



Channel Four Television Corporation
Report and Financial Statements 1998

Contents

Chairman's statement	2
Chief Executive's report	5
Programmes	8
FilmFour and other new services	19
Top 20 programmes	20
The licence	21
Programme transmissions	22
Regulatory authorities	24
Behind the screen	25
Supporting the production industry	26
Staff training and equal opportunities	27
Viewer services	28
Channel 4 and the creative industry	30
Advertising sales and audience	31
Financial review and statements	34
Financial review	35
Report of the members	41
Corporate governance	44
Report on members' remuneration	48
Statement of members' responsibilities	50
Members and advisers	50
Report of the auditors	52
Consolidated profit and loss account	53
Balance sheets	54
Consolidated cashflow statement	55
Principal accounting policies	56
Notes to the financial statements	58
Historical record	71
General information	72

CHAIRMAN'S STATEMENT

1998 RESULTS

Channel 4 had another excellent year in 1998. In an environment of sharply increased competition, with the introduction of several new digital services, audience share was satisfactory at 10.3%, compared with 10.6% in 1997. Turnover, at £590.5 million, showed an increase of 6.8%, while profit before tax was £26.3 million as against £29.2 million the previous year.

PEOPLE

The success of any company depends above all on the quality of its people. This is especially true of Channel 4, whose creative objectives and responsibilities are delivered in a rapidly-changing and demanding environment. We now have a well-balanced and effective executive team which combines breadth of experience from many parts of the broadcasting industry with an enthusiastic commitment to the purposes of the channel.

Our Chief Executive, Michael Jackson, came to the channel from the BBC in July 1997 with a considerable track record of achievement, first in programme-making and latterly in directing the creative, managerial and editorial processes. In December 1998 Tim Gardam joined as Director of Programmes. He brings valuable skills to Channel 4, combining a successful career in public service broadcasting at the BBC with recent commercial experience at Channel 5. Janet Walker returned to the channel in April 1998 as Director of Business Affairs, having since 1994 worked successively for the BBC and Granada Media Group.

We had significant changes too amongst our non-executive members. At the end of 1998 Bert Hardy left the Board, on which he had served since 1992, and for the last year as Deputy Chairman. His broad knowledge of the media industries has been an asset to the channel, and his wise counsel on a wide variety of issues has been much appreciated by colleagues.

Andrew Graham, a distinguished economist and acting master of Balliol College, Oxford, and Joe Sinyor, Managing Director of Sony United Kingdom Limited, joined the Board in April 1998. In February 1999 the ITC appointed Barry Cox as our new Deputy Chairman. A former Director of LWT and the ITV Association, Barry has valuable experience of the business and regulation of the television industry. Also appointed in February as a non-executive director was Robin Miller, Chairman of EMAP plc and a director of the Horserace Totalisator Board and the Moss Bros Group.

I would reiterate the comments Michael writes in his report on page 7 about the commitment of everyone who works at the channel and I am very grateful to all of them.



THE FUNDING FORMULA AND INVESTMENT

In February 1999 Channel 4 made a final payment of £66 million to ITV under the terms of the funding formula prescribed by the 1990 Broadcasting Act. Since 1993 the enormous total of £412.5 million of Channel 4's own earned revenue has been lost to programme-making; only the resourcefulness and resilience of my colleagues limited the disadvantage to viewers. Now that these transfers have ceased, we are resolved to use the income retained to improve the delivery of our remit to innovate, to widen choice, and to invest more in original British films and programmes.

The ending of the funding formula was phased. The savings from the first stage, in 1998, contributed substantially to the successful launch in November of the new film channel, FilmFour. This subscription channel is dedicated to the transmission of the best of modern independent cinema, and meets several of the channel's objectives for the future: it is a clear commitment to supporting digital television; it offers viewers a genuine extension of choice; and it builds on our established reputation for investing in and showing quality British films. We are greatly encouraged by the public's reception of FilmFour.

In 1999 the final demise of the funding formula will allow an increase of 13% in the overall programme budget, including a rise of 33% in the drama budget. Further investments will also be made in digital transmission and services. Resources have been committed to increase the minimum percentage of original programming in the Channel 4 schedule from 55% to 60% in accordance with the requirements of the new licence agreed with the ITC last year. A substantial investment is being made in Channel 4's Nations and Regions initiative, based in Glasgow, and significant funds are being allocated to educational programmes in peaktime, and educational initiatives.

Furthermore, to ensure the achievement of maximum value for viewers from Channel 4, a comprehensive strategic review of all our activities is now underway, covering the core terrestrial channel, new pay-television and interactive opportunities, investment in film, and the provision of additional education activities. We have the structure, the resource and the will to make a real impact in each of these areas.

REGULATION

In February 1999 the ITC announced that it was imposing a fine of £150,000 on Channel 4 following a breach of the programme code in the documentary **Too Much Too Young: Chickens** (screened in September 1997). I expressed my sense of disappointment and injustice about this because in this instance we had been intentionally misled by the independent producer, as she later admitted, and there had not been any relevant failings in Channel 4's commissioning process or supervision of the programme. The degree of penalty was in my view disproportionate to our fault.

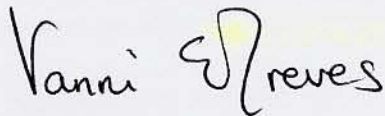
In general however we have an excellent working relationship with the ITC whose job it is to supervise our compliance with the licence and the ITC codes. Over the last year the channel has again gone to great lengths to ensure that our procedures are robust and rigorously observed by producers and staff alike. Indeed the number of interventions for breaches of ITC codes nearly halved in 1998. The ITC recognised this in our annual performance review and stated that we had taken measures to improve the compliance record, and that these were having an effect. It is in the nature of our remit and of viewers' expectations of us that we will occasionally make mistakes. When we do, it will not be for lack of effort to avoid them.

THE ROLE OF CHANNEL 4

Channel 4 was given a primary purpose in 1982 and it remains unaltered: to operate as a public service broadcaster, encouraging diversity and innovation, and delivering real choice and quality of programming to viewers. We welcome the new licence conditions which were agreed last year as further assisting and shaping this purpose.

The television market is changing fast, with a rapid expansion of services, and with intensifying competition for viewers, for talent and for revenue. It is our firm belief that the core editorial objectives of Channel 4 are even more essential in this environment. Other commercial broadcasters necessarily make the satisfaction of shareholder interests their foremost concern. In contrast, Channel 4's responsibility is to satisfy the full range of viewers' interest. This is what increasingly distinguishes it from other commercial broadcasters, old and new, and it is that distinction which leaves us in no doubt that privatisation would be a disaster both for the channel and for the viewer. We will do our utmost to fulfil our editorial responsibilities, and at the same time to diversify and strengthen our business within the spirit of Channel 4's unique and remarkable remit.

4



Vanni Treves
Chairman
19 April 1999

CHIEF EXECUTIVE'S REPORT

Landmark is an overused term in British television, but what other word is there to describe the year when digital television finally arrived in UK homes and Channel 4 launched its first new channel in 16 years?

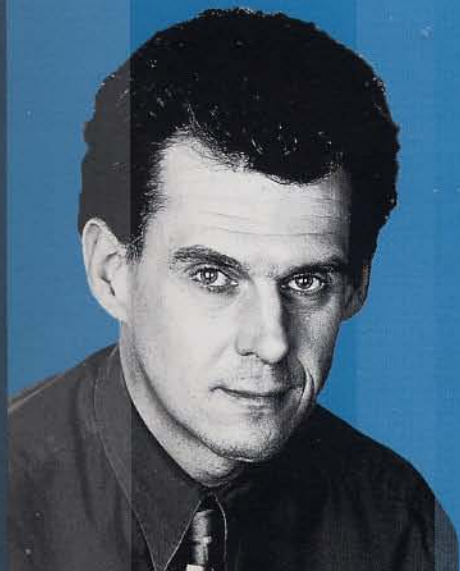
FILMFOUR

Our first pay-TV venture, FilmFour, arrived on air in November and proved an instant success with viewers, gaining about 50,000 subscribers in its first two months on air – an outstanding performance for a premium, standalone service. The independent film channel has been widely praised as one of the few genuine extensions of choice in the multi-channel market and is a source of pride to everyone at Channel 4. Channel 4 scored a coup by securing carriage for FilmFour on all distribution platforms without parting with any share of ownership or control. The film channel has immediately displayed a real sense of purpose in a crowded and confused marketplace. FilmFour is a Channel 4 proposition to its fingertips – a genuinely different channel that increases choice and fulfils an unmet need. It has whetted our appetite for further developments in this area.

The FilmFour channel is just one expression of our increased ambition for film. We are in the process of doubling our annual spend on film production and have set up a standalone film company, FilmFour Ltd, to handle all our film business from production and investment through to distribution. FilmFour Ltd has moved into new premises in Charlotte Street and struck a co-production deal with Arnon Milchan's Regency Enterprises and France's TF1. Our aim is for FilmFour Ltd to be the most influential film company in Britain.

NEW PROGRAMME LICENCE

The publication of Channel 4's new programme remit in February 1998 attracted less press attention than FilmFour's launch, but it was an equally important indicator of the channel's future. At a time when television is increasingly criticised for being formulaic and trivial, the remit is the clearest possible expression of Channel 4's mission to bring value and purpose as well as entertainment to the medium of television. The new remit furthers Channel 4's commitment to innovation and experiment and underlines our peaktime programme ambitions in education, religion, multicultural and news and current affairs. In a competitive marketplace, it will be a challenge for us to deliver on these commitments, but I am convinced our editorial team will succeed, under our new director of programmes Tim Gardam. Tim brings valuable skills to Channel 4, combining experience at the BBC as Editor of **Panorama** and **Newsnight** with a lively portfolio of factual programmes at Channel 5.



ADVERTISING SALES

Channel 4 continues to produce television of relevance in a multi-channel world and advertisers have rewarded us for that, with advertising and sponsorship revenue increasing by 9.0% to £559.6 million in 1998. Our ongoing financial success is a reflection of the distinctive profile of the Channel 4 audience. Free from shareholder expectations, our ability to reconcile the cultural and the commercial unlike any other broadcaster is crucial to our future, as it underlines our unique role in British media.

PRODUCTION OUTSIDE LONDON

1998 was also notable for another significant Channel 4 'first' – the opening of the channel's first editorial office outside London. Stuart Cosgrove, Channel 4's head of programmes for Nations and Regions, took up tenancy in Glasgow in April and his team has worked tirelessly to improve the quality of contact with independent producers outside the M25 circle. Channel 4 now has its first Commissioning Editor for the English Regions and has set new regional production quotas for all commissioning departments, with a view to 30% of the channel's original programming budget being spent outside London by 2002.

MULTIMEDIA INITIATIVES

Alongside our investment in pay-TV and the regions, we also expanded in other media in 1998. Channel 4's presence online was boosted by the launch of dedicated web-sites for **FilmFour**, the **Big Breakfast** and **Channel 4 Racing**. A new commercial development department was set up to oversee Channel 4's book, video and music and merchandising activities. Channel 4 International is now responsible for the channel's co-production activities and is pursuing an aggressive new strategy to establish itself as 'distributor of choice' for UK independent producers.

OUTPUT

The major achievement of 1998 was that such a weight of new developments off-screen did not dissipate the creative energy devoted to the main terrestrial service. The appeal and diversity of our programming output was evident and the channel received a far more positive annual performance review from the ITC than it had for 1997. At a time when terrestrial broadcasters have seen audiences eroded by increasing competition in television and by the alternative charms of other media such as the internet and video games, to maintain our audience share at 10.3% was a considerable result.

Channel 4's programmes continued to attract plaudits and prizes in 1998. We were the only British broadcaster to pick up a Prix Italia, for **The Granton Star Cause** and the channel also netted two International Emmys and a prestigious Japan Prize. Eleven major film awards during the year – including Best Actor at Cannes for Peter Mullan (**My Name is Joe**) – were topped by 12 Oscar nominations for films and programmes financed and released by Channel 4 and FilmFour Ltd in 1998.

Channel 4 News was one of a number of flagship programming strands to be refreshed in 1998. The contract to supply the channel's news service was put out to tender and retained in February by ITN, which significantly underpinned the bulletin's journalism and set in train the launch of a sixth edition on Saturdays, and the introduction of a new digital newsroom.

In 1998 drama struck out in a bold new direction on Channel 4, with **The Young Person's Guide To Becoming A Rock Star** and **Ultraviolet** giving a flavour of contemporary fictions to come. Entertainment also enjoyed something of a renaissance on Channel 4 during the year. We were proud of **The 11 O'clock Show** and new talent showcase **The Comedy Lab**. Elsewhere it was a strong year for current affairs, science and multicultural programming with programmes like **The Clintons: A Marriage of Power** and **Why Men Don't Iron**. We made Wednesday a

'Channel 4 night' with a must-see block of comedy and factual entertainment similar to our Friday night schedule. Channel 4 rebranded its night-time output as **4Later**, putting the emphasis on the innovative and experimental in this new zone.

We also pulled off some significant coups in our pursuit of 'event television', notably the acquisition of rights to domestic Test cricket for the next four years. The challenge awaiting us in 1999 is to bring cricket to the audience at the heart of the Channel 4 remit.

INDEPENDENT PRODUCERS

Channel 4's creative health is due in equal measure to the commissioning team at the channel and to the independent production companies around the UK that supply our programmes. The strength of this relationship is the source of our successes, both past, present and in the future. During 1998, with such a huge amount of change at Channel 4 – particularly in terms of personnel – it was inevitable that this relationship was subjected to a degree of strain. In return for asking independents to bring their best ideas to Channel 4, we realise we must give independents greater access and insight into Channel 4 and treat them less as suppliers and more as partners. To that end we have created new forums for dialogue online and in person and we have appointed our first independent liaison officer. While working harder at our relationship with key suppliers and giving encouragement to small and first time producers, we are also seeking to nurture less established production outfits with obvious potential who will become key suppliers of the future.

COMPETITION

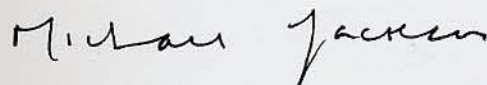
ITV's decision to move **News at Ten** means that 1999 will be the first full year of real competition in British television. It is a significant development which underlines the fact that Channel 4's valuable audience is being more fiercely targeted by its commercial rivals than any other group of television viewers. This level of competition is here to stay and that should prove stimulating. It is a reminder to everyone at Channel 4 that we need to stay close to our viewers.

In such a landscape it is all the more vital for Channel 4 to continue to offer a genuine alternative, to continue delivering programmes that stand out from the crowd, that have impact and something to say.

Our aim is to be ahead of the mainstream on other channels, to be the channel of new ideas and new talent, to be first to identify changing social and cultural currents, to be the channel that best reflects the breadth of experience of living in Britain on the cusp of the millennium. In short, to do what Channel 4 does best – make television that matters.

STAFF

Channel 4's myriad achievements in 1998 are a tribute to the dedication, imagination and enthusiasm of all that work here. The channel is blessed to provoke a unique sense of ownership in its staff and a commitment to the Channel 4 cause that has stood us in good stead. I would like to thank everyone for their hard work and support in the last year, as well as their contribution to making Channel 4 the most creative and rewarding place to work in British television.



Michael Jackson

Chief Executive

19 April 1999

PROGRAMMES

Channel 4's schedule in 1998 was as rich and as diverse as any year in its 16 year history, full of content, purpose and difference.

INNOVATION

Innovation remains the key word in Channel 4's vocabulary, despite the difficulties of breaking new ground in an increasingly crowded television market.

A new entertainment series led the way. **The Comedy Lab** showcased the best new comedy performers and writers, many of whom were making television debuts. The series featured twenty 15 minute films, spanning the full range of comedy from sitcoms and stand-up to sketch shows. Two will be turned into full series on Channel 4 in 1999.

Channel 4 launched a new late-night zone, **4Later**, as a proving ground for new ideas. Mixing animation, drama, documentary and the unclassifiable with a presentational style unlike anything else on British television, **4Later** instantly settled into the schedule as a natural home for the outrageous and the alternative voices that mark out Channel 4 from its competitors. Highlights included **Vidz**, a video review show with plenty of Channel 4 bite and **The Divine David**.

4Later slotted in beside Channel 4's other maverick late-night zone, **Renegade TV**, which returned for a five week run of documentaries and films from the edge of the underground. **Gets Dazed**, featuring Dazed and Confused magazine's Jefferson Hack and Rankin, became the first masthead programme on British terrestrial television whilst Chris Petit's **The Falconer** blurred the line between fact and fantasy.

Channel 4 kicked off the year with the genre-busting **King of Chaos**, a scientific docu-drama set in 2012 about the death of the media mogul who invents the software that leads to the destruction of television as we know it.

In the autumn Channel 4 transmitted **Bob and Margaret**, an animation derived from the channel's Oscar-winning **Bob's Birthday**. It attracted a reasonable audience, but its value as 13 half-hours of adult animation challenging the hegemony of the American studios in this genre, went beyond its viewing figures.

The weekday **Slot** after **Channel 4 News** at 7.50 pm offers a range of programming that is unique in the heart of peaktime. **Algeria Daily**, which for three weeks gave a regular five minute snapshot of life in the troubled North African country, stood out for its insight and ambition.

In 1998 the channel again showed that it programmes the most imaginative seasons and themed evenings. Alongside comprehensive seasons on the 50th anniversaries of the NHS and the State of Israel, **Drugs Uncovered** examined Britain's drug culture of the 1990s with real range and insight. The season included the harrowing **Don't Get High On Your Own Supply**, **The Lost Weekend** and Channel 4's very own citizens' Drugs Commission in **Altered Minds**.

Scrapheap popularised engineering in primetime and became the **Time Team** of technology, while **Beg to Differ** fronted by homeless presenters was equally distinctive.



MULTICULTURAL

Channel 4 surpassed the promise enshrined in its new remit to deliver more than three hours a week of multicultural programming. The genre's expanding presence in the schedule was again led by **The Ba Ba Zee**, which returned with a positive and lively range of subject matter.

One of the more significant new developments in multicultural programming was the debut on Channel 4 of **The Mobo Awards**, the calendar's most prestigious celebration of black music from dance to drum and bass, jazz, hip-hop, reggae and gospel.

The channel marked the 30th anniversary of Enoch Powell's Rivers of Blood speech with **The Trial of Enoch Powell** and put together the unlikely pairing of Darcus Howe and Peregrine Worsthorpe to question the meaning of England and Englishness in **England, My England**.

Channel 4's response to wall-to-wall live World Cup football in June was an exuberant documentary **The Reggae Boyz**, following the Jamaican football team's first appearance in the competition. At the end of the year the channel returned to the subject from a different angle in **Reggae Boyz: The Fans**.

In entertainment, **Tottenham Two** was a fresh contribution to **4Later**, while another sitcom **In Exile** displayed admirable ambition but was ultimately disappointing. **Hidden Hollywood** and **Ramayana: A Journey** both added to the range of multicultural programmes on Channel 4.

OTHER SPECIAL INTERESTS

Disability moved into the mainstream on Channel 4 in 1998, featuring prominently in a diverse range of programmes including **TV Dinners**, **Wild Gardens**, **The Chelsea Flower Show**, **Garden Doctors**, **Moving People** and **Vile Bodies**. An edition of **True Stories: Every Little Thing** explored a psychiatric institution with a difference at La Borde, while **Assault on the Mind** gave unique insight into the longest lasting and most detailed study ever conducted in Britain into Alzheimer's Disease.

Children's drama **Blabbermouth and Sticky Beak**, telling the story of a mute schoolgirl and her relationship with her pet cockatoo, won an International Emmy. Disabled characters were also part of the regular cast of two children's series on Channel 4, **The Number Crew** and **Hullabaloo**.

Specialist and disability-specific programming included a series of **Travelog** entirely presented by disabled travellers, **Open Your Mind**, **Express**, **The Vibe** and **Sign On**. Channel 4 sponsored the Do You Think I'm Sexy debate on disability at the Edinburgh International Television Festival.

A themed evening, **Coming Out Night**, gave primetime prominence to gay interest programming and featured the famous episode of **Ellen** and Channel 4's very own **Guide to Coming Out**.

Channel 4 devoted an evening of programming to AIDS and related issues in **My Night with Fry**, hosted by Stephen Fry at the London Lighthouse.

10



TV Dinners

Blabbermouth and Sticky Beak

NATIONS AND REGIONS

Programmes produced outside London in 1998 included **The Vibe** (Northern Ireland), **Deals on Wheels** (Scotland), **Watercolour Challenge** (Liverpool), **Collectors Lot** (Plymouth), **Beg To Differ** (Glasgow), **The Young Person's Guide to Becoming a Rock Star** (Glasgow) and **Snap Shots** and **Dr Paisley, I Presume** (Belfast), alongside perennial favourites **Brookside**, **Hollyoaks**, **Channel 4 Racing** and **Countdown**. **The Slot** featured vignette films from around the UK.

Feature films in production outside London in 1998 included **Gregory's Two Girls** and **The Debt Collector** (Scotland), **Solomon and Gaenor** and **Simon Magus** (Wales), **East is East** (Salford) and **Old New Borrowed Blue** (Belfast). **The Acid House** trilogy, shot in Glasgow, was released in 1998.

DRAMA

Drama stepped back into the spotlight on Channel 4. The channel invested an additional £10 million in the production of the genre in 1998, to help move towards our stated aim of having at least one piece of original drama in the schedule each week in addition to **Brookside** and **Hollyoaks**. Two series sign-posted the type of contemporary and energetic fiction that Channel 4 believes it can make its own. Music business satire, **The Young Person's Guide to Becoming a Rock Star** by Bryan Elsley and the urban vampires of **Ultraviolet** offered a compelling double bill.

Two of Britain's best writers Lynda La Plante and Fay Weldon, created **Killer Net** and **Big Women** respectively, while Laurence Marks and Maurice Gran brought their challenging portrait of **Mosley** to Channel 4. Channel 4 was particularly proud of the moving single film **Soft Sand, Blue Sea**, produced by Alan Bleasdale and written by television newcomer Stephen Butchard who won the third Dennis Potter Award for new writers of exceptional promise.

Channel 4 invested in **More Tales of the City** by Armistead Maupin and continued to fund and produce short, experimental dramas such as **Pure**, part of the season of drugs related programming.

Hollyoaks continued to attract an ever larger and younger audience.

As well as showcasing a broader range of drama, Channel 4's drama department put in unprecedented work off-screen to help lay foundations for the future. There were more than 20 production companies in active development in 1998. The emphasis has been on finding new writers and encouraging younger, less experienced producers. The channel helped a number of independent producers set up in 1998 and invested £500,000 in a variety of new talent initiatives, including sponsorship of the Traverse Theatre in Edinburgh and a new writing scheme with the Bush Theatre. Channel 4 also financed five trainee drama producer positions with leading independents.



FILMFOUR

FilmFour premieres on Channel 4 in 1998 included **Brassed Off**, **Secrets and Lies**, **Remember Me**, **Fever Pitch** and **The Pillow Book**.

The strength of our film production, investment and distribution subsidiary FilmFour Ltd is evident from the ten Oscar nominations for three films it was closely involved with in 1998 – **Hilary and Jackie**, **Velvet Goldmine** and **Elizabeth** – and the Cannes success of Ken Loach's **My Name is Joe**. Other films that enjoyed theatrical release in 1998 included **The Woodlanders**; **Bent**; **Martha – Meet Frank, Daniel and Laurence**; **The Land Girls**; and **Dancing at Lughnasa**.

NEWS AND CURRENT AFFAIRS

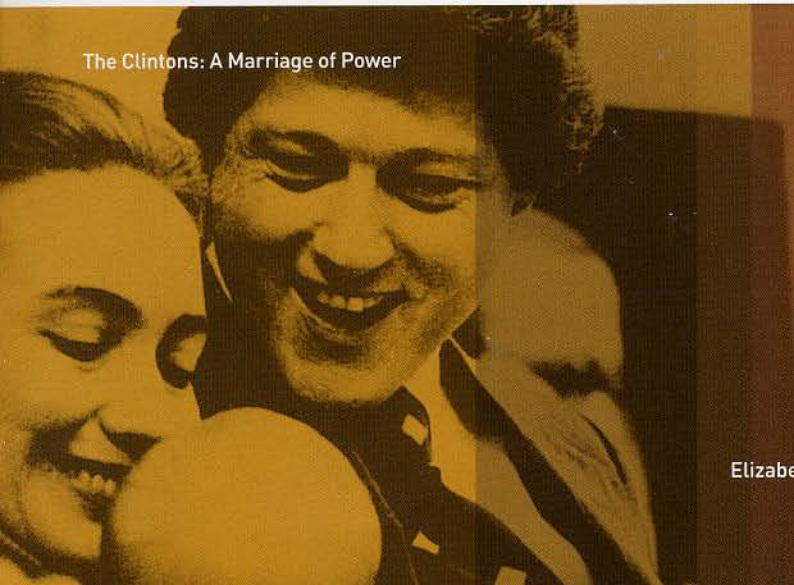
News and current affairs delivered programmes of range, quality and a real sense of purpose. **Your Money and Your Life**, a vivid Hi-8 documentary series about small businesses falling apart, was noteworthy. Similarly, an edition of **Dispatches** on the death of Princess Diana, **The Accident**, was refreshingly cool and non-conspiratorial and made an intriguing pair with Christopher Hitchens' passionate diatribe **Diana: The Mourning After** in which he raged against media manipulation and hysteria one year on.

The Clintons: A Marriage of Power offered a timely and intriguing examination of the world's most powerful couple, while the news and current affairs department also made powerful contributions to Channel 4's cross-genre seasons on drugs, alcohol and the 50th anniversaries of the NHS and Israel. Internationalism was a gratifying feature of the channel's current affairs output in programmes such as **Israel at 50** and editions of **Dispatches** on rape in South Africa, the war in Algeria and Saddam's treatment of the Kurds. **Dispatches** returned in a new shorter format under a new commissioning editor but with no less impact, with its investigation of the Animal Liberation Front and a two-parter on domestic violence winning plaudits alongside programmes on Ofsted, E. coli and Louise Woodward.

The Power List of Britain's most influential people became an establishment and political talking point as did **Portillo's Progress**, while **Now We Are One** deconstructed the first year of the Blair government through programmes like **A Night To Remember**. Rory Bremner played his usual role in this anniversary season and continued to give the channel satirical, political bite throughout the year.

The multicoloured modernising of **Channel 4 News** took place in January 1999, but the hard work was done in 1998, when the bulletin's journalism was underpinned with new specialist correspondents, an increased commitment to investigations, a UK editor and a Scottish bureau. With the addition of a Saturday programme, **Channel 4 News** is fighting fit to be the standard bearer of serious news in peaktime following the retreat of ITV's **News at Ten**.

The Clintons: A Marriage of Power



Elizabeth



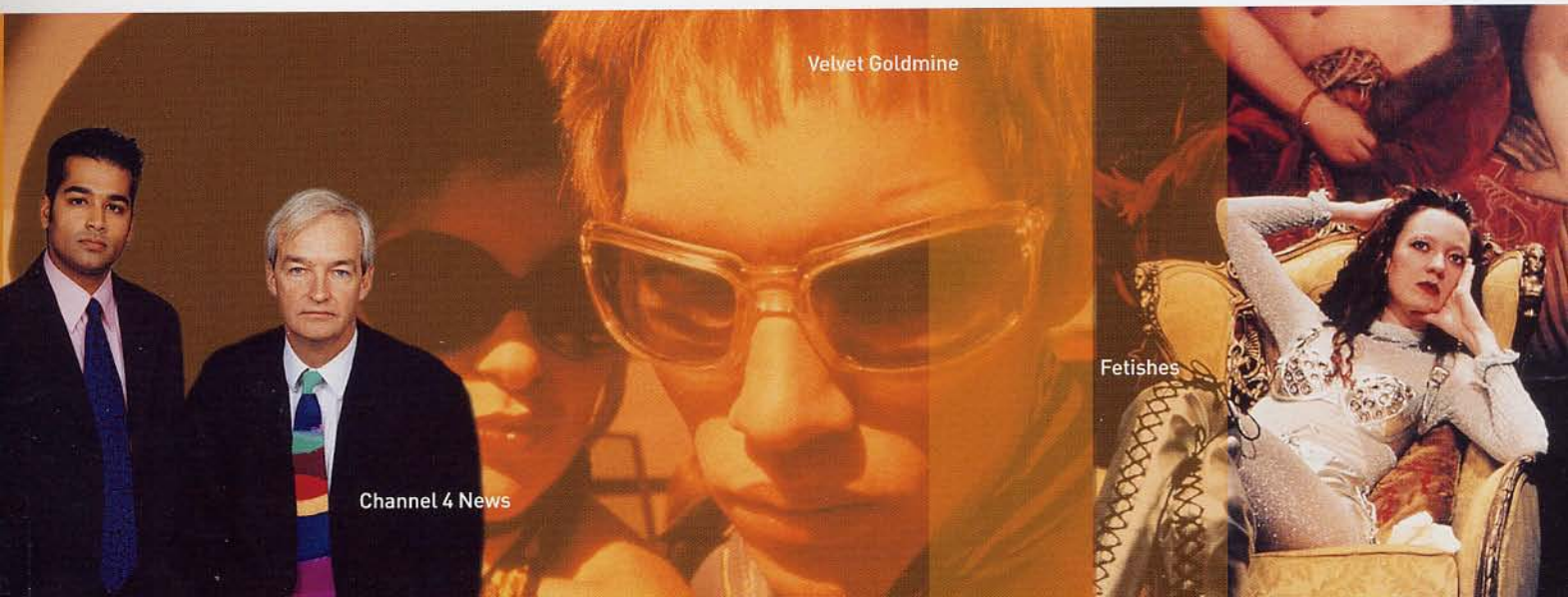
DOCUMENTARIES

Channel 4's documentaries shone brightly in 1998. **Shell Shock** marked the 80th anniversary of Armistice Day 1918 from a Channel 4 angle by taking a look at the psychological effects of warfare on the human body.

True Stories produced a number of memorable films including Nick Danziger's **Orphans of War**, **The Reckoning** on Kosovo and **Fast Cheap and Out of Control**. Other powerful single films included **Lockerbie – A Night Remembered** and an edition of **Undercover Britain** exposing Britain's largest firm of undertakers. **Fetishes** took Nick Broomfield to a New York S&M parlour.

Paul Watson produced a signature series on South Africa, **White Lives**, while **Rush** was the definitive oral history of the rise of recreational drug use in post-war Britain. Channel 4's cameras followed the trial of British housewife Helen Cummings who was accused of murdering her American husband and subsequently acquitted.

In February Channel 4 issued an apology after discovering that several scenes in **Rogue Males**, an edition of **Cutting Edge** about cowboy builders, had been reconstructed. At the beginning of September the channel pulled another **Cutting Edge** film, **Daddy's Girl**, at the eleventh hour before transmission, after it was revealed that the production team had been the victim of an elaborate hoax. A couple who featured in the documentary as a father and daughter were in fact boyfriend and girlfriend.



EDUCATION AND LEISURE

Channel 4's educational programming remained as diverse and distinct as ever. The channel has reclassified its education output into ten categories:

- education
- history
- science and technology
- nature and environment
- health
- life skills
- consumer
- leisure
- deaf and disabled
- arts and culture

Hard Lessons followed a group of children's education experiences as their schools struggle to raise standards and overcome failure. **Loving Smacks** was a personal film by Victor Schonfeld on the damage done by corporal punishment.

Health issues also loomed large with acclaimed programming for Breast Cancer Awareness week including **Miranda's Chest** about the effect of reconstructive surgery on a marriage. **Smashed**, a short season of films on alcohol, was a timely addition to the schedule pre-Christmas and included **Last Orders** and **The Intervention** about a family coming to terms with their father's alcoholism.

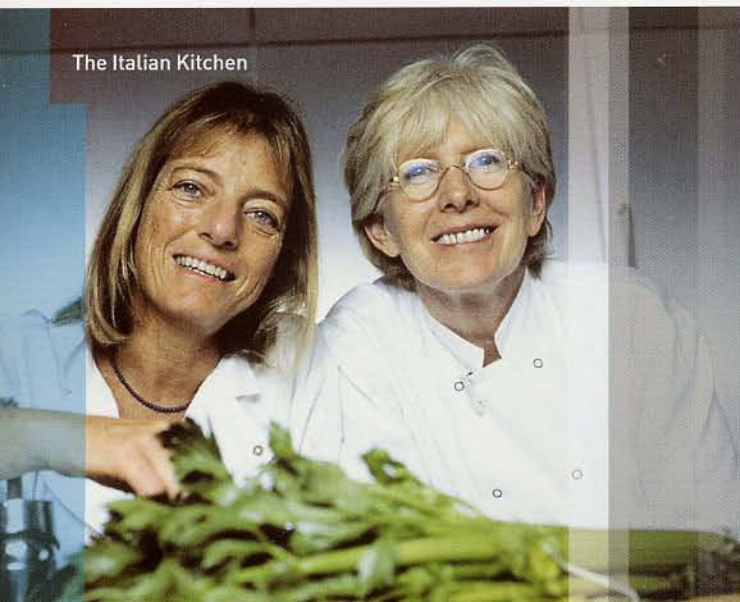
Cancer Wars charted the history of man's struggle against his most persistent killer while **The Rise and Rise of Viagra** elicited 7,000 calls to a Channel 4 helpline and **The Drop Dead Show** mixed a strong educational message with entertainment.

Channel 4's biographical history strand **Secret Lives** re-emerged in 1998 as **The Real...** and scored some notable hits particularly with **Kaiser Bill**, **Albert Goering**, **Rupert Murdoch** and **General Pinochet**. David Starkey painted a portrait of Britain's most famous monarch and polygamist in **Henry VIII**, while **Hooked** charted Britain's pursuit of pleasure between 1900 and 1975.

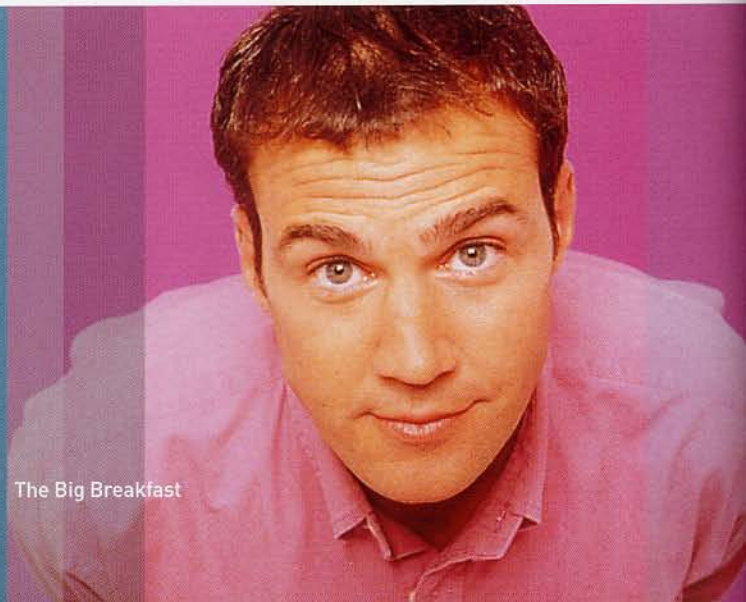
A number of Channel 4 shows tackled life skills such as parenting in **Baby, Baby**, exam taking in **The Big Breakfast** and personal finance in **Mrs Cohen's Money**.

Consumer and leisure interests were also well served with the sparky and confident **She's Gotta Have It** and **Deals on Wheels**. **The Italian Kitchen** and **Nigel Slater's Real Food** set the high-water mark in cookery programmes.

The Italian Kitchen



The Big Breakfast



RELIGION

Of all Channel 4's long-running factual strands, **Witness** had perhaps the strongest year. Two **Witness** specials hit the headlines: **The Devil Amongst Us**, which featured paedophiles talking about their motivations and **Death of a Sister** based around the first full interview with Frank Gilford, brother of murdered Saudi nurse, Yvonne. Other films in the series were **Dr Paisley, I Presume**; **Owning Auschwitz**, and **Jonestown**, involving harrowing eyewitness accounts of what happened 20 years ago when 900 Americans were murdered at the behest of cult-leader, Jim Jones.

In **For God's Sake** writer Frederick Raphael journeyed the globe looking at the world's different faiths and gods, while **Sex Bomb** cast a meticulous eye over the history of the sexual revolution. Jon Ronson chaired the late night religious talk show, **For the Love of Faith**, with his usual mixture of wit and mild-mannered cynicism.

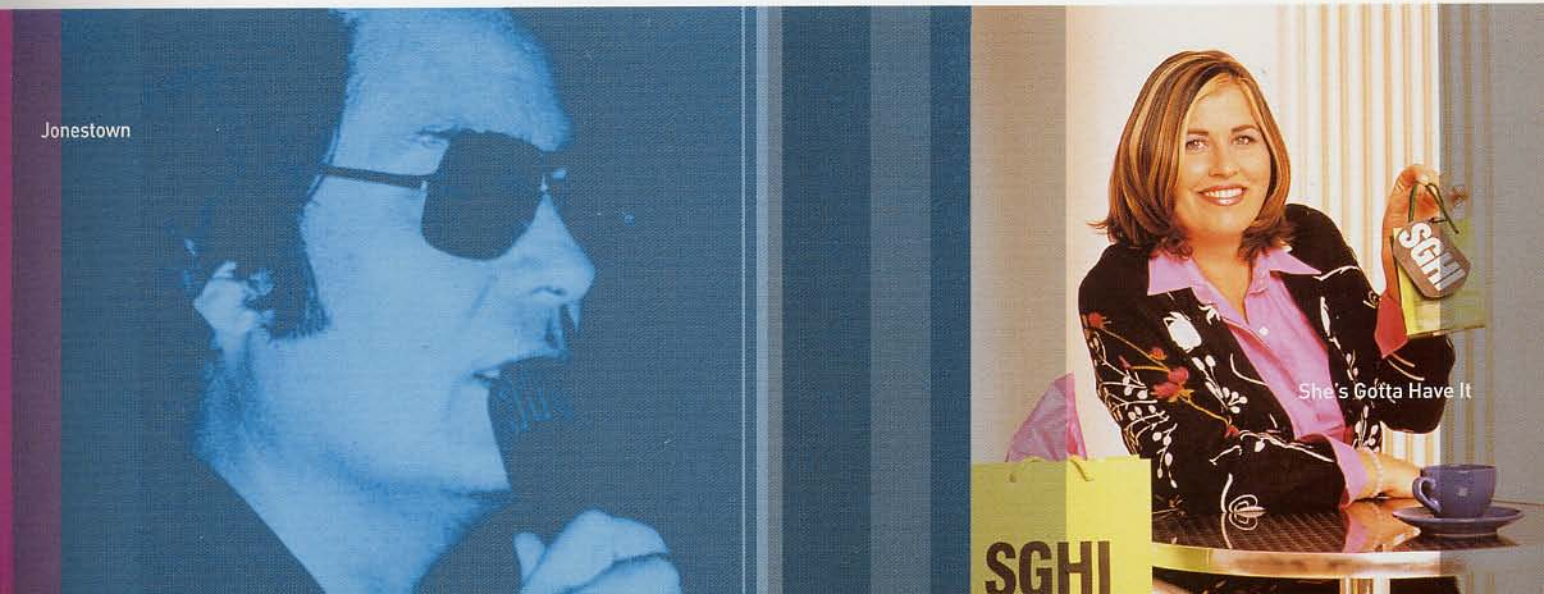
SCIENCE

Science came to the fore in Channel 4's 1998 schedule through a variety of informative and entertaining programmes. Both **Body Story** and **Why Men Don't Iron** garnered critical acclaim and healthy audiences. The former harnessed state-of-the-art animation to produce a fascinating series on the inner workings of the human body, while the latter offered startling scientific analysis of the fundamental differences between men and women.

Channel 4 returned to the battle of the sexes with **Anatomy of Desire**, which fused psychology, biology and history to demystify human sexual desire. **Sacred Weeds** researched the psychological and physical effects of hallucinogenic plants.

Flagship science and technology strand **Equinox**, consolidated its position in peak time with impressive ratings while continuing to cover a wide range of scientific topics. **The Ten Plagues of Egypt** used science to deconstruct one of the bible's greatest stories, while **The Secret Life of the Dog**, **Big G**, **The Caspian Sea Monster**, **The Body Hunters** and **Dawn of the Death Ray** were all evidence of a factual strand on the top of its form.

Jonestown



SCHOOLS

Encouraging the Channel 4 schools department to collaborate with other parts of the channel bore fruit with two excellent pieces of drama, **Alice Through The Looking Glass** and **Macbeth**. Another drama **Bill's New Frock** was one of a variety of award winners, with Channel 4 schools' **Stage Two Science – Habitats: Inner City** winning a Japan Prize for best programme for primary schools and **Blabbermouth and Sticky Beak** winning an International Emmy.

The department also launched the high-profile initiative, **Behind the Scenes at the RSC**, in association with Sir David Puttnam and Adrian Noble.

ARTS AND MUSIC

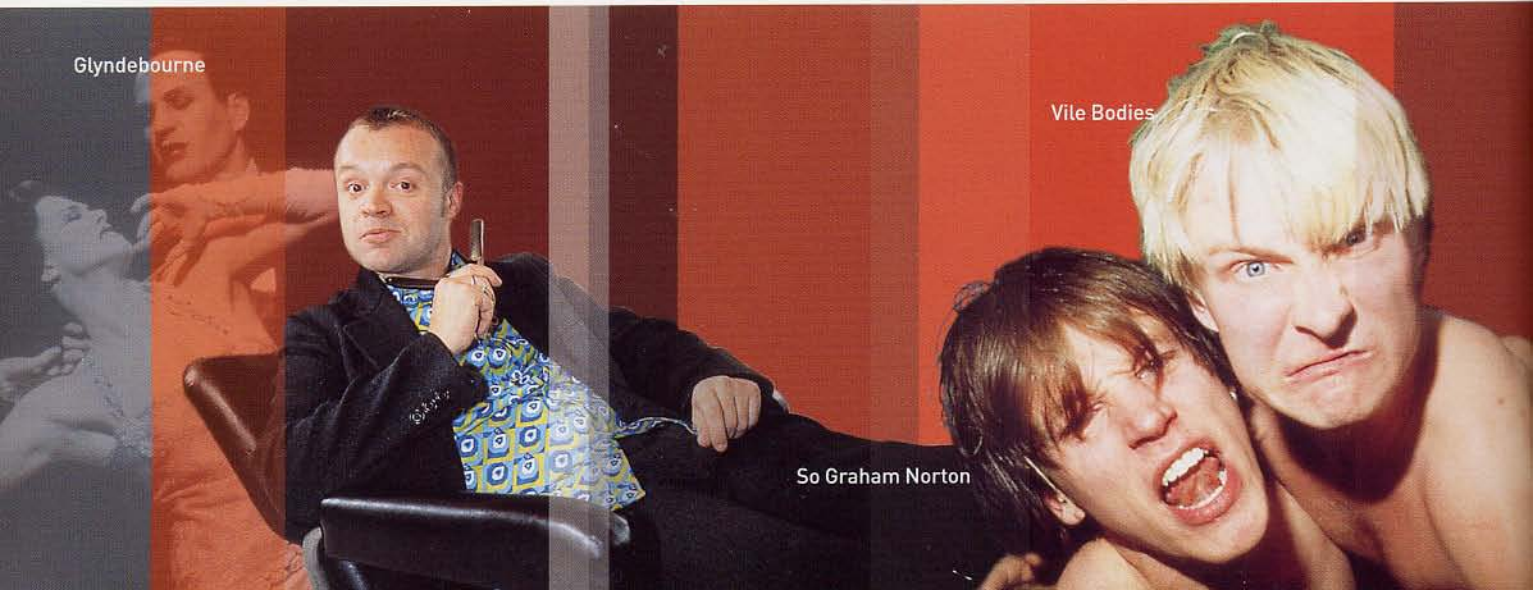
Channel 4 launched its new literary talk show, **Booked**, in the heart of Saturday night peak. With other Channel 4 arts programmes – **Jo Whiley** and **Zeitgeist** – it proved the art of intelligent conversation is not lost to television.

Glyndebourne, **Arthouse** and **Dance on 4** – which included the International Emmy award winning **The Judas Tree** – remain the staples of the Channel 4 arts canon. These were supplemented by imaginative series such as **Vile Bodies**, **Critical Condition**, **Models Close Up**, **Kiss Kiss Bang Bang** and **Undressed: The History of Twentieth-Century Fashion**. At Christmas, Channel 4 offered a two-part documentary **Bernstein**, plus a masterclass with world-renowned violinist **Maxim Vengerov: Playing By Heart** and a performance of **Hansel and Gretel**.

Glyndebourne

Vile Bodies

So Graham Norton



ENTERTAINMENT

Channel 4's entertainment department went looking for new talent in 1998 and found it in abundance. Like **The Comedy Lab**, **The 11 O'clock Show** became a vehicle for talent new to television with seven of the writers and four of the production staff falling into this category. With its satirical take of the day's news **The 11 O'clock Show** felt fresh, funny and a genuine step forward. 1999 will tell whether it has earned its thrice-weekly slot in the schedule.

Graham Norton and Mark Thomas emerged as entertainment 'faces of 4' in 1998 alongside Rory Bremner, Adam and Joe, Harry Hill and Richard Whiteley. Both have developed a fanatical following with **So Graham Norton** quickly at home in the Channel 4 Friday night schedule and **The Mark Thomas Comedy Product** mixing comedy, current affairs and withering satire to good effect. **Streetmate** was one of a number of entertainment formats that showed promise during the year.

Channel 4 indulged in a spot of nostalgia with the **Disco Top Ten** for the children of the seventies and **Heroes of Comedy**.

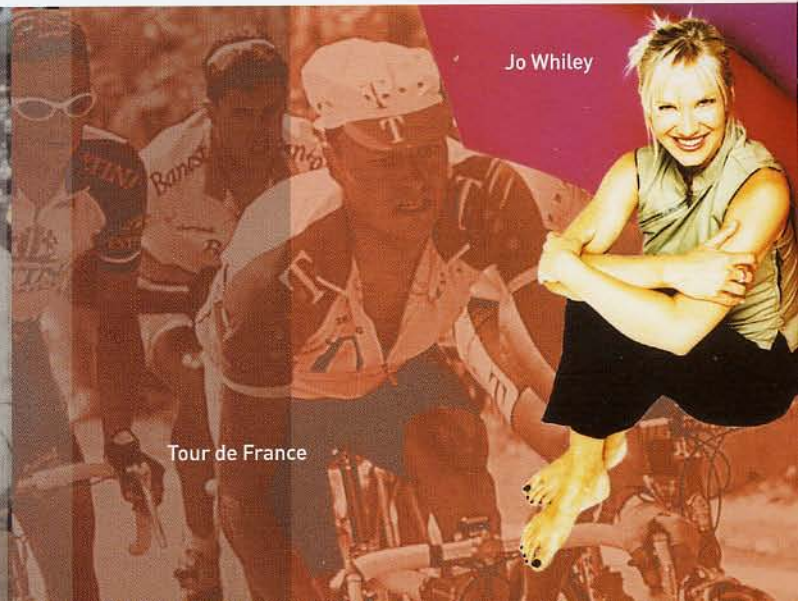
The entertainment department continued its off-screen talent initiatives such as the Riverside Comedy Festival and the So You Think You're Funny stand-up slot at the Edinburgh Festival.

SPORT

Channel 4's acquisition of the rights to domestic Test match cricket was one of a number of sporting successes for the channel in 1998. Established favourites **Channel 4 Racing**, **Italian Football** and **Tour de France**, remained in winning form.

Sporting passions were also reflected in other genres, such as documentaries – **Planet Football** and **The Outsiders with Nick Hancock** – and entertainment show **Tee Time** fronted by golf-mad Chris Evans.

The channel bid farewell to its NFL **American Football** coverage and also concluded its coverage of British **Athletics**.



CHILDREN'S

In response to a perceived lack of youth-oriented programmes, Channel 4 created **T4**, a Sunday morning zone for children and teens. The channel prioritised programming for 10 to 16-year-olds with shows such as **Buzz**, **Planet Pop** and **No Balls Allowed**. The award-winning **Wise Up** tackled every conceivable subject from homophobia and bulimia to the environment in its Christmas special **Wise Up World**.

Teens continued to tune in to Channel 4 regulars such as **Hollyoaks** and **The Big Breakfast**, but also came in large numbers to one-offs such as **Johnny Meets Madonna** and the **Spice Girls Special**.

To cap off the year Channel 4 showed the latest Raymond Briggs' animation **The Bear**, which proved an absolute delight.

DAYTIME

A strong performance in daytime continues to bolster the Channel 4 schedule. **Watercolour Challenge** instantly found favour with Channel 4's loyal daytime audience, alongside established favourites **Countdown** and **Fifteen to One**. **Pet Rescue** went on the road in 1998 while **Light Lunch** migrated from daytime into the early evening and won new fans as **Late Lunch**.



FILMFOUR AND OTHER NEW SERVICES

On 1 November Channel 4 launched its first venture into pay television with the FilmFour channel. Broadcasting for 12 hours a day from 6 pm, FilmFour shows the best in modern independent cinema from the UK, the US and around the world. FilmFour is available, at a cost of £5.99 per month (£6 to ONdigital customers), to approximately 4.5 million homes across all pay television distribution platforms: digital terrestrial, analogue and digital satellite and analogue cable.

FilmFour is intended to appeal to Channel 4's core audience and to complement rather than compete with existing pay television offerings. While FilmFour Ltd productions will receive their premiere on the FilmFour channel, there is a wide diversity of film on the channel, from intelligent Hollywood output to arthouse minority and foreign language films, many of which have never been shown in the UK before, on television, video or theatrically. FilmFour also expects to show over 200 short films in its first year alone. Essential for the development of new talent, the vast majority of these 'shorts' have never been seen outside of specialist film festivals.

The growth of multiplex cinemas over the last ten years has seen a 73% increase in the number of screens in the UK. However this has not, as expected, led to an increase in the diversity of films available. FilmFour not only offers a unique mix of film entertainment but is also, for those who live neither near a multiplex nor a video shop, the only place where they can find high quality independent film.

Subscription take up in the early months has been brisk, with about 50,000 subscribers by the end of December 1998. FilmFour operates a central subscriber system (telephone 0800 44 1234) to direct potential subscribers to the various distribution platforms.

Since January 1999, the FilmFour service has been subtitled for the deaf and hard-of-hearing for at least 30% of its output. Digital teletext services will be available from June 1999.

In the next year, other new services will be introduced, extending transmission hours to at least 15 hours each day before the end of 1999.

19



FILMFOUR 4

**To subscribe call
0800 44 1234**

On satellite cable digital

Choose Four

www.filmfour.com

TOP 20 PROGRAMMES

Channel 4's success is based on its continued ability to provide distinctive and innovative programmes and the channel's strength amongst the young, upmarket and lighter television viewers is a result of this diverse and targeted programming. This is reflected in the top 20 programmes for the year:

		Audience millions	
1	Brookside*	7.6	UK commissioned drama
2	Father Ted*	7.1	UK commissioned entertainment
3	Dispatches: The Accident*	6.8	UK commissioned documentary
4	Friends	6.5	US purchased sitcom series
5	Muriel's Wedding	5.5	Australian purchased feature film
6	Brassed Off	4.9	UK commissioned Film on Four
7	Countdown	4.8	UK commissioned game show
8	Drop the Dead Donkey*	4.7	UK commissioned entertainment
9	Tourist Trap	4.4	UK commissioned documentary
10	Jack & Sarah	4.4	UK purchased feature film
11	Cutting Edge: Bootleggers	4.3	UK commissioned documentary
12	Eurotrash*	4.3	UK commissioned entertainment
13	TFI Friday*	4.3	UK commissioned entertainment
14	Killer Net*	4.3	UK commissioned drama
15	ER	4.3	US purchased drama series
16	The Quick and the Dead	4.2	US purchased feature film
17	Hollyoaks*	4.1	UK commissioned drama
18	Titanic Live	4.1	UK commissioned documentary
19	Mosley	4.0	UK commissioned drama
20	One Where Johnny Makes Friends	3.9	UK commissioned entertainment

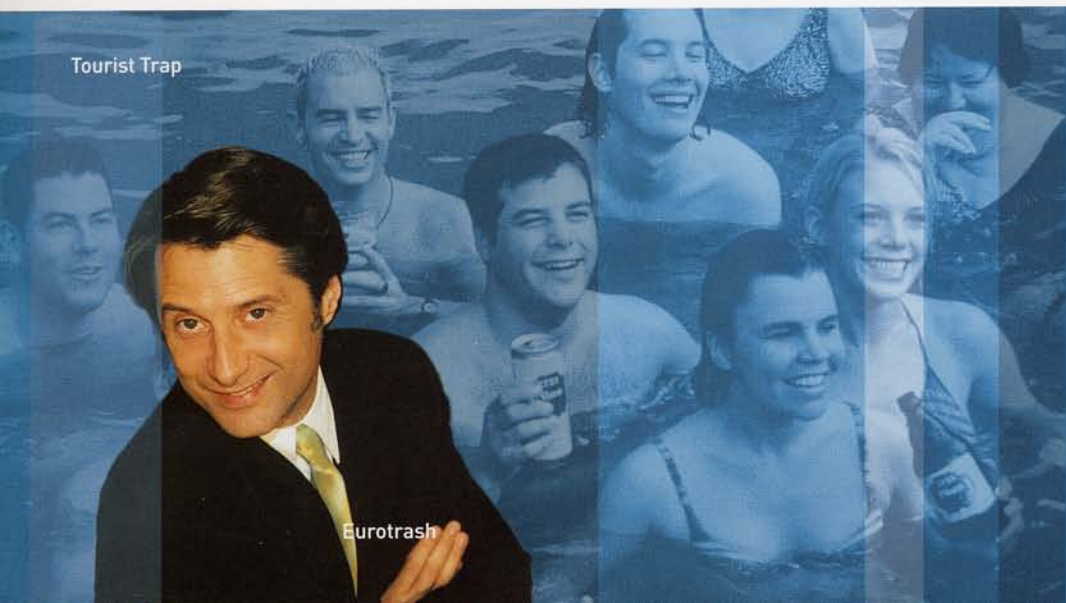
* (narrative repeats included)

Source: AGB/BARB

The strength and range of Channel 4's UK commissioned programmes is demonstrated by the number appearing within the channel's top 20:

- the top 20 programmes were made up of four factual, four original dramas, five entertainment, one US drama, one US sitcom, one gameshow and four feature films.
- 15 were UK commissions.
- one of the four feature films was commissioned by Channel 4.

Tourist Trap



Eurotrash

Father Ted



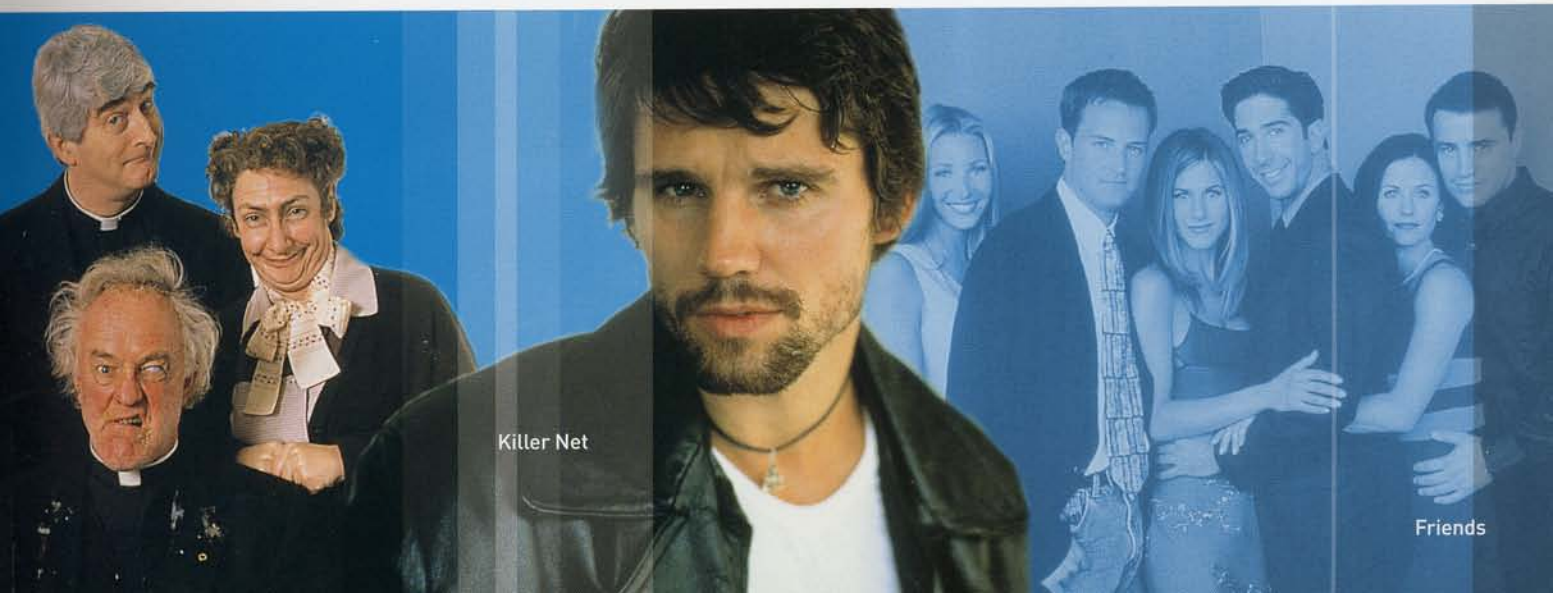
THE LICENCE

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

Principal licence requirements

	Compliance minimum	1998 Actual	1997 Actual
Average hours per week			
Education	7	10	7
Current affairs	4	5	5
News	4	5	5
Religion	1	2	1
Multicultural	3 (from 1999)	3	3
Hours per year			
Schools	330	424	426
Percentage			
Original production			
– overall	55	57	58
– in peak time (6 pm to 10.30 pm)	70	72	76
Repeats			
– overall (maximum %)	40 (by 1999)	44	44
– in peak time (maximum %)	20 (by 1999)	21	19
Independent production *	25	88	83
European independent production *	10	47	46
European origin	50	62	63
Subtitling for the deaf and hard-of-hearing	50	60	56
Production expenditure outside London	30 (by 2002)	26	25
Training and development (% of qualifying revenue from 1998)	0.5	0.6	0.4

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



Killer Net

Friends

PROGRAMME TRANSMISSIONS

The channel broadcast 8,760 hours in 1998 – 24 hours each day. The hours and costs of the channel's wide range of programme transmissions were as follows:

1998	1997		1998	1997
Hours	Hours		£m	£m
875	870	Drama (including Film on Four)	80.9	80.6
1,232	1,296	Entertainment	71.4	59.4
932	1,145	Education (including schools)	48.2	44.1
1,814	1,824	Feature films	26.9	15.6
300	323	Documentaries	18.9	15.3
253	249	Current affairs	18.1	14.3
543	372	Other factual	13.4	8.7
869	865	Sport	17.4	17.1
278	282	News	16.9	17.3
175	131	Multicultural	9.3	8.5
181	239	Arts and music	9.1	12.1
971	730	Children	8.4	6.8
249	335	Quiz and gameshows	8.0	7.4
88	73	Religion	4.7	3.0
8,760	8,734		351.6	310.2



SOURCES OF PROGRAMMES

Channel 4 commissions programmes from independent producers and the ITV companies and purchases programmes in the international markets. In keeping with our programme policy requirements, we have a wide range of suppliers.

The sources and costs of the programmes transmitted in 1998 are as shown in the tables below:

1998	1997		1998	1997
Hours	Hours		£m	£m
		Originated		
3,827	3,922	Independents	227.1	217.9
1,130	1,150	Other	63.4	48.4
4,957	5,072		290.5	266.3
		Acquired		
1,814	1,824	Feature films	26.9	15.6
1,989	1,838	Others	34.2	28.3
8,760	8,734	Total	351.6	310.2

Independent production companies are the most important source of originated programmes. 465 independent companies provided programmes transmitted on Channel 4 in 1998 (1997: 450).

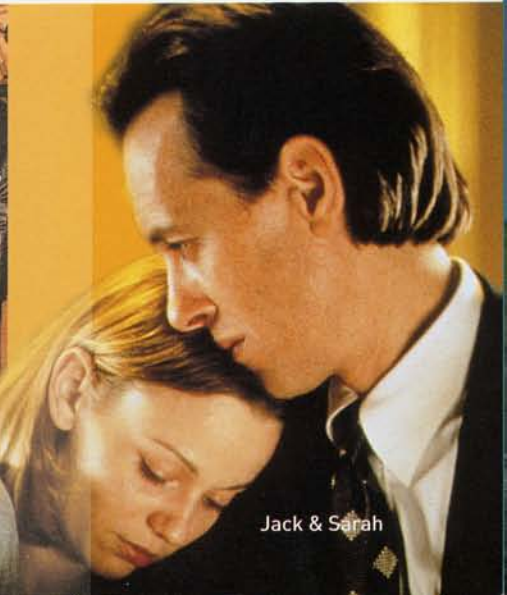
1998	1997		1998	1997
Hours	Hours		%	%
4,865	4,926	First run	56	56
3,895	3,808	Repeats	44	44
8,760	8,734		100	100

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. Satisfactory progress was achieved during 1998 in increasing the volume of production in Scotland, Ireland, Wales and the English regions. The total cost of those programmes transmitted in 1998 amounted to £71.9 million, a 7.2% increase from £67.1 million in 1997.



Hollyoaks



Jack & Sarah

REGULATORY AUTHORITIES

Channel 4 takes seriously its compliance responsibilities to the Independent Television Commission and other regulatory authorities. The vast majority of programmes are transmitted without regulatory problem, and the channel's staff work carefully with external suppliers, who provide virtually all of Channel 4's programmes, to seek to ensure that all output adheres to the channel's compliance procedures and regulatory codes and requirements. Nevertheless, on a few occasions, judgements are made with which regulatory authorities subsequently disagree, and lapses occur due to human fallibility within the channel or at production companies. On those occasions, Channel 4 aims to admit mistakes openly and re-examine procedures to prevent, wherever possible, a recurrence of a problem.

The number of complaints to the broadcasting regulators and those upheld were as follows:

Regulator and remit	Number of complaints considered		Number upheld or partially upheld
	1998	1997	
Independent Television Commission			
Monitors compliance with the Broadcasting Act and broadcasters' licence obligations and entertains complaints about independent television	635	693	Eight formal interventions, (1997: 14). No formal warnings given. None of the eight interventions represented serious breaches resulting in statutory sanctions (1997: two).
Broadcasting Standards Commission			
Entertains complaints about unfair treatment and/or infringement of privacy	8	8	One was upheld and four partially upheld (1997: two upheld).
Entertains complaints concerning standards of taste and decency	173	106	15 were upheld (1997: 21), and four partially upheld (1997: eight).

The Chairman's statement on page 3 reports on a fine of £150,000 which the ITC imposed in February 1999 following a breach of its programme code in the documentary **Too Much Too Young: Chickens**, which was transmitted in 1997.



BEHIND THE SCREEN

SUPPORTING THE PRODUCTION INDUSTRY

Channel 4 greatly values its relationships with the independent production community. As the driving force behind the creation of this community, it is aware of the evolving nature of the industry and independents. Their creativity and commitment is the lifeblood of the channel.

Regular meetings, briefings and materclasses take place throughout the year across the United Kingdom. Many of these take place in collaboration with Producers Alliance for Cinema and Television (PACT). These offer existing and emerging talent the opportunity to keep abreast of channel developments and needs for each programme genre.

A new area, Independent Relations, has been created within the channel initiating large-scale and targeted briefings for those likely to contribute to Channel 4's output, and forging collaborative links between the channel and its partners. Weekly chats online take place with commissioning editors providing the production community with increased direct access to editorial staff. To this has been added regular one to one meetings with a range of contributors to ensure awareness of the indies' needs from all areas within the channel. An annual guide **Working with Channel 4** is published to elucidate the structure, vision and commissioning needs of each area. In 1999, it will be published on the Channel 4 website enabling independents and creatives to download the information they require instantly. It will also offer the opportunity for automatic access to those online and economical updates of the most up to date information.

Channel 4 continues to be a keen supporter of Skillset, the industry's National Training Organisation, and many training and development initiatives within the industry. This is reflected in our contribution to a variety of organisations and schemes, both in terms of funding and staff involvement.

Land Girls



Undressed



STAFF TRAINING AND DEVELOPMENT

Channel 4 has continued to invest significantly in its staff through training and development. We use the Investor in People framework as a model of best practice to help us become more effective as a business and as an employer, and aim to achieve the standard.

During 1998 Channel 4's in-house training programme was extended to include more business awareness training, a new induction programme and other development opportunities such as placements to a production company.

During the year, 2,248 days of training were undertaken by staff, based on needs identified at an organisational and individual level.

EQUAL OPPORTUNITIES

Channel 4 is fully committed to equal opportunities. This commitment underpins many of the Human Resource initiatives at the channel.

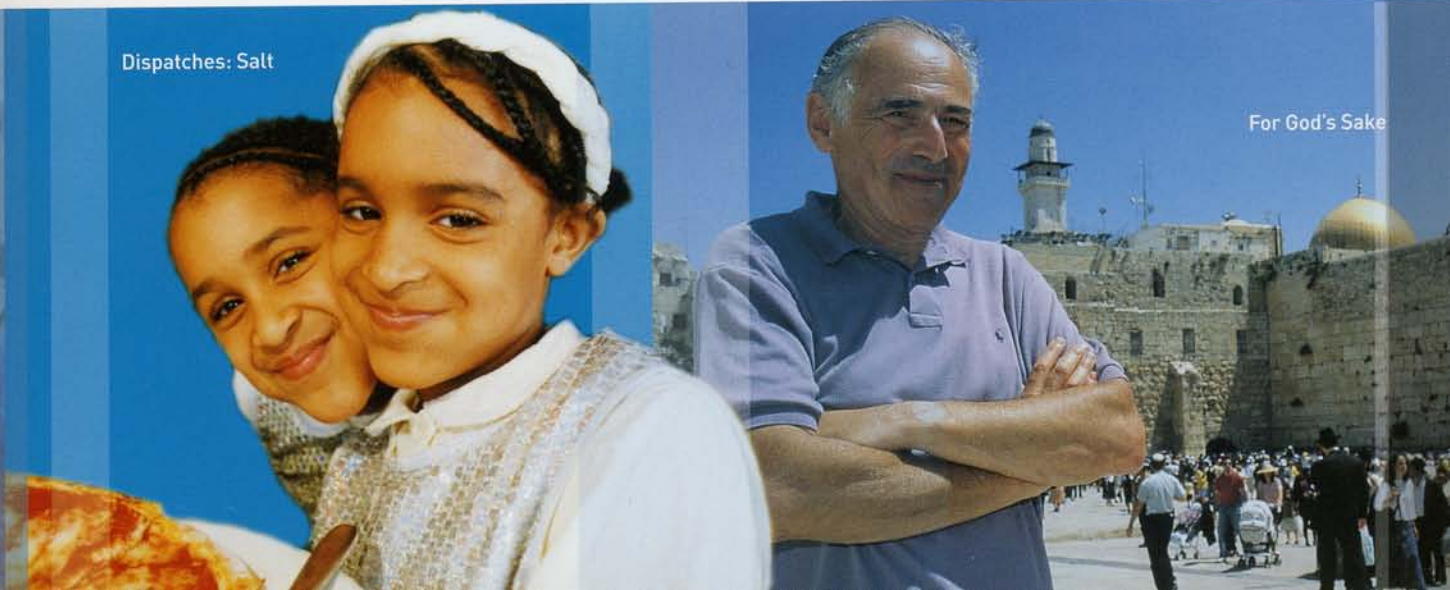
The channel does not discriminate on grounds of sex, sexual orientation, marital status, race, colour, ethnic origin, disability, age or political or religious belief in its recruitment or other employment policies. The ethos of Channel 4 for both job applicants and staff is that everyone matters.

The representation of ethnic minorities amongst its permanent staff was 8.2% (1997: 9.5%) and women continue to form the majority of the channel's staff, 57.1% (1997: 58.1%).

The channel encourages applications from people with disabilities. The policy of the channel is to recruit, train and provide career development opportunities to disabled persons on the same basis as that of other staff.

Dispatches: Salt

For God's Sake



VIEWER SERVICES

The channel is committed to maintaining as broad a dialogue as possible with its viewers. This is achieved in many ways and on many levels and the channel is constantly seeking new and innovative means of reaching out to its audience.

The viewer enquiries department welcomes viewers' comments, whether praise or complaint, and is open 24 hours a day – staffed from 8.30 am until 11 pm on weekdays and from 10 am to 11 pm at weekends. An answerphone is available outside these hours. In 1998 viewer enquiries answered 164,308 telephone calls (an 11% increase on the previous year) – 9% of calls included a criticism. The department received 43,774 letters, of these 8% included a criticism.

As part of the channel's commitment to forge links with viewers, we support as many diverse activities throughout the UK as possible each year. Some activities for 1998 included:

- roadshow and other support for Amnesty International's "Get Up, Sign Up" campaign in Leeds (the V98 Festival) and in Belfast (for which the channel has been nominated for a Northern Ireland Council for Voluntary Action/Camelot Link Award).
- roadshows in Wolverhampton as part of Deaf Awareness Week, and co-hosts of the Third Deaf Film and Television Awards, and sponsorship of the Channel 4 Deaf Programme Making Award.
- involvement with the **Pet Rescue Roadshow**.
- Channel 4 Learning's presence at exhibitions throughout the country.
- exhibits at Chelsea and Hampton Court Flower shows, of which Channel 4 is now the official broadcaster.
- the channel again sponsored the BFI Lesbian and Gay Film Festival tour, visiting over 25 cinemas throughout the country.
- the British Animation Awards tour visiting Newcastle, Nottingham, Warwick, Manchester, Edinburgh, Leicester, Inverness, Derby and Birmingham and culminating in a mini-festival in Belgium.
- in November, the annual **Channel 4 Silent** – screenings of a renovated print of a classic silent film, with full symphony orchestra – was graced by a visit from **The Wedding March's** veteran star Fay Wray.
- in December the channel mounted a videowall exhibition in the House of Commons.



Vanni Treves and Fay Wray

On a long list of sponsorships and donations, activities ranged from the prestigious **Turner Prize** exhibition and awards dinner at the Tate Gallery, (with an outreach education programme in six regional galleries), through film festivals in Edinburgh, London, Leeds and Birmingham, Bradford's Asian Film Festival Bite the Mango, the Sheffield Documentary Festival, Bristol Short Film Festival Brief Encounters, involvement with both the Race in the Media Awards and the Raspberry Ripple Awards for Best and Worst Portrayal of Disability in the Media, the setting up of a Disabled Access Website, funding for the Big Issue Film Unit's production of a 30 second cinema advertisement for Crises, which will be distributed countrywide during 1999, and a number of donations to local and other charities.

SUBTITLES

In 1998, 60% of Channel 4's transmitted programmes were subtitled for the deaf and hard-of-hearing substantially exceeding the 50% minimum which had been agreed with the ITC. The channel has now set a new target of achieving 80% of programmes to be subtitled by 2004.

WEBSITE

1998 saw a considerable increase in Channel 4's online activities, starting with a live, global webcast of **Equinox: King of Chaos** on New Year's Day exploring the possibilities of digital convergence. More than sixty new programme-related sites were created, offering interactive elements ranging from online votes for **Hindi Films**, **Music of the Millennium** and **Frasier**, to live webcast from the **Chelsea Flower Show**, **Time Team Live** and **The Big Breakfast**. Channel 4 has also developed its own online chat service and guests have included Denise Van Outen, Harry Hill, B*wicked, Monty Don, Graham Norton, Boyzone, chef Rose Gray and a selection of documentary makers and people in the news. Lynda La Plante bravely went online to face her critics following **Killer Net**, John McCririck discussed tips on the eve of the Derby and Nicholas Serota talked about the **Turner Prize** and the future direction of the Tate Gallery. Sports coverage online continued to be strong and the **Tour de France** site, delivering live daily coverage of the most troubled Tour to date, was highly commended and was awarded the first Prix Italia Special Web Prize for innovation and interactivity.

November saw the launch of www.filmfour.com, a major new service featuring information on the FilmFour channel, FilmFour productions, and film festivals, together with a host of other features about independent film in the UK and the US. The **Channel 4 Schools** service introduced a range of innovative content including the **Science In Focus** interactive module.

The website team within Channel 4 is expanding with a mission to take the channel's content and creativity from the internet and on to emergent digital TV platforms.



CHANNEL 4 AND THE CREATIVE INDUSTRY

Channel 4 continues its pioneering and enormously successful work in financing British films – which is backed by support for related events throughout the country, not only film festivals and screenings but activities such as script-writing forums, film master classes, seminars and international conferences.

Support was given to a wide range of industry activities and bodies during 1998 including:

- Association for Business Sponsorship of the Arts
- Black Film Makers Conference
- British Academy of Film and Television Arts, both in England and Scotland
- British Film Commission
- British Film Institute
- British Screen Advisory Council's European Audio Visual Conference in Birmingham
- Celtic Film and Television Association
- Edinburgh International Television Festival – at which the channel sponsored the fringe events and also special sessions on disability and television presenting, which aired an especially 'media taboo' issue
- National Advertisers Benevolent Society
- PACT Indie Awards
- Royal Television Society
- Scottish Advertising Awards
- Scottish Film Production Fund
- Voice of the Listener and Viewer
- Women in Film and Television

30



Stuart Cosgrove,
Head of Programmes
(Nations and Regions)

Edinburgh International Television Festival



Karen Brown
Deputy Director of Programmes
with Julia Cave
of Third Eye Productions

PACT Indie Awards

ADVERTISING SALES AND AUDIENCE

REVENUE

1998 proved to be another excellent year for Channel 4 with its advertising and sponsorship revenue growing by 9.0%. Total revenue from advertising and sponsorship for the year amounted to £559.6 million.

This represents a significant growth in the channel's share of total terrestrial television revenue, despite continued competition. To put this into perspective, if Channel 4 had achieved the same share of total terrestrial television revenue as in 1997, overall revenue would have been £3.5 million less.

Channel 4 enjoyed above average revenue growth from a number of advertising sectors, including cars, food, toiletries, confectionery and carbonates. The channel also attracted a broad range of different advertisers with 138 clients each spending more than £1 million.

AUDIENCE

Revenue is dependent on audience size and audience profile. In 1998 Channel 4 showed a small decline in audience share, down from 10.6% to 10.3%. However, Channel 4's targeted programming consistently delivers those groups which are particularly sought-after by advertisers. The audience share for the socio-demographic group, ABC1 adults, grew from 10.8% to 10.9%.

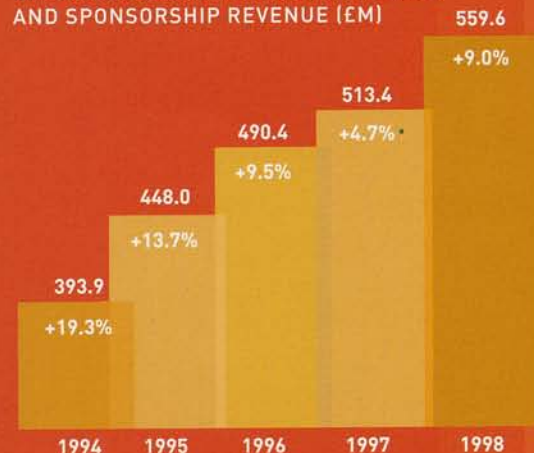
The result of Channel 4 outperforming the average in 1998 amongst these sought-after groups is recognised by the share of impacts (i.e. people watching commercials) delivered by the channel compared to the share of 'all persons' impacts. Thus the index of share of impacts for 16 to 24 year olds, based on the all individuals share is 115 – that is, the channel achieved a 15% better delivery. For ABC1 adults the index was 111 – an improvement on this index of 109 in 1997.

An elusive group that advertisers wish to reach is the lightest commercial viewing third of the population. For this audience, Channel 4 delivered, in 1998, almost a quarter better than the average (with an index of 124).

CHANNEL 4'S SHARE IMPACTS/
CHANNEL 4 VALUE INDEX



CHANNEL 4'S GROWTH IN ADVERTISING
AND SPONSORSHIP REVENUE (£M)



Source: BARB (impacts are commercials seen in 1998)

NEW DEVELOPMENTS

Channel 4 maintains a strategic and creative approach to changes in the marketplace and throughout the year the sales department's commercial development team continued to explore new revenue streams:

- programme sponsorship revenue saw further growth with advertisers continuing to recognise the value of association with Channel 4 and its programme brands.
- there was a continued commitment to DRTV (Direct Response Television Advertising) in conjunction with our research partner British Telecom. The latest wave of research, the sixth such annual project, culminated in the 'Direct 98' conference at which exclusive new data on the use of website addresses in advertisements was announced.
- closer relationships with the production community have been developed and successful programme brands have been extended into the field of book and magazine publishing, music soundtracks and video releases.

The sales department also maintained its successful practice of fair and open trading, which again led to there being no significant under-delivery of audience impacts on any Channel 4 advertising deals.

FINANCIAL REVIEW AND STATEMENTS

FINANCIAL REVIEW

Turnover

Channel 4's total advertising and sponsorship revenue increased by 9.0% in the year to £559.6 million (1997: £513.4 million). This contrasts with an annual increase in total terrestrial revenue of 8.0%, which included the first full year presence of Channel 5. As a result of this impressive performance, Channel 4's share of total terrestrial qualifying revenue increased to 21.7% (1997: 21.5%).

Television advertising and sponsorship revenues represented 94.8% of Channel 4's turnover for 1998 (1997: 92.9%). Viewers are increasingly being offered new programmes and new stations, from Channel 5 to satellite and cable services, and the advent of digital television will only intensify the competition for their attention. This will make the achievement of further real increases in this revenue stream for Channel 4 increasingly difficult.

Film Four Limited

In June 1998, all of the channel's activities in respect of film development, financing, production and distribution, both domestically and internationally, were consolidated within this subsidiary headed by its Chief Executive Paul Webster.

FilmFour supplies Channel 4 with feature films for the **Film on Four** strand for the main service and UK pay television rights for the new pay television service, also called FilmFour.

In its first year of trading Film Four Ltd supplied 17 films to Channel 4 and made a modest contribution to group profits.

The company has four divisions:

■ FilmFour Productions

The production of feature films in which the company invests. Distinguished for the part it has played in the British film industry, it is eminent for its role in working with and supporting new writers, directors and producers. Of the total 91 UK film productions in 1998 (films made in the UK or produced abroad by UK filmmakers), 16 were FilmFour titles. Recent examples are Allison Anders' **Sugar Town**, Tim Roth's **The War Zone**, Michael Winterbottom's **Old New Borrowed Blue** and Ben Hopkins' **Simon Magus**.

■ FilmFour International

Led by Sue Bruce-Smith, this division is responsible for the world-wide sales and marketing of FilmFour Productions and some third party acquisitions.

■ FilmFour Distributors

The theatrical and video distribution in the UK of FilmFour Productions and some third party acquisitions. Headed by Peter Buckingham, FilmFour Distributors' two most recent releases are Paul McGuigan's **The Acid House**, and Anand Tucker's **Hilary and Jackie**.

■ FilmFour Lab

Headed by Robin Gutch, this division unites FilmFour's expanding production, distribution and broadcasting presence with the spirit and practice of filmmaking which has evolved with Channel 4's independent film and video department. The Lab will be the purest area of risk within FilmFour, establishing itself as a beacon for radical low-budget filmmaking.

Channel Four International Limited

During 1998 Channel Four International continued to make significant contributions to group turnover and profit. From June 1998, the international film sales activity undertaken for some years by Channel Four International was transferred into the film subsidiary, Film Four Limited.

Channel Four International appointed a full-time Managing Director for the first time in the autumn of 1998. Bernard Macleod has extensive experience in distribution, including posts with Granada International and Time Life. With his appointment, Channel Four International took on responsibility for arranging co-finance as well as sales. His brief is also to expand the company's programme rights exploitation activity, both overseas and within the UK, and to develop a rights investment business.

Funding formula

With the passing of Parliamentary Orders in December 1997 and November 1998, the relevant percentage of Channel 4's qualifying revenue that it had to pay to ITV was reduced to one third for 1998 and zero for 1999 and subsequent years. This has successfully concluded our long campaign which sought the abolition of this iniquitous arrangement.

The phased termination of the funding formula subsidy to ITV has enabled Channel 4 to allocate more resources to film and programme production and new digital services. Only now can Channel 4 fully deliver to viewers and producers the promised benefits that can be achieved from the revenues which Channel 4 earns.

The final payment made to ITV for 1998 amounted to £66 million. Over the six years of its life, this arrangement has seen the transfer from Channel 4 to ITV of £412.5 million allocated as shown in the table below.

	1993	1994	1995	1996	1997	1998	six year total
	£m	£m	£m	£m	£m	£m	£m
Granada, LWT, Yorkshire and Tyne Tees	12.5	18.6	24.1	28.3	29.2	21.5	134.2
Carlton, Central and Westcountry	12.0	18.1	23.3	27.4	28.3	20.8	129.9
Meridian, Anglia and HTV	9.3	13.9	18.0	21.1	21.8	16.0	100.1
GMTV	2.2	3.4	4.3	5.1	5.3	3.9	24.2
Scottish and Grampian	2.1	3.2	4.2	4.9	5.0	3.7	23.1
Ulster	0.1	0.1	0.1	0.2	0.2	0.1	0.8
Border	-	-	-	0.1	0.1	-	0.2
Channel	-	-	-	-	-	-	-
	38.2	57.3	74.0	87.1	89.9	66.0	412.5

The £66 million that Channel 4 will save as a result of the demise of the funding formula has allowed the channel to increase its 1999 programming budget by 13% to £375 million. This will result in:

- a 33% increase in Channel 4's drama budget to £43 million, working towards Channel 4's longer term ambition of including at least one piece of original drama in its schedule each week, in addition to **Brookside** and **Hollyoaks**. Current projects include **Queer as Folk**, **Psychos**, **Longitude**, **I Can See Clearly** and **The Disappeared**. Channel 4 is also working on adaptations of **Anna Karenina** and **Sword of Honour**.
- an underpinned commitment to educational programming in peaktime and educational initiatives off-screen. In 1999 Channel 4 has linked up with 800 basic skills centres nationwide to launch its biggest ever educational campaign, **Brookie Basics**, in support of adult literacy and the National Year of Reading. On-screen in 1999, Channel 4 plans an **Access All Areas** season on disability, a **Dyslexia Week**, a **Woman's Health** season, a season on **Eating Disorders**, and a landmark series **The Deaf Century**.
- heavier investment in Channel 4's nations and regions initiative based in Glasgow. In 1999, Channel 4 has set itself the target of spending 27% of its entire original production budget on programmes from regional production companies, building towards its licence commitment of a 30% regional quota by 2002.
- a further increase in the percentage of original production in the Channel 4 schedule, to meet the new 60% requirement in the licence agreed with the ITC during 1998.
- increased investment in new talent initiatives across a range of programming genres. In entertainment Channel 4 will continue to invest in innovative series such as **The 11 O'clock Show** and **The Comedy Lab**, featuring talent new to television. Three new series derived from 1998's first run of **The Comedy Lab** will debut on Channel 4 in 1999 and the channel is also making a fresh push in sitcoms with half a dozen new series likely to air this year. In drama, Channel 4 is funding a new writers initiative with the Bush Theatre alongside other projects.
- Channel 4 will continue to develop and produce landmark programming in all genres to define its difference from other channels. Upcoming 1999 highlights include Phil Agland's seven-hour epic on China, **Shanghai Vice**; an extraordinary documentary series looking at the dilemmas facing social workers making decisions about children at risk, **The Decision**, and Jimmy McGovern's two-hour film about the Liverpool dockers strike.

- Channel 4 also plans to increase its investment in film production by a further £10 million, bringing the total budget controlled by its standalone film production and distribution subsidiary, Film Four Ltd, to £32 million. FilmFour titles about to be theatrically released include **East is East** and Tim Roth's directorial debut **The War Zone**, while projects in production in 1999 include **Gangster No 1**, Marc Munden's first feature **Carbon Miranda**, **Some Voices** and **Hotel Splendide**.
- In 1999, Channel 4 will raise its investment in digital transmission and channels to £35 million, a significant increase on the £9.9 million it spent in 1998. Channel 4 is planning to have further multi-channel services on air around the end of the year.
- Channel 4 is tripling its investment in online services to more than £2.5 million annually. In 1999 this will allow it to launch a support service for **Channel 4 News** with background and additional material on items featured by the bulletin. A FilmFour website is also being significantly expanded to provide information about all films shown on Channel 4 and FilmFour. Other programming to benefit from Channel 4's online investment includes **Time Team**, **Equinox**, **T4** and **4Later**. The website is also being used to facilitate online chats between commissioning editors and producers.
- The marketing budget is being increased by £8 million in 1999, reflecting the growing importance of branding in television. Until the end of 1998 Channel 4 used to get free cross-promotional airtime on ITV, but this arrangement has now ended.

TREASURY

Objectives, policies and strategies

The primary objective of Channel 4's treasury management policy is to minimise risk in the management of its long term operations and future activities.

All exposures are considered and managed by the group treasury function. The strategies and policies are agreed with the Managing Director and operate within written policies approved by the Board.

Cash deposits and borrowings

As detailed on page 36, the 1990 Broadcasting Act's funding formula arrangements required Channel 4 to accumulate a positive cash position through the year. Channel 4 operates strict investment guidelines as laid down by the Board in respect of investment of cash balances. Funds are deposited only with an agreed list of organisations that carry an A1/P1 rating by the major credit rating agencies.

The channel had net cash deposits at 31 December 1998 of £70.8 million (1997: £92.7 million). These cash balances were required to fund the payment of £66 million to ITV in February 1999.

The short-term deposits and investments shown in note 16 on page 66 were held in order to meet the ITV subsidy payable in February 1999 and no investment had a maturity beyond that date. The other cash balances are invested on the short-term money market at rates prevailing at the time of investment.

The group did not have any significant borrowings during the year except for those at 31 December 1998 shown in note 16 on page 66. These borrowings were necessary to meet short-term business requirements of the channel and the rate of interest is fixed based on UK money market interest rates prevailing at the time of borrowing.

After the funding formula payment to ITV, Channel 4 operations in 1998 consumed £5.7 million (1997: cash generated £33.8 million). The cash outflow in 1998 reflects increased programme production costs and the cost of the new digital services.

Currency management

Channel 4 buys and sells programmes in the international markets and is a net purchaser of US dollars. The group has no significant exposure to other foreign currencies. Exposure to fluctuations in exchange rates is managed by transactions in the forward foreign currency markets. Channel 4 never takes speculative currency positions.

At 31 December 1998, Channel 4 had hedged forward dollar purchases of programmes totalling £24.5 million (1997: £12.3 million) as detailed in note 20 on page 69.

Taxation

Channel 4 is subject to corporation tax on profits. The tax charge for 1998 was £8.6 million and the effective rate was 32.7%.

Year 2000 compliance

The channel has implemented a project to identify all computer systems and processes that are critical to the business and which are not year 2000 compliant, to identify costs of rectification and to ensure that such systems become compliant before the end of 1999. The channel has also requested information from significant customers, suppliers and relevant third parties to assess the year 2000 risks posed to the channel by such parties. The project is nearing completion and the overall final costs of the required changes therefore are still to be determined – by 31 December 1998 £2.8 million had been spent on year 2000 compliance and it is anticipated that further costs to completion will not exceed £1 million.

However, the general uncertainty inherent in the year 2000 issue for Channel 4 and all our business partners, means that the Group is unable to provide categorical assurances as to its year 2000 compliance.

A significant benefit of the £2.8 million cost in 1998 has been the rewriting of the channel's advertising sales software which will enable substantial operational enhancement and annual cost savings.

REPORT OF THE MEMBERS

Principal activities

The Broadcasting Act 1990 (the 1990 Act) established Channel Four Television Corporation. The 1990 Act specifies the powers of Channel 4:

“It shall be within the capacity of the Corporation as a statutory Corporation to do such things and enter into such transactions as are incidental or conducive to the discharge of their functions under this act, including the borrowing of money”.

The Broadcasting Act 1996 (the 1996 Act) broadened Channel 4's powers to be involved in the United Kingdom or any other country with:

“The provision of one or more services which are licensed by the ITC or by the Radio Authority or which, if provided in the United Kingdom, would be required to be so licensed”.

Uniquely, Channel 4 is the only public service broadcaster in the world funded solely from commercial revenues which it earns.

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

On 1 January 1993 the ITC issued a broadcasting licence under the terms of the 1990 Act for Channel 4 to broadcast for the ten calendar years 1993 to 2002. That licence has been amended by the ITC, which published revised programme requirements in February 1998, details of which are summarised on page 21 of this report.

The group has four commercial subsidiary companies involved in film financing and distribution, international programme sales and co-financing, studio and post production facilities and educational services. During 1998 the group started a new subscription television channel FilmFour and developed other commercial activities, merchandising, book and music publishing.

Review of business and results

The Chairman's statement on pages 2 to 4 and the Chief Executive's report on pages 5 to 7 and the Financial review on pages 34 to 40 form part of this report and provide information on the development of Channel 4's activities during the year and outlook for the future. The group's results are set out on pages 53 to 70.

Funding

Under the terms of the 1990 Act, Channel 4 was required to pay ITV half of Channel 4's calendar year qualifying revenue in excess of 14% of total qualifying revenue. The qualifying revenue to which this formula related was the total of advertising, sponsorship, subscription and barter income of ITV, Channel 4, Channel 5 and S4C.

Under the terms of the 1996 Act, Parliament passed an Order in December 1997 which reduced the amount Channel 4 has to pay to ITV for 1998 to one third of Channel 4's 1998 qualifying revenue in excess of 14% of total qualifying revenue.

A further Parliamentary Order was passed in November 1998 which set the percentage payable to ITV at zero for 1999 and subsequent years. The funds released will enable Channel 4 to develop digital programme services, and finance the additional film and programme investments required under the new licence conditions.

Members

The present members of Channel 4 are listed on pages 50 and 51.

Since 1 January 1998, the following members have been appointed to, or retired from, the Board:

Appointments	Date of appointment
Vanni Treves	9 January 1998
Barry Cox	1 February 1999
Tim Gardam	17 December 1998
Andrew Graham	1 April 1998
Robin Miller	1 February 1999
Joe Sinyor	1 April 1998
Janet Walker	14 April 1998

Retirements	Date of retirement
Bert Hardy	31 December 1998

Members' interests

One member was interested in contracts negotiated at arm's length on normal commercial terms with Channel 4.

- Sarah Radclyffe's production companies received production cost payments in 1998 of £2.3 million for the feature film **War Zone** and other programmes commissioned by Channel 4 and Film Four Limited.

Two members' partners transacted business with Channel 4 at arms length on normal commercial terms during 1998. These transactions are not material to the channel but are disclosed on the basis of maximum openness.

- Michael Jackson's partner Sheree Folkson was the director of the drama series **The Young Person's Guide to Becoming a Rockstar**. The fees paid to her for this series were £39,960.
- Andy Barnes' wife Linda Stevens owns a majority share of a specialist recruitment agency, The Stevens Company, which received £55,000 from Channel 4 in 1998 (1997: £47,500) for recruitment services.

Liability insurance

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

Research and development

Channel 4 devotes substantial resources to the development of scripts and programme outlines for possible commissioning. Script and programme development expenditure charged to the profit and loss account in 1998 amounted to £5.3 million (1997: £5.5 million).

Charitable donations

During 1998 Channel 4 donated £25,160 to charities (1997: £30,935).

Employment policy

Channel 4 is an equal opportunities employer. It 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. Channel 4 has established an ethnic monitoring system for its recruitment and the ethnic composition of its staff.

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

Employee involvement and consultation

Channel 4 informs and consults with its employees through:

- its commitment to achieving the Investors in People standard.
- regular departmental meetings where information is disseminated and staff have an opportunity to air views.
- recognition of trade unions. A minority of Channel 4's employees are in membership of one of two recognised trade unions:
 - BECTU (for some engineering, presentation, clerical and 124 Facilities staff);
 - Equity (for continuity announcers).
- an internal Intranet information service available to all members of staff.

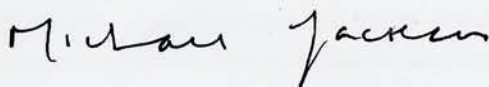
Going concern

Based on normal business planning and control procedures, the members have a reasonable expectation that Channel 4 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.

Auditors

PricewaterhouseCoopers have been appointed as auditors by Channel 4 with the approval of the Secretary of State for Culture, Media and Sport in accordance with the requirements of paragraph 12(2) of schedule 3 of the Broadcasting Act 1990.

PricewaterhouseCoopers have expressed their willingness to continue in office.



By order of the Board

Michael Jackson

Chief Executive

19 April 1999

CORPORATE GOVERNANCE

Channel 4 is committed to high standards of corporate governance throughout the group.

The Combined Code – Principles of Good Governance and Code of Best Practice (“the Combined Code”) consolidated and replaced the previous Cadbury, Greenbury and Hampel Reports.

The Board has full responsibility for good governance and the information and statements below describe how the principles identified in the Combined Code relevant to a statutory corporation without shareholders are applied by Channel 4.

Channel 4’s corporate governance procedures, which have been adopted by the Board and subsequently reviewed and updated, are designed to enable the group to comply with the Combined Code. The procedures define the duties and constitution of the Board and the various Board committees and, as appropriate, specify responsibilities and levels of responsibility.

Statement of compliance

Based on the information below, together with the statements and procedures relating to internal financial control on page 47 and referred to in the Report on Members’ Remuneration on page 48 the Board believes that the group has, throughout the accounting period, complied with the provisions set out in Section 1 of the Combined Code except as follows:

- the members determined that it was in the channel’s interest to enter into a three year service contract with the Chief Executive with effect from 1 July 1997. At the date of the Annual Report 15 months of this contract period were remaining.
- given its constitution, Channel 4 cannot sensibly have a formal nomination committee. However, the following formal nomination procedures are in place:
 - non-executive members are appointed for fixed terms by the ITC following consultation with Channel 4’s Chairman and the approval of the Secretary of State for 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.

Channel 4's principal corporate governance procedures are summarised as follows:

The Board

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

The Board consists of 15 members of whom the majority are non-executive. The roles of Chairman and Chief Executive are separate with a clear division of responsibilities between them. The division of these roles and the presence of a non-executive Deputy Chairman ensures there is a strong independent element on the Board and no one individual has unfettered powers of decision. The Chairman is appointed to the role of senior independent non-executive director as recommended by the Combined Code. All other non-executive members are of equal standing. Biographical details of the present members are given on pages 50 and 51.

On appointment, all members are advised that they have access to advice and the services of the Company Secretary and, additionally, that they are entitled to seek independent professional advice in the furtherance of their duties, if necessary, at the channel's expense.

The Board met six times during 1998. Board meetings follow a formal agenda of matters specifically reserved for decision by the Board. These include a range of business and strategy issues and regular review of the performance of the group's operations. Additionally the Board approves the group's annual report and budget.

As a statutory corporation certain principles and provisions of the Combined Code in respect of relations with shareholders are not directly applicable. However, for those principles and provisions disclosed in Section C of the Combined Code that are relevant to Channel 4, the following procedures are in place:

- the ITC publishes an annual review of Channel 4's performance and compliance with the provisions as laid out in the broadcast licence.
- Channel 4's annual report is sent to the Secretary of State who lays copies of it before each House of Parliament.

Non-executive members

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

Executive members

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

The terms of employment of the executive members are subject to the approval of the remuneration committee whose terms of reference are set out on page 46. Members' total emoluments (including bonus payments) are analysed on pages 48 and 49.

Board committees

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

■ Audit committee

The audit committee's purpose is:

- to satisfy itself on all matters of financial propriety and procedure.
- to discuss with Channel 4's external auditors any matters of concern arising out of their audit.
- to review the draft annual report and financial statements before presentation to the full Board.

Additionally, the audit committee has responsibility for reviewing the scope, results and cost effectiveness of the audit, the objectivity and independence of the auditors, and to review the nature, extent and value for money of non-audit services supplied by the auditors.

Three non-executive members, Vanni Treves (Chairman), Robin Miller and Joe Sinyor form the membership of the audit committee.

At the Chairman's invitation, Michael Jackson, David Scott and the PricewaterhouseCoopers audit partner attend meetings of the Committee. The audit partner has direct access to the Chairman at all times.

The audit committee is satisfied with the policies and controls applied during the year, and with the measurement and presentation of financial information in the 1998 Report and Financial Statements.

■ Budget committee

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

The budget committee has six members: Vanni Treves (Chairman), Robin Miller, Joe Sinyor, Michael Jackson, David Scott and Frank McGettigan.

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

■ Remuneration committee

The remuneration committee's purpose is to approve in relation to the employees of Channel 4 and its subsidiary companies:

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

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

The remuneration committee consists entirely of non-executive members. Its members are Vanni Treves (Chairman), Barry Cox and Robin Miller. Michael Jackson, David Scott and Frank McGettigan attend meetings as appropriate.

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

The report on members' remuneration is provided on pages 48 and 49.

Pension plan

The six trustees of the Channel 4 Pension Plan meet with the Plan's investment managers, Legal & General Assurance (Pensions Management) Limited, several times each year. The Chairman of the trustees is Vanni Treves. The trustees include an independent member, Louise Botting; two of Channel 4's executive members, Frank McGettigan and David Scott; and two employee representatives, Julie Bunn and, at April 1999, one vacancy.

Reporting

The Board believes that the 1998 Report and Financial Statements present a balanced and understandable assessment of Channel 4's financial position.

Internal financial control

The Board is reviewing Channel 4's internal control systems in the light of the Combined Code. The Board will report on that review next year, after the guidance from the ICAEW Committee has been issued. In the meantime the Board continues to report on its review of internal financial control as follows:

Members of the Board are responsible for Channel 4's system of internal financial control and have reviewed its effectiveness. The key procedures that they have established, which are designed to provide reasonable but not absolute assurance against material mis-statement or loss, may be summarised under the following headings:

■ Control environment

Clear management responsibilities are established for the executive members. These are laid down in Channel 4's manual of operating procedures and terms of reference.

■ Risk management

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

■ Information systems

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

■ Control procedures

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

■ Monitoring system

The financial controls are monitored by management review and by the audit 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 46. In framing its remuneration policy, the committee has given full consideration to the best practice provisions of the Combined Code.

Channel 4 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 prevailing for executives of comparable status elsewhere in the television industry (albeit without any of the share option or incentive 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. These targets are agreed by the remuneration committee before the start of each financial year.

Service contracts

Michael Jackson was appointed Chief Executive on 1 July 1997. He has a contract for three years from that date.

David Scott, Andy Barnes, David Brook, Tim Gardam, Frank McGettigan and Janet Walker have service contracts subject to one year's notice.

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; membership of a private medical insurance scheme, which is open to all staff; and the provision of a television and video cassette recorder for home use. These benefits are not pensionable.

Remuneration policy for non-executive members of the Board

The ITC appoints non-executive Board members for fixed terms and determines their fees. They are entitled to the provision of a television and video cassette recorder for home use, and to reimbursement of travelling and accommodation expenses incurred in connection with attending Board meetings.

Board members' remuneration

	1998 Salary and fees £000	1998 Bonus £000	1998 Benefits £000	1998 Total £000	1997 Total £000
Executive members					
Michael Jackson	426	40	12	478	179
David Scott	285	30	15	330	268
Andy Barnes	203	113	9	325	225
David Brook	195	20	14	229	66
Tim Gardam (½ month)	8	-	-	8	-
Frank McGettigan	193	-	17	210	190
Janet Walker (8½ months)	179	-	-	179	-
Non-executive members					
Vanni Treves	57	-	-	57	-
Bert Hardy	18	-	-	18	9
Andrew Graham (9 months)	10	-	-	10	-
Murray Grigor	13	-	-	13	9
Usha Prashar	13	-	-	13	9
Sarah Radclyffe	13	-	-	13	9
Joe Sinyor (9 months)	10	-	-	10	-
Eight members who departed in 1997	-	-	-	-	1,382
	1,623	203	67	1,893	2,346

Michael Jackson, David Scott, Andy Barnes and David Brook received performance related bonuses.

The 1997 remuneration for Michael Jackson, Andy Barnes and David Brook shown on page 48 was from their date of appointment to the Board which was part way through that year.

The detailed remuneration for the eight members who left the Board in 1997 was shown in Channel 4's 1997 Annual Report.

Pension

All executive members are eligible for membership of the Channel 4 Pension Plan on the same basis as all other members of staff. The plan is contributory, at 6% 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 4 Pension Plan.

The executive members of the plan during 1998 were as follows:

	Age at 31 December 1998	Month of start of pensionable service	Members' contributions during 1998 £000	Increase in accrued pension entitlement during 1998 £000	Total accrued pension entitlement at 31 December 1998 £000
Michael Jackson	40	July 1997	9	3	4
David Scott	44	November 1981	17	18	104
Andy Barnes	43	December 1991	9	4	56
David Brook	38	December 1997	9	3	3
Tim Gardam	42	January 1999	-	-	-
Frank McGettigan	47	July 1981	12	11	71
Janet Walker	45	May 1998	6	2	2

- the 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 1998. There is a provision for a member to exchange part of the retirement pension for cash.
- the increase in accrued pension during the year excludes any increase for inflation.
- members have the option to pay Additional Voluntary Contributions to a separate scheme. Neither the AVC contributions nor the resulting benefits are included in the above table.
- the accrued benefits for Michael Jackson, Andy Barnes, David Brook, Tim Gardam and Janet Walker, each of whom joined the scheme after June 1989, have been restricted as a result of the impact of the Inland Revenue's 1989 "earnings cap".

The benefits provided to all members of the Channel 4 Staff Pension 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 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.
- scheme members who leave before completing two years service receive a refund of their own contributions. Scheme members who leave having completed at least two years service receive a benefit from normal retirement date preserved within the scheme, calculated as above, but relating to pensionable service and pensionable earnings up to 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.

STATEMENT OF MEMBERS' RESPONSIBILITIES

Channel 4 is required by the Broadcasting Act 1990 to keep proper accounts and proper records in relation to the accounts, and to prepare financial statements in respect of each financial year in a form as directed by the Secretary of State for Culture, Media and Sport with the approval of the Treasury. The members therefore prepare 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 Channel 4 and the group as at the end of the financial year and of the profit or loss of the group for that year.

The members confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1998. The members also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The members are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of Channel 4 and the group, and to prevent and detect fraud and other irregularities.

MEMBERS AND ADVISERS

Non-executive members

Chairman

Vanni Treves (age 58)

Appointed Chairman in January 1998. His appointment runs to the end of 2001. He is senior partner of the city solicitors, Macfarlanes and Chairman of two listed companies and of the London Business School.

Deputy Chairman

Barry Cox (age 56)

Succeeded Bert Hardy as Deputy Chairman in February 1999. His appointment runs until January 2003. He is a former Director of the ITV Association. He is currently a consultant with ITN and United News and Media and chair of the Advisory Board on DTT Frequency Planning.

Andrew Graham (age 56)

Joined the Board in April 1998. His appointment runs until March 2001. He is Acting Master of Balliol College, Oxford.

Murray Grigor (age 59)

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

Robin Miller (age 58)

Joined the Board in February 1999. His appointment runs until January 2003. He is Chairman of EMAP plc, and a director of the Horserace Totalisator Board and the Moss Bros Group.

Usha Prashar CBE (age 50)

Joined the Board in 1992. Her appointment runs to the end of 1999. She is Chairman of the Parole Board, a past member of the Arts Council and a past director of the National Council for Voluntary Organisations.

Sarah Radclyffe (age 48)

Joined the Board in 1995. Her appointment runs to the end of 1999. She is an independent film and television producer and a Governor of the British Film Institute.

Joe Sinyor (age 41)

Joined the Board in April 1998. His appointment runs until March 2001. He is Managing Director of Sony United Kingdom Limited.

Executive members

Michael Jackson (age 40)

Chief Executive since July 1997. He is Chairman of Channel Four International Limited and Film Four Limited. Prior to joining Channel 4 he was an independent producer (1981 to 1989); with the BBC as: editor of **The Late Show** (1989); Head of Music and Arts (1991); Controller of BBC 2 (1993); and Director of Television and Controller of BBC 1 (1996).

Andy Barnes (age 43)

Commercial Director since July 1997. He is a director of British Audience Research Bureau Limited (BARB). He joined Channel 4 in 1991 as Head of Advertising Sales. Prior to that he was Deputy Sales Director of TVS.

Tim Gardam (age 42)

Director of Programmes since December 1998. Prior to joining Channel 4 he was Controller, News and Current Affairs and Documentaries for Channel 5 (1996 to 1998) and Head of Current Affairs for the BBC (1993 to 1996). He is a former Editor of **Newsnight** and **Panorama** and Executive Producer of **Timewatch**.

Janet Walker ACA (age 45)

Director of Business Affairs since April 1998. She is a director of Channel Four International Limited. She was Deputy Director of Finance at Channel 4 between 1990 and 1994. Since then, she has been Financial Controller, BBC Regional Broadcasting (1994 to 1996) and Finance Director of Granada Media Group (1996 to 1998).

Advisers

Secretary

Andrew Yeates

Solicitors

D J Freeman
43 Fetter Lane
London EC4A 1NA

Allen & Overy
One New Change
London EC4M 9QQ

David Scott FCA (age 44)

Managing Director since January 1997, having been Director of Finance since 1988. He is Chairman of Channel Four Learning Limited and 124 Facilities Limited, a director of Channel Four International Limited, Film Four Limited, Digital 3 and 4 Limited and British Screen Finance Limited and a member of the British Screen Advisory Council. He joined Channel 4 as Controller of Finance in 1981. Prior to that he was with Peat Marwick Mitchell (1972 to 1981).

David Brook (age 38)

Director of Strategy and Development since November 1997. Prior to joining Channel 4 he was Director of Marketing and Communications at Channel 5 (1996 to 1997) and Marketing Director at the Guardian Media Group (1990 to 1996).

Frank McGettigan (age 47)

Director and General Manager since 1988, Managing Director of 124 Facilities Limited, Deputy Chairman of the National Film and Television School, Chairman of Digital 3 and 4 Limited and of Skillset and a member of the British Screen Advisory Council. He joined Channel 4 as Head of Industrial Relations and Administration in 1981. Prior to that he was with *The Financial Times* (1977 to 1981), ACAS and the Commission on Industrial Relations (1973 to 1977).

The ages shown are at 31 December 1998.

Auditors

PricewaterhouseCoopers
Chartered Accountants
1 Embankment Place
London WC2N 6NN

Bankers

Midland Bank plc
27/32 Poultry
London EC3P 2BX

REPORT OF THE AUDITORS

To the members of Channel Four Television Corporation (Channel 4)

We have audited the financial statements on pages 53 to 70 which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 56 and 57.

Respective responsibilities of members and auditors

The members are responsible for preparing the Annual Report including, as described on page 50, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Broadcasting Act 1990 and direction made thereunder by the Secretary of State. We also report to you if, in our opinion, the report of the members is not consistent with the financial statements, if Channel 4 has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding members' remuneration and transactions with Channel 4 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements.

We review whether the statement on page 44 reflects Channel 4's compliance with those provisions of the Combined Code specified for our review relevant to a statutory corporation and we report if it does not. We are not required to form an opinion on the effectiveness of Channel 4's corporate governance procedures or its internal controls.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the members in the preparation of the financial statements, and of whether the accounting policies are appropriate to 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 are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of Channel 4 and the group as at 31 December 1998 and of the profit and cashflows of the group for the year then ended and have been properly prepared in accordance with the Broadcasting Act 1990 and directions made thereunder by the Secretary of State.

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

1 Embankment Place

London WC2N 6NN

19 April 1999

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December	Notes	1998 £m	1997 £m
Turnover	1	590.5	552.7
Cost of transmissions and sales	2	(467.4)	(406.9)
Gross profit		123.1	145.8
Administrative expenses		(25.7)	(21.2)
Depreciation	9	(8.9)	(7.9)
Operating profit		88.5	116.7
Net interest receivable	6	3.8	2.4
Profit before ITV subsidy and taxation		92.3	119.1
Subsidy payable to ITV	7	(66.0)	(89.9)
Profit before taxation		26.3	29.2
Taxation	8	(8.6)	(10.7)
Retained profit for the year	18	17.7	18.5

All activities are continuing.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December		1998 £m	1997 £m
Profit for the year	18	17.7	18.5
Unrealised surplus on revaluation of buildings	9 & 18	5.7	0.5
Total recognised gains for the year		23.4	19.0

The notes on pages 58 to 70 form part of these financial statements.

Report of the auditors – page 52.

BALANCE SHEETS

At 31 December		1998	1997	1998	1997
	Notes	Group £m	Group £m	Channel 4 £m	Channel 4 £m
Fixed assets					
Tangible assets	9	81.3	77.2	81.3	77.2
Current assets					
Stock and work in progress	11	167.6	164.0	128.0	163.6
Debtors	12	90.9	76.5	125.5	69.8
Investments	13	35.6	65.5	35.6	65.5
Cash at bank and in hand	15	35.2	27.2	35.1	27.3
		329.3	333.2	324.2	326.2
Creditors					
Amounts falling due within one year:					
Subsidy payable to ITV	7	(66.0)	(89.9)	(66.0)	(89.9)
Creditors	14	(57.1)	(50.9)	(55.6)	(47.3)
Corporation tax		(9.2)	(13.2)	(9.0)	(12.6)
Net current assets		197.0	179.2	193.6	176.4
Total assets less current liabilities		278.3	256.4	274.9	253.6
Provisions for liabilities and charges	17	(9.1)	(10.6)	(9.1)	(10.6)
Net assets		269.2	245.8	265.8	243.0
Profit and loss account					
Statutory reserve	18	84.8	84.8	84.8	84.8
Revaluation reserve	18	6.2	0.5	6.2	0.5
		269.2	245.8	265.8	243.0

Vanni Treves
Chairman

David Scott
Managing Director

These financial statements were approved by the Board of Members on 19 April 1999.

The notes on pages 58 to 70 form part of these financial statements.

Report of the auditors – page 52.

CONSOLIDATED CASHFLOW STATEMENT

For the year ended 31 December	Notes	1998 £m	1998 £m	1997 £m	1997 £m
Net cash inflow from continuing operating activities	15		84.2		120.9
Subsidy paid to ITV	7		<u>(89.9)</u>		<u>(87.1)</u>
			(5.7)		33.8
Returns on investments and servicing of finance					
Interest received		3.9		2.8	
Interest paid		<u>-</u>		<u>(0.3)</u>	
			3.9		2.5
Taxation					
UK corporation tax paid		(12.6)		(15.2)	
Overseas tax paid		<u>(0.3)</u>		<u>(0.6)</u>	
			(12.9)		(15.8)
Capital expenditure					
Payments to acquire tangible fixed assets	9	(7.4)		(3.8)	
Receipts from sales of tangible fixed assets		<u>0.2</u>		<u>0.3</u>	
			<u>(7.2)</u>		<u>(3.5)</u>
Net cash (outflow)/inflow before management of liquid resources and financing	15		(21.9)		17.0
Management of liquid resources and financing					
Decrease/(increase) in investment in short term cash deposits	15		29.9		(14.6)
Decrease in money market borrowings	15		<u>(3.2)</u>		<u>(0.9)</u>
Increase in cash in the year	15		<u>4.8</u>		<u>1.5</u>

The notes on pages 58 to 70 form part of these financial statements.

Report of the auditors – page 52.

PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention, modified by the revaluation of freehold properties. 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 requirements, in so far as they are applicable, of the Companies Act 1985 and are in accordance with applicable UK accounting standards.

Subsidy payable to ITV

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

Accounting policies

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

Basis of consolidation

The consolidated financial statements comprise the financial statements for Channel Four Television Corporation and all of its subsidiary undertakings made up to 31 December 1998.

Advertising revenue

Advertising revenue is stated net of advertising agency commission paid.

Sale of programme and film rights

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

Deferred tax

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

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates prevailing at the balance sheet date. Any resultant gain or loss on exchange is shown as part of the profit for the year. The group has transactional currency exposure mainly arising from the purchase of programmes and films. Exposure to fluctuations in foreign currency exchange rates is hedged using forward exchange contracts. Gains and losses on these contracts are deferred and recognised when the hedged transaction matures.

Stock and work in progress

Stocks 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 expenditure on programmes or films which are unlikely to be transmitted or sold. Direct cost is defined as payments made or due to production companies or programme suppliers, but excludes any costs falling due after the balance sheet date.

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

Within the accounts of Channel 4 the direct cost of programme and film broadcasting rights is wholly written off on first transmission. Within the accounts of Film Four Ltd, production expenditure is matched against income arising on each film.

Fixed assets

Fixed assets, other than the freehold land and buildings which are shown at valuation, are stated at cost, together with any incidental expenses of acquisition, less depreciation.

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

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

Pensions

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

NOTES TO THE FINANCIAL STATEMENTS

1. Turnover

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

	1998 £m	1997 £m
Net advertising and programme sponsorship	559.6	513.4
Programme and film sales	24.5	34.3
Other income	6.4	5.0
	<u>590.5</u>	<u>552.7</u>

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

2. Cost of transmissions and sales

	1998 £m	1997 £m
Transmissions		
Direct programme costs:		
Channel 4	351.6	310.2
FilmFour	2.0	-
Transmitter and distribution costs	30.9	27.9
Indirect programme costs	34.5	27.9
ITC regulatory costs and fine	2.1	2.0
Sales		
Cost of sales and marketing	42.3	32.3
Share of film and programme sales income due to producers and third party financiers	4.0	6.6
	<u>467.4</u>	<u>406.9</u>

3. Operating profit

Operating profit is stated after charging:	1998	1997
	£m	£m
Depreciation of fixed assets (note 9)	8.9	7.9
Research and development	5.3	5.5
Members' remuneration (page 48)	1.9	2.3
Equipment hire	0.3	0.3
Operating lease rentals	0.1	1.5

Channel 4 has taken advantage of the legal exemption not to present its own profit and loss account. Of the retained profit after tax of £17.7 million recorded in the consolidated profit and loss account for the year, £17.1 million (1997: £17.1 million) was dealt with in Channel 4 Television Corporation's accounts.

Fees in respect of services provided by the auditors were:

	£000	£000
Statutory audit:		
Channel 4	34	29
Subsidiaries and associates	26	23
Pension Plan	4	4
Other services	291	127
	355	183

The fees for other services were incurred for tax advice and computer and risk assessment consultancy. For 1998, £20,750 (1997: £127,000) of these fees were paid to Coopers & Lybrand prior to the date that PricewaterhouseCoopers were appointed auditors.

59

4. Segmental information

	Turnover £m	Profit/(loss) before taxation £m	Net assets £m
1998			
Television:			
Channel 4	562.0	30.3	225.1
FilmFour and other digital services	0.1	(9.8)	4.8
	562.1	20.5	229.9
Other activities	28.4	5.8	39.3
	590.5	26.3	269.2
1997			
Television:			
Channel 4	514.9	14.2	243.7
FilmFour and other digital services	-	(0.7)	0.4
	514.9	13.5	244.1
Other activities	37.8	15.7	1.7
	552.7	29.2	245.8

The other activities comprise the businesses of the subsidiary companies described in note 10.

5. Employee information

A detailed analysis of members' remuneration, including salaries and performance-related bonuses, is provided in the report on members' remuneration on pages 48 and 49.

	1998 £m	1997 £m
Aggregate gross salaries of all employees		
Aggregate gross salaries	28.5	23.8
Employer's national insurance contributions	2.5	2.0
Employer's pension contributions (note 21)	3.1	2.7
Total direct costs of employment	<u>34.1</u>	<u>28.5</u>

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

	1998 Number	1997 Number
Channel 4		
Programme commissioning and transmission	295	284
Advertising sales, marketing and research	106	97
Information systems	44	44
Operational management and administration	69	68
Corporate affairs and press office	29	23
Digital	12	4
Subsidiary companies		
Channel Four International Limited	36	39
Film Four Limited	28	8
124 Facilities Limited	29	29
Channel Four Learning Limited	26	24
	<u>674</u>	<u>620</u>
Full time permanent employees	626	566
Short term contract staff	48	54
	<u>674</u>	<u>620</u>
Male	289	260
Female	385	360
	<u>674</u>	<u>620</u>

Travel, subsistence and hospitality expenditure in the year was as follows:

	1998 £000	1997 £000
Members	205	217
Other employees	1,361	1,178
	<u>1,566</u>	<u>1,395</u>

Staff loans outstanding at 31 December were as follows:

	1998 £000	1997 £000
Season ticket	105	111
Other loans	-	7
	<u>105</u>	<u>118</u>

There are no loans to members.

6. Net interest receivable

	1998	1997
	£m	£m
Interest receivable on short term deposits	3.8	3.3
Interest payable on bank loans and overdrafts repayable within five years	-	(0.3)
Other interest payable	-	(0.6)
Net interest receivable	<u>3.8</u>	<u>2.4</u>

7. Subsidy payable to ITV

The 1990 Act established a funding relationship between ITV and Channel 4 which is described in the Report of the Members on page 41. The total qualifying revenue relevant to that formula for 1998 was as follows:

	1998	1997
	£m	£m
Channel 4	559.6	513.4
ITV (including GMTV), S4C and Channel 5	2,023.0	1,876.8
	<u>2,582.6</u>	<u>2,390.2</u>

Based on total qualifying revenue, the ITC has reported that the subsidy payable by Channel 4 to ITV for 1998, is £66 million (1997: £89.9 million), representing 33.3% (1997: 50%) of Channel 4's qualifying revenue in excess of 14% of the total qualifying revenue for ITV, Channel 4, Channel 5 and S4C. That sum was paid to the ITC in February 1999 for distribution between the ITV licensees.

As explained on page 41, Parliament passed an Order in December 1997 which reduced the amount payable by Channel 4 to ITV for 1998 to one third of Channel 4's 1998 qualifying revenue in excess of 14% of total qualifying revenue. Parliament passed an Order in November 1998 which reduces to zero the amount payable by Channel 4 to ITV for 1999 and subsequent years.

8. Taxation

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

	1998	1997
	£m	£m
UK corporation tax @ 31% (1997: 31.5%)	8.6	10.1
Less relief for overseas taxation	(0.4)	(0.5)
Overseas taxation	0.4	0.5
Adjustment in respect of prior years	-	0.6
	<u>8.6</u>	<u>10.7</u>

9. Fixed assets

Channel 4 and group	Freehold	Equipment	Motor	Total
Tangible assets	properties	and furniture	vehicles	
	£m	£m	£m	£m
Cost or valuation				
At 1 January 1998	66.5	46.8	1.5	114.8
Additions	0.1	6.7	0.6	7.4
Disposals	-	-	(0.3)	(0.3)
Revaluation	7.2	-	-	7.2
At 31 December 1998	73.8	53.5	1.8	129.1
Depreciation				
At 1 January 1998	7.3	29.7	0.6	37.6
Charge for the year	1.2	7.3	0.4	8.9
Disposals	-	-	(0.2)	(0.2)
Revaluation	1.5	-	-	1.5
At 31 December 1998	10.0	37.0	0.8	47.8
Net book value				
At 1 January 1998	59.2	17.1	0.9	77.2
At 31 December 1998	63.8	16.5	1.0	81.3

Valuation of freehold properties

The net book value of freehold properties shown at cost or valuation comprises:

	1998	1997
	£m	£m
Office, studio and transmission centre:		
Valuation in year	62.9	58.5
Other properties at cost	0.9	0.7
	63.8	59.2

The other properties are used as permanent location sets for three programme series.

If freehold properties had not been revalued they would have been included at the following amounts:

	1998	1997
	£m	£m
Cost	63.3	63.2
Accumulated depreciation	(5.7)	(4.5)
Net book value based on cost	57.6	58.7

The freehold property comprising the office, studio and transmission centre at Horseferry Road, London SW1 was valued as at 31 December 1998 by external valuers, Fuller Peiser, Property Consultants. The parts of the property occupied by Channel 4 were valued on a depreciated replacement cost basis. The remainder of the property was valued on the basis of open market value. Attention was drawn to the fact that the value reported on the depreciated replacement cost basis is in excess of open market value for use as conventional office accommodation.

The surplus of £5.7 million (1997: £0.5 million) arising from the revaluation has been transferred to the revaluation reserve (note 18).

10. Associated and subsidiary companies

The cost of investments at 31 December was:

	1998 £000	1997 £000
Associated companies	1	1
Subsidiary companies	4	4
	<u>5</u>	<u>5</u>

Associated companies

Digital 3 and 4 Limited

Channel 4 holds 1,000 A class ordinary £1 shares in Digital 3 and 4 Limited, representing 50% of the share capital. ITV Network Limited (formerly known as ITV Association) owns the other 50%. This company, incorporated in England, has been granted by the ITC a licence to operate the Channel 3 and Channel 4 digital terrestrial multiplex. At 31 December 1998, Channel 4's share of the net assets of Digital 3 and 4 Limited amounted to £1,000.

British Screen Finance Limited

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

The ability of British Screen to pay dividends is restricted by its accumulated losses. Draft financial statements for British Screen for 1998 show accumulated losses of £9.0 million since incorporation in 1985.

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

Subsidiary companies

Channel 4 owns the whole of the issued share capital of the following companies, each of which is incorporated in England:

	Issued ordinary £1 shares
Trading	
Channel Four International Limited	1,000
Film Four Limited	1,000
124 Facilities Limited	1,000
Channel Four Learning Limited	1,000
Dormant	
Channel Four Television Company Limited	100
Film on Four Limited	100
Sport on Four Limited	2
Channel Four Racing Limited	2

Channel Four International Limited undertakes the worldwide distribution and exploitation of programme rights, and co-production and co-finance activities for Channel 4's programmes.

Film Four Limited's business is to develop and finance feature films and to distribute them within the United Kingdom and world theatric, television and video markets. This company changed its name from Film Four Distributors Limited on 20 March 1998.

124 Facilities Limited operates Channel 4's studio and technical facilities.

Channel Four Learning Limited manages Channel 4's educational liaison activities, and international sales and publications related to Channel 4's schools programmes.

11. Stock and work in progress

	1998 Group £m	1997 Group £m	1998 Channel 4 £m	1997 Channel 4 £m
Programmes and films completed but not transmitted	68.5	58.9	44.0	58.5
Purchased programme and film rights	53.5	47.6	47.5	47.6
Programmes and films in the course of production	41.8	57.5	32.7	57.5
Assets acquired for resale	3.8	-	3.8	-
	167.6	164.0	128.0	163.6

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

12. Debtors

	1998 Group £m	1997 Group £m	1998 Channel 4 £m	1997 Channel 4 £m
Trade debtors	76.6	66.0	70.4	59.7
Prepayments and accrued income	11.5	10.1	9.7	8.9
Value Added Tax	2.8	0.4	2.9	0.5
Amounts due from subsidiaries	-	-	42.5	0.7
	90.9	76.5	125.5	69.8

13. Investments

Channel 4 and group	1998 £m	1997 £m
Short term cash deposits:		
Deposited for less than three months	35.6	65.5

14. Creditors – amounts falling due within one year

	1998 Group £m	1997 Group £m	1998 Channel 4 £m	1997 Channel 4 £m
Trade creditors	9.8	8.2	9.0	7.7
Accruals and deferred income	42.8	41.3	36.7	36.6
Social security	1.2	0.9	1.1	0.8
Other creditors	3.3	0.5	1.7	0.5
Amounts due to subsidiaries	-	-	7.1	1.7
	57.1	50.9	55.6	47.3

Channel 4 supports the Confederation of British Industry's prompt payment code and endeavours to pay all invoices in accordance with contract terms and, unless agreed payment terms specify otherwise, within 30 days of the date of the invoice. Any complaints about failure to pay on time should be addressed to the Managing Director who will ensure that they are investigated and responded to appropriately. In 1998, the average number of days to pay suppliers of services other than programmes was 25. Programme suppliers are paid earlier as the channel's cash advances are required to meet weekly production costs.

15. Cashflow

Reconciliation of continuing operating profit to net cash inflow from operating activities

	1998 £m	1997 £m
Operating profit	88.5	116.7
Depreciation	8.9	7.9
Increase in stock and work in progress	(3.6)	(10.7)
Increase in debtors	(14.2)	(2.0)
Increase in creditors and provisions	4.7	9.1
Profit on disposal of fixed assets	(0.1)	(0.1)
Net cash inflow from operating activities	84.2	120.9

Reconciliation of net cashflow to movement in net funds

	1998 £m	1997 £m
Increase in cash for the year	4.8	1.5
(Decrease)/increase in liquid resources	(29.9)	14.6
Decrease in money market borrowings	3.2	0.9
(Decrease)/increase in net funds	(21.9)	17.0
Net funds at 1 January	92.7	75.7
Net funds at 31 December	70.8	92.7

Analysis of changes in net funds

	1 January 1998 £m	Cashflow 1998 £m	31 December 1998 £m
Current account balance	46.2	4.8	51.0
Money market borrowings	(19.0)	3.2	(15.8)
Cash at bank and in hand	27.2	8.0	35.2
Current assets: investments	65.5	(29.9)	35.6
	92.7	(21.9)	70.8

These cash balances were utilised to finance the ITV subsidy of £66 million paid to the ITC in February 1999.

16. Derivatives and other financial instruments

The currency and interest rate profile of the group's financial assets and liabilities at 31 December 1998 were:

	Cash at bank and in hand £m	Investments £m	Money market borrowings £m	Total £m
Currency profile				
Sterling	50.0	35.6	(15.8)	69.8
US dollar	1.0	-	-	1.0
	51.0	35.6	(15.8)	70.8
Interest rate profile				
Floating rate	51.0	-	-	51.0
Fixed rate	-	35.6	(15.8)	19.8
	51.0	35.6	(15.8)	70.8

There are no significant foreign currency denominated short-term debtors and creditors at 31 December 1998 and hence they are excluded from the above disclosure.

The floating rate short-term deposits and the fixed rate investments all bear interest based on relevant national labor equivalents. All the investments matured in February 1999 to fund in part the settlement of the £66 million due to ITV.

The fixed rate short-term money market borrowings were all fixed at the UK money market interest rates prevailing at the time of borrowing. The weighted average interest rate on these borrowings was 6.4% and they all matured in January 1999.

Fair value equates to the book value for Channel 4's assets and liabilities disclosed above.

Gains and losses on hedging contracts

Channel 4 purchases forward foreign exchange contracts to hedge exposure on commitments in dollars for programme and film purchases. The objective is to minimise the currency fluctuation between the commitment made and the future purchase price. At 31 December 1998 this objective had largely been achieved for the first half of 1999.

The fair value of undelivered forward foreign exchange contracts held at 31 December 1998 was £24 million. There were no significant net unrealised gains or losses on hedging contracts as at the balance sheet date.

17. Provisions for liabilities and charges

Channel 4 and group	Deferred taxation £m	Provision for rental deficits £m	Total £m
At 1 January 1998	4.7	5.9	10.6
Utilised in the year	-	(1.0)	(1.0)
Transfer to corporation tax creditor	(0.5)	-	(0.5)
At 31 December 1998	4.2	4.9	9.1

Deferred taxation

The amounts of deferred taxation provided and the full potential liability at 31 December were as follows:

	1998 £m	1997 £m
Accelerated capital allowances	4.2	4.7

Provision for rental deficits

The provision relates to rental deficits on two buildings which Channel 4 used to occupy in Charlotte Street, London W1.

18. Reserves

	Profit and loss account £m	Statutory reserve £m	Revaluation reserve £m	Total £m
Group				
At 1 January 1998	160.5	84.8	0.5	245.8
Retained profit for the year	17.7	-	-	17.7
Surplus on revaluation of property	-	-	5.7	5.7
At 31 December 1998	178.2	84.8	6.2	269.2
Channel 4				
At 1 January 1998	157.7	84.8	0.5	243.0
Retained profit for the year	17.1	-	-	17.1
Surplus on revaluation of property	-	-	5.7	5.7
At 31 December 1998	174.8	84.8	6.2	265.8

The statutory reserve would be drawn upon if Channel 4's qualifying revenue were ever to fall below 14% of total qualifying revenue. The Board of Channel 4 projects that Channel 4's share of qualifying revenue will remain substantially above this 14% threshold throughout the term of the present broadcasting licence which runs until 31 December 2002.

In December 1996, Parliament passed an Order which removed the requirement to transfer additional amounts to the statutory reserve fund with effect from 1 January 1996.

The revaluation reserve arises on the revaluation of freehold property as at 31 December 1998, details of which are disclosed in note 9.

19. Programme and film commitments

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

	1998 Group £m	1997 Group £m	1998 Channel 4 £m	1997 Channel 4 £m
Within one year	213.1	231.1	200.1	231.1
After one year	159.1	136.0	158.5	136.0
	372.2	367.1	358.6	367.1

20. Other commitments

Capital expenditure

Channel 4 and group	1998	1997
	£m	£m
Amounts contracted but not provided for in the financial statements	1.1	-
Amounts authorised for expenditure but not contracted at 31 December	5.3	6.3

Forward foreign exchange contracts

At 31 December 1998, Channel 4 had entered into commitments to purchase foreign currencies amounting to £24.5 million (31 December 1997: £12.3 million), maturing in January, March and June 1999, in order to fix the sterling cost of certain foreign programme and film purchase commitments.

Digital 3 and 4 Limited

Under the terms of the shareholder agreement for Digital 3 and 4 Limited, Channel 4 is committed to meeting its share of contracted costs entered into by that company. Digital 3 and 4 Limited has contractually committed £17 million per annum over 12 years for digital transmission and distribution. The exact annual monetary commitment will be dependent upon the time and coverage of roll-out of the new digital transmission network. Channel 4's share is estimated to amount to £9 million per annum.

21. Pension costs

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

The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent independent valuation was as at December 1996. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pension. It has been assumed that investment returns will outstrip salary increases by 2% per annum and that present and future pensions will increase at the rate of 4.5% per annum.

The pension charge for 1998 was £3.1 million (1997: £2.7 million).

The actuarial valuation at December 1996 showed that the market value of the scheme's assets was £39 million and that the actuarial value of those assets represented 113% of the benefits which had accrued to members, after allowing for expected future increases in earnings. The contributions of Channel 4 and employees remain at 15.3% and 6% of earnings respectively.

22. Related party transactions

Details of transactions in which members have an interest are disclosed on page 42.

Details of arrangements with associated companies are disclosed in notes 10 and 20.

HISTORICAL RECORD

Profit and loss account

For the year ended 31 December	1993	1994	1995	1996	1997	1998
	£m	£m	£m	£m	£m	£m
Turnover	343.9	408.4	464.0	518.6	552.7	590.5
Cost of transmissions and sales	(278.4)	(285.7)	(309.0)	(358.1)	(406.9)	(467.4)
Gross profit	65.5	122.7	155.0	160.5	145.8	123.1
Administrative expenses and depreciation	(21.1)	(25.5)	(26.8)	(28.2)	(29.1)	(34.6)
Exceptional relocation expenses	-	(9.4)	-	-	-	-
Operating profit	44.4	87.8	128.2	132.3	116.7	88.5
Net interest	(5.5)	(4.2)	(0.1)	2.0	2.4	3.8
Profit before ITV subsidy and taxation	38.9	83.6	128.1	134.3	119.1	92.3
Subsidy payable to ITV	(38.2)	(57.3)	(74.0)	(87.1)	(89.9)	(66.0)
Profit before taxation	0.7	26.3	54.1	47.2	29.2	26.3
Taxation	0.6	(4.4)	(19.3)	(17.9)	(10.7)	(8.6)
Retained profit for the year	1.3	21.9	34.8	29.3	18.5	17.7

Balance sheet

At 31 December	1993	1994	1995	1996	1997	1998
	£m	£m	£m	£m	£m	£m
Fixed assets	82.5	86.9	83.3	81.0	77.2	81.3
Net current assets	108.3	83.3	125.8	158.8	179.2	197.0
Long term creditors and deferred taxation	(50.0)	(7.5)	(11.6)	(13.0)	(10.6)	(9.1)
Net assets	140.8	162.7	197.5	226.8	245.8	269.2

Advertising and sponsorship revenue

	1993	1994	1995	1996	1997	1998
	£m	£m	£m	£m	£m	£m
Channel 4	330.1	393.9	448.0	490.4	513.4	559.6
ITV, GMTV, S4C and Channel 5	1,483.1	1,602.7	1,693.4	1,762.2	1,876.8	2,023.0
	1,813.2	1,996.6	2,141.4	2,252.6	2,390.2	2,582.6

Source: Independent Television Commission and Channel 4

Audience share

	1993	1994	1995	1996	1997	1998
	%	%	%	%	%	%
BBC1	32.7	32.4	32.2	32.5	30.8	29.5
BBC2	10.2	10.6	11.1	11.5	11.6	11.3
ITV and GMTV	40.0	39.5	37.3	35.1	32.9	31.7
Channel 4 and S4C	11.0	10.7	10.9	10.7	10.6	10.3
Channel 5	-	-	-	-	2.3	4.3
Satellite and cable	6.1	6.8	8.5	10.2	11.8	12.9
	100.0	100.0	100.0	100.0	100.0	100.0

Source: BARB all individuals

GENERAL INFORMATION

Channel Four Television Corporation

124 Horseferry Road
London SW1P 2TX
Telephone 0171 396 4444
Facsimile 0171 306 8369
Website www.channel4.com

Regional and national editorial office

227 West George Street
Glasgow G2 2ND
Telephone 0141 568 7100
Facsimile 0141 568 7103

Regional and national advertising sales offices

Manchester

Colwyn Chambers
19 York Street
Manchester M2 3BA
Telephone 0161 237 3796
Facsimile 0161 237 3797

Edinburgh

Hudson House
8 Albany Street
Edinburgh EH1 3QB
Telephone 0131 473 2322
Facsimile 0131 473 2327

Belfast

Elmwood House
46 Elmwood Avenue
Belfast BT9 6AZ
Telephone 01232 681 311
Facsimile 01232 681 317

Dublin

Media Link
15 Windsor Place
Pembroke Street
Dublin 2
Telephone 00 353 1 6622 444
Facsimile 00 353 1 6614 989

Viewers' enquiries

Telephone 0171 306 8333
Facsimile 0171 306 8347

FilmFour subscriber hotline

Telephone 0800 44 1234
Website www.filmfour.com

Subsidiary companies

Channel Four International Limited

124 Horseferry Road
London SW1P 2TX
Telephone 0044 (0) 171 396 4444
Facsimile 0044 (0) 171 306 8363
Website www.c4international.com

124 Facilities Limited

124 Horseferry Road
London SW1P 2TX
Telephone 0171 306 8040
Facsimile 0171 306 8041
Website www.124.co.uk

FilmFour Limited

76 – 78 Charlotte Street
London W1P 1LX
Telephone 0171 868 7700
Facsimile 0171 868 7769
Website www.filmfour.com

Channel Four Learning Limited

75-76 Wells Street
London W1P 3RE
Telephone 0171 580 8181
Facsimile 0171 580 9350
Website www.channel4.com/schools

Channel Four Television
124 Horseferry Road
London SW1P 2TX
Telephone 0171 396 4444
www.channel4.com