

# 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 2015. 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 comply voluntarily 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 2015 and other information required by the Regulations.

The Companies Act 2006 requires the auditor to report on certain parts of the Members' Remuneration Report and to state whether, in its 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 2015 reflect its remuneration policy, which is designed to enable Channel 4 to attract, motivate and retain high calibre staff by offering 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 2015, the Members of the Committee were Richard Rivers (Chair), Mark Price and Stewart Purvis. In 2015, the Committee met four times.

All the Members of the Committee are Independent Non-Executive Members. The Chair of the Board, the Chief Executive, the Group Finance Director, the Head 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, which 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 on the Remuneration Committee's discussions and recommendations, 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 2015 included reviewing the design of the Advertising Sales Scheme and making an award recommendation to the Board for the Variable Pay Scheme and Advertising Sales Scheme in respect of the year.

The Committee imposes a cap on the Advertising Sales Scheme, restricting the maximum payout under the scheme to 75% of gross salary. The Committee agreed to defer a portion of this pay as an additional bonus under the scheme in Q1 2016, to maintain the momentum of strong sales performance in 2015 and contingent on further performance targets being achieved.

The variable pay award for 2015 and the details of the Corporate Variable Pay Scheme are detailed on page 134.

After careful consideration and review, the average pay award for the year beginning 1 April 2016 has been made at 2.75%. This applies to all staff with the exception of Executive team Board Members who have been awarded a pay award of 2.75% from 1 July 2016.

The Remuneration Committee agreed that the Corporate Variable Pay Scheme for 2016 will remain largely unchanged from 2015 and continue to be focused on creative achievement and financial sustainability. From 1 January 2015, the maximum amount payable to Executive team Board Members under the Corporate Variable Pay Scheme was increased to up to 40% of total gross salary.

## 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 2015 and 2014 is made up as follows:

£000	Salary	Taxable benefits	Variable pay	Pension	Total for 2015	Salary	Taxable benefits	Variable pay	Pension	Total for 2014
David Abraham	554	1	188	138	881	550	1	166	138	855
Jay Hunt	410	1	139	62	612	407	1	123	50	581
Jonathan Allan	350	1	164	32	547	350	1	102	30	483
Dan Brooke	305	1	104	50	460	299	1	87	50	437
<b>Total</b>	<b>1,619</b>	<b>4</b>	<b>595</b>	<b>282</b>	<b>2,500</b>	<b>1,606</b>	<b>4</b>	<b>478</b>	<b>268</b>	<b>2,356</b>

The salary figures in the table above represent the gross salaries received in 2015, after taking account of salary increases during the year where applicable.

In 2015 and 2014, David Abraham, Jay Hunt and Dan Brooke received cash payments in lieu of pension benefits.

Jonathan Allan's variable pay comprises 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 2015 and 2014 is as follows:

£000	2015 salary and fees	2014 salary and fees
Lord Burns (term concluded on 27 January 2016)	100	100
Mark Price	30	30
Monica Burch	22	22
Alicja Lesniak	22	22
Paul Potts	22	22
Stewart Purvis	22	22
MT Rainey	22	22
Richard Rivers	22	22
Josie Rourke	22	22
<b>Total</b>	<b>284</b>	<b>284</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 its oversight of variable pay across the business. The Committee met again in January 2016 to agree on a recommendation to the Board on variable pay once results for the year were available.

### Corporate Variable Pay Scheme outline

The Corporation's business model and strategy are set out in the Strategic Report on page 109. The 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 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, 30% for the Executive team and 40% for Executive team Board Members. These percentages represent the maximum average amount that can be provided across each employee category. Actual awards for each staff member will vary from the average to reflect their individual achievement against personal performance objectives.

### Process for determining variable pay

Delivery of the remit is the overarching aim of the Corporation which, for the purposes of the Corporate Variable Pay Scheme, is considered to consist of two pillars; creativity and sustainability. To decide on how much variable pay should be provided each year, the Remuneration Committee reviews business performance across 76 qualitative and quantitative metrics which track year-on-year performance and performance against a five-year average. Where relevant, performance versus competitors against the same metrics is also a key part of the Committee's deliberations. The Committee also considers a report written by the CEO in conjunction with others in the Executive team, describing how the Corporation has performed in relation to creativity, commercial sustainability and diversity.

The Remuneration Committee makes a judgement on the overall performance for the year, and produces a narrative assessment of its evaluation. This is then presented to the Board which has the final approval of any payout.

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 at the discretion of the Committee.

After due consideration of performance during the year, the Committee proposes an amount, entirely at its discretion, based on what they consider the average payout across the Corporation should be for the year. These proposals are agreed by the Board.

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

### Variable pay decision for 2015

The Committee noted that the two gateways to the scheme, meeting the licence requirements and the budgeted pre-tax result, had been met. It also noted the achievement of all diversity goals for the year.

The Committee undertook a detailed review of all the information available to it, including the CEO and Executive team's 2015 Creativity, Sustainability and Diversity Report, and the Corporation's performance across a wide range of performance metrics. Diversity was added to the report in 2015 to reflect the launch of the 360° Diversity Charter. An update on how the Charter has progressed in 2015 is described on page 114. An extract of the performance metrics considered by the Remuneration Committee is set out on pages 175 to 176 and includes programme quality, creative achievements, viewing share, diversity targets, ad sales performance, VoD viewing and commercial impact performance in key demographics. The creative achievements and financial results are also outlined in detail throughout this Annual Report.

The Committee determined that 2015 had been another impressive year of remit delivery. From a creative perspective there had been major television and film awards (pages 94 to 101) and hit shows across every genre. In addition, the Corporation maintained or increased its lead over other broadcasters compared to 2014 across a range of the Statement of Media Content Policy ('SMCP') metrics (pages 16 to 39). The Committee recognise that in the pursuit of creative innovation not all endeavours will be successful; however, overall 2015 had been another strong year of creative performance.

The Committee also determined there had been an exceptional commercial performance with the Corporation reporting record revenue and content results, a surplus of £26 million and an increase in cash reserves to £252 million. Revenue was once again aided by a buoyant advertising market, and new initiatives such as the Commercial Growth Fund and All4 Games were launched to contribute to the Corporation's long-term sustainability and to diversify sources of revenue. Digital revenues grew by more than 30% and Channel 4's new digital platform, All 4, was launched in 2015 with registered viewers surpassing 13 million by December 2015. The Indie Growth Fund progressed with a further four companies benefiting from investment in 2015, taking the total portfolio to nine companies.

Channel 4 reached an important milestone in 2015 with viewing share on Channel 4 improving for the first time since 2006, the culmination of several years of investment in the schedule and multiple successes on-screen in every genre. Performance in peak-time, where the majority of content investment is concentrated, was strong versus other terrestrial channels and once again improved year-on-year, although daytime continues to present a challenge. The portfolio share for the year was 10.6% (pages 35, 111 and 175), short of the 10.9% achieved in 2014, as growth in Channel 4 was offset by challenges facing all digital channels. E4 was particularly affected, although the declines experienced were smaller than many broadcast competitors. The key ABC1 demographic (page 175) improved in 2015 due to a slate of successful drama and entertainment programmes, although the 16–34 demographic share, which reached its highest point in the past five years in 2014, declined.

After a careful and detailed consideration of performance for 2015, the Committee recommended that, following an exceptional year of commercial performance and a year of impressive creative 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, the Executive team should receive an average of 27% of salary and Executive team Board Members should receive an average of 34% 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 separate Advertising Sales Scheme, linked to advertising revenue and paid bi-annually based on performance. They are not eligible for the Corporate Variable Pay Scheme, with the exception of Executive Member Jonathan Allan whose variable pay comprises a 50:50 split between the Advertising Sales Scheme and the Corporate Variable Pay Scheme.



## Members' remuneration report *continued*

### Variable pay awards to Executive Members

The Committee made the following awards to Executive Members in respect of 2015 performance:

- David Abraham, Jay Hunt and Dan Brooke were each awarded an amount of 34% of year end salary under the Corporate Variable Pay Scheme
- Jonathan Allan was awarded an amount of 34% of the half of his year end salary which is subject to the Corporate Variable Pay Scheme. Jonathan Allan also received £105,000 through the Advertising Sales Scheme

### Taxable benefits

Executive Members are eligible for a range of taxable benefits, which can include a pension allowance and membership of a private medical insurance scheme (which is provided to all staff). 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 and closed to future accrual from 31 December 2015. Further details relating to the defined benefit plan are provided in note 18 to the financial statements.

David Abraham, Jay Hunt and Dan Brooke all received cash payments in lieu of pension benefits. Jonathan Allan is a member of the defined contribution scheme.

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 2015:

	CEO	All staff
Salary and fees	0%	+2.75%
Variable pay	+13%	+33%
<b>Total</b>	<b>+3%</b>	<b>+7%</b>

The Group is 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

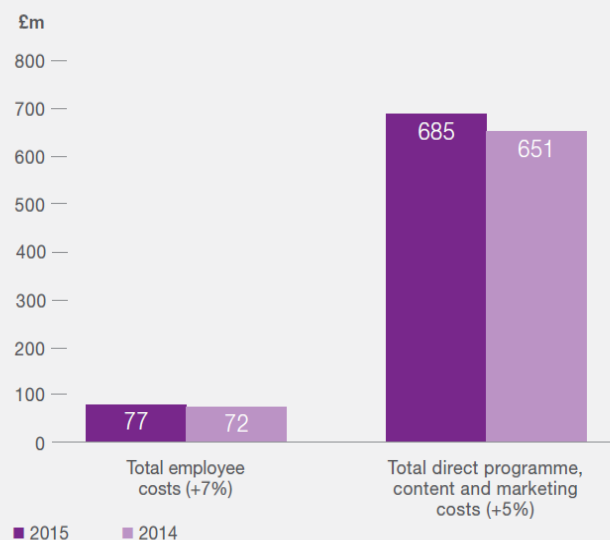
No payments were made for loss of office in 2015 to Executive Members, and at the balance sheet date there were no provisions made for compensation payable for early termination of contracts or loss of office to Executive Members.

### Payment to past Members

No payments were made to past Members in 2015.

### 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 the previous year, employee pay remains approximately 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  
7 April 2016

## Members' remuneration report *continued*

### Remuneration policy for 2016

The remuneration of Executive Members is determined by the Remuneration Committee, the membership and terms of reference of which are detailed on page 132. In framing its remuneration policy, the Committee has given full consideration to the best practice provisions of the UK Corporate Governance Code. There have been no significant changes to the Remuneration Policy for 2016.

#### 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 Chair of the Board and with the Chief Executive for other Executive Members.	Annual salaries from 1 July 2016 are approved as follows:  David Abraham – £568,958 Jay Hunt – £421,012 Jonathan Allan – £359,625 Dan Brooke – £313,388  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 2016 is expected to be £790 per Executive Member.	None.
Pensions		The Corporation currently offers a defined contribution pension scheme for new staff.  Certain Executive Members also receive cash payments in lieu of pension benefits as disclosed on page 133.	The maximum amount contributed by the Corporation under the defined contribution scheme is 13% of pensionable salary.  David Abraham, Jay Hunt and Dan Brooke receive cash payments in lieu of pension benefits.	None.
Variable pay		All of the Executive team participate in the Corporate Variable Pay Scheme. Payout 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.	The Corporate Variable Pay Scheme will pay up to 40% of total gross salary for the Executive team.  The Advertising Sales Scheme is linked to advertising revenue and paid bi-annually throughout the year based on performance.	The Remuneration Committee agreed that the Corporate Variable Pay Scheme for 2016 will remain largely unchanged from 2015 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 134.

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

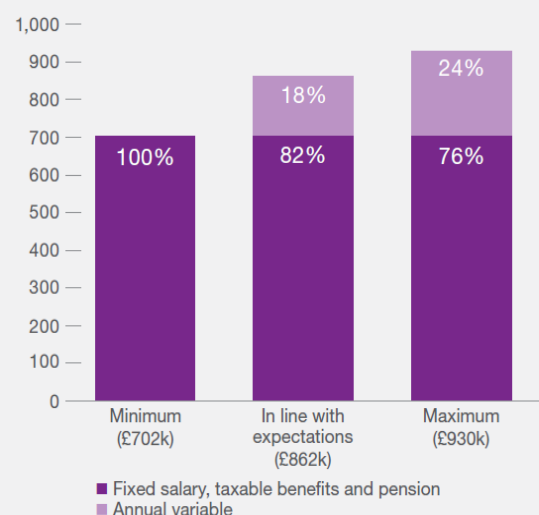
The service contracts of all the Executive Members are subject to notice periods of one year or less. The Committee's policy is to make payments in line with contractual obligations covering payment in lieu of notice including base salary and other benefits.

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.

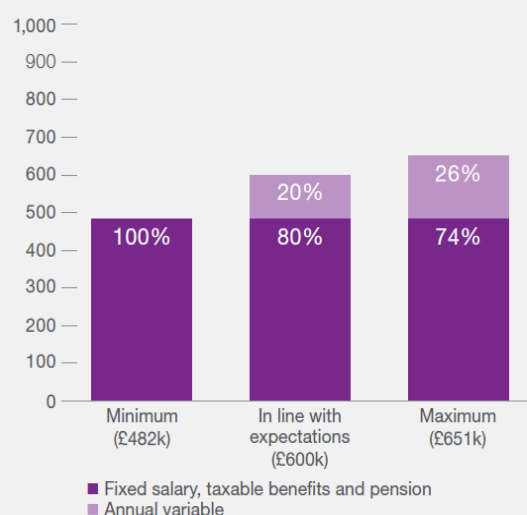
### Illustration of application of remuneration policy

The graphs below represent the variations in the remuneration at different levels of performance for the 2016 remuneration policy for the Executive Members:

#### Chief Executive Officer



#### Chief Creative Officer



#### Director of Sales



#### Chief Marketing and Communications Officer



### Audited information

The Members' Remuneration Report (pages 132 to 137), where indicated, has been audited by the Corporation's auditor in accordance with Schedule 8 of the Companies Act 2006 as if those requirements were to apply to the Corporation.