

MEMBERS' REMUNERATION REPORT

Chair's introduction

During the year, the Committee has focused on managing remuneration decisions in the context of increased market volatility and balancing this with fair reward decisions for staff in a year of significant change.

In addition to agreeing remuneration arrangements relating to changes at Board level, a significant activity of the Committee was gender pay gap reporting, ensuring a level of assurance around the disclosure, understanding key drivers and consideration of future actions.

MT Rainey retired from the Committee in December 2017 and I would like to thank her for the insight and contribution she brought to the Committee during her tenure. I would also like to welcome Fru Hazlitt who joined the Committee in January 2018 and who will bring considerable experience and perspective to the work of the Committee.

Annual statement by the Chair of the Remuneration Committee

This report sets out the activities of the Remuneration Committee for the year ended 31 December 2017. It discloses the remuneration policy and remuneration details for the Executive and Non-Executive Members of the Corporation. It has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013. Channel 4's status as a statutory corporation without shareholders means these provisions are not all directly applicable, but the Members have decided to comply voluntarily with the provisions to the extent that they are relevant to Channel 4, in line with the Board's commitment to high standards of corporate governance.

The report is set out in three sections: the statement by the Chair of the Remuneration Committee, the annual report on remuneration, and the policy report. The annual report on remuneration provides details on remuneration relating to 2017 and other information required by the Regulations.

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

The Remuneration Committee oversees all aspects of pay for the Executive Members and staff of Channel 4, reviewing proposals for the overall annual pay awards and variable pay schemes applicable to all staff, and the details of remuneration packages for the Executive team. The Committee's recommendations and decisions in 2017 reflect its remuneration policy, which is designed to enable Channel 4 to attract, motivate and retain high calibre staff by offering both fixed and variable pay to reward commercial and creative success, while being sensitive to Channel 4's position as a public service broadcaster.

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

COMPOSITION OF THE REMUNERATION COMMITTEE

During 2017, the Remuneration Committee comprised Stewart Purvis (Chair), MT Rainey and Lord Chris Holmes. Fru Hazlitt replaced MT Rainey from January 2018. All the members of the Committee are Independent Non-Executive members. The Chair of the Board, the Chief Executive, the Group Finance Director, the Head of Human Resources and the Board Secretary attend meetings as appropriate.

Responsibilities of the Remuneration Committee

The Committee's principal responsibilities are:

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

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

Activities of the Remuneration Committee

The Committee's work in 2017 and 2018 to date included making an award recommendation to the Board for the Corporate Variable Pay Scheme in respect of 2017 and reviewing the structure and appropriateness of the Corporate Variable Pay and Advertising Sales Schemes for 2018:

- The variable pay award for 2017 and the details of the Corporate Variable Pay Scheme are detailed on page 130
- The Remuneration Committee agreed that the Corporate Variable Pay Scheme for 2018 will remain largely unchanged from 2017 and continue to be focused on creative achievement and financial sustainability
- The Remuneration Committee agreed that the Advertising Sales Scheme for 2018 will remain largely unchanged from 2017

In 2017, reflecting a period of advertising market volatility and evolving economic conditions, the Committee, on management's recommendation, decided to predominantly defer the average pay award from April 2017 until July 2017. The Committee considered that a pay award later in 2017 would allow greater clarity on trading conditions and budget affordability.

In the interim, an award of 2% per annum for the year beginning 1 April 2017 was made to a total of 265 staff who earn Full Time Equivalent ('FTE') salaries of up to £40,000. Subsequently, an award of 1% per annum for the year beginning 1 July 2017 was made to staff who earn FTE salaries of up to £100,000.

After careful consideration and review, in January 2018, the Committee agreed that an average pay award of 2.5% would be made to all staff effective 1 April 2018.

The Remuneration Committee reviewed and approved the terms of employment for incoming Executive Board Members Alex Mahon (CEO) and Ian Katz (Director of Programmes), and the exit terms for outgoing Executive Board Members David Abraham (CEO) and Jay Hunt (Chief Creative Officer).

During 2017, the Remuneration Committee initiated a review of gender pay and conducted a review of the Corporation's employment policies, including parental leave and long-term illness among others.

The Remuneration Committee appointed Lewis Silkin LLP to provide independent professional advice to gain assurance on equal pay in preparation for gender pay disclosures. The Committee satisfied themselves that the advice was objective and independent. The fee for these services was £27,000.

The Remuneration Committee also appointed Deloitte LLP to provide assurance over the Corporation's gender pay methodology and disclosures in its 'Channel 4 Gender Pay Report 2017'.

The Channel 4 Gender Pay Report was published in March 2018 and revealed a mean gender pay gap of 28.6% as at March 2017. This was driven by two key factors. Firstly, there is a large number of women in the lower two quartiles of the organisation and, secondly, the majority of the employees in the highest-paid quartile being male. Channel 4 is targeting a 50:50 gender balance in the top 100 earners by 2023.

Remuneration Report

THE FOLLOWING PROVISIONS ON THIS PAGE ARE SUBJECT TO AUDIT

The remuneration of the Executive Members for the years ending 31 December 2017 and 2016 is made up as follows:

£000	Salary	Taxable benefits	Variable pay	Pension	Total for 2017	Salary	Taxable benefits	Variable pay	Pension	Total for 2016
David Abraham ¹	471	1	195	118	785	560	1	256	140	957
Alex Mahon ²	96	11	–	19	126	–	–	–	–	–
Jay Hunt ³	375	1	160	56	592	433	1	180	69	683
Jonathan Allan	375	1	118	30	524	355	1	182	26	564
Dan Brooke	313	1	100	50	464	308	1	125	50	484
Total	1,630	15	573	273	2,491	1,656	4	743	285	2,688

1 Ceased to be a Member on 30 October 2017

2 Appointed on 30 October 2017

3 Ceased to be a Member on 30 September 2017

The figures in the table above represent the gross amounts received by Executive Members in 2017, after taking account of salary increases during the year where applicable.

In 2017 and 2016, all of the Executive Members received pension benefits in the form of cash payments.

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

Taxable benefits includes private medical insurance for all Executive Members. Alex Mahon's taxable benefits in 2017 also included one-off legal costs in relation to her appointment paid on her behalf by the Corporation.

The remuneration of the Non-Executive Members for the years ending 31 December 2017 and 2016 is as follows:

£000	2017 salary and fees	2016 salary and fees
Charles Gurassa (term commenced on 28 January 2016)	95	88
Stewart Purvis	22	22
Simon Bax (term commenced on 5 December 2016)	22	2
Paul Geddes (term commenced on 5 December 2016)	22	2
Lord Chris Holmes (term commenced on 5 December 2016)	22	2
Roly Keating (term commenced on 5 December 2016)	22	2
MT Rainey (term concluded on 31 December 2017)	30	27
Paul Potts (term concluded on 31 December 2017)	22	22
Josie Rourke (term concluded on 31 December 2017)	22	22
Lord Burns (term concluded on 27 January 2016)	–	7
Mark Price (term concluded on 1 April 2016)	–	7
Monica Burch (term concluded on 30 September 2016)	–	16
Alicja Lesniak (term concluded on 30 September 2016)	–	16
Richard Rivers (term concluded on 30 September 2016)	–	16
Total	279	251

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

Variable pay

During the year, the Committee met to monitor performance as part of its oversight of variable pay across the business. The Committee met again in January 2018 to agree on a recommendation to the Board on variable pay once results for the year were available.

Corporate Variable Pay Scheme outline

The Corporation's business model and strategy are set out in the Strategic Report on page 103. The Corporate Variable Pay Scheme has been designed specifically to link variable pay with the business model and is based on the following areas of achievement:

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

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

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

Process for determining variable pay

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

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

After due consideration of performance during the year, the Remuneration Committee makes a judgement on the overall performance for the year and proposes an amount, based on what they consider the average payout across the Corporation should be for the year. The Committee produces a narrative assessment of its evaluation which is then presented to the Board, which has the final approval of any payout. The Committee will review the Corporate Variable Pay Scheme each year to ensure it remains appropriate.

Variable pay decision for 2017

The Committee undertook a detailed review of all the information available to it, including the CEO and Executive team's 2017 Creativity, Sustainability and Diversity Report, the Corporation's performance across a wide range of performance metrics and the progress and achievement of the Corporate objectives set for the year. An extract of the performance metrics considered by the Remuneration Committee is set out on pages 173 to 174 and includes programme quality, creative achievements, viewing performance, diversity targets, financial performance, ad sales performance, VoD viewing and commercial impact performance in key demographics. The creative achievements and financial results are also outlined in detail throughout this Annual Report.

The Committee noted that the two gateways to the scheme, meeting the licence requirements and achieving the budgeted pre-tax result, had been met.

The Committee determined that 2017 had been another successful year of remit delivery as well as achievement of all diversity goals for the year. From a creative perspective, there had been major television and film awards (pages 92 to 97) including Broadcast Channel of the Year and successful programmes across every genre. *The Great British Bake Off* was launched on Channel 4 to critical acclaim and some of the largest audiences in Channel 4's history. As well as *F1* coverage continuing to attract strong audiences, Channel 4 Sport also covered the *World Para Athletics Championships* and attracted the largest ever audiences for women's football with its coverage of the UEFA Women's Euros. The Corporation maintained or increased its lead over other broadcasters compared to 2016 across a range of Statement of Media Content Policy ("SMCP") metrics (pages 62 to 89). The Committee recognises that in the pursuit of creative innovation not all endeavours will be successful; however, overall, 2017 had been another strong year of creative performance.

The Committee also determined there had been robust commercial performance in an extremely challenging advertising market which declined in 2017 and contributed to reduced Corporation revenues in 2017. Revenue was aided by Digital revenues which grew by 22% and Channel 4's digital platform, All 4, achieved viewing growth of 16% in 2017 and nearly 17 million registered viewers by the end of 2017. The Indie Growth Fund progressed with a further two investments in 2017 and also made its first two sales from the portfolio, generating capital returns above expectations. The Commercial Growth Fund also progressed, with four further investments in 2017 with the total portfolio value increasing to £21 million.

Despite the challenging market conditions, significant competitive pressures and a reduction in the total content budget, spend on originated content reached a record level in 2017 and portfolio and main channel viewing share were flat at 10.5% and 5.9% respectively (page 84), while the key 16-34-year-old and ABC1 demographics increased and held portfolio viewing share respectively.

After a careful and detailed consideration of performance for 2017, the Committee recommended that, following a strong year of creative performance and a year of robust commercial performance despite the overall decline in revenue and taking into account the challenging market conditions, staff should receive an average of 80% of their maximum opportunity under the Corporate Variable Pay Scheme.

Advertising Sales Scheme

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

THE FOLLOWING PROVISIONS ON THIS PAGE MARKED WITH * ARE SUBJECT TO AUDIT

Variable pay awards to Executive Members*

The Committee made the following awards to Executive Members in respect of 2017 performance:

- David Abraham was awarded an amount of 41% of year-end salary under the Corporate Variable Pay Scheme which was pro-rated to his last day in office as CEO
- Jay Hunt was awarded an amount of 32% of year-end salary under the Corporate Variable Pay Scheme
- Dan Brooke was awarded an amount of 32% of year-end salary under the Corporate Variable Pay Scheme
- Jonathan Allan was awarded an amount of 32% of the half of his year-end salary which is subject to the Corporate Variable Pay Scheme. He also received £57,000 through the Advertising Sales Scheme
- Alex Mahon was not eligible for an award under the Corporate Variable Pay Scheme

Taxable benefits*

Executive Members are eligible for a range of taxable benefits, which can include a pension allowance and membership of a private medical insurance scheme (which is provided to all staff). With the exception of one-off legal costs paid by the Corporation on behalf of Alex Mahon in respect of her appointment in 2017, no expenses claimed by Executive Members were chargeable to UK income tax as they were incurred wholly for the purposes of the business of the Corporation.

Pension*

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

All of the Executive Members received cash payments in lieu of pension benefits in 2017.

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

CEO remuneration table

The table below shows the percentage change in remuneration of David Abraham, the CEO, for the majority of 2017, and the Corporation's employees as a whole between the years 2016 and 2017:

	CEO	All staff ¹
Salary and fees	0%	0 to +2% ²
Variable pay	-24%	-34%
Total	-5%	-4%

- 1 All staff includes the CEO but excludes the costs of a small number of on-screen talent who are remunerated via Channel 4's payroll. This is consistent with the information in note 4 to the financial statements.
- 2 An award of 2% p.a. for the year beginning 1 April 2017 was made to staff earning Full Time Equivalent ('FTE') salaries of up to £40,000. An award of 1% p.a. for the year beginning 1 July 2017 was made to staff who earn FTE salaries of up to £100,000.

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

Payment for loss of office*

No payments were made for loss of office in 2017 to Executive Members, and at the balance sheet date there were no provisions made for compensation payable for early termination of contracts or loss of office to Executive Members.

Payment to past Members*

David Abraham continued to receive salary, taxable benefits and payments in lieu of pension benefits between 30 October 2017 and the end of his notice period on 31 December 2017. As outlined above, he also received a variable pay award for 2017 based on the achievement of performance. The amount of salary and variable pay disclosed in the single figure table on page 129 relates to his period of service as a Member to 30 October 2017.

Jay Hunt continued to receive salary, taxable benefits and payments in lieu of pension benefits between 30 September 2017 and the end of her notice period on 14 January 2018. As outlined above, she also received a variable pay award for 2017 based on the achievement of performance. Jay Hunt is also eligible for a variable pay award under the scheme in 2018, pro-rated to the end of her notice period. The amount of salary and variable pay disclosed in the single figure table on page 129 relates to her period of service as a Member to 30 September 2017.

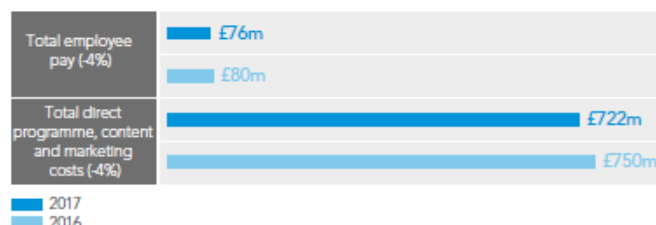
No other payments were made to past Members in 2017.

Members' service contracts

Members' service contracts are kept available for inspection at the Corporation's Head Office, 124 Horseferry Road, London SW1P 2TX.

Relative importance of spend on pay

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



The Members have chosen the change in total direct programme, content and marketing costs as disclosed in note 2 to the financial statements as the comparative measure for relative spend on pay as it is considered to be the most significant indicator in understanding total Corporation expenditure year-on-year. Employee pay was approximately 11% (2016: 11%) of on-screen expenditure.

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

By Order of the Board

STEWART PURVIS

Chair of the Remuneration Committee
28 March 2018

Remuneration policy for 2018

The remuneration of Executive Members is determined by the Remuneration Committee, the membership and terms of reference of which are detailed on page 128. In framing its remuneration policy, the Committee has given full consideration to the best practice provisions of the UK Corporate Governance Code. There have been no significant changes to the remuneration policy for 2018.

Future policy table

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

Component	How this supports the strategic aims of the Group	How this operates	Maximum amount payable	Performance measures
Salary	Offering competitive remuneration packages helps the Corporation attract, motivate and retain a high calibre Executive team.	Salaries are paid monthly. The Remuneration Committee discusses the performance of each Member with the Chair of the Board and with the Chief Executive for other Executive Members.	Annual salaries for the year to 31 December 2018 are approved as follows: – Alex Mahon – £569,250 from 1 April 2018 – Ian Katz – £355,000 from 8 January 2018 – Jonathan Allan – increase from £380,000 to £425,000 with effect from 1 March 2018, reflecting his increased responsibilities in relation to the Nations and Regions agenda – Dan Brooke – increase from £313,388 to £321,223 with effect from 1 April 2018 Salaries are usually reviewed annually in the first quarter of the year.	None.
Taxable benefits		The Corporation offers a range of benefits to all staff including private medical insurance. Other benefits, such as life assurance, are available through a flexible benefits scheme.	The value of private medical insurance in 2018 is expected to range from £919 to £2,297 for Executive Members.	None.
Pensions		The Corporation currently offers a defined contribution pension scheme for new staff. Certain Executive Members also receive cash payments in lieu of pension benefits.	The maximum amount contributed by the Corporation under the defined contribution scheme is 13% of pensionable salary. Alex Mahon, Jonathan Allan and Dan Brooke are not members of the defined contribution scheme and receive cash payments in lieu of pension benefits.	None.
Variable pay		All of the Executive team participate in the Corporate Variable Pay Scheme. Payout is determined annually by the Remuneration Committee shortly after the financial year end based on performance and paid in March following the year end. Jonathan Allan's variable pay comprises a 50:50 split between the Advertising Sales Scheme and the Corporate Variable Pay Scheme.	The Corporate Variable Pay Scheme will pay up to 50% of total gross salary for the Chief Executive and up to 40% for the rest of the Executive Members. The Advertising Sales Scheme is linked to advertising revenue and paid bi-annually throughout the year based on performance.	The Remuneration Committee agreed that the Corporate Variable Pay Scheme and the Advertising Sales Scheme for 2018 will remain largely unchanged from 2017. Details of the schemes are set out on page 130.

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

There are no other differences between the Corporation's policy on the remuneration of Directors and the policy on the remuneration of other employees.

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

Component	Purpose	Operation
Fees	The Non-Executive Members constructively challenge and help develop proposals on strategy, and bring strong, independent judgement, knowledge and experience to the Board's deliberations.	Fees are set by Ofcom, paid monthly and reviewed periodically. Annual fees for the year to 31 December 2018 are expected to be: Chair – £95,000 Deputy Chair – £29,940 Other Non-Executive Members – £22,177

Non-Executive Members are appointed by Ofcom and service contracts are subject to fixed terms of a maximum of three years. Fees for Non-Executive Members do not contain any provisions for recovery of sums paid. No other components of remuneration are available for Non-Executive Members.

Non-Executive Members are entitled to reimbursement of travel and accommodation expenses incurred in connection with attending Board and other meetings in relation to fulfilling their duties.

Remuneration policy framework

The Corporation looks to attract, retain and motivate the best people in the market. To be able to do this it looks to offer a fair and competitive reward package. The Committee will seek to align the remuneration package offered to new Executive Members with the policy, which will involve determining remuneration appropriate and necessary to recruit and retain the individual. A summary of the policy is set out below:

Fixed remuneration	Base salary is benchmarked against the external market and broadly aligned to market median.
Variable remuneration	Awards under the Corporate Variable Pay Scheme are limited to 50% of base salary for the Chief Executive and 40% of base salary for other Executive Members.
Benefits	Executive Members are provided with private medical insurance, life assurance, Group income protection and health screening. All other benefits are provided on a voluntary basis. The Corporation has a standard pension contribution scale but will consider paying a cash alternative depending on individual circumstances. The Corporation will pay legal fees incurred by any new Executive Member in respect of their appointment.
Internal promotions	In the event that an internal candidate was promoted to the Board, legacy terms and conditions would normally be honoured, including pension entitlements.

The Committee monitors the effectiveness of Executive Member remuneration and has regard to the impact and compatibility with remuneration policies in the wider workforce. During the year the Committee is provided with information regarding pay in the wider workforce which gives additional context for the Committee to make informed decisions. The Committee determines the overall approach for salary and variable pay for the overall workforce and similar principles are applied when considering Executive Member arrangements.

Policy on payment for loss of office

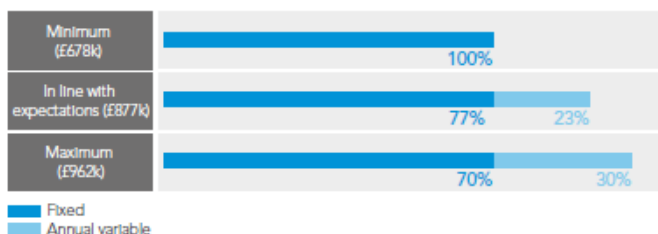
The service contracts of all the Executive Members are subject to notice periods of one year or less. The Committee's policy is to make payments in line with contractual obligations covering payment in lieu of notice including base salary and other benefits.

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

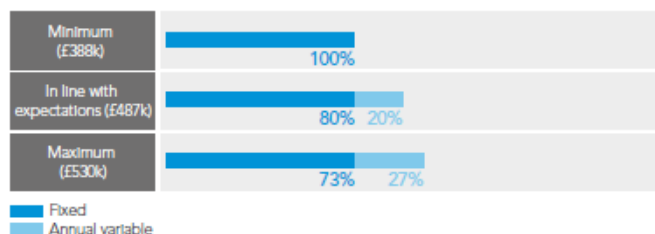
Illustration of application of remuneration policy

The graphs below represent the variations in the remuneration at different levels of performance for the 2018 remuneration policy for the Executive Members:

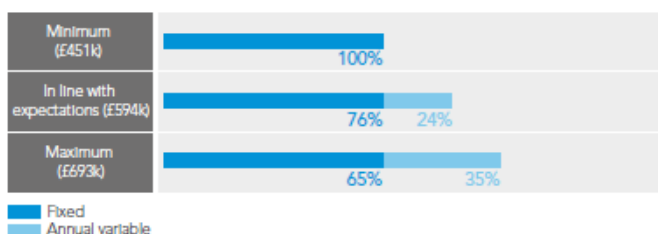
Chief Executive Officer



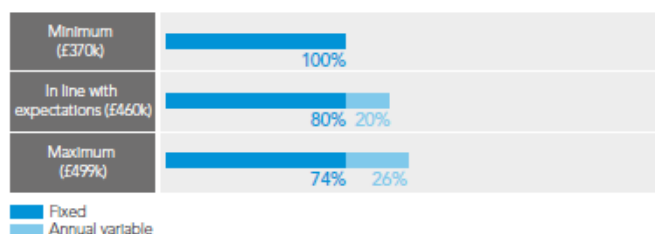
Director of Programmes



Chief Commercial Officer



Chief Marketing and Communications Officer



The variable element of total remuneration in relation to 'in line with expectations' reflects the average award under the Corporate Variable Pay Scheme over the last ten years.

Audited information

The Members' Remuneration Report (pages 128 to 134), where indicated, has been audited by the Corporation's auditor in accordance with Schedule 8 of the Companies Act 2006 as if those requirements were to apply to the Corporation.