

## MEMBERS' REMUNERATION REPORT

### 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 2014. It discloses the remuneration policy and remuneration details for the Executive and Non-Executive Members of the Corporation. It has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013. Channel 4's status as a statutory corporation without shareholders means these provisions are not directly applicable but the Members have decided to voluntarily comply with the provisions to the extent that they are relevant to Channel 4, in line with the Board's commitment to high standards of corporate governance.

The Report is set out in three sections: the statement by the Chair of the Remuneration Committee, the annual report on remuneration, and the policy report. The annual report on remuneration provides details on remuneration relating to 2014 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 oversees all aspects of pay for the Executive Members and staff of Channel 4, reviewing proposals for the overall annual pay awards and variable pay schemes applicable to all staff, and the details of remuneration packages for Executive Members. The Committee's recommendations and decisions in 2014 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 2014 the Members of the Committee were Richard Rivers (Chair), Mark Price and Stewart Purvis. In 2014, 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 subject to fixed terms of a maximum of three years.

### 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 arrangements and policies
- to recommend to the Board the structure of the annual Corporate Variable Pay and Advertising Sales Schemes, and to review progress against the targets set for the schemes
- to review any other aspect of HR strategy or performance as seems relevant

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 2014 included overseeing the introduction of a redesigned Corporate Variable Pay Scheme for 2014 and beyond, and using this to make a recommendation to the Board for variable pay in respect of 2014. The pay award for 2014 and the details of the Corporate Variable Pay Scheme are detailed on page 126. After careful consideration and review, the average pay award for the year beginning 1 April 2015 has been made at 2.75%.

The Remuneration Committee agreed that the Corporate Variable Pay Scheme for 2015 will remain largely unchanged from 2014 and continue to be focused clearly on the two common purposes of the organisation recognised by all staff: creative achievement and financial sustainability. From 1 January 2015, the maximum amount payable to Executive Members under the Corporate Variable Pay Scheme will be increased to up to 40% of total gross salary. In the light of this amendment, no pay award has been made to Executive Members for the year beginning 1 April 2015.

## 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 31 December 2014, 2013 and 2012 is made up as follows:

£000	Salary and fees	Taxable benefits	Variable pay	Pension	Total for 2014	Salary and fees	Taxable benefits	Variable pay	Pension	Total for 2013	Total for 2012
David Abraham	550	1	166	138	855	532	1	73	133	739	744
Anne Bulford (resigned 26 February 2013)	–	–	–	–	–	156	5	–	16	177	489
Jay Hunt	407	1	123	50	581	396	1	54	46	497	542
Jonathan Allan	350	1	102	30	483	320	1	55	22	398	482
Dan Brooke	299	1	87	50	437	275	1	39	44	359	348
<b>TOTAL</b>	<b>1,606</b>	<b>4</b>	<b>478</b>	<b>268</b>	<b>2,356</b>	<b>1,679</b>	<b>9</b>	<b>221</b>	<b>261</b>	<b>2,170</b>	<b>2,605</b>

The salary figures in the table above represent the gross salaries received in 2014, after taking account of salary increases during the year where applicable.

In 2014, David Abraham, Jay Hunt and Dan Brooke received cash payments in lieu of pension benefits.

In 2013, Jonathan Allan was party to the Advertising Sales Scheme only. From 1 January 2014, his variable pay comprised a 50:50 split between the Advertising Sales Scheme and the Corporate Variable Pay Scheme.

The remuneration of the Non-Executive Members for the years ending 31 December 2014 and 2013 is made up as follows:

£000	2014 Salary and fees	2013 Salary and fees
Lord Burns	100	100
Mark Price	30	24
Monica Burch	22	22
Alicja Lesniak	22	22
Paul Potts	22	22
Stewart Purvis (appointed 1 September 2013)	22	6
MT Rainey	22	22
Richard Rivers	22	22
Josie Rourke	22	22
<b>TOTAL</b>	<b>284</b>	<b>262</b>

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

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.

Monica Burch's firm, Addleshaw Goddard LLP, deducts her Channel 4 fees from her partner drawings.

## MEMBERS' REMUNERATION REPORT CONTINUED

### Variable pay

During the year, the Committee met to monitor performance as part of their oversight of variable pay across the business. A new Corporate Variable Pay Scheme for staff and executives was introduced in 2014, which is set out below. The Committee met again in January 2015 to agree on a recommendation to the Board on variable pay once results for the year were available.

### Corporate Variable Pay Scheme outline

As set out in the Strategic Report on pages 100–109, the Corporation's business model and strategy is based on two key principles, creativity and long-term financial sustainability. The 2014 Corporate Variable Pay Scheme has been designed specifically to link variable pay with the business model and is based on the following areas of achievement:

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

Achievement of at least the budgeted surplus or deficit before tax for the year and Ofcom licence requirements is a condition for any element of the scheme to pay out to staff.

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

### Process for determining variable pay

To decide on how much variable pay should be provided each year, the Remuneration Committee considers a report written by the CEO in conjunction with the other Executive team Members, describing how the Corporation has performed in relation to creativity and commercial sustainability, and reviews business performance across a wide range of qualitative and quantitative measures which track year-on-year performance and performance against a five year average. Where relevant, performance of competitors against the same measures is also part of the Committee's deliberations. The Remuneration Committee makes a judgement on the overall performance for the year, and produces a narrative assessment of its evaluation, which is then proposed to the Board, who have the final approval of any pay-out.

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

After due consideration of performance during the year, the Committee allocates an amount, entirely at its discretion, based on what they determine the average pay-out across the Corporation should be for the year.

The Committee will review the Corporate Variable Pay Scheme each year to ensure it remains appropriate.

### Variable pay decision for 2014

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

The Committee undertook a detailed review of all the information available to it, including the CEO and Executive Team's report on 2014 and the Corporation's performance across a wide range of performance measures, an extract of which is set out on pages 166 and 167 including programme quality, creative achievements, viewing share, ad sales performance, VoD viewing and commercial impact performance in key demographics. The creative achievements and financial results are also outlined in detail in the Annual Report.

The Committee determined that 2014 has been an impressive year from a creative perspective with a record number of major television and film awards (page 86–91), including Channel of the Year at the Edinburgh TV Festival, reflecting the culmination of a highly successful three year plan to renew the Channel's creative reputation and performance. In addition, the Corporation maintained or increased its lead over other broadcasters compared to 2013 across a range of the reputational Statement of Media Content Policy (SMCP) metrics (pages 14 to 35) and the *Inbetweeners 2 Movie* recorded a strong box office performance (page 68). The Committee recognises that in the pursuit of creative innovation not all endeavours will be successful, however, on balance 2014 had been a strong year of creative performance.

The Committee also determined there had been a robust commercial performance, aided by a buoyant advertising market but with significant success in initiatives designed to complement spot advertising revenue in the future and so contribute to the long term sustainability of the organisation. As set out in the financial statements on pages 130 to 158, Corporation revenues were up £30 million year-on-year and, after a planned three years of investment, the business exceeded the break-even budget with a £4 million pre-tax surplus and cash reserves of £222 million. Digital revenues reached their highest levels in the five year period and there was growth in registered VoD views as further progress was made with the development of connected relationships with viewers. The Growth Fund was also successfully launched with five companies benefitting from investment in 2014 as set out on page 38.

The Portfolio share for the year was 10.9% (page 31), marginally short of the 11.0% achieved in 2013, with strong performances from the digital channels and E4 in particular. The decline in Channel 4 share has slowed which helps to enhance sustainability. Performance in peak time, where the majority of content investment is concentrated, was strong but daytime is still a challenge with live sport on other channels continuing to attract strong audiences. The key 16–34 demographic share grew for the Portfolio, reaching its highest point in the past five years (page 166), although there was an accompanying decline in ABC1 audiences.

After a careful and detailed consideration of performance for 2014, the Committee recommended that, following an exceptional year of Creative performance and a year of strong commercial performance, staff should receive an average of 9% of year end salary under the Corporate Variable Pay Scheme, Heads of Department should receive an average of 18% of salary and the Executive team should receive an average of 28% of salary. Actual awards for each staff member varied from this average to reflect their individual achievement against personal performance objectives.

### Advertising Sales Scheme

Staff working within advertising sales have a dedicated Advertising Sales Scheme, linked to advertising revenue and paid quarterly throughout the year based on performance. They are not eligible for the Corporate Variable Pay Scheme, with the exception of Executive Member Jonathan Allan whose variable pay comprised a 50:50 split between the Advertising Sales Scheme and the Corporate Variable Pay Scheme in 2014.



## MEMBERS' REMUNERATION REPORT CONTINUED

### Variable pay awards to Executive Members

The Committee made the following awards to Executive Members in respect of 2014 performance:

- David Abraham was awarded an amount of 30% of year end salary under the Corporate Variable Pay Scheme
- Jay Hunt was awarded an amount of 30% of year end salary under the Corporate Variable Pay Scheme
- Jonathan Allan was awarded an amount of 28.5% of the half of his year end salary which is subject to the Corporate Variable Pay Scheme. Jonathan Allan also received £52,500 through the Advertising Sales Scheme
- Dan Brooke was awarded an amount of 28.5% of year end salary under the Corporate Variable Pay Scheme

### Taxable benefits

Executive Members are eligible for a range of taxable benefits, which can 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.

### 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 (The 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 defined benefit scheme (2013: none).

Further details relating to the defined benefit 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 2014 and 2013:

	CEO	All staff
Salary and fees	+3%	+2.5%
Variable pay	+127%	+83%
<b>Total</b>	<b>+16%</b>	<b>+9%</b>

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

### Payment for loss of office

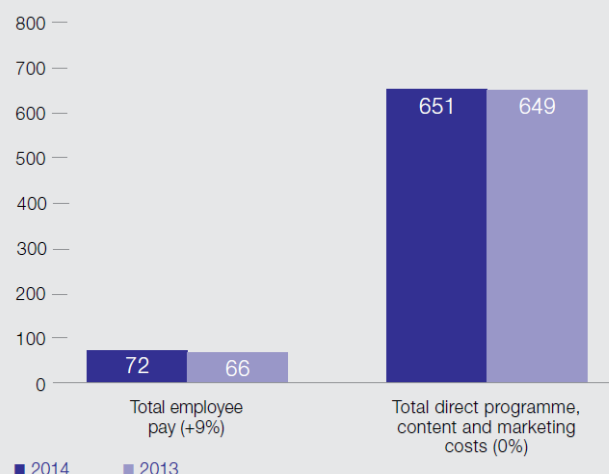
No payments were made for loss of office in 2014 to Executive Members, and at the balance sheet date there were no provisions made for compensation payable for early termination of contracts or loss of office to Executive Members.

### Payment to past members

No payments were made to past members in 2014.

### 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 in previous years, employee pay remains between 10% and 11% of on-screen expenditure.

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

By Order of the Board

**Richard Rivers**

Chair of the Remuneration Committee

25 March 2015

## MEMBERS' REMUNERATION REPORT CONTINUED

### Remuneration policy for 2015

The remuneration of Executive Board Members is determined by the Remuneration Committee, the membership and terms of reference of which are detailed on page 124. 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 executive team	Salaries are paid monthly  The Remuneration Committee discusses the performance of each Member with the Chairman of the Board and with the Chief Executive for other Executive Members	Salaries for the year to 31 December 2015 remain unchanged and are as follows:  David Abraham – £553,730 Jay Hunt – £409,744 Jonathan Allan – £350,000 Dan Brooke – £305,000  Except where otherwise shown, salaries are reviewed annually in the first quarter of the year. Increases reflect changes in responsibility and performance	None
Taxable benefits		The Corporation offers a range of benefits to all staff including private medical insurance. Other benefits such as life assurance are available through a flexible benefits scheme	The value of private medical insurance in 2015 is expected to be £644 per Executive Member	None
Pensions		The Corporation currently offers a defined contribution pension scheme for new staff  The Corporation also operates a defined benefit scheme. In 2014 there were no Executive Members of the defined benefit scheme  Certain Executive Members also receive cash payments in lieu of pension benefits as disclosed on page 125	The maximum amount contributed by the Corporation under the defined contribution scheme is 13% of pensionable salary	None
Variable pay		All Members of the Executive Team participate in the Corporate Variable Pay Scheme. Pay-out is determined annually by the Remuneration Committee shortly after the financial year end based on performance and paid in March following the year end  Jonathan Allan's variable pay comprises a 50:50 split between the Advertising Sales Scheme and the Corporate Variable Pay Scheme	From 1 January 2015 the Corporate Variable Pay Scheme will pay up to 40% of total gross salary for executive team Members, a 10% increase from 2014  The Advertising Sales Scheme is linked to advertising revenue and paid quarterly throughout the year based on performance	The Remuneration Committee agreed that the Corporate Variable Pay Scheme for 2015 will remain largely unchanged from 2014 and continue to be focused clearly on the two common purposes of the organisation recognised by all staff: creative achievement and financial sustainability. Details of the scheme are set out on page 126  In 2014, it was agreed that, from 2015, in coming to a view on variable pay for Executive Members, it would be appropriate to consider their performance against longer term objectives as well as the in-year performance. Up to 10% (out of the total of up to 40%) could be allocated on this basis

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

## MEMBERS' REMUNERATION REPORT CONTINUED

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

Component	Purpose	Operation
Fees	The Non-Executive Members constructively challenge and help develop proposals on strategy, and bring strong, independent judgement, knowledge and experience to the Board's deliberations	Fees are set by Ofcom and Fees are paid monthly and reviewed periodically

No other components of remuneration are available for Non-Executive Members.

### Policy on payment for loss of office

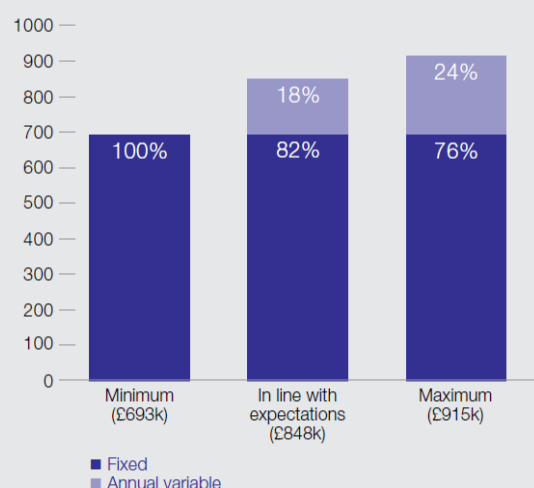
The service contracts of all the Executive Members are subject to notice periods of one year or less. The Committee's policy is to make payments in line with contractual obligations covering payment in lieu of notice including base salary and other benefits.

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.

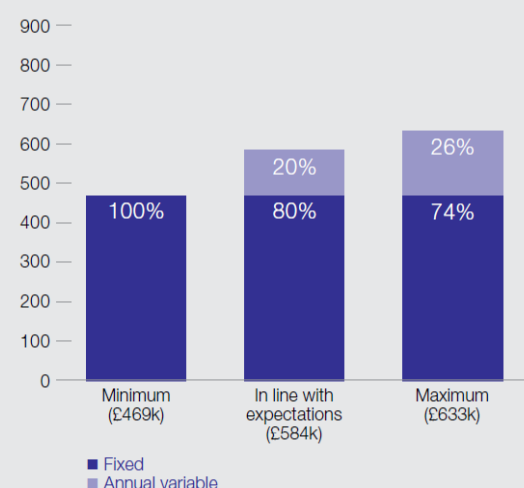
### Illustration of application of remuneration policy

The graphs below represent the variations in the remuneration at different levels of performance for the 2015 remuneration policy for the Executive Members:

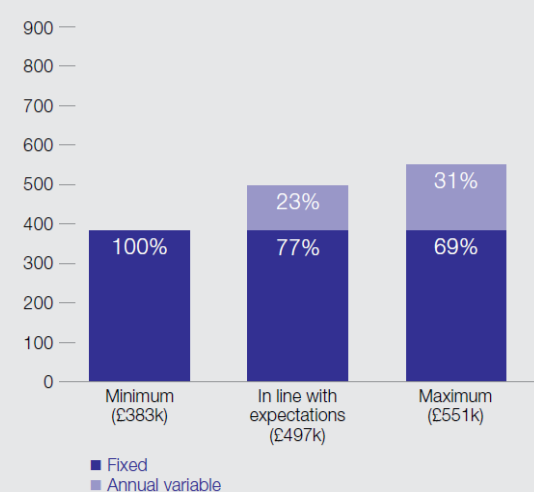
#### Chief Executive Officer



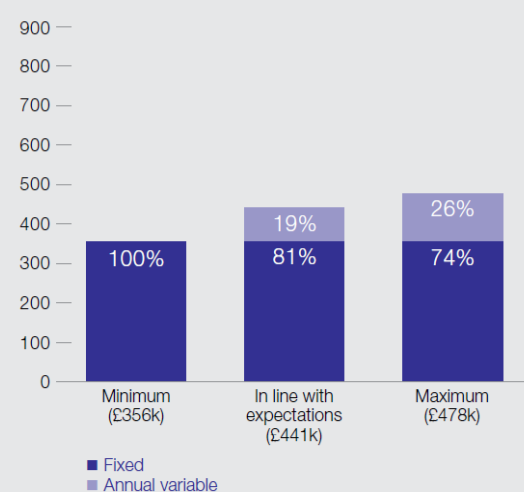
#### Chief Creative Officer



#### Director of Sales



#### Chief Marketing and Communications Officer



### Auditable information

The remuneration information set out on pages 124 to 127, 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.