Review

Channel Four Television Corporation Report and Financial Statements 2006

BROADCASTING ACT 1990

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

Review

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April 2007

Contents

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Chairman

Luke Johnson

Channel 4 is a remarkable British institution which plays an important role in our society. It stimulates debate, challenges the orthodox, and addresses audiences who might otherwise be neglected. Channel 4 pushes the boundaries: sometimes this works, sometimes not: but it remains a powerful force of enlightenment and civilization. It delivers an astonishing array of programming, with far more individual voices on-air than any other channel. It provides a crucial outlet for the hundreds of independent television producers who make Britain's creative economy so fertile. And it distributes this universe of talent without any cash subsidy from the taxpayer.

But this magic formula, which has worked so well for 25 years, is starting to fade. The commercial television industry is under more competitive pressure than ever before. Last year we were the only terrestrial broadcaster to maintain our audience share, but despite this our financial surplus fell. In 2007 we will be unable to increase programme budgets in line with industry cost inflation, so inevitably our output will suffer somewhat. Digital switchover will see us lose our gifted analogue spectrum and much of our competitive advantage. In coming years we shall be forced to steadily reduce our output of public service broadcasting, and focus more and more of our schedule on strictly commercial shows, unless we receive help in kind. The one off, the quirky, the eccentric, the intellectual – all this material will disappear if nothing is done by Ofcom and government.

The Board of Channel 4 is determined that such a vital part of modern Britain's culture should not be neglected. I believe that Channel 4 should be given material support to help it retain its role as the only genuine rival to the BBC of serious television. The Board believes the option of doing nothing offers no real future, and would be a tragic waste of an important organisation.

Years of discussion resulted in a £3 billion annual licence fee for the BBC. Now Channel 4 needs some modest attention from policy makers, and perhaps 3% of that sum as support. Ofcom are currently undertaking a review of our future and we sincerely hope they advise government of the need for action if Channel 4 is to be preserved for future generations.

Since I joined Channel 4, almost the entire Board has changed and our corporate governance has been transformed. I believe the Corporation benefits from a strong executive team and an excellent group of committed non-executives, including a new, high-profile Deputy Chairman, Lord Puttnam. We are fortunate to enjoy their services, and also the diligence of our full-time staff, and the thousands of independent contributors to the programmes we commission.

With their various contributions, Channel 4 ends up making some of the very best television anywhere. And we are now expanding our unique offering into digital radio and ever more online, to be certain we keep in touch with consumers. But to maintain quality and scale, we need our stakeholders to back us.

Chief Executive

Andy Duncan

Channel 4 was voted Channel of the Year at the Broadcast Awards in January and again at the Edinburgh International TV festival in August. To be recognised in this way by colleagues and competitors in the television industry is gratifying.

Much more importantly, we got the same endorsement from our audience, with core Channel 4 growing its share while every other established terrestrial channel experienced another year of decline. In the shifting sands of digital media that achievement is a huge tribute to the highly talented staff working at Channel 4 and our external partners in the independent production sector.

Channel 4 continues to be a success because it consistently offers viewers something they can't find elsewhere on their programme guides – innovation, distinctiveness, diversity, risk-taking – the core qualities set out in our public service remit. We stick to our remit because that is our job, but also because it is what viewers want us to do.

That distinctive Channel 4 perspective on the world reaches across the whole of our output, from news and current affairs, with 'Channel 4 News' and 'Dispatches' in outstanding form, to entertainment (where we won every new talent award on offer at the British Comedy Awards) and film and drama where films including 'Death of a President', 'The Last King of Scotland' and 'Longford', have been as strong, varied and controversial as ever, and, once again, have won awards around the world, including an Academy Award.

Even that is only half the story. The decision to make our FilmFour channel free to viewers was an even greater success than we had anticipated. Along with E4 and More4, which also grew their audience shares, Channel 4 Group now has four free-to-air channels available on all main platforms, as we prepare for the forthcoming switchover process. Our online services continue to blossom, expanding to include a radio service at 4radio.com as a prelude to our leading a consortium to bid for the second national digital radio multiplex in 2007. Towards the end of the year we launched 4oD our video-on-demand service, making us the first broadcaster in the world to make its entire commissioned schedule available.

These achievements on-air and online are all the more remarkable for being won in a difficult market. In 2006 Channel 4's portfolio share of the television advertising market reached its highest ever level, but the TV advertising market as a whole declined significantly. As a result Channel 4's surplus has fallen substantially compared to 2005, with a direct impact on our programme budget.

Whilst some of the pressure on advertising in 2006 was cyclical, we continue to believe that there will also be structural impacts on the model for commercially funded public service broadcasting arising from the drive towards switchover. We welcomed, therefore, the start of Ofcom's promised Financial Review of Channel 4 in the latter part of 2006, which provides a crucial opportunity for us to work with our stakeholders to ensure that, as we move from the analogue to the digital world, mechanisms are put in place to support Channel 4's ongoing contribution to public service plurality. In our 25th Anniversary year, there is a vital opportunity to agree the necessary policy actions now in order to ensure we can continue to fulfill our public purpose going forwards. The Government's decision, in its announcement on the BBC Licence Fee in January of 2007, to keep open the option of the BBC contributing to Channel 4's digital switchover costs was also welcome.

Of course we cannot rely solely on others to keep Channel 4 in good condition. Our strategy must evolve continually to accommodate the pace of change, and it will. But it is driven by a single underlying aim:- to give our very demanding audiences what they want, when they want it and on whatever platform they choose. That is how we intend to keep public service broadcasting as the pacesetter, not the also-ran of the digital world.

Drama

Making you think

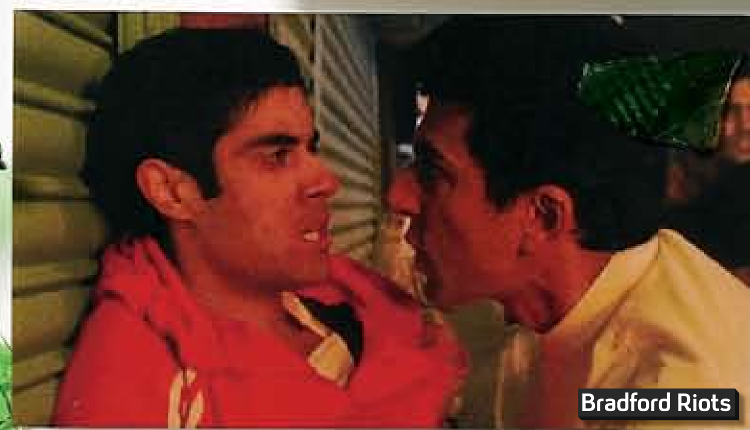
The Road to Guantánamo

Channel 4's record investment in original drama produced some of the most remarkable and controversial television of 2006

Longford

Channel 4's drama commissions have always focused on original writing about contemporary Britain. In a year full of powerful and acclaimed work, 'Longford' stands out. Described by its writer, Peter Morgan, as the story of a love affair between the two most hated people in Britain, the film offered a new perspective on the Moors murderers, in particular on the complicated relationship built up over several decades by Myra Hindley and her most famous prison visitor, the Earl of Longford. A very different but equally controversial drama, 'The Road to Guantánamo', by Michael Winterbottom, told the story of the Tipton Three, young men from Tipton in the Midlands who found themselves in the wrong place at the wrong time and were abducted from Pakistan by US forces to Guantánamo Bay. Other major dramas of the year included 'Bradford Riots', a retelling of the most violent night on British streets for 20 years; 'All in the Game', which exposed the cut-throat and sometimes corrupt world of Premiership football, starring Ray Winstone; and the return of 'Shameless', fast becoming the iconic portrait of urban Britain at the beginning of the twenty-first century.

All in the Game



Bradford Riots

News

The heart of public service broadcasting

The most respected programme of news and analysis on British television, Channel 4 News has grown from TV to radio, mobile and online

In recent years, while some other broadcasters have reduced their commitment to news and diluted its quality and range, Channel 4 has extended the length and frequency of its daily bulletins, and at the same time grown its reputation as an authoritative, serious source of news, coupled with analysis and comment which is opinionated and lively. 'Channel 4 News' continued to develop in 2006 with a new and already well-respected 30 minutes of daily news on the More4 digital service. On radio, the launch of 'Morning Report', a 30-minute daily programme of radio news presented online, offers a counterpoint to the BBC's 'Today' programme. The expansion of news updates and headline information services on mobile platforms continues apace, while Snowmail, Jon Snow's personal daily news blog, generates comment and debate in ever-widening circles. These news services are at the core of Channel 4's role as a public service broadcaster with a particular remit to be innovative and distinctive. 'Channel 4 News' not only attracts a younger audience profile than any comparable news programme, research reveals that it is most trusted by ethnic minority viewers to represent issues of most concern to them.

Entertainment

It's what TV was invented for

The Friday Night Project

The IT Crowd

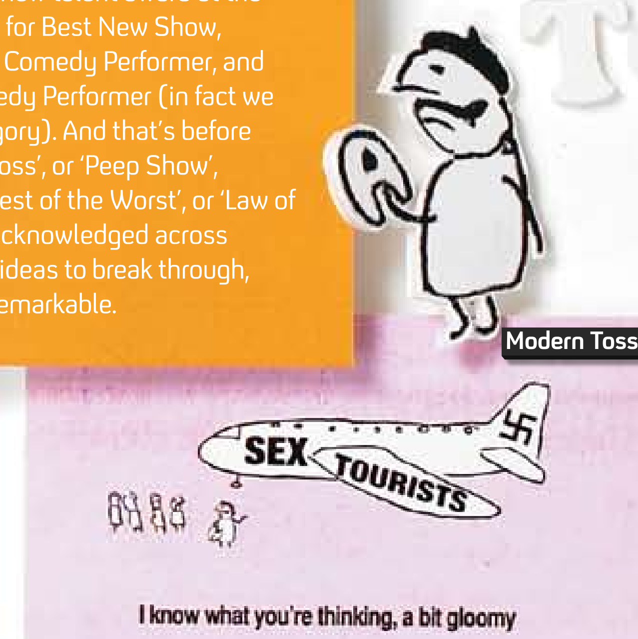
New ideas, new talent and original entertainment are the holy grail for any television broadcaster. In 2006 Channel 4 discovered an abundance of all three

Green Wing

Star Stories

One of the most distinctive contributions public service broadcasters bring to British television is the range and quality of original comedy and entertainment. Without Channel 4 and the BBC there wouldn't be much of it at all – just think of 'Bremner, Bird and Fortune', 'Green Wing', or 'Derren Brown: Mind Control' – three of Channel 4's most-loved shows. A more recent example is 'The Friday Night Project', originally conceived as an experimental platform for new talent, especially comedy talent, which has grown to be an international success, winning the Rose d'Or at Montreux for Best Variety Programme of 2006. That ongoing commitment to nurturing talent paid other dividends for Channel 4 during the year, including every single new talent award at the British Comedy Awards – 'Star Stories' for Best New Show, Charlotte Church for Best New Female Comedy Performer, and Russell Brand for Best New Male Comedy Performer (in fact we had all three nominations in that category). And that's before you get to 'The IT Crowd', or 'Modern Toss', or 'Peep Show', or '8 Out of 10 Cats', or '4Laughs', or 'Best of the Worst', or 'Law of the Playground'. In a year which was acknowledged across the industry as a difficult time for new ideas to break through, Channel 4's success was all the more remarkable.

The Charlotte Church Show



Modern Toss

Documentaries and Current Affairs

Telling it like it is

Unreported World – South Africa

Jamie's Return to School Dinners

Undercover Copper

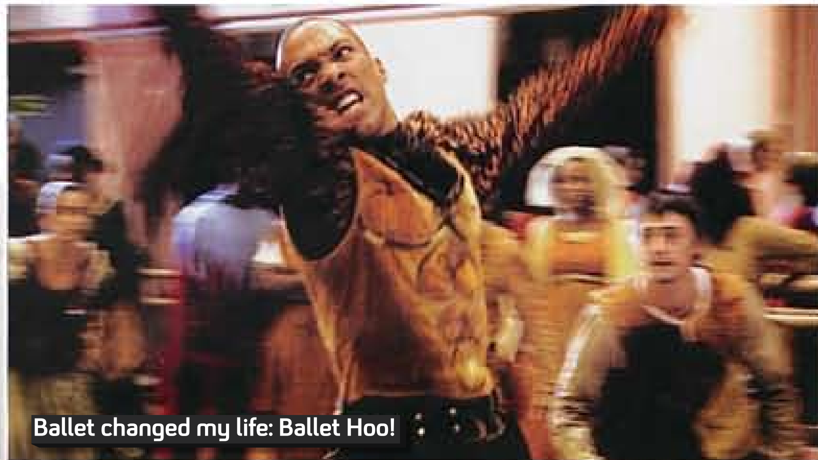
Iraq's Missing Billions

Channel 4's two long-established current affairs strands, 'Dispatches' and 'Unreported World' shine more light into more corners of Britain and the world than ever before – and in peak time

With 'Dispatches' now the only current affairs programme on mainstream television regularly running in-depth one-hour investigative stories in peak viewing time, Channel 4 found itself generating headlines and public debate as never before. 'Iraq's Missing Billions' detailed the fraud and corruption which has denied Iraqi people much of the benefit promised to them in reconstruction aid; and 'Undercover Copper', filmed secretly over four months by a senior police officer, revealed disturbing attitudes and practices in Britain's police culture. Living up to its name, 'Unreported World' offered unique insights into major events being largely ignored by the British and world press; for example, a report from South Africa exposing the growing tide of illegal immigrants fleeing the misery of Zimbabwe for the hope of a better life in South Africa. Meanwhile, in 'Jamie's Return to School Dinners', chef Jamie Oliver examined the government's claim to have responded with fresh ideas and new money to his earlier series exposing the shameful quality of Britain's school dinners. More4's Iraq Week featured a series of reports which, in the words of Time Out's critic, offered "a rare opportunity to see beyond the headlines in a comprehensive study of the chaos war brings". With an eye to the future, Channel 4's broadband service 4Docs continued to provide a platform for extraordinary new documentary talent and stories overlooked by the mainstream media.

Ballet changed my life


How Music Works


Ballet changed my life: Ballet Hoo!

The Guardian said it was "awe-inspiring"; the Radio Times thought it a "life affirming treasure"; the Independent called it "a testament to the transformative power of art"

In partnership with Birmingham Royal Ballet and a front-line charity, Youth at Risk, Channel 4 worked with 200 young people from the West Midlands to create a new ballet production of Romeo and Juliet. A six-part series, 'Ballet Hoo', followed them through eighteen months of sweat, tears and struggle, culminating in an extraordinary live TV event as the dancers, performing for an audience filled with friends, families and curious neighbours, proved that art really does have the power to change lives. For many of them, the rigorous demands of ballet training had helped bring some structure and discipline to their often chaotic lives and open up the possibility of a brighter future. Part of Channel 4's long-term ambition to connect the arts with new audiences, 'Ballet Hoo' was only one of several pioneering arts initiatives during the year, including Howard Goodall's four-part series 'How Music Works' – immediately seized on by music teachers up and down the country as a wonderfully effective teaching tool – and an animated film version of Prokofiev's 'Peter and the Wolf'.


Ballet changed my life: Ballet Hoo!


Peter and the Wolf

Re-launch of Film4 channel

The most distinctive force in British cinema


Launch night premiere – Lost in Translation


Film4 Self Portraits

Channel 4 is the broadcaster with the strongest and most creative commitment to independent British, and world cinema

In July 2006 Channel 4 made its dedicated film channel, Film4, free, so that what had previously been available to 300,000 subscribers could be seen in a majority of British households. Viewers loved it. Within weeks, Film4 had twice as big an audience as any other film channel, and in an average week more young people now watch Film4's stimulating mix of "great films you know and great films you don't" than go to all the cinemas of Britain. In parallel with this new free service will come a range of video-on-demand pay services, allowing audiences to develop their own specialist tastes and interests in a way which would never be possible in the competitive world of mass-market television channels. In time, all of these services will be backed up by online information and archive material. We believe that this mix of free and paid-for services may allow us to deliver what until now has been an impossible dream for a commercial broadcaster – to create a film service which caters for every taste from the solidly mainstream to the most obscure, but which is also financially viable.

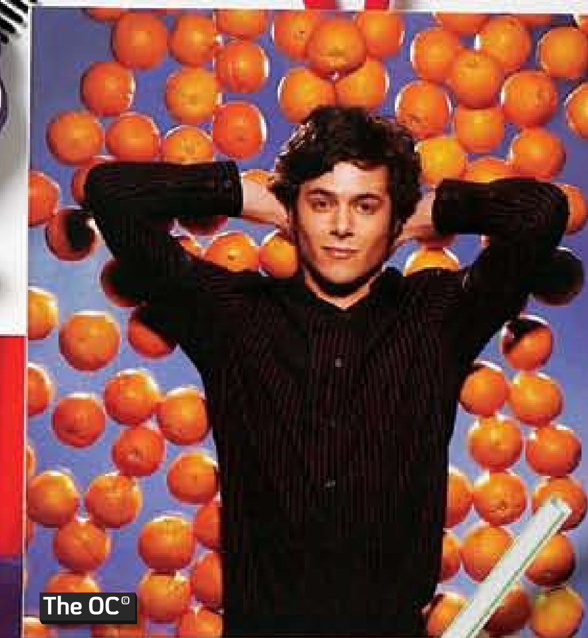
Launch advertising

E4

The top digital channel for young viewers

Channel 4's entertainment channel, E4, grew its share of 16–34 year old viewers by 17% in 2006, re-enforcing its position as the most popular digital channel for young audiences

Following its successful switch from pay to free access in 2005, E4 launched its most ambitious range of new and original programmes, led by the six-part series 'Russell Brand's Got Issues' in which our eponymous hero entertained, interrogated and shocked his guests and audiences in a live studio show. Another successful new series, 'Funny Cuts', could be the route by which another Russell Brand finds popular recognition. Designed as a platform for a rising generation of comedians and comic writers, 'Funny Cuts' continues Channel 4's enduring commitment to nurturing new talent. Better known for its 'Big Brother' spin-off shows, including 'Big Brother's Big Mouth', E4 launched a reality show of its own with 'Stop Treating Me Like a Kid', in which half a dozen teenagers tested their ability to live together as responsible, independent adults. A parallel website provided space for young people to express their views on whether our society demands too much or too little of its adolescents. Meanwhile, underpinning the most successful year ever for E4, 'Shameless', 'The OC', 'Desperate Housewives' and a clutch of other long-running series continued to give E4 audiences their tried and tested favourites.



The OC©

Russell Brand's Got Issues

Funny Cuts

Stop Treating Me Like A Kid

More4

Death of a President

Death of a President

Barely a year since its launch, More4 already has a reputation for some of the most thought-provoking programming on television

Interweaving recent news footage with dramatic narrative in an uncannily convincing way, 'Death of a President' offered a fictional but terrifyingly plausible scenario of the assassination of President George W. Bush. Powerful enough to win major awards in some countries, controversial enough to be shunned by all the major US networks, the film explored how the fears and prejudices unleashed by the United States' "war on terror" might play out in the traumatic aftermath of a presidential assassination. Written and directed by Gabriel Range, the work was commissioned by and premiered on More4, part of Channel 4's wider strategy of extending its commitment to original drama. Other original More4 commissions included Leo Regan's film 'Scars', the true-life story of a man haunted by his own decades-long addiction to violence; and an irreverent comedy documentary about the private life of the England football manager, Sven-Göran Eriksson, made by the master of voyeurism, Alison Jackson.


Sven: The Coach, The Cash and His Lovers


Scars

Film4 films

Making films that matter


The Last King of Scotland

As digital technology blurs the distinction between film and television, Film4 films continue to focus on talent – and keep on winning Oscars

Film4 has always focused on giving new British talent its first break, and established British talent room to breathe. That approach, rather than a preoccupation with box-office success, has made a rich and unique contribution to contemporary British cinema. As digital technology begins to dissolve the divide between film and television, it becomes ever clearer that both media draw from the same talent pool of writers, directors and actors. Within Channel 4, that reality is reflected in a growing number of successful crossover projects and an easier flow of talent between the two media. For audiences, all that matters is that Film4 continues to be one of the brightest stars of the British film industry, and 2006 was one of its most successful years ever. It began with Michael Winterbottom's 'The Road to Guantánamo' winning a Silver Bear at the Berlin Film Festival and 'Six Shooter' winning the Oscar for Best Short Film (the second year running in which Film4 first-time directors won the award), and continued with 'Brothers of the Head' winning the Michael Powell Award for Best New British Film and 'This is England' taking the BIFA Award for Best British Film. To round the year off, two extraordinary films epitomising British film-making at its brilliant best, 'Venus' and 'The Last King of Scotland', both received Oscar nominations.


This is England


Six Shooter


Venus

4oD

Keeping up with the audience

Channel 4's core audience includes many 'early adopters' of new technology – that's why we have pioneered new services in mobile and broadband and, in 2006, became the first broadcaster to offer a full video-on-demand service

Channel 4 launched 4oD, its video-on-demand service, in October, first on cable and shortly afterwards on BT Vision, with over 50 hours of catch-up programming each week and an archive library of 600 hours. In December, the Channel's own online platform followed with a downloadable player allowing viewers to watch both past and present shows. The service launched with a mixed ecology of free and paid-for content, with advertising and subscription models to follow. It is continually evolving, with streaming (in other words, content that can be watched in real time, as with live television) being introduced to complement the downloadable offering (which is a higher quality but means viewers must allow time for a particular film or programme to be downloaded at a speed appropriate to the quality of equipment they own), and with more sophisticated functionality being added over time. As the first broadcaster fully to enter the video-on-demand world, Channel 4 will be experimenting with services and payment options to ensure that video-on-demand becomes an effectively integrated part of our broader multi-platform strategy, with television, online and customised services working in harmony to keep Channel 4 at the forefront of technology and of audience expectation.

Channel 4 Radio

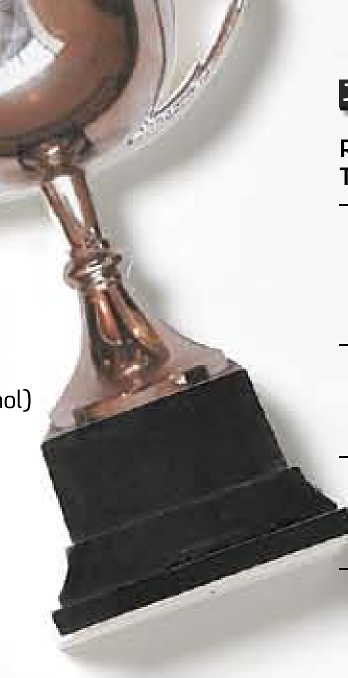
Re-inventing radio

Channel 4 is bringing its unique blend of independence, inventiveness and public services to radio

In a world in which audiences expect to move seamlessly between images, audio and text, radio faces very particular challenges – challenges which Channel 4 has begun to embrace as part of a longer-term strategy to become a broadly-based media organisation. In 2006 Channel 4 expanded the range of its internet-based audio services with a 30-minute morning news programme, podcasts in support of television shows as varied as 'Lost' and 'Big Brother', daily podcasts from the Edinburgh Festival, and a radio show based on our hugely successful slashmusic website to which 12,000 unsigned bands have already uploaded their music. What caught the public imagination most of all was the announcement that 'The Tube', Channel 4's iconic television music series of the 1980s, would be reborn, but as a radio show. In the belief that Channel 4's imagination and creativity could revitalise radio in Britain, the decision was taken to bid for the second national digital radio multiplex offered by Ofcom. The Times wrote of our plans "Channel 4 Radio…has the right idea", while the Guardian commented "…it could be just the breath of fresh air the regulator and listener want".

Awards

Broadcast Awards Channel of the Year and more individual BAFTA and RTS awards than any other channel



January

Broadcast Awards
– *Channel 4*
Channel of the Year
– *Sex Traffic* (Granada)
Best One-off Drama
– *The Real Sex Traffic*
(True Vision)
Best Documentary
– *The Ashes* (Sunset + Vine)
Best Sports Programme
– *Jamie's School Dinners*
(Fresh One)
Highly Commended

South Bank Awards
– *Elizabeth 1* (Company)
TV Award

Best One Day Festival Of 2005
– *T4 On The Beach*
(At It Prods)

Revolution Magazine
– *Invasion*
Online Campaign
Of The Month

February

RTS Journalism Awards
– *Channel 4 News* (ITN)
Young Journalist
Of The Year (*Faisal Islam*)
Specialist Journalism
(Jonathan Miller)
Television Journalist
Of The Year (Jon Snow)
– *Congo's Heart Of Darkness*
(Channel 4 News ITN
& Free Radical Films)
News – International
– *Leak Of Attorney General Advice On Legality Of Iraq War*
(Channel 4 News ITN)
News – Home

Berlin Film Festival
– *The Road to Guantánamo*
Silver Bear

March

The Oscars
– *Six Shooter*
Best Short Film

Animation Awards
– *Rabbit* (Run Wrake,
Arts Council England)
Best Short Film
Best Film at the Cutting Edge
– *Who I am and What I Am*
(David Shrigley
& Chris Shepherd)
Public Choice Best Short
Film Joint Winners
– *City Paradise*
(Gaelle Denis)
Best Comedy
– *Bromwell High*
(Hat Trick & De-code)

RTS Programme Awards
– *Make Me Normal*
(Century Films)
Breakthrough Award –
Behind The Screen
(Jonathan Smith)
– *The Unteachables*
(talkbackTHAMES)
Breakthrough Award –
On Screen (Phil Beadle)
– *Trafalgar Battle Surgeon*
(Hardy & Sons)
History
– *Jamie's School Dinners*
(Fresh One)
Documentary Series
General
– *Anatomy For Beginners*
(Firefly)
Science & Natural History
– *Deal Or No Deal*
(Endemol West)
Daytime Programme
– *The Government Inspector*
(Mentorn)
Single Drama
– *Shameless 2 & The Queen's Sister*
(Company Pictures
/Touchpaper)
Actor - Male (David Threlfall)
– *Peep Show*
(Objective Production)
Writer - Comedy (Sam Bain
& Jesse Armstrong)

Creative Circle Awards
4 Gold, 4 Silver, and 3 Bronze

Reims Television Festival
– *Yasmin*
Best Television Film
Best Actress
(Archie Panjabi)

Muslim News Awards
– Exellence In The Media
Award (Jon Snow)

British Environment & Media Awards
– *Channel 4 News*
Best TV News & Current
Affairs Coverage
(For Jonathan Rugman's
Reports On America's Attempt To Tackle Climate Change)

Revolution Magazine Awards
– *Fourdocs*
Best Online Property From
A Media Owner Award

Ivca Awards (International Visual Communication Association)
– Gold Award For Best
Website
– Silver Award For Best Use
Of Web TV

Observer Food Magazine Best Television Programme
– *Jamie's School Dinners*
First Prize
– *Ramsay's Kitchen Nightmare's*
Third Prize

Belfast Film Festival
– *Sisters In Law*
Best Feature Documentary

April

Broadcasting Press Guild Awards
– Jamie Oliver
Best Television Personality
– *Jamie's School Dinners*
(Fresh One)
Best Documentary
– *A Very Social Secretary*
Single Drama

Rose D'or Festival
– *Deal Or No Deal* (Endemol)
Best Game Show
– *The Friday Night Project with Billie Piper*
Variety Award

Campaign Media Awards
– *Shameless 3*
Best Media &
Entertainment Ad

Voice Of The Listener And Viewer Awards
– *Channel 4 News*
Best Television Programme

Human Rights Nights Film Festival
– *Sisters-in-law*
Winner Long-feature

May

Bafta Television Awards
– *Jamie's School Dinners*
(Fresh One)
Best Factual Series
– *The Government Inspector*
(Mentorn)
Single Drama
– *The Government Inspector*
(Mentorn)
Best Actor
(Mark Rylance)
– *Make Me Normal*
(Century Films)
Single Documentary
– *Dispatches*
Beslan Current Affairs
– *The Ashes* (Sunset + Vine)
Sport Award
– *Jamie Oliver*
Richard Dimbleby Award
– *Sunset + Vine*
Special Award

Sandford St Martin Religious Broadcasting Awards
– *Tsunami, Where Was God?*
Radio Times Readers Awards

June

RTS Sports Television Test Cricket Awards
– *England V Australia*
Channel 4 Cricket
(Sunset + Vine)
Live Outside Broadcast
Coverage Of The Year
– *The Cricket Show*
Channel 4 Cricket
(Sunset + Vine)
Sports Show or Series
– *Channel 4 Cricket*
(Sunset + Vine)
Sports Presenter
(Mark Nicholas)
– *England V Australia*
Channel 4 Cricket
(Sunset + Vine)
Sports Programme
Of The Year

One World Broadcasting Awards
– *Insight News*
Broadcast Journalist
Of The Year
(Sorious Samura)

Broadcast Digital Awards
– *More4*
Best New Channel Award

Banff Television Awards
– *Jamie's School Dinners*
(Fresh One)
Lifestyle Programme Award
– *Young Black Farmers*
(Diverse Prods)
Unscripted Entertainment
Award

RTS Educational Television Awards
(Adult Educational Television)
– *The Real Sex Traffic*
(Associated Producers/True
Vision/Channel 4)
Educational Impact
In The Primetime Schedule
(Schools Television)
– *99 Ways To Lose Your Virginity*
(Zkk)
11-16 Years
– *Guns Are Cool*
(Raw TV)
14-19 Years
– *Breaking The News/ Channel 4 News/More4 News* (Illumina Digital
& ITN)
Secondary Interactive

International Advertising Festival (Cannes)
– *Lost Untold*
Bronze Cyber Lion

Amnesty International Media Awards
– *Channel 4 News*
Television News Winner
(For *Congo Tin Soldiers*)

Monte Carlo Television Festival
– *Living With Aids*
(Insight News)
Best News Documentary
– *Elizabeth 1*
(Company Pictures)
Best Actress (Helen Mirren)
– *Desperate Housewives*
International Television
Audience Award

August

Edinburgh Television Festival
– *Channel 4*
Channel Of The Year

Primetime Emmys
– *Elizabeth 1*
(Company Pictures)
Outstanding Mini-series
Outstanding Lead Actress
(Helen Mirren)
Outstanding Supporting
Actor (Jeremy Irons)
Outstanding Director
(Tom Hooper)
Outstanding Writer
(Nigel Williams)
Outstanding Casting,
Art Directing, Picture
Editing, Costume
Design, and Hairstyling
– *My Name Is Earl*
Outstanding Directing,
Writing, Casting,
and Picture Editing
For A Comedy
– *Sopranos*
Outstanding Writing For
A Drama Series

Edinburgh International Film Festival
– *Brothers of the Head*
Best New British Feature

September

TV Quick Awards
– *Deal Or No Deal*
Best Daytime Programme
– *Location Location Location*
Best Lifestyle Programme
– *Supernanny*
Best Factual Programme
– *Paul O'Grady*
Ten Years At The Top Award

Learning On-screen Awards
– General Education
Interactive Award
– Premier Award

Toronto Film Festival
– *Death of a President*
International Critics Prize

Campaign Digital Awards
– *Lost Untold*
New Media

Prix Italia
– *Road To Guantánamo*
Signis Prix Italia Prize

October

AOP Online Publishing Awards
– *Lost Untold*
Design Award 2006
– *4docs*
Special Mention –
Use Of New Digital Platform

Mental Health Media Awards
– *Giving Up The Weed*
(Maroon Television)
Young People's Media Award
– *Iraq* (Channel 4 News)
Mental Meltdown

Screen Nation Awards
– *Sticks And Stones*
(Maroon Television)
Diversity In Factual
Production Award

National Television Awards
– *Deal Or No Deal* (Endemol)
Best Daytime
– *Big Brother* (Endemol)
Most Popular Reality
Programme
– *Nikki Graeme* (Big Brother)
Most Popular Reality
Contender

IPA Awards
– *Jamie's School Dinners*
Bronze, Best New Learning
Award
– *More4 Launch*
Bronze
– *Channel 4*
Best New Client

November

Promax UK
Channel 4 broke last year's record of 26 wins by winning a total of 30 awards (14 Gold, 16 Silver), including Gold Awards for:
– *Film4*
Best TV Campaign: TV
Channel
– *Iraq Week* (M4)
Best Originated Factual
– *Jamie's Return to School Dinners*
Best Print & Poster

British Archeological Awards
– *The First Emperor*
(Lion Television)
Winner Broadcast
– *Time Team-Rubble At The Mill* (Videotext)
Runner Up

Bar Council Award For Legal Reporting
– *More4 News*
Winner

RTS Midlands Regional Awards
– *Channel 4 News Netcare*
Winner Terry Lloyd
Award For Best News &
Current Affairs Programme

Grierson Awards
– *Ramsay's Kitchen Nightmares*
(Optomen Television)
Most Entertaining
Documentary
– *The Year London Blew Up*
(Blast! Films)
Best Drama Documentary

International Emmys
– *Sugar Rush* (Shine)

Best Young People's Award
– *Ramsay's Kitchen Nightmares* (Optomen)
Best Non-scripted
Entertainment

RTS Craft & Design Awards
– *Elizabeth 1* (Company)
Original Title Music

D&AD
– *Iraq Week*
TV Cinema promo
Yellow pencil –
Outstanding achievement

BIFA Awards
– *This is England*
Best British Film

December

Marketing Week Effectiveness Awards
– *Jamie's School Dinners*
Campaign of the Year
– *Channel 4*
Media Owner of the Year

Corporate Responsibility

As a major business with a public service ethos, Channel 4 takes its responsibilities seriously – to its staff and suppliers, to the community and the environment and – most of all – to its audience

Channel 4 aims to be a good corporate citizen. As a broadcaster, it goes well beyond its statutory obligations with the programmes it commissions, the information and back-up it provides for its audiences, and the support it gives to develop the companies and individuals who make its programmes and provide its services. Here is a taste of what Channel 4 does in just four areas. You can find out more about them, and some of the other ways in which Channel 4 contributes to the quality of life in Britain by visiting channel4.com.

Environment

Channel 4 works with external advisors to audit energy use and work towards becoming a carbon-neutral company. More effective monitoring, and the active engagement of staff in thinking about their environmental impact in the office and at home, means Channel 4 is already reducing energy and water use, and is aiming to recycle 70% of its waste by the end of 2007.

To complement its many property series on television, Channel 4 launched an online programme, presented by Kevin McCloud and Naomi Cleaver, giving householders tips on saving energy, and showing the positive impact their actions could have on the environment, and on their own finances. You can join them by visiting channel4.com/energy, which is sponsored by the Energy Saving Trust.

Your impact on climate change

Diversity

Lots of production companies have helped us achieve real improvements in our casting and on-screen representation of disability. To maintain this momentum and highlight best practice, Channel 4 produced the Guide to Improving Onscreen Diversity, sent free to producers and available at channel4.com/corporate/4producers/commissioning/commissioning.html.

Channel 4 has a wide variety of training schemes and programme-making opportunities to assist talented people from diverse communities, or those with disabilities, to get a step-up into the television industry. One such initiative, 4Real, gives disabled filmmakers a chance to direct a 30-minute documentary for transmission on Channel 4.

Raw Cuts

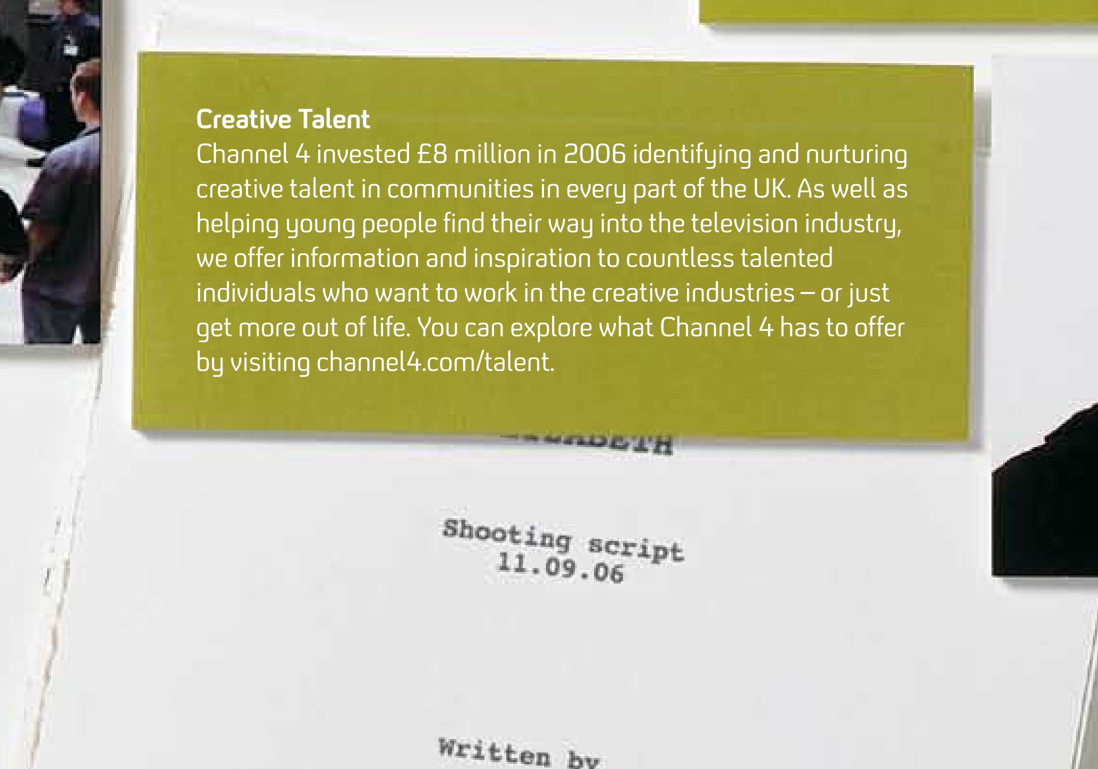
Community

One of many community-based talent initiatives run by Channel 4 in 2006, Raw Cuts, developed and managed jointly with the NSPCC, explored issues of vulnerability amongst 13 to 18-year-olds. With over 2,000 entries received, some of the group, working with parents and guardians, went on to make a series of films for Channel 4's 'Three Minute Wonders' slot.

In partnership with Arts Council East and FutureCity Arts, Channel 4 worked with teenage members of the Thurrock Youth Cabinet on the Billboard Project, a multimedia initiative aimed at engaging young people in issues of community regeneration, and assisting them to share their voices and views to inspire their wider community and local businesses. More can be seen at billboardproject.co.uk/b_web/documentary_4_talent.

Creative Talent

Channel 4 invested £8 million in 2006 identifying and nurturing creative talent in communities in every part of the UK. As well as helping young people find their way into the television industry, we offer information and inspiration to countless talented individuals who want to work in the creative industries – or just get more out of life. You can explore what Channel 4 has to offer by visiting channel4.com/talent.



Amar Latif, Director, 4Real

Finance

Operating and financial review

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

Preparing for the future
The media environment is changing at an ever increasing rate and the impact of new technological developments will be significant to commercial terrestrial broadcasters. During 2006, we invested in New Media and other ventures, to help support Channel 4 as digital switchover draws closer and to reach out to audiences across a wide range of media platforms.

In 2006 we achieved a surplus after tax of £14.5 million (2005: £48.5 million) which will be used to invest in new and existing services to help retain our unique position in the UK broadcast environment.

Investing in original programming
In 2006, we increased the group's total investment in programming and content by 6% to reach £607.6 million. This investment supported our strategy of maintaining a strong Channel 4 and developing a portfolio of channels in preparation for the transition to a fully digital environment. In July we launched Film4 on Freeview and in November established an early position in on-demand viewing through the launch of 4oD.

Audience
Our commercial performance is dependent on delivering valuable airtime to advertisers. In line with our strategy to develop a diverse and engaging portfolio of channels prior to digital switchover, the group's portfolio audience share rose to 12.1% (2005: 11.0%). Growth was driven by the performance of our digital channels, a key objective in defending advertising income in a fully digital world although we note that Channel 4 was the only terrestrial channel to grow its audience in 2006, with share increasing by 0.1% points to 9.8% in the year (2005: 9.7%).

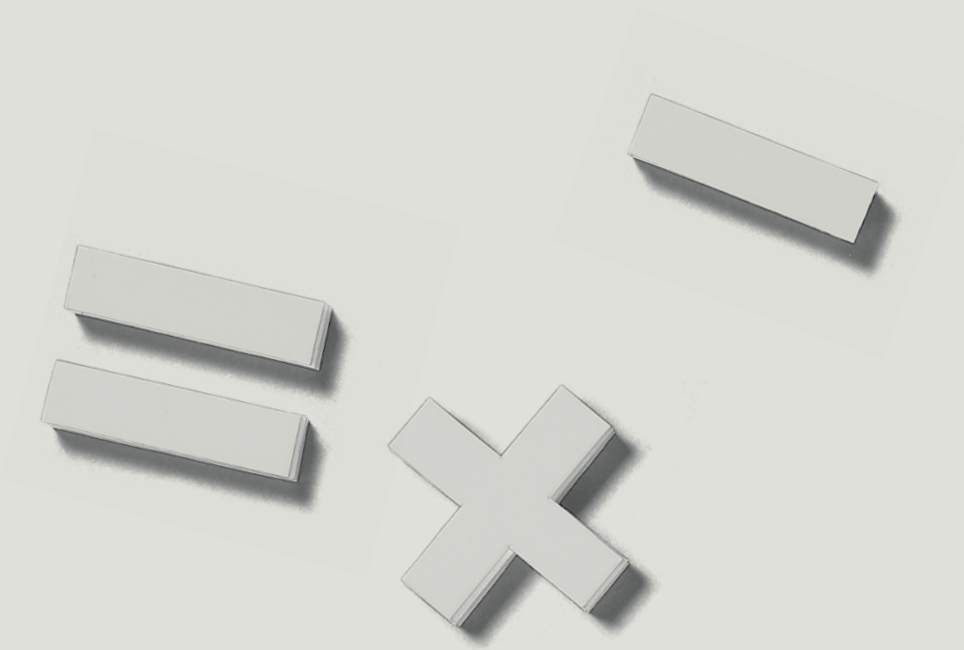
Financial performance

	Revenue		Operating profit	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Channel 4	**695.9**	735.2	**21.8**	80.0
4 Channels	**128.6**	88.0	**(17.6)**	(34.8)
4 Rights	**60.8**	53.5	**7.8**	10.6
New Media	**50.6**	24.5	**13.5**	0.3
Other	**24.6**	22.2	**(11.5)**	0.8
Eliminations	**(23.6)**	(29.1)	**–**	–
Group	**936.9**	894.3	**14.0**	56.9

Group Revenue
Group revenue rose by over 4% to reach £936.9 million (2005: £894.3 million). Although facing a 5.1% year on year decline in the television advertising market, advertising and sponsorship revenues increased by 2% due to portfolio share growth, particularly on Digital channels which benefited from a full year of More4 and E4 free-to-air and the launch of Film4 on Freeview. New Media and 4 Rights revenues grew year on year and revenue earned by businesses other than Channel 4 represented 26% of the group total after removing the impact of intragroup sales (2005: 18%).

Group operating profit
Although faced with a decline in the television advertising market, we have invested in the portfolio programme budget which has delivered stable audience performance on Channel 4 and portfolio share growth on our Digital channels. We have established a credible position in on-demand viewing through the launch of 4oD and invested in additional Freeview capacity and New Media services to establish a strategic position and to make our services available to as wide an audience as possible.

As a result Group operating profit declined to £14.0 million (2005: £56.9 million).



Programmes and the Ofcom licence
In 2006 expenditure on core Channel 4 programmes was £515.7 million (2005: £499.3 million). We met all our Ofcom licence obligations. The percentage of hours of originated programmes was 63% overall (target 60%) and 74% in peak hours (target 70%). We also exceeded the target of 30% of programme production outside London with 37% (£133.5 million) of Channel 4's originated programming being supplied by production companies from outside the M25.

Cash and Cash Equivalents
Group cash and cash equivalents increased to £180.4 million at 31 December 2006 from £167.9 million in 2005, although once money market deposits of more than three months duration at 31 December 2005 (£30.0 million) are taken into account there is an overall decrease. As shown in the group cashflow statement on page 43, the group profit for the year of £14.5 million resulted in a £7.6 million operating cash outflow due to tax payments, an additional pension contribution and working capital movements. Capital additions offset by interest income received and the settlement of other financial assets generated a net cash inflow from investing activities.

Group foreign currency, cash and treasury management
The group's treasury management operates within defined treasury policies determined by the Board. Details of the group's foreign currency, cash and treasury matters are disclosed in note 19. Further details of the accounting policy for derivative financial instruments are set out on page 47.

Group taxation
The group is subject to corporation tax on its profits. The group profit recorded for 2006 has given rise to a £6.8 million tax charge (2005: £18.3 million). The group effective tax rate of 31.9% (2005: 27.4%) is broadly in line with the standard UK corporation tax rate, with the increase in rate explained in note 7.

The Channel Four Television Staff Pension Plan
As explained in note 22, the group operates a defined benefit pension plan providing benefits based on final pay. The plan assets and liabilities have been revalued at 31 December 2006 in accordance with IAS 19 'Employee benefits' and the net accounting deficit on the scheme of £14.9 million has been recorded on the year end balance sheet (2005: £32.1 million). The related deferred tax asset of £4.5 million (2005 £9.6 million) has also been recorded.

During 2006, changes in legislation, which were effective from 6 April 2006 ('A-Day'), have made it possible to amend the terms of pension plans to allow members to take more of their benefit in the form of a lump sum on retirement and receive a lower annual pension. This has been incorporated into the terms of the plan and accounts for around £7.5 million of the reduction in the accounting deficit based on the 2006 revaluation. This has been reported in the group and Channel 4 Statements of Recognised Income and Expenditure.

Contributions to the plan are determined following a triennial review by a qualified independent actuary. The most recent valuation was at 1 January 2006 which showed the actuarial value of the plan's assets represented 93% of the benefits accrued to members with a deficit of £9.2 million compared to the valuation at that date under IAS 19 of £32.1 million. To ensure the plan continues to be adequately funded, the Board approved additional contributions of £4.3 million (paid in December 2005) and £5.7 million (paid in March 2006). The actuarial valuation takes account of the 2005 additional payment of £4.3 million. The 2006 additional payment increases the scheme's asset ratio to 97%. Proposals for eliminating the remaining deficit in the scheme are being discussed by the trustees of the Plan and Channel 4. In light of this actuarial valuation, the employer's standard contribution rates are also under review.

The members present their report and the audited financial statements for the year ended 31 December 2006.

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

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

The core public service channel is available on both analogue and the main digital broadcast platforms. To maintain relevance and impact with audiences in a digital age, new services including Film4 (launched on Freeview) and 4oD have been established in 2006.

The group also pursues various commercial activities which are incidental and conducive to the operation of Channel 4. These include:
– E4, which specialises in entertainment programming, More 4, specialising in factual entertainment and drama, and the film channel Film4.
– Exploitation of secondary rights through the sale of programmes and associated products (DVDs, books etc).
– New Media businesses including internet advertising and telephony services.
– 124 Facilities providing post production and studio facilities.
– 4 Creative providing creative design and production services.

Enhanced business review
A review of the business of the group, outlining its development and performance during the financial year together with its position at 31 December 2006, is provided in the Operating and financial review on pages 36 and 37. The group's results are set out on pages 41 to 70.

The principal risks and uncertainties facing Channel 4 in a changing media landscape have been discussed within the Chairman's statement (page 4) and Chief Executive's report (page 6). Mitigation of these risks and uncertainties is through the group's governance structure which is detailed in the Corporate governance review from page 71.

Key performance indicators used by the group have been included within the Operating and financial review.

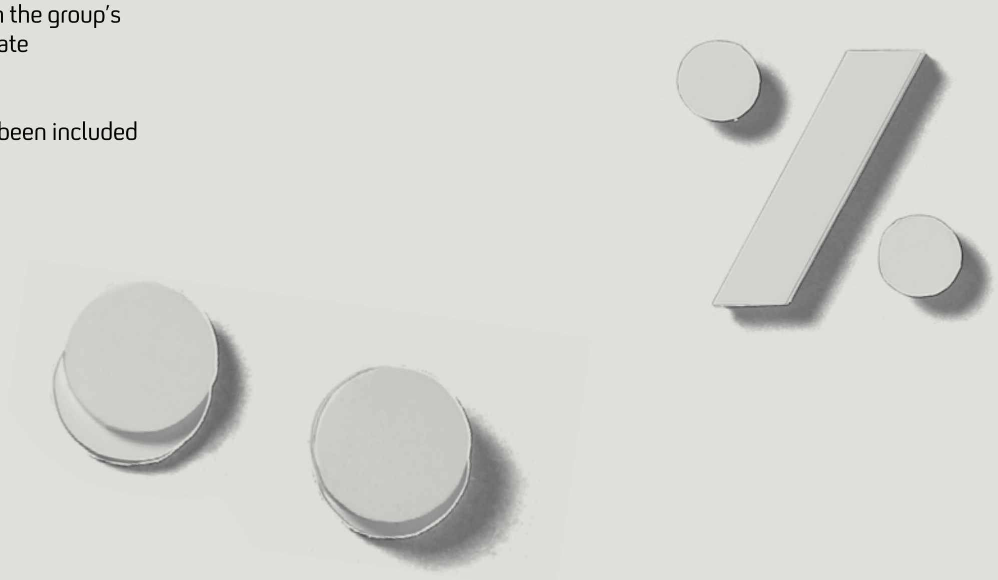
Members
The members of the Board have full responsibility and discretion for deciding and operating the group's policies and for the conduct of the group's affairs.

The present members of Channel 4 are listed on page 77. Since 1 January 2006, the following members have been appointed or have retired:

Appointments	**Date of appointment**
Stephen Hill	1 January 2006
Lord Puttnam CBE	1 February 2006
Martha Lane Fox	1 February 2006
Retirements	**Date of retirement**
Barry Cox	31 January 2006
Sir Robin Miller	31 January 2006

Details of members' remuneration are contained within the report on members' remuneration on pages 78 and 79. In July 2006, Ofcom confirmed the re-appointment of Luke Johnson as Chairman for a further three years from January 2007.

Members' interests
Channel 4 fully embraces the principles of good corporate governance and, to this end, makes full disclosure of all members' interests. During 2006, members, in addition to their non-executive member fees as disclosed on page 78, were interested in the following contracts negotiated at arm's length on normal commercial terms with the group:
– Barry Cox's company, Mapledene TV Productions Ltd, received £28,632 for consultancy services.
– Andy Mollett is a director of EMI Music Publishing Ltd. EMI group companies received a total of £1,000 during 2006 for programme related costs. Channel 4 received £72,947 from EMI relating to sales of music soundtracks related to Channel 4 programmes.
– Sir Robin Miller's company, Robin Miller Consultants Limited, received £32,500 for consultancy services.



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

Channel 4 has established an ethnic monitoring system for its recruitment and the ethnic composition of its staff. The representation of ethnic minorities amongst its permanent staff in 2006 was 11% (2005: 12%). Women continue to form the majority of its staff at 55% (2005: 54%).

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

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

Charitable donations
During 2006, the group donated £3.4 million to charities (2005: £1.8 million). Of this amount, £1.5 million (2005: £1.3 million) was paid to charities to provide training that will improve the overall expertise of television staff in the industry. For the first time, a charity payment was made for each vote cast relating to Big Brother with charity donations for the seventh series totalling £1.3 million paid to three charities. The remainder, £0.6 million (2005: £0.5 million) was raised from voting in the 2006 series of Celebrity Big Brother and was donated to other charities.

Development
The group devotes substantial resources to the development of scripts and treatments for possible commissioning. Programme development expenditure charged to the income statement in 2006 amounted to £11.3 million (2005: £12.1 million).

Financial instruments
The group makes use of financial instruments to assist in managing exposure to foreign exchange risks. Further details are provided in note 19.

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

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

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

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

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

By Order of the Board:

Andy Duncan
Chief Executive
26 March 2007

Report of the auditors

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

We have audited the financial statements of the group and Channel 4 (the "financial statements") for the year ended 31 December 2006 which comprise the group Income Statement, the group and Channel 4 Balance Sheets, the group and Channel 4 Cashflow Statements, the group and Channel 4 Statements of Recognised Income and Expense, the Significant accounting policies and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

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

Respective responsibilities of members and auditors
The members' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of members' responsibilities on page 71.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Members' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985, as if those requirements were to apply. We also report to you whether in our opinion the information given in the Members' Report is consistent with the financial statements. The information given in the Members' Report includes that information presented in the Chairman's and Chief Executive's Statements and the Operating and Financial Review that is cross referred from the Business Review section of the Members' Report.

In addition, we report to you if, in our opinion, Channel 4 has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law regarding members remuneration and other transactions is not disclosed.

In addition to our audit of the financial statements, the members have engaged us to review their Corporate Governance Statement as if the company were required to comply with the Listing Rules of the Financial Services Authority in relation to those matters. We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 Combined Code specified for our review by those rules, and we report if it does not. We are not required by the terms of our engagement to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the members' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and Channel 4's circumstances, consistently applied and adequately disclosed.

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

Opinion
In our opinion:
– the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 December 2006 and of its profit for the year then ended;
– Channel 4's financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of Channel 4's affairs as at 31 December 2006;
– the financial statements have been properly prepared in accordance with the Broadcasting Act 1990 and the Companies Act 1985, to the extent that those provisions are applicable;
– the part of the members' remuneration report which we were engaged to audit has been properly prepared in accordance with Schedule 7A to the Companies Act 1985, as if those requirements were to apply to Channel 4; and
– the information given in the directors' report is consistent with the financial statements.

KPMG LLP
Chartered Accountants
Registered Auditors
London
26 March 2007

Consolidated income statement
for the year ended 31 December

	Note	Group 2006 £m	Group 2005 £m
Revenue	1	**936.9**	894.3
Cost of transmission and sales	2	**(881.5)**	(794.8)
Gross profit		**55.4**	99.5
Other operating expenditure	2, 3	**(41.4)**	(42.6)
Operating profit	1, 3	**14.0**	56.9
Financial income	6	**7.4**	9.9
Financial expense	6	**(0.1)**	–
Net financial income	6	**7.3**	9.9
Share of the profit or loss of associates and joint ventures accounted for using the equity method	9, 10	**–**	–
Profit before tax		**21.3**	66.8
Income tax expense	7	**(6.8)**	(18.3)
Profit for the year		**14.5**	48.5
Attributable to:			
Equity holders of Channel Four Television Corporation	20	**14.5**	48.5
Minority interest	20	**–**	–

Statements of recognised income and expense
for the year ended 31 December

	Note	Group 2006 £m	Group 2005 £m	Channel 4 2006 £m	Channel 4 2005 £m
Actuarial gains/(losses) in pension scheme	22	**11.7**	(10.9)	**11.7**	(10.9)
Deferred tax on pension scheme recognised directly in equity	13	**(3.5)**	3.3	**(3.5)**	3.3
Total recognised income/(expense) recognised directly in equity		**8.2**	(7.6)	**8.2**	(7.6)
Profit for the year		**14.5**	48.5	**22.8**	65.2
Total recognised income for the year		**22.7**	40.9	**31.0**	57.6
Attributable to:					
Equity holders of Channel Four Television Corporation	20	**22.7**	40.9	**31.0**	57.6
Minority interest	20	**–**	–	**–**	–

The notes on pages 44 to 70 form part of these financial statements.

Balance sheets
as at 31 December

	Note	Group 2006 £m	Group 2005 £m	Channel 4 2006 £m	Channel 4 2005 £m
Assets					
Investments in subsidiaries	8	**–**	–	**–**	–
Investments accounted for using the equity method	9, 10	**1.4**	–	**–**	–
Freehold land and building	11	**47.5**	43.0	**47.5**	43.0
Fixtures, fittings and equipment	11	**22.2**	13.8	**22.2**	13.8
Intangible assets	12	**4.4**	5.2	**3.6**	4.2
Deferred tax assets	13	**6.0**	12.3	**5.5**	11.9
Total non-current assets		**81.5**	74.3	**78.8**	72.9
Programme rights and other inventories	14	**237.3**	209.9	**211.9**	191.1
Trade and other receivables	15	**152.3**	140.5	**135.9**	118.5
Other financial assets	16	**–**	30.0	**–**	30.0
Cash and cash equivalents	16	**180.4**	167.9	**180.4**	167.7
Assets classified as held for sale	4	**2.0**	–	**–**	–
Total current assets		**572.0**	548.3	**528.2**	507.3
Total assets		**653.5**	622.6	**607.0**	580.2
Liabilities					
Employee benefits – pensions	22	**(14.9)**	(32.1)	**(14.9)**	(32.1)
Provisions	18	**(2.8)**	(5.7)	**(2.8)**	(5.5)
Deferred tax liabilities	13	**(1.1)**	(1.3)	**(1.1)**	(1.3)
Other financial liabilities	19	**(0.6)**	(1.1)	**(0.6)**	(1.1)
Total non-current liabilities		**(19.4)**	(40.2)	**(19.4)**	(40.0)
Trade and other payables	17	**(192.2)**	(159.6)	**(116.5)**	(95.5)
Current tax liabilities	17	**(2.2)**	(8.1)	**(0.9)**	(6.2)
Provisions	18	**(1.3)**	(0.4)	**(0.7)**	–
Liabilities classified as held for sale	4	**(1.4)**	–	**–**	–
Total current liabilities		**(197.1)**	(168.1)	**(118.1)**	(101.7)
Total liabilities		**(216.5)**	(208.3)	**(137.5)**	(141.7)
Net assets		**437.0**	414.3	**469.5**	438.5
Equity					
Retained earnings attributable to equity holders of Channel Four Television Corporation	20	**437.0**	414.3	**469.5**	438.5
Retained earnings attributable to minority interest	20	**–**	–	**–**	–
Total equity		**437.0**	414.3	**469.5**	438.5

The financial statements on pages 41 to 70 were approved by the Board of members on 26 March 2007 and were signed on its behalf by:

Luke Johnson
Chairman

Andy Duncan
Chief Executive

The notes on pages 44 to 70 form part of these financial statements.

Cashflow statements
for the year ended 31 December

	Note	Group 2006 £m	Group 2005 £m	Channel 4 2006 £m	Channel 4 2005 £m
Cashflow from operating activities					
Profit for the year		**14.5**	48.5	**22.8**	65.2
Adjustments for:					
Income tax expense	7	**6.8**	18.3	**12.9**	25.1
Depreciation	3	**6.5**	6.1	**6.5**	6.1
Amortisation of intangible assets	3	**2.0**	2.0	**1.8**	2.0
Net financial income	6	**(7.3)**	(9.9)	**(10.3)**	(10.4)
Reversal of impairment on freehold land and buildings	3	**(5.1)**	(2.9)	**(5.1)**	(2.9)
Write-down of investment in joint venture	10	**–**	0.6	**–**	0.6
Operating cashflow before changes in working capital and provisions		**17.4**	62.7	**28.6**	85.7
Changes in working capital and provisions:					
(Increase) in programme rights and other inventories	14	**(27.4)**	(47.1)	**(20.8)**	(41.5)
(Increase) in trade and other receivables	15	**(11.8)**	(14.5)	**(17.4)**	(19.8)
Movement in assets held for sales	4	**(2.0)**	–	**–**	–
Increase in trade and other payables	17	**32.6**	37.9	**21.0**	15.8
Movement in liabilities held for sale	4	**1.4**	–	**–**	–
(Decrease) in provisions	18	**(2.0)**	(5.5)	**(2.0)**	(3.4)
Cash generated from operations		**8.2**	33.5	**9.4**	36.8
Tax paid		**(10.1)**	(19.0)	**(14.6)**	(23.8)
Additional contribution to employee benefits – pensions	22	**(5.7)**	(4.3)	**(5.7)**	(4.3)
Net cashflow from operating activities		**(7.6)**	10.2	**(10.9)**	8.7
Cashflow from investing activities					
Acquisition of subsidiaries	8	**–**	(1.0)	**–**	–
Investment in joint venture	10	**(1.4)**	(0.6)	**–**	(0.6)
Purchase of property, plant and equipment	11	**(14.5)**	(8.6)	**(14.5)**	(8.6)
Internally developed software	12	**(1.2)**	(0.4)	**(1.2)**	(0.4)
Interest received	6	**7.3**	8.6	**9.4**	9.0
Decrease in other financial assets	16	**30.0**	–	**30.0**	–
Net cashflow from investing activities		**20.2**	(2.0)	**23.7**	(0.6)
Cashflow from financing activities					
Net cashflow from financing activities		**–**	–	**–**	–
Net increase in cash and cash equivalents		**12.6**	8.2	**12.8**	8.1
Cash and cash equivalents at 1 January		**167.9**	158.4	**167.7**	158.3
Effect of exchange rates on cash held	6	**(0.1)**	1.3	**(0.1)**	1.3
Cash and cash equivalents at 31 December		**180.4**	167.9	**180.4**	167.7

Significant accounting policies

Channel Four Television Corporation (Channel 4) is a statutory corporation domiciled in the United Kingdom. The consolidated financial statements of Channel 4 for the year ended 31 December 2006 comprise Channel 4 and its subsidiaries (together referred to as the "group") and the group's interest in associates and jointly controlled entities. Channel 4's financial statements present information relating to Channel 4 as a separate entity and not about its group.

The financial statements were authorised for issue by the members on 26 March 2007. The registered office of Channel 4 is 124 Horseferry Road, London, SW1P 2TX.

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

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

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

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

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

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

Impairment of goodwill
The group determines whether goodwill is impaired at minimum on an annual basis. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating value in use requires the group to make an estimate of the future cash flows from the cash generating unit that holds the goodwill at a determined discount rate to calculate the present value of those cash flows. The methodology for the testing of impairment is outlined on page 46.

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

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

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

Claims
Note 18 sets out the provision made in respect of legal claims in respect of the group subsidiary, Film Four Ltd. In making provision for claims, the members base their judgment on the circumstances relating to each specific event, internal and external legal advice, knowledge of the industry and market, prevailing commercial terms and legal precedents. The group's legal claims are reviewed on a monthly basis.

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

The following Adopted IFRSs were available for early adoption but have not been applied by the group in these financial statements:

- IFRS 7 'Financial Instruments: Disclosures';
- Amendments to IAS 1 'Presentation of Financial Statements: Capital Disclosures';
- Amendments to IAS 21 'The Effects of Changes in Foreign Exchange Rates: Net Investment in a Foreign Operation';
- IFRIC 8 'Scope of IFRS 2: Share-Based Payments'; and
- IFRIC 9 'Reassessment of Embedded Derivatives'.

The members anticipate that the adoption of these Standards and Interpretations in future periods will not have a material impact on the financial statements of the group.

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

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

Jointly controlled entities are those entities over whose activities the group has joint control, established by contractual agreement. As explained in note 10, certain of the group's joint ventures are not-for-profit organisations. Cost contributions to those organisations are charged to the income and expenditure account in the period that they occur. The financial statements include the group's share of total recognised gains and losses using the equity method of accounting from the date that joint control commences to the date it ceases or when the jointly controlled entity is classified as held for sale in accordance with IFRS 5.

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

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

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

Subscription fee revenue earned is recognised over the period of the subscription.

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

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

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

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

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

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

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

On initial classification as held for sale, disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to the income statement. No reclassifications are made in prior periods.

Investments in subsidiaries, associates and joint ventures in Channel 4's accounts
Fixed asset investments are stated at cost, less any provision for impairment.

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

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

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

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

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

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

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

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

Other intangible assets that are acquired by the group are stated at cost less accumulated amortisation and any impairment loss. At 31 December 2006, this balance represents a radio broadcast licence held by the group's subsidiary Oneword Radio Ltd (note 8). Assets are considered to have finite lives and amortisation is charged to the income statement on a straight line basis over the life of the licence (six years). All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on the acquisition of subsidiaries, associates or jointly controlled entities where a difference exists between the cost of the acquisition and the fair value of the net identifiable assets acquired. Identifiable intangible assets are those which can be sold separately or arise from legal rights regardless of whether those rights are separable.

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

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

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

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

An impairment loss in respect of goodwill is not reversed.

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

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and deposits of less than three months duration.

Other financial assets
Other financial assets comprise deposits of more than three months duration.

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

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

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

Where the group has identified forward foreign exchange derivative instruments within certain contracts (embedded derivatives), these have been included in the balance sheet at fair value. Fair value of these derivatives is determined by reference to quoted market rates. The value of the derivatives is reviewed on an annual basis or when the relevant contract matures.

Leases
Assets held under finance leases (those in which the group assumes substantially all the risks and rewards of ownership) are treated as tangible fixed assets and depreciation is charged accordingly. The capital elements of future obligations are recorded as liabilities. Interest is charged to the income statement over the period of the lease in proportion to the capital outstanding. All other leases are treated as operating leases. The rental costs arising from operating leases are charged to the income statement in the year in which they are incurred.

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

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

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

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

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

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

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

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

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

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

Other inventories principally comprise DVD stock held within the 4 Rights business and are stated at the lower of cost or net realisable value.

Exemptions on first time adoption of Adopted IFRSs
The group converted to Adopted IFRSs on 1 January 2004 (with IAS 32 and IAS 39 adopted on 1 January 2005). As part of the transition, the following exemptions were taken.

In addition to the exemption from the requirement to restate comparatives for IAS 32 and IAS 39, IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The following exemptions have been taken in these financial statements:

– IFRS 3 – business combinations that took place prior to 1 January 2004 have not been restated.
– IAS 19 – all cumulative actuarial gains and losses on the defined benefit pension plan have been recognised in equity at 1 January 2004.

1 Segmental analysis*

Segment information is only included in the primary format, business segment, which is based on the group's management and internal reporting structure. Geographical segments outside the UK account for approximately 3% of the group's activities (2005: 2%) and are therefore not presented.

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

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

Year ended 31 December 2006	Channel 4 £m	4 Channels £m	4 Rights £m	New Media £m	Other £m	Eliminations £m	Group £m
Revenue							
External sales	695.9	124.4	58.4	43.6	14.6	–	936.9
Inter-segment sales	–	4.2	2.4	7.0	10.0	(23.6)	–
Total revenue	**695.9**	**128.6**	**60.8**	**50.6**	**24.6**	**(23.6)**	**936.9**
Result							
Gross profit/(loss)	49.7	(15.4)	10.1	16.0	(4.5)	(0.5)	55.4
Other operating expenditure	(27.9)	(2.2)	(2.3)	(2.5)	(7.0)	0.5	(41.4)
Operating profit/(loss)	**21.8**	**(17.6)**	**7.8**	**13.5**	**(11.5)**	**–**	**14.0**
Net financial income							7.3
Profit before tax							**21.3**
Income tax expense							(6.8)
Profit for the year							**14.5**
Other information							
Capital additions (notes 11 & 12)	15.7	–	–	–	–	–	15.7
Depreciation/amortisation (notes 11 & 12)	8.5	–	–	–	–	–	8.5

As at 31 December 2006	Channel 4 £m	4 Channels £m	4 Rights £m	New Media £m	Other £m	Eliminations £m	Group £m
Balance sheet							
Segment assets	607.0	31.8	49.8	13.1	41.9	(90.1)	653.5
Segment liabilities	(137.5)	(113.0)	(28.3)	(10.1)	(17.7)	90.1	(216.5)

* For the 2006 year end, Film Four Ltd has been included within other operating business units as it no longer meets the requirements of IAS 14 (revised) 'Segment Reporting' to be separately disclosed. During 2005, elements of the 4 Learning and 4 Services businesses were separated and transferred to other operating business units. The table above represents this new structure.

1 Segmental analysis* (continued)

Year ended 31 December 2005	Channel 4 £m	4 Channels £m	4 Rights £m	New Media £m	Other £m	Eliminations £m	Group £m
Revenue							
External sales	732.8	88.0	44.2	18.1	11.2	–	894.3
Inter-segment sales	2.4	–	9.3	6.4	11.0	(29.1)	–
Total revenue	**735.2**	**88.0**	**53.5**	**24.5**	**22.2**	**(29.1)**	**894.3**
Result							
Gross profit/(loss)	112.7	(33.0)	13.0	1.4	3.5	1.9	99.5
Other operating expenditure	(32.7)	(1.8)	(2.4)	(1.1)	(2.7)	(1.9)	(42.6)
Operating profit/(loss)	**80.0**	**(34.8)**	**10.6**	**0.3**	**0.8**	**–**	**56.9**
Net financial income							9.9
Profit before tax							**66.8**
Income tax expense							(18.3)
Profit for the period							**48.5**
Other information							
Capital additions (notes 11 & 12)	9.0	–	–	–	–	–	9.0
Depreciation/amortisation (notes 11 & 12)	8.1	–	–	–	–	–	8.1

As at 31 December 2005	Channel 4 £m	4 Channels £m	4 Rights £m	New Media £m	Other £m	Eliminations £m	Group £m
Balance sheet							
Segment assets	580.2	28.3	41.2	5.8	41.5	(74.4)	622.6
Segment liabilities	(141.7)	(94.1)	(25.5)	(12.1)	(9.3)	74.4	(208.3)

* For the 2006 year end, Film Four Ltd has been included within other operating business units as it no longer meets the requirements of IAS 14 (revised) 'Segment Reporting' to be separately disclosed. During 2005, elements of the 4 Learning and 4 Services businesses were separated and transferred to other operating business units. The table above represents this new structure.

2 Total operating expenditure

Cost of transmission and sales

	Programme and other content £m	Transmitter and regulatory costs Analogue £m	Digital £m	Indirect programme costs £m	Costs of sales £m	Cost of marketing £m	Total £m
2006							
Channel 4	515.7	20.3	35.5	22.3	22.7	29.7	646.2
4 Channels	103.6	–	17.6	4.4	2.7	15.7	144.0
4 Rights	0.2	–	–	1.2	46.0	3.3	50.7
New Media	0.5	–	–	11.0	22.6	0.5	34.6
Other	0.8	–	3.5	2.9	19.4	2.5	29.1
Eliminations	(13.2)	–	–	(0.1)	(8.3)	(1.5)	(23.1)
Group	**607.6**	**20.3**	**56.6**	**41.7**	**105.1**	**50.2**	**881.5**
2005							
Channel 4	499.3	20.5	27.3	21.4	23.2	30.8	622.5
4 Channels	83.4	–	16.0	3.7	2.1	15.8	121.0
4 Rights	0.1	–	–	1.1	35.0	4.3	40.5
New Media	2.2	–	–	11.6	8.3	1.0	23.1
Other	4.6	–	1.5	–	11.8	0.8	18.7
Eliminations	(16.4)	–	(0.6)	(4.7)	(8.0)	(1.3)	(31.0)
Group	**573.2**	**20.5**	**44.2**	**33.1**	**72.4**	**51.4**	**794.8**

Other operating expenditure

	2006 £m	2005 £m
Administrative expenses	**(36.6)**	(34.6)
Restructuring costs	**(1.4)**	(2.8)
Depreciation/amortisation (note 11 & 12)	**(8.5)**	(8.1)
Reversal of impairment on freehold land and building (note 11)	**5.1**	2.9
	(41.4)	(42.6)

3 Operating profit

Other operating expenditure includes:

	2006 £m	2005 £m
Depreciation of fixed assets (note 11)		
– owned	**6.4**	6.0
– held under finance leases	**0.1**	0.1
	6.5	6.1
Restructuring costs	**1.4**	2.8
Research and development	**11.3**	12.1
Reversal of impairment on freehold land and building (note 11)	**(5.1)**	(2.9)
Members' remuneration (page 78)	**2.6**	3.8
Amortisation of intangible assets (note 12)	**2.0**	2.0
Equipment hire	**0.1**	0.1
Release of onerous lease provision (note 18)	**(1.8)**	–
Other operating lease rentals	**2.9**	2.9
Loss on disposal of property, plant and equipment (note 11)	**0.2**	–
Loss on disposal of subsidiary (note 8)	**0.5**	–
Write-off of investment in DTV Services Ltd (note 10)	**–**	0.6

In accordance with the exemption available under section 230 of the Companies Act 1985 Channel 4 has not presented its own income statement. Of the profit for the year of £14.5 million (2005: £48.5 million) recorded in the consolidated income statement, a profit of £22.8 million (2005: £65.2 million) results from Channel 4's accounts.

Revaluation of freehold property

The revaluation credit of £5.1 million relates to the increase in the value of the Horseferry Road building (2005: increase of £2.9 million), based on the open market value of the property at 31 December 2006. This is discussed further in note 11, 'Property, plant and equipment'.

Restructuring costs

As part of the ongoing process to reduce costs, additional staff restructuring took place in 2006 which resulted in costs of £0.8 million (2005: £2.4 million).

In 2006, the project to enhance the efficiency of the group's office space continued. Costs associated with the project were £0.6 million (2005: £0.4 million).

All of the 2005 and 2006 restructuring costs have been allocated to other operating expenditure.

3 Operating profit (continued)

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

	2006 £000	2005 £000
Audit of these financial statements	**65**	65
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**50**	50
Other services relating to taxation	**6**	21
Services relating to information technology	**–**	27
All other services	**90**	93
	211	256

Included within the above services is £17,500 (2005: £17,500) paid to the group's auditors who acted as auditors to the Channel Four Television Staff Pension Plan.

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

4 Net assets classified as held for sale

On 18 December 2006, the board resolved to dispose of the group's commercial learning operation and negotiations with interested parties have subsequently taken place. At 31 December 2006, the operation, which is expected to be sold within 12 months, has been classified as held for sale and presented separately in the balance sheet. On 21 March 2007, the group announced that, subject to shareholder approval, the operation is to merge with Espresso Education, part of the Espresso Broadband Group.

The operation is included in 4 Rights in the segmental analysis in note 1. The proceeds of disposal are expected to exceed the book value of the related net assets and accordingly no impairment losses have been recognised on the classification of these assets as held for sale.

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

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

5 Personnel expenses and employee information

A detailed analysis of members' remuneration, including salaries and performance-related bonuses, is provided in the report on members' remuneration on page 78.

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

	Group 2006 £m	Group 2005 £m	Channel 4 2006 £m	Channel 4 2005 £m
Aggregate gross salaries	**52.7**	49.4	**35.0**	33.2
Employer's national insurance contributions	**5.7**	5.9	**4.9**	5.0
Employer's pension contributions (note 22)	**6.1**	5.3	**5.4**	4.5
Total direct costs of employment	**64.5**	60.6	**45.3**	42.7

Current service cost is the expected increase in the plan liabilities in respect of benefits accruing over the period.

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

	2006 Number	2005 Number
Channel 4		
Programme commissioning	**183**	189
Transmission and engineering	**87**	103
Corporate affairs and press office	**41**	40
Advertising and sponsorship sales and research	**106**	110
Corporate and strategy	**18**	17
Information systems	**43**	53
Marketing and creative services	**24**	37
Finance, human resources and facilities management	**65**	62
	567	611
4 Channels	**113**	96
New Media	**94**	72
4 Rights	**64**	58
Other	**79**	52
	350	278
Group total	**917**	889

For the 2006 year end, Film Four Ltd has been included within other operating business units as explained in note 1. In 2005, elements of the 4 Learning and 4 Services businesses were separated and transferred to other operating business units. The table above represents this new structure.

Permanent employees	**813**	751
Contract staff	**104**	138
	917	889
Male	**422**	409
Female	**495**	480
	917	889

5 Personnel expenses and employee information (continued)

Travel, subsistence and hospitality expenditure was as follows:

	2006 £000	2005 £000
Members	**88**	128
Other employees:		
Channel 4	**2,084**	1,752
Other businesses	**768**	848
	2,940	2,728

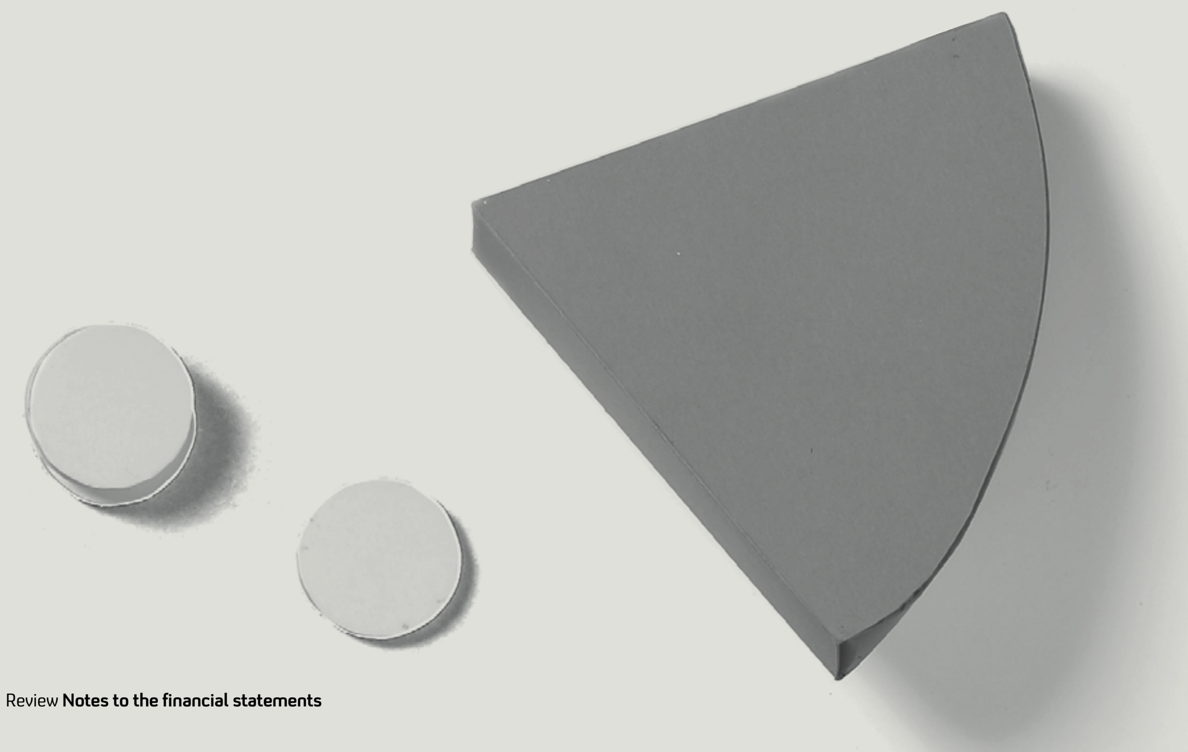
Staff loans outstanding at 31 December were as follows:

	2006 £000	2005 £000
Season ticket loans	**117**	120

There were no loans to members.

6 Net financial income

	2006 £m	2005 £m
Interest receivable on short-term deposits	**6.3**	8.4
Foreign exchange gain	**–**	1.3
Expected return on plan assets (note 22)	**1.1**	0.2
Financial income	**7.4**	9.9
Foreign exchange loss	**(0.1)**	–
Financial expense	**(0.1)**	–



7 Income tax expense

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

	2006 £m	2005 £m
Current tax:		
Current year	**4.2**	17.6
Less relief for overseas taxation	**(0.3)**	(0.3)
Overseas taxation	**0.3**	0.3
Adjustments for prior years	**–**	(1.8)
	4.2	15.8
Deferred tax: origination and reversal of temporary differences		
Current year	**2.8**	2.6
Adjustments for prior years	**(0.2)**	(0.1)
Income tax expense	**6.8**	18.3

Reconciliation of effective tax rate
The tax rate for the year is higher than (2005: lower than) the standard UK 30% rate of corporation tax. The differences are explained below:

	2006 %	2006 £m	2005 %	2005 £m
Profit before tax:		**21.3**		66.8
Income tax using the domestic corporation tax rate	**30.0**	**6.4**	30.0	20.0
Effects of:				
Expenses not deductible for tax purposes	**2.3**	**0.5**	–	–
Tax losses not recognised	**0.5**	**0.1**	0.3	0.2
Adjustments to tax charge in respect of previous periods	**(0.9)**	**(0.2)**	(2.9)	(1.9)
Income tax expense	**31.9**	**6.8**	27.4	18.3

Current tax assets and liabilities
The current tax liability of £2.2 million (2005: £8.1 million) represents the amount of income tax payable in respect of current and prior periods.

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

	2006 £m	2005 £m
Relating to employee benefits	**(3.5)**	3.3

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

8 Investments in subsidiaries

The cost of fixed asset investments at 31 December was:

	2006 Channel 4 £000	2005 Channel 4 £000
Subsidiary companies	**1**	1

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

Name	Activity	Issued ordinary £1 shares	Ownership %
4 Ventures Ltd*	Digital channels, new media, educational and related services	1,000	100
Channel Four International Ltd	Exploitation of secondary rights	1,000	100
FilmFour Ltd	Film distribution	1,000	100
Oneword Radio Ltd	Digital radio channel	102,000	51

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

On 5 April 2005, the group acquired 51% of the issued share capital of Oneword Radio Ltd for £1.0 million, satisfied in cash. The company operates a digital radio channel, Oneword, on the Digital One DAB radio network.

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

	Acquisition values £m
Acquiree's net assets at the acquisition date:	
Trade and other receivables	0.1
Trade and other payables	(0.1)
Net identifiable assets and liabilities	–
Group's share of net liabilities at acquisition	–
Fair value of radio transmission licence recognised on acquisition	1.0
Fair value of identifiable assets and liabilities acquired	1.0
Consideration paid (including legal fees of £28,000 satisfied in cash)	(1.0)
Goodwill on acquisition	–

9 Investment in associate

Popworld Ltd
Channel 4 holds 29% of the share capital of Popworld Ltd, a company incorporated in England that exploits a pop music brand. Given the uncertainties in existence over its future trading, the investment has been provided for in full. The shares are therefore held in the balance sheet at nil value.

Summary annual financial information

Popworld Ltd	2006 £m	2005 £m
Assets	**0.4**	0.1
Liabilities	**(0.4)**	(0.1)
Revenue	**3.3**	2.4
Result for the year	**–**	–

10 Investments in joint ventures

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

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

	Acquisition values £m
Net identifiable assets and liabilities	0.2
Group's share of net assets at acquisition	0.1
Fair value of trademark recognised on acquisition	0.5
Fair value of identifiable assets and liabilities acquired	0.6
Associated deferred tax liability included within investment	(0.2)
Consideration paid	(1.4)
Goodwill on acquisition	1.0

A deferred tax liability of £0.2 million has been recognised as part of the group's investment in Taste of London Ltd. This reflects the temporary difference that arises when the intangible trademark asset recognised on acquisition is amortised. As this is not a tax deductible expense, the deferred tax liability is unwound over the life of the trademark to offset the higher resulting tax charge. The liability has been calculated at the standard UK corporation tax rate of 30%.

Summary annual financial information

Taste of London Limited	2006 £m
Current assets	0.5
Current liabilities	(0.1)
Revenue	1.9
Expenses	(1.6)

On acquisition, there are no contingent liabilities and no capital commitments to be included within the group's financial statements. The trademark acquired as part of the investment in Taste of London Limited is amortised over ten years from acquisition. The goodwill is not amortised but subject to annual impairment review. No impairment losses have been identified in relation to this asset. These are included within the carrying value of Investments accounted for using the equity method.

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

Digital 3 and 4 Ltd
Channel 4 holds 1,000 A class ordinary £1 shares in Digital 3 and 4 Ltd, representing 50% of the share capital. ITV Network owns the other 50%. Digital 3 and 4 Ltd, incorporated in England, has been granted a licence by Ofcom to operate the Channel 3 and Channel 4 digital terrestrial multiplex. At 31 December 2006, Channel 4's share of the net assets of Digital 3 and 4 Ltd amounted to £1,000. The company acts as an agent for its shareholders.

TV Eye Ltd
Channel 4 holds one ordinary £1 share in TV Eye Ltd, representing 20% of the share capital. ITV, Channel 5 Broadcasting, and GMTV own the other 80%. The company is incorporated in England and provides advertising agency credit assessment services.

DTV Services Ltd
In 2005, Channel 4 purchased 6,000 ordinary £1 shares in DTV Services Ltd, the company responsible for marketing the Freeview digital terrestrial TV network, for cash consideration of £600,000. The BBC, National Grid Wireless, BSkyB and ITV own the remaining 80%. DTV Services Ltd is a not-for-profit marketing vehicle. As a result, the cost of the investment was written off in full in 2005.

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

11 Property, plant and equipment

Group and Channel 4	Freehold land and building £m	Fixtures, fittings and equipment £m	Total £m
Cost or valuation			
At 1 January 2005	40.6	79.0	119.6
Additions	–	8.6	8.6
Reversal of impairment	2.4	–	2.4
At 31 December 2005	**43.0**	**87.6**	**130.6**
At 1 January 2006	43.0	87.6	130.6
Additions	–	14.5	14.5
Disposals	–	(0.2)	(0.2)
Reversal of impairment	4.5	–	4.5
At 31 December 2006	**47.5**	**101.9**	**149.4**
Depreciation			
At 1 January 2005	–	68.2	68.2
Charge for the year	0.5	5.6	6.1
Reversal of impairment	(0.5)	–	(0.5)
At 31 December 2005	**–**	**73.8**	**73.8**
At 1 January 2006	–	73.8	73.8
Charge for the year	0.6	5.9	6.5
Disposals	–	–	–
Reversal of impairment	(0.6)	–	(0.6)
At 31 December 2006	**–**	**79.7**	**79.7**
Net book value			
At 1 January 2005	40.6	10.8	51.4
At 31 December 2005	**43.0**	**13.8**	**56.8**
At 1 January 2006	43.0	13.8	56.8
At 31 December 2006	**47.5**	**22.2**	**69.7**

Details of commitments to purchase property, plant and equipment are detailed in note 21 and assets held under finance leases in note 19. No assets have been pledged for security (2005: none).

Valuation of freehold property

The freehold property, comprising the office, studio and transmission centre at 124 Horseferry Road, London SW1, was valued as at 31 December 2006, by external valuers Atisreal Limited (who acquired former valuers Fuller Peiser Property Consultants in October 2006), in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors. The property was valued on the basis of open market value. The open market value (which the members believe approximates to current value) for this property was £47.5 million (2005: £43.0 million). The net increase in valuation of £5.1 million in the year (2005: increase of £2.9 million) has been taken directly to the income statement as it reduces a previously recognised impairment on the same asset.

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

	2006 £m	2005 £m
Cost	**62.3**	62.3
Accumulated depreciation	**(13.1)**	(12.3)
Net book value based on cost	**49.2**	50.0

12 Intangible assets

	Channel 4 Developed software £m	Other Radio licence £m	Group Total £m
Cost			
Balance as at 1 January 2005	10.1	–	10.1
Acquired through business combinations	–	1.0	1.0
Internally developed	0.4	–	0.4
Balance as at 31 December 2005	**10.5**	**1.0**	**11.5**
Balance as at 1 January 2006	10.5	1.0	11.5
Internally developed	1.2	–	1.2
Balance as at 31 December 2006	**11.7**	**1.0**	**12.7**
Amortisation and impairment			
Balance as at 1 January 2005	4.3	–	4.3
Amortisation for the year	2.0	–	2.0
Balance at 31 December 2005	**6.3**	**–**	**6.3**
Balance as at 1 January 2006	6.3	–	6.3
Amortisation for the year	1.8	0.2	2.0
Balance at 31 December 2006	**8.1**	**0.2**	**8.3**
Carrying amount			
At 1 January 2005	5.8	–	5.8
At 31 December 2005	**4.2**	**1.0**	**5.2**
At 1 January 2006	4.2	1.0	5.2
At 31 December 2006	**3.6**	**0.8**	**4.4**

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

The radio licence acquired as part of the acquisition of Oneword Radio Limited (refer note 8) is amortised over the duration of the licence (six years). The amortisation charge is recognised in the depreciation/amortisation line (see note 2).

13 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2006 £m	Assets 2005 £m	Liabilities 2006 £m	Liabilities 2005 £m	Net 2006 £m	Net 2005 £m
Property, plant and equipment	**0.7**	2.3	**–**	–	**0.7**	2.3
Intangible assets	**–**	–	**(1.1)**	(1.1)	**(1.1)**	(1.1)
Employee benefits	**4.5**	9.6	**–**	–	**4.5**	9.6
Other short-term timing differences	**0.3**	–	**–**	(0.2)	**0.3**	(0.2)
Channel 4 deferred tax assets/(liabilities)	**5.5**	11.9	**(1.1)**	(1.3)	**4.4**	10.6
Other short-term timing differences	**0.5**	0.4	**–**	–	**0.5**	0.4
Group deferred tax assets/(liabilities)	**6.0**	12.3	**(1.1)**	(1.3)	**4.9**	11.0

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of:

	2006 £m	2005 £m
Carried forward capital losses	**1.3**	1.4
Carried forward trading losses	**0.3**	0.2
Tax assets	**1.6**	1.6

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

Movement in temporary differences during the year

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

	Balance at 1 Jan 05 £m	Recognised in income £m	Recognised in equity £m	Balance at 31 Dec 05 £m
Property, plant and equipment	3.2	(0.9)	–	2.3
Intangible assets	(1.7)	0.6	–	(1.1)
Employee benefits	7.6	(1.3)	3.3	9.6
Other short-term timing differences	0.3	(0.5)	–	(0.2)
Channel 4 deferred tax assets/(liabilities)	**9.4**	**(2.1)**	**3.3**	**10.6**
Other short-term timing differences	0.8	(0.4)	–	0.4
Group deferred tax assets/(liabilities)	**10.2**	**(2.5)**	**3.3**	**11.0**

	Balance at 1 Jan 06 £m	Recognised in income £m	Recognised in equity £m	Balance at 31 Dec 06 £m
Property, plant and equipment	2.3	(1.6)	–	0.7
Intangible assets	(1.1)	–	–	(1.1)
Employee benefits	9.6	(1.6)	(3.5)	4.5
Other short-term timing differences	(0.2)	0.5	–	0.3
Channel 4 deferred tax assets/(liabilities)	**10.6**	**(2.7)**	**(3.5)**	**4.4**
Other short-term timing differences	0.4	0.1	–	0.5
Group deferred tax assets/(liabilities)	**11.0**	**(2.6)**	**(3.5)**	**4.9**

14 Programme and film rights and other inventories

	2006 Group £m	2005 Group £m	2006 Channel 4 £m	2005 Channel 4 £m
Programmes and films completed but not transmitted	**87.2**	63.1	**81.3**	59.0
Acquired programme and film rights	**64.1**	61.2	**55.4**	54.4
Programmes and films in the course of production	**85.6**	84.8	**75.2**	77.7
Other inventories	**0.4**	0.8	**–**	–
	237.3	209.9	**211.9**	191.1

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

Programme rights and other inventories to the value of £607.6 million were recognised as expenses in the year (2005: £573.2 million). Of this amount, obsolete stock and developments written off totalled £25.8 million (2005: £28.1 million).

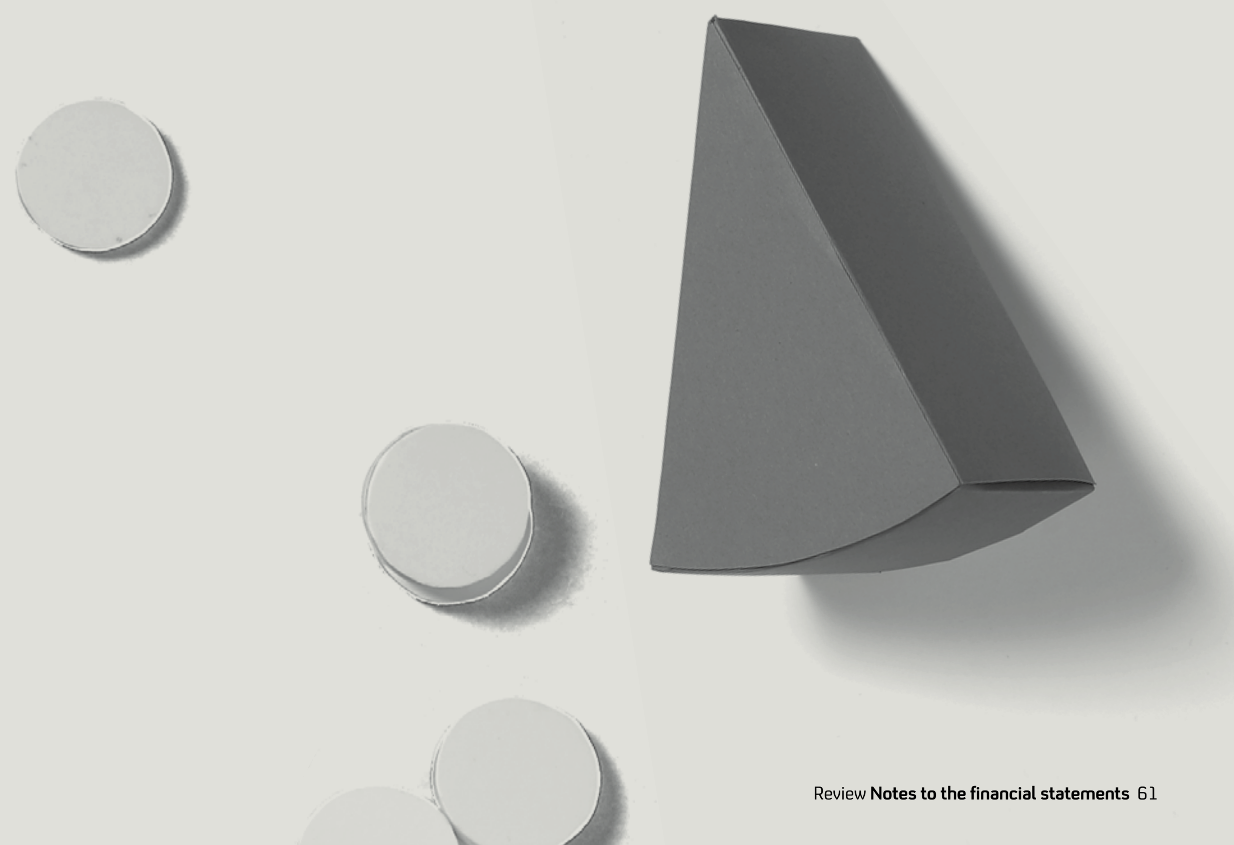
Other inventories represent amounts held within the 4 Rights segment for DVDs related to Channel 4 programmes.

15 Trade and other receivables

	2006 Group £m	2005 Group £m	2006 Channel 4 £m	2005 Channel 4 £m
Trade receivables	**95.5**	88.4	**72.4**	71.6
Amounts due from subsidiaries	**–**	–	**35.4**	24.9
Prepayments and accrued income	**49.7**	43.6	**28.1**	22.0
Distribution advances	**7.1**	8.5	**–**	–
	152.3	140.5	**135.9**	118.5

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

Trade receivables are shown net of impairment losses amounting to £0.1 million (2005: £0.3 million) recognised in the current year in relation to outstanding balances from customers, the receipt of which management view as unlikely.



16 Cash and cash equivalents and Other financial assets

	2006 Group £m	2005 Group £m	2006 Channel 4 £m	2005 Channel 4 £m
Bank balances	**12.0**	72.8	**12.0**	72.6
Money market deposits maturing in less than three months	**69.2**	20.0	**69.2**	20.0
Money market funds	**99.2**	75.1	**99.2**	75.1
Cash and cash equivalents	**180.4**	167.9	**180.4**	167.7
Money market deposits maturing after three months	**–**	30.0	**–**	30.0
Other financial assets	**–**	30.0	**–**	30.0

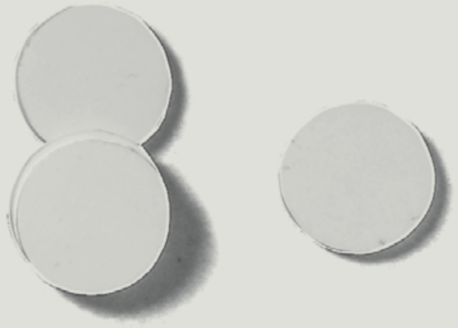
17 Trade and other payables and Current tax liabilities

	2006 Group £m	2005 Group £m	2006 Channel 4 £m	2005 Channel 4 £m
Trade payables	**27.2**	4.8	**27.1**	4.8
National insurance	**0.7**	0.6	**0.7**	0.6
Other creditors	**4.1**	5.6	**3.0**	4.9
Accruals	**156.3**	145.4	**84.3**	83.1
VAT	**3.9**	3.2	**1.4**	2.1
Total trade and other payables	**192.2**	159.6	**116.5**	95.5
Corporation tax	**2.2**	8.1	**0.9**	6.2
Current tax liabilities	**2.2**	8.1	**0.9**	6.2

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

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

The average number of days to pay suppliers of services other than programmes in 2006 was 36 for both the group and Channel 4 (2005: 22). Programme suppliers are generally paid more quickly as Channel 4's cash advances are usually required more promptly to meet production needs, though for 2006 the increase in trade payables due to a significant payable for digital capacity, resulted in the higher average number of days.



18 Provisions

	Channel 4			FilmFour Ltd	Group
	Onerous leases costs £m	Restructuring costs £m	**Total £m**	Restructuring costs £m	**Total £m**
At 1 January 2005	6.0	2.9	**8.9**	2.7	**11.6**
Utilised in the year	(1.0)	(2.9)	**(3.9)**	(1.1)	**(5.0)**
Charged to income statement	0.5	–	**0.5**	–	**0.5**
Written back to income statement	–	–	**–**	(1.0)	**(1.0)**
At 31 December 2005	**5.5**	**–**	**5.5**	**0.6**	**6.1**
At 1 January 2006	5.5	–	5.5	0.6	6.1
Utilised in the year	(0.2)	–	(0.2)	–	(0.2)
Written back to income statement	(1.8)	–	(1.8)	–	(1.8)
At 31 December 2006	**3.5**	**–**	**3.5**	**0.6**	**4.1**

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

	2006 Group £m	2005 Group £m	2006 Channel 4 £m	2005 Channel 4 £m
Current	1.3	0.4	0.7	–
Non-current	2.8	5.7	2.8	5.5
	4.1	6.1	3.5	5.5

Onerous leases
The provision relates to rental deficits on three buildings which are surplus to requirements. The provision represents the future net rental commitments to the end of the current leases in 2014 and 2020, based on current market conditions. The key judgements involved in determining the necessary provisions are estimates of rental income over the outstanding period of the lease, and costs of reinstating properties to their condition at the inception of the lease.

At 31 December 2006, the group was actively engaged in negotiations to assign the lease for one of the buildings to a third party. In 2007 prior to the signing of the accounts, an agreement was reached to assign the lease. The provision has been recalculated to reflect the agreed terms and management have released the surplus portion of the provision (included within note 3).

Restructuring costs
The Channel 4 provision was for redundancy payments and other initiatives to increase the operational efficiency of the group's support functions. The FilmFour Ltd restructuring costs are for film-related provisions and legal expenses.

19 Derivatives and other financial instruments

Exposure to credit, interest rate and currency risks arises in the normal course of the group's business. Derivative financial instruments are used to hedge exposures to fluctuations in foreign exchange rates.

Treasury related matters are dealt with by the group treasury function whose role is to implement the group's treasury policies and strategies. The policies aim to manage the treasury related risks the business faces, in particular:
- to minimise foreign currency exposure that may arise as a result of the group's business activities.
- to maximise the returns from available cash funds without exposing the group to any unnecessary risk.
- to ensure that the group has sufficient cash resources to meet its obligations on a continuing basis.

The group does not undertake speculative treasury transactions.

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

At the balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented in the balance sheet by the carrying amount of each financial asset, including derivative financial instruments.

A risk strategy exists for the protection of all advertising sales revenue working to approved terms of reference. Exposure to credit risk is monitored and reviewed on a weekly basis, and any issues are formally reported to an executive committee chaired by the Group Finance Director. Based on credit evaluation and discussions with both the committee and insurers, customers may be required to provide security in order to trade with the group.

Channel 4 has available a £10 million overdraft facility which incurs interest at 1% over base rate, on any amounts drawn. Amounts drawn against this facility are unsecured. No amounts were drawn in 2006 or 2005.

Interest rate risk

2006	Group Effective interest rate %	Group Total £m	Channel 4 Effective interest rate %	Channel 4 Total £m
Cash and cash equivalents				
Interest bearing deposits maturing in less than three months	4.0	171.9	4.0	171.9
Non-interest bearing assets	–	8.5	–	8.5
	3.8	**180.4**	3.8	**180.4**

2005	Group Effective interest rate %	Group Total £m	Channel 4 Effective interest rate %	Channel 4 Total £m
Cash and cash equivalents				
Interest bearing deposits maturing in less than three months	4.5	112.5	4.5	112.3
Non-interest bearing assets	–	55.4	–	55.4
	3.0	**167.9**	3.0	**167.7**

The non-interest bearing assets comprise receipts which were in the process of clearing the bank account over the year end period.

19 Derivatives and other financial instruments (continued)

Other financial assets comprise:

2006	Group Effective interest rate %	Group Total £m	Channel 4 Effective interest rate %	Channel 4 Total £m
Money market deposits maturing after three months	–	**–**	–	**–**

2005	Group Effective interest rate %	Group Total £m	Channel 4 Effective interest rate %	Channel 4 Total £m
Money market deposits maturing after three months	4.5	**30.0**	4.5	**30.0**

The financial assets held by the group and Channel 4 are Cash and cash equivalents and Other financial assets (note 16), trade receivables (note 15) and, for Channel 4 only, amounts due from subsidiaries (note 15). The fair value of these assets equals their book value.

The group's financial liabilities are finance leases, trade and other payables and derivative financial instruments. The group has no exposure to interest rates on its financial liabilities.

Finance leases

Included within fixtures, fittings and equipment in note 11 is office equipment leased under a finance lease running to 2008. Of the remaining lease liability of £0.2 million, £0.1 million is payable within one year, and £0.1 million within two to five years. The fair value of this finance lease equals its book value. Under the terms of the lease agreement, no contingent rents are payable.

Trade and other payables

Trade and other payables are shown in note 17. The value of trade and other payables at 31 December 2006 was £192.2 million for the group (2005: £159.6 million) and £116.5 million for Channel 4 (2005: £95.5 million). The fair value of these financial liabilities equals their book values.

Other financial liabilities

Other financial liabilities comprise:

Group and Channel 4	2006 £m	2005 £m
Derivative financial instruments	0.2	–
Embedded derivatives	0.4	1.1
	0.6	1.1

Derivative financial instruments

The group is exposed to currency risk on sales and purchases that are denominated in a currency other than sterling. The currencies that give rise to this risk are dollars and euros.

The group uses forward exchange contracts and currency cash receipts to hedge its currency risk. Changes in the fair value exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the income statement. Both the change in the fair value of the forward contracts and the foreign exchange gains and losses relating to monetary items are recognised as part of 'Net financial income' (note 6).

At 31 December 2006, the fair value of forward contracts used as economic hedges of monetary liabilities was £6.2 million (2005: nil). This represents three Euro forward purchase contracts, which all have a fixed maturity date with settlement within one year from the balance sheet date. At the 2006 year end, these have been revalued with reference to forward exchange quotes based on maturity. This change in fair value of £0.2 million has been recognised in the income statement and associated liability included in the balance sheet in 'Other non-current liabilities'.

19 Derivatives and other financial instruments (continued)

Embedded derivatives

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

Group and Channel 4	2006 £m	2005 £m
Fair value at 1 January	1.1	1.1
Changes in fair value during the year	(0.5)	(0.3)
Derivatives maturing during the year	(0.2)	0.3
Fair value at 31 December	**0.4**	**1.1**

Sensitivity analysis

It is estimated that an increase of one percentage point in the value of sterling against other currencies would have reduced the group's profit before tax by approximately £0.1million (2005: £0.1 million).

20 Reserves

	Group £m	Channel 4 £m
At 1 January 2005	**373.4**	**380.9**
Total recognised expenses recognised directly in equity	(7.6)	(7.6)
Profit for the year	48.5	65.2
Total recognised income and expense	40.9	57.6
At 31 December 2005	**414.3**	**438.5**
At 1 January 2006	414.3	438.5
Total recognised income recognised directly in equity	8.2	8.2
Profit for the year	14.5	22.8
Total recognised income and expense	22.7	31.0
At 31 December 2006	**437.0**	**469.5**

No value has been attributed to the minority interest arising on the group's investment in Oneword Radio Ltd (refer note 8) as it is currently loss-making. The full loss for the year is included within the group profit for the year.

21 Commitments

a) Programme and film

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

	2006 Group £m	2005 Group £m	2006 Channel 4 £m	2005 Channel 4 £m
Within one year	**385.8**	317.7	**332.1**	274.5
After one year	**585.1**	215.3	**503.1**	186.8
	970.9	533.0	**835.2**	461.3

b) Digital 3 and 4 Limited

Under the terms of the shareholder agreement for Digital 3 and 4 Ltd, Channel 4 is committed to meeting its share of contracted costs entered into by that company. Digital 3 and 4 Ltd has contractually committed £18 million per annum over the next four years for digital transmission and distribution. The exact annual monetary commitment will be dependent upon the time and extent of the roll-out of the digital transmission network. The group's share of the present commitments is estimated to amount to £9 million per annum.

c) Operating lease commitments

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

	2006 £m	2005 £m
Operating leases which expire:		
Within two to five years	**0.1**	0.1
After five years	**35.7**	38.6
	35.8	38.7

The group leases office space in four properties in London under operating leases expiring between 2014 and 2020. Annual rentals of £2.8 million were charged to the income statement in 2006 and the total future rental commitment amounts to £35.0 million. Office space in two of the properties has been sublet by the group, the minimum future payments due amounting to £1.9 million on sub-leases expiring in 2007 and 2010.

In addition, the group leases office space in Glasgow and Manchester under operating leases expiring between 2013 and 2015. Annual rentals of £0.1 million were charged to the income statement in 2006 and the total commitment under the leases amounts to £0.8 million.

d) Capital commitments

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

	2006 £m	2005 £m
Property, plant and equipment:		
Contracted but not provided in the financial statements	**2.6**	1.9

22 Employee benefits – pensions

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

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

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

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

	2006 £m	2005 £m	2004 £m
Fair value of scheme assets at 1 January	133.3	104.3	91.1
Expected return on plan assets	9.4	7.4	6.5
Benefits paid	(1.9)	(2.7)	(1.9)
Employer contributions*	10.5	9.4	4.7
Employee contributions net of charges	1.3	1.6	2.0
Actuarial gain on plan assets	0.6	13.3	1.9
Fair value of scheme assets at 31 December	**153.2**	**133.3**	**104.3**

* The employer contributions includes an additional contribution of £4.3 million paid in December 2005 and £5.7 million paid in March 2006.

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

	2006 Actual return %	2005 Actual return %	2004 Actual return %	2006 Fair value £m	2005 Fair value £m	2004 Fair value £m
Equities	10.7	21.7	9.9	105.6	81.4	71.8
Bonds	0.3	10.6	6.0	43.5	43.2	28.2
Other	3.0	4.0	4.0	4.1	8.7	4.3
				153.2	**133.3**	**104.3**

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

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

22 Employee benefits – pensions (continued)

Expense recognised in the income statement:

	2006 £m	2005 £m	2004 £m
Current service cost	6.1	5.3	5.6
Interest on pension scheme liabilities	8.3	7.2	6.1
Return on plan assets	(9.4)	(7.4)	(6.5)
Net charge to income statement	**5.0**	**5.1**	**5.2**

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

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

Net actuarial losses recognised directly in equity:

	2006 £m	2005 £m	2004 £m
Experience gain/(loss) on plan liabilities	11.1	(24.2)	(3.6)
Experience gain on plan assets	0.6	13.3	1.9
Actuarial gains/(losses)	**11.7**	**(10.9)**	**(1.7)**

Total cumulative net actuarial losses recognised directly in equity amount to £0.9 million

Principal actuarial assumptions at the balance sheet date

	2006 %	2005 %	2004 %
Discount rate	5.25	4.85	5.30
Rate of increase in salaries	3.30	3.00	3.00
Rate of increase in pensions	3.05	2.75	2.75
Inflation	3.05	2.75	2.75
Expected return on plan assets – equities	8.00	8.00	8.00
Expected return on plan assets – bonds	4.10	4.10	4.60
Expected return on plan assets – cash	4.00	4.00	4.00
	2006 years	2005 years	2004 years
Life expectancy from 60 (now aged 40) – male	26.6	27.0	24.9
Life expectancy from 60 (now aged 40) – female	29.4	29.8	27.8
Life expectancy from 60 (now aged 60) – male	24.5	24.9	24.8
Life expectancy from 60 (now aged 60) – female	27.5	27.8	27.8

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

Contribution rates to the scheme are determined by a qualified independent actuary on the basis of triennial valuations using the projected unit method. The most recent independent valuation was carried out as at 1 January 2006 which showed that the scheme's assets represented 93% of the benefits that had accrued to members. This includes the impact of the £4.3 million additional contribution made in December 2005. In March 2006, a second additional contribution of £5.7 million was made into the scheme, taking the scheme asset ratio to 97%. In light of this valuation, Channel 4 and the trustees of the Plan are discussing options for eliminating the remaining deficit on the scheme. In addition, Channel 4 is reviewing the standard contribution rates. The estimated employer contributions in 2007 are £6.7 million.

23 Related party transactions

Details of transactions in which members have an interest are disclosed on page 38. Details of members' remuneration are shown in the remuneration report on pages 78 and 79.

Subsidiary undertakings
During 2006, Channel 4 has purchased film rights from FilmFour Ltd totalling £5.4 million (2005: £9.6 million), of which £4.4 million (2005: £6.9 million) remained in 'Programme rights and other inventories' at 31 December. Channel Four International Ltd sold film rights to Channel 4 in 2006 totalling £0.2 million (2005: £1.5 million), all of which remain in 'Programme rights and other inventories' at the year end. In 2006, Channel 4 did not make any advances to Channel Four International Ltd for co-production funding (2005: £2.9 million). Channel 4 purchased studio, creative and interactive services from 4 Ventures Ltd in 2006 totalling £14.5 million (2005: £13.6 million).

At 31 December 2006, the total receivable to Channel 4 from subsidiary undertakings was £31.9 million (2005: £24.9 million).

Associate
During 2005, Channel 4 purchased £3.7 million of programmes from Popworld Ltd (2005: £2.3 million). No amounts were due to Popworld Ltd at 31 December 2006.

Joint ventures
During 2006, Channel 4 paid £9.3 million to Digital 3 and 4 Ltd for digital terrestrial transmission services (2005: £11.8 million), £1.1 million to DTV Services Ltd for promoting the Freeview platform (2005: £0.4 million), £1.5 million to BARB for research services (2005: £1.3 million) and £0.1 million to TV Eye Ltd for accreditation services (2005: £0.1 million). No amounts were due to any of these companies at 31 December 2006.

There were no post-acquisition transactions with Taste of London Ltd.

Corporate governance

The group is committed to high standards of corporate governance.

Since the publication of the revised Combined Code in 2003, we have been working to ensure the group continues to comply with corporate governance best practice.

Channel 4's status as a statutory corporation without shareholders means those provisions concerning relations with shareholders are not directly applicable. Also, instead of a nominations committee, there are formal nominations procedures which are described on page 74.

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

The Board
Channel Four Television Corporation is controlled through its Board of members. The Board's main roles are to provide entrepreneurial leadership of the group, to approve the group's strategic objectives and to ensure that Channel 4's responsibilities are discharged in accordance with all applicable laws and regulations. The Board, which meets at least 10 times a year, has a schedule of matters reserved for its approval. The following matters must be referred to the full Board:

- Channel 4's annual budget (programme and non-programme).
- the appointment and re-appointment of the Chief Executive.
- confirmation of the appointment and re-appointment of the other executive members nominated by the Chief Executive and the Chairman acting jointly.
- banking arrangements and loan facilities.
- any significant proposal outside the ordinary course of Channel 4's business.
- the appointment and re-appointment of the Corporation Secretary.
- the appointment and re-appointment of auditors.
- the audited accounts of Channel 4 presented by the audit committee.
- the establishment, purchase or acquisition of any qualifying company and the approval or variation of terms of reference for any subsidiary.
- approval of any significant new business investment.
- Channel 4's headcount
- such other matters as the Board may from time to time resolve to review or decide.

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

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

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

The members are therefore responsible for preparing the annual report and the group and Channel 4 financial statements in compliance with this direction and, to the extent applicable, with the provisions of the Companies Act 1985, and accounting standards currently in force that give a true and fair view of the state of affairs of the group and Channel 4 as at the end of the financial year and of the profit or loss and cashflow for the group and Channel 4 for that year.

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

The members have voluntarily decided to comply with the disclosure provisions of the Financial Services Authority Listing Rules, where applicable. In line with the latest developments concerning listed company accounts, the members have elected to prepare the group and Channel 4 financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. In preparing those financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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

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

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

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

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

Senior independent member
Lord Puttnam was appointed Deputy Chairman and Senior Independent Director on 1 February 2006, replacing Barry Cox, who retired on 31 January 2006.

Members and members' independence
The Board currently comprises the Chairman, eight non-executive members and five executive members. The names of the members together with their biographical details are set out on page 77.

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

The Board considers all its non-executive members to be independent in character and judgement. At the time of this report, no non-executive member:
– has been an employee of the group within the past five years.
– has, or has had within the past three years, a material business relationship with the group.
– receives remuneration other than their member's fee (although attention is drawn to the related party transactions on page 38).
– has close family ties with any of the group's advisers, members or senior employees.
– holds cross-directorships or has significant links with other members through involvement in other companies or bodies.
– has served on the Board for more than five years from the date of their first election.

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

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

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

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

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

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

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

Risk management
The Board and management has a clear responsibility for the identification of risks facing the business and for putting in place procedures to monitor and mitigate such risks. The Board operates a process for identifying, evaluating and managing (rather than eliminating) significant risks faced by Channel 4 and the group. This business risk evaluation process accords with the Combined Code's guidance on internal controls. The quarterly reports prepared by the executive members include a summary of risks and the corresponding action taken to mitigate those risks.

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

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

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

		Number of meetings attended		
	Appointed	Board	Audit committee	Remuneration committee
Executives				
Andy Duncan		12(12)	3(3)	3(3)
Andy Barnes		12(12)		
Anne Bulford		12(12)	3(3)	3(3)
Rod Henwood		12(12)		
Kevin Lygo		11(12)		
Non-executives				
Luke Johnson		12(12)	3(3)	3(3)
Lord Puttnam	1 February 2006	10(11)		
Sue Ashtiany		11(12)		
Karren Brady		9(12)	3(3)	3(3)
Tony Hall		11(12)		2(3)
Andy Mollett		11(12)	3(3)	
Stephen Hill	1 January 2006	11(12)		
Martha Lane Fox	1 February 2006	10(11)		3(3)

		Number of meetings attended		
	Resigned	Board	Audit committee	Remuneration committee
Retired members				
Barry Cox	31 January 2006	1(1)		
Robin Miller	31 January 2006	1(1)		

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

Remuneration committee
The remuneration committee comprises Karren Brady (Chair), Martha Lane Fox and Tony Hall. During 2006, the committee also included Robin Miller and Barry Cox before they both retired on 31 January 2006. All the members of the committee are independent non-executive members. The remuneration committee met three times during the year. Luke Johnson, Andy Duncan and Anne Bulford attend meetings as appropriate. No executive member attends meetings of the remuneration committee at times when any aspect of his or her remuneration or terms of employment is being discussed.
The committee's principal responsibilities are:
– approving the level of any annual salary increases and the structure of remuneration for executive members and senior management.
– significant merit or market increases for individuals or posts above the general award.
– approving Channel 4's vehicle policy.
– reviewing any other significant change in Channel 4's remuneration package.
– Channel 4's pension fund arrangements and related employee benefits. In particular, the remuneration committee will consider the pension consequences and associated costs to Channel 4 of basic salary increases and any other changes in pensionable remuneration, especially for members close to retirement.

Further details concerning members' remuneration is shown in the report on members' remuneration on pages 78 and 79.

Nomination committee
Given its constitution, Channel 4 does not have a formal nomination committee. However, the following formal nomination procedures are in place:

– non-executive members are appointed for fixed terms by Ofcom following consultation with Channel 4's Chairman and the approval of the Secretary of State for Culture, Media and Sport.
– the Chief Executive is appointed by the Board.
– other executive members are appointed to the Board after nomination by the Chief Executive and the Chairman acting jointly.

Audit committee
The audit committee comprises Andy Mollett, Sue Ashtiany and Karren Brady. Robin Miller retired from the committee in January 2006. Andy Mollett is Chairman of the committee. All the members of the committee are independent non-executive members. The audit committee met three times during the year. At the committee Chairman's invitation, Luke Johnson, Andy Duncan, Anne Bulford and the KPMG LLP audit partner attend meetings of the committee. The audit partner has direct access to the Chairman of the audit committee as required. The committee has at least one member possessing what the Smith Report describes as recent and relevant experience. Andy Mollett, a chartered accountant, is Chief Financial Officer of EMI Music Publishing Ltd. It will be seen from the members' biographical details, appearing on page 77, that the other members of the committee bring to it a wide range of experience from positions at the highest level.

The audit committee's key responsibilities are:

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

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

In 2006 the audit committee discharged its responsibilities by:

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

The audit committee also monitors the group's whistle-blowing procedures, ensuring that appropriate arrangements are in place for employees to be able to raise matters of possible impropriety in confidence, and with suitable subsequent follow-up action. An alternative reporting channel has been created whereby perceived wrongdoing may be reported via telephone and/or in writing, anonymously if necessary. Channel 4 will not use the external auditors to provide other services unless it is efficient and effective to do so. Details of the work that KPMG LLP have undertaken in 2006 are shown in note 3. KPMG LLP also make an annual statement to the audit committee to confirm their independence.

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

New business board
The new business board assists the Channel 4 Board by scrutinising, reviewing and agreeing significant commercial new business investment proposals before they are referred to the Channel 4 Board. The new business board is chaired by Robin Miller, acting in a consultancy capacity. The other members of the new business board are Luke Johnson, Stephen Hill, Andy Duncan, Anne Bulford, Rod Henwood, Jonathan Thompson (Head of Strategy and Research), Michael Hodgson (Head of Corporate Development). Sara Geater (Head of Commercial Affairs) retired from the new business board in January 2007.

Internal audit
During 2006, the Grant Thornton business assurance team have undertaken a number of specific projects, to provide assurance that control processes are appropriate and working effectively, and where necessary, recommend improvements.

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

Ofcom regulation
On 17 December 2004 Channel 4 was granted a new licence by Ofcom for the broadcasting of Channel 4. The licence, which is referred to as the Digital Replacement Licence, came into effect on 28 December 2004. The licence implements a new legislative regime created in relation to Channel 4's public service remit, to ensure that Channel 4 provides a broad range of high quality and diverse programming which demonstrates innovation, experimentation and creativity, appeals to the tastes and interests of a culturally diverse society, makes a significant contribution to meeting the need for Channels 3, 4 and 5 to include programmes of an educational nature and exhibits a distinctive character.

The licence is also geared to the achievement of digital switchover. Accordingly, it requires Channel 4 inter alia:

– to provide the Channel 4 service in digital form, with the same coverage as is required for an analogue service. In addition the coverage is to extend to the area reached by the analogue transmissions of the ITV licensee for Wales, HTV;
– to report annually to Ofcom on its compliance with the switchover requirements and timetable and on its plans in the following year to fund the rolling out of equipment and/or infrastructure relating to switchover; and
– to use reasonable endeavours to ensure that viewers of the analogue Channel 4 service are informed of the timetable for switchover in their area at least two years in advance of the relevant switchover date, and are provided in the nine months leading up to the switchover date with information on how they may receive the digital Channel 4 service both before and after switchover.

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

In addition, the Arrangements must include proposals which Channel 4 considers appropriate for securing the transparency objectives as set out in the Act, namely:

– an appropriate financial and organisational separation between the activities of Channel 4 that relate to the carrying out of their primary functions and their other activities; and
– an appropriate degree of transparency in financial and other reporting where resources are shared between separated activities or where there is some other financial or practical connection between otherwise separated activities.

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

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

Channel 4 has proposed arrangements to Ofcom and agreed these arrangements during the year. Channel 4 has appointed Deloitte & Touche LLP to review compliance with the Arrangements and their report is shown on page 76. Copies of the Arrangements are available from the Corporation Secretary and at channel4.com/about_c4.html

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

We have performed a review of the Corporation's compliance during the year ended 31 December 2006 with the Arrangements agreed between the Corporation and the Office of Communications under section 2 of Schedule 9 of the Communications Act 2003.

This report is made solely to Channel Four Television Corporation and Ofcom in accordance with our letter of engagement dated 11 November 2006 and in order to (a) allow the Corporation to meet its obligations under the Licence and Schedule 9 of the Communications Act 2003 to procure such reports and (b) to facilitate the carrying out by Ofcom of its regulatory functions. Our work has been undertaken so that we might state to the Corporation and Ofcom those matters we are required to state to them in a reporting accountant's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation and Ofcom (in accordance with our contract with Ofcom dated 11 January 2007), for our work, for this report, or for the opinions we have formed.

Respective responsibilities of Channel Four Television Corporation and Reporting Accountants

The Corporation has agreed Arrangements with Ofcom to secure the following objectives (the Objectives) as set out in Schedule 9 of the Communications Act 2003:

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

The Arrangements agreed between the Corporation and Ofcom are available from the Corporation Secretary and at channel4.com/about_c4.html

The responsibility of the Corporation in terms of Schedule 9 of the Communications Act 2003 is to act in accordance with these Arrangements throughout the review period.

Our responsibility is to check whether the Corporation has complied with these Arrangements during the year ended 31 December 2006 and report to you our independent conclusion as to whether they have done so.

Basis of opinion

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

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

Our work was carried out based on the internal procedures and controls in place to comply with the Arrangements during the year ended 31 December 2006. We are not responsible for concluding whether the Arrangements are sufficient and appropriate to achieve the objectives set out above. Any system of internal control can only give reasonable, not absolute assurance, that the Objectives will be met.

Opinion

In our opinion, the Corporation has complied with the Arrangements under Schedule 9 of the Communications Act 2003, in all material respects, for the year ended 31 December 2006.

Deloitte & Touche LLP
Chartered Accountants
London
26 March 2007

Members

Non-executive members

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

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

Sue Ashtiany[A]
Joined the Board in July 2003. Her appointment runs until 30 June 2009. She is a solicitor and a partner in the city firm of Nabarro Nathanson. She is also a Commissioner for the Equal Opportunities Commission, a member of the Court of Oxford Brookes University and an Honorary Fellow of Harris Manchester College, Oxford.

Karren Brady[A,R]
Joined the Board in July 2004. Her appointment runs until 18 July 2007. She is Managing Director of Birmingham City Football Club, Chairman of Emap's Kerrang digital radio station and a non-executive Director of Mothercare and a non-executive Director of Sport England.

Tony Hall[R]
Appointed to the Board on 1 April 2005. His appointment runs until 31 March 2008. He is Chief Executive of the Royal Opera House and a former Chief Executive of BBC News.

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

Martha Lane Fox[R]
Joined the Board in February 2006. Her appointment runs until 31 January 2009. Martha co-founded lastminute.com in 1998, floated the business in 2000, and remained on the company's board until it was purchased by Sabre Holdings in 2005. Martha is Trustee of Reprieve, Patron of CAMFED and Founder of Lucky Voice Private Karaoke.

Andy Mollett[A] **ACA**
Joined the Board in July 2004. His appointment runs until 18 July 2007. He is Chief Financial Officer and Director of EMI Music Publishing Ltd, Director of EMI Songs Ltd and various EMI subsidiary companies. He is also a non-executive Director of Incentivated Ltd.

Executive members

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

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

Anne Bulford FCA
Appointed Group Finance Director in July 2005. Before joining Channel 4, Anne spent three years with the Royal Opera House as Director of Finance and Business Affairs. From 1999 to 2002 she was Finance Director at Carlton Productions, prior to which she worked at the BBC, as Finance Director of BBC Productions, and Head of Internal Audit.

Rod Henwood
Joined the Board in July 2005 as New Business Director. Prior to joining Channel 4, he was Chief Executive of Premium TV. His previous roles have included Director of Television at NTL, Managing Director of Fox Kids (UK) and Managing Director of Central Television. He was also co-founder of Prism Entertainment.

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

Secretary
Paola Tedaldi

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

Report on members' remuneration

Remuneration policy for executive members of the Board
The remuneration of executive Board members is determined by the remuneration committee, the membership and terms of reference of which are detailed on page 73. In framing its remuneration policy, the committee has given full consideration to the best practice provisions of the Combined Code.

The group aims to attract, motivate and retain high calibre staff and executive Board members by rewarding them with competitive salary and benefit packages. These are established by reference to those salaries and benefit packages prevailing for executives of comparable status in the television industry, but without any of the share option schemes available elsewhere.

Any bonus payments made to executives are based on performance and recommended and approved by the remuneration committee. Andy Barnes participates in the advertising sales bonus scheme, which is linked to advertising revenue targets. The maximum bonus payable under that scheme is 75% of salary. The other executive members participate in the Channel 4 Executive Bonus Scheme, which in 2006 set maximum bonus which could be payable at 30% of salary.

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

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

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

	Salary and fees £000	Bonus £000	Benefits £000	2006 Total £000	2005 Total £000
Executive members					
Andy Duncan[1]	460	149	13	**622**	549
Andy Barnes	280	58	13	**351**	409
Anne Bulford	329	77	13	**419**	173
Rod Henwood	288	69	13	**370**	180
Kevin Lygo	443	142	13	**598**	565
Non-executive members					
Luke Johnson	72	–	–	**72**	71
Lord Puttnam	26	–	–	**26**	–
Sue Ashtiany	21	–	–	**21**	21
Karren Brady	21	–	–	**21**	21
Tony Hall	23	–	–	**23**	14
Stephen Hill	21	–	–	**21**	–
Martha Lane Fox	20	–	–	**20**	–
Andy Mollett	21	–	–	**21**	21
Retired members					
Barry Cox (resigned 31 January 2006)	2	–	–	**2**	29
Robin Miller (resigned 31 January 2006)	2	–	–	**2**	21
Ian Ritchie (resigned 31 December 2005)	–	–	–	**–**	21
David Scott (resigned 25 July 2005)	–	–	–	**–**	1,218
Andrew Graham (resigned 31 March 2005)	–	–	–	**–**	5
Rob Woodward (resigned 31 January 2005)	–	–	–	**–**	526
	2,029	**495**	**65**	**2,589**	**3,844**

[1] In addition to the amounts shown above, a proportion of Andy Duncan's salary is deferred in the form of a long-term loyalty scheme. This scheme requires Andy to remain with Channel 4 for at least three years and accrues at a rate of £150,000 per annum up to a maximum of £450,000 which will become payable on 19 July 2007. The 2006 financial statements include provision for Andy's accrued entitlement (£375,000) at the end of 2006.

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

Non-executive members are not eligible for membership of the Channel Four Television Staff Pension Plan. The executive members of the plan during 2006 were as follows:

	Increase in accrued pension entitlement during 2006 £000	Total accrued pension entitlement at 31 December 2006 £000	Transfer value of increase in accrued pension entitlement less members' contributions £000	Transfer value at 1 January 2006 £000	Increase in transfer value less members' contributions £000	Members' contributions during 2006 £000	Transfer value at 31 December 2006 £000
Kevin Lygo	4	17	40	174	27	9	210
Andy Barnes	6	98	69	1,285	5	11	1,301

- the total accrued pension entitlement shown is that which would be paid annually on retirement from the age of 60 but based on service to the end of 2006.
- the accrued benefits for all members have been restricted as a result of the impact of the Inland Revenue's earnings cap.
- members who are not subject to the earnings cap have the option to pay Additional Voluntary Contributions (AVCs) to a separate scheme. Neither the AVCs made nor the resulting benefits accrued have been included in the above table.
- all transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.
- they do not represent sums payable to individual members.

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

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

Programmes and the licence

Channel 4 commissions originated programmes from a wide range of suppliers and acquires programmes in the international markets.

Independent production companies are the most important source of originated programmes. 296 independent companies provided programmes transmitted on the main Channel 4 service in 2006 (2005: 311).

The source and cost of the programmes transmitted on the main Channel 4 service are shown in the table below:

	2006 Hours	2005 Hours	2006 £m	2005 £m
Originated				
Independents	**4,367**	4,360	**323.5**	296.0
Other	**1,115**	1,018	**59.3**	83.0
	5,482	5,378	**382.8**	379.0
Acquired	**3,278**	3,382	**127.2**	112.9
Programmes total	**8,760**	8,760	**510.0**	491.9
Other direct programme costs			**5.7**	7.4
Total programme and other content			**515.7**	499.3

	2006 Hours	2005 Hours	2006 %	2005 %
All hours				
Originated	**5,482**	5,378	**63**	61
Acquired	**3,278**	3,382	**37**	39
	8,760	8,760	**100**	100
Peak hours				
Originated	**1,213**	1,214	**74**	74
Acquired	**429**	428	**26**	26
	1,642	1,642	**100**	100

Production outside London
Channel 4 is keen to encourage film and television production throughout the Nations and Regions of the United Kingdom and has a number of schemes to achieve that objective. The total cost of those programmes in 2006 amounted to £133.5 million (2005: £107.7 million).

Channel 4: hours and costs of programmes
The main Channel 4 service broadcast 8,760 hours in 2006 (2005: 8,760) – 24 hours each day. The hours and costs of the wide range of programme transmissions were as follows:

	2006 Hours	2005 Hours	2006 £m	2005 £m
Entertainment	**1,603**	1,608	**124.8**	99.4
Drama	**1,172**	953	**104.8**	101.6
Education	**1,441**	1,729	**80.1**	89.3
Sport	**724**	973	**7.9**	36.8
Feature films	**1,048**	1,073	**47.6**	35.1
Other factual	**1,077**	883	**60.3**	46.7
News	**315**	320	**21.5**	20.4
Documentaries	**153**	186	**19.8**	18.2
Current affairs	**219**	219	**13.0**	15.3
Quiz and gameshows	**393**	250	**6.4**	6.6
Arts and music	**554**	490	**19.8**	17.9
Religion	**61**	76	**4.0**	4.6
	8,760	8,760	**510.0**	491.9

E4, More4 and FilmFour channels
The E4 channels broadcast for a total of 17,520 hours in 2006 (2005: 15,074) with 46% of these hours being subtitled (2005: 48%). The More4 channels (comprising More4, which launched on 10 October 2005, and More4+1 which launched on 17 October 2005) broadcast for 11,466 hours (2005: 2,440) with 64% of these hours being subtitled (2005: 72%). The FilmFour channels broadcast for 11,005 hours in 2006 (2005: 11,694) with 58% of these hours being subtitled (2005: 55%).

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

Channel 4
Ofcom recorded four breaches of its Code on standards in programmes by the main Channel 4 service in 2006 (2005: six), none of which were judged serious enough to merit a statutory sanction (2005: one). Six matters were treated as resolved by Ofcom in 2006 (2005: nine). In 2006 no complaints about fairness/privacy in Channel 4's programmes were upheld (2005: three upheld in part), eight complaints were treated as not upheld (2005: six) and no complaints were treated as resolved (2005: none).

E4/ More4/ FilmFour/ Quiz Call
Two recorded breaches of the Code on standards in programmes were noted against E4 in 2006 (2005: two), none for FilmFour (2005: none), one for More4 (2005: none) and one for Quiz Call (2005: none). One standards matter each concerning E4 and Quiz Call was treated as resolved by Ofcom in 2006 (2005: one). In 2006 no complaints about fairness/privacy on E4, More4, Quiz Call or FilmFour programmes were upheld (2005: none), while More4 had one complaint treated as not upheld (2005: none) and no complaints were treated as resolved.

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

Principal licence requirements

	Compliance minimum	2006	2005
Average hours per week			
News			
– in peak-time (6 pm to 10.30 pm)	4	**4**	4
Current affairs			
– overall	4	**4**	4
– in peak-time (6 pm to 10.30 pm)	1.54	**2**	2
Hours per year			
Schools	330	**395**	681
Percentage			
Original production			
– overall	60	**63**	61
– in peaktime (6 pm to 10.30 pm)	70	**74**	74
Independent production*	25	**84**	87
European independent production*	10	**56**	54
European origin	50	**71**	71
Subtitling for the deaf and hard-of-hearing	85	**88**	87
Audio description	8	**10**	9
Signing	4	**5**	3
Production expenditure outside London	30	**37**	30
Regional hours	30	**40**	33

The 2006 Ofcom licence quotas disclosure reflects Channel 4's Digital Replacement Licence (DRL) which came into force on 28 December 2004. This encompasses the requirements set out in the Communications Act 2003.

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

Historical record

	2000 £m	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m	**2006 £m**
Consolidated results:							
Revenue	716.4	730.7	766.9	769.6	841.4	894.3	**936.9**
Operating profit/(loss) before share of loss in joint venture	33.8	(24.2)	28.9	55.6	59.8	56.9	**14.0**
Share of loss in joint venture	–	(3.9)	(9.9)	(10.5)	–	–	**–**
Operating profit/(loss)	33.8	(28.1)	19.0	45.1	59.8	56.9	**14.0**
Net financial income/(expense)	2.0	(0.1)	(2.5)	0.2	3.9	9.9	**7.3**
Profit/(loss) before taxation	35.8	(28.2)	16.5	45.3	63.7	66.8	**21.3**
Taxation	(14.3)	7.6	(6.3)	(11.0)	(19.1)	(18.3)	**(6.8)**
Profit for the year	21.5	(20.6)	10.2	34.3	44.6	48.5	**14.5**

Figures for 2000 to 2003 are shown under UK GAAP. Figures for 2004, 2005 and 2006 are shown under IFRS.

Advertising and sponsorship revenue

	2000 £m	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m	**2006 £m**
Channel 4	651.7	619.4	645.9	643.0	692.1	729.3	**692.0**
ITV, GMTV, S4C and Five	2,315.7	2,012.4	2,031.6	1,993.8	2,106.5	2,063.6	**1,869.6**
	2,967.4	2,631.8	2,677.5	2,636.8	2,798.6	2,792.9	**2,561.6**
	%	%	%	%	%	%	**%**
Channel 4	22.0	23.5	24.1	24.4	24.7	26.1	**27.0**
ITV, GMTV, S4C and Five	78.0	76.5	75.9	75.6	75.3	73.9	**73.0**
	100.0	100.0	100.0	100.0	100.0	100.0	**100.0**

Audience share (portfolio)

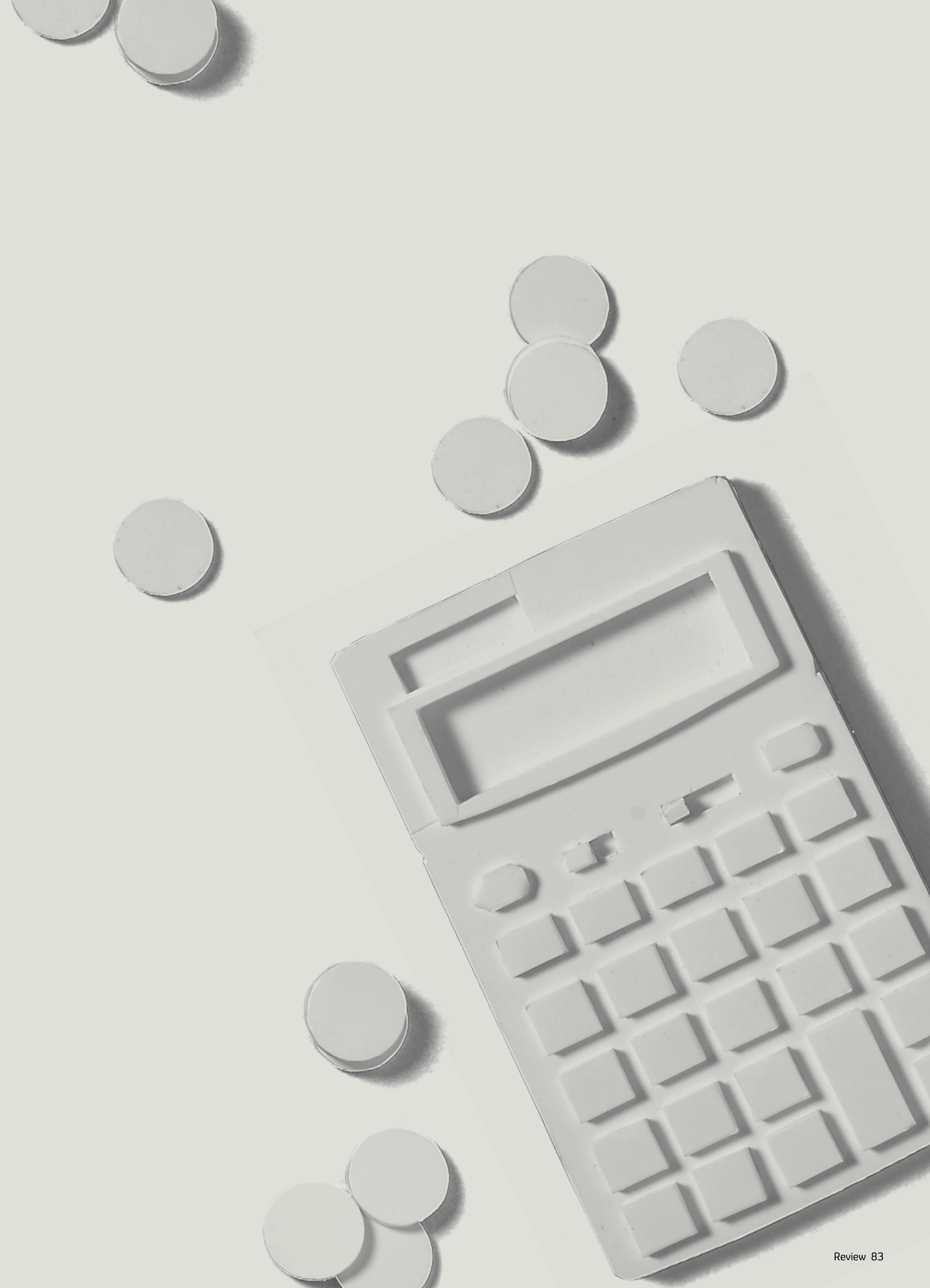
	2000 %	2001 %	2002 %	2003 %	2004 %	2005 %	**2006 %**
BBC (ten channels)	38.3	38.8	38.8	38.3	36.6	35.2	**34.5**
ITV (six channels)	29.3	26.9	24.8	24.6	24.1	24.0	**22.9**
Channel 4 and S4C (seven channels)	**10.5**	**10.3**	**10.8**	**10.4**	**10.5**	**11.0**	**12.1**
Five (three channels)	5.7	5.8	6.3	6.5	6.6	6.4	**5.9**
Other (>350 channels)	16.2	18.2	19.3	20.2	22.2	23.4	**24.6**
Total	100.0	100.0	100.0	100.0	100.0	100.0	**100.0**

The figures in brackets indicated the number of channels in that portfolio as at 31 December 2006.
Source: BARB all individuals.

Audience share

	2000 %	2001 %	2002 %	2003 %	2004 %	2005 %	**2006 %**
BBC 1	27.2	26.9	26.2	25.6	24.7	23.3	**22.8**
BBC 2	10.8	11.1	11.4	11.0	10.0	9.4	**8.8**
ITV and GMTV	29.3	26.7	24.1	23.7	22.8	21.5	**19.6**
Channel 4 and S4C	**10.5**	**10.0**	**10.0**	**9.6**	**9.7**	**9.7**	**9.8**
Five	5.7	5.8	6.3	6.5	6.6	6.4	**5.7**
Satellite and cable	16.5	19.5	22.0	23.6	26.2	29.7	**33.3**
Total	100.0	100.0	100.0	100.0	100.0	100.0	**100.0**

Source: BARB all individuals.



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