

Channel 4 is a multi-channel, multi-platform media business with free-to-air and pay TV channels, online and mobile services, a film production and distribution company, a print publisher and an international distribution subsidiary. 4 Ventures is the new holding company for all Channel 4's businesses other than the main channel, 4 Learning and 124 Facilities.

The following pages (30 to 37) contain a report of the activities in 2000 of Channel 4's new media businesses. Segmental analysis of these businesses can be found on pages 49 and 50 in the financial section of this report.

As well as managing Channel 4's existing businesses – the FilmFour and E4 channels, FilmFour Ltd, Channel Four Interactive, Channel Four International and Commercial Development – 4 Ventures will also develop new ones based on Channel 4's core purpose, designed to strengthen and extend the

Channel 4 brand. The company will have its own Managing Director, who will also sit on the Channel 4 Board.

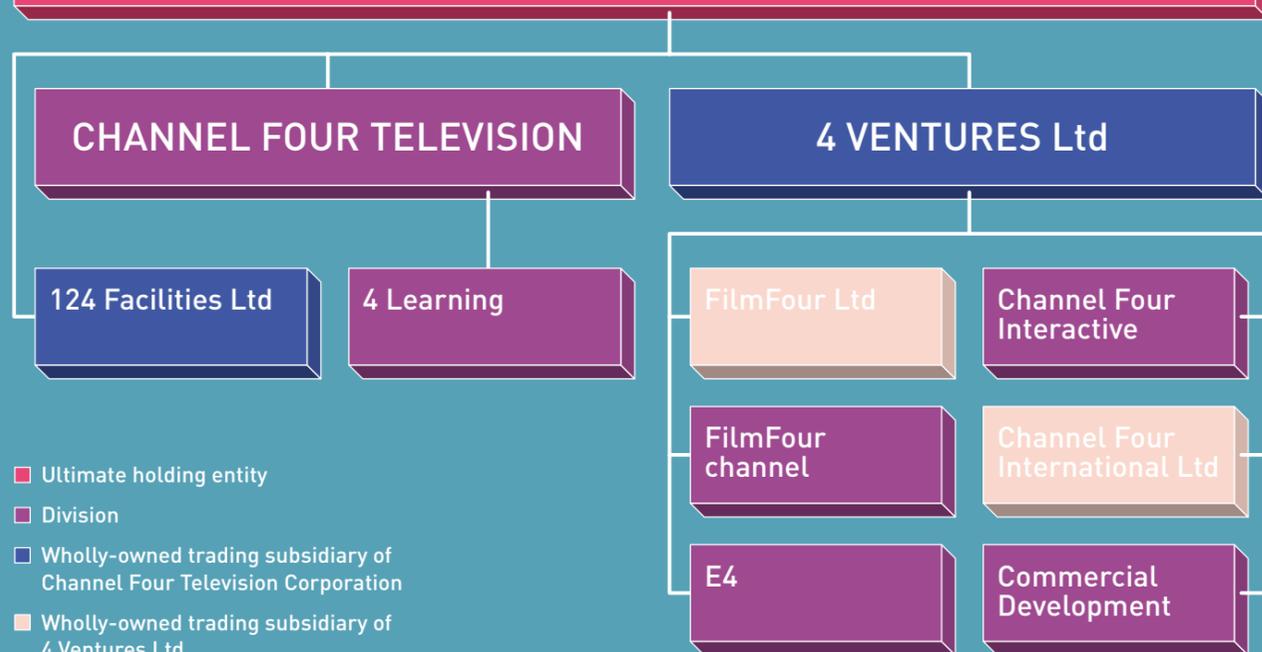
The creation of 4 Ventures is the next stage of Channel 4's strategy to transform from a single television channel into a network of media businesses on a range of platforms. This strategy is parallel to those adopted by the BBC, ITV and BSkyB in response to the rapid spread of digital technology, which is transforming television and opening up new means of distributing content. In a universe of 200 channels, Channel 4 has a declining

future as a single, terrestrial-only network. It must grasp the opportunities presented by digital television, interactivity, broadband and the internet, if the Channel 4 brand is to remain as visible and relevant in the next ten years as it is now.

By consolidating these business activities into one company, they can be managed more aggressively to ensure that targets are surpassed and that they become a net cash contributor to Channel 4, moderating the competitive pressures of the digital era.



CHANNEL FOUR TELEVISION CORPORATION



- Ultimate holding entity
- Division
- Wholly-owned trading subsidiary of Channel Four Television Corporation
- Wholly-owned trading subsidiary of 4 Ventures Ltd

FILMFOUR LTD



Lucky Break

FilmFour Ltd achieved considerable success on the production side of its business in 2000, with 12 feature films and three low budget FilmFour Lab films commencing production, with FilmFour funding £33 million of their production and development spend. Together with external co-finance, this enabled FilmFour to participate in films with total production costs of £102 million.

The production slate in 2000 helped FilmFour deliver on its strategic aim of working with more established and proven film talent and funding bigger budget films of greater ambition. Star names signed to FilmFour's productions in 2000 included Cate Blanchett, Billy Crudup and Gillian Armstrong (**Charlotte Gray**); Peter Cattaneo (**Lucky Break**); Ian Holm (**Emperor's New Clothes**); Andie MacDowell (**Crush**); and Joaquin Phoenix, Ed Harris, Scott Glenn and Anna Paquin (**Buffalo Soldiers**).

The raising of FilmFour's profile has been matched by improved working relationships with overseas partners, who are helping to co-finance and distribute the company's films worldwide. The key development in this respect in 2000 was the establishment of a relationship with US studio Warner Bros, which will be distributing **Charlotte Gray** in North America and with whom FilmFour has formed a partnership for further projects. Universal also picked up many of the rest-of-the-world rights on **Charlotte Gray**, FilmFour's most expensive film to date. FilmFour's long-term output relationship with Senator in Germany continued to work well.

In 2000 FilmFour made further strides towards its goal of achieving worldwide distribution for its films, especially in the most difficult market – the USA. To assist its US production and distribution business the company opened an office in Los Angeles based on the Warner Bros lot. This is expected to contribute significantly in 2001 to finding US partners and in sourcing new projects and finance for films.

FilmFour's UK distribution arm had a difficult year theatrically and despite considerable effort there was no break out hit on a par with 1999. As a result, the company recorded a loss of £3 million in 2000, compared with a profit of £0.5 million in 1999. The real success story in 2000 was in video distribution and DVD rental. FilmFour had a 5.2% share of the video rental market (up from 1.8% in 1999) – its highest ever figure. **East Is East** led the way, heading the weekly charts and becoming the fourth

most frequently rented of all films released in 2000. In the independent titles top 10 for the year, FilmFour had nine titles. FilmFour was awarded the status of Video Distributor of the Year at the 2000 RIVA awards, the first time this award has been given to a non-major.

On the awards front FilmFour garnered nominations and prizes across the world. There were 131 nominations for 24 different films and 33 prizes. Notable results included **Dancer in the Dark**, winning two awards at the Cannes Festival (Best Actress and Best Film) and three at the European Film Awards (Best Actress, Best Director and Best Film). **East Is East** picked up a total of nine awards including Best Film at the Evening Standard Awards and the Alexander Korda award for the year's outstanding British Film at BAFTA. **Red Violin** won an Oscar for best original score.

A major initiative in 2000 was the launch of Spirit Dance UK – a joint venture with Forest Whitaker's US company Spirit Dance. The company's purpose is to develop and make feature films with British ethnic minorities. This partnership, with someone of such stature in the film business, will encourage and develop the talents that undoubtedly lie in the UK's black and Asian communities.

Six low budget feature films were committed to in 2000 mostly through the FilmFour Lab initiative, all of which involved first time directors and some with first time producers. Two of these, **Jump Tomorrow** and **My Brother Tom**, have already been rewarded with selection for the Sundance and Rotterdam festivals in 2001.

Another new talent initiative was launched through the commissioning of 30 one-minute digital short films, made by musicians and artists, as well as by established filmmakers. Artists of the calibre of Michael Stipe and Howie B have contributed and the films premiere on the filmfour.com website.

FILMFOUR





The FilmFour channel continued to grow its subscriber base in 2000 and again ended the year ahead of forecast – with more than 405,000 subscribers – and substantially ahead of budget.

The channel recorded some exceptional viewing figures during the year thanks to its continued strong emphasis on British and non-formulaic films together with a commitment to more challenging and controversial material, foreign language films and shorts. Highlights in 2000 included the television premieres of **Human Traffic** and the award winning FilmFour productions **Elizabeth** and **Hilary and Jackie**, and the month of November devoted to extreme cinema including **Ai No Corrida**, **Driller Killer** and **The Texas Chainsaw Massacre**.

FilmFour was launched in November 1998 with a fully costed business plan that projected a total maximum investment of £66 million and breakeven by 2005. Results to date and latest projections leave Channel 4 confident of meeting these targets, so that the film channel will become a net cash contributor. Losses of £20 million in 1999 reduced

to less than £15 million in 2000, and are forecast to decline to £11 million in 2001 and £7 million in 2002.

FilmFour contributes to the funding of Channel 4's film production business and promotes the take-up of digital television. To this end, more than £15 million of the total £66 million investment will contribute to film production and more than £13 million will contribute to Channel 4's cost of operating its digital terrestrial multiplex.

FilmFour is proving to be one of the most successful channels on the ONdigital platform and, in the move towards digital, in 2000 it ceased analogue transmissions on satellite and Telewest. Channel 4 undertook arrangements with those platform operators for FilmFour channel to be used as a digital only incentive to encourage customers to switch from analogue to digital television.

In April 2001, FilmFour launched three new digital services – a time-shifted version of the existing channel and two themed channels dedicated to extreme and world cinema. These three new FilmFour channels will be provided to subscribers for no additional cost and will be financed within FilmFour's original overall business plan and projections.



At launch E4 was available in 6.5 million homes with distribution on Sky Digital, ONdigital, ntl digital and Telewest's digital and analogue networks.

E4 is provided at no additional cost to basic tier multi-channel subscribers. Part of the basic tier on all digital platforms, E4 will rely as much on advertising as platform subscription fees to pay its way.

Launched on 18 January 2001, E4 required months of collaboration and planning, with departments from across Channel 4 involved in its conception alongside the dedicated pay TV team. The channel burst on air at 8.15 pm with opening links from Ali G and an exciting new programme genre in the form of interactive game show **Banzai**. It scored a remarkable 1.5% share of viewing in multi-channel homes on its first night, topping Sky One with the highest rating programme on a multi-channel service for the day – **Friends** with 628,000 viewers (6% share of viewing in multi-channel homes).

E4 was launched with a business plan that projects maximum total net investment of £80 million (£42 million

of which will be incurred in 2001, reducing to £20 million in 2002 and profitability by 2005). The channel represents a major investment in new talent and entertainment programming, with a programme budget of more than £40 million in its first year and £13 million annual spend on original commissions – a 25% increase in Channel 4's commissioning spend on prime time entertainment. Through E4 commissions in 2001 Channel 4 is also doubling its new entertainment output.

Like FilmFour, E4 is operated as a fully costed, separate business and aims to drive the take-up of digital television in UK homes.

Offering the same, distinctive brand of cutting-edge entertainment pioneered over the last two decades by Channel 4, E4 is the next logical step in Channel 4's cross-platform strategy. It will protect and develop the Channel 4 brand in an

increasingly fragmented and competitive television landscape and reinforce Channel 4's reputation as the home of cutting-edge entertainment and the best new comic talent.



GO RACING



Cheltenham Gold Cup

Channel 4 has pioneered an integrated rights proposal for horseracing – covering terrestrial, pay and interactive television and the internet.

At the start of 2000, in partnership with cable operator ntl, Channel 4 bid against BSkyB for all media rights to the 'Super 12' group of leading racecourses. This Channel 4-led consortium won a period of exclusive negotiation with those 12 courses but that deal could not be concluded because it did not gain acceptance by the whole racing industry.

In November, Channel 4 re-entered the fray as part of the Go Racing consortium alongside former rival BSkyB and racecourse-owner Arena Leisure plc. The joint venture was pitched against Carlton Communications, a late entrant to the bid battle which was waged long and very publicly before the Racecourse Association (RCA) recommended to its 59 members that they enter a period of exclusive negotiation with Go Racing.

At the time of writing this report, Go Racing was in advanced negotiations with the RCA and anticipating issuing a rights contract to Britain's 59 racecourses.

Together with our consortium partners, BSkyB and Arena, Channel 4 aims to build Go Racing into a major business, developing new revenue streams through interactive betting on television and online. In addition to normal annual rights fees for its main channel coverage, Channel 4's proposed financial commitment to Go Racing's funding is £23 million.

Go Racing represents an exciting opportunity to develop Channel 4's longstanding coverage of British racing.

CHANNEL FOUR INTERACTIVE



channel4.com



e4.com



filmfour.com



4car.co.uk

The online highlight of 2000 was the success of the **Big Brother** website, which Channel Four Interactive steered from its inception through innumerable technical and creative challenges. For the nine weeks of the show, the site was Europe's most visited destination, generating more than 200 million page impressions.

Channel 4 also transmitted its first television and web simulcast, with **Show Me the Money** being simultaneously available for viewing on both media. The online trading game associated with the show was a great success for **channel4.com** and proved how interactive platforms can take television viewers into deeper relationships with programming.

Together with E-world, Channel Four Interactive and the Commercial Development department have created a leading destination on the internet for car enthusiasts. The site is focused on providing useful information to consumers purchasing a new or used vehicle and now delivers two million page impressions per month and supports Channel 4's motoring programmes. Offering a blueprint for other online ventures, **4car.co.uk** is operated as a joint venture with E-world, a subsidiary of Ideal World which produces **Driven** and **Deals on Wheels**.

Other notable events last year included the launch of cricket site, **cricket4.com**.

The focus for Channel Four Interactive in 2000 was building a solid foundation for the future. Channel Four Interactive has made a significant investment in the development of a technical platform that will support its operation and launch of businesses in the online, interactive television, broadband and mobile arenas.

2001 is a key year for launching and establishing Channel Four Interactive businesses online. **e4.com** is a standalone entertainment destination. The relaunched **filmfour.com** extends the FilmFour brand online to become a significant film portal. 2001 will see the launch of innovative interactive television content.

Revenue generation for these interactive sites is the top priority for 2001. Exploiting opportunities in advertising, sponsorship, e-commerce (on web, television and mobile platforms), content syndication and pay-per-view will be on Channel Four Interactive's agenda.

In 2000, Channel 4 invested £15 million in its interactive activity. This will rise to £23 million in 2001. Whilst small in relation to its competitors, that expenditure is carefully focused and has delivered significant success and impact.

In a market of considerable dot.com uncertainty, Channel 4's ability to harness terrestrial television to create new cross-platform brands and events will become increasingly important.



4 Play – The Samuel Beckett Season

Channel Four International ended 2000 with a healthy 23% increase in turnover from £19 million in 1999 to £23 million. The profit contribution, after payment of £13 million to Channel 4 and independent producers for the rights sold, was £2 million.



Cinderella

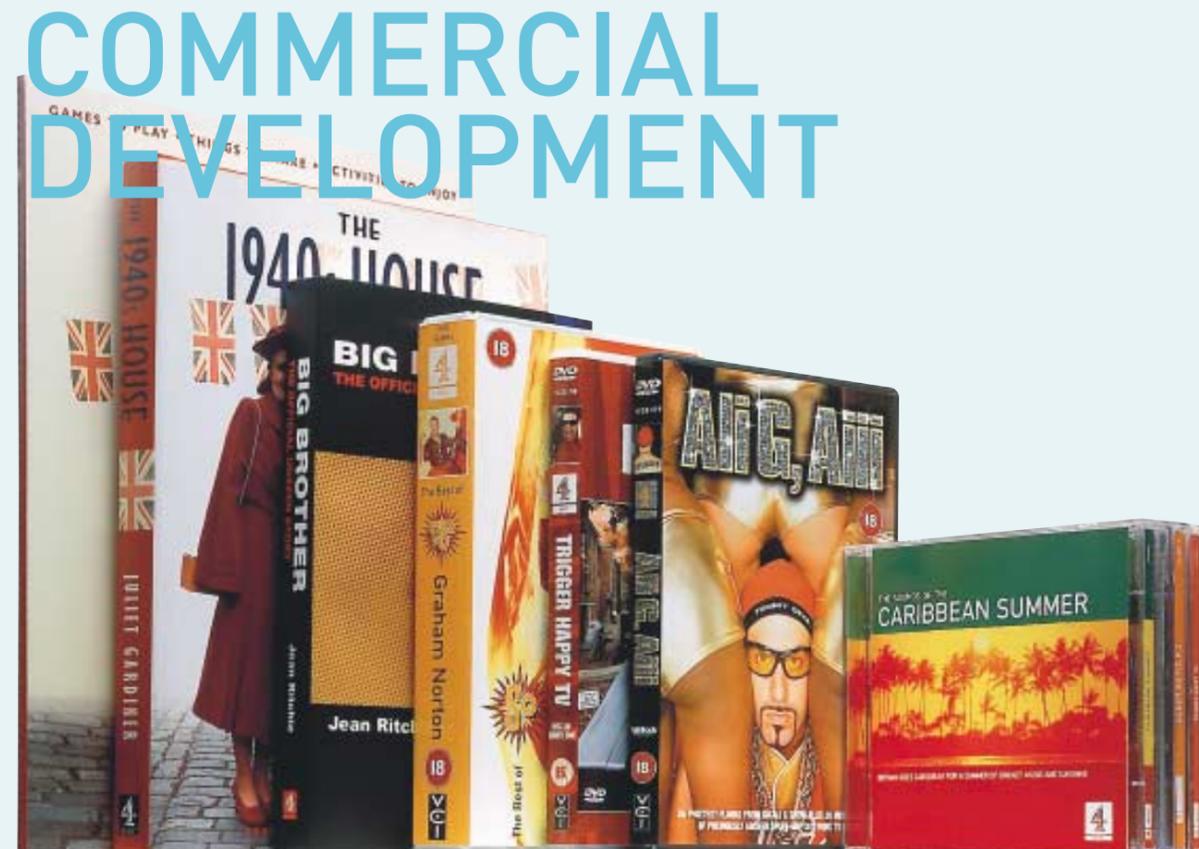
Top selling programmes of the year included the original eight-part series of **Queer as Folk**, which was also remade during 2000 for US cable channel Showtime; **Anna Karenina**; Channel 4 Schools' innovative 90-minute version of **Cinderella**, directed by Beban Kidron and starring Kathleen Turner; and two episodes of **True Bible Stories: Sodom & Gomorrah** and **The Lost Ark of the Covenant**.

Channel Four International also continued to broaden its sales portfolio to include rights to third party programming as well as one-offs, series and serials that have appeared on Channel 4. In 2000, Channel Four International was the international sales agent for several ITV dramas and also represented a strand of biographies for US cable channel, Bravo. The company now has a number of international strategic partnerships with networks and media companies worldwide, including Discovery and A&E, and the company's first

co-production deal with US network NBC.

Channel Four International scored a coup by securing international distribution rights to the 19 plays of Samuel Beckett, which have been produced for television by Irish state broadcaster, RTE, in a major co-production partnership with Channel 4.

In 2000, Channel Four International showed other distributors the way forward in marketing and client relations, by creating and launching a unique website that allows buyers to order screening cassettes and view clips of shows directly from the internet. The company also pioneered an innovative approach to marketing, introducing portable viewing kiosks that travel to international sales markets and can be used to browse the current Channel Four International sales catalogue.



Producing significant hits in all genres across all areas of rights exploitation, Channel 4's Commercial Development department proved itself the partner of choice for independent producers in 2000 and ensured the ubiquity of the Channel 4 brand off air.

Turnover rose significantly to £7.6 million (1999: £2.5 million) and Commercial Development contributed net profit to Channel 4 of £2.2 million (1999: loss of £0.3 million).

Music activities expanded beyond licensing to include the establishment of Channel 4 Music as an independent record label, which sold 377,000 CD units in 2000 achieving income of £1.9 million. The highlight of the year was the release of the **Big Brother** theme which reached number four in the singles charts, selling 193,000 units.

Channel 4 Video enjoyed its best ever year with five major releases – **Ali G Innit** (615,000 units), **Trigger Happy TV** (235,000), **Ali G, Aiii** (261,000), **So Graham Norton** (63,000) and **Queer as Folk 2** (37,000).

Channel 4 Books, an imprint established in 1998 with Macmillan, passed sales of 2.9 million books since launch. The biggest

single publication was the **Big Brother** book, which sold 302,000 copies and gave the imprint its first number one paperback.

In August, Commercial Development set up the Channel 4 shop, to offer viewers the opportunity to buy Channel 4 merchandise both online and by phone. More than 25,000 products have been sold and orders received from more than 19,000 customers.

Commercial Development also manages the provision of premium and non-premium rate telephone services for programmes. Again the most notable success was **Big Brother** with 20 million calls to the vote lines during the series. Programmes as varied as **Test Cricket**, **Collectors Lot** and **The Big Breakfast** all used premium rate telephone numbers to provide competitions, votes and live-to-air services.

