

## Members' Remuneration Report

### Annual statement by the Chair of the Remuneration Committee

This report sets out the activities of the Remuneration Committee for the year ended 31 December 2016. It discloses the remuneration policy and remuneration details for the Executive and Non-Executive Members of the Corporation. It has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013. Channel 4's status as a statutory corporation without shareholders means these provisions are not directly applicable, but the Members have decided to comply voluntarily with the provisions to the extent that they are relevant to Channel 4, in line with the Board's commitment to high standards of corporate governance.

The report is set out in three sections: the statement by the Chair of the Remuneration Committee, the annual report on remuneration, and the policy report. The annual report on remuneration provides details on remuneration relating to 2016 and other information required by the Regulations.

The Companies Act 2006 requires the auditor to report on certain parts of the Members' Remuneration Report and to state whether, in its opinion, those parts of the report have been properly prepared in accordance with the Regulations. The parts of the Annual Report on remuneration that are subject to audit are indicated in the Auditor's Report. The statement by the Chair of the Remuneration Committee and the policy report are not subject to audit.

The Remuneration Committee oversees all aspects of pay for the Executive Members and staff of Channel 4, reviewing proposals for the overall annual pay awards and variable pay schemes applicable to all staff, and the details of remuneration packages for Executive Members. The Committee's recommendations and decisions in 2016 reflect its remuneration policy, which is designed to enable Channel 4 to attract, motivate and retain high calibre staff by offering both fixed and variable pay to reward commercial and creative success, while being sensitive to the position that Channel 4 occupies as a public service broadcaster.

### Composition of the Remuneration Committee

During 2016, the Remuneration Committee comprised Richard Rivers (Chair), Mark Price (until 1 April 2016) and Stewart Purvis. In 2016, the Committee met five times.

Following the conclusion of the terms of several Non-Executive Members in 2016, the members of the Remuneration Committee changed. From January 2017, the Remuneration Committee comprised Stewart Purvis (Chair), MT Rainey and Christopher Holmes.

All the Members of the Committee are Independent Non-Executive Members. The Chair of the Board, the Chief Executive, the Group Finance Director, the Head of Human Resources and the Board Secretary attend meetings as appropriate.

Where Executive Members or senior management are involved in advising or supporting the Remuneration Committee, care is taken to recognise and avoid conflicts of interest. No Executive Members attend meetings of the Remuneration Committee at times when any aspect of his or her individual remuneration, benefits or terms of employment is being discussed.

Non-Executive Members are appointed by Ofcom, which also determines their fees. Non-Executive Members are entitled to reimbursement of travel and accommodation expenses incurred in connection with attending Board and other meetings in relation to fulfilling their duties. Non-Executive Members' service contracts are subject to fixed terms of a maximum of three years.

### Responsibilities of the Remuneration Committee

The Committee's principal responsibilities are:

- to recommend to the Board the level of any annual salary increases, variable pay awards and the structure of remuneration, in particular for Executive Members and senior management;
- to review any other significant change in Channel 4's remuneration arrangements and policies;
- to recommend to the Board the structure of the annual Corporate Variable Pay and Advertising Sales Schemes, and to review progress against the targets set for the schemes; and
- to review any other aspect of HR strategy or performance as seems relevant.

The Chair of the Remuneration Committee reports to the Board on the Remuneration Committee's discussions and recommendations, and brings to the Board's attention any matters of an unusual or sensitive nature.

### Activities of the Remuneration Committee

The Committee's work in 2016 included making an award recommendation to the Board for the Corporate Variable Pay Scheme and Advertising Sales Scheme in respect of 2016.

The variable pay award for 2016 and the details of the Corporate Variable Pay Scheme are detailed on page 130.

After careful consideration and review, the Committee agreed that the decision on the average pay award should predominantly be deferred until July 2017. This reflects the current period of advertising market volatility and evolving economic conditions in the UK. The Committee considered that a pay award later in 2017 would allow greater clarity on trading conditions and budget affordability. In the interim, an award of 2% per annum for the year beginning 1 April 2017 has been made to a total of 265 staff who earn Full Time Equivalent ('FTE') salaries of up to £40,000.

The Remuneration Committee agreed that the Corporate Variable Pay Scheme for 2017 will remain largely unchanged from 2016 and continue to be focused on creative achievement and financial sustainability. The Committee reviewed the participation in the Corporate Variable Pay Scheme with respect to the Executive Members and agreed that from 1 January 2016, the maximum amount payable under the scheme would be increased from 40% to 50% of total gross salary for the Chief Executive.

## Members' Remuneration Report continued

### Remuneration report

*The following provisions of the report are subject to audit*

The remuneration of the Executive Members for the years ending 31 December 2016 and 2015 is made up as follows:

£000	Salary	Taxable benefits	Variable pay	Pension	Total for 2016	Salary	Taxable benefits	Variable pay	Pension	Total for 2015
David Abraham	560	1	256	140	957	554	1	188	138	881
Jay Hunt	433	1	180	69	683	410	1	139	62	612
Jonathan Allan	355	1	182	26	564	350	1	164	32	547
Dan Brooke	308	1	125	50	484	305	1	104	50	460
<b>Total</b>	<b>1,656</b>	<b>4</b>	<b>743</b>	<b>285</b>	<b>2,688</b>	<b>1,619</b>	<b>4</b>	<b>595</b>	<b>282</b>	<b>2,500</b>

The salary figures in the table above represent the gross salaries received in 2016, after taking account of salary increases during the year where applicable.

In 2016, all of the Executive Members received cash payments in lieu of pension benefits. In 2015, David Abraham, Jay Hunt and Dan Brooke received cash payments in lieu of pension benefits.

Jonathan Allan's variable pay comprises a 50:50 split between the Advertising Sales Scheme and the Corporate Variable Pay Scheme.

The remuneration of the Non-Executive Members for the years ending 31 December 2016 and 2015 is as follows:

£000	2016 salary and fees	2015 salary and fees
Lord Burns (term concluded on 27 January 2016)	7	100
Charles Gurassa (term commenced on 28 January 2016)	88	–
Mark Price (term concluded on 1 April 2016)	7	30
MT Rainey	27	22
Monica Burch (term concluded on 30 September 2016)	16	22
Alicja Lesniak (term concluded on 30 September 2016)	16	22
Richard Rivers (term concluded on 30 September 2016)	16	22
Paul Potts	22	22
Stewart Purvis	22	22
Josie Rourke	22	22
Simon Bax (term commenced on 5 December 2016)	2	–
Paul Geddes (term commenced on 5 December 2016)	2	–
Christopher Holmes (term commenced on 5 December 2016)	2	–
Roly Keating (term commenced on 5 December 2016)	2	–
<b>Total</b>	<b>251</b>	<b>284</b>

No detailed disclosure has been provided for the Non-Executive Members other than that relating to their fee, as it is the only form of remuneration they receive.

Mark Price did not retain his fees for his Non-Executive Directorship. In accordance with Waitrose policy, Mark requested that his fee be paid over to Waitrose.

Monica Burch's firm, Addleshaw Goddard LLP, deducted her Channel 4 fees from her partner drawings.

## Members' Remuneration Report continued

### Variable pay

During the year, the Committee met to monitor performance as part of its oversight of variable pay across the business. The Committee met again in January 2017 to agree on a recommendation to the Board on variable pay once results for the year were available.

### Corporate Variable Pay Scheme outline

The Corporation's business model and strategy are set out in the Strategic Report on page 105. The Corporate Variable Pay Scheme has been designed specifically to link variable pay with the business model and is based on the following areas of achievement:

- Creativity – to maintain Channel 4's reputation for originality and creativity with an emphasis on innovation, impact and creative risk taking and achievement of the remit
- Sustainability – with the aim of growing total revenues and successfully developing new sources of revenue that can be reinvested into content

Achievement of at least the budgeted surplus or deficit before tax for the year and Ofcom licence requirements is a condition for any element of the scheme to pay out to staff. There may be circumstances where additional strategic or content investments are made in the year which means the budgeted surplus or deficit before tax is adjusted for the purpose of the Corporate Variable Pay Scheme award, as agreed by the Board. Where this is the case, the surplus or deficit before tax is measured against the adjusted budget so that the financial impact of such investments can be taken into account.

Most staff and the Executive team participate in the Corporate Variable Pay Scheme, where the amounts provided can be up to 10% of total gross salary for staff, 20% for Heads of Department and between 30% and 50% for the Executive team. These percentages represent the maximum average amount that can be provided across each employee category. Actual awards for each staff member will vary from the average to reflect their individual achievement against personal performance objectives.

### Process for determining variable pay

Delivery of the remit is the overarching aim of the Corporation which, for the purposes of the Corporate Variable Pay Scheme, is considered to consist of two pillars: creativity and sustainability. To decide on how much variable pay should be provided each year, the Remuneration Committee reviews business performance using a monthly performance dashboard which tracks performance across a range of qualitative and quantitative metrics. Where relevant, performance versus competitors against the same metrics is also a key part of the Committee's deliberations. The Committee also considers a report written by the Chief Executive in conjunction with others in the Executive team, describing how the Corporation has performed in relation to creativity, commercial sustainability and diversity.

The scheme is based on a mix of both qualitative and quantitative information, and a degree of judgement is required around creative performance measures. Creativity and sustainability are considered to be of broadly equal weighting because they are both equally important to the long-term success of the Corporation, but the weighting allocated to each in a given year is at the discretion of the Committee.

After due consideration of performance during the year, the Remuneration Committee makes a judgement on the overall performance for the year and proposes an amount, entirely at its discretion, based on what they consider the average payout across the Corporation should be for the year. The Committee produces a narrative assessment of its evaluation which is then presented to the Board, which has the final approval of any payout.

The Committee will review the Corporate Variable Pay Scheme each year to ensure it remains appropriate.

### Variable pay decision for 2016

The Committee noted that the first gateway to the scheme, meeting the licence requirements, had been met. The other gateway of achieving the budgeted surplus before tax was adjusted to take into account content investment decisions taken by the Board since the budget. The Board agreed to increase content spend in the first half of the year on the back of positive half-year trading. Subsequently, following a downturn in the advertising market in the second half of 2016, the Board agreed to maintain an increased level of content spend, including the 2016 Rio Paralympics, to maintain creative momentum into 2017. The Committee also noted the achievement of all diversity goals for the year.

The Committee undertook a detailed review of all the information available to it, including the CEO and Executive team's 2016 Creativity, Sustainability and Diversity Report, and the Corporation's performance across a wide range of performance metrics. An extract of the performance metrics considered by the Remuneration Committee is set out on pages 170 to 171 and includes programme quality, creative achievements, viewing share, diversity targets, ad sales performance, VoD viewing and commercial impact performance in key demographics. The creative achievements and financial results are also outlined in detail throughout this Annual Report.

The Committee determined that 2016 had been another impressive year of remit delivery. From a creative perspective there had been major television and film awards (pages 90 to 97) and successful programmes across every genre. In addition, the Corporation maintained or increased its lead over other broadcasters compared to 2015 across a range of the Statement of Media Content Policy ('SMCP') metrics (pages 60 to 87). The Committee recognise that in the pursuit of creative innovation not all endeavours will be successful; however, overall 2016 had been another strong year of creative performance.

The Committee also determined there had been strong commercial performance in spite of increased economic uncertainty, with the Corporation reporting record revenue and content results. Revenue was aided by new initiatives such as the Commercial Growth Fund. Digital revenues grew by 24% and Channel 4's digital platform, All 4, which was launched in 2015, achieved 14.9 million registered viewers by the end of 2016. The Indie Growth Fund progressed with a further two companies benefiting from investment in 2016, taking the total portfolio to 11 companies.

Channel 4 reached an important milestone in 2016, with daytime viewing share on Channel 4 improving for the first time since 2006. Performance in peak-time, where the majority of content investment is concentrated, was relatively stable following several years of investment in the schedule and multiple successes on-screen in every genre. The portfolio share for the year was 10.5% (pages 82 and 170), marginally short of the 10.6% achieved in 2015, due in part to viewing pressure from a summer of significant sports events. In spite of the success of some key initiatives, the key ABC1 demographic and the 16–34-year-old demographic share both declined.

After a careful and detailed consideration of performance for 2016, the Committee recommended that, following an exceptional year of creative performance and a year of strong commercial performance taking into account the economic backdrop and Board decisions to maintain content investment towards the end of 2016, staff should receive an average of 90% of their maximum opportunity under the Corporate Variable Pay Scheme. Actual awards for each staff member varied from this average to reflect their individual achievement against personal performance objectives.

## Members' Remuneration Report continued

### Advertising Sales Scheme

Staff working within advertising sales have a separate Advertising Sales Scheme, linked to advertising revenue and paid bi-annually based on performance. They are not eligible for the Corporate Variable Pay Scheme, with the exception of Executive Member Jonathan Allan whose variable pay comprises a 50:50 split between the Advertising Sales Scheme and the Corporate Variable Pay Scheme.

### Variable pay awards to Executive Members

The Committee made the following awards to Executive Members in respect of 2016 performance:

- David Abraham was awarded an amount of 45% of year-end salary under the Corporate Variable Pay Scheme
- Jay Hunt was awarded an amount of 36% of year-end salary under the Corporate Variable Pay Scheme
- Dan Brooke was awarded an amount of 40% of year-end salary under the Corporate Variable Pay Scheme
- Jonathan Allan was awarded an amount of 36% of the half of his year-end salary which is subject to the Corporate Variable Pay Scheme. He also received £118,214 through the Advertising Sales Scheme

### Taxable benefits

Executive Members are eligible for a range of taxable benefits, which can include a pension allowance and membership of a private medical insurance scheme (which is provided to all staff). In line with the Corporation's expenses policy, no expenses claimed by Executive Members were chargeable to UK income tax as they were incurred wholly for the purposes of the business of the Corporation.

### Pension

The Corporation has two pension schemes: a defined contribution scheme open to all staff, and a defined benefit scheme which is closed to new entrants and closed to future accrual from 31 December 2015. Further details relating to the defined benefit plan are provided in note 18 to the financial statements.

All of the Executive Members received cash payments in lieu of pension benefits in 2016.

Non-Executive Members are not eligible for membership of either pension scheme.

*The following provisions of the report are not subject to audit:*

### CEO remuneration table

The table below shows the percentage change in remuneration of David Abraham, the CEO, and the Corporation's employees as a whole between the years 2015 and 2016:

	CEO	All staff
Salary and fees	+2.75%	+2.75%
Variable pay	+36%	+12%
<b>Total</b>	<b>+9%</b>	<b>+3%</b>

The Group is not presenting a table on CEO pay in comparison to Total Shareholder Return as it is a statutory corporation without shareholders and the requirements are therefore not applicable.

### Payment for loss of office

No payments were made for loss of office in 2016 to Executive Members, and at the balance sheet date there were no provisions made for compensation payable for early termination of contracts or loss of office to Executive Members.

### Payment to past Members

No payments were made to past Members in 2016.

### Relative importance of spend on pay

The graph below shows the actual expenditure of the Group and the change between the current and previous years.



The Members have chosen the change in total direct programme, content and marketing costs as disclosed in note 2 to the financial statements as the comparative measure for relative spend on pay as it is considered to be the most significant indicator in understanding total Corporation expenditure year-on-year. Employee pay was approximately 11% (2015: 11%) of on-screen expenditure.

Total employee pay is detailed in note 4 to the financial statements.

By Order of the Board

### STEWART PURVIS

Chair of the Remuneration Committee  
24 April 2017

# FINANCIAL REPORT AND STATEMENTS CONTINUED

## Members' Remuneration Report continued

### Remuneration policy for 2017

The remuneration of Executive Members is determined by the Remuneration Committee, the membership and terms of reference of which are detailed on page 128. In framing its remuneration policy, the Committee has given full consideration to the best practice provisions of the UK Corporate Governance Code. There have been no significant changes to the Remuneration Policy for 2017.

### Future policy table

The following table sets out the key components of the remuneration package for Executive Members:

Component	How this supports the strategic aims of the Group	How this operates	Maximum amount payable	Performance measures
Salary	Offering competitive remuneration packages helps the Corporation attract, motivate and retain a high calibre Executive team.	Salaries are paid monthly.  The Remuneration Committee discusses the performance of each Member with the Chair of the Board and with the Chief Executive for other Executive Members.	Annual salaries for the year to 31 December 2017 are as follows:  David Abraham – £568,958 Jay Hunt – £500,000 Jonathan Allan – increase from £359,625 to £380,000 with effect from 1 April 2017 Dan Brooke – £313,368  Salaries are usually reviewed annually in the first quarter of the year.	None.
Taxable benefits		The Corporation offers a range of benefits to all staff including private medical insurance. Other benefits such as life assurance are available through a flexible benefits scheme.	The value of private medical insurance in 2017 is expected to be £850 per Executive Member.	None.
Pensions		The Corporation currently offers a defined contribution pension scheme for new staff.  Certain Executive Members also receive cash payments in lieu of pension benefits.	The maximum amount contributed by the Corporation under the defined contribution scheme is 13% of pensionable salary.  David Abraham, Jay Hunt, Jonathan Allan and Dan Brooke receive cash payments in lieu of pension benefits.	None.
Variable pay		All of the Executive team participate in the Corporate Variable Pay Scheme. Payout is determined annually by the Remuneration Committee shortly after the financial year end based on performance and paid in March following the year end.  Jonathan Allan's variable pay comprises a 50:50 split between the Advertising Sales Scheme and the Corporate Variable Pay Scheme.	The Corporate Variable Pay Scheme will pay up to 50% of total gross salary for the Chief Executive and up to 40% for the rest of the Executive Members.  The Advertising Sales Scheme is linked to advertising revenue and paid bi-annually throughout the year based on performance.	The Remuneration Committee agreed that the Corporate Variable Pay Scheme for 2017 will remain largely unchanged from 2016 and continue to be focused clearly on the two common purposes of the organisation recognised by all staff: creative achievement and financial sustainability. Details of the scheme are set out on page 130.

None of the components of remuneration contain any provisions for recovery of sums paid.

## Members' Remuneration Report continued

The following table sets out the key components of the remuneration package for Non-Executive Members:

Component	Purpose	Operation
Fees	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.	Fees are set by Ofcom, paid monthly and reviewed periodically.  Annual fees for the year to 31 December 2017 are expected to be:  Chair – £95,000 Deputy Chair – £29,940 Other Non-Executive Members – £22,177

No other components of remuneration are available for Non-Executive Members.

### Policy on payment for loss of office

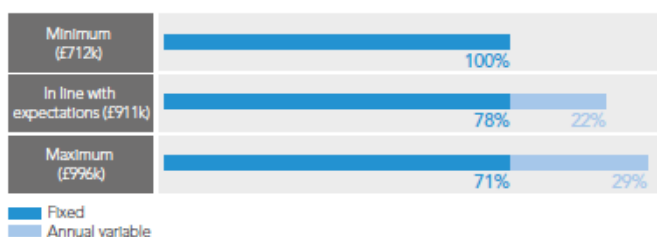
The service contracts of all the Executive Members are subject to notice periods of one year or less. The Committee's policy is to make payments in line with contractual obligations covering payment in lieu of notice including base salary and other benefits.

The Remuneration Committee will consider what compensation commitments (including pension contributions and all other elements) the Executive Members' terms of appointment would entail in the event of early termination. The aim of this is to avoid rewarding poor performance.

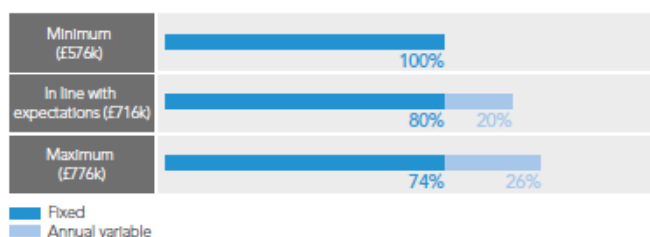
### Illustration of application of remuneration policy

The graphs below represent the variations in the remuneration at different levels of performance for the 2017 remuneration policy for the Executive Members:

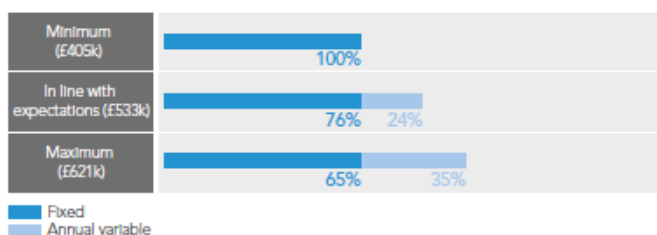
#### Chief Executive Officer



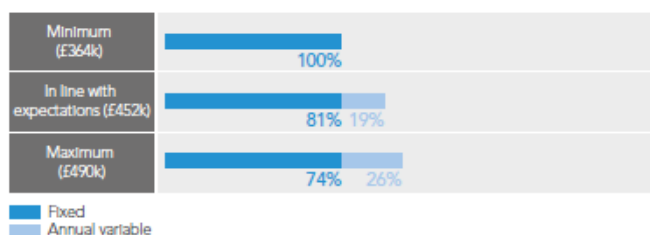
#### Chief Creative Officer



#### Director of Sales



#### Chief Marketing and Communications Officer



### Audited information

The Members' Remuneration Report (pages 128 to 133), where indicated, has been audited by the Corporation's auditor in accordance with Schedule 8 of the Companies Act 2006 as if those requirements were to apply to the Corporation.