

## CORPORATE GOVERNANCE

The Board is committed to high standards of corporate governance. The Members have decided to voluntarily prepare a Corporate Governance Statement to demonstrate compliance with the main principles, where relevant, of the UK Corporate Governance Code issued by the Financial Reporting Council ('FRC') in 2012, and the disclosure and transparency provisions of the Listing Rules of the Financial Conduct Authority.

The Board considers that, throughout the year, it was compliant with the relevant provisions of the UK Corporate Governance Code.

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

### The Board

Channel Four Television Corporation is controlled through its Board of Members. The Board's main role is to discharge Channel 4's statutory functions and ensure the fulfilment of the public service remit in accordance with all applicable laws and regulations.

The Board, which meets at least nine times a year, has a schedule of matters reserved for its approval. The following matters must be referred to the full Board:

- Channel 4's annual budget (content and non-content)
- the appointment and reappointment of the Chief Executive
- confirmation of the appointment and reappointment of the other Executive Members nominated by the Chief Executive and the Chairman acting jointly
- banking arrangements and loan facilities
- any significant proposal outside the ordinary course of Channel 4's business
- the appointment and reappointment of the statutory auditors
- the audited accounts of Channel 4 presented by the Audit Committee
- the establishment, purchase or acquisition of any qualifying company and the approval or variation of terms of reference for any subsidiary
- approval of any significant new business investment
- significant proposed changes to Channel 4's headcount
- such other matters as the Board may from time to time resolve to review or decide upon.

In addition, as part of its overall responsibility to ensure the fulfilment of Channel 4's statutory duties and functions, the Board continues to focus on ensuring the successful delivery of Channel 4's remit and other public service responsibilities. Content output and plans for future investment of the content budget are regularly discussed as part of the overall Board agenda, as are regular updates on audience reactions to Channel 4's content. The Board also approves Channel 4's proposed Statement of Media Content Policy (incorporating the Statement of Programme Policy and Review) prior to publication.

The Board has an established Audit Committee and Remuneration Committee to assist with the discharge of its functions and has delegated each certain responsibilities. The Audit Committee Report is set out on pages 121–123 and the Remuneration Committee Report is set out on pages 124–129.

Given its constitution and specific statutory provisions regarding the appointment of Members, Channel 4 does not have a formal nominations committee. The following formal nomination procedures are in place:

- Non-Executive Members are appointed for fixed terms by Ofcom following consultation with Channel 4's Chairman and the approval of the Secretary of State for Culture, Media & Sport
- the Chair is appointed by Ofcom for a fixed term with the approval of the Secretary of State for Culture, Media & 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
- the Board Secretary is appointed jointly by the Chairman and Chief Executive.

### The roles of the Chairman and Chief Executive

The division of responsibilities between the Chairman of the Board and the Chief Executive is clearly defined as described below.

The Chairman is responsible for, among other things:

- leading the Board in setting the values and standards of Channel 4
- maintaining a relationship of trust with and between the executive and Non-Executive Members
- leadership of the Board, ensuring its effectiveness on all aspects of its role including the setting of the agenda
- ensuring that all Members receive accurate, timely and clear information
- ensuring that all Members continually update their skills and the knowledge and familiarity with Channel 4 required to fulfil their role both on the Board and on committees
- facilitating the effective contribution of Non-Executive Members and ensuring constructive relations between executive and Non-Executive Members
- undertaking an annual evaluation of Board and committee performance.

The role of the Chief Executive is to run the business of Channel 4 under the delegated authority from the Board, to implement the policies and strategy agreed by the Board, and to communicate with Ofcom and other key stakeholders.

In 2014, Lord (Terry) Burns continued as Chairman and David Abraham continued as Chief Executive.

### Senior independent member

In 2014, Mark Price continued as Deputy Chairman and Senior Independent Member.

### Members and members' independence

The names of the 2014 Board Members, together with their brief biographies, are set out on pages 119–120.

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

## CORPORATE GOVERNANCE CONTINUED

The Board considers all its Non-Executive Members to be independent in character and judgement. At the time of this report, no Non-Executive Member:

- has been an employee of the Group within the past five years
- has, or has had within the past three years, a material business relationship with the Group (although attention is drawn to the related party transactions on page 110)
- receives remuneration other than their Member's fee
- has close family ties with any of the Group's advisers, Members or senior employees
- holds cross-directorships or has significant links with other Members through involvement in other companies or bodies
- has served on the Board for more than six years from the date of their first election.

### Professional development

On appointment, the Members take part in an induction programme when they receive information about the Group, the role of the Board and the matters reserved for its decision, the terms of reference and Membership of the principal Board and management committees and the powers delegated to those committees, the Group's corporate governance practices and procedures including the powers reserved to the Group's most senior executives, and the latest financial information about the Group. This is supplemented by meetings with Members of the senior management team. On appointment, all Members are advised that they have access to advice and the services of the Board Secretary. Throughout their period in office the Members are continually updated on the Group's business and environment and other changes affecting the Group and the industry it operates in as a whole, by written briefings and meetings with senior executives. In January 2014, the Board had a training session from KPMG on the updates to the UK Corporate Governance Code and Board Members also completed the Channel 4 Code of Conduct training in 2014.

A formal Board evaluation process that uses a detailed questionnaire to allow Board Members to express both qualitative and quantitative views on Board performance is undertaken annually. The process is managed by the Board Secretary, with results anonymised in order to enable an impartial discussion of results. Results are fully discussed at a Board meeting and proposals tabled and agreed to address any actions arising. We believe the current Board evaluation process to be sufficient and accordingly have not engaged a third party to conduct the exercise. This will be kept under review.

### Board information

Regular reports and papers are circulated to the Members before Board and committee meetings. These papers are supplemented by information specifically requested by the Members from time to time. A monthly performance pack is prepared covering all key areas of the business and providing a month by month report on progress against the main performance indicators set by the Board.

The Board Secretary's responsibilities include ensuring an effective flow of information within the Board and its committees and between senior management and Non-Executive Members, induction of new Members and assisting with professional development as required.

The Head of Legal, Governance, Regulatory and Trading is responsible for advising the Board through the Chairman on all governance matters.

Both posts are available to provide advice and services to all Members, as relevant, to ensure compliance with Board procedures.

### Board meetings

The number of full Board meetings and committee meetings attended by each Member during the year is shown in the table below:

Name	Board meetings attended (invited)	Audit Committee meetings attended (invited)	Remuneration Committee meetings attended (invited)
Lord Burns	9 (9)	4 (4) <sup>1</sup>	4 (5) <sup>1</sup>
Richard Rivers	7 (9)		5 (5)
Alicja Lesniak	9 (9)	4 (4)	
Monica Burch	8 (9)	4 (4)	
Mark Price	7 (9)		4 (5)
Paul Potts	9 (9)	4 (4)	
MT Rainey	8 (9)	4 (4)	
Josie Rourke	9 (9)		
Stewart Purvis	9 (9)		5 (5)
David Abraham	9 (9)	3 (4) <sup>1</sup>	5 (5) <sup>1</sup>
Jonathan Allan	9 (9)		
Jay Hunt	8 (9)		
Dan Brooke	9 (9)		

<sup>1</sup> Lord Burns and David Abraham attended Audit Committee and Remuneration Committee meetings but were not Members.

### Board diversity

As shown on page 104, diversity is at the heart of Channel 4 and this is equally important at entry level as at the most senior levels of the organisation. In December 2014, the Channel 4 Board comprised four Executive Members and nine Non-Executive Members. As stated on page 115, Non-Executive Members are appointed by Ofcom, and Executive Members by the Chief Executive and Chairman. At December 2014, one of the four Executive Members was a woman (December 2013: one of four Executive Members).

At 31 December 2014 the Board comprised five women and eight men, with the five women making up 38% of the Board Membership. These details are also disclosed on page 104.

### Internal control

In accordance with good corporate governance practice, the Board:

- is responsible for the Corporation's system of internal control
- sets appropriate policies on internal control
- seeks regular assurance and receives regular reports that enable it to satisfy itself that the system is functioning effectively
- ensures that the system of internal control is effective in identifying key risks and reporting on the adequacy of actions to respond to and manage those risks
- is responsible for the Group's process for the preparation of the consolidated accounts.

The Board is not responsible for the internal control environment or corporate governance for any of the Group's joint ventures or associates.



## CORPORATE GOVERNANCE CONTINUED

### Internal control continued

#### Control environment

Clear management responsibilities are established for the Executive Members. As noted on page 105, the Corporation has a Code of Conduct and a suite of policies and procedures which encompass ethical behaviour, conduct and internal controls.

#### Risk management

In addition to its requirements under Schedule 9 of the Communications Act 2003 set out below, the Board and management have a clear responsibility for the identification of risks facing the Corporation and for putting in place procedures to monitor and mitigate such risks. Channel 4 has a high appetite for creative risk taking, giving rise to potentially litigious content. The Group has a low appetite for operational risks. The Board and executive operate a risk management framework for identifying, evaluating and managing (rather than eliminating) significant risks faced by Channel 4. This framework has been developed in accordance with relevant good practice guidance on internal controls and risk management.

A summary of the key risks that the Group faces, together with how those risks are mitigated, is presented in the Strategic Report on pages 108–109.

#### Editorial and compliance

Channel 4 has a long-established compliance culture, which is fully integrated into its commissioning process and provides clear editorial reference-up to senior executives and appropriate Board oversight. Its importance is widely recognised and understood by independent production companies we work with and they share equal responsibility for ensuring that programmes and online content conform to the compliance culture we work within. The Commissioning team works in close collaboration with the Legal and Compliance department on all significant commissions. There are strong editorial, legal and compliance systems and controls in place over the content commissioned by Channel 4.

These include specific guidance and protocols contained within the Channel 4 Producers' Handbook, which encompasses the Ofcom Broadcasting Code, other relevant regulations, media law and best practice guidelines. This is supported by extensive training for both staff and independent producers. At the heart of Channel 4's creative risk-taking and compliance is the editorial 'reference-up' procedure. The Members are satisfied that Channel 4 has in place suitable procedures to fulfil the requirements of paragraph 3b of the Licence, which exists to ensure that difficult or fine-cut decisions on editorial and compliance issues are properly considered by the most appropriately experienced and senior editorial executives and programme lawyers within Channel 4.

#### Management reports

Detailed annual budgets and business plans are prepared for each area of the business, and are approved by the Board. Monthly management reports are produced, comparing actual income and expenditure with budget and prior year. Full-year forecasts are prepared throughout the year. These reports are monitored by the Members as part of their monthly performance packs, and explanations are provided for all significant variances.

#### Control procedures

All expenditure is authorised in line with a delegated authorities framework. An electronic invoice authorisation system is used to further enhance the control environment. Authorisation and payment duties are strictly segregated, and bank signatory limits are clearly defined by bank mandate. Financial controls are monitored by management review and business assurance reports provided to the Audit Committee.

### Pension plan

There are six Trustees of the Channel Four Television Staff Pension Plan who meet several times each year, and with the Plan's investment managers, Legal & General Assurance (Pensions Management) Ltd, Henderson Global Investors Ltd, Veritas Funds plc and F&C Fund Management Ltd at least once a year.

During the year the Trustees were Non-Executive Member Alicja Lesniak; two of Channel 4's executives, Glyn Isherwood (Group Finance Director) and Diane Herbert (Director of Human Resources); two member-nominated trustees, Julie Kortens (Head of Corporate Services) and Neil Pepin (Deputy Head of Legal and Compliance) and Independent Trustee Services Ltd as the Independent Corporate Trustee.

### Third-party verification statement

The Channel's Ofcom Digital Replacement Licence requires it to appoint an independent party to review and report on procedures in relation to the provision of Premium Rate Telephony Services.

PricewaterhouseCoopers LLP and Deloitte LLP have been appointed to be the independent parties to review the Channel's procedures. In 2014, Deloitte continued to provide third party verification over premium rate competitions. The Members are satisfied that Channel 4 has in place suitable procedures to fulfil the requirements of paragraph 3b of the Licence.

### Requirements of Schedule 9 of the Communications Act 2003 (the Act)

The Act requires Channel 4 to submit proposals to Ofcom detailing the arrangements under which it proposes to secure, so far as reasonably practicable, that all significant risks to the primary function are identified, evaluated and properly managed. These proposals are referred to as the Arrangements.

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

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

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

The Act requires Channel 4 to put in place regular checks to confirm that Channel 4 is complying with the Arrangements. The Arrangements proposed by Channel 4 must contain provision for compliance, with the Arrangements to be checked regularly by a person (other than Channel 4's auditor) appointed in accordance with that provision. Revised Arrangements came into force on 24 January 2012 following the extension of the public service remit following the Digital Economy Act 2010.

Channel 4 has appointed Deloitte LLP to review compliance with the Arrangements and their report is shown on page 118. Copies of the Arrangements are available from the Board Secretary and at [channel4.com](http://channel4.com).

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## CORPORATE GOVERNANCE CONTINUED

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

We have performed a review of the Corporation's compliance during the year ended 31 December 2014 with the arrangements approved by the Office of Communications ('Ofcom') in January 2012 under section 2 of Schedule 9 of the Communications Act 2003.

This report is made solely to Channel Four Television Corporation and Ofcom in accordance with our letter of engagement dated 21 January 2015 and in order to (a) allow the Corporation to meet its obligations under the Licence and Schedule 9 of the Communications Act 2003 to procure such reports and (b) to facilitate the carrying out by Ofcom of its regulatory functions. Our work has been undertaken so that we might state to the Corporation and Ofcom those matters we are required to state to them in a reporting accountant's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation and Ofcom (in accordance with our contract with Ofcom dated 4 February 2015), for our work, for this report, or for the opinions we have formed.

#### Respective responsibilities of Channel Four Television Corporation and Reporting Accountants

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

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

The arrangements agreed between the Corporation and Ofcom are available from <http://stakeholders.ofcom.org.uk/binaries/consultations/c4-arrangements/statement/approved.pdf>. The responsibility of the Corporation in terms of Schedule 9 of the Communications Act 2003 is to act in accordance with these arrangements throughout the review period.

Our responsibility is to check whether the Corporation has complied with these arrangements during the year ended 31 December 2014 and report to you our independent conclusion as to whether they have done so.

#### Basis of opinion

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

- confirming our understanding of the Corporation and the internal procedures and controls in place made to comply with the arrangements made under Schedule 9 of the Communications Act 2003 through enquiry of senior management and other appropriate personnel;
- review of the relevant internal procedures and controls and examining of the financial records relating to the above; and
- review of which of the Corporation's activities fall under the primary functions and which fall under 4Ventures Limited.

Our work was carried out based on the internal procedures and controls in place to comply with the arrangements during the year ended 31 December 2014. We are not responsible for concluding whether the arrangements are sufficient and appropriate to achieve the objectives set out above. Any system of internal control can only give reasonable, not absolute assurance, that the objectives will be met.

#### Opinion

In our opinion, the Corporation has complied with the arrangements under Schedule 9 of the Communications Act 2003, in all material respects, for the year ended 31 December 2014.

#### Deloitte LLP

Chartered Accountants

London  
25 March 2015