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Channel Four Television Corporation

9

Report and Financial Statements

9

for the year Nineteen-ninety-four



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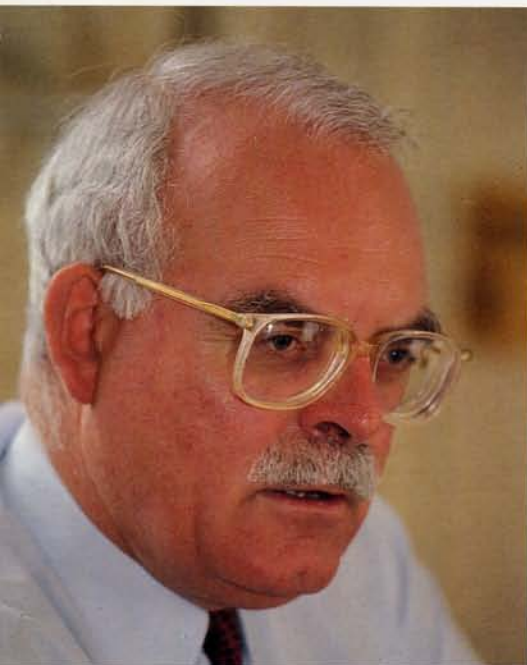
Channel 4 is a public service for information, education and entertainment.

The Broadcasting Act 1990 requires that Channel 4 programmes shall:

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

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

Chairman's statement



I am pleased to report that Channel 4 has enjoyed a highly successful year in 1994 with acclaimed programming, growth in advertising revenue and record financial results.

The net profit before tax and the statutory levy to the ITV companies for the year ended 31 December 1994 was £83.6 million compared with £38.9 million in 1993. After a much increased subsidy payment to ITV of £57.3 million (1993: £38.2 million), the net profit before tax advanced to £26.3 million from £0.7 million the previous year. Turnover for the year was £408.4 million, a 19% increase over 1993 reflecting a strong growth in advertising revenue commensurate with a healthy 10.7% audience share of all television viewing for the year.

Channel 4 is unique as a broadcasting organisation which combines, in a hybrid form, the responsibilities of a public service broadcaster exclusively funded by commercial airtime sales. There is no comparable television channel worldwide operating without public funding. The channel has proved its ability to thrive and develop without the need for subsidy whilst fulfilling its distinctive programme remit and satisfying advertisers. The commitment to be different from other channels and to provide airtime for issues and special interests not provided elsewhere on television, continues to be our greatest asset increasingly valued both by audiences and advertisers.

Viewer choice has been extended and refreshed by the pursuit of diversity and innovation within the broad parameters of the channel's remit while significant commercial competition has been given to ITV, which still has a dominant 80% market share, thus creating a real choice for advertisers.

Channel 4's success to date fully justifies the original decision in 1981 to establish a fourth channel with its specific remit, and the subsequent decision in 1990 permitting Channel 4 to compete with ITV for revenue in the advertising marketplace. From the beginning, Channel 4 has set an example in cost efficiency which has motivated the rapid development and success of the British independent production sector. With a clear perception of its public service obligations, the benefit of a loyal audience and sound finances enabling the achievement of a balanced combination of objectives, the channel - with its status as a statutory corporation - provides a successful constitution needing no alteration.

Last year in my report I referred to the funding formula of the 1990 Broadcasting Act (the Act) which requires Channel 4 to make substantial payments to the ITV companies when our advertising revenue exceeds a qualifying threshold. In compliance with the terms of these arrangements, Channel 4 has made a payment for 1994 of £57.3 million to the ITC for distribution among the ITV companies - bringing to £95.5 million the amount paid over to the ITV companies since the funding formula became effective.

The Board of Channel 4 is convinced that the corporation is increasingly the victim of rogue legislation operating in a way never intended by Parliament. Channel 4 is being deprived of significant revenue which would be deployed through increased spending in programme production and investment in British films.

Whilst we are reassured that the Government has rejected the option of privatisation for the channel - a course for which the Board of Channel 4 sees no public benefit - there is considerable concern at the Government's delay in addressing the unintended effects of the funding formula - the alleged 'safety net' of the Act. The detailed case for changing this legislation is made on pages 6 to 11 of this report.

The Secretary of State for National Heritage has, so far, declined to recognise that the effects of the funding formula on Channel 4 are so manifestly harmful to the public interest.

For its part, Channel 4 has delivered everything required by the Act. At a time of increasing competition the channel provides additional choice to viewers and advertisers at no cost to the public purse. However, instead of being freed to compete commercially with the ITV companies on an equal basis, the channel continues to be burdened with an obligation to subsidise them.

The Board of Channel 4 will continue to press with the utmost vigour for the early abolition of the funding formula which has so penalised the channel by reducing the amount available for production and deprived our audiences of greater diversity of programming.

During 1994 the new office and transmission centre of Channel 4 in Horseferry Road was completed on time and under budget. For the first time all of our staff are together in one building which has greatly enhanced morale and management efficiency. The new building represents a considerable freehold asset which we have been able to finance using only that proportion of our revenues which cannot be spent on programmes. These funds are transferred to a statutory reserve as a requirement of the Act. Transferring the operation of Channel 4 from a number of different locations to the new building was an extremely complex task and the transition process was accomplished in a seamless and skilled operation without interruption to our output. The Board is particularly grateful to all the staff responsible for such a successful move.

Two of our non-executive members, Anne Lapping and John McGrath, completed their terms of appointment at the end of the year having made an important contribution to the Board. I am delighted to welcome Murray Grigor and Sarah Radclyffe who were appointed non-executive members in January 1995.

A good start has been made to trading in the current year with advertising revenues in the first quarter of 1995 recording a satisfactory increase compared with the same period last year. In the absence of any circumstances materially affecting our business, I am hopeful that Channel 4 will again record a further improvement in its financial performance in 1995.



SIR MICHAEL BISHOP CBE
Chairman
27 March 1995

Chief Executive's review



British broadcasting is now embarked upon a period of rapid transition, with new technologies offering the potential for multiple extra channels, and with the likelihood of powerful new groupings and alliances forming as media ownership rules are amended. Within this changing environment, Channel 4's unique role as a public service broadcaster, fulfilling a statutory public service programme remit while funded entirely from commercial revenues, will continue to distinguish it from all other commercial broadcasters. It is, in any case, essential that politicians and regulators do not become mesmerised by the rhetoric about multi-channel television. The reality for most British households is that British television consists of four - soon to be five - channels and this will remain the case for the next decade.

The implications for viewers of the accelerating pace of change is as yet impossible to foresee. It may provide widening choice, with enhanced opportunities for producers and advertisers. Conversely some fear that it will be a case of more means worse with more channels to choose from, but with less actual diversity of programme content.

Channel 4's role in this uncertain period is clear. With its public service remit, and freed from the need to maximise the mass audience potential of every single point in the schedule, Channel 4 will provide:

- extra viewer choice;
- programme innovation;
- programmes for minority audiences;
- film industry support;
- competition in the advertising market;
- training; and
- technological innovation.

No existing channel can, however, rest on its laurels. With the changes of the 1990 Act barely digested, and its weaknesses still unrepaired, the implications of new digital technology and the inevitability of increased competition require careful consideration by all current broadcasters.

Even with its unique privilege of secure non-commercial funding, the BBC is now engaged in a fundamental debate about the nature of its services. I have remarked elsewhere that the BBC keeps us all honest, and we all trust that it remains adequately funded, and maintains the high standards the public expects. I hope that the proceeds of its commercial activities will always remain a useful bonus on the margins and never be expected substantially to replace the Licence Fee which underpins both its financial security and its ability to deliver the widest range of output.

In the commercial sector, increasing competition for revenue always carries the threat of a reduction in innovation and risk-taking, as predictability of audiences and revenues assumes greater importance. Companies with shareholders to satisfy cannot ignore the need to give primacy to revenue considerations, to maximise audiences wherever possible. Complex content regulations still apply, but over time are likely to establish minimum requirements, especially in terms of the range of the programme output.

While new channels, however transmitted, will find it extremely difficult to match the budgets and ambitions of existing broadcasters, they may have a more immediate effect in undermining the ambition to innovate and take risks, putting a higher premium on commercial certainty. That will tend to restrict choice and novelty. In time choice may be augmented by newcomers finding unexpected and profitable niches to develop. In the early stages, however, I expect rather more of what we have had from satellite television:

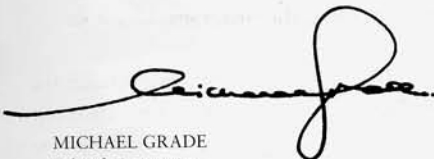
businesses which add very little to new production, whose schedules are dominated by acquisitions and repeats, and whose profitability is sustained by persuading the public to pay more for that which it already had.

Unlike any other commercial broadcaster, present and future, Channel 4's prime responsibility is to broaden the programme choices available. Channel 4's success over the past 12 years has been built on fulfilling this expectation of adding to the diversity of programmes on offer, and also in discovering and satisfying new, discrete demographic groups. Channel 4's commercial value to advertisers will be sustained by that added diversity, attracting lighter viewers. Its value to the viewers themselves comes with its contribution to the diversity of choice which the uncertainties of the coming years may threaten to diminish.

Such a task would not have been achieved had Channel 4 merely addressed the requirements of middle-range, middle-aged, middle-class taste. Those needs are more than amply served in our schedule by programmes such as CHANNEL 4 NEWS, THE RECTOR'S WIFE and GLYNDEBOURNE. But if the goal of diversity is to have any real meaning, the channel must also discharge the responsibility to represent those (sometimes large) minorities, who by reasons of age, culture or disposition fall outside the familiar, comfortable, consensual middle ground. Far from being a self-indulgence, the programmes which fulfil this element of the remit are fundamental to its realisation. Despite the occasional *cause célèbre* they have never been either numerous or unduly prominent within the wide parameters of programme types and styles which make up the schedule: but without them Channel 4 would be failing in its duty to extend choice to all sections and age groups in the population.

The challenge of innovation is now harder than it was in earlier, pioneering days, but its delivery is ever more important. At its core lies the ability to find and develop new talent, on and off screen, and to encourage the coming generation of directors, performers, editors and writers. In whatever ingenious ways the new technologies manifest themselves on our screens in the coming years, I am certain that Channel 4 will continue to make this central contribution to the quality and diversity of British broadcasting. The Channel 4 programme remit has been a durable and effective formulation. It has thus far ensured that the widest range of viewer interests has been provided on British television, discovering new audiences, and bringing new interests to the public.

It remains crucial that Channel 4 should be freed to reinvest its own revenues into production. The arguments against the funding formula are detailed on pages 6 to 11, but it cannot be emphasised too strongly that distorting cash subsidies should be removed from the regulated commercial sector as soon as possible. The commercial marketplace does not need subsidies: an effective Channel 4 should be able to recycle its income for the benefit of viewers and advertisers. That achieved, the special constitution of Channel 4 will continue to add to viewers' choice without public funding, and without subsidy.



MICHAEL GRADE
Chief Executive
27 March 1995

Funding formula

In May 1994 Channel 4 launched a campaign for an early review of the funding formula provisions of the 1990 Broadcasting Act (the Act). Far from supporting Channel 4 as Parliament originally envisaged, these provisions have led to a large, damaging and continuing haemorrhage of cash which would otherwise have been available for programme making.

Sections 26 and 27 of the legislation (for details see page 44) set up reciprocal obligations between Channel 4 and ITV with the well-intentioned purpose of providing a modest safety-net for Channel 4 in the event of its meeting financial difficulties as a stand-alone commercial enterprise. As we consistently predicted, Channel 4 has amply demonstrated its self sufficiency and therefore we have no need of support from the ITV companies now or for the duration of their licences.

The formula which was intended to sustain Channel 4 is depriving us each year of enormous amounts of our own earned revenue, to the detriment of programme budgets. This damages the interests of viewers, programme producers and advertisers alike. The subsidies to ITV, now running at over £57 million annually, are perverse and regressive, and must be terminated as soon as possible.

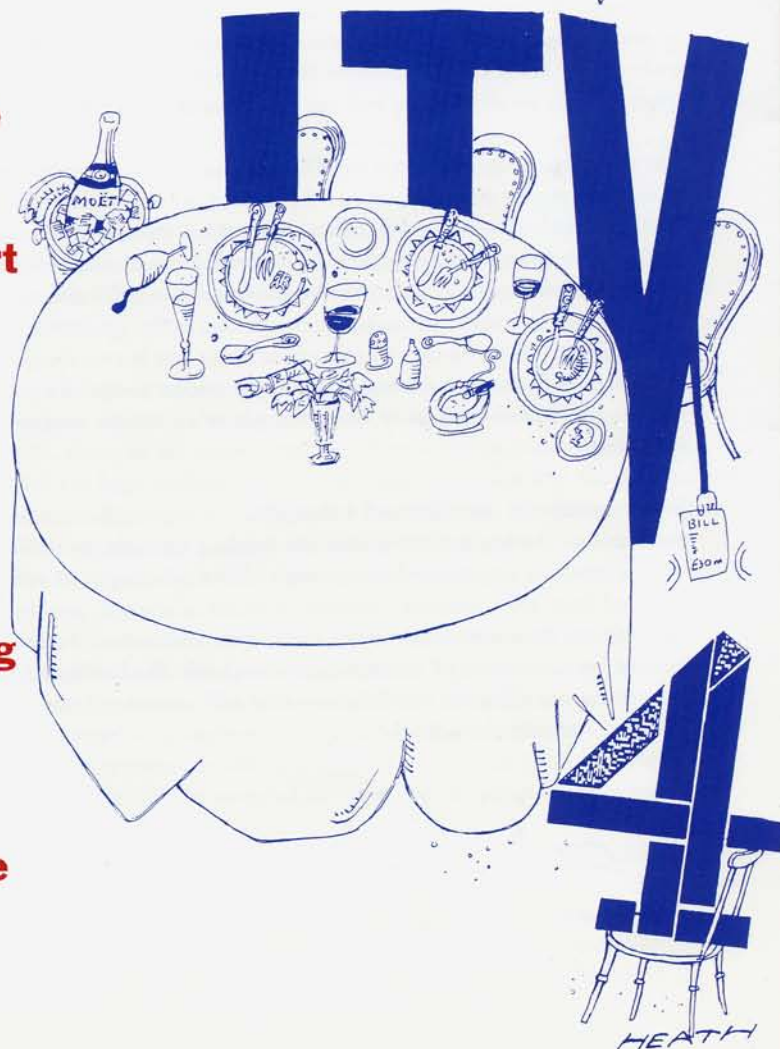
PAY THE
BILL
WILL YOU?

**"I think it is right that they
should go it alone... They have
handled themselves superbly
well and I am willing to support
them in the Commons"**

TIMOTHY RENTON former Broadcasting Minister 24 May 1994

**"Any changes to the Broadcasting
Act should be viewed with
sympathy and, in particular,
changes which would put more
money into programmes"**

LORD DONOUGHUE Labour National Heritage spokesman 24 May 1994



**“Channel 4’s second year as a
self-standing corporation was
another one of general distinction
in the programme service”**

INDEPENDENT TELEVISION COMMISSION 11 April 1995

Until early 1994 the Board of Channel 4 had been content to accept the practical working of the formula. At that point two factors changed. First, although we had never expected reciprocal payments from ITV, we had expected a useful degree of continued co-operation on a range of programme supply and scheduling matters. In the event this hope, which was expressed in our 1991 Annual Report was unfulfilled and, instead ITV has been allowed to consolidate into larger more aggressive groupings. Second, the very size of the transfers to ITV has become much larger than anyone predicted.

There is no upper limit to the amounts which Channel 4 has to pay to ITV, whereas ITV’s downside liability is limited to 2% of qualifying revenue, and then only after the allocation of the channel’s fast accumulating statutory reserves, now standing at £47.8 million.

However well intentioned, this inequitable safety net has effectively constrained the development of Channel 4’s public service. It has not only failed to produce the spirit of co-operation between ITV and Channel 4 which its mutual obligations were expected to generate but, more importantly, it has also turned into a punitive and unproductive impost on Channel 4’s commercial success. After the subsidy to ITV, corporation tax and the transfers to statutory reserve, less than 25p in the pound of Channel 4’s income over the 14% benchmark is available for programme making.

This severely limits Channel 4’s ability to invest in programmes, to encourage the creativity required by the remit, and to increase the proportion of UK commissions within our schedules.

**“Channel 4’s whole *raison d’être* is to
serve British viewers... Surely it should
now be able to stand alone and prosper on
its own terms rather than being
continually penalised for its success”**

PRODUCERS ALLIANCE FOR CINEMA & TELEVISION 30 May 1994

Drama		
	Hours	Total £m
3 Drama series (eg Rector's Wife, GBH)	15	10.5
12 Film on Four	20	10.0
1 Teenage drama series	75	6.0
1 Multicultural film (eg Bandit Queen, Salaam Bombay)	2	1.0
3 Low budget films	3	1.0
1 New film-makers scheme	2	0.5
Additional Drama	117	29.0

Factual		
	Hours	Total £m
4 Documentary series (eg Beyond the Clouds)	20	2.5
5 Education series (eg Time Team, Food File)	21	2.5
3 Current affairs specials/mini-series (eg Power & The People, Falklands War)	12	2.0
2 Schools series	10	1.0
2 Experimental series Additional regional development	10 12	1.0 1.0
2 Religious series (eg Witness)	10	1.0
1 Early evening science series	4	0.5
3 Science specials	3	0.5
1 Youth documentary series (eg Moss Side)	4	0.5
1 Disability strand	5	0.5
Additional Factual	111	13.0

Arts & Entertainment		
	Hours	Total £m
3 Multicultural arts series	12	1.0
2 Late night discussion series (eg After Dark)	20	1.0
4 Childrens/youth series (eg Wise Up, Eurotrash)	27	2.0
3 Comedy series (eg Drop the Dead Donkey)	18	3.0
2 Arts series (eg For Love or Money)	12	1.0
4 Arts events (eg Glyndebourne, Royal Ballet)	6	2.0
1 Christmas animation (eg The Snowman)	1	0.7
4 Daytime series	110	4.1
2 Youth sport/activity series	7	0.5
Additional Arts & Entertainment	213	15.3
Total additional production	441	57.3

If Channel 4 had not been required to pay a £57.3 million subsidy to ITV for 1994 we could have provided viewers with a substantial increase in the range and number of new British programmes, an indication of which is summarised in the table (left).

The additional programme production would have created, at no cost to the taxpayer, over 1,000 new jobs within the independent sector. It would have provided opportunities for many more exports and fewer imports.

For the ITV companies, the arrangement has conversely provided large and unexpected windfalls. In its first two years alone the mechanism has transferred £95.5 million from Channel 4 to the larger competitive commercial network which enjoys 80% of the UK terrestrial television market. The allocation of the Channel 4 subsidy payments to ITV for 1993 and 1994 is set out in the table (below).

Carlton and Central, the largest group in ITV, has already received over £28.3 million from Channel 4. Moreover, with no prospect of Channel 4's revenues falling below the 14% benchmark, and with the cushion of the statutory reserve building year by year, this is windfall income for ITV with negligible prospects of any demand from Channel 4 for reciprocal payments. It is, in effect, a one-way benefit for the shareholders of ITV and, as such, runs entirely counter to the purpose for which it was devised by the Government over five years ago.

The ITV companies argue that the business plans on which they based their cash bids in 1991 were predicated on positive income flows from Channel 4 in the early years of their licences, and that it would therefore be unjust to amend the legislation before 1997, when a review is envisaged within the Act. The fact is that ITV as a whole has already received in the first two years a sum greater in total than they expected from Channel 4 across the ten year period of the ITV licences. The expectations built into the bid calculations have therefore been amply discharged.

Furthermore, the ITV companies have already secured for themselves financially advantageous changes to the Act, particularly the rules on ownership which have resulted in cost savings. These savings, together with further cost reductions from the relaxation of advertising sales rules, have been quantified by ITV to be worth up to £100 million per annum to them. Other changes since the ITV bids were made, including programme expenditure cuts within ITV of more than £75 million per annum from the amounts postulated within their bid plans, result in ITV profits being very substantially higher than anticipated at that time. It is now just and appropriate for the anomaly of the funding formula to be addressed.

In short, none of the ITV licensees should now expect their financial viability to depend upon further cash subsidies from Channel 4. The purpose of the legislation was to support Channel 4. Since the funding formula has proved to be so clearly counterproductive, we believe that it should be repealed at an early opportunity.

Subsidy payments to ITV			
	1994 £m	1993 £m	2 year total £m
Carlton and Central	17.0	11.3	28.3
Granada and LWT	12.3	8.3	20.6
Meridian	6.3	4.2	10.5
Yorkshire and Tyne Tees	6.3	4.2	10.5
HTV	3.8	2.6	6.4
Anglia	3.8	2.5	6.3
GMTV	3.4	2.2	5.6
Scottish	3.1	2.1	5.2
Westcountry	1.1	0.7	1.8
Ulster	0.1	0.1	0.2
Grampian	0.1	-	0.1
Border	-	-	-
Channel	-	-	-
Subsidy to ITV	57.3	38.2	95.5
Statutory reserve	28.7	19.1	47.8

Channel 4's public campaign to amend the formula has been waged in the press and on many platforms within the broadcasting industry and to wider audiences. In November Jeremy Isaacs, the channel's founding Chief Executive, formed a pressure group, 'For Four', (whose members include many distinguished members of the political, business and arts communities) which has been very effective in taking the argument to a wide circle of politicians and opinion formers. Two of the Ministers most closely involved in the formulation of the 1990 Act - David Mellor and Timothy Renton - have readily accepted that the safety-net provisions have backfired and that Channel 4 is well able to stand on its own feet without subsidy itself, and without the need to subsidise others.

"It is a rather grotesque anomaly that a statutory public service corporation is being compelled to subsidise the shareholders of ITV to the tune of £38 million in a year - money which, in the interests of viewers should be spent on programmes"

LORD THOMSON OF MONIFIETH Liberal Democrat National Heritage spokesman and former Chairman of the IBA 24 May 1994

Funding anomaly for Channel 4

From Mr Jeremy Isaacs and others

Sir, Channel 4 is one of the successes of recent broadcasting policy. But the funding formula, set out in the 1990 Broadcasting Act, allows only one quarter of any surplus it earns over a fixed proportion of terrestrial television revenues to be invested in programmes.

Half of any excess goes to ITV. By early next year, at the present rate of payment, the ITV companies will collectively have already received £100 million — all they estimated to get from Channel 4 over the full period of their licences.

Furthermore, two major regulatory changes of benefit to ITV have been made in the last two years: companies have been merged, and the number of advertising sales points been reduced from 13 to five, both resulting in considerable cost savings. ITV did not suggest that such changes should result in an increase in their bids.

The funding formula was a well-intentioned device to protect Channel 4. But the result in fact is that a minority of the ITV companies to the tune of some £50 million per year. Channel 4 now pays more to ITV than it can invest in drama and film combined. This cannot have been Parliament's intention.

Competition for audiences and revenue will get increasingly tough. We would argue that the best way to protect Channel 4's position is to allow it to invest more in original programming. The Independent Television Commission, whilst praising Channel 4's output, has expressed concern about its inability to commission more original UK programming. This arises directly from lack of resources.

If the £50 million being transferred to ITV were instead spent on British programming for Channel 4, our national film and television production base would be substantially expanded, as many as 1,000 jobs could be created, and Channel 4, holding to its remit, would be strengthened in its competition for revenue.

We have therefore formed a working group, "For Four", to campaign for swift government action to rectify this serious anomaly.

Yours sincerely,
JEREMY ISAACS,
DAVID ABBOTT,
RICHARD EYRE,
ALISTAIR GRANT,
IAN McGARRY,
MARY QUANT,
NICHOLAS SEROTA,
DAVID VINES,
YOUNG of GRAFFHAM

December 8.

**“Viewed objectively the Channel 4
safety net has become a leg iron.
It must be struck off to prevent one of
the best things in British Broadcasting
becoming hobbled and cramped”**

DAVID MELLOR, former National Heritage Secretary and Minister of State for Broadcasting 27 May 1994



In the course of the past year we have made vigorous and detailed representations to Government on this issue. On 18 January 1995 the Secretary of State for National Heritage responded in writing to Channel 4's representations, conveying his decision that he believed it would be wrong - at this stage - to amend the funding formula through primary legislation. Notwithstanding the manifest evidence that the formula, as we told Government in 1989, is a continuing source of risk-free revenue for the ITV companies, the Secretary of State expressed the belief that the ITV licensees' original acceptance of the risks inherent in the formula precludes early changes to it. On a practical level, he noted that, in any event, primary legislation on broadcasting was not now possible before the 1995/96 Parliamentary session.

On 7 February 1995 Sir Michael Bishop replied to the Secretary of State querying the assumptions underlying his reluctance yet to accept the evidence that the funding formula needs urgent amendment. The letter regretted the legislative delay, and noted the widely based support for an early change to this element of the Act. It welcomed the Secretary of State's hope that the parties involved might reach agreement through the good offices of the ITC.

It is clear from a further exchange of correspondence that the Secretary of State has difficulty in envisaging any arrangement under which Channel 4 would not have a financial guarantee of last resort in the event of it becoming insolvent. He indicates that public funds could not be used for this purpose, and therefore that ITV's obligations must stand. The insolvency scenario is not only extremely remote, it also ascribes to ITV's obligations a remedial effect which they could not possibly fulfil. The ITV liability is limited to just 2% of terrestrial advertising revenue (currently about £40 million). It could never offer a secure safety net to a television channel which - if threatened by bankruptcy - would already have exhausted tens of millions from the statutory reserve. Channel 4 will always need to ensure its own financial health. Far from being an ultimate guarantee, the funding formula continues year by year to weaken the channel's ability to invest in programmes, especially drama, and thereby to build increased viewer and advertiser loyalty.

Channel 4 remains convinced that there is a compelling case for change which is accepted across the political spectrum and which we will continue to argue with vigour. The effects of the funding formula run entirely counter to its original purpose of sustaining Channel 4, and we have demonstrated that it can be ended without depriving ITV companies of any benefit legitimately expected in 1991. The delay in rescinding this rogue element of the Act is a lost opportunity to benefit viewers, and we will press for its abolition in the next round of broadcasting legislation.

Channel 4's case for the funding formula to be repealed continues to gather strong all-party support in Parliament - most recently demonstrated by the House of Commons National Heritage Committee who recommended in March 1995 that "the Secretary of State now introduce legislation to revoke the funding formula."

"I am delighted to hear of Channel 4's success... that success should now be rewarded in future financial arrangements for broadcasting"

VISCOUNT WHITELAW 24 May 1994



Programme review

Programme awards

Programme review

In 1994, Channel 4 remained true to its remit with programming that was adventurous, audacious, provocative and challenging - both to its audience and its competitors. Though some of its programmes can provoke controversy and disagreement, Channel 4's single most talked-about programme of the year evoked sadness and admiration for its subject and the channel: Melvyn Bragg's interview with the dying Dennis Potter. Only Channel 4 could have moved so swiftly, recording an interview speculatively and then scheduling it while he was still alive, providing a unique opportunity for him to deliver his own epitaph in the medium he had made his own - and to demand a unique collaboration between the BBC and Channel 4 in the production and scheduling of his final two drama series, which are now proceeding posthumously.

Providing a season or cluster of programmes is one mechanism for concentrating on specific subjects, whether it be a week of documentaries on Northern Ireland to mark the 25th anniversary of the current intensity of the 'Troubles', *THE LONG WAR*, or a campaigning season about women's health and breast cancer, *GIMME HEALTH*, most memorably featuring *LIVING WITH LESLEY*, about Lesley Elliott who was devoting her last few months of life to campaigning. *BITE THE BALLOT* was loosely tied to the 2,500th anniversary of democracy, but through a week of documentaries and special events, provided a forum for a much wider project, encouraging debate about democracy, and opening up the medium to more voices. Programmes about the history of democracy - *THE ABC OF DEMOCRACY*, and *CITIZEN LOCKE* were joined by examinations of current shortcomings such as *DISPATCHES: CONTEMPT OF PARLIAMENT*. But the week's boldest experiment was *POWER AND THE PEOPLE*, the first ever full-scale deliberative poll, which tested how a representative cross-section of the population might vote on a particular issue - punishment - if they had the rare opportunity of a weekend's concentrated briefing on the issues and exposure to a wide range of contrasting expert viewpoints.



Citizen Locke

Without Walls Special: An Interview with Dennis Potter



Power and the People



FILM ON FOUR AND DRAMA

FILM ON FOUR thrived in 1994 as never before, whether one considers the films that have eventually reached the channel's own screens - including *THE CRYING GAME* and *PETER'S FRIENDS* - or the films released into the cinemas, most notably *FOUR WEDDINGS AND A FUNERAL*, swiftly qualifying as the most successful British film of all time here and around the world, or the completed films triumphing ahead of release, like *SHALLOW GRAVE* and *THE MADNESS OF KING GEORGE*. And FILM ON FOUR'S triumph was capped by a special International Emmy award in recognition of all 12 years of the project, collected jointly - and appropriately - by Michael Grade and his predecessor, Jeremy Isaacs.

Film on Four's triumph was capped by a special International Emmy award in recognition of all 12 years of the project

Cutting Edge: Graham Taylor - *An Impossible Job*

SHORT AND CURLIES, the strand of 11-minute shorts that provide nursery slopes for feature-making talent, presented the television premiere of the outstanding black comedy *THE CUTTER*, whose director Carl Prechezer and producer Peter Salmi were already in production on a FILM ON FOUR. *LITTLE NAPOLEONS* starred the late Norman Beaton and Saed Jaffrey as

rival London councillors in a four-part study of inner-city corruption. And *ALAN BLEASDALE PRESENTS* offered some writers new to television an even faster track to television exposure with four individual and distinguished feature length filmed dramas. Amid the programmes marking South Africa's transition to multi-racial democracy, *IN A TIME OF VIOLENCE* was an unprecedented co-production, a political thriller set against the complexities of multi-racial, multi-lingual violence in the townships. And within the Northern Ireland week, new voices and new technology united to show a fresh way forward for video drama with *WINGNUT AND THE SPROG*, a half hour video shot on HI-8 with people from a workshop in Protestant East Belfast.

*Shallow Grave***FACTUAL PROGRAMMES**

Documentary series also exploited new technology. *UNDERCOVER BRITAIN* deployed hidden lightweight video cameras to investigate the borders of legality - badger-baiting, child labour and the peddlers of dubious AIDS medicines. And *TRAVELS WITH MY CAMERA* used HI-8 video to transform the concept of the travel documentary. But the year's documentary event was undoubtedly Phil Agland's masterly seven-part series about life in a remote Chinese town, *BEYOND THE CLOUDS*: two years of filming (and many more of planning) yielded a unique insight into the Chinese experience, a triumph in gaining the trust of the authorities and participants as well as technical craftsmanship.

With factual programming virtually banished from ITV's peaktime, Channel 4 fulfilled its remit for complementary scheduling by providing a range of contrasting factual programmes most week nights at 9 pm. *THE NICK*, the real life version of *THE BILL*, maintained the success of *CUTTING EDGE* whose documentaries have become national talking points as with the remarkable observation of Graham Taylor's torment as England failed to qualify for the World Cup (creating a new national catchphrase with his "Do I not like that!"), the machinations of a suburban golf club (which brought the downfall of the club's entire committee) and the unashamed revelations of a master shoplifter (which won the channel's largest ever audience for a factual programme).



Photographs clockwise from top left:
Alan Bleasdale Presents: Requiem Apache
Short and Curlies: The Cutter
Secret History
Four Weddings and a Funeral





Photographs clockwise from top left:
Talking About Sex
Europe Express
Taste of Africa
Dispatches: Dirty Beaches



The channel also gave equal primetime exposure to another series of SECRET HISTORY, the critical and international documentary strand CRITICAL EYE, and to the centrepiece of Channel 4's religious output, WITNESS. This strand's broad range of moral and religious subjects included an *exposé* of THE CHILDREN OF GOD, a quirky account of the concentration of other - less sinister - cults in East Grinstead, and a profile of a leading East German dissident who has been unmasked as a long-standing Stasi agent.

The channel's current affairs flagship DISPATCHES deployed its journalistic guns on targets as diverse as serial rape and the safety of football grounds, alleged MI5 infiltration of the miners' union, the Hebron settlers, and Health Minister Virginia Bottomley confronted by Jayne Zito, investigating the care in the community policy which had led to her husband's murder by a prematurely released schizophrenic. And the team behind EUROPE EXPRESS applied the same fast moving graphic approach to another less reported area in AFRICA EXPRESS, an unprecedented peak time commitment to that continent.

EDUCATION AND SCHOOLS

Channel 4 maintained its educational remit from cookery A TASTE OF AFRICA to infant development: BABY IT'S YOU matched enchanting photography to the latest psychological research. TIME TEAM found a format that made archaeology accessible but never trivial; Professor Peter Hennessy presented an authoritative study of post-war British political trends in WHAT HAS BECOME OF US; and SCRIMPERS provided a guide to thrifty recycling - a programme idea that really was not recycled.

THE PULSE continued to diagnose the ailments of our health provision from the viewpoint of us - society, the patients - and contributed to the special breast cancer season, GIMME HEALTH, commissioned by our education department. And the democracy season was followed by another exercise in democracy, THE PEOPLE'S PARLIAMENT, which staged 12 weekly debates - with fact sifting committee sessions - by a group of ordinary people, foregathered in a reconstruction of the Commons chamber.

Since 1993, Channel 4 has - alongside its remit for wide-ranging adult education - taken over responsibility for funding and commissioning the former ITV schools service, now relying substantially on independent production. New techniques, tailored to the changing curriculum needs, guaranteed the most intensive burst of innovation since schools television started in 1957. With FOURWAYS FARM, sophisticated stop-frame animation (previously thought beyond the reach of schools television) and witty stories

The People's Parliament



about a cast of farmyard animals introduce infants to scientific principles. FIRST EDITION draws on presenter Jon Snow and other ITN resources for the first topical current affairs strand for primary schools (and - when the 'Estonia' sank - the first ever live news flash tailored for schools). TALKING ABOUT SEX brought a new frankness to the subject for older schoolchildren. In Autumn 1994, the channel launched its drugs initiative (with government backed support material) as resources for the new drive for education about drugs with a unit for older secondary pupils, and another, THE GOOD HEALTH GUIDE TO DRUGS, that controversially tackled the subject for the first time for children as young as nine.

Witness: Morehouse Men



**Channel 4's new techniques
guaranteed the most intensive
burst of innovation in schools
television since 1957**

**The channel continued to
recognise many special interests
with programming designed
for a wider audience**

YOUNG PEOPLE AND CHILDREN

For the young people who sustain the channel's youthful profile, Channel 4 continued its dedicated mainly late night provision, not just the notoriously anarchic *THE WORD*, but the stylishly *outré* *EUROTRASH*; a new internationally-based magazine by young reporters, *PASSENGERS*; and a sympathetic, revealing series about some teenagers on the edge of acceptable behaviour, *WALK ON THE WILD SIDE*.

A special week long season, *LOOK WHO'S TALKING*, considered the position and rights of children in our society today with documentary studies of children in care, *MY DAD IS MRS BOTTOMLEY*; light hearted comedy *COPING WITH GROWN UPS*; an award-winning Canadian drama about the cover-up of child abuse in a Catholic orphanage *THE BOYS OF ST VINCENT*, and a special investigation by groups of children around Britain of issues concerning them,

CHILD'S EYE. The season - designed for children and adults - also launched the channel's commissioning policy for original factual programming for children which gets under way in 1995.

The Boys of St Vincent



Child's Eye

MULTICULTURAL

Channel 4 crowned its multicultural output with a special *BLACK CHRISTMAS* season of over 20 hours of programmes celebrating black life, music and culture in the United Kingdom, United States and Caribbean, with a history of reggae, an observation of Jamaican paternity hearings in *BABY FATHERS*, an *ALTERNATIVE CHRISTMAS MESSAGE FROM THE REV. JESSE JACKSON*, and a successful comedy sketch series, *GET UP STAND UP*. The *DESMOND'S CHRISTMAS SPECIAL* was already announced as the last ever when Norman Beaton died a few days before transmission, but the channel has committed resources to seek a successor to this most popular of home-grown Channel 4 sitcoms.

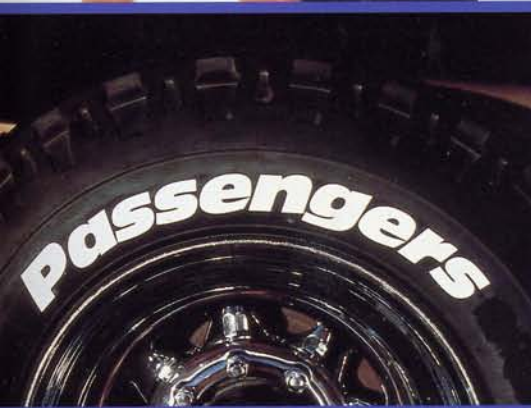
Other multicultural programming included a fly-on-the-wall observation of harassed and none too discriminate policing in *KARACHI KOPS*; sober debates with religious leaders in *ISLAMIC CONVERSATIONS*; rather more frivolous conversation in *BOMBAY CHAT*; and Darcus Howe's increasing recognition as a first-class exponent of adversarial debate in *DEVIL'S ADVOCATE*. The Channel 4 backed Indian feature *BANDIT QUEEN* provoked worldwide controversy - and Indian litigation - long before any British release or television screening.

OTHER SPECIAL INTERESTS

The channel continued to recognise many other special interests with programming designed for a wider audience: the *PEOPLE FIRST* strand of peak-time documentaries about disability ranged from the impact of asthma to the self-help group for the facially disfigured; and the magazine format about gay life, *OUT*, returned. Though addressing women with special programming has previously proved a controversial and fruitless task for Channel 4 (and other broadcasters), *FIRST SEX* proceeded from 1993's successful pilot to a full series with a diverse, reflective magazine format.

People First





Photographs clockwise from top left:

The Word

Black Christmas

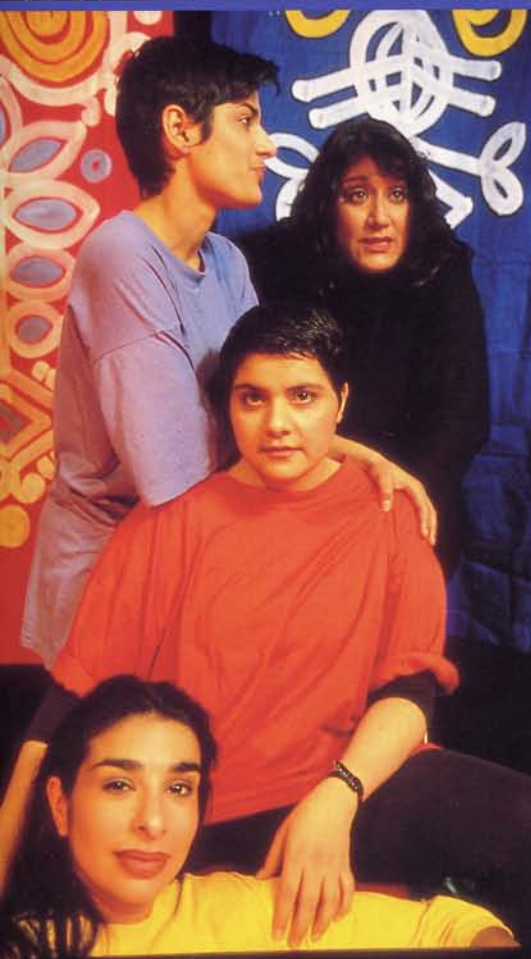
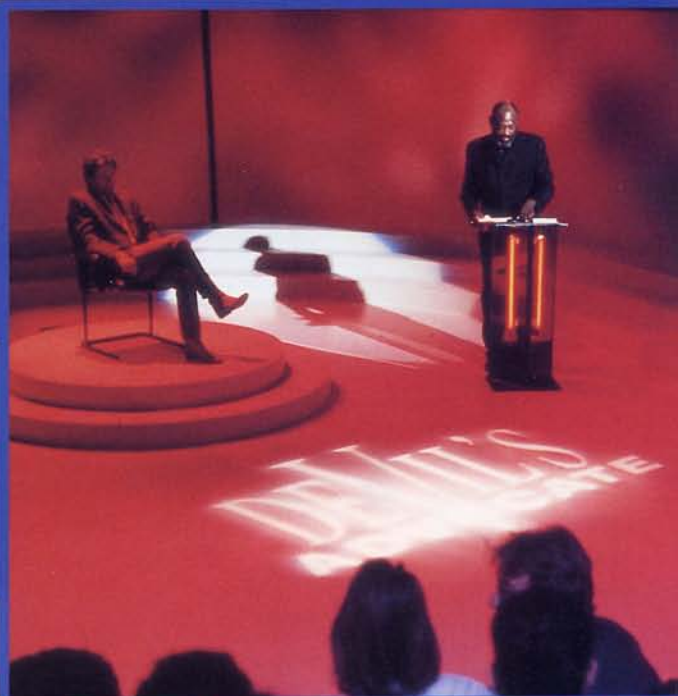
Devil's Advocate

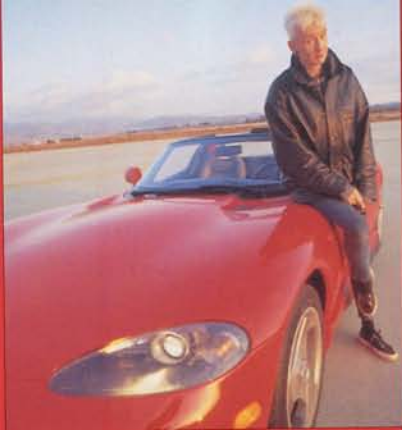
Desmond's Christmas Special

First Sex

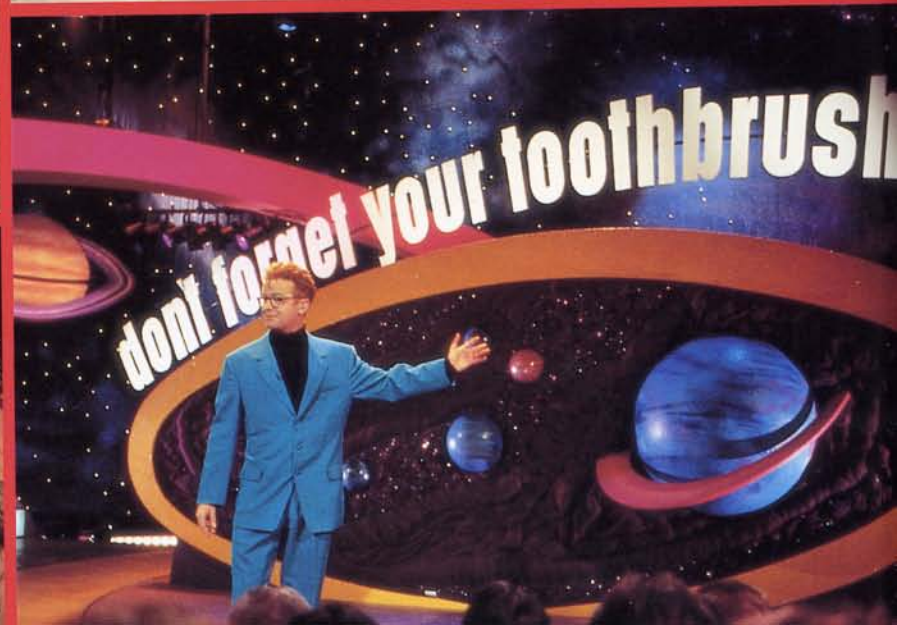
Passengers

Out





Photographs clockwise from top left:
The Big Breakfast
Carnography
Rory Bremner - Who Else?
The Marriage of Figaro
Dont Forget your Toothbrush
Equinox: Rave New World
Big 8
Countdown



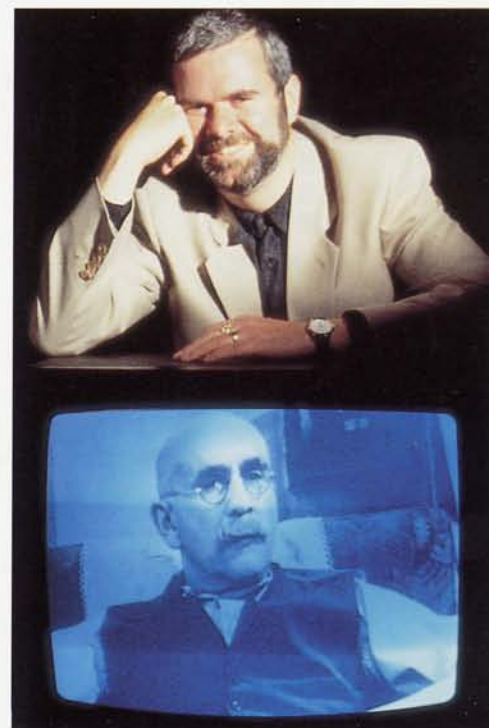
SCIENCE, SPORT AND ARTS

While Channel 4 has made its sporting name with racing, cycling and American football, it returned to its award winning coverage of wheelchair basketball with *THE BIG 8*, and pioneered another sport quite new to television with the *DOMINOES WORLD CUP*.

EQUINOX extended its scientific brief from the biochemical basis of Ecstasy in *RAVE NEW WORLD* to the flaws in forensic science, *INCREDIBLE EVIDENCE*, from the latest in virtual reality, *CYBERVILLE* to the scientific bone picking that may have solved *THE MYSTERY OF ANASTASIA*.

Channel 4 brought viewers the first ever live coverage from the Glastonbury Festival, and the first live television relay from Glyndebourne for over 30 years: coverage of the gala performance of *THE MARRIAGE OF FIGARO*, inaugurating the new Opera House, also launched a new contract with the House. Three brand new TV Operas were designed expressly for the small screen and its full repertoire of effects. And a week long season of documentaries and performance celebrating women composers, *SECRET CHAMBER*, culminated in a recording of the English National Opera's premiere production of Judith Weir's *BLOND ECKBERT*.

The weekly arts strand, *WITHOUT WALLS*, continued its iconoclastic course, celebrating Alf Garnett, *THE NATIONAL ALF*, and Sir Donald Wolfit, *J'ADORE*, excoriating television news and Santa Claus *J'ACCUSE*, questioning for the first time one previously untouchable icon, Mother Teresa, analysing attitudes to bad language across our culture and on television, *EXPLETIVES DELETED* and offering a stylish politically aware antidote to *TOP GEAR* with Muriel Gray's *CARNOGRAPHY*.



Without Walls: The National Alf

ENTERTAINMENT

Channel 4 has striven to innovate in entertainment too, and was rewarded by BAFTA awards for both *DROP THE DEAD DONKEY*, its most innovative sitcom (already recognised with two International Emmys) and for *RORY BREMNER - WHO ELSE?*. Rory's second series only confirmed the benefit of the greater edge and topicality that Channel 4 has allowed him since his transfer from the BBC, the most biting Saturday night satire since *THAT WAS THE WEEK THAT WAS* 30 years ago, and similarly drawing on a wealth of writers and serious research, and with much more savage indignation lacking from so much other supposedly political satire.

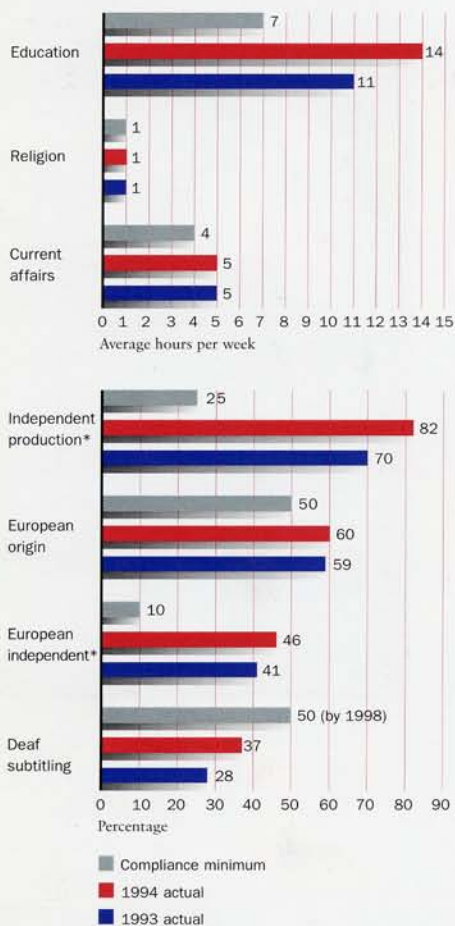
Channel 4 has always been willing to risk whole series on emerging talent, as with *JO BRAND* *THROUGH THE CAKEHOLE* or performers new to Britain, such as *THE UNPLEASANT WORLD OF PENN AND TELLER*.

However, no one would have expected innovation (even from Channel 4) in the game-show genre. Channel 4's opening programme in 1982 was *COUNTDOWN*, which celebrated its 1,500th edition last summer. But *COUNTDOWN* was scarcely innovative, its contribution to the remit being essentially as complementary scheduling to children's ITV. Yet, fresh from introducing *THE BIG BREAKFAST*, which had completely transformed a seemingly moribund area of broadcasting, Chris Evans himself devised, produced and presented the most original attempt to transform the very idea of a Saturday night game-show with *DON'T FORGET YOUR TOOTHBRUSH*.

**Channel 4 has striven to
innovate in entertainment. With awards
for *DROP THE DEAD DONKEY*
and *RORY BREMNER - WHO ELSE?***

The licence

PRINCIPAL PROGRAMME REQUIREMENTS



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

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

In 1994 Channel 4 met or exceeded all of the undertakings given to the ITC.

ITC ANNUAL PERFORMANCE REVIEW

The ITC's annual performance review for 1993, which was published after Channel 4's 1993 Report, stated that Channel 4 had had a very successful year in terms of programmes and in selling its own airtime.

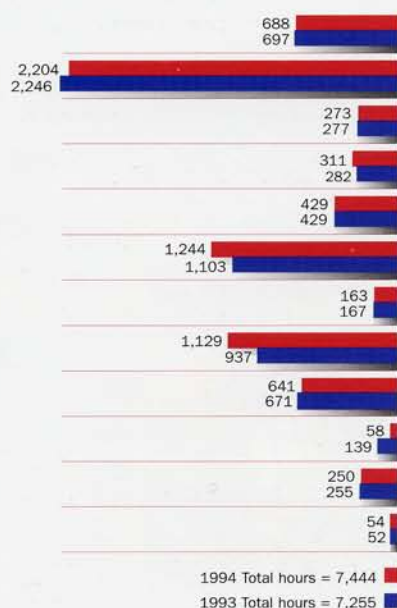
The ITC's performance review of Channel 4 for 1994 states that Channel 4's second year as a self-standing corporation was another one of general distinction in the programme service.

ORIGINATED PROGRAMMES

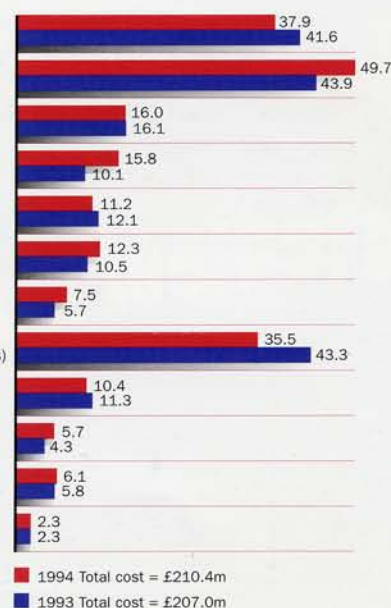
Channel 4 is not required by the terms of its ITC licence to provide a minimum amount of original productions and commissions. However, this is a measure which the Board monitors. The proportion of originated programmes during 1994 was 53.6% of total output - a welcome increase from 47.5% in 1993. Within peak time hours (18.00 to 22.30 hrs) the proportion was 68%.

The channel's wide range of programme transmissions is analysed in the chart below.

TOTAL NUMBER OF HOURS TRANSMITTED BY PROGRAMME RANGE (HOURS)



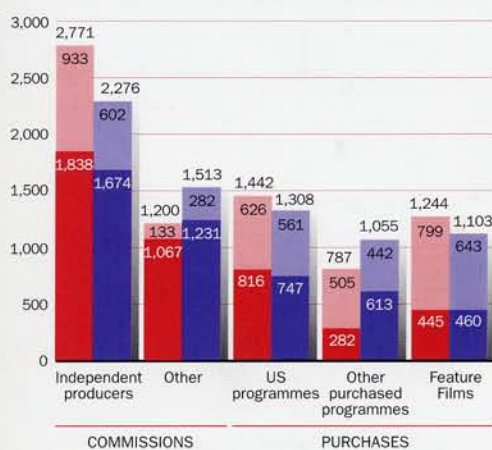
TOTAL COST BY PROGRAMME RANGE (£M)



Sources

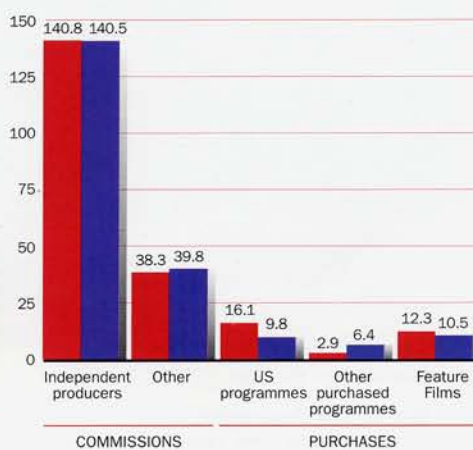
The channel broadcast 7,444 hours in 1994 - an average of 20 hours each day. Channel 4 commissions programmes from independent producers, and the ITV companies and purchases programmes in the international markets. In keeping with our programme policy requirements, we have a wide range of suppliers. The sources and costs of the programmes transmitted in 1994 are as shown in chart (A).

CHART (A)
SOURCES OF PROGRAMMES TRANSMITTED
(HOURS)



Total first run	Total repeats	Total hours
1994 4,448	1994 2,996	1994 7,444
1993 4,725	1993 2,530	1993 7,255

COSTS OF PROGRAMMES TRANSMITTED BY
SOURCES (£M)



Total cost
1994 £210.4m
1993 £207.0m

Independent production companies are the most important source for commissioned programmes. In 1994, Channel 4 made programme payments to 539 independent production companies (1993: 533).

Chart (B) sets out the number of companies which received programme payments from Channel 4 in each of the bands shown. Chart (C) shows the number of programmes or series of programmes for which the channel made payments to individual independent production companies. That chart includes long running strands of programmes as one programme series. The BROOKSIDE series, of which three episodes are transmitted each week, is therefore shown in the chart as one series.

CHART (B)
PROGRAMME PAYMENTS PER NUMBER OF
COMPANIES

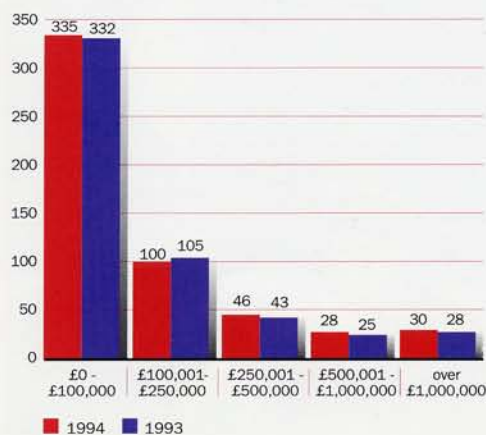
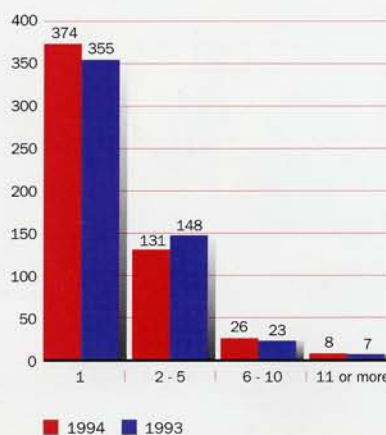


CHART (C)
NUMBER OF PROGRAMMES
PER COMPANY



Programme awards

We were proud to maintain our track record for award winning programmes and films during 1994. It is impractical to list the full details but some major festivals included the following:

TELEVISION FESTIVALS

BRITISH ACADEMY OF FILM AND TELEVISION ARTS

True Stories -The Unforgiving
Flaherty Documentary

Drop The Dead Donkey
Best Comedy

Rory Bremner - Who Else?
Best Light Entertainment

BASLE PRIZE

Time Team
Best Adult Education Programme

BRITISH FILM INSTITUTE

Beyond the Clouds
Grierson Award

BRITISH COMEDY AWARDS

Chris Evans
Best Channel 4 Entertainment Presenter

Drop the Dead Donkey
Best Channel 4 Sitcom

Four Weddings and a Funeral
Best Comedy Film

JAPAN PRIZE

Fourways Farm: Sunflowers
Minister of Posts and Telecommunications Prize

Beyond the Clouds



PACT INDIE AWARDS

Drop the Dead Donkey
Best Light Entertainment

Dispatches:
The Loss of the Marchioness
Best News and Current Affairs

Hear My Song
Best Drama

Tour de France
Best Sports

ROYAL TELEVISION SOCIETY

Baby it's You: Titles
Best Graphic Design

Chris Evans
Best Presenter

Channel 4 News: BNP elections
Home News Award

Channel 4 News: Tony Birtley
Journalist of the Year

The English Programme:
Powerful Texts - My Left Foot
Best Schools TV: Secondary Arts

Frontline: Maggie O'Kane
Feature award

Good Health: Not Just Strangers
Best Schools TV: Junior

Kind of Blue
Best Adult Educational TV: General

The Plague
Best Documentary Series

Sign on: Newswatch
Production Award

Tales of the City
Best Drama Serial

TV Operas:
The Empress of Newfoundland
Best Production Design:
Non Drama

Without Walls:
The Wonderful Horrible Life of Leni Riefenstahl
Best Arts



Tour de France

FILM AND ANIMATION FESTIVALS

BERLIN INTERNATIONAL FILM FESTIVAL

Ladybird, Ladybird
FIPRESCI Prize
Silver Bear
Crissy Rock - Best Actress
Prize of the Churches of the Ecumenical Jury

Three Colours: Blue
Joint Winner: Golden Lion Award

Three Colours: White
Silver Bear

CANNES INTERNATIONAL FILM FESTIVAL

Syrup
Jury Prize

CHICAGO INTERNATIONAL FILM FESTIVAL

Bob's Birthday
Silver Hugo

EDINBURGH INTERNATIONAL FILM FESTIVAL

Sound of Music
Post Office/McLaren Award

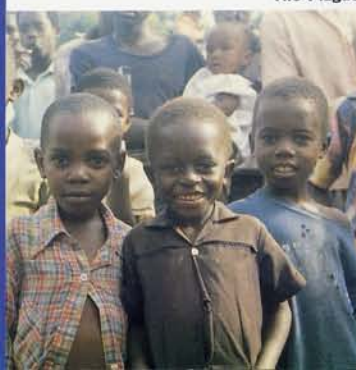
EVENING STANDARD BRITISH FILM AWARDS

Bad Behaviour
Peter Sellers Award for Comedy

Naked
David Thewlis
Best Actor

Raining Stones
Best Film
Best Screenplay

The Plague



**Bob's Birthday**HIROSHIMA INTERNATIONAL
ANIMATION FESTIVAL**Britannia**

Best Film in Category

Screen Play

Best Film in Category

The Village

Hiroshima Prize

**Three Colours: Blue**ZAGREB WORLD FESTIVAL OF
ANIMATED FILMS**Britannia**

Best Film in Category

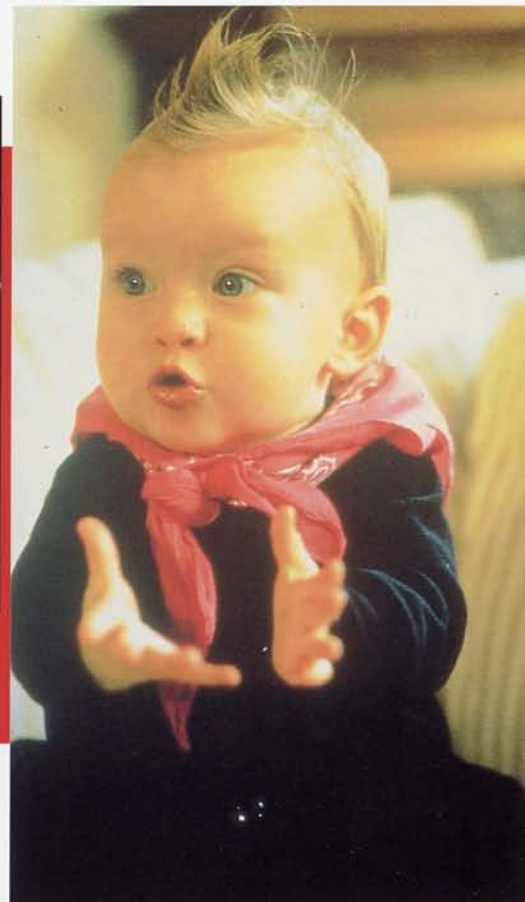
Audience Jury Award

In the Time of Angels

2nd Prize in Category

Sound of Music

Jury Prize

Baby It's YouSAN SEBASTIAN INTERNATIONAL
FILM FESTIVAL**Shallow Grave**

Danny Boyle

Silver Shell: Best Direction

VALLADOLID INTERNATIONAL
FILM FESTIVAL**Ladybird, Ladybird**

Vladimir Vega

Best Actor

Sister My Sister

Nancy Meckler

Joint Winner: Best New Director

Sister My Sister

Jodhi May and Joely Richardson

Joint Winners: Best Actress

Sister My Sister

Public Audience Award: Best Film

Sister My Sister

Student/Youth Prize for Best Film

Syrup

Best Short Film

Vanya on 42nd Street

Louis Malle

Jury Prize

Sister My Sister

The following programmes and films also received awards during 1994 or received awards in addition to those shown over page:

1812

Bhaji on the Beach
 Bob's Birthday
 Channel 4 News
 Channel Four Racing: Derby Coverage
 The Colour Bar
 The Crying Game
 Cutting Edge
 Devil's Advocate
 Diplomacy and Deceit
 Dispatches: Fatal Dose
 Equinox: ET - Please Phone Earth
 Equinox: Walking on Water
 People First: Fit For Life
 Fourways Farm
 Four Weddings and a Funeral
 Global Image: The Drilling Fields
 The Greatest Love and the Greatest Sorrow
 Hill Farm
 His Comedy
 Home Away from Home
 Kisses on a Train
 Ladybird, Ladybird
 The Life and Extraordinary Adventures of Private Chonkin
 Magic or Medicine

Mississippi Masala
 Naked
 Not Without my Handbag
 No Worries
 A Pin for the Butterfly
 Rory Bremner - Who Else?
 Screen Play
 Secret City
 Shallow Grave
 Sheriff Street Kids
 Sound of Music
 Tales of The City
 Theremin - An Electronic Odyssey
 Tights Camera Action!: Mothers and Daughters
 Tights Camera Action!: Joan
 Time Team
 To Kill and Kill Again
 True Stories: The Unforgiving
 Vanya on 42nd Street
 The Village
 Whose Line is it Anyway?
 Writing on the Line



The Village



Drop the Dead Donkey



Tales of the City

CORPORATE AWARDS

Channel 4

was awarded an International Emmy for FILM ON FOUR since 1981.

Michael Grade

was awarded a BAFTA fellowship.

Channel 4

also won the 1994 Carl Bertelsmann Prize for social responsibility in television (awarded by the German Carl Bertelsmann Foundation)

US Emmy awards



In addition, other areas of the channel received recognition for outstanding achievements in promoting and marketing our films and programmes:

PROMAX UK AWARDS

The Rector's Wife

Best Outdoor Advertisement:
Gold Award

Jo Brand Through the Cakehole

Best Outdoor Advertisement:
Silver Award

Don't Forget Your Toothbrush

Best Outdoor Advertisement:
Bronze Award

The Long War

Best Print Advertisement:
Silver Award

Advent Calender

Best Press and PR Campaign:
Bronze Award

Equinox: Memories

Something For Nothing:
Silver Award

Autumn

Best Sales/Marketing Tape:
Gold Award

Clive Anderson: Piano

Best Series Promotion:
Bronze Award

Equinox: Memories

Best Single Promotion:
Gold Award

Fourways Farm



TV Operas: The Empress



Raining Stones

3

Corporate activities

Advertising sales and audience

New technology

Corporate activities

During 1994 Channel 4 reinforced its leading role as an innovator. As always, the programme remit lay at the heart of our activities both on and off air. Our main aims have been to encourage new young talent, promote pluralism and support minorities.

SUPPORTING THE INDUSTRY AND THE COMMUNITY

Channel 4 continued in its role as the largest financier of British films. This production activity was backed by support for film events throughout the country including the major industry sponsorship of the Drambuie Edinburgh Film Festival. In addition the channel sponsored some 20 other events including the Three Continents section of the London Film Festival, the Sheffield Documentary Festival, and the International Animation Festival in Cardiff. We were particularly pleased to help launch the first award for deaf film-makers and to sponsor the Women in Film and Television Lifetime Achievement Award.

Our continued support for the British Film Institute included involvement with their Turbulent Europe Conference, bringing together television professionals from all over the world and we were also pleased to continue support for the Scottish Film Production Fund.

House of Commons exhibition



Chelsea Flower Show

Channel 4
Cycle Challenge

Tour de France on the roads of the UK



Children's roadshows

Tour de France



However, our sponsorship is not confined to the film and television sector. In total we were able to support another 40 events ranging from the fourth year of the now well established Tate Gallery Turner Prize for modern art to the re-launch of the Index on Censorship. Channel 4 receives many thousands of requests for charitable aid each year and inevitably we cannot assist all of them. We concentrate our funds on those directly related to the remit and our role as a broadcaster. More than 250 charitable events and organisations were supported in this way ranging from our help in organising a Christmas party at the local women's refuge, through the Disabled Sports Foundation, to the purchase of a seat in the Glasgow Film House in memory of the film-maker Barbara Grigor.

The channel's Christmas card was produced to benefit Sickle Cell Anaemia Research - marking the BLACK CHRISTMAS programme season.

WORKING WITH SUPPLIERS

Independent producers, their ideas and productions, are the lifeblood of Channel 4. We place great importance on maintaining an open and friendly dialogue with them on a range of industry issues. Three times a year senior executives meet PACT representatives to discuss issues of joint concern. In addition 'open days' take place with each programme department outlining its needs for the coming years, and Michael Grade presents our Annual Report to a meeting open to all independent producers. The more recently established Producer's Forum held three one-day events during 1994 discussing wider issues of programme making, such as the future role of documentary in British television.

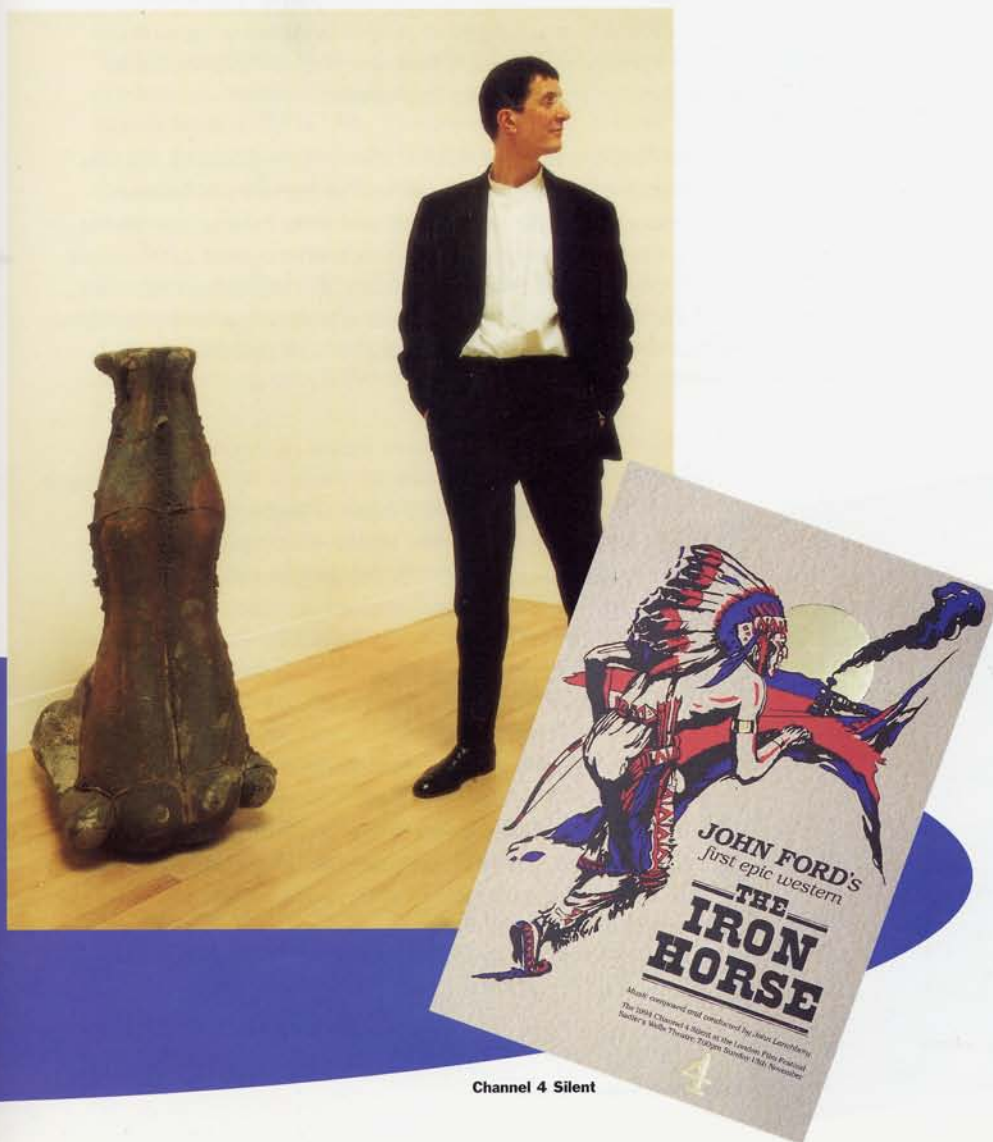
As the number of independent producers outside London has grown, the channel has extended its systems for communicating with them. Commissioning editors and the Director of Programmes continue to hold an annual open day in Scotland but this is now supplemented by open days in other parts of the United Kingdom. In addition to a commissioning editor with specific responsibility and funds for developing programme proposals from producers in Scotland and Northern Ireland, there are a number of other editors liaising with different English regions. The English regional development fund spent £100,000 on 21 projects in 1994. Ten of these resulted in full commissions.



COMMUNICATING WITH VIEWERS

Channel 4 welcomes all comments from viewers about programmes, whether these are praise or complaints. The channel prides itself on responding efficiently and courteously to all viewers' comments. The channel's duty office is open 24 hours a day, staffed from 8.30am until midnight, with the provision of an answerphone service throughout the night. In 1994, the duty officers took 112,592 telephone calls (representing a 16% increase on 1993) of which 10% were critical, and received 43,718 letters, of which 6.5% were critical. A detailed summary of telephone calls is passed to all senior executives each day. All complaints, in writing or by telephone, from people with direct interest in a programme are dealt with as a matter of policy at commissioning editor level. Channel 4 gives viewers their RIGHT TO REPLY with its continued support of this successful viewers' discussion programme. In addition, Channel 4 publicises the existence and functions of television's regulatory bodies, the Independent Television Commission, the Broadcasting Complaints Commission and the Broadcasting Standards Council, in three ways - in a 'How to Complain' leaflet, in announcements on air and permanently on teletext. In compliance with our licence requirements, Channel 4 makes a detailed quarterly report to the ITC on the total number of complaints received.

The Turner Prize 1994



Channel 4 Silent

It is the channel's policy to create as many opportunities as possible for direct contact with the viewing public throughout the UK. Some community activities during 1994 included the following:

JANUARY A presence for Channel 4 Schools Service at the British Educational Technology and Training Show at Olympia.

An exhibition based on THE EMPRESS - a Channel 4 new opera - at the Museum of the Moving Image.

FEBRUARY A Channel 4 stand at the Independent Traveller Exhibitions in Manchester and Birmingham.

MARCH Video installations and displays at the Sheffield Documentary Festival.

APRIL A presence in Cardiff for the International Animation Festival.

MAY Channel 4 Gardening stand at The Chelsea Flower Show, London.

The launch of Channel 4 Children's Cycling Challenge around the South of England in connection with the visit to Britain of the Tour de France.

JUNE Cycling roadshows at the South of England Show (Haywards Heath), Portsmouth shopping centre, Dover market square and athletic ground and Brighton's Preston park.

JULY Channel 4 cars took part in the official cavalcade preceding the riders in the Tour de France.

AUGUST Roadshows promoting children's programmes in Aberdeen, Nottingham, Morecambe and North Yorkshire.

Channel 4 took part in the cavalcade accompanying the five day Kellogg's Tour of Britain starting in Glasgow and ending in Manchester.

Displays in Edinburgh in connection with the Film and Fringe festivals.

SEPTEMBER The channel mounted a series of events at each of the Party Political Conferences in Bournemouth, Blackpool and Brighton.

Back-up given to Channel 4 Schools event at MOMI and the children's programme FOURWAY'S FARM at an event in Harrods.

OCTOBER Special Turner Prize exhibitions at the Tate Gallery, London with smaller back-up displays and events in Liverpool, Belfast, Birmingham, Norwich, Southampton, Glasgow and St Ives.

NOVEMBER A week long exhibition - 12 Years of Channel 4 - was mounted in the House of Commons. The exhibition was opened by the Rt. Hon. Timothy Renton MP and Viscount Astor.

On 13 November, the Channel 4 Silent - THE IRON HORSE - was screened at the Sadlers Wells Theatre with music composed and conducted by John Lanchbery.

On 22 November, the annual Turner Prize dinner took place at the Tate with live coverage of the award presentation (by Charles Saatchi) on Channel 4.

REGULATORY AUTHORITIES

Regulator and remit	Number of complaints considered in 1994	Number upheld or partially upheld in 1994
Independent Television Commission observes compliance with the Broadcasting Act and entertains complaints about independent television.	805	Eight formal interventions (compared with 17 in 1993).
Broadcasting Complaints Commission entertains complaints about unfair treatment and infringement of privacy.	20	Two were upheld, six partially upheld. Channel 4 made three announcements of findings on air and in the press.
Broadcasting Standards Council monitors standards of taste and decency.	118	Nine were upheld, four partially upheld.

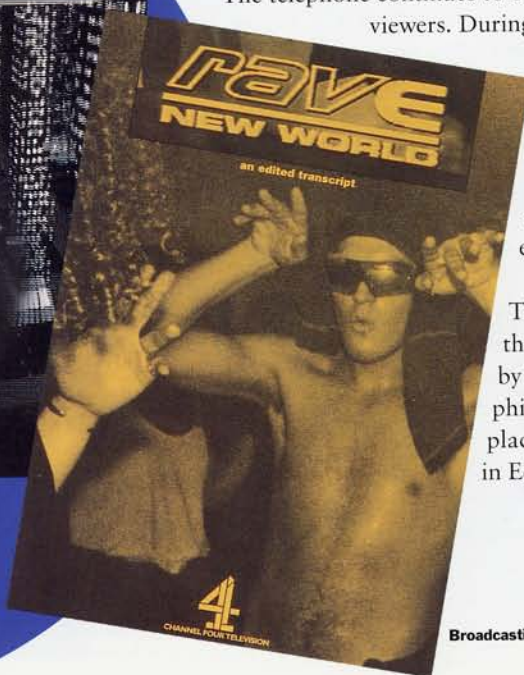
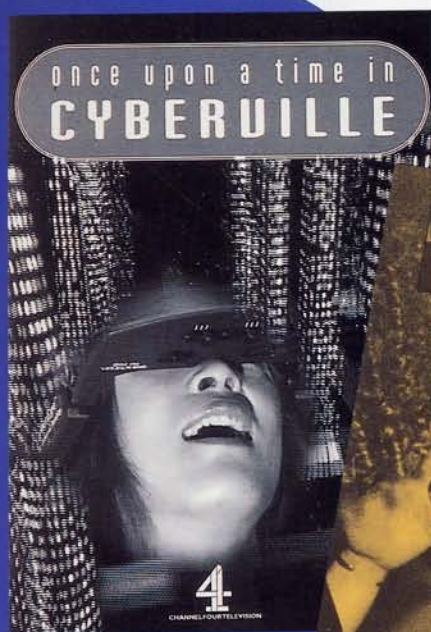
SUPPORTING THE PROGRAMMES

Each year, Channel 4 seeks to extend the scope of broadcasting support. In 1994 Channel 4 Support Services was the subject of a thorough internal review, which confirmed its place at the centre of the channel's educational policy. The review concluded that the priority should be reaching more people by distributing as many booklets as possible free of charge, and suggested that new technologies should be explored as a means of promoting greater viewer involvement.

This year's most notable innovation was in the field of electronic publishing. On two occasions after EQUINOX programmes, viewers were invited to log into the Internet, where they would find the transcript of the programme and more information about Channel 4 Support Services. On the first occasion, RAVE NEW WORLD, over 2,000 people participated; on the second, ONCE UPON A TIME IN CYBERVILLE, 10,000 viewers signalled their interest in this new form of back-up. Many of them sent messages and comments back to Channel 4, demonstrating the enormous potential of this cost effective interactive technology.

The telephone continues to be the most commonly used means of interaction with viewers. During the week devoted to women's health, 3,500 people rang to get advice and referral from trained counsellors on a helpline funded by the Health Education Authority. Earlier, THE GREAT OUTDOORS gave rise to a weekly helpline on sports and outdoor activities. Its accompanying booklet was funded by the Sports Council and through them was distributed to thousands of enthusiasts throughout the country.

The Talking Heads Club now has over 30 branches throughout the country. Members meet regularly, prompted by Channel 4 programmes concerned with ideas - philosophical, political and religious. They meet in all sorts of places - from the Conway Hall Central London, to a wine bar in Edinburgh.



Broadcasting support material

Amongst the highlights of the printed word in 1994, pride of place must go to *BEYOND THE CLOUDS*, a beautifully illustrated account of life in Lijiang, which augmented the pleasure which thousands of viewers took in watching the televised insight into this fascinating Chinese city. In a different world altogether, *SCRIMPERS* clearly spoke to the concerns of over 8,000 people, who aspire to be more thrifty in 1995.

TRAINING - THE INDUSTRY'S FUTURE

Channel 4 is an active and enthusiastic supporter of the industry's training initiatives. As a founder member of Skillset, the training industry body for the broadcast film and video sector, we are pleased to see it continue to address the challenges of ensuring that the industry's increasingly freelance workforce has the necessary skills to sustain the United Kingdom's deserved reputation for excellence in television and film production. Skillset carried out further research into employment trends and training needs which will help determine priorities for action. Regional consortia for training now exist in Scotland, Northern Ireland, Wales, the north east, the south west and the midlands. Skillset's open learning pack 'Managing Your Business' for freelancers and independent producers was welcomed within the industry.

The industry's first national vocational qualifications - in camera, sound, lighting production, broadcast journalism and broadcast research - were approved and the first awards made early in 1995. Development work in other areas continues. The existence for the first time of a comprehensive set of recognised vocational qualifications within the industry will enable the skills issue to be addressed in a consistent and systematic manner.

Channel 4 doubled its contribution to the Freelance Training Fund, to which PACT (via its pioneering voluntary levy on its members) and the ITV companies also contribute. A total of 144 applications for funding were approved in 1994, including structured new entrant training, attachments and short courses which retrained and updated existing freelancers.

Channel 4 continued its contribution to the work of the National Film and Television School both financially and through its presence on the governing body, and welcomes the school's determination to continue to be a major provider of training excellence to the industry into the next century.

During 1994, three trainees completed the Channel 4 technical production training scheme 'Fourthought', designed for people with disabilities, as did the third group of students on 'Fourfit' a Channel 4 scheme which gives entry level training to individuals from the ethnic minorities. The channel continued to help finance the second two-year course in television production for deaf people at the European Media School in Tyneside. A further bursary for a student from the ethnic minorities was provided at the Cardiff School of Journalism, and the Actors Centre was again funded for its activities in preparing actors for television work.

The channel also continued to invest in the development of its own staff, through a wide variety of on and off the job training activities.



Broadcasting support

SUBTITLING FOR THE DEAF

Channel 4 is committed to making an increasing number of our programmes accessible to those with hearing difficulties. In 1994, the channel commissioned new teletext subtitles averaging 32 hours a week of pre-recorded subtitles, an increase of eight hours per week over the previous year. The live subtitling of CHANNEL 4 NEWS provided another four hours each week of programmes accessible to the deaf and hard-of-hearing. Repeats and subtitled foreign films pushed the weekly access up to 44 hours per week - well on target for 50% of the channel's output to be subtitled by 1998.



The first Deaf Film & Television Festival,
Tyneside, 1994

**CHANNEL 4 AND ITS STAFF**

The channel's equal opportunities policy continues to be an integral and important part of employment practice. The representation of ethnic minorities amongst its staff was 8.7% (1993: 8.4%). Efforts continue to improve this figure.

Women form the majority of Channel 4's staff. The channel is proud of its record in developing and promoting its female staff, and continues to do so. The channel began a childcare initiative in 1992, providing additional benefits for working parents. In 1994 the female percentage of staff earning over £50,000 was 20% (1993: 23%); the corresponding figures for those earning over £30,000 was 38% (1993: 38%).

Like many other employers, Channel 4 has had difficulty in recruiting staff who are registered disabled. It is hoped that the emphasis put on ease of use for disabled people in the design of the new Horseferry Road building will enable more people with disabilities to be recruited.

Advertising sales and audience

REVENUE

Advertising remains the prime source of income for the channel, with over 95% of turnover being generated through advertising and sponsorship. The advertising industry has recovered steadily from the recession and estimates growth of 11% in 1994 across all media. The television sector virtually matched the overall growth.

The environment for television advertising introduced on 1 January 1993 with Channel 4 freed to sell its own advertising airtime for the first time, remains aggressively competitive. Despite intense lobbying, the rules on ITV licence ownership were changed in January 1994 followed by an OFT and ITC approval of further concentration of sales points within ITV, which is now represented by only three large sales 'houses', each representing over 20% of the available UK commercial audience. In addition new satellite and cable stations were launched, bringing the total competition for UK advertising funds to over 20 separate channels.

In this buoyant yet competitive market, Channel 4 had a good year. Advertising and sponsorship revenue increased from £330.1m to £393.9m in 1994 - an increase of 19.3%. The channel's share of terrestrial net advertising revenue (TNAR) increased from 18.2% to 19.8%, and is estimated to now generate 18.7% of total television advertising.

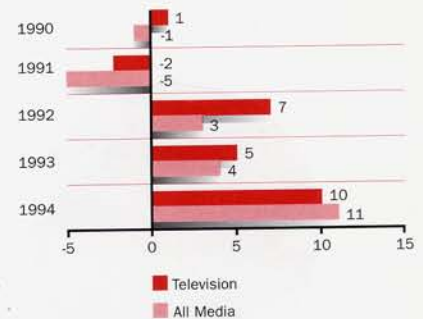
The trend continued for advertisers to concentrate advertising spend into a single buying agent in order to maximise negotiating power. However, the degree of this concentration should be put into context - our largest buying agency in 1994 represented 8.5% of our business and the largest single advertiser under 5% of our business.

The channel gained from particularly strong growth in certain categories particularly in those areas suited to the Channel 4 audience:

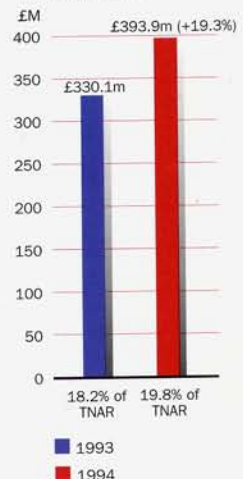
	Increase %
Cars and motoring	23.8
Financial	60.8
Leisure	22.6

In an overall good performance, certain areas stood out. Programme sponsorship remains a sensitive and difficult area for the channel, given the nature of our output. Though representing less than 1% of total revenue, growth in 1994 was 70%. The channel runs advertising sales offices in Manchester, Belfast and Dublin and opened an office in Edinburgh in 1994. This investment has reaped dividends with revenue from regional offices up 40.1% in 1994.

% CHANGE YEAR ON YEAR
ADVERTISING REVENUE



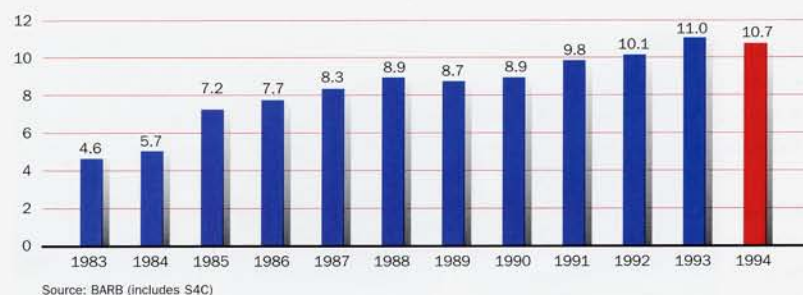
CHANNEL 4 NET
ADVERTISING AND
SPONSORSHIP
REVENUE



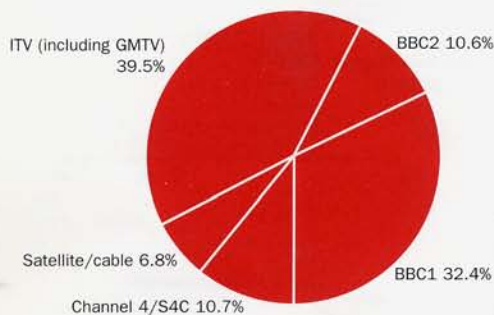
AUDIENCES

The commercial basis of the channel remains its ability to provide an audience skewed towards the younger, more up-market and lighter viewing groups. 1994 was a year of audience consolidation, after the spectacular growth of 1993. The fourth channel share of viewing was down from 11.0% to 10.7% - reflecting the growing competition from satellite and cable - now up to 6.8% of total viewing.

CHANNEL 4 SHARE OF UK TELEVISION AUDIENCE 1983 - 1994 (%)

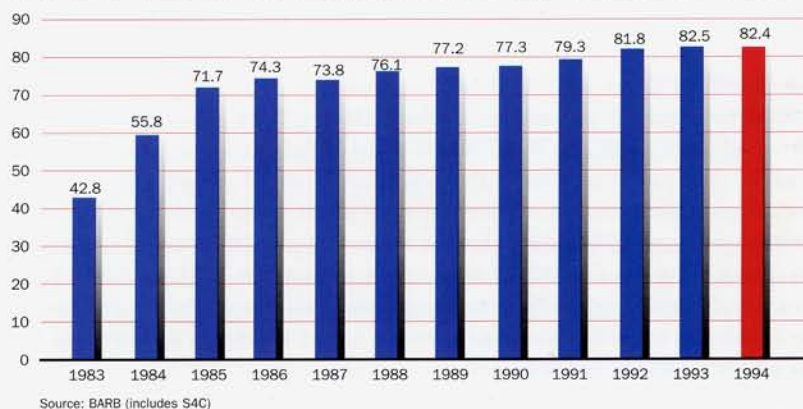


CHANNEL SHARES IN 1994



Despite the growing number of multi-channel homes, Channel 4 remains on the viewing repertoire for the vast majority of homes, with weekly homes penetration settled at more than 80%.

CHANNEL 4 WEEKLY REACH - AVERAGE % OF HOMES VIEWING SOME TIME IN A WEEK



The distinctiveness of Channel 4's programming has also been its commercial strength, providing advertisers with an opportunity to target audiences with a precision impossible on other channels. The channel remains a highly efficient means of reaching upmarket (ABC1) and younger viewers.

CHANNEL 4 TOP 20 INDEXING PROGRAMMES IN 1994 - ABC1 ADULTS

Programme	Date	Start time	Index on all adult audience
Nightmare in Provence	1 April	20.00	159
Rory Bremner: Who Else?	29 October	20.00	145
Royal Collection	3 March	19.59	143
Without Walls	8 November	21.03	141
Dennis Potter Interview	5 April	21.03	141
Clive Anderson Talks Back	18 November	21.32	139
French Travelog	3 April	20.10	139
Brunel to the Nation	29 March	21.32	139
Channel 4 News	27 October	19.00	136
For Love or Money	5 November	20.00	135
Humble Bee	9 November	20.01	134
21st Century Airport	4 September	20.01	133
Cyrano de Bergerac	31 March	20.01	131
Travels a la Carte	24 May	20.01	131
Tour de France	24 July	20.50	130
Drop the Dead Donkey	13 October	22.02	130
Three Tenors	16 July	19.33	127
Sick Women, Smart Act	19 May	19.59	127
American Football	23 January	20.02	126
Lost Betjemans	16 September	20.00	125

CHANNEL 4 TOP 20 INDEXING PROGRAMMES 1994 - 16-34 YEAR OLDS

Programme	Date	Start time	Index on all adult audience
Gamesmaster	20 September	18.30	200
Phenom	5 April	18.31	197
Word	7 January	23.06	195
Different World	5 January	18.31	194
Running the Halls	7 April	18.33	188
Wonder Years	7 April	18.01	188
Boy Meets World	17 August	18.31	188
Beavis and Butt-Head	8 April	23.37	185
Big Breakfast	22 March	07.00	180
Moviewatch	9 December	18.29	178
Happy Days	8 April	18.30	177
Saved by the Bell	29 December	18.29	176
Mork and Mindy	17 August	18.01	176
Rocko's Modern Life	13 September	18.30	175
Kids in the Hall	1 June	22.32	172
Blossom	18 March	18.02	170
Whose Line is it Anyway?	15 July	22.33	168
Hangin' with Mr Cooper	17 October	18.01	168
Bill and Ted's Bogus Journey	27 November	21.03	166
Tim Allen Rewires AM	16 December	22.34	164

Programmes of short duration or small audiences excluded.

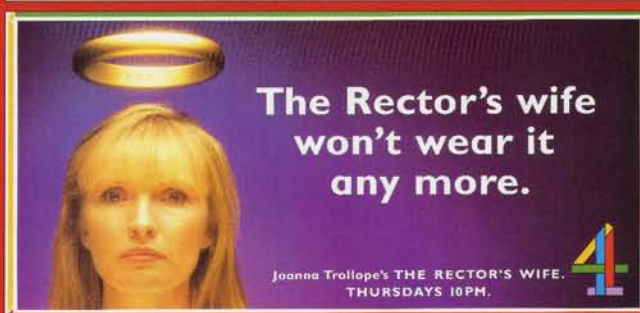
Source: BARB



MARKETING

As already mentioned, the competition for audiences is becoming increasingly aggressive, with more channels competing to fragment an audience that is not growing. Competition is intense - not only from the other terrestrial channels, BBC and ITV, but also from new satellite and cable players and increasing utilisation of the television set by non-broadcast media, such as video, electronic games and the Internet.

Maximising audiences for our programmes becomes increasingly important. We continue to refine the traditional marketing methods employed by television companies: on-air presentation, listings and press coverage in the national and local press. However, the need to differentiate the channel by single-minded branding has led to increased investment off-air and the use of a campaign of posters, supporting individual programmes but clearly from the parentage of Channel 4.



New technology

Channel 4 has, from the outset, been at the cutting edge of television technology, with the United Kingdom's first fully automated transmission system in 1982. Subsequently the channel was one of the first to broadcast in NICAM stereo sound and has broadcast the first national widescreen PAL-plus transmissions in the United Kingdom.

The channel's new building contains the most advanced transmission centre in Britain, if not in Europe, and the first major all-digital broadcasting centre in which the pictures and sound pass in the optimum digital formats from studio or videotape machine through to the transmitter network (which itself is mainly digital).

The new building has allowed the channel to re-equip totally with the latest digital video and audio equipment and custom-designed computer control systems, which will operate for at least the next decade, in a completely purpose-designed technical area in the lower ground floor and a studio, surrounded by its control rooms, rising two storeys from the basement.

**The channel's new
building contains
the most advanced
transmission centre
in Britain, if not
in Europe**



WHY DIGITAL?

- The digital equipment is future-proof, allowing Channel 4 to start digital transmissions in parallel with its existing ones as and when they become feasible, and to transmit widescreen programmes (in 16x9 format) using the existing or digital technology.
- Digital can offer the viewer better quality, with virtually no degradation in picture and sound as it passes - in effect transparently - through the chain from original recording through editing to the transmitter (where, for the time being, the signal has to be converted into the conventional form that our sets can receive).
- The equipment offers greater reliability and is easier to maintain.

THE PROGRAMME TRANSMISSION SYSTEM

The technical centre is divided into three areas, with:

- transmission, presentation and tape preparation grouped together in one area;
- a separate post-production area - telecine and edit suites - where, on a commercial basis, programme-makers can take advantage of any spare capacity in our film-to-tape transfer and editing facilities; and
- a small (200 square metre) studio.

Videotape recording in the centre is based around Panasonic's D5 digital component video format, utilising half-inch cassette tapes, which is now Channel 4's standard for handling all new programmes and commercials.

The channel has over 60 D5 machines, all equally capable of handling D3 composite recordings. As a central part of the channel's archiving policy, any one-inch tape recordings required for re-transmission are transferred to D3 and any BETA SP recordings are transferred to D5.

Channel 4 transmits all its programmes under the control of a new automated system HORAS (Horseferry Road Automation System) which not only controls the transmission videotape machines (including two Panasonic MARC Type II automated cassette systems), the electronic graphics and other linking material, but also operates the custom-designed Pro-Bel presentation mixer. This HORAS system, a substantial advance on the original CATS system at Charlotte Street, is based on an existing IBIS software system, which was then tailored in-house to Channel 4's specific requirements.

There are two parallel presentation control suites, each with essentially identical facilities including announcer's booth. The second suite provides technical standby, training facilities, the ability to maintain the first suite and to develop the presentation and transmission systems, and also a sub-control room for special occasions, such as complex live sports events with several incoming signals.

THE COMMERCIALS OPERATION

At Horseferry Road, the commercials are all transmitted from D5 cassettes, using two Panasonic MARC Type III automated cart systems, each containing ten D5 machines, two robot arms and up to 800 tapes, which between them can store over 8,000 commercials, duplicated on the two machines. Under the control of the channel's own software system for commercials (COPS), the commercial breaks are pre-compiled onto the appropriate number of separate tapes for each region (depending on the patterns of the advertisement sales for each region in each break) way ahead of transmission and then played back from up to six D5 machines simultaneously within the MARC systems.

Technical areas



Financial review and statements

4

Director of Finance's review

During 1994 we consolidated the achievements of the smooth transition which Channel 4 underwent on 1 January 1993 as it became a statutory corporation commercially financed in the private sector by its sale of advertising.

TURNOVER

Channel 4's advertising sales team had another excellent year. In 1993, the first year of advertising sales managed by Channel 4, our advertising revenue increased by 35% over the amount achieved by ITV from its sale of Channel 4's advertising in 1992. Despite that increase, Channel 4's advertising time was still sold at a price discount to ITV throughout 1993.

A year ago, we set the primary commercial tasks for 1994 as being the reduction of that price discount and the maintenance of Channel 4's audience share in the face of increased competition from new and existing channels. Satisfactorily, both objectives were achieved during 1994. Our audience share broadly held steady and Channel 4's advertising revenue increased by 19%, whereas ITV's revenue increased by 8%. Channel 4's advertising prices are now virtually in line with ITV's for the first time since 1982 - a vindication of Channel 4's long held analysis of and belief in the inefficiency of the ITV monopoly advertising sales arrangements which survived until Channel 4 was allowed to enter the advertising sales market in 1993.

PROFIT

Channel 4 made a profit before ITV subsidy and taxation in 1994 of £83.6 million (1993: £38.9 million). However, the subsidy payable to ITV, as a result of the funding formula arrangements set out in the 1990 Broadcasting Act, increased by 50% to £57.3 million (1993: £38.2 million).

The profit for the year, after that payment to ITV and corporation tax, was £21.9 million (1993: £1.3 million).

TAXATION

Channel 4 is subject to corporation tax on profits. The tax charge for 1994 is low as the channel had brought forward trading losses and capital allowances. A full tax charge of around 33% will arise on the channel's profit for 1995.

CASHFLOW

After the payment to ITV of £38.2 million in February 1994, Channel 4 generated gross cashflow of £61.9 million from trading operations in 1994. That strong cashflow enabled the channel to reduce bank borrowings during 1994, and accordingly the net interest cost fell by £1.3 million.

Capital expenditure reduced from 1993's peak of £33.1 million to £15.0 million as the construction and technical equipment project for the Horseferry Road office and transmission centre was completed on time and below budget.

Since the year end - on the due date of 14 February 1995 - Channel 4 paid to the ITC the £57.3 million due to ITV for 1994. That payment has caused the channel to drawdown loans from the revolving credit facility described on page 61.

CASH BALANCES AND BALANCE SHEET

The cash movements during 1994 left Channel 4 with net cash deposits at 31 December 1994 of £21.7 million, compared with £21.9 million of net borrowings at the start of the year.

Channel 4's revolving credit facility incorporates balance sheet ratio and cashflow covenants. The cash balances at the start of 1995, together with internally generated funds and the available bank credit facilities will be more than sufficient to meet cash and covenant requirements throughout the next year.

FOREIGN CURRENCY EXPOSURE

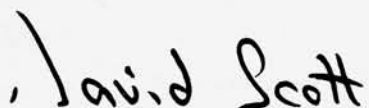
Channel 4 buys and sells programmes in the international markets and is a net purchaser of US dollars. Exposure to fluctuations in exchange rates is managed by transactions in the forward foreign currency markets. Channel 4 never takes speculative currency positions.

CHANNEL FOUR INTERNATIONAL

Channel Four International was formed as the corporation's wholly owned subsidiary on 8 March 1993. The company's purpose is to manage efficiently the worldwide distribution and exploitation of some 500 hours per annum of commissioned film and programme rights obtained by Channel 4 as part of its financing negotiations with production companies.

This part of our business grew satisfactorily during 1994 to the benefit of independent producers and other third parties who have ongoing interests in programme rights, whose profit share increased by 37.5% to £3.3 million. The corporation's share of the net revenue from this activity amounted to £6.2 million which is received as a rights payment which is then added, without deduction, to new programme commissions.

Channel 4 believes that this is clearly the most efficient method of ensuring that the majority of the net revenue from secondary rights is directly returned to the commissioning of new programme production. Otherwise, there is no guarantee that this revenue would generate additional economic activity in the United Kingdom.



DAVID SCOTT
Director of Finance
27 March 1995

Report of the members

PRINCIPAL ACTIVITIES

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

On 1 January 1993 the Independent Television Commission (the ITC) issued a broadcasting licence under the terms of the Act for the corporation to broadcast for the ten calendar years 1993 to 2002.

REVIEW OF BUSINESS AND RESULTS

The Chairman's statement on pages 2 and 3 and the Chief Executive's and Director of Finance's reviews on pages 4, 5, 42 and 43 form part of this report and provide information on the development of Channel 4's activities during the year and outlook for the future. The group's results are set out on pages 51 to 64.

FUNDING

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

The Act also established a funding safety net for Channel 4 under which ITV would pay the corporation up to 2% of qualifying revenue if the corporation's revenue, together with any balance on the statutory reserve account referred to in note 17 to the financial statements, were to be less than 14% of qualifying revenue for any calendar year. Channel 4 has stated consistently since 1989 that it has no wish or expectation of ever calling upon such a subsidy from ITV.

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

MEMBERS

The present members of the corporation are listed on pages 48 and 49. Anne Lapping and John McGrath retired as members on 31 December 1994. Sarah Radclyffe and Murray Grigor were appointed as members on 1 January 1995.

MEMBERS' INTERESTS

As indicated on pages 48 and 49, certain members are also directors of companies which supply programmes to Channel 4, and to that extent are also interested in contracts with the corporation. In particular, note 22 to the financial statements gives information in relation to a material interest of one member in two contracts with Channel 4.

LIABILITY INSURANCE

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

RESEARCH AND DEVELOPMENT

Channel 4 devotes substantial resources to the development of scripts and programme outlines for possible commissioning. Development expenditure incurred in 1994 on scripts and programmes not commissioned for production by the end of that year amounted to £2.5 million (1993: £3.5 million).

EMPLOYMENT POLICY

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

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

EMPLOYEE INVOLVEMENT AND CONSULTATION

Channel 4 informs and consults with its employees through:

- regular departmental meetings where information is disseminated and staff have an opportunity to air views;
- an internal teletext-based information service available to all members of staff;
- normal collective bargaining with trade unions. A minority of the corporation's employees are in membership of one of two recognised trade unions:
BECTU (for engineering, presentation, clerical and studio staff);
Equity (for continuity announcers)
- an annual staff meeting, where the executive gives presentations on Channel 4's progress and future and all staff are encouraged to ask questions.

AUDITORS

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

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



By order of the Board
ANDREW YEATES
Secretary
27 March 1995

Corporate governance

On 1 December 1992, the Cadbury Committee published its report on corporate governance, which contained a recommended Code of Best Practice (the Code). The Board is pleased to confirm that the corporation fully complies with the Code.

THE BOARD

The members have full responsibility for ensuring that, in a changing public service and commercial broadcasting environment, the statutory functions of Channel 4 are discharged in accordance with the broadcasting licence from the ITC and policies regulated by the Board and in accordance with arrangements and procedures which have, to the extent required, the approval of the ITC.

The Board consists of fourteen members of whom the majority are non-executive. Accordingly, there is a strong independent element on the Board and no one individual has unfettered powers of decision. All members are of equal standing. Biographical details of the present members are given on pages 48 and 49.

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

NON-EXECUTIVE MEMBERS

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

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

EXECUTIVE MEMBERS

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

The terms of employment of the executive members are subject to the approval of the remuneration committee whose terms of reference are set out on page 47. Members' total emoluments (including bonus payments) are analysed on page 57.

REPORTING

The Board believes that the 1994 Report and Financial Statements present a balanced and understandable assessment of the corporation's position.

BOARD COMMITTEES

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

i) Audit committee

The audit committee's purpose is:

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

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

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

The audit committee is satisfied with the policies and controls applied during the year, and with the measurement and presentation of financial information in the 1994 Report and Financial Statements.

ii) Budget committee

The budget committee's purpose is to examine and discuss the details of the corporation's and Channel Four International Limited's annual budgets and any other significant financial matters which the full Board may wish to refer to the budget committee for detailed consideration.

The budget committee has six members: Sir Michael Bishop (Chairman), David Plowright, Bert Hardy, Michael Grade, David Scott and Frank McGettigan.

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

iii) Remuneration committee

The remuneration committee's purpose is to approve in relation to the corporation's employees:

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

The remuneration committee has a majority of non-executive members. Its membership consists of Sir Michael Bishop (Chairman), David Plowright, Bert Hardy, Michael Grade and Frank McGettigan.

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

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

PENSION PLAN

The six trustees of the Channel 4 Pension Plan meet with the Plan's managers, Legal & General Assurance (Pensions Management) Limited, several times each year. The Chairman of the trustees is Sir Michael Bishop. The trustees include an independent member, Louise Botting; two of the corporation's executive members, Frank McGettigan and David Scott; and two employee representatives, Robin Hurley and Dawn Stanley.

GOING CONCERN

Based on normal business planning and control procedures, the members have a reasonable expectation that the corporation 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.

INTERNAL FINANCIAL CONTROL

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

i) Control environment

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

ii) Risk management

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

iii) Information systems

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

iv) Control procedures

All expenditure has to be authorised in line with limits set out in a comprehensive authorisation manual. Authorisation and payment duties are strictly segregated, and bank signatory limits are clearly defined by bank mandate; and

v) Monitoring system

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

Members and advisers

CHAIRMAN

Sir Michael Bishop CBE (age 53)

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

DEPUTY CHAIRMAN

David Plowright (age 64)

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

OTHER NON-EXECUTIVE MEMBERS

Murray Grigor (age 55)

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

Bert Hardy (age 66)

Joined the Board in 1992. His appointment runs to the end of 1997. He is Chief Executive of The European newspaper having recently retired as Managing Director of Associated Newspapers Limited.

Professor Mary McAleese (age 43)

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

Sir David Nicholas CBE (age 65)

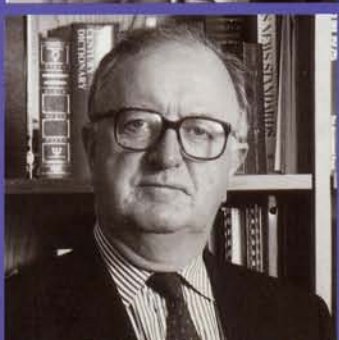
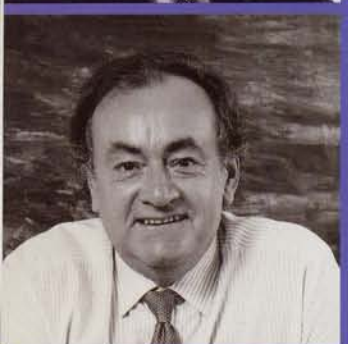
Joined the Board in 1992. His appointment runs to the end of 1997. He is a past Chairman and Chief Executive of ITN Limited.

Usha Prashar CBE (age 46)

Joined the Board in 1992. Her appointment runs to the end of 1996. She is a member of the Arts Council and a past director of the National Council for Voluntary Organisations.

Sarah Radclyffe (age 44)

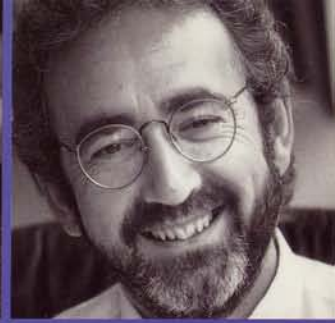
Joined the Board in January 1995. Her appointment runs to the end of 1999. She is an independent film and television producer.



Top row: Sir Michael Bishop

Middle row: David Plowright,
Murray Grigor, Bert Hardy

Bottom row: Mary McAleese,
Sir David Nicholas, Usha Prashar,
Sarah Radclyffe



Top row: Michael Grade,
Stewart Butterfield, Colin Leventhal
Middle row: Frank McGettigan, David Scott
Bottom row: John Willis



EXECUTIVE MEMBERS

Michael Grade (age 52)

Chief Executive since 1988. He is Chairman of First Leisure plc, Channel Four International Limited and VCI plc, a non-executive director of The Open College Limited and a member of the British Screen Advisory Council. Prior to joining Channel 4 he was Controller BBC1 (1984 to 1987), combining the post with that of Director of Programmes, Television from 1986; President Embassy Television, Los Angeles (1981 to 1984); and Director of Programmes, London Weekend Television plc (1976 to 1981).

Stewart Butterfield (age 47)

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

Colin Leventhal (age 48)

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

Frank McGettigan (age 44)

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

David Scott FCA (age 40)

Director of Finance since 1988. He is a director of Channel Four International Limited and British Screen Finance Limited. He joined Channel 4 as Controller of Finance and Company Secretary in 1981. Prior to that he was with Peat Marwick Mitchell (1972 to 1981).

John Willis (age 48)

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

SECRETARY

Andrew Yeates

AUDITORS

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

SOLICITORS

D J Freeman
43 Fetter Lane
London EC4A 1NA

Allen & Overy
9 Cheapside
London EC2V 6AD

BANKERS

Midland Bank plc
27/32 Poultry
London EC3P 2BX

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

Statement of members' responsibilities

The corporation is required by the Broadcasting Act 1990 to keep proper accounts and proper records in relation to the accounts, and to prepare financial statements in respect of each financial year. The members therefore prepare financial statements in compliance, to the extent applicable, with the provisions of the Companies Act 1985 and accounting standards currently in force, that give a true and fair view of the state of affairs of the

corporation and the group as at the end of the financial year and of the profit or loss of the group for that year.

The members confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1994. The members also

confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The members are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the corporation and the group, and to prevent and detect fraud and other irregularities.

Reports of the auditors

TO THE MEMBERS OF CHANNEL FOUR TELEVISION CORPORATION

We have audited the financial statements on pages 51 to 64.

RESPECTIVE RESPONSIBILITIES OF MEMBERS AND AUDITORS

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

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the corporation and the group at 31 December 1994 and of the profit, total recognised gains and cashflows of the group for the year then ended and have been properly prepared in accordance with the Broadcasting Act 1990.

COOPERS & LYBRAND
*Chartered Accountants and
Registered Auditors*
London
27 March 1995

REPORT BY THE AUDITORS TO CHANNEL FOUR TELEVISION CORPORATION ON GOVERNANCE MATTERS

In addition to our audit of the financial statements, we have reviewed the members' statement on pages 46 and 47 on the corporation's compliance with the paragraphs of the Code of Best Practice specified for our review. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not disclosed.

BASIS OF OPINION

We carried out our review in accordance with Bulletin 1995/1 'Disclosures relating to corporate governance' issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the

effectiveness of either the group's system of internal financial control or its corporate governance procedures, nor on the ability of the group to continue in operational existence.

OPINION

With respect to the members' statements on internal financial control and going concern on page 47, in our opinion the members have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

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

COOPERS & LYBRAND
Chartered Accountants
London
27 March 1995

Consolidated profit & loss account

For the year ended 31 December	Notes	1994 £m	1993 £m
Turnover	1	408.4	343.9
Cost of transmissions and sales	2	(285.7)	(278.4)
Gross Profit		122.7	65.5
Administrative expenses:			
Recurring	3	(17.1)	(15.4)
Exceptional relocation expenses	3	(9.4)	-
Depreciation	10	(8.4)	(5.7)
Operating Profit		87.8	44.4
Net interest payable	7	(4.2)	(5.5)
Profit before ITV subsidy and taxation		83.6	38.9
Subsidy payable to ITV	8	(57.3)	(38.2)
Profit before taxation		26.3	0.7
Taxation	9	(4.4)	0.6
Retained profit for the year	17	21.9	1.3

All activities are continuing.

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

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

The notes on pages 54 to 64 form part of these financial statements.

Report of the auditors page 50.

Balance sheets

At 31 December	Notes	1994 Group £m	1993 Group £m	1994 Corporation £m	1993 Corporation £m
Fixed assets					
Tangible assets	10	86.9	82.5	86.9	82.5
Current assets					
Programme and film rights	12	103.9	104.5	103.9	104.5
Debtors	13	55.7	51.6	53.4	48.7
Cash at bank and in hand		24.2	28.1	23.9	27.9
		183.8	184.2	181.2	181.1
Creditors					
Amounts falling due within one year	14	(100.5)	(75.9)	(98.5)	(73.1)
Net current assets		83.3	108.3	82.7	108.0
Total assets less current liabilities		170.2	190.8	169.6	190.5
Creditors					
Amounts falling due after one year	15	-	(50.0)	-	(50.0)
Provisions for liabilities and charges	16	(7.5)	-	(7.5)	-
Net assets		162.7	140.8	162.1	140.5
Profit and loss account	17	114.9	121.7	114.3	121.4
Statutory reserve	17	47.8	19.1	47.8	19.1
		162.7	140.8	162.1	140.5

Sir Michael Bishop Chairman
David Scott Director of Finance

These financial statements were approved by the Board of Members on 27 March 1995.

The notes on pages 54 to 64 form part of these financial statements.

Report of the auditors - page 50.

Consolidated cashflow statement

For the year ended 31 December	Notes	1994 £m	1994 £m	1993 £m	1993 £m
Net cash inflow from continuing operating activities	18(i)		100.1		27.6
Subsidy paid to ITV	8		(38.2)		-
			61.9		27.6
Returns on investments and servicing of finance					
Interest received		0.3		0.2	-
Interest paid		(4.5)		(5.7)	-
			(4.2)		(5.5)
Taxation					
UK corporation tax refunded		-		0.3	-
Overseas tax paid		(0.3)		(0.2)	-
			(0.3)		0.1
Investing activities					
Purchase of tangible fixed assets		(15.0)		(33.1)	-
Sale of tangible fixed assets		1.2		3.1	-
			(13.8)		(30.0)
Net cash inflow/(outflow) before financing			43.6		(7.8)
Financing					
Medium term loan (repayment)/drawdown	15		(50.0)		31.0
(Decrease)/increase in cash and cash equivalents	18(ii)		(6.4)		23.2

The notes on pages 54 to 64 form part of these financial statements.

Report of the auditors - page 50.

Principal accounting policies

BASIS OF ACCOUNTING

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

SUBSIDY PAYABLE TO ITV

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

ACCOUNTING POLICIES

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

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements for Channel Four Television Corporation and all of its subsidiary undertakings made up to 31 December 1994. The corporation has taken advantage of the legal exemption not to present its own profit and loss account.

ADVERTISING REVENUE

Advertising revenue is stated net of advertising agency commission paid.

SALE OF PROGRAMME AND FILM RIGHTS

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

DEFERRED TAX

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

PROGRAMME AND FILM RIGHTS

i) Programme and film rights are stated at direct cost incurred up to the balance sheet date after making provision for expenditure on programmes or films which are unlikely to be transmitted or sold.

Direct cost is defined as payments made or due to production companies or programme suppliers, but excludes any costs falling due after the balance sheet date.

ii) Research and development expenditure, consisting of funds spent on projects prior to a final decision being made on whether a programme will be commissioned, is included in programme and film rights but is fully provided for. Where research and development expenditure leads to the commissioning of a programme, such expenditure is transferred to programme cost and the provision is released. At such time as it is apparent that a development will not result in a programme, the development cost and the provision are written out of the financial statements.

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

FIXED ASSETS

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

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

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

FOREIGN CURRENCIES

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

PENSIONS

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

Notes to the financial statements

1. TURNOVER

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

	1994 £m	1993 £m
Net advertising and programme sponsorship	393.9	330.1
Programme and film sales	13.1	11.0
Sundry income	1.4	2.8
	408.4	343.9

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

2. COST OF TRANSMISSIONS AND SALES

	1994 £m	1993 £m
Transmissions		
Direct programme costs	210.4	207.0
Transmitter and distribution costs	26.7	27.1
Programme related costs	24.5	23.8
ITC regulatory costs	2.5	2.6
Sales		
Cost of advertising and programme sales	18.3	15.5
Share of programme sales income due to independent producers and third party financiers	3.3	2.4
	285.7	278.4

3. OPERATING PROFIT

The operating profit for the year is arrived at after charging:

	1994 £m	1993 £m
Recurring costs		
Depreciation of fixed assets (note 10)	8.4	5.7
Research and development	2.5	3.5
Operating lease rentals	2.1	2.9
Members' remuneration (note 5)	1.5	1.2
Equipment hire	0.3	0.2
Exceptional relocation expenses		
Rental deficit (1995)	1.6	-
Rental deficit (1996 to 2000) (note 16)	5.2	-
Loss on sale of fixed assets	1.0	-
Other relocation costs	1.6	-
Total relocation expenses	9.4	-
Fees in respect of services provided by the auditors were	£000	£000
Statutory audit	25	45
Other services, principally tax advice	64	82
	89	127

4. SEGMENTAL INFORMATION

	Turnover £m	Profit before taxation £m	Net assets £m
1994			
Broadcasting	395.3	25.7	162.1
Programme and film sales	13.1	0.6	0.6
	408.4	26.3	162.7
1993			
Broadcasting	332.9	0.5	140.5
Programme and film sales	11.0	0.2	0.3
	343.9	0.7	140.8

The profit before taxation for the programme and film sales activity is shown after a rights charge of £6.2 million (1993: £4.1 million) from the corporation's broadcasting activity.

5. REMUNERATION OF THE MEMBERS

	1994 £000	1993 £000
Non-executive members		
Chairman	35	33
Others	64	60
Executive members		
Salaries	985	802
Bonuses	245	114
Contributions to pension scheme (note 21)	152	123
Other benefits	63	55
	1,544	1,187

Bonuses based on the corporation's performance in 1994 were paid to two executive members. All bonus payments are approved by the remuneration committee.

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

	1994 Number	1993 Number
£5,001 - £10,000	6	7
£10,001 - £15,000	-	1
£15,001 - £20,000	1	-
£30,001 - £35,000	-	1
£35,001 - £40,000	1	-
£100,001 - £105,000	-	1
£105,001 - £110,000	-	2
£125,001 - £130,000	-	1
£140,001 - £145,000	3	-
£150,001 - £155,000	1	-
£170,001 - £175,000	-	1
£330,001 - £335,000	1	-
£355,001 - £360,000	-	1
£375,001 - £380,000	1	-
	14	15

Included above are amounts in respect of the highest paid member:

	1994 £000	1993 £000
Salary	327	319
Bonus	50	40
Contribution to pension scheme	50	48
	427	407

6. EMPLOYEE INFORMATION

The employment costs for all employees, including executive members, were as follows:

	1994	1993
	£m	£m
Aggregate gross salaries	19.4	17.1
Employer's national insurance contributions	1.8	1.6
Employer's pension contributions (note 21)	2.0	1.8
Total direct costs of employment	23.2	20.5

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

	1994	1993
	Number	Number
Programme commissioning and transmission	307	305
Advertising and programme sales	119	108
Operational management and administration	138	141
	564	554
Full-time permanent employees	510	506
Short-term contract staff	54	48
	564	554

7. NET INTEREST PAYABLE

	1994	1993
	£m	£m
Interest payable on bank loans and overdrafts repayable within five years	4.5	5.7
Interest receivable on short term deposits	(0.3)	(0.2)
	4.2	5.5

8. SUBSIDY PAYABLE TO ITV

The Act established a funding relationship between ITV and Channel 4 which is described in the Report of the Members on page 44. The ITC has reported that the total qualifying revenue relevant to that formula for 1994 was as follows:

	1994	1993
	£m	£m
Channel 4	393.9	330.1
ITV (including GMTV) and S4C	1,599.7	1,483.1
	1,993.6	1,813.2

Based on the ITC's report of total qualifying revenue, the subsidy payable by Channel 4 to ITV for 1994, net of a small reduction for 1993, is £57.3 million (1993: £38.2 million), representing 50% of Channel 4's qualifying revenue in excess of 14% of the total qualifying revenue for ITV, Channel 4 and S4C. That sum was paid to the ITC on 14 February 1995 for distribution between the ITV licensees.

9. TAXATION

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

	1994 £m	1993 £m
UK corporation tax @ 33.0%	2.1	0.1
Deferred taxation (note 16)	2.3	-
	4.4	0.1
Less relief for overseas taxation	(0.3)	(0.1)
Overseas taxation	0.3	0.1
Over-provision in respect of prior years' corporation tax	-	(0.7)
	4.4	(0.6)

10. FIXED ASSETS**Group and corporation**

Tangible assets

	Freehold properties £m	Leasehold properties £m	Equipment & furniture £m	Motor vehicles £m	Total £m
Cost					
At 1 January 1994	59.6	8.6	40.8	0.8	109.8
Additions	6.3	-	8.2	0.5	15.0
Disposals	-	(8.6)	(13.3)	(0.2)	(22.1)
At 31 December 1994	65.9	-	35.7	1.1	102.7
Depreciation					
At 1 January 1994	0.1	7.2	19.7	0.3	27.3
Charge for the year	0.6	1.4	6.2	0.2	8.4
Disposals	-	(8.6)	(11.2)	(0.1)	(19.9)
At 31 December 1994	0.7	-	14.7	0.4	15.8
Net book value					
At 1 January 1994	59.5	1.4	21.1	0.5	82.5
At 31 December 1994	65.2	-	21.0	0.7	86.9

11. INVESTMENTS**British Screen Finance Limited**

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

The ability of British Screen to pay dividends is restricted by its accumulated losses. Draft financial statements for British Screen for 1994 show accumulated losses since incorporation in 1985 of £8.0 million.

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

Subsidiary companies

The corporation owns the whole of the issued share capital of the following companies, all of which are incorporated in England.

	Issued ordinary £1 shares
Channel Four International Limited	1,000
Channel Four Television Company Limited	100
Film on Four Limited	100
Sport on Four Limited	2
Channel Four Racing Limited	2

Except for Channel Four International Limited, which manages the worldwide distribution and exploitation of the corporation's programme and film rights, these subsidiaries do not trade.

12. PROGRAMME AND FILM RIGHTS

	1994 £m	1993 £m
Programmes and films completed but not transmitted	29.1	37.4
Programmes and films in the course of production	44.8	37.5
Purchased programme and film rights	30.0	29.6
	103.9	104.5

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

13. DEBTORS

	1994	1993	1994	1993
	Group	Group	Corporation	Corporation
	£m	£m	£m	£m
Trade debtors	51.1	45.7	48.5	43.6
Prepayments and accrued income	4.6	5.9	4.1	4.7
Amounts due from subsidiaries	-	-	0.8	0.4
	55.7	51.6	53.4	48.7

14. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	1994	1993	1994	1993
	Group	Group	Corporation	Corporation
	£m	£m	£m	£m
Payable to ITV (note 8)	57.3	38.2	57.3	38.2
Trade creditors	9.5	8.4	9.4	8.4
Accruals	26.3	20.6	24.4	17.8
United Kingdom corporation tax	1.8	-	1.8	-
Bank loan (note 15)	2.5	-	2.5	-
Social security	0.7	0.7	0.7	0.7
Value added tax	1.5	7.2	1.5	7.2
Other creditors	0.9	0.8	0.9	0.8
	100.5	75.9	98.5	73.1

Channel 4 supports the Confederation of British Industry's prompt payment code and endeavours to pay all invoices in accordance with contract terms and, unless agreed payment terms specify otherwise, within 30 days of the date of the invoice. Any complaints about failure to pay on time should be addressed to the Director of Finance who will ensure that they are investigated and responded to appropriately.

15. CREDITORS - AMOUNTS FALLING DUE AFTER ONE YEAR**Bank loans**

At 31 December 1993 Channel 4 had drawn down the full amount of its £50.0 million medium term loan facility (see below). This was repaid during 1994.

Loan and overdraft facilities

Throughout 1993, Channel 4 had available a committed term loan facility of £50.0 million and a revolving credit facility of £25.0 million. Those facilities were re-financed on favourable terms during 1994.

Channel 4 now has a committed £60.0 million medium term revolving credit facility, £2.5 million of which was drawn down at 31 December 1994. Amounts drawn down under that facility are secured by a first legal charge over the freehold property at Horseferry Road, London SW1.

In addition to this medium term loan facility, Channel 4 has a £20.0 million unsecured overdraft facility with the Midland Bank plc.

16. PROVISIONS FOR LIABILITIES AND CHARGES

	Provisions for rental deficits £m	Deferred taxation £m	Total £m
Group and corporation			
At 1 January 1994	-	-	-
Profit and loss account	5.2	2.3	7.5
At 31 December 1994	5.2	2.3	7.5

Deferred taxation:	Amounts provided		Full potential liability	
Analysis of provision and potential liability	1994	1993	1994	1993
	£m	£m	£m	£m
Accelerated capital allowances	2.3	2.1	2.3	2.1
Less: loss available to set off	-	(2.1)	-	(6.7)
At 31 December	2.3	-	2.3	(4.6)

Leasehold property rents

The financial statements at 31 December 1994 include provision for rental deficits which will arise until 2000 on three of the buildings which Channel 4 used to occupy in Charlotte Street, London W1.

17. RESERVES

	Profit and loss account £m	Statutory reserve £m	Total £m
Group			
At 1 January 1994	121.7	19.1	140.8
Retained profit for the year	21.9	-	21.9
Transfer to statutory reserve	(28.7)	28.7	-
At 31 December 1994	114.9	47.8	162.7
Corporation			
At 1 January 1994	121.4	19.1	140.5
Retained profit for the year	21.6	-	21.6
Transfer to statutory reserve	(28.7)	28.7	-
At 31 December 1994	114.3	47.8	162.1

In addition to the requirement for Channel 4 to make payments to ITV described in note 8, the Act specifies that 25% of Channel 4's qualifying revenue in excess of 14% of the total qualifying revenue for ITV, Channel 4 and S4C should be recorded in a statutory reserve. This statutory reserve would be drawn upon if Channel 4's qualifying revenue were ever to fall below 14% of total qualifying revenue.

The Board of Channel 4 projects that Channel 4's share of qualifying revenue will remain substantially above this 14% threshold throughout the term of the present broadcasting licence which runs until 31 December 2002.

18. CASHFLOW**i) Reconciliation of continuing operating profit to net cash inflow from operating activities**

	1994	1993
	£m	£m
Operating profit	87.8	44.4
Depreciation	8.4	5.7
Decrease in programme and film rights	0.6	7.4
Increase in debtors	(4.1)	(38.3)
Increase in creditors and provisions	6.4	8.2
Exchange gains	-	(0.1)
Loss on disposal of fixed assets	1.0	0.3
Net cash inflow from operating activities	100.1	27.6

The increase in creditors and provisions includes £6.8 million of the exceptional relocation expenses (note 3).

ii) Analysis of changes in cash and cash equivalents during the year

	1994	1993
	£m	£m
Balance at 1 January	28.1	4.8
Net cash(outflow)/inflow before adjustments for the effect of foreign exchange rate changes	(6.4)	23.2
Effect of foreign exchange rate changes	-	0.1
Balance at 31 December	21.7	28.1

iii) Analysis of balances of cash and cash equivalents as shown in the balance sheet

	1994	1993	Change
	£m	£m	in year
			£m
Cash at bank and in hand	24.2	28.1	(3.9)
Bank loans and overdrafts (notes 14 and 15)	(2.5)	-	(2.5)
	21.7	28.1	(6.4)

19. PROGRAMME AND FILM COMMITMENTS

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

	1994	1993
	£m	£m
Within one year	137.4	141.8
After one year	79.7	72.3
	217.1	214.1

20. OTHER COMMITMENTS

	1994	1993
Capital expenditure	£m	£m
Amounts contracted but not provided for in the financial statements	0.9	4.3
Amounts authorised for expenditure but not contracted at 31 December	2.1	7.5

Forward foreign exchange contracts

At 31 December 1994, Channel 4 had entered into commitments to purchase foreign currencies amounting to £13.4 million (31 December 1993: £6.6 million), maturing between February and June 1995, which were entered into in order to fix the sterling cost of certain foreign programme and film purchase commitments.

21. PENSION COSTS

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

The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent independent valuation was as at 1 April 1994. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It has been assumed that the investment returns will outstrip salary increases by 2% per annum and that present and future pensions will increase at the rate of 4.5% per annum.

The pension charge for 1994 was £2.0 million (1993: £1.8 million).

The actuarial valuation at April 1994 showed that the market value of the scheme's assets was £23.8 million and that the actuarial value of those assets represented 109% of the benefits which had accrued to members, after allowing for expected future increases in earnings. The contributions of Channel 4 and employees remain at 15.3% and 6% of earnings respectively. The next actuarial valuation will be at December 1996.

22. MEMBER'S INTERESTS IN CONTRACTS

Anne Lapping, who retired as a member at the end of 1994, is a director and shareholder of Brook Associates Limited, an independent production company which was commissioned during the year to produce eight 50 minute A WEEK IN POLITICS programmes, and three half-hour SATELLITE WARS programmes. In 1994 the production costs of these programmes was £534,641 of which £20,500 was due to Anne Lapping as executive producer and £15,192 was the production fee to the production company.



CHANNEL FOUR TELEVISION

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