

In 2001, 4 Ventures became fully operational and a significant part of the group's overall activity with a turnover of £156 million. 4 Ventures has an essential and integral role in carrying Channel 4's values and audiences into the multi-platform, multi-channel future. Its ten businesses are all intended to complement and enhance Channel 4's position, raising the profile of the brand in multi-channel and digital homes and reinforcing its reputation as a broadcaster which is ahead of the field in developing new ideas, new services and new ways of extending the enjoyment of its viewers.

By drawing into a single unit all Channel 4's services and businesses outside the core television channel, 4 Ventures is able to drive greater operational efficiencies, identify new sources of strategic funding and develop a broader range of joint venture partners. Despite the uncertainties of the latter part of the year, 4 Ventures exceeded its targets – convincing testimony to the value of the strategy and the quality of the people who have implemented it.

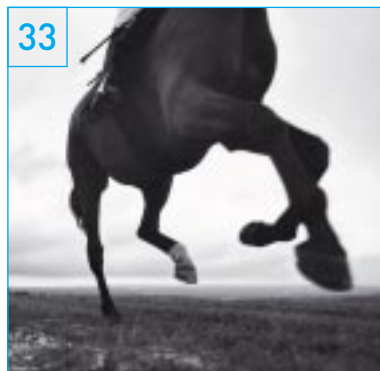
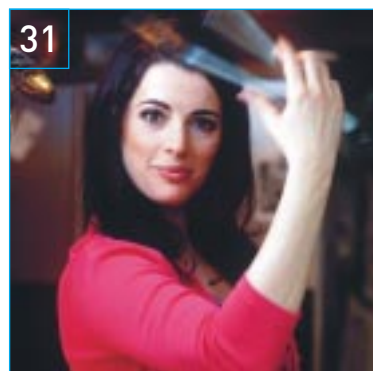
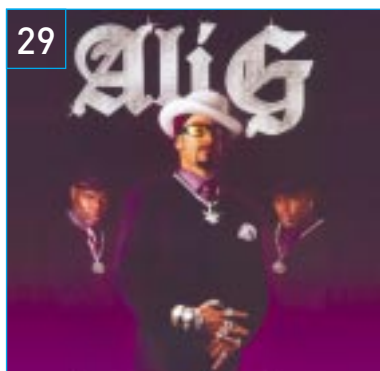
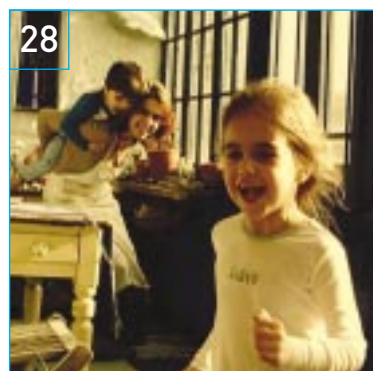
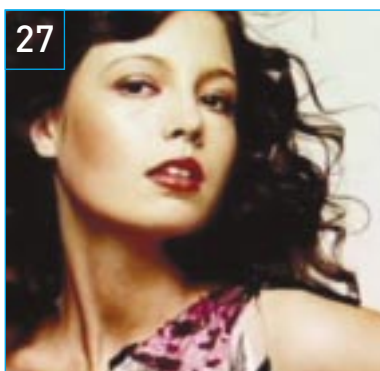
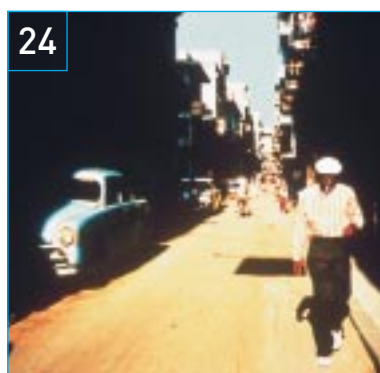
In its Annual Performance Review for 2000, the ITC commented: 'The ITC supports the channel's move into new services... if successful they will strengthen the core channel, add value to viewers and build assets for the future'. The 4 Ventures businesses show every sign of fulfilling all three of those ambitions.

New procedures have been developed during the year to ensure clarity and transparency in the financial relationship between each of the businesses and Channel 4. Investment by Channel 4 in the 4 Ventures businesses peaked in 2001 at 9% of group turnover. In 2002 this will decline to 5% and is not intended to rise significantly thereafter.

'Just like the BBC, Channel 4 must grow into new territories to stay strong. Failure to launch new services as the diversity of digital media grows would be catastrophic for an organisation focused on the young.'

Financial Times, November 2001

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4 VENTURES

FILMFOUR



Buena Vista Social Club

The FilmFour channels performed strongly, expanding from a single service to four and increasing subscription revenue by 36%. They remain on budget and on target to break even in 2005.

FilmFour +1, FilmFour World and FilmFour Extreme launched on Sky Digital in April 2001 and on ntl digital in November. These new services are available at no extra cost to all existing digital platforms, demonstrating that creative use of digital bandwidth, good programming and better value for money wins new subscribers and helps retain existing ones.

FilmFour +1 is a one hour delayed timeshifted transmission of FilmFour. The new themed services, FilmFour World and FilmFour Extreme, increase choice for subscribers and reinforce Channel 4's strong reputation for foreign language cinema and controversial programming. FilmFour World (the only dedicated foreign language film channel in the English-speaking world)

screened over 120 different titles in 2001 including highlights such as Krzysztof Kieslowski's **Three Colours** trilogy and a Cuba Day, featuring FilmFour's **Buena Vista Social Club**.

FilmFour Extreme continues to break many traditional boundaries with screenings of the director's cut of **Natural Born Killers** and the first uncut transmission of **Salo** and **The Evil Dead**.

These new services have enhanced the profile and reputation of the core FilmFour channel which, in 2001, saw UK television premieres of **The War Zone**, **The Limey**, **East is East** and **Gregory's Two Girls**. Stanley Kubrick's **A Clockwork Orange** was screened for the first time on subscription television.



Banzai

Despite the volatility of the advertising market, E4 finished the year well ahead of its business plan. This had projected a first year investment by Channel 4 of £42 million, declining to £20 million in 2002 and tapering away until E4 becomes cash-positive in 2005 – a total investment of £80 million. In fact E4's final result was £4 million better than budget in 2001.

Launched in January 2001, E4 quickly established itself as the third most watched digital entertainment channel in Britain amongst adults, behind Sky One and UK Gold, and the second equal most watched amongst 16 to 34 year olds. It achieved its target audience share of 0.8% of all adult viewing in multi-channel homes. During **Big Brother** E4 became the most watched digital entertainment channel amongst adults, averaging a 3.5% viewing share amongst adults in digital homes, with a 5.5% share amongst 16 to 34 year olds – higher than BBC2, Channel 5 or Sky One.

By the end of the year E4 was available as part of the basic tier packages to nine million multi-channel subscribers, on all platforms. With a distinctive Channel 4 feel of cutting edge entertainment, it was designed to reinforce Channel 4's presence in the competitive television landscape, to sustain Channel 4's share of viewing in digital homes, to allow greater scope for new entertainment talent, and, ultimately, to generate revenue for Channel 4.

Its first year has been, in every respect, a success. As well as exceeding its own audience targets it has, remarkably, helped raise the main Channel 4 audience share in multi-channel and digital homes. With a third of its programme budget devoted to original work, such as **Banzai**, E4 was able to commission 19 original productions, six of which subsequently aired on the main channel.



The Numbercrew

4 Learning continued to provide an award winning schools service with series such as **The Numbercrew** and, in 2001, co-commissioned the internationally acclaimed series of films of Samuel Beckett's plays. Many of its most innovative services are not on television at all – during the year 4 Learning launched 90 websites and published 20 information booklets. About 12 hours of Channel 4's output each week are accompanied by support material – in print, online or through call-lines.

Real Teachers, launched in 2001, is a website offering advice to teachers on lesson plans and teaching materials, including the chance to see successful teachers at work in their classrooms by streaming video to the website. Other new sites included **Health House**, with practical information on health issues which has proved particularly popular with young men – a group notoriously reluctant to address personal health issues. **Real Deal** and **Brilliant Careers**

aim to help young adults into the world of work with advice on career opportunities and starting up in business.

Homework High, Channel 4's award winning homework site, continued to provide millions of young people with highly valued and much acclaimed study support. Building on this success, 4 Learning led a partnership which won the £7 million government contract to devise and run **Gridclub**, a national curriculum related website for 7 to 11 year olds. In October, it won the BAFTA award for best educational website of the year.

On television there were 125 episodes of **The Hoobs**, Channel 4's original new series for 3 to 5 year olds, while at the other end of the school age-range, **The A-Z of Love and Sex** and **Looking after the Penneys** gave young people frank advice on how to deal responsibly with sex and money.

modelbehaviour

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Model Behaviour

channel4.com continued to go from strength to strength in 2001, ranking amongst the UK's top five entertainment sites, a considerable achievement in a brutally competitive market. Once again **Big Brother** was the most visited site in Europe. These two sites achieved more than 307 million page impressions. Other notable sites included **Kumbh Mela**, built for the Hindu religious festival in India, **Model Behaviour**, an online league table for prospective models, and **YR.1**, a nationwide photography competition.

During 2001 the channel launched **filmfour.com**, which quickly became the UK's leading film site and **e4.com**, a cutting edge, broadband entertainment site. Both sites bring added value – and new audiences – to the FilmFour and E4 television channels.

The year saw Channel 4's first steps into interactive television with **Big Brother** and the spoof Japanese gambling show **Banzai**.

Big Brother on Sky Digital allowed five million viewers to vote during the **Big Brother** show using their remote controls, proof of a huge public appetite for interactivity. With its significant potential for revenue generation and viewer enjoyment, interactive television has been identified as an area for further development in 2002.

In 2002 the group has amalgamated all its online assets on a single **channel4.com** 'supersite', making it possible to develop a higher profile and greater impact with consumers and advertisers alike. Experiments will continue with WAP technology, the SMS text-based products behind **T4**, **Test Cricket**, **FilmFour** and **Big Brother** having proved the effectiveness of this medium for revenue generation.



Channel 4 cinema ad

4 Creative was launched in October 2000 to focus Channel 4's marketing and creative expertise for projects falling outside regular programme and channel promotions.

4 Creative offers a versatile resource combining on and off screen design, production, advertising, marketing and publishing talent. It is intended to fill a substantial gap in the market by being able to draw on its unique broadcast perspective and experience in producing creative content for print, screen and the web. It runs as an independent business, competing for work both within and beyond Channel 4.

In its first year it has secured a wide range of work, including sponsorship credits, title sequences, advertising campaigns, on and off-air design work and magazine publishing.

Over 200 projects were undertaken, including the BTCellnet sponsorship credits for **Big Brother 2**, the launch advertising campaign for attheraces.co.uk, and cinema advertisements for both FilmFour and Channel 4.

With a target of breaking even in 2001, 4 Creative in fact returned a small net profit to the group on a turnover of £2.2 million. In several areas it has brought further significant cost savings to Channel 4 by reducing dependency on external agencies.

The strategy for 2002 is to consolidate its relationship with potential brand partners and pursue new external business more energetically so as to return a more substantial net profit to the group.



Ali G DVD and video

2001 was another highly successful year for 4 Ventures' Consumer Products division, which is responsible for Channel 4's books, videos, music and merchandising. After allowing for all costs, Consumer Products was able to return a net profit to the group of £2.4 million on a turnover of £9.2 million.

The Video and DVD business had a good year with a new release from Ali G (**Ali G Bling Bling**), the second series of **Trigger Happy TV**, and the signing of David Blaine to Channel 4 Video.

Since its launch in 1998, Channel 4 Books has become a respected force in the television tie-in retail book market. Highlights in book publishing included **Big Brother**, which sold over 100,000 copies, and **The 1940s House** which sold 40,000.

The success of **Trigger Happy TV** merchandise demonstrated business potential beyond the children's sector and the division will look to generate new, innovative franchises in 2002.

Trigger Happy TV was also the music publishing highlight of the year with the original soundtrack albums from the show's two series selling over 100,000 copies between them.

FILMFOUR



Sexy Beast

2001 was a year in which FilmFour Ltd did not manage to find a breakout film. It invested £31 million in production and development and participated in films with a total production value of £112 million.

This reflected a strategy for more ambitious, bigger budget productions, including Robin Williams and Edward Norton in Danny DeVito's **Death to Smoochy**, Robert Carlyle and Kathy Burke in Shane Meadow's **Once Upon a Time in the Midlands** and **Buffalo Soldiers** with Joaquin Phoenix and Ed Harris. An important joint acquisition agreement with Pathe will allow the two companies to share costs for larger budget titles in the future.

FilmFour's newly established Los Angeles office continued to develop relationships with US talent and partners. **Sexy Beast** was a critically acclaimed hit in America. FilmFour International secured American sales on all its 2001 slate, including

multi-territory deals for **The Warrior** with Miramax and **The Emperor's New Clothes** with Paramount Classics. The launch of **Charlotte Gray**, the first film made through FilmFour's co-production alliance with Warners, leads the way for the ten major US releases planned for 2002.

At home, FilmFour dominated the British Independent Film Awards scooping a record eight awards, with **Sexy Beast** winning in four categories including Best Film.

FilmFour Lab continued to identify and support new creative talent, including Penny Woolcock's **The Principles of Lust**, and Simon Pummell's **BodySong**, a groundbreaking cross-media project celebrating the story of the human life cycle. The FilmFour Lab announced the launch of the FilmFour Orange Short Film Prize, a major collaboration to discover new and vibrant voices for film in the UK.



Nigella Bites

Channel 4 International performed exceptionally well in 2001 increasing turnover by 11% to £25 million. Business was generated from every part of Channel 4's catalogue, underlining the breadth and quality of the programming on offer.

The epic drama **Shackleton**, a co-production with the US and Australia, sold to the major European markets and Japan, while the range of factual programming was demonstrated by such diverse successes as **Nigella Bites**, **Extinct**, **The Six Wives of Henry VIII** and **Cannibal**.

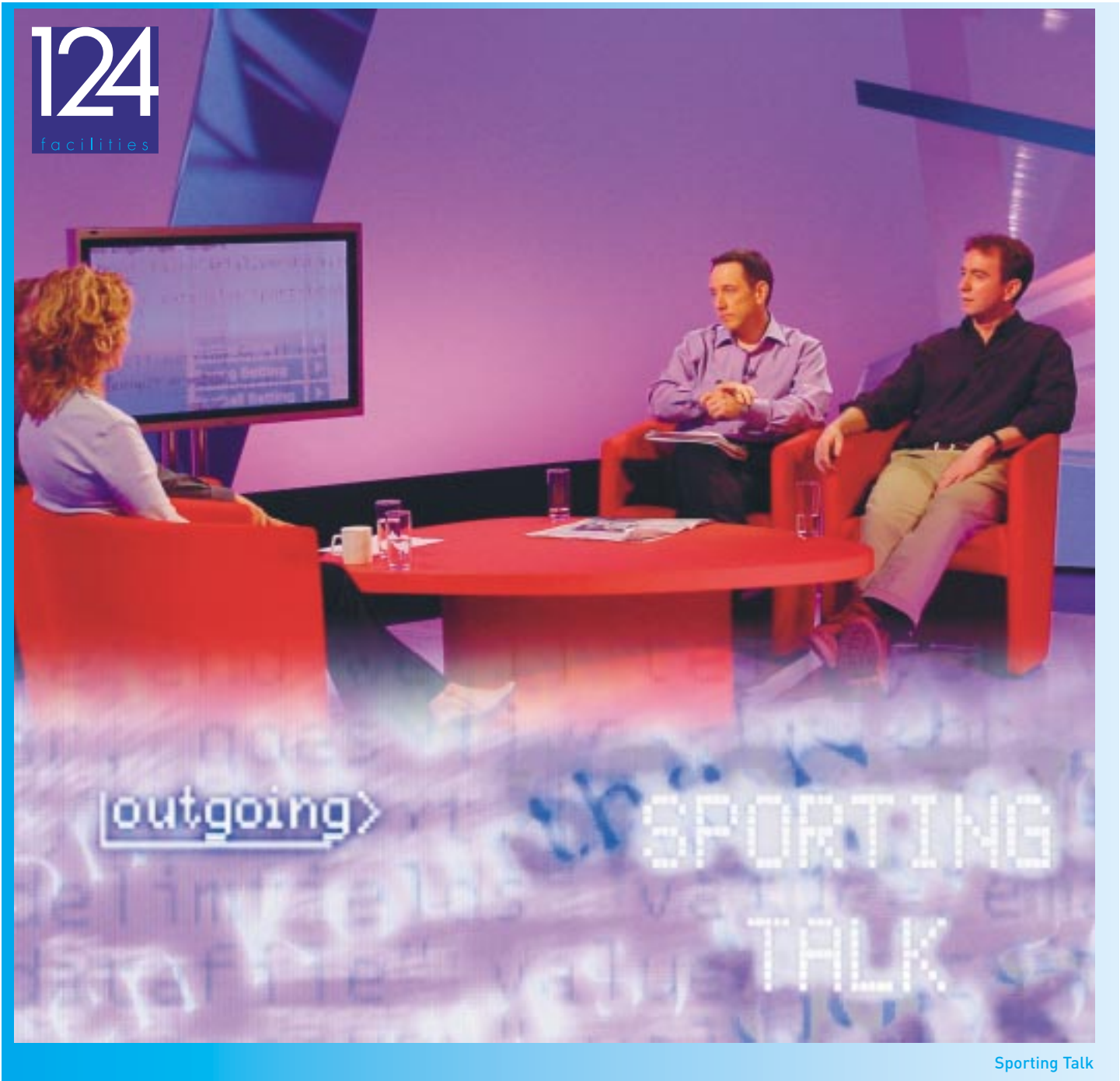
In the United States, **So Graham Norton**, transmitting on BBC America, won a prestigious Emmy Award and **Nigella Bites** became an instant hit for Entertainment Networks.

Elsewhere in the US, Showtime followed up the success of the first series of their version of **Queer as Folk** with a second

series. **Lost** premiered on the US network NBC and the Warner Brothers Network commissioned a US version of the Channel 4 hit **A Young Person's Guide to Becoming a Rockstar**.

2001 also saw the first multi-platform co-production between the US Public Broadcasting Service and Channel 4 with the expedition to locate and film the wrecks of **HMS Hood** and the German battleship **Bismarck**. This proved to be a major event for both broadcasters, on-screen and online.

With the co-production market becoming ever more complex, Channel 4 International's ability to generate co-finance was greatly enhanced through partnerships with the US Public Broadcasting Service; The Discovery Channel; National Geographic Channel; The History Channel; ABC Australia; and ZDF in Germany.



Sporting Talk

Channel 4's studio and post production house, 124 Facilities, was integrated into 4 Ventures in January 2002 offering programme makers a wide range of editing and studio facilities. In 2001, 124 increased turnover to £4.4 million and made a small profit.

Since being established in 1996, 124 has consistently responded to client needs and kept pace with new technologies. In the last two years 124 invested over £1.8 million in new equipment to establish one of the most state-of-the-art editing and studio facilities available in the UK.

This investment has included Quantel's EditboxFx high-end graphics/editing/compositing system for spectacular digital effects, used on many Channel 4 promotions and titles for programmes such as **Sporting Talk**. 124 has also installed the group's first network of Avid non linear editing systems,

to link together 124, 4 Creative, FilmFour and E4 with a large media server managed by 124.

During 2001 124 redesigned and upgraded the equipment in all its edit suites including the purchase of two new Kalypso production centres for its high-end digital tape suites and became the first studio in the UK to install the new Calrec Alpha 100 digital sound mixer.

The strategy for 2002 is to continue supporting internal clients and to actively pursue new clients using its rebuilt suites and offering the combination of cutting edge technology with creative expertise.



attheraces.co.uk



attheraces is a joint venture involving Arena Leisure, BSkyB and Channel 4 which builds on Channel 4's long-established reputation as the best racing service on television. In June 2001, the consortium successfully acquired comprehensive broadcast rights from 49 British racecourses for ten years with the aim of revolutionising coverage and promotion of British horseracing through a variety of global media platforms including television, interactive TV, the web, print and mobile phone services.

attheraces expects to be able to tap into an off-course betting market worth £7 billion per annum in the UK and a worldwide racing betting market worth ten times that amount.

The **attheraces** channel will launch in the summer of 2002. It will be part of the basic tier of digital television pay services and will complement Channel 4's existing racing coverage **The Morning Line** and **Channel 4 Racing**. It will allow viewers to use their TV handsets to place interactive bets on British horseracing

and give them access to a dedicated information service, combined with unique live footage and audio feeds of races. The **attheraces.co.uk** website, launched in December 2001, has already been hailed as a technological revolution in racing coverage. It will complement the television coverage by offering current betting information and a full video archive.

attheraces allows the group to further develop its expertise in innovative cross-platform services and interactivity. It will give viewers a radically better and more comprehensive experience while saving significantly on some of the costs incurred in delivering the existing broadcast service. 4 Ventures' cash investment in 2001 was £2.2 million. 4 Ventures' maximum cash investment is capped at £23 million over the life of the project.