m |
|---|---|---|---|---|---|---|---|
| **Balance sheet** | | | | | | | |
| Segment assets | 635.3 | 23.0 | 51.3 | 5.1 | 85.2 | (136.1) | 663.8 |
| Segment liabilities | (150.5) | (92.2) | (19.3) | (36.3) | (49.9) | 136.1 | (212.1) |

* During 2007 the subsidiary undertakings Channel Four International Ltd and Oneword Radio Ltd and the group's commercial learning operation, 4 Learning, were disposed. As these undertakings do not constitute individual segments on the basis of materiality, they have not been disclosed as discontinued operations.

During 2007, 4oD, Channel 4's video-on-demand service, was transferred to be included within New Media from Other business operating units to reflect changes to the group's management and internal reporting structure. In addition, we have moved all revenue and costs relating to premium rate telephony services, due to a significant reduction in activity during 2007, from New Media to Other. The table above represents this new structure.

## 1 Segment reporting* (continued)

| Year ended 31 December 2006 | Channel 4 £m | 4 Channels £m | 4 Rights £m | New Media £m | Other £m | Eliminations £m | Group £m |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| External sales | 695.9 | 124.4 | 58.4 | 11.5 | 46.7 | – | 936.9 |
| Inter-segment sales | – | 4.2 | 2.4 | 7.0 | 10.0 | (23.6) | – |
| **Total revenue** | **695.9** | **128.6** | **60.8** | **18.5** | **56.7** | **(23.6)** | **936.9** |
| **Result** | | | | | | | |
| Gross profit/(loss) | 49.7 | (15.4) | 10.1 | (3.1) | 14.6 | (0.5) | 55.4 |
| Other operating expenditure | (27.9) | (2.2) | (2.3) | (2.9) | (6.6) | 0.5 | (41.4) |
| **Operating profit/(loss)** | **21.8** | **(17.6)** | **7.8** | **(6.0)** | **8.0** | **–** | **14.0** |
| Net financial income | | | | | | | 7.3 |
| Share of profit of investments accounted for using the equity method net of income tax | | | | | | | – |
| **Profit before tax** | | | | | | | **21.3** |
| Income tax expense | | | | | | | (6.8) |
| **Profit for the year** | | | | | | | **14.5** |
| **Other information** | | | | | | | |
| Capital additions (notes 11 & 12) | 15.7 | – | – | – | – | – | 15.7 |
| Depreciation (note 11) | 6.5 | – | – | – | – | – | 6.5 |
| Amortisation (note 12) | 1.8 | – | – | – | 0.2 | – | 2.0 |
| Impairment of fixtures, fittings and equipment (note 11) | – | – | – | – | – | – | – |

| As at 31 December 2006 | Channel 4 £m | 4 Channels £m | 4 Rights £m | New Media £m | Other £m | Eliminations £m | Group £m |
|---|---|---|---|---|---|---|---|
| **Balance sheet** | | | | | | | |
| Segment assets | 607.0 | 31.8 | 49.8 | 10.3 | 44.9 | (90.1) | 653.7 |
| Segment liabilities | (137.5) | (113.0) | (28.3) | (25.5) | (2.5) | 90.1 | (216.7) |

* During 2007 the subsidiary undertakings Channel Four International Ltd and Oneword Radio Ltd and the group's commercial learning operation, 4 Learning, were disposed. As these undertakings do not constitute individual segments on the basis of materiality, they have not been disclosed as discontinued operations.

During 2007, 4oD, Channel 4's video-on-demand service, was transferred to be included within New Media from Other business operating units to reflect changes to the group's management and internal reporting structure. In addition, we have moved all revenue and costs relating to premium rate telephony services, due to a significant reduction in activity during 2007, from New Media to Other. The table above represents this new structure.

## 2 Total operating expenditure

Cost of transmission and sales

| | Programme and other content £m | Transmitter and regulatory costs: Analogue £m | Transmitter and regulatory costs: Digital £m | Indirect programme costs £m | Costs of sales £m | Cost of marketing £m | Total £m |
|---|---|---|---|---|---|---|---|
| **2007** | | | | | | | |
| Channel 4 | 536.5 | 20.3 | 34.9 | 30.3 | 23.4 | 29.8 | 675.2 |
| 4 Channels | 98.2 | – | 22.6 | 3.9 | 3.0 | 10.0 | 137.7 |
| 4 Rights | 0.2 | – | – | 0.2 | 29.9 | 3.2 | 33.5 |
| New Media | 0.5 | – | 1.3 | 13.2 | 15.5 | 2.4 | 32.9 |
| Other | 0.2 | – | 1.0 | 3.0 | 23.0 | 0.2 | 27.4 |
| Eliminations | (11.4) | – | – | (0.1) | (5.2) | (1.5) | (18.2) |
| **Group** | **624.2** | **20.3** | **59.8** | **50.5** | **89.6** | **44.1** | **888.5** |
| **2006** | | | | | | | |
| Channel 4 | 515.7 | 20.3 | 35.5 | 22.3 | 22.7 | 29.7 | 646.2 |
| 4 Channels | 103.6 | – | 17.6 | 4.4 | 2.7 | 15.7 | 144.0 |
| 4 Rights | 0.2 | – | – | 1.2 | 46.0 | 3.3 | 50.7 |
| New Media | 0.5 | – | – | 11.0 | 8.0 | 2.1 | 21.6 |
| Other | 0.8 | – | 3.5 | 2.9 | 34.0 | 0.9 | 42.1 |
| Eliminations | (13.2) | – | – | (0.1) | (8.3) | (1.5) | (23.1) |
| **Group** | **607.6** | **20.3** | **56.6** | **41.7** | **105.1** | **50.2** | **881.5** |

During 2007, 4oD, Channel 4's video-on-demand service, was transferred to be included within New Media from Other business operating units to reflect changes to the group's management and internal reporting structure. In addition, we have moved all revenue and costs relating to premium rate telephony services, due to a significant reduction in activity during 200, from New Media to Other. The table above represents this new structure.

### Other operating expenditure

| | 2007 £m | 2006 £m |
|---|---|---|
| Administrative expenses | **(37.7)** | (36.6) |
| Restructuring costs | **(8.2)** | (1.4) |
| Depreciation/amortisation (note 11 & 12) | **(12.6)** | (8.5) |
| Impairment of fixtures, fittings and equipment (note 11) | **(8.0)** | – |
| Reversal of impairment on freehold land and building (note 11) | **1.5** | 5.1 |
| Profit on disposal of subsidiary (note 8) | **1.6** | – |
| (Loss) on disposal of subsidiary (note 8) | **(1.8)** | – |
| | **(65.2)** | (41.4) |

## 3 Operating profit

Other operating expenditure includes:

| | 2007 £m | 2006 £m |
|---|---|---|
| Depreciation of property, plant and equipment (note 11) | | |
| – owned | **8.8** | 6.4 |
| – held under finance leases | **0.1** | 0.1 |
| | **8.9** | 6.5 |
| Impairment of fixtures, fittings and equipment (note 11) | **8.0** | – |
| Restructuring costs | **8.2** | 1.4 |
| Research and development | **8.6** | 11.3 |
| Reversal of impairment on freehold land and building (note 11) | **(1.5)** | (5.1) |
| Members' remuneration (page 82) | **3.5** | 2.6 |
| Amortisation of intangible assets (note 12) | **3.7** | 2.0 |
| Equipment hire | **–** | 0.1 |
| Release of onerous lease provision (note 18) | **–** | (1.8) |
| Other operating lease rentals (note 21) | **2.9** | 2.9 |
| Loss on disposal of property, plant and equipment (note 11) | **–** | 0.2 |
| (Profit) on disposal of subsidiary (note 8) | **(1.6)** | – |
| Loss on disposal of subsidiary (note 8) | **1.8** | 0.5 |

In accordance with the exemption available under s230 of the Companies Act 1985 Channel 4 has not presented its own income statement. Of the profit for the year of £0.5 million (2006: £14.5 million) recorded in the Consolidated income statement, a profit of £2.5 million (2006: £22.8 million) results from Channel 4's accounts.

**Revaluation of freehold property**
The revaluation credit of £1.5 million relates to the increase in the value of the Horseferry Road building (2006: £5.1 million), based on the open market value of the property at 31 December 2007. This is discussed further in note 11, 'Property, plant and equipment'.

**Restructuring costs**
As part of the ongoing process to reduce costs, additional restructuring took place in 2007 which resulted in costs of £8.0 million (2006: £0.8 million). This includes costs relating to plans to outsource broadcast and transmission services and other efficiency gains following business reorganisations during the year (note 18).

In 2007, the project to enhance the efficiency of the group's office space continued. Costs associated with the project were £0.2 million (2006: £0.6 million).

All of the 2007 and 2006 restructuring costs have been allocated to other operating expenditure.

## 3 Operating profit (continued)

**Auditors' remuneration**
Fees in respect of services provided by the auditors were:

| | 2007 £000 | 2006 restated £000 |
|---|---|---|
| Audit of these financial statements | **70** | 65 |
| Amounts receivable by auditors and their associates in respect of: | | |
| Audit of financial statements of subsidiaries pursuant to legislation | **58** | 50 |
| Other services relating to taxation | **18** | 42 |
| All other services | **301** | 185 |
| | **447** | 342 |

Included within the above services is £21,000 (2006: £17,500) paid to the group's auditors who acted as auditors to the Channel Four Television Staff Pension Plan.

The appointment of auditors to the Channel Four Television Staff Pension Plan and the fees paid in respect of those audits are agreed by the trustees of the Plan, who act independently from the management of the group.

## 4 Net assets classified as held for sale

The major classes of assets and liabilities compromising the operations classified as held for sale are as follows:

| | 2007 £m | 2006 £m |
|---|---|---|
| Inventory | – | 0.6 |
| Trade and other receivables | – | 1.4 |
| **Total assets classified as held for sale** | **–** | **2.0** |
| Trade and other payables | – | (1.4) |
| **Total liabilities classified as held for sale** | **–** | **(1.4)** |
| **Net assets held for resale** | **–** | **0.6** |

At the 2006 year end the group's commercial learning operation was classified as held for sale. During 2007 this operation was sold to Espresso Broadband Ltd in exchange for a 10% stake in the enlarged group. This investment is shown on the balance sheet as 'Equity Investments' (note 10).

## 5 Personnel expenses and employee information

A detailed analysis of members' remuneration, including salaries and performance-related bonuses, is provided in the report on members' remuneration on page 82.

The aggregate gross salaries of all employees, including members, appears below:

| | Group 2007 £m | Group 2006 £m | Channel 4 2007 £m | Channel 4 2006 £m |
|---|---|---|---|---|
| Aggregate gross salaries | **58.5** | 52.7 | **38.6** | 35.0 |
| Employer's national insurance contributions | **6.5** | 5.7 | **5.2** | 4.9 |
| Employer's pension contributions (note 22) | **6.1** | 6.1 | **5.5** | 5.4 |
| **Total direct costs of employment** | **71.1** | 64.5 | **49.3** | 45.3 |

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

| | 2007 Number | 2006 Number |
|---|---|---|
| **Channel 4** | | |
| Programme commissioning | **189** | 183 |
| Transmission and engineering | **87** | 87 |
| Corporate affairs and press office | **41** | 41 |
| Advertising and sponsorship sales and research | **113** | 106 |
| Corporate and strategy | **21** | 18 |
| Information systems | **43** | 43 |
| Marketing and creative services | **28** | 24 |
| Finance, human resources and facilities management | **65** | 65 |
| | **587** | 567 |
| 4 Channels | **126** | 113 |
| New Media | **137** | 111 |
| 4 Rights | **44** | 64 |
| Other | **71** | 62 |
| | **378** | 350 |
| **Group total** | **965** | 917 |

For the 2007 year end, 4oD has been included within New Media business segment units as explained in note 1. The table above represents this new structure.

| | | |
|---|---|---|
| Permanent employees | **875** | 813 |
| Contract staff | **90** | 104 |
| | **965** | 917 |

| | | |
|---|---|---|
| Male | **455** | 422 |
| Female | **510** | 495 |
| | **965** | 917 |

## 5 Personnel expenses and employee information (continued)

Travel, subsistence and hospitality expenditure was as follows:

| | 2007 £000 | 2006 £000 |
|---|---|---|
| **Members** | **72** | 88 |
| Other employees: | | |
| Channel 4 | **2,004** | 2,084 |
| Other businesses | **534** | 768 |
| | **2,610** | 2,940 |

Staff loans outstanding at 31 December were as follows:

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Season ticket loans | **134** | 117 |

There were no loans to members.

## 6 Net financial income

| | 2007 £m | 2006 £m |
|---|---|---|
| Interest receivable on short-term deposits | **8.6** | 6.3 |
| Foreign exchange gain | **0.4** | – |
| Expected return on plan assets (note 22) | **10.5** | 9.4 |
| **Financial income** | **19.5** | 15.7 |
| Interest on pension scheme liabilities (note 22) | **(9.1)** | (8.3) |
| Financial costs | **(0.4)** | – |
| Foreign exchange loss | **–** | (0.1) |
| **Financial expense** | **(9.5)** | (8.4) |

## 7 Income tax expense

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

| | 2007 £m | 2006 £m |
|---|---|---|
| Current tax: | | |
| Current year | **5.0** | 4.2 |
| Less relief for overseas taxation | **(0.3)** | (0.3) |
| Overseas taxation | **0.3** | 0.3 |
| Adjustments for prior years | **(0.8)** | – |
| | **4.2** | 4.2 |
| Deferred tax: origination and reversal of temporary differences | | |
| Current year | **(3.5)** | 2.8 |
| Prior year | **0.4** | (0.2) |
| Income tax expense | **1.1** | 6.8 |
| Share of income tax of investments accounted for using the equity method | **0.3** | – |
| **Total income tax expense** | **1.4** | 6.8 |

### Reconciliation of effective tax rate

| | 2007 % | 2007 £m | 2006 % | 2006 £m |
|---|---|---|---|---|
| Profit for the year | | **0.5** | | 14.5 |
| Total income tax expense | | **1.4** | | 6.8 |
| **Profit excluding income tax** | | **1.9** | | 21.3 |
| Income tax using the domestic corporation tax rate | **30.0** | **0.6** | 30.0 | 6.4 |
| Effects of: | | | | |
| Expenses not deductible for tax purposes | **54.2** | **1.0** | 2.3 | 0.5 |
| Tax losses not recognised | **–** | **–** | 0.5 | 0.1 |
| Adjustments to tax charge in respect of previous periods | **(21.1)** | **(0.4)** | (0.9) | (0.2) |
| Change in deferred tax rate | **10.6** | **0.2** | – | – |
| **Income tax expense** | **73.7** | **1.4** | 31.9 | 6.8 |

### Current tax assets and liabilities

The current tax liability of £2.5 million (2006: £2.2 million) represents the amount of income tax payable in respect of current and prior periods (note 17).

### Deferred tax recognised in equity

The following movement in deferred tax has been recognised directly in equity and is shown in the Statement of recognised income and expense:

| | 2007 £m | 2006 £m |
|---|---|---|
| Relating to employee benefits | **(1.1)** | (3.5) |
| **Deferred tax recognised in equity** | **(1.1)** | (3.5) |

An analysis of deferred tax assets and liabilities is provided in note 13.

## 8 Investments in subsidiaries

The cost of fixed asset investments at 31 December was:

| | 2007 Channel 4 £000 | 2006 Channel 4 £000 |
|---|---|---|
| Subsidiary companies | **1** | 1 |

Channel 4 owns, directly* or indirectly, more than 50% of the issued share capital of the following companies, each of which is incorporated in Great Britain:

| Name | Activity | Issued ordinary £1 shares | Ownership % |
|---|---|---|---|
| 4 Ventures Ltd* | Digital channels, new media and related services | 1,000 | 100 |
| FilmFour Ltd | Film distribution | 1,000 | 100 |
| Life One Broadcasting Ltd | Digital channel | 1,000 | 100 |
| Life Two Broadcasting Ltd | Digital channel | 1,000 | 100 |
| Life Showcase Ltd | Digital channel | 1,000 | 100 |
| Channel 4 Radio Ltd | Digital radio channels | 1 | 100 |
| Channel 4 Radio Services Ltd | Radio data services | 1 | 100 |
| 4 Digital Group Ltd | Radio multiplex operator | 3,000,000 | 55 |

During 2007, three new subsidiaries were incorporated in connection with the award of the second national digital radio multiplex to Channel 4. The three companies Channel 4 Radio Ltd, Channel 4 Radio Services Ltd and 4 Digital Group Ltd were incorporated on 26 January 2007.

### Disposals

On 12 December 2007, the group disposed of its 51% interest in Oneword Radio Ltd for notional consideration. On disposal Channel 4 made a profit on disposal of £1.6 million, representing Channel 4's minority share of losses previously provided against in accordance with IFRS, which is recognised in the income statement during the year. The net cash outflow from operating activities in 2007 for Oneword Radio Ltd totalled £0.7million with no further cashflow on disposal.

On 23 November 2007, the group disposed of its ownership interest in Channel Four International Ltd for £3.9 million cash consideration (of which £1.1 million is deferred). On disposal Channel 4 made a loss on disposal of £1.8 million which is recognised in the income statement during the year. The net cash inflow from operating activities in 2007 for Channel Four International Ltd totalled £3.6 million.

On 31 October 2006, the group disposed of its ownership interest in Ostrich Media Ltd for notional purchase consideration. The net cash outflow from operating activities in 2006 for Ostrich Media Ltd totalled £0.2 million and there was a £0.5 million net loss on disposal.

### Acquisition

On 30 April 2007, the group acquired 100% of the issued share capital of Life One Broadcasting Ltd and its two wholly-owned subsidiaries Life Two Broadcasting Ltd and Life Showcase Ltd for £3.6 million cash. The companies broadcast three channels on the Sky platform.

### Effect of acquisition

The acquisition had the following effect on the group's assets and liabilities:

| | Acquisition values £m |
|---|---|
| Acquiree's net assets at the acquisition date: | |
| **Net identifiable assets and liabilities** | **–** |
| Net assets at acquisition | **–** |
| Fair value of broadcast licences recognised on acquisition | **4.6** |
| Deferred tax liability (note 13) | **(1.0)** |
| **Fair value of identifiable assets and liabilities acquired** | **3.6** |
| Total consideration | **(3.6)** |
| **Goodwill on acquisition** | **–** |

There was no trade associated with Life One Broadcasting Ltd and its subsidiaries that was purchased and therefore profit or loss information is not disclosed.

## 9 Investments accounted for using the equity method

Investments accounted for using the equity method comprises:

| Box Television Ltd | 2007 £m | 2006 £m |
|---|---|---|
| Carrying value at 1 January | – | – |
| Goodwill on aquisition | 19.5 | – |
| Fair value of identifiable assets and liabilities acquired | 10.6 | – |
| Share of post acquisition profits (net of income tax) | 0.3 | – |
| Total carrying value at 31 December | 30.4 | – |
| **Taste of London Ltd** | | |
| Carrying value at 1 January | 1.6 | – |
| Goodwill on aquisition | – | 1.2 |
| Fair value of identifiable assets and liabilities acquired | – | 0.4 |
| Share of post acquisition profits (net of income tax) | 0.1 | – |
| Total carrying value at 31 December | 1.7 | 1.6 |
| **Popworld Ltd** | | |
| Carrying value at 1 January and 31 December | – | – |
| **Total** | 32.1 | 1.6 |

**Box Television Ltd**
On 31 July 2007, the Group acquired 500 ordinary shares of £1, representing 50% of the share capital, in Box Television Ltd from EMAP Consumer Media Ltd for cash consideration of £29.2 million less £1.6 million reflecting an agreed contractual refund due in March 2008. The company, incorporated in Great Britain, comprises a Freeview Channel called The Hits and seven branded music TV channels on the Sky platform.

**Effect of acquisition**
The acquisitions had the following effect on the group's assets and liabilities:

| | Acquisition values £m |
|---|---|
| **Net identifiable net assets** | **3.2** |
| Group's share of net assets at acquisition | 1.6 |
| Recognition of broadcasting licence | 9.0 |
| **Fair value of identifiable assets and liabilities acquired** | **10.6** |
| Associated deferred tax liability included within investment (note 13) | (2.5) |
| Consideration paid | (27.6) |
| **Goodwill on acquisition** | **19.5** |

Goodwill arises due to synergy savings and future operating opportunities.

A deferred tax liability of £2.5 million has been recognised as part of the group's investment in Box Television Ltd. This reflects the temporary difference that arises when the intangible licence recognised on acquisition is amortised. As this is not a tax deductible expense, the deferred tax liability is unwound over the life of the trademark to offset the higher resulting tax charge. The liability has been calculated at the standard UK corporation tax rate.



## 9 Investments accounted for using the equity method (continued)

**Taste of London Ltd**
On 25 August 2006, Channel 4 acquired 27,250 ordinary shares of £1, representing 50% of the share capital, in Taste of London Ltd from Brand Events Ltd for cash consideration of £1.4 million. The company, incorporated in Great Britain, organises "Taste Of" festivals which are high-quality restaurant food and drink events.

**Effect of acquisitions**
The acquisitions had the following effect on the Group's assets and liabilities:

| | Acquisition values £m |
|---|---|
| **Net identifiable net assets and liabilities** | **0.2** |
| Group's share of net assets at acquisition | 0.1 |
| Fair value of trademark recognised on acquisition | 0.3 |
| **Fair value of identifiable assets and liabilities acquired** | **0.4** |
| Associated deferred tax liability included within investment (note 13) | (0.2) |
| Consideration paid | (1.4) |
| **Goodwill on acquisition** | **1.2** |

A deferred tax liability of £0.2 million has been recognised as part of the group's investment in Taste of London Ltd. This reflects the temporary difference that arises when the intangible trademark asset recognised on acquisition is amortised. As this is not a tax deductible expense, the deferred tax liability is unwound over the life of the trademark to offset the higher resulting tax charge.
The liability has been calculated at the standard UK corporation tax rate.

**Summary annual financial information**

| 2006 | Current assets £m | Long term assets £m | Current liabilities £m | Long term liabilities £m | Revenue £m | Expenses £m |
|---|---|---|---|---|---|---|
| Taste of London Ltd | 0.5 | – | (0.1) | – | 1.9 | (1.6) |
| Box Television Ltd | 16.6 | 0.2 | (2.7) | – | 26.6 | (19.4) |

| 2007 | Current assets £m | Long term assets £m | Current liabilities £m | Long term liabilities £m | Revenue £m | Expenses £m |
|---|---|---|---|---|---|---|
| Taste of London Ltd | 0.9 | – | (0.4) | – | 4.9 | (4.5) |
| Box Television Ltd | 10.9 | – | (6.3) | – | 28.1 | (21.5) |

On the acquisitions, there are no contingent liabilities and no capital commitments to be included within the group's financial statements. The trademark acquired as part of the investment in Taste of London Ltd is amortised over ten years from acquisition. The broadcast licence acquired as part of the investment in Box Television Ltd is amortised over the duration of the licence (eight years). This is included within the carrying value of Investments accounted for using the equity method.

Box Television Ltd had a reporting date of 31 March 2007 which was subsequently shortened to 31 October 2007. A long period of account will be prepared to 31 December 2008 which will concur with the group's reporting date. For the purposes of 2006 'summary annual financial information' for the year to 31 March 2007 has been included. For 2007 assets at 31 December 2007 have been included with revenue and expenses proportioned to a year based on results to 31 December 2007.

**Popworld Ltd**
Channel 4 holds 29% of the share capital of Popworld Ltd, a company incorporated in Great Britain that exploits a pop music brand. On 2 October 2007, the assets and liabilities of the company were transferred to 19 Entertainment Ltd in advance of the winding up of the company. As the investment has been provided for in full, the shares are held in the balance sheet at nil value. As such, no future profit or loss on the disposal is anticipated.

## 9 Investments accounted for using the equity method (continued)

### Summary annual financial information

| Popworld Ltd | 2007 £m | 2006 £m |
|---|---|---|
| Assets | – | 0.4 |
| Liabilities | – | (0.4) |
| Revenue | 2.3 | 3.3 |
| Result for the year | – | – |

The following of the group's joint ventures are not-for-profit, cost-sharing organisations. Contributions that the group makes to the funding requirements of these organisations are recognised in the appropriate line in the income statement in the period to which they relate.

**Digital 3 and 4 Ltd**
Channel 4 holds 1,000 A class ordinary £1 shares in Digital 3 and 4 Ltd, representing 50% of the share capital. ITV Network Ltd owns the other 50%. Digital 3 and 4 Ltd, incorporated in Great Britain, has been granted a licence by Ofcom to operate the Channel 3 and Channel 4 digital terrestrial multiplex. At 31 December 2007, Channel 4's share of the net assets of Digital 3 and 4 Ltd amounted to £1,000. The company acts as an agent for its shareholders.

**TV Eye Ltd and Clearcast Ltd**
Channel 4 held one ordinary £1 share in TV Eye Ltd, representing 20% of the share capital. ITV plc, Channel 5 Broadcasting Ltd, and GMTV Ltd own the other 80%. As of 21 December 2007, TV Eye Ltd's business was aquired by Clearcast Ltd. Clearcast Ltd is responsible for the pre-transmission examination and clearance of television advertisement. Channel 4 holds 1 ordinary £1 share in Clearcast Ltd representing 12.5% of the share capital. ITV Network Ltd, BSkyB plc, Channel 5 Broadcasting Ltd, GMTV Ltd, Viacom Brand Solutions Ltd, Turner Entertainment Networks International Ltd and Interactive Digital Sales Ltd own the remaining 87.5%.

**DTV Services Ltd**
Channel 4 holds 6,000 ordinary £1 shares in DTV Services Ltd, the company responsible for marketing the Freeview digital terrestrial TV network, representing 20% of the share capital. The BBC, National Grid Wireless plc, BSkyB plc and ITV plc own the remaining 80%. DTV Services Ltd is a not-for-profit marketing vehicle.

**Broadcasters' Audience Research Board Ltd (BARB)**
BARB is a not-for-profit company limited by guarantee. Channel 4 is a joint member along with the BBC, ITV Network Ltd, Channel 5 Broadcasting Ltd, BSkyB plc and the IPA.

**DTT Multiplex Operators Limited (DMOL)**
DMOL is a company limited by guarantee incorporated on 29 March 2007. The group is a member via its share in Digital 3 and 4 Ltd. The other members are BBC, National Grid Wireless plc and SDN Ltd.

**Thinkbox Ltd**
Thinkbox Ltd is the television marketing body for the main UK commercial broadcasters – Channel 4, Channel 5 Broadcasting Ltd, GMTV Ltd, ITV plc, BSkyB plc, Turner Broadcasting and Viacom Brand Solutions Ltd. They work with the UK marketing community with a single ambition of helping customers get the best out of television. Channel 4 holds 3,000 ordinary £1 shares which represent 14% of the share capital.

**Protagonist Pictures Ltd**
Channel 4 holds 33% of the share capital of Protagonist Pictures Ltd. Vertigo Films Ltd and Ingenious Media plc also each hold 33%.

## 10 Equity Investments

| | 2007 £m | 2006 £m |
|---|---|---|
| At 1st January | – | – |
| Additions | 2.1 | – |
| **At 31st December** | **2.1** | – |

In March 2007 the commercial learning operation, 4 Learning, was sold to Espresso Broadband Ltd in exchange for a 10% stake in the enlarged group. The investment reflects the fair value of assets and liabilities transferred in exchange for a 10% equity holding.

## 11 Property, plant and equipment

| Group and Channel 4 | Freehold land and building £m | Fixtures, fittings and equipment £m | Total £m |
|---|---|---|---|
| **Cost or valuation** | | | |
| At 1 January 2006 | 43.0 | 87.6 | 130.6 |
| Additions | – | 14.5 | 14.5 |
| Disposals | – | (0.2) | (0.2) |
| Revaluation | 4.5 | – | 4.5 |
| **At 31 December 2006** | **47.5** | **101.9** | **149.4** |
| At 1 January 2007 | 47.5 | 101.9 | 149.4 |
| Additions | – | 10.6 | 10.6 |
| Reversal of impairment | 0.9 | – | 0.9 |
| Revaluation | 9.9 | – | 9.9 |
| **At 31 December 2007** | **58.3** | **112.5** | **170.8** |
| **Depreciation** | | | |
| At 1 January 2006 | – | 73.8 | 73.8 |
| Charge for the year | 0.6 | 5.9 | 6.5 |
| Reversal of impairment | (0.6) | – | (0.6) |
| **At 31 December 2006** | **–** | **79.7** | **79.7** |
| At 1 January 2007 | – | 79.7 | 79.7 |
| Charge for the year | 0.6 | 8.3 | 8.9 |
| Impairment | – | 8.0 | 8.0 |
| Reversal of impairment | (0.6) | – | (0.6) |
| **At 31 December 2007** | **–** | **96.0** | **96.0** |
| **Net book value** | | | |
| At 1 January 2006 | 43.0 | 13.8 | 56.8 |
| **At 31 December 2006** | **47.5** | **22.2** | **69.7** |
| At 1 January 2007 | 47.5 | 22.2 | 69.7 |
| **At 31 December 2007** | **58.3** | **16.5** | **74.8** |

Details of commitments to purchase Property, plant and equipment are given in note 21 and assets held under finance leases in note 19. No assets have been pledged for security (2006: none).

Impairment losses of £8.0 million (2006: £nil) and reversals of impairment losses of £1.5 million (2006: £5.1 million) have been recognised in other operating expenditure within the income statement.

Following plans to substantially outsource Channel 4's broadcast and transmission services, assets have been writen down to their value in use, except for certain assets identified with resale value carried at fair value less costs to sell. Fair value less costs to sell have been determined with reference to market value for such assets. In addition, following the announcement of a video-on-demand joint venture with the BBC and ITV plc in November 2007 a review of fixtures, fittings and equipment associated with 4oD has been undertaken and certain assets relating to 4oD pc-based service have been written down to fair value less costs to sell based on anticipated payments from the new venture pending finalisation of contracts.

## 11 Property, plant and equipment (continued)

**Valuation of freehold property**

The freehold property, comprising the office, studio and transmission centre at 124 Horseferry Road, London SW1, was valued as at 31 December 2007, by external valuers Atisreal Ltd in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors. The property was valued on the basis of open market value. The open market value (which the members believe approximates to current value) for this property was £58.3 million (2006: £47.5 million). Of the increase in valuation, £1.5 million (before depreciation of £0.6 million) in the year (2006: £5.1 million (before depreciation of £0.6 million)) has been taken directly to the income statement as it reduces a previously recognised impairment on the same asset with the remaining £9.9 million revaluation taken directly to equity.

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

| | 2007 £m | 2006 £m |
|---|---|---|
| Cost | **62.3** | 62.3 |
| Accumulated depreciation | **(13.9)** | (13.1) |
| **Net book value based on cost** | **48.4** | 49.2 |

## 12 Intangible assets

| | Channel 4 Developed software £m | Broadcasting licence £m | Other Radio licences £m | Group Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance as at 1 January 2006 | 10.5 | – | 1.0 | 11.5 |
| Internally developed | 1.2 | – | – | 1.2 |
| **Balance as at 31 December 2006** | **11.7** | **–** | **1.0** | **12.7** |
| Balance as at 1 January 2007 | 11.7 | – | 1.0 | 12.7 |
| Acquired through business combinations | – | 4.6 | – | 4.6 |
| Internally developed | 3.9 | – | – | 3.9 |
| Disposal | – | – | (1.0) | (1.0) |
| **Balance as at 31 December 2007** | **15.6** | **4.6** | **–** | **20.2** |
| **Amortisation** | | | | |
| Balance as at 1 January 2006 | 6.3 | – | – | 6.3 |
| Amortisation for the year | 1.8 | – | 0.2 | 2.0 |
| **Balance at 31 December 2006** | **8.1** | **–** | **0.2** | **8.3** |
| Balance as at 1 January 2007 | 8.1 | – | 0.2 | 8.3 |
| Amortisation for the year | 3.0 | 0.5 | 0.2 | 3.7 |
| Disposal | – | – | (0.4) | (0.4) |
| **Balance at 31 December 2007** | **11.1** | **0.5** | **–** | **11.6** |
| **Carrying amount** | | | | |
| At 1 January 2006 | 4.2 | – | 1.0 | 5.2 |
| **At 31 December 2006** | **3.6** | **–** | **0.8** | **4.4** |
| At 1 January 2007 | 3.6 | – | 0.8 | 4.4 |
| **At 31 December 2007** | **4.5** | **4.1** | **–** | **8.6** |

Developed software represents amounts capitalised on internally developed computer software, principally in relation to the management of advertising and sponsorship revenues. Assets are amortised on a straight line basis over five years from the date the asset is available for use. The amortisation charge for developed software is recognised in the depreciation/amortisation line (note 2).

The broadcasting licenses acquired as part of the acquisition of Life One Broadcasting Ltd (note 8) are treated as having a useful economic life of six years and are amortised over this period. At the year end no impairment of these assets was identified.

Oneword Radio Ltd was disposed of by the group on 12 December 2007 for nominal consideration and the carrying amount of the related broadcast licence was written off to the income statement during the year. This licence was being amortised over the duration of the licence (six years). The amortisation charge was recognised in the depreciation/amortisation line (note 2).

## 13 Deferred tax assets and liabilities

### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Assets 2007 £m | Assets 2006 £m | Liabilities 2007 £m | Liabilities 2006 £m | Net 2007 £m | Net 2006 £m |
|---|---|---|---|---|---|---|
| Property, plant and equipment | **3.0** | 0.7 | **–** | – | **3.0** | 0.7 |
| Intangible assets | **–** | – | **(1.3)** | (1.1) | **(1.3)** | (1.1) |
| Employee benefits | **2.7** | 4.5 | **–** | – | **2.7** | 4.5 |
| Other short-term timing differences | **0.8** | 0.3 | **–** | – | **0.8** | 0.3 |
| **Channel 4 deferred tax assets/(liabilities)** | **6.5** | 5.5 | **(1.3)** | (1.1) | **5.2** | 4.4 |
| Other short-term timing differences | **1.6** | 0.5 | **(3.6)** | (0.2) | **(2.0)** | 0.3 |
| **Group deferred tax assets/(liabilities)** | **8.1** | 6.0 | **(4.9)** | (1.3) | **3.2** | 4.7 |

### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of:

| | 2007 £m | 2006 £m |
|---|---|---|
| Revaluation of freehold land and buildings | **1.1** | 4.5 |
| Carried forward capital losses | **1.2** | 1.3 |
| Carried forward trading losses | **–** | 0.3 |
| **Tax assets** | **2.3** | 6.1 |

Unrecognised deferred tax assets comprise capital losses carried forward that the group is not yet able to utilise. A deferred tax asset is only recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised (either now or in later accounting periods).

### Movement in temporary differences during the year

The amount of deferred tax recognised in the income statement in respect of each type of temporary timing difference is as follows:

| | Balance at 1 Jan 06 £m | Recognised in income £m | Recognised in equity £m | Recognised in joint ventures £m | Recognised in intangible assets £m | Balance at 31 Dec 06 £m |
|---|---|---|---|---|---|---|
| Property, plant and equipment | 2.3 | (1.6) | – | – | – | 0.7 |
| Intangible assets | (1.1) | – | – | – | – | (1.1) |
| Employee benefits | 9.6 | (1.6) | (3.5) | – | – | 4.5 |
| Other short-term timing differences | (0.2) | 0.5 | – | – | – | 0.3 |
| **Channel 4 deferred tax assets/(liabilities)** | **10.6** | **(2.7)** | **(3.5)** | **–** | **–** | **4.4** |
| Other short-term timing differences | 0.4 | 0.1 | – | (0.2) | – | 0.3 |
| **Group deferred tax assets/(liabilities)** | **11.0** | **(2.6)** | **(3.5)** | **(0.2)** | **–** | **4.7** |

| | Balance at 1 Jan 07 £m | Recognised in income £m | Recognised in equity £m | Recognised in joint ventures £m | Recognised in intangible assets £m | Balance at 31 Dec 07 £m |
|---|---|---|---|---|---|---|
| Property, plant and equipment | 0.7 | 2.3 | – | – | – | 3.0 |
| Intangible assets | (1.1) | (0.2) | – | – | – | (1.3) |
| Employee benefits | 4.5 | (0.7) | (1.1) | – | – | 2.7 |
| Other short-term timing differences | 0.3 | 0.5 | – | – | – | 0.8 |
| **Channel 4 deferred tax assets/(liabilities)** | **4.4** | **1.9** | **(1.1)** | **–** | **–** | **5.2** |
| Other short-term timing differences | 0.3 | 1.2 | – | (2.5) | (1.0) | (2.0) |
| **Group deferred tax assets/(liabilities)** | **4.7** | **3.1** | **(1.1)** | **(2.5)** | **(1.0)** | **3.2** |

## 14 Programme and film rights and other inventories

| | 2007 Group £m | 2006 Group £m | 2007 Channel 4 £m | 2006 Channel 4 £m |
|---|---|---|---|---|
| Programmes and films completed but not transmitted | **78.1** | 87.2 | **71.6** | 81.3 |
| Acquired programme and film rights | **65.7** | 64.1 | **54.7** | 55.4 |
| Programmes and films in the course of production | **62.1** | 85.6 | **60.1** | 75.2 |
| Other inventories | **0.9** | 0.4 | **–** | – |
| | **206.8** | 237.3 | **186.4** | 211.9 |

Certain programme and film rights may not be realised within one year.

Programme rights and other inventories to the value of £624.2 million were recognised as expenses in the year (2006: £607.6 million). Of this amount, obsolete programmes and developments written off totalled £29.9 million (2006: £25.8 million).

Other inventories represent amounts held within the 4 Rights segment for DVDs related to Channel 4 programmes.

## 15 Trade and other receivables

| | 2007 Group £m | 2006 Group £m | 2007 Channel 4 £m | 2006 Channel 4 £m |
|---|---|---|---|---|
| Trade receivables | **93.8** | 95.5 | **79.1** | 72.4 |
| Amounts due from subsidiaries | **–** | – | **63.8** | 35.4 |
| Prepayments and accrued income | **40.5** | 49.7 | **24.6** | 28.1 |
| Distribution advances | **1.4** | 7.1 | **–** | – |
| | **135.7** | 152.3 | **167.5** | 135.9 |

Amounts due from subsidiaries are unsecured and bear interest at the Bank of England base rate.

Trade receivables are shown net of impairment losses amounting to £0.2 million (2006: £0.1 million) recognised in the current year in relation to outstanding balances from customers, the receipt of which management view as unlikely.

## 16 Other financial assets and Cash and cash equivalents

| | 2007 Group £m | 2006 Group £m | 2007 Channel 4 £m | 2006 Channel 4 £m |
|---|---|---|---|---|
| Bank balances | **3.0** | 8.5 | **3.0** | 8.5 |
| Money market deposits maturing in less than three months | **43.3** | 72.7 | **43.3** | 72.7 |
| Money market funds* | **92.9** | 99.2 | **92.9** | 99.2 |
| **Cash and cash equivalents** | **139.2** | 180.4 | **139.2** | 180.4 |
| Money market deposits maturing between three and six months | **56.0** | – | **56.0** | – |
| Derivative financial instruments (note 19) | **0.4** | – | **0.4** | – |
| **Other financial assets** | **56.4** | – | **56.4** | – |

* Amounts held in Money market funds are repayable within seven days.

## 17 Trade and other payables and Current tax liabilities

| | 2007 Group £m | 2006 Group £m | 2007 Channel 4 £m | 2006 Channel 4 £m |
|---|---|---|---|---|
| Trade payables | **6.9** | 27.2 | **6.9** | 27.1 |
| National insurance | **0.7** | 0.7 | **0.7** | 0.7 |
| Other creditors | **3.9** | 4.1 | **4.1** | 3.0 |
| Accruals | **154.1** | 156.3 | **98.8** | 84.3 |
| VAT | **13.0** | 3.9 | **9.9** | 1.4 |
| **Total trade and other payables** | **178.6** | 192.2 | **120.4** | 116.5 |
| Corporation tax | **2.5** | 2.2 | **2.7** | 0.9 |
| **Current tax liabilities** | **2.5** | 2.2 | **2.7** | 0.9 |

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

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

The average number of days to pay suppliers of services other than programmes in 2007 was 9 for both the group and Channel 4 at the year end (2006: 36). Creditor days were exceptionally low at the year end due to a change in the timing of payments on certain non-programme agreements.

## 18 Provisions

| | Channel 4 Onerous contracts £m | Channel 4 Restructuring costs £m | Channel 4 Total £m | Other Restructuring costs £m | Group Total £m |
|---|---|---|---|---|---|
| At 1 January 2006 | 5.5 | – | 5.5 | 0.6 | **6.1** |
| Utilised in the year | (0.2) | – | (0.2) | – | **(0.2)** |
| Written back to income statement | (1.8) | – | (1.8) | – | **(1.8)** |
| **At 31 December 2006** | **3.5** | **–** | **3.5** | **0.6** | **4.1** |
| At 1 January 2007 | 3.5 | – | 3.5 | 0.6 | **4.1** |
| Utilised in the year | (0.9) | – | (0.9) | (0.6) | **(1.5)** |
| Charged to income statement | 7.5 | 6.3 | 13.8 | – | **13.8** |
| **At 31 December 2007** | **10.1** | **6.3** | **16.4** | **–** | **16.4** |

Provisions have been analysed as current and non-current as follows:

| | 2007 Group £m | 2006 Group £m | 2007 Channel 4 £m | 2006 Channel 4 £m |
|---|---|---|---|---|
| Current | **13.8** | 1.3 | **13.8** | 0.7 |
| Non-current | **2.6** | 2.8 | **2.6** | 2.8 |
| | **16.4** | 4.1 | **16.4** | 3.5 |

**Onerous contracts**
The provision relates to rental deficits on two buildings which are surplus to requirements and certain content agreements.

**Restructuring costs**
The Channel 4 provision was for costs associated with initiatives to increase the operational efficiency of the group's support functions including the proposed outsourcing of Channel 4's broadcast and transmission services. The Other restructuring costs were for film-related provisions and legal expenses and have been utilised in the year.

## 19 Derivatives and other financial instruments

In accordance withh IFRS 7 'Financial Instruments: Disclosures', Channel 4 is required to provide disclosures about the nature and extent of risks arising from Financial instruments.

**Market risk**
Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the group's income or the value of its assets and liabilities. These risks are managed by the group's treasury function as described below.

The Board is responsible for approving the treasury policy for the group. The group's treasury and funding activities are undertaken by a treasury function which reports to the Group Finance Director. Its primary activities are to manage the group's liquidity, funding requirements and financial risk, principally arising from movements in interest and foreign currency exchange rates. The group's policy is to ensure that adequate liquidity and financial resource is available to support the group's continuing activities and growth whilst managing these risks. The group's policy is not to engage in speculative financial transactions. The group does not seek to apply hedge accounting. Group treasury operates within clearly defined objectives and controls and is subject to periodic review by internal audit.

**Foreign currency risk**
The group is exposed to currency risk on sales and purchases that are denominated in a currency other than Sterling. The currencies that give rise to this risk are US Dollars and Euros. The group uses forward exchange contracts and currency cash receipts to hedge its currency risk. Changes in the fair value of exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the income statement. Both the change in the fair value of the forward contracts and the foreign exchange gains and losses relating to monetary items are recognised as part of 'Net financial income' (note 6). The group does not have any foreign subsidiaries and as a result is not exposed to foreign currency risk in this regard. The group is exposed to currency movements on foreign cash holdings. Amounts held by currency are detailed below within the analysis of the group's and Channel 4's cash and deposits.

It is estimated that an increase of one percentage point in the value of Sterling against other currencies would have reduced the group's profit before tax by approximately £0.1 million (2006: £0.1 million).

**Interest rate risk and exposure**
The group and Channel 4 invests surplus cash in fixed rate money market deposits and variable rate money market funds. Funds are invested only with an agreed list of organisations that carry a minimum of AA- credit rating or equivalent from Standard & Poor's and Moodys credit rating services, or with money market funds that have a AAA credit rating from either of these credit rating services. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations.

The group does not have any debt and as such is not exposed to fluctuations in interest rates in this regard.

The interest rate profile of the group's and Channel 4's cash and deposits at 31 December 2007 and 31 December 2006 is set out below:

| 2007 | Group Effective interest rate % | Group Total £m | Channel 4 Effective interest rate % | Channel 4 Total £m |
|---|---|---|---|---|
| **Cash and cash equivalents** | | | | |
| Interest bearing deposits maturing in less than three months held in Sterling | 6.1 | 130.8 | 6.1 | 130.8 |
| Interest bearing deposits maturing in less than three months held in US Dollars | 5.0 | 2.3 | 5.0 | 2.3 |
| Interest bearing deposits maturing in less than three months held in Euros | 4.6 | 3.1 | 4.6 | 3.1 |
| Non-interest bearing assets held in Sterling | – | 3.0 | – | 3.0 |
| | 5.9 | **139.2** | 5.9 | **139.2** |

| 2006 | Group Effective interest rate % | Group Total £m | Channel 4 Effective interest rate % | Channel 4 Total £m |
|---|---|---|---|---|
| **Cash and cash equivalents** | | | | |
| Interest bearing deposits maturing in less than three months held in Sterling | 5.1 | 163.5 | 5.1 | 163.5 |
| Interest bearing deposits maturing in less than three months held in US Dollars | 5.2 | 5.8 | 5.2 | 5.8 |
| Interest bearing deposits maturing in less than three months held in Euros | 3.6 | 2.6 | 3.6 | 2.6 |
| Non-interest bearing assets held in Sterling | – | 8.5 | – | 8.5 |
| | 4.8 | **180.4** | 4.8 | **180.4** |

## 19 Derivatives and other financial instruments (continued)

| 2007 | Group Effective interest rate % | Group Total £m | Channel 4 Effective interest rate % | Channel 4 Total £m |
|---|---|---|---|---|
| **Other financial assets** | | | | |
| Money market deposits maturing after three months held in Sterling | 6.1 | **56.0** | 6.1 | **56.0** |

| 2006 | Group Effective interest rate % | Group Total £m | Channel 4 Effective interest rate % | Channel 4 Total £m |
|---|---|---|---|---|
| **Other financial assets** | | | | |
| Money market deposits maturing after three months held in Sterling | – | **–** | – | **–** |

**Liquidity risk**
Liquidity risk is the risk that the group fails to meet its financial obligations as and when they fall due. The management of operational liquidity risk aims primarily at ensuring that the group always has a liquidity buffer that is able, in the short term, to absorb the net effects of transactions made and expected changes in liquidity both under normal and stressed conditions without incurring unacceptable losses or risking damage to the group's reputation. The cash balances held by the group are considered to be adequate to support the group's medium-term funding requirements.

Trade and other payables are shown in note 17. The value of trade and other payables at 31 December 2007 was £178.6 million for the group (2006: £192.2 million) and £120.4 million for Channel 4 (2006: £116.5 million). The fair value of these financial liabilities equals their book values. The contractual cash flows are equal to the carrying amount of and are classified as payable within 6 months or less at 31 December 2007 and 2006.

**Credit risk**
Credit risk is the risk of a financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the group's receivables from customers.

(i) Trade receivables
Credit risk with respect to trade receivables is principally related to amounts due from advertising agencies. A risk strategy exists to protect against exposure to advertising sales receivables working to approved terms of reference. Exposure is monitored and reviewed on a weekly basis, and any issues are formally reported to an executive committee chaired by the Group Finance Director. Based on credit evaluation and discussions with both the committee and insurers, customers may be required to provide security in order to trade with the group. The group establishes an allowance for impairment that represents our estimate of likely losses in respect of trade and other receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures as losses with regard to these receivables are historically low as agencies must settle their debts prior to future transmissions being broadcast.

(ii) Counterparty
The group and Channel 4 invests surplus cash in fixed rate money market deposits and variable rate money market funds. Funds are invested only with an agreed list of organisations that carry a minimum of AA- credit rating or equivalent from Standard & Poor's and Moodys credit rating services, or with money market funds that have a AAA credit rating from either of these credit rating services. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations.

**Exposure to credit risk**
The carrying amount of financial assets represents the maximum credit exposure. The maximum credit exposure at the balance sheet date was in relation to trade receivables, net of allowance for impairment (2007: £93.8million; 2006: £95.5 million), other financial assets (2007: £56.4 million; 2006: £nil) and cash and cash equivalents (2007: £139.2 million; 2006: £180.4 million).

The maximum exposure to credit risk for trade receivables at the balance sheet date by geographical region was £92.3 million for the UK (2006: £93.9 million) and £1.5 million for other regions (2006: £1.6 million).

£93.7 million of trade receivables were aged under 6 months (2006: £94.8 million), with the remainder of £0.1 million aged between 6 and 12 months (2006: £0.7 million). Included in receivables due under 6 months of £93.7 million (2006: £94.8 million) are receivables of £89.2 million which are not yet due under standard credit terms (2006: £88.3 million).

There was no significant movement in the allowance for impairment of trade receivables of £0.2 million (2006: £0.1 million) and there were no significant individual impairments of trade receivables.



## 19 Derivatives and other financial instruments (continued)

**Capital structure and management**
Channel 4 is a statutory corporation without shareholders. Whilst returns to shareholders are therefore not relevant, the group maintains cash reserves to help protect against short term fluctuations in revenue and meet its business objectives in a timely and efficient manner. The group is committed to efficient utilisation of the cash resources at its disposal to generate an appropriate return taking into account the liquidity needs of the business and scope of treasury policy.

**Other financial liabilities**

Other financial liabilities comprise:

| Group and Channel 4 | 2007 £m | 2006 £m |
|---|---|---|
| Derivative financial instruments | **–** | 0.2 |
| Embedded derivatives | **0.3** | 0.4 |
| | **0.3** | 0.6 |

**Derivative financial instruments**
At 31 December 2007, the fair value of forward contracts used as economic hedges of monetary liabilities was £4.9 million (2006: £6.2 million). This represents six Euro forward purchase contracts (fair value of £7.8 million) and two Euro forward sale contracts (fair value of £2.9 million), which all have a fixed maturity date with settlement within two years from the balance sheet date. At the 2007 year end, these have been revalued with reference to forward exchange quotes based on maturity. This change in fair value of £0.4 million (note 16) has been recognised in the income statement and associated asset included in the balance sheet in 'Other financial assets'.

**Embedded derivatives**
The group purchases programmes and satellite transponder capacity in currencies other than Sterling. In some cases, the requirements of IAS 39 deem that the contracts under which these services are purchased include forward foreign exchange derivatives that need to be recognised separately. The fair value of these derivatives is determined at the end of each financial year, or when the derivative matures, by reference to forward foreign exchange quotes at that time. Changes in the fair value of these derivatives are recognised in the income and expenditure account, and the associated liability is included in the balance sheet in 'Other financial liabilities'.

| Group and Channel 4 | 2007 £m | 2006 £m |
|---|---|---|
| Fair value at 1 January | **0.4** | 1.1 |
| Changes in fair value during the year | **0.2** | (0.5) |
| Derivatives maturing during the year | **(0.3)** | (0.2) |
| **Fair value at 31 December** | **0.3** | 0.4 |

## 19 Derivatives and other financial instruments (continued)

### Fair values

The table below sets out a comparison of book values and corresponding fair values of all the group's financial instruments by class:

| | 2007 book value £m | 2007 fair value £m | 2006 book value £m | 2006 fair value £m |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | **139.2** | **139.2** | 180.4 | 180.4 |
| Other financial assets | **56.4** | **56.4** | – | – |
| Trade and other receivables | **135.7** | **135.7** | 152.3 | 152.3 |
| Investments accounted for using the equity method | **32.1** | **32.1** | 1.6 | 1.6 |
| | **363.4** | **363.4** | 334.3 | 334.3 |
| **Financial liabilities** | | | | |
| Trade and other payables | **(178.6)** | **(178.6)** | (192.2) | (192.2) |
| Embedded derivatives | **(0.3)** | **(0.3)** | (0.6) | (0.6) |
| | **(178.9)** | **(178.9)** | (192.8) | (192.8) |

The major methods and assumptions used in estimating the fair values of the group's financial instruments are summarised below.

### Forward exchange contracts

The fair value of forward exchange contracts is based on their quoted market price, if available. If a quoted market price is not available, the fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate.

### Trade and other receivables/payables

For trade and other receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

All other receivables/payables are estimated as the present value of future cash flows discounted at the market rate of interest at the reporting date.

### Interest rates used for determining fair value

The group's cost of capital at the reporting date is used to discount future cash flows to determine the fair value of financial assets and liabilities.

## 20 Reserves

| | Channel 4 | | | Other | | |
|---|---|---|---|---|---|---|
| **2006** | Retained Earnings £m | Revaluation Reserve £m | Total £m | Retained Earnings | Attributable to Minority interest £m | **Group Total £m** |
| At 1 January 2006 | 438.5 | – | 438.5 | (24.2) | – | **414.3** |
| Total recognised income recognised directly in equity | 8.2 | – | 8.2 | – | – | **8.2** |
| Profit for the year attributable to Channel Four Television Corporation | 22.8 | – | 22.8 | (8.3) | – | **14.5** |
| **At 31 December 2006** | **469.5** | **–** | **469.5** | **(32.5)** | **–** | **437.0** |
| **2007** | | | | | | |
| At 1 January 2007 | 469.5 | – | 469.5 | (32.5) | – | **437.0** |
| Total recognised income recognised directly in equity | 2.9 | 9.9 | 12.8 | – | – | **12.8** |
| Profit for the year attributable to Channel Four Television Corporation | 2.5 | – | 2.5 | (1.3) | – | **1.2** |
| Minority interest in group subsidiary | – | – | – | – | 1.4 | **1.4** |
| Loss for the year attributable to Minority interest | – | – | – | – | (0.7) | **(0.7)** |
| **At 31 December 2007** | **474.9** | **9.9** | **484.8** | **(33.8)** | **0.7** | **451.7** |

No value was attributed to the minority interest arising on the group's investment in Oneword Radio Ltd (note 8) which was disposed of during the year for nominal consideration. The operating loss to disposal was included within the group profit for the year.

The minority interest at 31 December 2007 arises from the group's investment in 4 Digital Group Ltd during the year.

## 21 Commitments

### a) Programme and film

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

| | 2007 Group £m | 2006 Group £m | 2007 Channel 4 £m | 2006 Channel 4 £m |
|---|---|---|---|---|
| Within one year | **343.9** | 385.8 | **297.7** | 332.1 |
| After one year | **524.1** | 585.1 | **454.4** | 503.1 |
| | **868.0** | 970.9 | **752.1** | 835.2 |

### b) Digital 3 and 4 Limited

Under the terms of the shareholder agreement for Digital 3 and 4 Ltd, Channel 4 is committed to meeting its share of contracted costs entered into by that company. Digital 3 and 4 Ltd's exact annual monetary commitment will be dependent upon the time and extent of the roll-out of the digital transmission network.

Channel 4's share of Digital 3 and 4 Ltd's committed payments is estimated to amount to £8 million in 2008, rising to an anticipated £19 million by the time of digital switch-over in 2012. Digital 3 and 4 Ltd has entered into long-term distribution contracts that expire in 2022 and 2034 and Channel 4 is committed to funding its contractual share.

### c) Operating lease commitments

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

| | 2007 £m | 2006 £m |
|---|---|---|
| Operating leases which expire: | | |
| Within two to five years | **0.1** | 0.1 |
| After five years | **33.0** | 35.7 |
| | **33.1** | 35.8 |

The group leases office space in three properties in London under operating leases expiring between 2014 and 2020. Annual rentals of £2.8 million were charged to the income statement in 2007 and the total future rental commitment amounts to £32.4 million. Office space in two of the properties has been sublet by the group, the minimum future payments due amounting to £1.3 million on sub-leases expiring in 2010.

In addition, the group leases office space in Glasgow and Manchester under operating leases expiring between 2013 and 2015. Annual rentals of £0.1 million were charged to the income statement in 2007 and the total commitment under the leases amounts to £0.7 million.

### d) Capital commitments

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

| | 2007 £m | 2006 £m |
|---|---|---|
| Property, plant and equipment: | | |
| Contracted but not provided in the financial statements | **4.2** | 2.6 |

## 22 Employee benefits – pensions

The group operates a defined benefit pension scheme – the Channel Four Television Staff Pension Plan (the Plan) providing benefits based on final salary for employees.

The amounts recognised in the group and Channel 4 balance sheets are as follows:

| | 2007 £m | 2006 £m | 2005 £m | 2004 £m |
|---|---|---|---|---|
| Present value of funded obligations | **(176.2)** | (168.1) | (165.4) | (129.8) |
| Fair value of plan assets | **166.8** | 153.2 | 133.3 | 104.3 |
| **Recognised liability for defined benefit obligations** | **(9.4)** | **(14.9)** | **(32.1)** | **(25.5)** |

Movements in the fair value of plan assets recognised in the balance sheet:

| | 2007 £m | 2006 £m | 2005 £m | 2004 £m |
|---|---|---|---|---|
| Fair value of scheme assets at 1 January | **153.2** | 133.3 | 104.3 | 91.1 |
| Expected return on plan assets | **10.5** | 9.4 | 7.4 | 6.5 |
| Benefits paid | **(3.0)** | (1.9) | (2.7) | (1.9) |
| Employer contributions net of administrative charges* | **6.2** | 10.5 | 9.4 | 4.7 |
| Employee contributions net of charges | **1.3** | 1.3 | 1.6 | 2.0 |
| Experience (loss)/gain on plan assets | **(1.4)** | 0.6 | 13.3 | 1.9 |
| **Fair value of scheme assets at 31 December** | **166.8** | **153.2** | **133.3** | **104.3** |

* The employer contribution in 2006 includes an additional contribution of £5.7 million paid in March 2006.

The fair value of the plan assets and the return on those assets were as follows:

| | 2007 Actual return £m | 2006 Actual return £m | 2007 Actual return % | 2006 Actual return % | 2005 Actual return % | 2004 Actual return % | 2007 Fair value £m | 2006 Fair value £m | 2005 Fair value £m | 2004 Fair value £m |
|---|---|---|---|---|---|---|---|---|---|---|
| Equities | **7.7** | 9.9 | **7.6** | 10.7 | 21.7 | 9.9 | **105.3** | 105.6 | 81.4 | 71.8 |
| Bonds | **1.4** | 0.1 | **5.1** | 0.3 | 10.6 | 6.0 | **58.0** | 43.5 | 43.2 | 28.2 |
| Other | **–** | – | **5.3** | 3.0 | 4.0 | 4.0 | **3.5** | 4.1 | 8.7 | 4.3 |
| | **9.1** | 10.0 | | | | | **166.8** | **153.2** | **133.3** | **104.3** |

Movements in the present value of scheme liabilities for defined benefit obligations recognised in the balance sheet:

| | 2007 £m | 2006 £m | 2005 £m | 2004 £m |
|---|---|---|---|---|
| Present value of scheme liabilities at 1 January | **168.1** | 165.4 | 129.8 | 114.9 |
| Current service cost | **6.1** | 6.1 | 5.3 | 5.6 |
| Employee contributions net of charges | **1.3** | 1.3 | 1.6 | 2.0 |
| Interest costs | **9.1** | 8.3 | 7.2 | 5.6 |
| Benefits paid | **(3.0)** | (1.9) | (2.7) | (1.9) |
| Experience (gain)/loss on plan liabilities | **(5.4)** | (11.1) | 24.2 | 3.6 |
| **Present value of scheme liabilities at 31 December** | **176.2** | **168.1** | **165.4** | **129.8** |



## 22 Employee benefits – pensions (continued)

Expense recognised in the income statement:

| | 2007 £m | 2006 £m | 2005 £m | 2004 £m |
|---|---|---|---|---|
| Current service cost | **6.1** | 6.1 | 5.3 | 5.6 |
| Interest on pension scheme liabilities | **9.1** | 8.3 | 7.2 | 6.1 |
| Expected return on plan assets | **(10.5)** | (9.4) | (7.4) | (6.5) |
| **Net charge to income statement** | **4.7** | **5.0** | **5.1** | **5.2** |

The expense has been recognised in the following line items in the income statement:

| | 2007 £m | 2006 £m | 2005 £m | 2004 £m |
|---|---|---|---|---|
| Cost of transmission and sales | **4.0** | 4.1 | 3.8 | 4.0 |
| Other operating expenditure | **2.1** | 2.0 | 1.5 | 1.6 |
| Net financial income | **(1.4)** | (1.1) | (0.2) | (0.4) |
| **Net charge to income statement** | **4.7** | **5.0** | **5.1** | **5.2** |

Net actuarial gains /(losses) recognised directly in equity:

| | 2007 £m | 2006 £m | 2005 £m | 2004 £m |
|---|---|---|---|---|
| Experience gain/(loss) on plan liabilities | **5.4** | 11.1 | (24.2) | (3.6) |
| Experience (loss)/gain on plan assets | **(1.4)** | 0.6 | 13.3 | 1.9 |
| **Experience gains/(losses)** | **4.0** | **11.7** | **(10.9)** | **(1.7)** |

The cumulative amount of actuarial gains and losses recognised in the Statement of Recognised Income and Expense since transition to IFRS is £3.1 million.

### Principal actuarial assumptions at the balance sheet date

| | 2007 % | 2006 % | 2005 % | 2004 % |
|---|---|---|---|---|
| Discount rate | **5.60** | 5.25 | 4.85 | 5.30 |
| Rate of increase in salaries | **3.45** | 3.30 | 3.00 | 3.00 |
| Rate of increase in pensions | **3.20** | 3.05 | 2.75 | 2.75 |
| Inflation | **3.20** | 3.05 | 2.75 | 2.75 |
| Expected return on plan assets – equities | **7.50** | 7.60 | 8.00 | 8.00 |
| Expected return on plan assets – bonds | **5.70** | 5.10 | 4.10 | 4.60 |
| Expected return on plan assets – cash | **5.50** | 5.25 | 4.00 | 4.00 |
| | **2007 years** | 2006 years | 2005 years | 2004 years |
| Life expectancy from 60 (now aged 40) – male | **26.6** | 26.6 | 26.6 | 24.9 |
| Life expectancy from 60 (now aged 40) – female | **29.4** | 29.4 | 29.4 | 27.8 |
| Life expectancy from 60 (now aged 60) – male | **26.6** | 24.5 | 24.5 | 24.8 |
| Life expectancy from 60 (now aged 60) – female | **29.4** | 27.5 | 27.5 | 27.8 |

These assumptions were adopted in consultation with the independent actuary to the Channel Four Television Staff Pension Plan. If experience is different from these assumptions, or if the assumptions need to be amended in future, there will be a corresponding impact on the net pension scheme liability recorded on the group balance sheet. The expected returns on plan assets are set by reference to historical returns, current market indicators and the expected long term asset allocation of the plan.

## 22 Employee benefits – pensions (continued)

Contribution rates to the scheme are determined by a qualified independent actuary on the basis of triennial valuations using the projected unit method. The most recent independent valuation was carried out as at 1 January 2006 which showed that the scheme's assets represented 93% of the benefits that had accrued to members. In March 2006, an additional contribution of £5.7 million was made into the scheme, taking the scheme asset ratio to 97%. In light of the valuation with effect from 1 January 2007 Channel 4 agreed to pay £56,000 per month to reduce the Plan's funding deficit and an additional contribution of 1.2% to cover the Plan's expenses.

During 2007 Channel 4, supported by the Trustees, put forward some changes to the Plan to ensure it remains adequately funded in the future. These proposals were then opened to a 60 day consultation period, in line with legislation, via a Pension Consultation Group. Channel 4 proposed the following changes:
- Closing the Plan to new staff joining Channel 4 with effect from 1 September 2007.
- Increasing the normal retirement age from 60 to 65 on pension benefits accrued from 2010.
- Increasing employee contributions from 6.5% to 7.5% with effect from 1 January 2008, and reducing employer contributions by 1.1% as of that date.

In addition Channel 4 proposed to open a new Defined Contribution Scheme with effect from 1 September 2007 in line with closing the Plan to new joiners. Following the consultation period the proposals put forward by Channel 4 were confirmed.

The estimated employer contributions in 2008 are £7.9 million.

## 23 Related party transactions

Details of transactions in which members have an interest are disclosed on page 38. Details of members' remuneration are shown in the remuneration report on pages 82 and 83.

**Subsidiary undertakings**
During 2007, Channel 4 has purchased film rights from FilmFour Ltd totalling £1.6 million (2006: £5.4 million), of which £nil (2006: £4.4 million) remained in 'Programme and film rights and other inventories' at 31 December. Prior to its disposal during the year, Channel Four International Ltd sold film rights to Channel 4 in 2007 totalling £0.4 million (2006: £0.2 million), all of which remain in 'Programme and film rights and other inventories' at the year end. Channel 4 purchased studio, creative and interactive services from 4 Ventures Ltd in 2007 totalling £15.7 million (2006: £14.5 million).

At 31 December 2007, the total receivable to Channel 4 from subsidiary undertakings was £63.8 million (2006: £31.9 million).

**Associates**
During 2007, Channel 4 purchased £nil of programmes from Popworld Ltd (2006: £3.7 million). No amounts were due to Popworld Ltd at 31 December 2007.

**Joint ventures**
During 2007, Channel 4 paid £9.9 million to Digital 3 and 4 Ltd for digital terrestrial transmission services (2006: £9.3 million), £1.4 million to DTV Services Ltd for promoting the Freeview platform (2006: £1.1 million), £1.7 million to BARB for research services (2006: £1.5 million), £0.9 million to Thinkbox Ltd (2006: £nil) and £0.1 million to TV Eye Ltd for accreditation services (2006: £0.1 million). Channel 4 owed £1.0 million to Digital 3 and 4 Ltd at 31 December 2007, no amounts were due to any of of the other joint venture companies at 31 December 2007.





The group is committed to high standards of corporate governance.

Since the publication of the revised Combined Code in 2006, we have been working to ensure the group continues to comply with corporate governance best practice.

Channel 4's status as a statutory corporation without shareholders means those provisions concerning relations with shareholders are not directly applicable. Also, instead of a nominations committee, there are formal nominations procedures which are described on page 78.

The terms of reference for Channel 4's audit committee and remuneration committee are available on request from the Corporation Secretary.

**The Board**
Channel Four Television Corporation is controlled through its Board of members. The Board's main roles are to provide entrepreneurial leadership of the group, to approve the group's strategic objectives and to ensure that Channel 4's responsibilities are discharged in accordance with all applicable laws and regulations. The Board, which meets at least 10 times a year, has a schedule of matters reserved for its approval. The following matters must be referred to the full Board:
- Channel 4's annual budget (programme and non-programme).
- the appointment and re-appointment of the Chief Executive.
- confirmation of the appointment and re-appointment of the other executive members nominated by the Chief Executive and the Chairman acting jointly.
- banking arrangements and loan facilities.
- any significant proposal outside the ordinary course of Channel 4's business.
- the appointment and re-appointment of the Corporation Secretary.
- the appointment and re-appointment of auditors.
- the audited accounts of Channel 4 presented by the audit committee.
- the establishment, purchase or acquisition of any qualifying company and the approval or variation of terms of reference for any subsidiary.
- approval of any significant new business investment.
- Channel 4's headcount.
- such other matters as the Board may from time to time resolve to review or decide.

In addition, as part of its overall responsibility to ensure the fulfilment of Channel 4's statutory duties and functions, the Board continues to focus on ensuring the successful delivery of Channel 4's remit and other public service responsibilities. Current programming output and plans for future investment of the programming budget are regularly discussed as part of the overall Board agenda, as are regular up-dates on audience reactions to Channel 4's programmes. The Board also approves Channel 4's proposed Statements of Programme Policy prior to publication as well as the annual reviews of performance against these Statements.

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

**Statement of members' responsibilities**
Channel 4 is required by the Broadcasting Act 1990 to keep proper accounting records and proper records in relation to the accounts, and to prepare financial statements in respect of each financial year in the form as directed by the Secretary of State for Culture, Media and Sport with the approval of the Treasury.

The members are therefore responsible for preparing the annual report and the group and Channel 4 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 the group and Channel 4 as at the end of the financial year and of the profit or loss and cashflow for the group and Channel 4 for that year.

The members have decided voluntarily to include a Report on members' remuneration in accordance with Section 7A to the Companies Act 1985, as if those requirements were to apply to Channel 4.

The members have voluntarily decided to comply with the disclosure provisions of the Financial Services Authority Listing Rules, where applicable. In line with the latest developments concerning listed company accounts, the members have elected to prepare the group and Channel 4 financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. In preparing those financial statements, the members are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and Channel 4 will continue in business;
- take reasonable steps to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The members are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of Channel 4 and enable them to ensure that its financial statements comply with the applicable provisions of the Companies Act 1985.

The members are responsible for ensuring compliance with the requirements of Schedule 9 of the Communications Act 2003.

The members are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

The Chairman has the responsibility of leading the Board in setting the values and standards of Channel 4 and of maintaining a relationship of trust with and between the executive and non-executive members. The Chairman is responsible for inter alia:
- leadership of the Board, ensuring its effectiveness on all aspects of its role including the setting of the agenda.
- ensuring that all members receive accurate, timely and clear information.
- ensuring that all members continually update their skills and the knowledge and familiarity with Channel 4 required to fulfil their role both on the Board and on committees.
- facilitating the effective contribution of non-executive members and ensuring constructive relations between executive and non-executive members.

The role of the Chief Executive is to run the business of Channel 4 under the delegated authority from the Board and to implement the policies and strategy agreed by the Board. In addition, the Chief Executive, on behalf of the Board, should ensure effective communication with Ofcom and other key stakeholders.

**Senior independent member**
Lord Puttnam acted as Deputy Chairman and Senior Independent Director throughout the year.

**Members and members' independence**
The Board currently comprises the Chairman, eight non-executive members and six executive members. The names of the members together with their biographical details are set out on page 81.

The non-executive members constructively challenge and help develop proposals on strategy, and bring strong, independent judgement, knowledge, and experience to the Board's deliberations. The non-executive members are of sufficient calibre and number that their views carry significant weight in the Board's decision making. The members are given access to independent professional advice at the group's expense, when the members deem it is necessary in order for them to carry out their responsibilities. Details of the Chairman's professional commitments are included in the Chairman's biography. These do not impact on his role with Channel 4.

The Board considers all its non-executive members to be independent in character and judgement. At the time of this report, no non-executive member:
- has been an employee of the group within the past five years.
- has, or has had within the past three years, a material business relationship with the group.
- receives remuneration other than their member's fee (although attention is drawn to the related party transactions on page 74).
- has close family ties with any of the group's advisers, members or senior employees.
- holds cross-directorships or has significant links with other members through involvement in other companies or bodies.
- has served on the Board for more than five years from the date of their first election.

**Professional development**
On appointment, the members take part in an induction programme when they receive information about the group, the role of the Board and the matters reserved for its decision, the terms of reference and membership of the principal Board and management committees, and the powers delegated to those committees, the group's corporate governance practices and procedures, including the powers reserved to the group's most senior executives, and the latest financial information about the group. This is supplemented by meetings with members of the senior management team. On appointment, all members are advised that they have access to advice and the services of the Corporation Secretary. Throughout their period in office the members are continually updated on the group's business, the environments in which it operates and other changes affecting the group and the industry it operates in as a whole, by written briefings and meetings with senior executives.

**Performance evaluation**
Procedures have been established to undertake an annual evaluation of the performance of the Board.

**The Corporation Secretary**
The Corporation Secretary's responsibilities include ensuring good information flows within the Board and its committees and between senior management and non-executive members, and assisting with professional development as required. The Corporation Secretary is responsible for advising the Board through the Chairman on all governance matters.

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

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

**Internal control**
In accordance with the guidance of the Turnbull committee the Board of members:
- is responsible for the company's system of internal control.
- sets appropriate policies on internal control.
- seeks regular assurance and receives regular reports that enables it to satisfy itself that the system is functioning effectively.
- ensures that the system of internal control is effective in managing risks in the manner which it has approved.

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

Risk management
The Board and management has a clear responsibility for the identification of risks facing the business and for putting in place procedures to monitor and mitigate such risks. The Board operates a process for identifying, evaluating and managing (rather than eliminating) significant risks faced by Channel 4 and the group which can only provide reasonable assurance and not absolute assurance against material misstatement or loss. This business risk evaluation process accords with the Combined Code's guidance on internal controls. Reports prepared by the executive members include a summary of risks and the corresponding action taken to mitigate those risks.

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

Control procedures
All expenditure has to be authorised in line with limits set out in a comprehensive authorisation manual. An electronic invoice authorisation system is used to further enhance the control environment. Authorisation and payment duties are strictly segregated, and bank signatory limits are clearly defined by bank mandate. The financial controls are monitored by management review and by the audit committee. The members have continued to review and improve the effectiveness of the group's system of financial and non-financial controls, including operational and compliance controls, risk management and the group's high-level internal control arrangements. These reviews have included an assessment of internal controls, and in particular internal financial controls, by:
- reports from management.
- reports from the external auditors on matters identified in the course of their statutory audit work.
- reports from Grant Thornton's business assurance team.

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

| | | Number of meetings attended | | |
|---|---|---|---|---|
| | Appointed | Board | Audit committee | Remuneration committee |
| **Executives** | | | | |
| Andy Duncan | | 11(11) | 3(3) | 2(2) |
| Andy Barnes | | 11(11) | | |
| Anne Bulford | | 11(11) | 3(3) | 2(2) |
| Kevin Lygo | | 11(11) | | |
| Jon Gisby | 1 December 2007 | 1(1) | | |
| Nathalie Schwarz | 1 February 2008 | N/A | | |
| **Non-executives** | | | | |
| Luke Johnson | | 11(11) | 3(3) | 2(2) |
| Lord Puttnam | | 9(11) | | |
| Sue Ashtiany | | 9(11) | 3(3) | |
| Karren Brady | | 9(11) | 1(3) | 2(2) |
| Tony Hall | | 10(11) | | 2(2) |
| Andy Mollett | | 11(11) | 3(3) | |
| Stephen Hill | | 10(11) | | |
| Martha Lane Fox | | 10(11) | | 1(2) |

| | | Number of meetings attended | | |
|---|---|---|---|---|
| | Resigned | Board | Audit committee | Remuneration committee |
| **Retired members** | | | | |
| Rod Henwood | 17 December 2007 | 11(11) | | |

Figure in brackets indicate maximum number of meetings in the period in which the individual was a Board/committee member or attended by invitation.

**Remuneration committee**
The remuneration committee comprises Karren Brady (Chair), Martha Lane Fox and Tony Hall. All the members of the committee are independent non-executive members. The remuneration committee met twice during the year. Luke Johnson, Andy Duncan and Anne Bulford attend meetings as appropriate. No executive member attends meetings of the remuneration committee at times when any aspect of his or her remuneration or terms of employment is being discussed.
The committee's principal responsibilities are:
- approving the level of any annual salary increases and the structure of remuneration for executive members and senior management.
- significant merit or market increases for individuals or posts above the general award.
- approving Channel 4's vehicle policy.
- reviewing any other significant change in Channel 4's remuneration package.
- Channel 4's pension fund arrangements and related employee benefits. In particular, the remuneration committee will consider the pension consequences and associated costs to Channel 4 of basic salary increases and any other changes in pensionable remuneration, especially for members close to retirement.

Further details concerning members' remuneration is shown in the report on members' remuneration on pages 82 and 83.

**Audit committee**
The audit committee comprises Andy Mollett, Sue Ashtiany and Karren Brady. Andy Mollett is Chairman of the committee. All the members of the committee are independent non-executive members. The audit committee met three times during the year. At the committee Chairman's invitation, Luke Johnson, Andy Duncan, Anne Bulford, the KPMG LLP audit partner and the Grant Thornton audit partner attend meetings of the committee. The audit partners have direct access to the Chairman of the audit committee as required. The committee has at least one member possessing what the Smith Report describes as recent and relevant experience. Andy Mollett, a chartered accountant, is Chief Financial Officer of Chrysalis Music Ltd. It will be seen from the members' biographical details, appearing on page 81, that the other members of the committee bring to it a wide range of experience from positions at the highest level.

The audit committee's key responsibilities are:
– to monitor the integrity of the financial statements of Channel 4 and any formal announcements relating to Channel 4's financial performance, reviewing significant financial reporting judgements contained in them.
– to review Channel 4's internal financial controls and Channel 4's internal control and risk management systems.
– to make recommendations to the Board in relation to the appointment, reappointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors.
– to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process taking into consideration relevant UK professional and regulatory requirements.
– to develop and implement policy on the engagement of the external auditors to supply non-audit services taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.
– to regularly update the Board about the audit committee's activities and make appropriate recommendations.
– to ensure the Board is aware of matters that may significantly impact on the financial condition or affairs of the business.
– to monitor and review the effectiveness of Channel 4's business assurance function and activities.
– to make recommendations regarding the Schedule 9 audit.

If necessary, the audit committee can instigate special investigations and, if appropriate, engage special counsel or experts to assist. The committee meets with the executive members and management and the Chairman of the audit committee meets privately with the external and internal auditors.

In 2007 the audit committee discharged its responsibilities by:
– reviewing the group's draft financial statements prior to Board approval and reviewing the external auditors' detailed reports thereon.
– reviewing the appropriateness of the group's accounting policies.
– reviewing regularly the potential impact in the group's financial statements of certain matters such as impairments of fixed asset values.
– reviewing and approving the audit fee and reviewing non-audit fees payable to the group's external auditors.
– reviewing the external auditors' plan for the audit of the group's accounts, which included key areas of extended scope work, key risks on the accounts, confirmations of auditors' independence and the proposed audit fee.
– approving and monitoring Grant Thornton's business assurance plan for reviewing controls in place and their effectiveness, and where appropriate, recommended enhancements on a number of specific projects.
– reviewing the findings of the independent reporting accountants concerning compliance with the arrangements under Schedule 9 of the Communications Act.

The audit committee also monitors the group's whistle-blowing procedures, ensuring that appropriate arrangements are in place for employees to be able to raise matters of possible impropriety in confidence, and with suitable subsequent follow-up action. An alternative reporting channel has been created whereby perceived wrongdoing may be reported via telephone and/or in writing, anonymously if necessary. Channel 4 will not use the external auditors to provide other services unless it is efficient and effective to do so. Details of the work that KPMG LLP have undertaken in 2007 are shown in note 3. KPMG LLP also make an annual statement to the audit committee to confirm their independence.

**Budget committee**
The role of the budget committee is to review the details of the group's annual budget and any other significant financial matters which the Board refers to the budget committee for detailed consideration. The budget committee comprises Luke Johnson (Chair), Andy Duncan, Anne Bulford, Martha Lane Fox and Andy Mollett, and meets at least twice a year.

**Nomination committee**
Given its constitution, Channel 4 does not have a formal nomination committee. However, the following formal nomination procedures are in place:
– non-executive members are appointed for fixed terms by Ofcom following consultation with Channel 4's Chairman and the approval of the Secretary of State for Culture, Media and Sport.
– the Chief Executive is appointed by the Board.
– other executive members are appointed to the Board after nomination by the Chief Executive and the Chairman acting jointly.

**New business board**
The new business board assists the Channel 4 Board by scrutinising, reviewing and agreeing significant commercial new business investment proposals before they are referred to the Channel 4 Board. The new business board is chaired by Robin Miller, acting in a consultancy capacity. The other members of the new business board are Luke Johnson, Stephen Hill, Andy Duncan, Anne Bulford, Nathalie Schwarz (appointed 1 February 2008), Jonathan Thompson (Director of Strategy and Research), Paul Whitehead (Head of Corporate and Business Development), Martin Baker (Head of Commercial Affairs), Polly Cochrane (Director of Marketing) and Jon Gisby. Michael Hodgson (Head of Corporate Development) retired from the new business board in February 2008 and Rod Henwood retired on 17 December 2007. Sara Geater (Head of Commercial Affairs) retired from the new business board in January 2007.

**Internal audit**
During 2007, the Grant Thornton business assurance team have undertaken a number of specific projects, to provide assurance that control processes are appropriate and working effectively, and where necessary, recommend improvements.

**Pension plan**
There are six trustees of the Channel Four Television Staff Pension Plan who meet several times each year, and with the Plan's investment managers, Legal & General Assurance (Pensions Management) Ltd, Henderson Global Investors Ltd and JP Morgan Life Ltd at least once a year. The trustees are Luke Johnson (trustees' Chairman); an independent member, Louise Botting; two of Channel 4's executives, Anne Bulford and Diane Herbert (Director of Human Resources); and two employee representative trustees. These employee representative posts are filled by Julie Kortens and Neil Pepin.

**Requirements of Schedule 9 of the Communications Act 2003 (the Act)**
The Act requires that Channel 4 submit proposals to Ofcom detailing the arrangements under which it proposes to secure, so far as reasonably practicable, that all significant risks that the other activities will have an adverse effect on the carrying out, during the relevant licence period, of their primary functions are identified, evaluated and properly managed. These proposals are referred to as the Arrangements.

In addition, the Arrangements must include proposals which Channel 4 considers appropriate for securing the transparency objectives as set out in the Act, namely:
– an appropriate financial and organisational separation between the activities of Channel 4 that relate to the carrying out of their primary functions and their other activities; and
– an appropriate degree of transparency in financial and other reporting where resources are shared between separated activities or where there is some other financial or practical connection between otherwise separated activities.

The Act sets out the matters to which the submitted Arrangements may relate. These include the procedures and other practices to be followed by Channel 4 in the case of the initiation and management of new ventures, the exercise of particular powers, the assessment of risks, the imposition of charges and the keeping of records.

The Act requires Channel 4 to put in place regular checks to confirm that Channel 4 is complying with the Arrangements. The Arrangements proposed by Channel 4 must contain provision for compliance with the Arrangements to be checked regularly by a person (other than Channel 4's auditor) appointed in accordance with that provision.

Channel 4 agreed these arrangements with Ofcom in 2006. Channel 4 has appointed Deloitte & Touche LLP to review compliance with the Arrangements and their report is shown on page 80. Copies of the Arrangements are available from the Corporation Secretary and at channel4.com/about_c4.html.

**Independent reporting accountants' report to Channel Four Television Corporation (the Corporation) and the Office of Communications (Ofcom)**

We have performed a review of the Corporation's compliance during the year ended 31 December 2007 with the arrangements agreed between the Corporation and the Office of Communications (Ofcom) under section 2 of schedule 9 of the Communications Act 2003.

This report is made solely to Channel Four Television Corporation and Ofcom in accordance with our letter of engagement dated 9 November 2007 and in order to (a) allow the Corporation to meet its obligations under the Licence and Schedule 9 of the Communications Act 2003 to procure such reports and (b) to facilitate the carrying out by Ofcom of its regulatory functions. Our work has been undertaken so that we might state to the Corporation and Ofcom those matters we are required to state to them in a reporting accountant's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other the Corporation and Ofcom (in accordance with our contract with Ofcom dated 18 January 2008), for our work, for this report, or for the opinions we have formed.

**Respective responsibilities of Channel Four Television Corporation and Reporting Accountants**
The Corporation has agreed arrangements with Ofcom to secure the following objectives (the Objectives) as set out in Schedule 9 of the Communications Act 2003:

– So far as reasonably practicable, secure that all significant risks that their other activities will have an adverse effect on the carrying out, during the relevant licence period, of their primary functions are:
  a) identified;
  b) evaluated; and
  c) properly managed.
– The transparency objectives of securing:
  a) an appropriate financial and organisational separation between the activities of the Corporation that relate to the carrying out of their primary functions and their other activities; and
  b) an appropriate degree of transparency in financial and other reporting where resources are shared between separate activities or where there is some other financial or practical connection between otherwise separated activities.

The Arrangements agreed between the Corporation and Ofcom are available from http://www.channel4.com/about4/pdf/C4_arrangements.pdf. The responsibility of the Corporation in terms of Schedule 9 of the Communications Act 2003 is to act in accordance with these Arrangements throughout the review period.

Our responsibility is to check whether the Corporation has complied with these arrangements during the year ended 31 December 2007 and report to you our independent conclusion as to whether they have done so.

**Basis of opinion**
We carried out our work in accordance with International Standard on Assurance Engagements 3000 Assurance Engagements. Our work consisted of:

– confirming our understanding of the Corporation and the internal procedures and controls in place made to comply with the Arrangements made under Schedule 9 of the Communications Act 2003 through enquiry of senior management and other appropriate personnel; and
– testing the operation of the relevant internal procedures and controls and examining of the financial records relating to the above.

Our work was carried out based on the internal procedures and controls in place to comply with the Arrangements during the year ended 31 December 2007. We are not responsible for concluding whether the Arrangements are sufficient and appropriate to achieve the objectives set out above. Any system of internal control can only give reasonable, not absolute assurance, that the Objectives will be met.

**Opinion**
In our opinion, the Corporation has complied with the Arrangements under Schedule 9 of the Communications Act 2003, in all material respects, for the year ended 31 December 2007.

**Deloitte & Touche LLP**
Chartered Accountants
London
17 March 2008

# Members

**Non-executive members**

Chairman
**Luke Johnson**
Appointed Chairman in January 2004. His appointment runs until 27 January 2010. He is Chairman of Risk Capital Partners. He was previously Chairman of Pizza Express plc and is currently Chairman of Giraffe Restaurants, Patisserie Valerie, GRA and Seafood Holdings.

Deputy Chairman
**Lord Puttnam**
Joined the Board as Deputy Chairman in February 2006. His appointment runs until 31 January 2009. After 30 years as an independent film producer, David now focuses on his interests in education, and has been President of UNICEF UK since 2002. He was awarded a CBE in 1982, knighted in 1995 and appointed to the House of Lords in 1997.

**Sue Ashtiany**[A]
Joined the Board in July 2003. Her appointment runs until 30 June 2009. She is a solicitor and a partner in the city firm of Nabarro. She is also a member of the Tooke Inquiry Panel, the Board of Trustees of the Equal Rights Trust, the advisory Panel of the Oxford Piano Institute, a member of the Court of Oxford Brookes University and an Honorary Fellow of Harris Manchester College, Oxford.

**Karren Brady**[A,R]
Joined the Board in July 2004. Her appointment runs until July 2010. She is Managing Director of Birmingham City Football Club, Chairman of Kerrang digital radio station and a Non-executive Director of Mothercare PLC and a Non-executive Director of Sport England.

**Tony Hall**[R]
Appointed to the Board on 1 April 2005. His appointment runs until 31 March 2011. He is Chief Executive of the Royal Opera House and a former Chief Executive of BBC News.

**Stephen Hill**
Joined the Board in January 2006. His appointment runs until 31 December 2008. From 2003 to 2005, Stephen was Chief Executive of Betfair Ltd. Previously he worked at Pearson plc, including six years as Chief Executive of the Financial Times, and was also closely involved in setting up BSB and its subsequent merger with Sky. He is a founding partner of 3i Quoted Private Equity.

**Martha Lane Fox**[R]
Joined the board in February 2006. Her appointment runs until 31 January 2009. Martha co-founded lastminute.com in 1998, floated the business in 2000 and remained on the company's board until 2005. Martha is a Non-executive Director of Marks & Spencer plc and of Mydeco.com. Martha is Founder and Chair of Antigone.org.uk, her own grant giving foundation, Trustee of Reprieve, Patron of CAMFED and Founder of Lucky Voice Private Karaoke.

**Andy Mollett**[A] **ACA**
Joined the Board in July 2004. His appointment runs until 18 July 2010. He is Group Finance Director of Chrysalis plc and was formerly the CFO of EMI Music Publishing Ltd. He is also a Non-executive Director of Incentivated Ltd.

**Executive members**

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

**Andy Barnes**
Sales Director since October 2002, having been Commercial Director since July 1997. He is a Director of Broadcasters' Audience Research Board Ltd (BARB). He is also Chairman of Thinkbox, the television marketing body, Chairman of the BACC (Broadcasting Advertising Clearance Centre) and a member of the Advertising Association's council. He joined Channel 4 in 1991 as Head of Advertising Sales.

**Anne Bulford FCA**
Appointed Group Finance Director in July 2005. Before joining Channel 4, Anne spent three years with the Royal Opera House as Director of Finance and Business Affairs, prior to which she was Finance Director at Carlton Productions and worked at the BBC as Finance Director of BBC Productions and Head of Internal Audit. She is a lay member of the council of University College London and Honorary Treasurer.

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

**Jon Gisby**
Joined the Board in December 2007 as Director of New Media and Technology. Prior to joining Channel 4, Jon was Vice President of Media at Yahoo Europe and Managing Director of Yahoo UK. Prior to this he was a Managing Director of Portals at Freeserve and a Senior Advisor with the BBC's Corporate Strategy team.

**Nathalie Schwarz**
Appointed to the Board in February 2008 as New Business and Corporate Director. Nathalie was previously Director of Radio at Channel 4 having overseen the successful Channel4-led bid for the second national commercial DAB multiplex. Prior to joining Channel 4 in 2005 she was Strategy and Development Director and an Executive Board Director at Captial Radio plc. She is a Non-executive Director of Amiad Filtration Systems Ltd.

Secretary
**Paola Tedaldi**

[A]Member of the audit committee
[R]Member of the remuneration committee

**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 77. In framing its remuneration policy, the committee has given full consideration to the best practice provisions of the Combined Code.

The group aims to attract, motivate and retain high calibre staff and executive Board members by rewarding them with competitive salary and benefit packages. Channel 4 is required to compete in the commercial market place and salaries and benefit packages are established by reference to those prevailing for executives of comparable status in the television and wider media industry, but without any of the share option schemes available to executives at most of Channel 4's competitors.

Any bonus payments made to executives are based on performance and recommended and approved by the remuneration committee. Andy Barnes participates in the advertising sales bonus scheme, which is linked to advertising revenue targets. The maximum bonus payable under that scheme is 75% of salary. The other executive members participate in the Channel 4 Executive Bonus Scheme, which as in previous years was set in 2007 as a maximum bonus which could be payable at 30% of salary.

**Service contracts**
The service contracts of all the executive members are subject to notice periods of one year or less.

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

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

| | Salary and fees £000 | Bonus £000 | Benefits £000 | LTIP £000 | 2007 Total £000 | 2006 Total £000 |
|---|---|---|---|---|---|---|
| **Executive members** | | | | | | |
| Andy Duncan[1] | 650 | 98 | 13 | 450 | 1,211 | 622 |
| Andy Barnes | 350 | 75 | 13 | – | 438 | 351 |
| Anne Bulford [2] | 331 | 56 | 13 | – | 400 | 419 |
| Kevin Lygo [3] | 750 | 125 | 13 | – | 888 | 598 |
| Jon Gisby (appointed 3 December 2007) | 21 | – | 1 | – | 22 | – |
| **Non-executive members** | | | | | | |
| Luke Johnson | 73 | – | – | – | 73 | 72 |
| Lord Puttnam | 29 | – | – | – | 29 | 26 |
| Sue Ashtiany | 21 | – | – | – | 21 | 21 |
| Karren Brady | 21 | – | – | – | 21 | 21 |
| Tony Hall | 21 | – | – | – | 21 | 23 |
| Stephen Hill | 21 | – | – | – | 21 | 21 |
| Martha Lane Fox | 21 | – | – | – | 21 | 20 |
| Andy Mollett | 21 | – | – | – | 21 | 21 |
| **Retired members** | | | | | | |
| Rod Henwood (resigned 17 December 2007)[4] | 298 | – | 13 | – | 311 | 370 |
| Barry Cox (resigned 31 January 2006) | – | – | – | – | – | 2 |
| Robin Miller (resigned 31 January 2006) | – | – | – | – | – | 2 |
| | **2,628** | **354** | **66** | **450** | **3,498** | **2,589** |

[1] A proportion of Andy Duncan's salary is deferred in the form of a long-term loyalty scheme. This scheme required Andy to remain with Channel 4 for at least three years and accrued at a rate of £150,000 per annum up to a maximum of £450,000 which became payable on 19 July 2007. In 2007, Andy entered into a further long-term loyalty scheme, which requires him to remain with Channel 4 for at least two years, meet certain performance criteria and accrues at a rate of £225,000 per annum up to a maximum of £450,000 which will become payable on 1 July 2009. The 2007 financial statements include provision for Andy's accrued entitlement (£112,500) at the end of 2007.

[2] Anne Bulford has joined a long-tem incentive scheme linked to Corporation performance from 2007 to 2009. Under the scheme, Anne can accrue up to 30% of her salary each year based on performance against stated Corporation objectives, up to a maximum of 90% over 3 years. The scheme requires her to remain at Channel 4 until April 2010. The 2007 financial statements include provision for Anne's accrued entitlement (£75,000) at the end of 2007.

[3] Kevin Lygo has joined an additional bonus scheme which requires him to remain at Channel 4 from 1 August 2005 until 31 January 2008, at which time an amount of £350,000 becomes payable. Provision has been made for Kevin's accrued entitlement (£338,333) at the end of 2007.

[4] New Business Director Rod Henwood resigned from the Board on 17 December 2007. Provision has been made for payments due to him when he leaves Channel 4.

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

Non-executive members are not eligible for membership of the Channel Four Television Staff Pension Plan. The executive members of the plan during 2007 were as follows:

| | Increase in accrued pension entitlement during 2007 £000 | Total accrued pension entitlement at 31 December 2007 £000 | Transfer value of increase in accrued pension entitlement less members' contributions £000 | Transfer value at 1 January 2007 £000 | Increase in transfer value less members' contributions £000 | Members' contributions during 2007 £000 | Transfer value at 31 December 2007 £000 |
|---|---|---|---|---|---|---|---|
| Andy Duncan | 4 | 4 | 30 | – | 30 | 9 | 39 |
| Andy Barnes | 28 | 126 | 389 | 1,301 | 488 | 11 | 1,800 |
| Anne Bulford | 2 | 2 | 14 | – | 14 | 5 | 19 |
| Rod Henwood (resigned 17 December 2007) | 1 | 1 | 9 | – | 9 | 4 | 13 |
| Kevin Lygo | 5 | 22 | 52 | 210 | 58 | 11 | 279 |

- the total accrued pension entitlement shown is that which would be paid annually on retirement from the age of 60 but based on service to the end of 2007.
- the accrued benefits for all members have been restricted as a result of the impact of the Inland Revenue's earnings cap.
- members who are not subject to the earnings cap have the option to pay Additional Voluntary Contributions (AVCs) to a separate scheme. Neither the AVCs made nor the resulting benefits accrued have been included in the above table.
- all transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.
- they do not represent sums payable to individual members.

The benefits provided to all members of the Channel Four Television Staff Pension Plan (the Plan) are as follows:
- normal retirement age is 60 (65 on benefits accrued from 2010).
- there is a spouse's pension of one-half of a scheme member's pension in the event of death in retirement and of one-half of a scheme member's present expected pension in the event of death in service. There is an additional benefit equal to one-half of the benefit payable to the spouse in respect of each child up to the age of 18, or 23 if in full-time education, subject to a maximum of two children.
- pensions in the course of payment, in excess of the Guaranteed Minimum Pension, increase at 5% per annum compound, or the increase in the retail prices index if lower.
- from 1 May 2003, new employees are required to complete two years' continuous service with Channel 4 before they can join the Plan. During the two-year waiting period employees are covered for death in service benefits.
- scheme members who leave within two years of joining the Plan receive a refund of their own contributions.
- scheme members who leave after being in the Plan for two years receive a benefit from normal retirement date preserved within the scheme, calculated as above, but relating to pensionable service and pensionable earnings up to the date of leaving.
- an early retirement option exists from the age of 50. Any scheme member taking an early retirement option receives a pension at a discounted rate.
- there are provisions for a member to exchange part of the retirement pension for cash.

**Auditable information**
The information in the remuneration and pension tables have been audited by Channel 4's auditors, KPMG LLP, in accordance with Schedule 7A to the Companies Act 1985 as if those requirements were to apply to Channel 4.

By Order of the Board:

**Luke Johnson**
Chairman
17 March 2008

### Sources of programmes
Channel 4 commissions programmes from independent producers and the ITV companies and purchases programmes in the international markets. The source and cost of the programmes transmitted on the main Channel 4 service in 2007 are shown in the table below:

| | 2007 Hours | 2006 Hours | 2007 £m | 2006 £m |
|---|---|---|---|---|
| **Originated** | | | | |
| Independents | **4,563** | 4,367 | **325.2** | 323.5 |
| Other | **1,057** | 1,115 | **55.0** | 59.3 |
| | **5,620** | 5,482 | **380.2** | 382.8 |
| Acquired | **3,140** | 3,278 | **148.4** | 127.2 |
| Programmes total | **8,760** | 8,760 | **528.6** | 510.0 |
| Other direct programme costs | | | **7.9** | 5.7 |
| Total programme and other content | | | **536.5** | 515.7 |

| | 2007 Hours | 2006 Hours | 2007 % | 2006 % |
|---|---|---|---|---|
| **All hours** | | | | |
| Originated | **5,620** | 5,482 | **64** | 63 |
| Acquired | **3,140** | 3,278 | **36** | 37 |
| | **8,760** | 8,760 | **100** | 100 |
| **Peak hours** | | | | |
| Originated | **1,245** | 1,213 | **76** | 74 |
| Acquired | **398** | 429 | **24** | 26 |
| | **1,643** | 1,642 | **100** | 100 |

Independent production companies are the most important source of originated programmes. 312 independent companies provided programmes transmitted on Channel 4 in 2007 (2006: 296).

### Production outside London
Channel 4 is keen to encourage film and television production throughout the Nations and Regions of the United Kingdom and has a number of schemes to achieve that objective. The total cost of those programmes in 2007 amounted to £124.9m (2006: £133.5m).

### Programme transmissions
The main Channel 4 service broadcast 8,760 hours in 2007 (2006: 8,760) – 24 hours each day. The hours and costs of the channel's wide range of programme transmissions were as follows:

| | 2007 Hours | 2006 Hours | 2007 £m | 2006 £m |
|---|---|---|---|---|
| Entertainment | **1,552** | 1,603 | **113.6** | 124.8 |
| Drama | **929** | 1,172 | **119.5** | 104.8 |
| Education | **1,572** | 1,441 | **69.6** | 80.1 |
| Sport | **807** | 724 | **8.9** | 7.9 |
| Feature films | **1,123** | 1,048 | **49.8** | 47.6 |
| Other factual | **1,096** | 1,077 | **83.2** | 60.3 |
| News | **313** | 315 | **22.4** | 21.5 |
| Documentaries | **173** | 153 | **19.9** | 19.8 |
| Current affairs | **241** | 219 | **14.9** | 13.0 |
| Quiz and gameshows | **360** | 393 | **6.4** | 6.4 |
| Arts and music | **541** | 554 | **16.1** | 19.8 |
| Religion | **53** | 61 | **4.3** | 4.0 |
| | **8,760** | 8,760 | **528.6** | 510.0 |

### E4, More4 and FilmFour channels
The E4 channels broadcast for a total of 17,520 hours in 2007 (2006: 17,520 hours) with 54% of these hours being subtitled (2006: 46%). The More4 channels broadcast for 12,318 hours (2006: 11,466 hours) with 78% of these hours being subtitled (2006:64%).The Film4 channels broadcast for 10,084 hours (2006: 11,005 hours) with 70% of these hours being subtitled (2006: 58%).

### Ofcom
Ofcom monitors compliance with broadcasters' licence obligations (including compliance with its Broadcasting Code) and deals with complaints concerning standards in programmes and complaints of unfair treatment and/or infringement of privacy. Ofcom will consider a matter to have been resolved where the broadcaster has taken appropriate action in response to an issue.

### Channel 4
Ofcom recorded six breaches of its Code on standards in programmes by the main Channel 4 service in 2007 (2006: four). Four of these breaches related to the 2007 series of 'Celebrity Big Brother' and taken together were judged serious enough to warrant the imposition of one statutory sanction* (2006: none). Two other breaches of the Code related to the conduct of viewer competitions in 'Richard and Judy' and 'Deal or No Deal'. These breaches were both judged serious enough to warrant the imposition of a statutory sanction**. Two matters were treated as resolved by Ofcom in 2007 (2006: six). In 2007 no complaints about fairness/privacy in Channel 4's programmes were upheld (2006: none), six complaints were treated as not upheld (2006: eight) and no complaints were treated as resolved (2006: none).

### E4/ More4/ FilmFour
No recorded breaches of the Code on standards in programmes were noted against E4 in 2007 (2006: two), none for FilmFour (2006: none) and none for More4 (2006: one). In 2007 no complaints about fairness/privacy on E4, More4 or FilmFour programmes were upheld (2006: none) and no complaints were treated as resolved (2006: none).

* Ofcom imposed a direction to broadcast a statement of its findings in respect of this breach.
** For Richard & Judy Ofcom imposed a fine of £1 million and a direction to broadcast a statement of its findings in respect of this breach. For Deal or No Deal Ofcom imposed a fine of £500,000 and a direction to broadcast a statement of its findings in respect of this breach.

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

| **Principal licence requirements** | Compliance minimum | 2007 | 2006 |
|---|---|---|---|
| **Average hours per week** | | | |
| **News** | | | |
| – in peak-time (6 pm to 10.30 pm) | 4 | **4** | 4 |
| **Current affairs** | | | |
| – overall | 4 | **5** | 4 |
| – in peak-time (6 pm to 10.30 pm) | 1.54 | **2** | 2 |
| **Hours per year** | | | |
| Schools | 330 | **379** | 395 |
| **Percentage** | | | |
| Original production | | | |
| – overall | 60 | **64** | 63 |
| – in peaktime (6 pm to 10.30 pm) | 70 | **76** | 74 |
| Independent production* | 25 | **87** | 84 |
| European independent production* | 10 | **58** | 56 |
| European origin | 50 | **72** | 71 |
| Subtitling for the deaf and hard-of-hearing | 85 | **90** | 88 |
| Audio description | 8 | **10** | 10 |
| Signing | 4 | **5** | 5 |
| Production expenditure outside London | 30 | **35** | 37 |
| Regional hours | 30 | **43** | 40 |

The 2007 Ofcom licence quotas disclosure reflects Channel 4's Digital Replacement Licence (DRL) which came into force on 28 December 2004. This encompasses the requirements set out in the Communications Act 2003.

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

# Historical record

| | 2001 £m | 2002 £m | 2003 £m | 2004 £m | 2005 £m | 2006 £m | **2007 £m** |
|---|---|---|---|---|---|---|---|
| **Consolidated results:** | | | | | | | |
| Revenue | 730.7 | 766.9 | 769.6 | 841.4 | 894.3 | 936.9 | **944.9** |
| **Operating (loss)/profit before share of loss in joint venture** | (24.2) | 28.9 | 55.6 | 59.8 | 56.9 | 14.0 | **(8.8)** |
| Share of (loss)/profit in joint venture | (3.9) | (9.9) | (10.5) | – | – | – | **0.4** |
| **Operating (loss)/profit** | (28.1) | 19.0 | 45.1 | 59.8 | 56.9 | 14.0 | **(8.4)** |
| Net financial (expense)/income | (0.1) | (2.5) | 0.2 | 3.9 | 9.9 | 7.3 | **10.0** |
| **(Loss)/profit before taxation** | (28.2) | 16.5 | 45.3 | 63.7 | 66.8 | 21.3 | **1.6** |
| Taxation | 7.6 | (6.3) | (11.0) | (19.1) | (18.3) | (6.8) | **(1.1)** |
| **(Loss)/profit for the year** | (20.6) | 10.2 | 34.3 | 44.6 | 48.5 | 14.5 | **0.5** |

Figures for 2001 to 2003 are shown under UK GAAP in force at the time. Figures for 2004 to 2007 are shown under Adopted IFRS.

**Advertising and sponsorship revenue**

| | 2001 £m | 2002 £m | 2003 £m | 2004 £m | 2005 £m | 2006 £m | **2007 £m** |
|---|---|---|---|---|---|---|---|
| Channel 4 | 619.4 | 645.9 | 643.0 | 692.1 | 729.3 | 692.0 | **705.9** |
| ITV, GMTV, S4C and Five | 2,012.4 | 2,031.6 | 1,993.8 | 2,106.5 | 2,063.6 | 1,869.6 | **1,831.3** |
| | 2,631.8 | 2,677.5 | 2,636.8 | 2,798.6 | 2,792.9 | 2,561.6 | **2,537.2** |
| | % | % | % | % | % | % | **%** |
| Channel 4 | 23.5 | 24.1 | 24.4 | 24.7 | 26.1 | 27.0 | **27.8** |
| ITV, GMTV, S4C and Five | 76.5 | 75.9 | 75.6 | 75.3 | 73.9 | 73.0 | **72.2** |
| | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | **100.0** |

**Audience share (portfolio)**

| | 2001 % | 2002 % | 2003 % | 2004 % | 2005 % | 2006 % | **2007 %** |
|---|---|---|---|---|---|---|---|
| BBC (ten channels) | 38.8 | 38.8 | 38.3 | 36.6 | 35.2 | 34.5 | **34.0** |
| ITV (six channels) | 26.9 | 24.8 | 24.6 | 24.1 | 24.0 | 22.9 | **23.1** |
| **Channel 4 and S4C (seven channels)** | **10.3** | **10.8** | **10.4** | **10.5** | **11.0** | **12.1** | **11.9** |
| Five (three channels) | 5.8 | 6.3 | 6.5 | 6.6 | 6.4 | 5.9 | **6.0** |
| Other (>350 channels) | 18.2 | 19.3 | 20.2 | 22.2 | 23.4 | 24.6 | **25.0** |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | **100.0** |

The figures in brackets indicated the number of channels in that portfolio as at 31 December 2007.
Source: BARB all individuals.

**Audience share**

| | 2001 % | 2002 % | 2003 % | 2004 % | 2005 % | 2006 % | **2007 %** |
|---|---|---|---|---|---|---|---|
| BBC 1 | 26.9 | 26.2 | 25.6 | 24.7 | 23.3 | 22.8 | **22.0** |
| BBC 2 | 11.1 | 11.4 | 11.0 | 10.0 | 9.4 | 8.8 | **8.6** |
| ITV and GMTV | 26.7 | 24.1 | 23.7 | 22.8 | 21.5 | 19.6 | **19.2** |
| **Channel 4 and S4C** | **10.0** | **10.0** | **9.6** | **9.7** | **9.7** | **9.8** | **8.7** |
| Five | 5.8 | 6.3 | 6.5 | 6.6 | 6.4 | 5.7 | **5.2** |
| Satellite and cable | 19.5 | 22.0 | 23.6 | 26.2 | 29.7 | 33.3 | **36.3** |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | **100.0** |

Source: BARB all individuals.

Design
**NB: Studio**

Photography
**Nick Turpin**

Printing
**St Ives Westerham Press**,
a carbon neutral company

**CarbonNeutral**® company

The printer and manufacturing mill are
both credited with ISO14001
Environmental Management Systems

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