

Annual statement by the Chair of the Remuneration Committee

This report sets out the activities of the Remuneration Committee for the year ended 31 December 2013. It discloses the remuneration policy and remuneration details for the executive and non-executive members of the Corporation. It has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013 to the extent to which they are applicable to Channel 4.

This is the first time the Corporation has prepared the report in accordance with the amended Regulations. The Report is set out in three main sections: the statement by the Chair of the Remuneration Committee, the annual report on remuneration, and the policy report. The annual report on remuneration provides details on remuneration relating to 2013 and other information required by the Regulations.

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

The Remuneration Committee deals with all aspects of pay for the executive members and staff of Channel 4, reviewing proposals for the overall annual pay awards and variable pay schemes applicable to all staff, and the details of remuneration packages for executive members. The Committee's recommendations and decisions in 2013 reflect its remuneration policy, which is designed to enable Channel 4 to attract, motivate and retain high calibre staff by rewarding them with both fixed and variable pay to reward commercial and creative success, while being sensitive to the position that Channel 4 occupies as a public service broadcaster.

Composition of the Remuneration Committee

During 2013 the members of the Committee were Richard Rivers (Chair), Mark Price and Stewart Purvis (appointed 1 September 2013). In 2013, the Committee met five times.

All the members of the Committee are independent non-executive members. The Chairman of the Board, the Chief Executive, the Group Finance Director, the Director of Human Resources and the Board Secretary attend meetings as appropriate.

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

Non-executive members are appointed by Ofcom, who also determines their fees. Non-executive members are entitled to reimbursement of travel and accommodation expenses incurred in connection with attending Board and other meetings in relation to fulfilling their duties. Non-executive service contracts are in line with their terms of office and subject to fixed terms of a maximum of three years.

Members' remuneration report continued

Responsibilities of the Remuneration Committee

The Committee's principal responsibilities are:

- to recommend to the Board the level of any annual salary increases, variable pay awards and the structure of remuneration, in particular for executive members and senior management
- to review any other significant change in Channel 4's remuneration package
- to recommend to the Board structures and targets for the annual Corporation Performance-Related Pay and Advertising Sales schemes, and to review progress against the targets set for the schemes

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

Activities of the Remuneration Committee

The Committee's work in 2013 included a recommendation to the Board for variable pay in respect of 2013 as well as a redesigned proposal for the Corporation Performance-Related Pay ("PRP") scheme for 2014 and beyond.

After a year of exceptional Paralympics success in 2012, the variable pay award for 2013 was lower than 2012 at an average of 45% of the maximum under the scheme (2012: 75%). Excluding the Paralympics additional award in 2012, the equivalent award would have been 50% of the maximum.

The average pay award for 1 April 2014 has been agreed at 2.5%.

The Remuneration Committee agreed that the PRP scheme for 2014 will use a number of similar metrics from 2013, but will be focused more clearly on the two common purposes of the organisation recognised by all staff: creative achievement and reputation and financial sustainability.

In 2013, the Committee took the decision to adjust the variable pay proposal for Jonathan Allan, the Sales Director. In 2013 Jonathan Allan was party to the Advertising Sales scheme, which pays out quarterly based on the achievement of advertising revenue targets. In the light of Jonathan's role as an executive member, the Committee determined that effective from 1 January 2014 his variable pay should comprise a 50:50 split between the Advertising Sales scheme and the Corporation PRP scheme referred to above.

Jonathan Allan's base salary was also adjusted upwards from 1 January 2014 from £320,000 to £350,000.

Members' remuneration report continued

Remuneration report

The following provisions of the report are subject to audit

The remuneration of the executive members for the years ending 2013 and 2012 is made up as follows:

£000	Salary and fees	Taxable benefits	Variable pay	Pension	Total for 2013	Salary and fees	Taxable benefits	Variable pay	Pension	Total for 2012
David Abraham	532	1	73	133	739	515	–	100	129	744
Anne Bulford*	156	5	–	16	177	375	1	73	40	489
Jay Hunt	396	1	54	46	497	390	1	116	35	542
Jonathan Allan	320	1	55	22	398	320	1	138	23	482
Dan Brooke	275	1	39	44	359	270	1	53	24	348
TOTAL	1,679	9	221	261	2,170	1,870	4	480	251	2,605

*Anne Bulford resigned on 26 February 2013. She opted out of accruing further benefits under the defined benefit plan on 31 March 2012, therefore no defined benefit amount has been included in the pension column for 2013.

During 2013 David Abraham and Anne Bulford received cash payments in lieu of pension benefits. All other executive members are part of the Corporation's defined contribution scheme and amounts represent contributions made.

The salary figures in the table above represent the gross salaries received in 2013, after taking account of salary increases during the year where applicable.

The remuneration of the non-executive members for the years ending 31 December 2013 and 2012 is made up as follows:

£000	2013 Salary and fees	2012 Salary and fees
Lord Burns	100	100
Mark Price	24	22
Monica Burch	22	22
Alicja Lesniak	22	22
Paul Potts	22	22
Stewart Purvis (appointed 1 September 2013)	6	–
MT Rainey	22	22
Richard Rivers	22	22
Josie Rourke	22	22
Martha Lane Fox (retired 31 January 2012)	–	2
Lord Puttnam (retired 31 January 2012)	–	2
Lord Hall (resigned 25 November 2012)	–	29
TOTAL	262	287

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

Mark Price does not retain his fees for his non-executive directorship. In accordance with Waitrose policy, Mark has requested that his fee be paid over to Waitrose.

Similarly, Monica Burch does not retain her fees for her non-executive directorship. Her firm, Addleshaw Goddard LLP, deducts her Channel 4 fees from her partner drawings.

Members' remuneration report continued

Variable pay

At the end of 2012 the Committee met to set targets for staff and executives for 2013, which were designed to promote in-year performance and the long term sustainability of the Corporation, and were consistent with investment plans for the year. Once results were available, the Committee met again to agree on a recommendation to the Board on variable pay.

Most staff and members of the executive team participate in the Corporate PRP scheme, where the maximum amounts payable range from 10% for staff up to 30% for executive team members. Corporation performance measures comprise 80% of the maximum pay-out within the scheme, with personal performance accounting for the remaining 20%.

The Corporation performance element of the scheme is payable based on four elements, as shown in the table below:

- achievement of core financial and licence targets
- quantitative targets
- programme quality
- personal performance

Achievement of at least the budgeted surplus or deficit before tax for the year is a condition for any element of the scheme to pay out to staff. Achievement of licence obligations is an additional gateway for executive team members and other senior managers.

The core and quantitative targets for the PRP scheme in 2013, and the final results achieved and earned by executive members against those targets, are set out below.

As part of the annual PRP scheme review, the Chief Executive Officer (CEO) is required to present a review of programme quality during the year. The Committee used their discretion and judgement to allocate an amount to recognise the creative achievements, and for 2013 assessed this at 75% of the maximum payable.

The Committee recommended that all Executive Members in the Corporate PRP scheme receive the maximum 6% in recognition of achievement of all personal performance objectives. Overall, this brought the total pay-out to 13.5% of year end salary for the Executive team. Heads of Department received 9% of salary and staff received 4.5% of salary.

Staff working within advertising sales have a dedicated Advertising Sales scheme, linked to advertising revenue and paid quarterly throughout the year based on performance. The maximum payable under the scheme in 2013 was up to 75% of salary and the average pay-out was £7,000. In 2013 Jonathan Allan, the Director of Sales, received £55,000 through the Advertising Sales scheme.

Taxable benefits

Executive members are eligible for a range of taxable benefits, which include a pension allowance, car allowance and membership of a private medical insurance scheme (which is provided to all staff). These benefits are not pensionable. In line with the Corporation's expenses policy, no expenses claimed by executive members were chargeable to UK income tax as they were incurred wholly for the purposes of the business of the Corporation.

Objective	Weighting	Target range	Opportunity	Final result	Amount paid
Licence requirement	Gateway to scheme	Meet	N/A	All met or exceeded	N/A
Surplus or deficit before tax	Gateway to scheme	As budget	N/A	Exceeded	N/A
Share of net advertising revenues (SONAR)	10%	26.4% – 27.2%	3%	26.4%	1.0%
% of registered VoD views	10%	20% – 35%	3%	29.0%	2.0%
Main channel share	13.3%	6.4% – 7.0%	4%	6.1%	–
Portfolio share	13.3%	11.4% – 11.8%	4%	11.0%	–
Portfolio share of SOCI 16–34	6.7%	24.1% – 26.0%	2%	23.3%	–
Portfolio share of SOCI ABC1	6.7%	19.5% – 21.1%	2%	19.0%	–
Programme quality	20%	Meet	6%	75.0%	4.5%
Personal performance	20%		6%		6.0%
Total	100%		30%		13.5%

Members' remuneration report continued

Pension

The Corporation has two pension schemes: a defined contribution scheme open to all staff, and a defined benefit scheme which is closed to new entrants. Until the closure of the scheme to new entrants, executive members were eligible for membership of the Channel Four Television Staff Pension Plan on the same basis as all other members of staff. The plan is contributory, at 7.5% of pensionable salary, and provides members with a pension based on 1/50th of final pensionable pay for each year of service up to a maximum of two-thirds of final pensionable earnings.

During the year there were no executive members remaining within the Plan. Anne Bulford left the Plan on 31 March 2012.

Further details relating to the Plan are provided in note 18 to the financial statements.

Non-executive members are not eligible for membership of either pension scheme.

The following provisions of the report are not subject to audit

CEO remuneration table

The table below shows the percentage change in remuneration of David Abraham, the CEO and the Corporation's employees as a whole between the years 2013 and 2012:

	CEO	All staff
Salary and fees	+5%	+2.5%
Variable pay	-27%	-42%
Total	-1%	+1%

The Remuneration Committee awarded David Abraham a 5% increase in salary from 1 April 2013.

Payment for loss of office

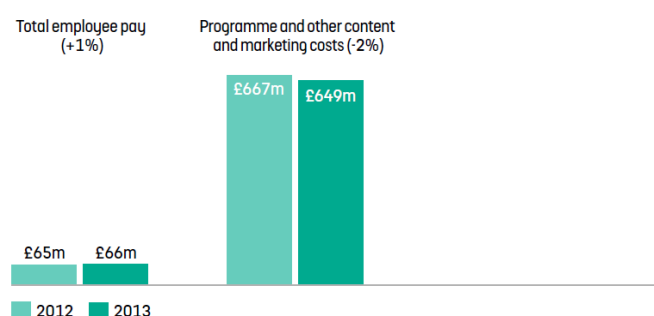
No payments were made for loss of office in 2013 to executive members, and at the balance sheet date there were no provisions made for compensation payable for early termination of contracts or loss of office to executive members.

Payment to past members

No payments were made to past members in 2013.

Relative importance of spend on pay

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



The members have chosen the change in total direct programme, content and marketing costs as disclosed in note 2 to the financial statements as the comparative measure for relative spend on pay as it is considered to be the most significant indicator in understanding total Corporation expenditure year-on-year. As illustrated on page 132, programme and marketing costs were lower in 2013 after the Paralympics year in 2012. As in previous years, employee pay remains at some 10% of our onscreen expenditures.

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

The Group are not presenting a five-year table on CEO pay as it is a statutory Corporation without shareholders and the requirements are therefore not applicable.

By Order of the Board

Richard Rivers

Chair of the Remuneration Committee

26 March 2014

Members' remuneration report continued

Remuneration policy for 2014

The remuneration of executive Board members is determined by the Remuneration Committee, the membership and terms of reference of which are detailed on pages 163–164. In framing its remuneration policy, the Committee has given full consideration to the best practice provisions of the UK Corporate Governance Code.

Future policy table

The following table sets out the key components of the remuneration package for executive members:

Component	How this supports the strategic aims of the Group	How this operates	Maximum amount payable	Performance measures
Salary	Offering competitive remuneration packages helps the Corporation attract, motivate and retain a high calibre staff and executive team	<p>Salaries are paid monthly</p> <p>The Remuneration Committee discusses the performance of each member with the Chairman of the Board and with the CEO for other executive members</p>	<p>Salaries for the year to 30 March 2015 are as follows:</p> <p>David Abraham – £553,731</p> <p>Jay Hunt – £409,744</p> <p>Jonathan Allen – £350,000</p> <p>Dan Brooke – £290,000 rising to £305,000 from June 2014</p> <p>Except where otherwise shown, salaries are reviewed annually in the first quarter of the year. Increases reflect changes in responsibility and performance.</p>	None
Taxable benefits		<p>The Corporation offers a range of benefits to all staff including private medical insurance</p> <p>Other benefits such as life assurance are available through a flexible benefits scheme</p>	<p>The value of private medical insurance in 2014 is expected to be £700 per employee</p>	None
Pensions		<p>The Corporation currently offers a defined contribution pension scheme for new staff.</p> <p>The Corporation also operates a defined benefit scheme. In 2013 there were no executive members of the defined benefit scheme</p>	<p>The maximum amount contributed by the Corporation is 13% of pensionable salary</p>	None

Members' remuneration report continued

Future policy table (continued)

Component	How this supports the strategic aims of the Group	How this operates	Maximum amount payable	Performance measures
Variable pay		Most staff and members of the executive team participate in the PRP scheme. Pay-out is determined annually by the Remuneration Committee shortly after the financial year end based on performance and paid to staff in April/May following the year end	10% for staff and up to 30% for executive team members	<p>The PRP scheme for 2014 and the measures to be used will evolve from the 2013 scheme but broadly reflect the balance in the Channel 4 business model between creativity and sustainability</p> <p>The measures will reflect how we have performed this year in being creatively distinctive and in delivering our remit, and how we have performed this year in maximising our future financial sustainability</p>

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

In 2014, the Remuneration Committee determined that the pay awards from 1 April 2014 should not exceed 2.5% of total salaries for the Group.

The following table sets out the key components of the remuneration package for non-executive members:

Component	Purpose	Operation
Fees	Fees are set by Ofcom and reviewed periodically	Fees are paid monthly

No other components of remuneration are available for non-executive members.

Policy on payment for loss of office

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

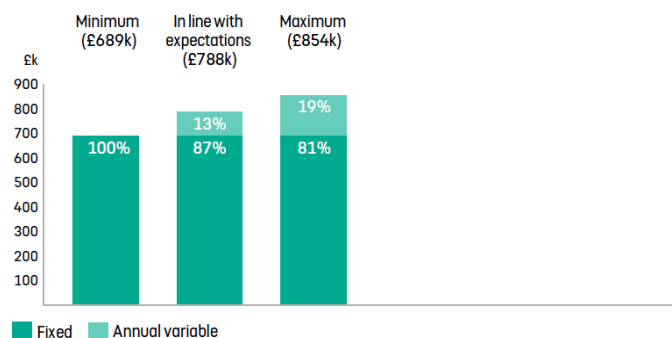
The Remuneration Committee will consider what compensation commitments (including pension contributions and all other elements) the executive members' terms of appointment would entail in the event of early termination. The aim of this is to avoid rewarding poor performance.

Members' remuneration report continued

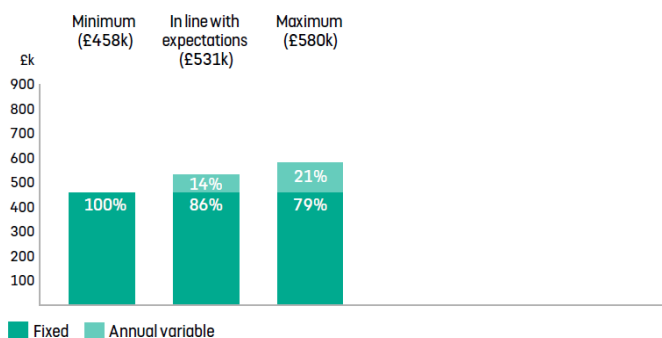
Illustration of application of remuneration policy

The graphs below represent the variations in the remuneration at different levels of performance for the first year of application of the remuneration policy for the executive members:

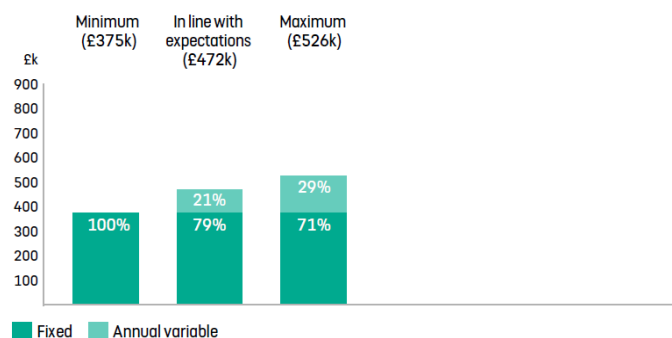
CEO



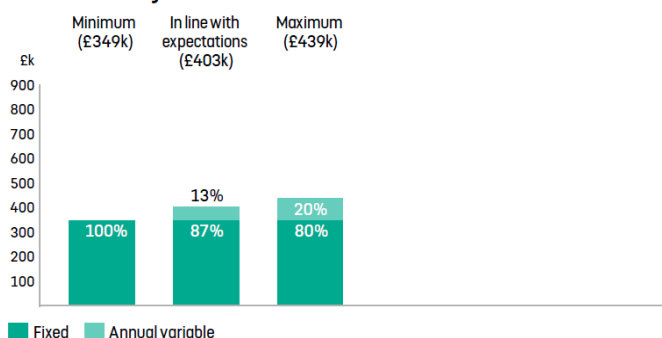
Chief Creative Officer



Director of Sales



Chief Marketing and Communications Officer



Auditable information

The remuneration information set out on pages 165 to 167, where indicated, has been audited by Channel 4's auditors, KPMG LLP, in accordance with Schedule 8 of the Companies Act 2006 as if those requirements were to apply to Channel 4.