

Operating and financial review

for the year ended 31 December

Group

Turnover

Group turnover for 2002 increased by 4% to £763 million (2001: £731 million). Channel 4's 2002 advertising and sponsorship revenue increased year on year by 4% to £646 million (2001: £619 million) and represented 85% of group turnover (2001: 85%). 4 Ventures businesses contributed the remaining 15% of group turnover.

Profit

Group profit before tax and restructuring costs for the year was £33 million, reversing the group loss in 2001 of £27 million. The year's results can be summarised as follows:

	2002 £m	2001 £m
Profit/(loss) before tax and restructuring costs		
Channel 4	80.2	37.9
4 Ventures (excluding FilmFour Ltd)	(27.6)	(58.7)
FilmFour Ltd	(17.5)	(5.4)
Net interest payable	(2.5)	(0.1)
Group consolidation adjustments	0.1	(0.4)
Group profit/(loss) before tax and restructuring costs	32.7	(26.7)
Restructuring costs:		
Channel 4	(5.0)	(1.5)
FilmFour Ltd	(11.2)	-
Tax (charge)/credit	(6.3)	7.6
Group profit/(loss) after tax and restructuring costs	10.2	(20.6)

Channel 4

Profit

Channel 4's operating profit before interest, tax and restructuring costs more than doubled year on year to reach £80 million (2001: £38 million). The key contributing factors can be summarised as follows:

	£m	£m
Channel 4 profit before interest, tax and restructuring costs for 2001		37.9
Increase in advertising and sponsorship		26.5
Increased investment in programmes and other content		(3.1)
Cost reductions:		
Indirect programme costs	7.4	
Sales and marketing	5.0	
Administrative expenses	9.0	
Additional DTT costs, following closure of ITV digital	(2.4)	
Other movements	(0.1)	
		(2.5)
Channel 4 profit before interest, tax and restructuring costs for 2002		80.2

Programmes and the ITC licence

Channel 4 increased expenditure on programmes and other content by £3 million to reach its highest amount ever at £435 million (2001: £432 million).

We met all our ITC licence obligations. The percentage of hours of originated programmes was 67% overall, (target 60%) and 78% in peak hours (target 70%). In peak, 85% of our hours were first run (target 80%), and we met our 60% target for first run programming in all hours. We also achieved the target of 30% (£102 million) of Channel 4's originated programming being supplied by production companies from outside the M25.

Cost reduction

Channel 4 continued to reduce costs following the progress made in 2000 and 2001. In October 2001 we planned a £21 million year on year reduction in overhead costs for 2002. That was achieved. Significant reductions were made in building renovation and information systems costs. Salary savings were achieved across all departments as a result of the headcount reductions at the end of 2001. Further group headcount reductions were identified in the final quarter of 2002 leading to the closure of 149 posts. By the end of 2003, overhead costs will be one-third lower than they were in 2000.

4 Ventures

The operating profits/(losses) of the constituent parts of 4 Ventures were as follows:

	2002 £m	2001 £m
4 Channels		
E4	(16.0)	(37.3)
FilmFour channels	(6.7)	(11.1)
4 Interactive	(3.7)	(13.7)
attheraces	(9.9)	(3.9)
4 Rights	10.9	8.3
4 Learning	0.1	(1.8)
4 Services	0.2	0.4
4 Ventures	(2.2)	(0.5)
4 Ventures consolidation adjustments	(0.3)	0.9
4 Ventures excluding FilmFour Ltd	(27.6)	(58.7)
FilmFour Ltd		
Operating loss	(17.5)	(5.4)
Restructuring costs	(11.2)	-
4 Ventures including FilmFour Ltd	(56.3)	(64.1)

FilmFour Ltd

The decision was taken during the year to restructure FilmFour Ltd and transfer the group's future film financing activities into Channel 4. Existing obligations of FilmFour Ltd will continue to be met by that company. The total loss for the year was £28.7 million, £11.2 million of which has been treated as exceptional.

Turnover

The turnover for 4 Ventures' ongoing businesses before consolidation adjustments increased year on year by 20% to £126 million (2001: £105 million).

Performance

The 4 Ventures ongoing businesses delivered a 53% improvement in performance in the year with group losses reduced to £28 million (2001: £59 million), representing 3.6% of Channel 4 group turnover.

This improved performance has been delivered by the growth in turnover referred to above and cost reductions across 4 Ventures businesses and is after a £6 million planned increase in investment in the start up joint venture, attheraces. The key contributing factors can be summarised as follows:

	£m
4 Ventures ongoing businesses 2001 loss	(58.7)
4 Channels	
E4	21.3
FilmFour channels	4.4
4 Interactive	10.0
attheraces	(6.0)
General improved trading activity across other businesses	1.4
4 Ventures ongoing businesses 2002 loss	(27.6)

All new ventures remain on track against their business plans. Current projections indicate losses in 4 Ventures existing businesses will fall to below 2% of Channel 4 group turnover in 2003.

4 Channels

E4 and FilmFour channels, and 4 Interactive, in the 4 Channels division of 4 Ventures, delivered a strong performance for the year – increasing turnover by 33% to £62 million (2001: £46 million), and reducing losses by 57% to £26 million (2001: £62 million).

Channel 4 group has been more successful than any of its commercial terrestrial rivals at launching new digital channels.

E4

In its second year from launch, E4 reduced its loss by £21 million to £16 million. It doubled its 16-34 year old share of viewing in multi-channel homes to 2.8% and helped to grow the combined viewing for Channel 4 and E4 in multi-channel homes by 12% to reach 8.6% for 2002 (2001: 7.7%). The strength of E4's 2002 audience share delivered advertising sales and sponsorship up 79%. E4 remains on course to break even as planned in 2005.

FilmFour channels

The collapse of ITV digital in March 2002 had an adverse impact on the FilmFour channels planned subscriber growth. However, by strategic telemarketing of the service on alternative digital platforms, the resultant fall in turnover year on year was contained at 7%, reaching £12 million in 2002 (2001: £13 million). Cost savings enabled the FilmFour channels to reverse the impact of this reduction in turnover and report a 40% improvement in performance, reducing the loss for 2002 to £7 million (2001: £11 million).

4 Interactive

4 Interactive continued to progress the group's cross platform strategy with the notable success of *Big Brother 3* helping to deliver a fourfold increase in turnover to reach £7 million in 2002 (2001: £2 million). Savings in both website development and hosting costs enabled 4 Interactive to achieve a 73% improvement in performance reducing its loss to £4 million for 2002 (2001: £14 million).

attheraces

4 Ventures jointly owns, with its partners Arena Leisure and BSkyB, the business of attheraces. In May 2002 attheraces successfully launched its digital television channel and continued the rollout of interactive betting. This planned development of the attheraces business meant that 4 Ventures share of its joint venture's loss increased by £6 million to reach £10 million in 2002 (2001: £4 million).

Group foreign currency, cash and treasury management

Details of the group's foreign currency, cash and treasury matters are disclosed in note 16 on pages 56 to 58. The group's treasury management policies and strategies operated throughout the year, and the year-end position reflects those policies and strategies. Further details of the accounting policy for financial instruments is set out on page 42.

Group taxation

The group is subject to corporation tax on its profits. The group profit recorded for 2002 has given rise to a £6.3 million tax charge (2001: £7.6 million tax credit). The group effective tax rate increased this year to 38% (2001: 27%), compared to the standard UK corporation rate of 30%. This increase is because not all of the group's share of the attheraces joint venture losses may be offset against group profits.

Report of the members

The members present their report and the audited financial statements for the year ended 31 December 2002.

Principal activities

Channel Four Television Corporation

Channel Four Television Corporation (the Corporation) is a statutory corporation, without shareholders, established under the terms of the Broadcasting Act 1990. The Corporation encompasses Channel 4 and its principal subsidiary 4 Ventures Ltd (4 Ventures).

Channel 4

Channel 4 is a public service broadcaster funded solely from commercial revenues which it earns. Channel 4 receives free spectrum in return for fulfilling public service obligations as set out in the 1990 and 1996 Broadcasting Acts and the ITC licence.

On 1 January 1993 the ITC issued a broadcasting licence under the terms of the 1990 Act for Channel 4 to broadcast for the ten calendar years 1993 to 2002. That licence was amended by the ITC, with revised programme requirements published in February 1998, details of which are summarised on page 71 of this report.

Channel 4's licence was renewed by the ITC on 1 January 2003 for the ten calendar years 2003 to 2012.

4 Ventures

The Corporation's wholly owned subsidiary, 4 Ventures, has four divisions – 4 Channels, 4 Rights, 4 Learning and 4 Services – which operate commercial activities which are incidental and conducive to the operation of Channel 4.

Business review

The Chairman's statement on page 2, the Chief Executive's report on page 5 and the operating and financial review on pages 34 and 35 form part of this report and provide information on the development of the group's activities during the year and the outlook for the future. The group's results are set out on pages 39 to 62.

Members

The members of the Board have full responsibility and discretion for deciding and operating the group's policies and for the conduct of the group's affairs.

The present members of the Corporation are listed on page 67. Since 1 January 2002, the following members have been appointed or retired:

Appointment

Mark Thompson

Retirements

Millie Banerjee

David Brook

Date of appointment

4 March 2002

Date of retirement

25 September 2002

16 October 2002

Details of members' remuneration are contained within the report on members' remuneration on pages 68 and 69.

Members' interests

The Corporation fully embraces the principles of good corporate governance and, to this end, makes full disclosure of all members' interests, irrespective of the materiality those interests may have to the group or to the members concerned.

During 2002 four members, in addition to their fees as disclosed on page 68, were interested in the following contracts negotiated at arm's length on normal commercial terms with the group:

- Peter Bazalgette is Chairman of Endemol UK Ltd and a director of Zeppotron Ltd, Victoria Real Ltd and Brighter Pictures Ltd. £18.1 million of the group's expenditure in 2002 related to programmes provided by these companies. These programmes included *Big Brother 3*, *Celebrity Big Brother 2*, *Pet Rescue*, *Chained 2* and *Diet Tips for Girls*. Peter Bazalgette played no part in the decisions to commission these programmes.
- Ian Ritchie is a director of Epic Group plc which received a total of £468,000 for website design and build services.
- Barry Cox's company, Mapledene TV Productions Ltd, received £14,100 for consultancy services.
- Channel 4 acquired 8% of Indigo Holidays Ltd in September 2001 as part of an advertising airtime trading deal. During the year airtime with a value of £1.1 million was supplied to the company but was fully provided for as at 31 December 2002. Additionally, Channel 4 exercised its right to appoint Andy Barnes to the Indigo Holidays Ltd board.

Employment policy

The Corporation is an equal opportunities employer and does not discriminate on grounds of sex, sexual orientation, marital status, race, colour, ethnic origin, disability, age or political or religious belief in its recruitment or other employment policies. The ethos of the group both for job applicants and staff is that everyone matters.

The Corporation has established an ethnic monitoring system for its recruitment and the ethnic composition of its staff. The representation of ethnic minorities amongst its permanent staff in 2002 was 10% (2001: 9%). Women continue to form the majority of its staff at 54% (2001: 55%).

The group encourages applications from people with disabilities. The policy is to recruit, train and provide career development opportunities to disabled people, whether registered as such or not, on the same basis as that of other staff. In the event of an employee becoming disabled, every effort is made to ensure that his or her employment with the group continues.

Employee involvement and consultation

The quality, commitment and effectiveness of the group's staff are crucial to its continued success. The Corporation has continued to invest significantly in its staff through training and development.

The Corporation has been accredited with the Investors In People standard since 2001.

The group informs and consults with its employees through:

- an internal intranet information service available to all members of staff.
- meetings hosted by executive members during which staff are briefed on recent developments and strategic plans.
- regular departmental meetings during which information is disseminated and staff have an opportunity to air their views.
- recognition of trade unions. A minority of the group's employees are in membership of one of two recognised trade unions, BECTU or Equity.

Research and development

The group devotes substantial resources to the development of scripts and treatments for possible commissioning. Programme development expenditure charged to the profit and loss account in 2002 amounted to £7.1 million (2001: £7.8 million).

Charitable donations

During 2002 the group donated £5,464 to charities (2001: £1 million).

Channel 4 website

In keeping with our strategy to connect with viewers across all platforms, the Corporation has published this report on its website, *channel4.com*

Euro

The Board does not at this stage foresee any significant cost or impact on the operations of the group were the UK to introduce the euro.

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 10 February 2003 and the members appointed its successor, PricewaterhouseCoopers LLP, as auditors with the approval of the Secretary of State for Culture, Media and Sport in accordance with the requirements of paragraph 12(2) of schedule 3 of the Broadcasting Act 1990.

PricewaterhouseCoopers LLP have expressed their willingness to continue in office.

Going concern

Based on normal business planning and control procedures, the members have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the members continue to adopt the going concern basis in preparing the financial statements.

By Order of the Board:

Mark Thompson

Chief Executive
7 April 2003



Report of the auditors

Independent auditors' report to the members of Channel Four Television Corporation (the Corporation)

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the report on members' remuneration ('the auditable part').

Respective responsibilities of members and auditors

The members' responsibilities for preparing the annual report, the report on members' remuneration and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of members' responsibilities.

Our responsibility is to audit the financial statements and the auditable part of the report on members' remuneration in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Corporation's members as a body in accordance with the Broadcasting Act 1990 and direction thereunder by the Secretary of State and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the report on members' remuneration have been properly prepared in accordance with the Broadcasting Act 1990 and direction thereunder by the Secretary of State. We also report to you if, in our opinion, the report of the members is not consistent with the financial statements, if the Corporation has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding members' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the report of the members, the unaudited part of the report on members' remuneration, the Chairman's statement, the Chief Executive's report, the operating and financial review and the corporate governance statement.

We review whether the corporate governance statement reflects the Corporation's compliance with the seven provisions of the Combined Code specified for our review relevant to a statutory corporation, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Corporation's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the report on members' remuneration. It also includes an assessment of the significant estimates and judgements made by the members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Corporation's circumstances, consistently applied and adequately disclosed.

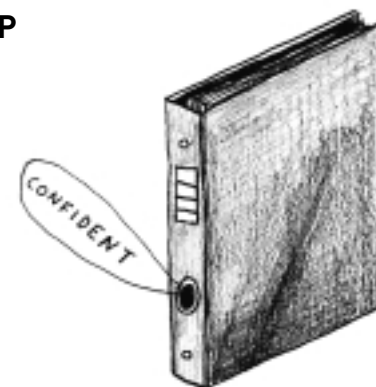
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the report on members' remuneration are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Corporation and the group at 31 December 2002 and of the profit and cash flows of the group for the year then ended, the financial statements have been properly prepared in accordance with the Broadcasting Act 1990 and direction made thereunder by the Secretary of State and those parts of the report on members' remuneration required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

Chartered Accountants and
Registered Auditors
London
7 April 2003



Consolidated profit and loss account for the year ended 31 December

	Note	2002 £m	2001 £m
Total turnover (including share of joint venture)	1	769.5	734.0
Less share of joint venture's turnover	9	(6.8)	(3.3)
Group turnover		762.7	730.7
Cost of transmissions and sales			
recurring	2	(683.2)	(709.6)
exceptional	4	(14.5)	–
Gross profit		65.0	21.1
Administrative expenses			
recurring		(23.3)	(33.4)
exceptional	4	(1.7)	(1.5)
Depreciation	10	(11.1)	(10.4)
Group operating profit/(loss)		28.9	(24.2)
Share of joint venture's operating loss	9	(9.9)	(3.9)
Total operating profit/(loss)	1 and 3	19.0	(28.1)
Net interest payable	6	(2.5)	(0.1)
Profit/(loss) on ordinary activities before taxation		16.5	(28.2)
Taxation	7	(6.3)	7.6
Profit/(loss) for the financial year	17	10.2	(20.6)

There is no material difference between the results reported above and their historical cost equivalents.

Statement of total recognised gains and losses for the year ended 31 December

	Note	2002 £m	2001 £m
Profit/(loss) for the financial year	17	10.2	(20.6)
Unrealised deficit on revaluation of buildings	10 and 17	(8.3)	(7.5)
Total recognised gains/(losses) for the year		1.9	(28.1)

The notes on pages 42 to 62 form part of these financial statements.

Balance sheets

as at 31 December

	Note	Group 2002 £m	Group 2001 £m	Channel 4 2002 £m	Channel 4 2001 £m
Fixed assets					
Tangible assets	10	75.2	92.1	75.2	92.1
Current assets					
Stock and work in progress	11	189.9	220.9	138.9	153.6
Debtors	12	119.1	126.6	176.8	193.2
Cash at bank and in hand	16c	70.7	53.6	70.8	53.8
		379.7	401.1	386.5	400.6
Creditors – amounts falling due within one year	13	(135.8)	(179.6)	(87.5)	(134.1)
Net current assets		243.9	221.5	299.0	266.5
Total assets less current liabilities		319.1	313.6	374.2	358.6
Creditors – amounts falling due after more than one year	16d	(0.5)	(1.4)	(0.5)	(1.4)
Interest in net liabilities of joint venture					
Share of gross assets		17.3	7.1	–	–
Share of gross liabilities		(30.1)	(11.0)	–	–
Share of net liabilities	9	(12.8)	(3.9)	–	–
Loans to joint venture		12.5	2.2	–	–
	9	(0.3)	(1.7)	–	–
Provisions for liabilities and charges	14	(10.0)	(4.1)	(6.9)	(4.1)
Net assets		308.3	306.4	366.8	353.1
Profit and loss account					
Statutory reserve	17	222.9	212.2	281.4	258.9
Revaluation reserve	17	84.8	84.8	84.8	84.8
	17	0.6	9.4	0.6	9.4
		308.3	306.4	366.8	353.1

The financial statements on pages 39 to 62 were approved by the Board of members on 7 April 2003 and were signed on its behalf by:

Vanni Treves
Chairman

Janet Walker
Director of Finance and Business Affairs

The notes on pages 42 to 62 form part of these financial statements.

Consolidated cashflow statement

for the year ended 31 December

	Note	2002 £m	2002 £m	2001 £m	2001 £m
Net cash inflow/(outflow) from operating activities	15		81.9		(25.1)
Returns on investments and servicing of finance					
Interest received	6	0.4		1.0	
Interest paid	6	(2.5)		(1.0)	
Interest element of finance lease rentals	6	(0.1)		(0.1)	
			(2.2)		(0.1)
Taxation					
UK corporation tax paid		(2.5)		(7.7)	
Overseas tax paid	7	(0.6)		(0.7)	
			(3.1)		(8.4)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets	10	(3.1)		(10.7)	
Receipts from sales of tangible fixed assets		0.6		1.2	
Loans made to joint venture	9	(10.3)		(2.2)	
			(12.8)		(11.7)
Net cash inflow/(outflow) before financing			63.8		(45.3)
Financing					
Capital element of finance lease payments			(1.3)		(0.6)
(Decrease)/increase in borrowings	15		(45.4)		50.0
Increase in cash in the year			17.1		4.1

The notes on pages 42 to 62 form part of these financial statements.



Principal accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of freehold properties. The financial statements have been prepared in a form as directed by the Secretary of State for Culture, Media and Sport with the approval of the Treasury and meet the requirements, in so far as they are applicable, of the Companies Act 1985 and UK accounting standards.

Accounting policies

A summary of the more important group accounting policies is set out below. These policies have been applied consistently.

Basis of consolidation

The consolidated financial statements comprise the financial statements for the Corporation and all of its subsidiary undertakings, joint ventures and associates made up to 31 December 2002.

Revenue recognition

Advertising revenue is recognised on transmission of the advertisement and is stated net of advertising agency commission and value added tax.

Revenue from the sale of film and television rights is recognised on the later of signature of the contract, delivery of the relevant rights and the start of the licence period.

Subscription fee revenue earned in relation to digital and pay television services is recognised over the period of the subscription.

Revenue from sponsors of the group's programmes and films is recognised in line with the transmission schedule for each sponsorship campaign.

Deferred tax

Deferred tax liabilities are recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Deferred tax assets are recognised only to the extent that it is probable that there will be sufficient future taxable profits against which the deferred tax asset may be offset.

Deferred tax is recognised on revalued freehold property only where a binding contract to sell the asset had been entered into and the group does not intend to roll over any gain realised.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted, or substantively

enacted, by the balance sheet date. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

Foreign currencies and financial instruments

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates prevailing at the balance sheet date or the contracted rate where the underlying exposure has been hedged using a forward exchange contract. Any resultant gain or loss on exchange is shown as part of the results for the year.

The group buys and sells programmes and films in the international markets and leases satellite transponder capacity and is a net purchaser of both US dollars and euros. Exposure to fluctuations in exchange rates are managed by transactions in the forward foreign exchange markets. The group does not hold or issue derivative financial instruments for speculative purposes. Changes in the fair value of derivative financial instruments are not recognised in the financial statements until these hedged transactions mature.

Stock and work in progress

Stocks are valued at the lower of cost or net realisable value.

Broadcast programme and film rights are stated at direct cost incurred up to the balance sheet date after making provision for expenditure on programmes which are unlikely to be transmitted or sold. Direct cost is defined as payments made or due to programme suppliers.

Broadcast research and development expenditure, consisting of funds spent on projects prior to a final decision being made on whether a programme will be commissioned, is included in broadcast programme and film rights but is fully provided for. Where research and development expenditure leads to the commissioning of a programme, such expenditure is transferred to programme content and the provision is released.

The cost of broadcast programme and film rights is wholly written off on first transmission.

Developed film rights are stated at direct cost incurred up to the balance sheet date. Provision is made for any excess over the value of the film held in stock and the revenues the film is anticipated to earn. The main assumptions employed to estimate future revenues are minimum guaranteed contracted revenues and sales forecasts by territory.

Film rights are amortised in the profit and loss account in the proportion that the revenue bears in the year to the estimated ultimate revenue after provision for any anticipated shortfall.

Fixed assets

Freehold land and buildings are stated at open market valuation and are revalued at 31 December each year.

Other fixed assets are stated at cost less depreciation.

Depreciation is calculated so as to write off the cost or valuation of the asset evenly, on a straight line basis, over its estimated useful life from the date of its first utilisation. Useful lives are estimated taking into account the rate of technological change and the intensity of use of each asset. Freehold land is not depreciated. The annual rates used for this purpose are as follows:

Freehold buildings	2%
Computer hardware	25%-50%
Office equipment and fixtures and fittings	25%
Technical equipment	20%-25%

Any fixed assets held under finance leases are depreciated over the period of the lease.

Pensions

The group maintains a defined benefit pension scheme. Pension costs are charged against profits each year so as to spread the expected cost of pensions over the employees' working lives with the group.

The group has complied with the transitional arrangements of Financial Reporting Standard ('FRS') 17 'Retirement benefits'.

Fixed asset investments

Fixed asset investments are stated at cost, less any provision for impairment.

Joint ventures

Investments in which the group has an interest, and which are jointly controlled by the group and one or more other parties, are treated as joint ventures and are accounted for using the gross equity method.

Leases

Assets held under finance leases and other similar contracts are treated as tangible fixed assets and depreciation is charged accordingly. The capital elements of future obligations are recorded as liabilities. Interest is charged to the profit and loss account over the period of the lease in proportion to the capital outstanding.

All other leases are treated as operating leases. The rental costs arising from operating leases are charged to the profit and loss account in the year in which they are incurred.

Notes to the financial statements

1 Segmental analysis

Analysis of turnover, operating profit and net assets by activity:

	Turnover		Operating profit/(loss)		Net assets/(liabilities)	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
Channel 4						
Before restructuring costs	647.2	621.2	80.2	37.9	371.8	354.6
Restructuring costs	-	-	(5.0)	(1.5)	(5.0)	(1.5)
	647.2	621.2	75.2	36.4	366.8	353.1
4 Ventures						
4 Channels						
E4	42.5	31.3	(16.0)	(37.3)	(38.0)	(27.9)
FilmFour channels	12.4	13.4	(6.7)	(11.1)	(12.6)	(8.4)
4 Interactive	6.9	1.7	(3.7)	(13.7)	(12.6)	(10.3)
attheraces*	6.8	3.3	(9.9)	(3.9)	(12.8)	(3.9)
4 Rights	36.9	34.5	10.9	8.3	21.4	14.0
4 Learning**	20.9	22.3	0.1	(1.8)	0.1	-
4 Services**	6.4	6.6	0.2	0.4	0.1	(0.2)
4 Ventures	-	-	(2.2)	(0.5)	(2.3)	(0.3)
4 Ventures consolidation adjustments	(7.2)	(8.3)	(0.3)	0.9	(1.0)	(0.6)
4 Ventures (excluding FilmFour Ltd)	125.6	104.8	(27.6)	(58.7)	(57.7)	(37.6)
FilmFour Ltd						
Before restructuring costs	33.2	43.1	(17.5)	(5.4)	12.3	(6.8)
Restructuring costs	-	-	(11.2)	-	(11.2)	-
	33.2	43.1	(28.7)	(5.4)	1.1	(6.8)
4 Ventures consolidated business	158.8	147.9	(56.3)	(64.1)	(56.6)	(44.4)
Group consolidation adjustments	(36.5)	(35.1)	0.1	(0.4)	(1.9)	(2.3)
Group	769.5	734.0	19.0	(28.1)	308.3	306.4

*Only the group's share of the attheraces joint venture is included.

**On 1 January 2002 4 Ventures Ltd became the operating company for 4 Learning and 4 Creative (part of 4 Services). The cumulative profits or losses of these businesses, up to the date of transfer, were retained within the reserves of the Corporation.

2 Cost of transmissions and sales

	Programme and other content £m	Transmitter and regulatory costs		Indirect programme costs £m	Cost of sales £m	Cost of marketing £m	Total £m
		Analogue £m	Digital £m				
2002							
Channel 4	434.7	24.6	14.1	31.8	19.3	16.7	541.2
4 Ventures							
4 Channels	51.9	-	5.9	9.9	5.8	13.4	86.9
4 Rights	3.9	-	-	-	19.0	0.5	23.4
4 Learning	13.2	-	-	-	5.7	1.0	19.9
4 Services	-	-	-	-	6.2	-	6.2
FilmFour Ltd	69.0	-	5.9	9.9	36.7	14.9	136.4
4 Ventures consolidation adjustments	29.2	-	-	-	12.1	7.7	49.0
	(6.0)	-	-	-	(1.0)	-	(7.0)
4 Ventures consolidated business	92.2	-	5.9	9.9	47.8	22.6	178.4
Group consolidation adjustments	(25.2)	-	-	(0.4)	(10.8)	-	(36.4)
Group	501.7	24.6	20.0	41.3	56.3	39.3	683.2
2001							
Channel 4	431.6	25.1	12.1	39.2	19.5	21.5	549.0
4 Ventures							
4 Channels	64.3	0.4	7.8	12.1	3.5	17.6	105.7
4 Rights	3.7	-	-	-	18.9	0.7	23.3
4 Learning	17.7	-	-	-	5.1	1.0	23.8
4 Services	-	-	-	-	6.2	-	6.2
4 Ventures	-	-	-	0.2	-	-	0.2
FilmFour Ltd	85.7	0.4	7.8	12.3	33.7	19.3	159.2
4 Ventures consolidation adjustments	24.8	-	-	-	14.9	6.6	46.3
	(7.2)	-	-	-	(0.9)	-	(8.1)
4 Ventures consolidated business	103.3	0.4	7.8	12.3	47.7	25.9	197.4
Group consolidation adjustments	(25.8)	-	-	(2.0)	(7.2)	(1.8)	(36.8)
Group	509.1	25.5	19.9	49.5	60.0	45.6	709.6



Notes to the financial statements continued

3 Operating profit

Operating profit is stated after charging/(crediting):

	2002 £m	2001 £m
Depreciation of fixed assets (note 10)		
– owned	10.6	10.1
– held under finance leases	0.5	0.3
	11.1	10.4
Research and development	7.1	7.8
Training	3.9	4.2
Members' remuneration (page 68)	2.9	2.2
Equipment hire	0.3	0.3
Other operating lease rentals	2.6	2.8
Exchange losses	0.7	0.3
Profit on disposal of fixed assets	–	(0.5)
Restructuring costs (note 4)	16.2	1.5

In accordance with the exemption available under section 230 of the Companies Act 1985 the Corporation has not presented its own profit and loss account. Of the retained profit after tax of £10.2 million (2001: loss after tax of £20.6 million) recorded in the consolidated profit and loss account for the year, a profit of £22.0 million (2001: £27.4 million) results from the Corporation's accounts.

Fees in respect of services provided by the auditors were:

	2002 £000	2001 £000
Statutory audit:		
Channel 4	41	40
Subsidiaries	30	30
Non-audit fees for other services:		
Taxation services	18	32
Other services	74	282
	163	384

4 Restructuring costs

In the final quarter of 2001, the group planned reductions in operating costs of £21 million for 2002 and closed 83 staff posts. This gave rise to £1.5 million of exceptional costs before operating profit.

In October 2002 the decision was taken to restructure FilmFour Ltd and transfer the group's future film financing activities, which are an ITC licence condition, into Channel 4. Exceptional costs of £11.2 million were incurred from film provisions and 53 staff redundancies as a result of this restructuring.

In the final quarter of 2002 the group implemented a restructuring to achieve further cost reductions. This restructuring resulted in the closure of 149 staff posts and £5 million of exceptional costs before operating profit.

These exceptional restructuring costs have been charged in the profit and loss account as follows:

	2002 £m	2001 £m
Cost of transmissions and sales	14.5	–
Administrative expenses	1.7	1.5
	16.2	1.5

5 Employee information

A detailed analysis of members' remuneration, including salaries and performance-related bonuses, is provided in the report on members' remuneration on page 68.

The aggregate gross salaries of all employees, including members, were as follows:

	2002 £m	2001 £m
Aggregate gross salaries	48.1	45.4
Employer's national insurance contributions	4.2	4.3
Employer's pension contributions (note 19)	6.0	5.8
Total direct costs of employment	58.3	55.5

The aggregate gross salaries in the table above includes bonuses (mainly advertising sales) of £3.4 million in 2002 (2001: £0.9 million).

The average number of employees, including executive members, was as follows:

	2002 Number	2001 Number
Channel 4		
Programme commissioning	192	228
Transmission and engineering	122	130
Advertising and sponsorship sales and research	117	116
Information systems	76	81
Finance, human resources and facilities management	74	82
Corporate affairs and press office	43	42
Marketing and creative services	29	31
Corporate and strategy	13	14
	666	724
4 Ventures		
4 Channels		
E4	60	50
FilmFour channels	42	53
4 Interactive	50	57
4 Rights	38	38
4 Learning	49	52
4 Services	42	45
4 Ventures	8	1
FilmFour Ltd	42	61
	331	357
Group total	997	1,081
Permanent employees	964	1,034
Contract staff	33	47
	997	1,081
Male	456	488
Female	541	593
	997	1,081

Notes to the financial statements continued

5 Employee information continued

Travel, subsistence and hospitality expenditure was as follows:

	2002 £000	2001 £000
Members	177	225
Other employees:		
Channel 4	1,335	1,711
4 Ventures	756	1,299
	2,268	3,235

Staff loans outstanding at 31 December were as follows:

	2002 £000	2001 £000
Season ticket loans	94	135

There were no loans to members.

6 Net interest payable

	2002 £m	2001 £m
Interest receivable on short-term deposits	0.4	1.0
Interest payable on bank loans and overdrafts	(2.8)	(1.0)
Interest element of finance lease rentals	(0.1)	(0.1)
Net interest payable	(2.5)	(0.1)



7 Tax on profit on ordinary activities

The taxation charge/(credit) is based on the taxable profit for the year and comprises:

	2002 £m	2001 £m
Current tax:		
UK corporation tax at 30%	7.7	0.4
Less relief for overseas taxation	(0.6)	(0.4)
Overseas taxation	0.6	0.7
Adjustment in respect of prior years	0.3	(0.4)
Share of joint venture's tax credit	(1.0)	–
	7.0	0.3
Deferred tax: origination and reversal of timing differences		
Current year	1.4	(3.6)
Prior year	(2.1)	(4.3)
Tax on profit/(loss) on ordinary activities	6.3	(7.6)

Factors affecting the tax charge/(credit) for the year

The tax rate for the year is higher (lower) than the standard UK 30% rate of corporation tax.

The differences are explained below:

	2002 £m	2001 £m
Profit/(loss) on ordinary activities before tax	16.5	(28.2)
Profit/(loss) on ordinary activities multiplied by the standard UK 30% rate of corporation tax	4.9	(8.4)
Effects of:		
Expenses not deductible for tax purposes	1.2	1.2
Share of joint venture's losses	2.0	1.2
Capital allowances in excess of depreciation	(0.4)	3.5
Release of short-term timing differences	(1.0)	0.1
Deferred tax asset not recognised for tax losses carried forward	–	2.8
Adjustments to tax charge in respect of previous periods	0.3	(0.4)
Overseas taxation	–	0.3
Current tax charge for the year	7.0	0.3

Notes to the financial statements continued

8 Fixed asset investments

The cost of fixed asset investments at 31 December was:

	2002 Channel 4 £000	2001 Channel 4 £000
Subsidiary companies	1	2
Associated company	1	1
	2	3

Subsidiary undertakings

The Corporation owns, directly or indirectly, the whole of the issued share capital of the following companies, each of which is incorporated in England:

	Issued ordinary £1 shares
Trading	
4 Ventures Ltd	1,000
Channel Four International Ltd	1,000
FilmFour Ltd	1,000
Dormant	
124 Facilities Ltd	1,000
Channel Four Learning Ltd	1,000
E4 Television Ltd	1,000
E4.com Ltd	1,000
Four Ventures Ltd	1,000
Channel Four Television Company Ltd	100
Film on Four Ltd	100
Channel Four Racing Ltd	2
Sport on Four Ltd	2

Associated company

Digital 3 and 4 Ltd

Channel 4 holds 1,000 A class ordinary £1 shares in Digital 3 and 4 Ltd, representing 50% of the share capital. ITV Network Ltd owns the other 50%. Digital 3 and 4 Ltd, incorporated in England, has been granted a licence by the ITC to operate the Channel 3 and Channel 4 digital terrestrial multiplex. At 31 December 2002, Channel 4's share of the net assets of Digital 3 and 4 Ltd amounted to £1,000. The company acts as an agent for its shareholders.

9 Joint venture

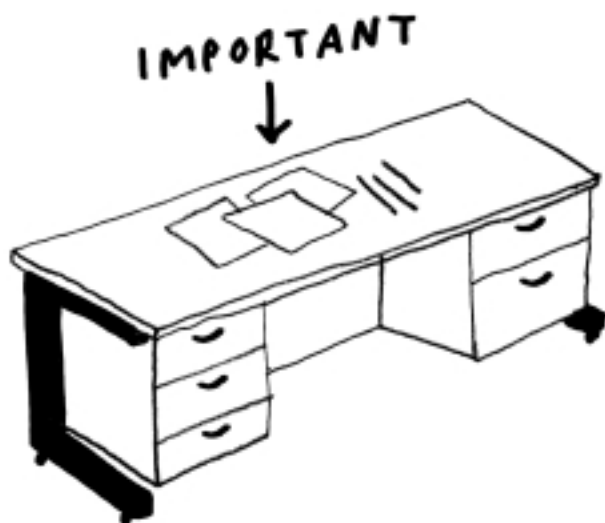
Attheraces Holdings Ltd

4 Ventures Ltd holds 1,000 Ordinary £1 shares representing 33.3% of the issued share capital in Attheraces Holdings Ltd, a company incorporated in England. Attheraces Holdings Ltd acquired exclusive television and audio rights to 49 major British racecourses for ten years from July 2001. This company launched a website, *attheraces.co.uk* in December 2001 and a digital television channel in May 2002. 4 Ventures financial commitment to this company is capped at £23.3 million (of which £12.5 million had been advanced at 31 December 2002). The group's share of Attheraces Holdings Ltd net liabilities, net of loans advanced, is:

	2002 Group £m	2001 Group £m
At 1 January	(1.7)	–
Loans advanced	10.3	2.2
Share of joint venture's operating loss	(9.9)	(3.9)
Share of joint venture's tax credit	1.0	–
At 31 December	(0.3)	(1.7)

The following information is given in respect of the group's share of Attheraces Holdings Ltd:

	2002 £m	2001 £m
Turnover	6.8	3.3
Loss before tax	(9.9)	(3.9)
Taxation	1.0	–
Loss after tax	(8.9)	(3.9)
Fixed assets	1.6	0.1
Current assets	15.7	7.0
Current liabilities	(5.3)	(2.5)
Liabilities due after more than one year	(24.8)	(8.5)
Net liabilities	(12.8)	(3.9)



Notes to the financial statements continued

10 Tangible fixed assets

Group and Channel 4	Freehold properties £m	Equipment and furniture £m	Total £m
Cost or valuation			
At 1 January 2002	66.9	75.6	142.5
Additions	–	3.1	3.1
Disposals	(0.6)	(2.6)	(3.2)
Revaluation	(9.2)	–	(9.2)
At 31 December 2002	57.1	76.1	133.2
Depreciation			
At 1 January 2002	0.2	50.2	50.4
Charge for the year	0.9	10.2	11.1
Disposals	–	(2.6)	(2.6)
Revaluation	(0.9)	–	(0.9)
At 31 December 2002	0.2	57.8	58.0
Net book value			
At 1 January 2002	66.7	25.4	92.1
At 31 December 2002	56.9	18.3	75.2

Included in equipment and furniture are assets held under finance leases with a net book value of £1.5 million (2001: £2.0 million).

Valuation of freehold properties

The net book value of freehold properties shown at cost or valuation comprises:

	2002 £m	2001 £m
At valuation	56.7	66.0
At cost	0.2	0.7
	56.9	66.7

The freehold property, comprising the office, studio and transmission centre at 124 Horseferry Road, London SW1, was valued as at 31 December 2002, by external valuers Fuller Peiser Property Consultants, in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors. The property was valued on the basis of open market value. The open market value for this property was £53.0 million.

The freehold property at 76 Charlotte Street was sold in March 2003 for £3.7 million. The property has been revalued to that amount at 31 December 2002 to reflect the open market valuation of the property at that date. The sale included associated assets which realised a further £0.4 million.

The net reduction in valuation of £8.3 million in the year (2001: £7.5 million) has been taken through the revaluation reserve (note 17).

If freehold properties had not been revalued they would have been included in the financial statements at the following amounts:

	2002 £m	2001 £m
Cost	66.5	67.0
Accumulated depreciation	(10.2)	(9.2)
Net book value based on cost	56.3	57.8

11 Stock and work in progress

	2002 Group £m	2001 Group £m	2002 Channel 4 £m	2001 Channel 4 £m
Programmes and films completed but not transmitted	97.4	104.9	67.6	72.0
Acquired programme and film rights	39.3	44.9	27.1	29.4
Programmes and films in the course of production	53.2	71.1	44.2	52.2
	189.9	220.9	138.9	153.6

Due to the uncertainty of programme scheduling, certain programme and film rights may not be realised within one year.

12 Debtors

	2002 Group £m	2001 Group £m	2002 Channel 4 £m	2001 Channel 4 £m
Trade debtors	92.0	100.5	73.5	71.2
Amounts due from subsidiaries	–	–	81.5	104.7
Prepayments and accrued income	22.7	22.1	15.4	13.6
Corporation tax	–	0.3	2.4	0.2
Deferred tax	4.4	3.7	4.0	3.5
	119.1	126.6	176.8	193.2

Amounts due from subsidiaries are unsecured and interest free.

A deferred tax asset has been recognised as follows:

Group	Decelerated capital allowances £m	Other short-term timing differences £m	Total £m	
At 1 January 2002		3.5	0.2	3.7
Credited to the profit and loss account		0.6	0.1	0.7
At 31 December 2002	4.1	0.3	4.4	
Channel 4				
At 1 January 2002		3.4	0.1	3.5
Credited/(charged) to the profit and loss account		0.6	(0.1)	0.5
At 31 December 2002	4.0	–	4.0	

This deferred tax asset will be recovered against Channel 4's future taxable profits.

A further deferred tax asset of £1.3 million (2001: £2.8 million) has not been recognised. This asset includes £1.1 million relating to tax losses carried forward in 4 Ventures Ltd and £0.2 million in respect of capital losses carried forward in Channel 4 at 31 December 2002.

No provision has been made for deferred tax on gains recognised on revaluing property to its market value, because this gain could be covered by the group's capital losses. The total amount unprovided for is £0.2 million (2001: £2.8 million).

Notes to the financial statements continued

13 Creditors – amounts falling due within one year

	2002 Group £m	2001 Group £m	2002 Channel 4 £m	2001 Channel 4 £m
Bank loans (note 16)	–	50.0	–	50.0
Bank overdraft (note 16)	4.6	–	4.6	–
Trade creditors	5.6	8.6	5.5	8.2
Obligations under finance leases	0.8	1.2	0.8	1.2
Corporation tax	1.8	–	–	–
National insurance	0.1	1.4	0.1	1.2
Other creditors	6.0	2.4	4.9	0.5
Accruals	103.9	106.8	59.7	65.5
VAT	13.0	9.2	11.9	7.5
	135.8	179.6	87.5	134.1

The group supports the Better Payment Practice Code, copies of which can be obtained from the Better Payment Practice Group Orderline, Admail 528, London SW1W 8YT.

The group endeavours to pay all invoices in accordance with contract terms and, unless agreed payment terms specify otherwise, within 30 days of the date of the invoice. Any complaints about failure to pay on time should be addressed to the Director of Finance and Business Affairs, who will ensure that they are investigated and responded to appropriately.

The average number of days to pay suppliers of services other than programmes in 2002 was 28 (2001: 29). Programme suppliers are generally paid more quickly as Channel 4's cash advances are usually required more promptly to meet production needs.

14 Provisions for liabilities and charges

Group and Channel 4	Channel 4		FilmFour Ltd		Group
	Rental deficits £m	Restructuring costs £m	Total £m	Restructuring costs £m	Total £m
At 1 January 2002	3.3	0.8	4.1	–	4.1
(Credited)/charged to the profit and loss account	(0.6)	5.0	4.4	11.2	15.6
Utilised in the year	(0.2)	(1.4)	(1.6)	(8.1)	(9.7)
At 31 December 2002	2.5	4.4	6.9	3.1	10.0

Provision for rental deficits

The provision relates to rental deficits on two buildings which Channel 4 no longer occupies in Charlotte Street, London W1. The provision represents the future net rental commitments to the end of the current leases in 2006 and 2014, based on current market conditions.

Restructuring costs

This relates to the restructuring described in note 4. The Channel 4 provision is for redundancy payments. The FilmFour Ltd provision is for redundancy payments, film provisions and professional fees.

15 Cashflow

Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities

	2002 £m	2001 £m
Operating profit/(loss)	28.9	(24.2)
Depreciation	11.1	10.4
Decrease/(increase) in stock and work in progress	31.0	(1.6)
Decrease/(increase) in debtors	7.9	(33.2)
Increase in creditors and provisions	3.0	24.0
Profit on disposal of fixed assets	-	(0.5)
Net cash inflow/(outflow) from operating activities	81.9	(25.1)

Reconciliation of net cashflow to movement in net funds

	2002 £m	2001 £m
Increase in cash for the year	17.1	4.1
Cash outflow/(inflow) from decrease/(increase) in debt	45.4	(50.0)
New finance leases	-	(3.2)
Capital element of finance lease payments	1.3	0.6
Increase/(decrease) in net funds	63.8	(48.5)
Net funds at 1 January	1.0	49.5
Net funds at 31 December	64.8	1.0

Analysis of changes in net funds

	1 January 2002 £m	Cashflow 2002 £m	Other movements 2002 £m	31 December 2002 £m
Cash at bank and in hand	53.6	17.1	-	70.7
Debt due within one year	(50.0)	45.4	-	(4.6)
Finance leases due within one year	(1.2)	-	0.4	(0.8)
Finance leases due after one year	(1.4)	-	0.9	(0.5)
Net funds	1.0	62.5	1.3	64.8



Notes to the financial statements continued

16 Derivatives and other financial instruments

a) Treasury

Treasury related matters are dealt with by the group treasury function whose role is to implement the group's treasury policies and strategies. It reports cashflow movements and forecasts daily, and foreign currency information on a monthly basis, to senior management. Decisions about material transactions are referred to the Director of Finance and Business Affairs for approval. These policies and strategies have been in operation throughout the year.

The group's treasury management policies and strategies are agreed by the Director of Finance and Business Affairs and operate within clear parameters approved by the Board. The objectives are:

- to minimise foreign currency exposure that may arise as a result of the group's business activities.
- to maximise the returns from available cash funds without exposing the group to any unnecessary risk.
- to ensure that the group has sufficient cash resources to meet its obligations on a continuing basis.

The group does not undertake speculative treasury transactions.

b) Cash and borrowings

The group invests short-term surplus cash in fixed rate money market deposits. Funds are invested only with an agreed list of organisations that carry an A1/P1 rating by the major credit agencies.

The Corporation has a £55 million syndicated loan facility. The facility reduces to £45 million on 8 April 2003 and has a maturity date of 8 April 2004. The Corporation also has a £30 million 364-day revolving credit facility with HSBC Bank plc, with a maturity date of 7 October 2003, and provision for a six month extension. The interest rates on advances under these facilities are determined by reference to LIBOR, plus premiums of 0.45% and 0.75% respectively, at the time of the advance and are fixed over the term of the advance. The Corporation also has available a £10 million overdraft facility which incurs interest at 1% over base. Amounts drawn against these facilities are unsecured.

c) Interest rate profile

The interest rate profile of the group's financial assets at 31 December was:

	Total £m	Financial assets on which no interest is paid £m	Fixed rate assets		
			£m	Weighted average interest rate %	Weighted average for which period is fixed Days
2002					
Sterling	67.5	67.5	-	n/a	n/a
Euro	1.0	-	1.0	3.5	2
US dollar	2.2	-	2.2	1.0	2
Total	70.7	67.5	3.2	1.8	2
2001					
Sterling	51.1	49.4	1.7	4.3	2
Euro	2.4	-	2.4	3.0	5
US dollar	0.1	0.1	-	n/a	n/a
Total	53.6	49.5	4.1	3.5	4

The financial assets on which no interest is paid are cheques that were banked on 30 December 2002 but did not clear until 2 January 2003.

16 Derivatives and other financial instruments continued

The interest rate profile of the group's financial liabilities at 31 December was:

	Total £m	Floating rate financial liabilities £m	Financial liabilities on which no interest is paid £m	Fixed rate liabilities		
				£m	Weighted average interest rate %	Weighted average for which period is fixed Days
2002 Sterling	15.9	4.6	10.0	1.3	2.5	617
2001 Sterling	55.9	–	3.3	52.6	4.5	61

As permitted by FRS 13, short-term debtors and creditors have been excluded from the above interest rate profiles.

The floating rate financial liability consists of amounts drawn on the Corporation's overdraft facility.

Fair value equates to the book value for the group's assets and liabilities disclosed above.

d) Maturity of financial liabilities

The maturity profile of the group's and Channel 4's financial liabilities, other than short-term creditors, at 31 December 2002 was as follows:

	Overdraft £m	Finance leases £m	Rental deficits £m	Restruct- uring costs £m	2002 Total £m	2001 Total £m
Within one year	4.6	0.8	0.3	7.5	13.2	51.7
Between one and two years	–	0.5	0.3	–	0.8	1.3
Between two and five years	–	–	1.9	–	1.9	2.9
	4.6	1.3	2.5	7.5	15.9	55.9

Obligations under finance leases are in respect of computer hardware. Repayments of interest and capital averaging £0.3 million (2001: £0.2 million) were made each quarter. The finance leases are secured over the associated assets.

Notes to the financial statements continued

16 Derivatives and other financial instruments continued

e) Currency exposures

The table below shows the group's currency exposures at 31 December. These are the transactional exposures that give rise to net currency gains and losses. Such exposures comprise the monetary assets and liabilities of the group that are not denominated in sterling. The amounts shown take into account the effect of forward currency contracts the group has entered into to manage its currency requirements.

	Net foreign currency assets	
	2002 £m	2001 £m
Euro	1.0	2.4
US dollar	2.2	0.1
	3.2	2.5

f) Gains and losses on hedging contracts

The group undertakes transactions in international markets, principally US dollars and euros. Due to movements in exchange rates over time, the amount that the group expects to receive or pay when it enters into a transaction may differ from the amount that it actually receives or pays when it settles the transaction. The group manages its exposure to movements in exchange rates by entering into forward foreign exchange hedging contracts. These contracts allow the group to settle transactions at known exchange rates, thereby eliminating this uncertainty.

At 31 December 2002, the group had entered into commitments to purchase foreign currencies amounting to £98.4 million (2001: £150.7 million), maturing throughout 2003 and 2004, in order to fix the sterling cost of satellite transponder capacity and of programme and film purchase commitments.

Unrealised losses on forward foreign exchange hedging contracts to purchase US dollars amounted to £10.1 million at the balance sheet date. There were no other significant unrealised losses on hedging contracts at the year end.

17 Reserves

Group	Profit and loss account £m	Statutory reserve £m	Revaluation reserve £m	Total £m
At 1 January 2002	212.2	84.8	9.4	306.4
Retained profit for the year	10.2	–	–	10.2
Transfer of excess depreciation	0.5	–	(0.5)	–
Deficit on revaluation of property	–	–	(8.3)	(8.3)
At 31 December 2002	222.9	84.8	0.6	308.3
Channel 4				
At 1 January 2002	258.9	84.8	9.4	353.1
Retained profit for the year	22.0	–	–	22.0
Transfer of excess depreciation	0.5	–	(0.5)	–
Deficit on revaluation of property	–	–	(8.3)	(8.3)
At 31 December 2002	281.4	84.8	0.6	366.8

The statutory reserve was established under the terms of the 1990 Broadcasting Act, as amended by subsequent Parliamentary Orders.

The revaluation reserve arises on the revaluation of freehold property, details of which are disclosed in note 10.

18 Commitments

a) Programme and film

At 31 December, committed future expenditure for programmes and films due for payment were as follows:

	2002 Group £m	2001 Group £m	2002 Channel 4 £m	2001 Channel 4 £m
Within one year	289.5	327.9	250.5	282.8
After one year	292.0	203.2	278.0	179.4
	581.5	531.1	528.5	462.2

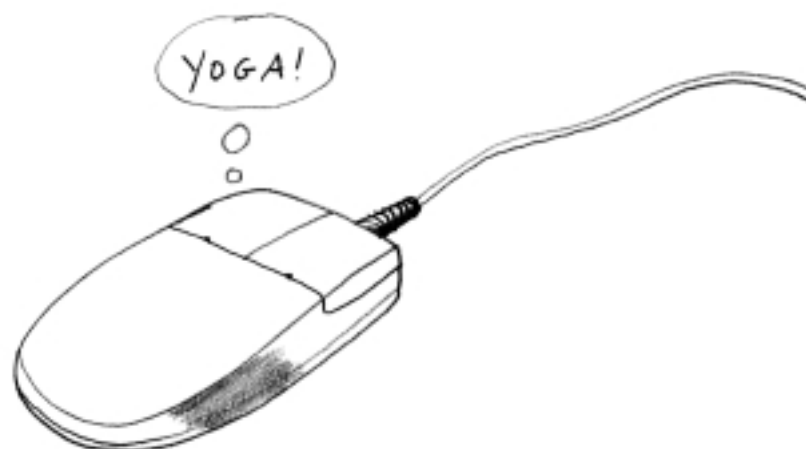
b) Digital 3 and 4 Ltd

Under the terms of the shareholder agreement for Digital 3 and 4 Ltd, the Corporation is committed to meeting its share of contracted costs entered into by that company. Digital 3 and 4 Ltd has contractually committed £18 million per annum over the next eight years for digital transmission and distribution. The exact annual monetary commitment will be dependent upon the time and coverage of roll-out of the digital transmission network. The group's share is estimated to amount to £9 million per annum.

c) Operating lease commitments

At 31 December the group had annual commitments under non-cancellable operating leases, all of which were for land and buildings, as set out below:

	2002 £m	2001 £m
Operating leases which expire:		
Within one year	0.2	0.2
Within two to five years	1.7	0.2
After five years	2.8	4.3
	4.7	4.7



Notes to the financial statements continued

19 Pension costs

The group operates a defined benefit pension scheme providing benefits based on final pay. The assets of the scheme are held separately from those of the group, being jointly invested through Legal & General Assurance (Pensions Management) Ltd, Henderson Global Investors Ltd, Capital International SA, and Deutsche Asset Management Life & Pensions Ltd.

The contributions are determined by a qualified independent actuary on the basis of triennial valuations using the projected unit method. The most recent independent valuation was as at 1 January 2003 which showed that the actuarial value of the scheme's assets represented 85% of the benefits which had accrued to members. The mid market value of the scheme's assets at that date was £71.0 million. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. The valuation assumed that investment returns would outstrip salary increases by 2.25% per annum and that present and future pensions would increase at a rate of 2.5% per annum.

The pension charge for 2002 was £6.0 million (2001: £5.8 million). The contributions of the group companies and employees remained throughout 2002 at 15.3% and 6% of earnings respectively, but will increase to 16.5% and 6.5% respectively from 1 April 2003.

FRS 17 disclosures

The pension scheme assets and liabilities have been revalued at 31 December 2002 in accordance with FRS 17 'Retirement benefits'. The assumptions which have the most significant effect on the results of the valuation at 31 December 2002 are those relating to the rate of interest applied to discount the estimated cashflows arising under the liabilities and the rates of increase in salaries and pensions. The major assumptions used by the actuary were:

	2002 %	2001 %
Discount rate	5.50	5.75
Rate of increase in salaries	3.75	4.25
Rate of increase in pensions	2.50	2.50
Inflation	2.50	2.50

The assumed discount rate is the current rate of return of high quality corporate bonds. The rate of increase in salaries is considered to represent a prudently broad margin over inflation when compared to recent and projected salary increases. Inflation has been applied at a rate similar to that set by the Government as the Bank of England's inflation target.

The valuation of assets in the scheme is not affected by the actuarial assumptions because the assets are measured at fair value. For those pensions which have been secured by the purchase of annuities, the fair value is measured at the amount of the related obligations. The assets in the scheme and expected rates of return were:

	Long-term rate of return expected at 31 December		Value at 31 December	
	2002 %	2001 %	2002 £m	2001 £m
Equities	8.00	7.00	51.6	61.2
Fixed interest	4.50	5.75	15.9	14.8
Secured annuities	5.50	5.75	3.4	3.4
Cash	4.50	5.75	0.4	0.1
			71.3	79.5

It is assumed that fixed interest, secured annuities and current assets will generate a return in line with low risk, high quality corporate bonds. Due to their higher risk profile, equity investments are expected to outperform lower risk corporate bonds over the long term and are therefore projected to appreciate at a premium above the other assets in the fund.

19 Pension costs continued

The following amounts at 31 December were measured in accordance with FRS 17 'Retirement benefits':

	2002 £m	2001 £m
Total market value of assets	71.3	79.5
Present value of scheme liabilities	(92.9)	(78.9)
(Deficit)/surplus in scheme	(21.6)	0.6
Related deferred tax asset/(liability)	6.5	(0.2)
Net pension (liability)/asset	(15.1)	0.4

If the above amounts had been recognised in the financial statements, the group's net assets and profit and loss reserve at 31 December would have been as follows:

	2002 £m	2001 £m
Net assets excluding pension (liability)/asset	308.3	306.4
Pension (liability)/asset	(15.1)	0.4
Net assets including pension (liability)/asset	293.2	306.8
Profit and loss reserve excluding pension reserve	222.9	212.2
Pension reserve	(15.1)	0.4
Profit and loss reserve including pension reserve	207.8	212.6

The following amounts would have been recognised in the financial statements for the year ended 31 December 2002 under the requirements of FRS 17:

	2002 £m
Operating profit:	
Current service cost	5.2
Past service cost	-
Total charge to operating profit	5.2
Other finance income:	
Expected return on pension scheme assets	6.1
Interest on pension scheme liabilities	(4.6)
Total amount credited to other finance income	1.5

Notes to the financial statements continued

19 Pension costs continued

	2002 £m
Statement of total recognised gains and losses (STRGL):	
Actual return less expected return on the pension scheme assets	(21.7)
Experience gains arising on the pension scheme liabilities	0.4
Changes in actuarial assumptions underlying the present value of the scheme liabilities	(3.2)
Actuarial loss recognised in STRGL	(24.5)
Surplus in scheme at 1 January	0.6
Movement in year:	
Current service cost	(5.2)
Contributions	6.0
Other finance income	1.5
Actuarial loss	(24.5)
Deficit in scheme at 31 December	(21.6)

Details of experience gains and losses for the year to 31 December 2002

	2002 £m	2002 %
Difference between the expected and actual return on scheme assets:	(21.7)	
Percentage of scheme assets		30.4
Experience gains on scheme liabilities:	0.4	
Percentage of the present value of the scheme liabilities		0.4
Total actuarial loss recognised in the STRGL:	(24.5)	
Percentage of the present value of the scheme liabilities		26.4

20 Related party transactions

Details of transactions in which members have an interest are disclosed on page 36.

During 2002 Channel 4 purchased £2.2 million of terrestrial racing rights and sold £1.3 million of television pictures to Attheraces Holdings Ltd.

In accordance with the exemption permitted in FRS 8 'Related party disclosures', the Corporation does not disclose transactions with subsidiary group companies because these subsidiaries are wholly owned by the Corporation.



Corporate governance

The group is committed to high standards of corporate governance.

The group's corporate governance procedures, adopted by the Board, have been designed to enable the group to comply with the Combined Code. These procedures define the duties, constitution and responsibilities of the Board and the various Board committees.

The Board has full responsibility for maintaining high standards of corporate governance. The information and statements below describe how the principles identified in the Combined Code, relevant to a statutory corporation without shareholders, were applied.

Statement of compliance

The Board believes that the group has, throughout the accounting period, complied with the provisions set out in Section 1 of the Combined Code except that, given its constitution, the Corporation cannot sensibly have a formal nomination committee. However, the following formal nomination procedures are in place:

- non-executive members are appointed for fixed terms by the ITC following consultation with the Corporation's Chairman and the approval of the Secretary of State for Culture, Media and Sport.
- the Chief Executive is appointed by the Board.
- other executive members are appointed to the Board after nomination by the Chief Executive and the Chairman acting jointly.

The Board

The members, who constitute the Board, have full responsibility for ensuring that, in a changing public service and commercial broadcasting environment, the statutory functions of the group are discharged in accordance with the broadcasting licences issued by the ITC and policies regulated by the Board and in accordance with arrangements and procedures which have, to the extent required, the approval of the ITC.

The Board meets regularly and consists of between 13 and 15 members of whom the majority are independent non-executives. It has a formal schedule of matters reserved to it for decision and information is supplied to it in a timely manner. The roles of Chairman and Chief Executive are separate with a clear division of responsibilities between them. The division of these roles, and the presence of a non-executive Deputy Chairman as senior independent member, ensure there is a strong independent element to the Board and that no one individual has unfettered powers of decision. All other non-executive members are of equal standing. Biographical details of the present members are given on page 67.

The non-executive members carry significant weight in Board decisions. They bring an independent judgment to bear on issues of strategy, performance and resources.

On appointment, all members are advised that they have access to advice and the services of the Corporation Secretary and, additionally, that they are entitled to seek independent professional advice in the furtherance of their duties, if necessary, at the group's expense.

As a statutory corporation certain principles and provisions of the Combined Code in respect of relations with shareholders are not directly applicable. However, for those principles and provisions disclosed in Section C of the Combined Code that are relevant to the Corporation, the following procedures are in place:

- the Corporation's annual report is sent to the Secretary of State for Culture, Media and Sport who lays copies of it before each House of Parliament.
- the terms of employment of the executive members are subject to the approval of the remuneration committee.

Statement of members' responsibilities

The Corporation is required by the Broadcasting Act 1990 to keep proper accounts and proper records in relation to the accounts, and to prepare financial statements in respect of each financial year in a form as directed by the Secretary of State for Culture, Media and Sport with the approval of the Treasury. The members therefore prepare financial statements in compliance with this direction and, to the extent applicable, with the provisions of the Companies Act 1985, and accounting standards currently in force, that give a true and fair view of the state of affairs of Channel 4 and the group as at the end of the financial year and of the profit or loss and cashflows of the group for that year.

The members confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements for the year ended 31 December 2002. The members also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The members are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of Channel 4 and the group, and to prevent and detect fraud and other irregularities.

The maintenance and integrity of the Channel 4 website is the responsibility of the members. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors do not accept responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Corporate governance continued

Board committees

The Board has established the following three committees which each meet at least once every year:

Audit committee

The audit committee's purpose is:

- to satisfy itself on all matters of financial propriety and procedure.
- to review the scope, results and cost-effectiveness of the audit; the objectivity and independence of the auditors; and the nature, extent and value for money of non-audit services supplied by the auditors.
- to discuss with the Corporation's external auditors any matters of concern arising out of their audit.
- to review the draft annual report and financial statements before presentation to the full Board.
- to monitor and ensure compliance with the Combined Code's guidance on internal control.

Three non-executive members, Vanni Treves (committee Chairman), Robin Miller and Joe Sinyor form the membership of the audit committee.

At the Chairman's invitation, Mark Thompson, David Scott, Janet Walker and the PricewaterhouseCoopers audit partner attend meetings of the committee. The audit partner has direct access to the Chairman at all times.

Budget committee

The budget committee's purpose is to examine and discuss the details of the group's annual budget and any other significant financial matters which the full Board may wish to refer to the budget committee for detailed consideration.

The budget committee has six members: Vanni Treves (committee Chairman), Robin Miller, Joe Sinyor, Mark Thompson, David Scott and Janet Walker.

The budget committee reports to the Board, which retains the right of approval of the annual budget and business plan.

Remuneration committee

The remuneration committee's purpose is to approve the level of any general salary increases, merit or market rate increases for individuals and the group's pension fund arrangements and related employee benefits.

Fees payable to the non-executive Board members are determined by the ITC.

The remuneration committee consists entirely of independent non-executive members. Its members are Vanni Treves (committee Chairman), Barry Cox, Andrew Graham and Robin Miller.

Mark Thompson, David Scott, Rob Woodward and Janet Walker attend meetings as appropriate. No executive member attends meetings of the remuneration committee at times when any aspect of his or her remuneration or terms of employment are being discussed.

The report on members' remuneration is provided on pages 68 and 69.

Pension plan

There are six trustees of the Channel 4 Staff Pension Plan who meet several times each year, and with the Plan's investment managers, Legal & General Assurance (Pensions Management) Ltd, Capital International SA, Henderson Global Investors and Deutsche Asset Management at least once a year.

The trustees are Vanni Treves (Trustees Chairman); an independent member, Louise Botting; two of Channel 4's executives, David Scott and Peter Meier; and two employee representatives, Andrew Brenson and Julie Bunn.

Reporting

The Board believes that the 2002 report and financial statements present a true and fair view of the state of affairs of Channel 4 and the group as at the end of the financial year and of the profit of the group for that year.

Internal control

The Board has overall responsibility for the group's system of internal control and for reviewing its effectiveness. The role of management is to implement Board policies on risk and control. The system of internal control is designed to manage, rather than eliminate, the risk of failure in the achievement of business objectives. In pursuit of these objectives, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss. The key procedures that the Board has established can be summarised under the following headings:

Control environment

Clear management responsibilities are established for the executive members. These are laid down in the group's terms of reference manual.

Risk management

Management has a clear responsibility for the identification of risks facing the business and for putting in place procedures to monitor and mitigate such risks. The Board operates a group-wide, internal control and business risk evaluation process. This process is designed to identify, evaluate and ensure effective management of significant business, operational, financial and compliance risks. This business risk evaluation process accords with the Combined Code's guidance on internal controls and is reviewed by the audit committee on an annual basis.

Management systems

Detailed annual budgets and business plans are prepared for each area of the business, and are approved by the budget committee and the Board. Detailed monthly management reports are produced, comparing actual income and expenditure with budgets and prior year. Full year forecasts are prepared throughout the year. These reports are monitored by the members, and explanations are provided for all significant variances.

Control procedures

All expenditure has to be authorised in line with limits set out in a comprehensive authorisation manual. Authorisation and payment duties are strictly segregated, and bank signatory limits are clearly defined by bank mandate.

The financial controls are monitored by management review and by the audit committee.

New ventures

The launch of, and participation in the FilmFour channels, E4 and attheraces helps Channel 4 maintain its salience in a multi-channel world. These new ventures are an integral part of the group's strategy to transform itself from a single television channel into a network of media businesses on a range of platforms. They are intended to help secure Channel 4's position in the long term by making a positive financial contribution and by building the Channel 4 audience and programming. These ventures are clearly connected, and conducive, to the operation of Channel 4. The ITC has agreed with the Corporation's Board that the funding of these ventures is appropriate and consistent with the provisions of the 1990 Act.

ITC regulation

Channel 4 like other organisations is subject to domestic and European competition law, as well as regulation by the ITC.

Under the terms of our new ITC Licence, which came into effect on 1 January 2003, Channel 4 is required to ensure that any new venture has been subjected to a rigorous review and that:

- the use of Corporation funds is appropriate and consistent with the provisions of the Broadcasting Acts 1990 and 1996.
- its business plan offers a reasonable prospect of breaking even on a reasonable timescale and providing a proper return over time on the Corporation's investment, that return being measured either in financial terms or in the form of other benefits delivered to the main channel.
- any services, products or rights of the Corporation or of its subsidiaries used by the new ventures are acquired on an arm's length basis and all shared costs are attributed on an equitable basis, having

regard to the cost of provision and, where appropriate, comparable market rates.

In addition, the new ITC licence requires that Channel 4 appoints reporting accountants, independent of its auditors, to confirm, with regard to its new ventures, that:

- the Board has considered business plans which show a reasonable rate of return, as described above, and continue to monitor their performance.
- the Corporation has established and applied procedures and controls which provide reasonable assurance that intra group trading is carried out on an arm's length basis and with shared costs attributed as described above.

Members' statement on new Ventures

The Board anticipated and reported in the 2001 Financial Statements on the ITC's new licence conditions as set out above. Channel 4 appointed Deloitte & Touche to provide an independent review and opinion in respect of the group's compliance with those conditions for 2001.

The FilmFour channels, E4 and attheraces are based on fully costed business plans and investment summaries with any services, products or rights used by the ventures being acquired at a fair rate, reflecting either the cost of provision or a market rate. The business plans for these three ventures were approved by the Board before each of them was established. Those business plans demonstrated that each new venture is intended to break even on a reasonable timescale and to make a contribution to Channel 4, that contribution being measured either in financial terms or in the form of other benefits delivered to the main channel. Performance of these businesses is closely and continually monitored.

Channel 4 carries out intra-group trading on an arm's length basis, subject to open market pressures; appropriate authorisation and approval processes are established at Board and senior management level; and formal arrangements are set out both with other investors, through shareholder agreements, and with third party trading partners, for example advertisers and programme producers.

Channel 4 ensures that shared costs are attributed on an equitable basis, having regard to the cost of provision and, where appropriate, comparable market rates.

No new ventures were established in 2002. Deloitte & Touche's review and opinion for 2002 has therefore focused on confirming that arm's length trading arrangements continue between Channel 4 and its new ventures, FilmFour channels, E4 and attheraces.

Corporate governance continued

Report to the members by Deloitte & Touche

Our role is to undertake an independent review of Channel 4, in respect of its compliance with ITC licence conditions concerning new ventures, intra-group trading and shared costs. The members are responsible for ensuring that Channel 4 meets all the requirements set out in the ITC licence, determining the procedures and controls that ensure compliance, and monitoring such activities.

No new ventures were established in 2002. Accordingly, we have examined and report that services, products or rights of the Corporation or of its subsidiaries used by FilmFour channels, E4 and attheraces continue to be attributed on an equitable basis, having regard to the cost of provision and, where appropriate, comparable market rates.

Basis of opinion

Detailed instructions and the scope of our work were agreed with the members and are set out in our engagement terms. Our work has been carried out in accordance with those terms and as such does not constitute an audit in accordance with UK auditing standards. We have carried out a programme of review of Channel 4's procedures and controls, as described in the members' statement, to enable us to establish their appropriateness. We have tested a sample of transactions to give reasonable assurance that those procedures and controls have been applied throughout the year ended 31 December 2002. We have made enquiry of management and reviewed documentary evidence and financial reporting systems operated by Channel 4 in arriving at our findings.

Our report has been prepared solely for the use of the members for the purpose of fulfilling their ITC licence conditions and we assume no responsibility to any other party.

Opinion

- The Board had been presented with and considered business plans and investment summaries for all new ventures, upon which investment decisions were made and continue to monitor their performance. The plans show that these new ventures are intended to break even on a reasonable timescale and to make a contribution to Channel 4.
- Channel 4 has established and applied procedures and controls, which provide reasonable assurance that, where appropriate, intra-group trading is carried out on an arm's length basis and that all shared costs are attributed on an equitable basis, having regard to the cost of provision and, where appropriate, comparable market rates.
- Based on our review of the procedures and controls and documentary evidence supplied by the members, we can confirm that in respect of FilmFour channels, E4 and attheraces, any services, products or rights of the Corporation or of its subsidiaries used by these ventures continued during 2002 to be acquired on an arm's length basis and all shared costs continued to be attributed on an equitable basis, having regard to the cost of provision and, where appropriate, comparable market rates.

Deloitte & Touche

Reporting Accountants

31 March 2003



Members

Non-executive members

Chairman

Vanni Treves (age 62)

Appointed Chairman in January 1998. His appointment runs to 31 December 2003. He was for 30 years a partner (for 12 of them senior partner) in the City solicitors, Macfarlanes, and is Chairman of The Equitable Life Assurance Society, the London Business School and Intertek Group plc.

Deputy Chairman

Barry Cox (age 60)

Appointed Deputy Chairman in February 1999. His term of appointment was extended during the year until 31 January 2005. He is a consultant with ITN and chairs the Stakeholders Spectrum Group and the Digital Television Stakeholders' Group.

Peter Bazalgette (age 49)

Joined the Board in April 2001. His appointment runs until 31 March 2004. He is Chairman of Endemol UK Ltd and a non-executive Director of Brighter Pictures Ltd, Victoria Real Ltd and Zeppotron Ltd.

Andrew Graham (age 60)

Joined the Board in April 1998. His appointment runs until 31 March 2004. He is Master of Balliol College, Oxford.

Robin Miller (age 62)

Joined the Board in February 1999. His term of appointment was extended during the year until 31 January 2005. He is a former Chief Executive of EMAP plc.

Ian Ritchie CBE (age 52)

Joined the Board in January 2000. His appointment runs until the end of 2003. He is the non-executive Chairman of four technology start-up companies and serves on the Board of Scottish Enterprise.

Joe Sinyor (age 45)

Joined the Board in April 1998. His appointment runs until 31 March 2004. He was, until January 2003, Chief Executive, Newspapers, for Trinity Mirror plc.

Executive members

Mark Thompson (age 45)

Chief Executive since March 2002. He is Chairman of 4 Ventures Ltd. Prior to joining Channel 4, he was Director of Television at the BBC.

David Scott FCA (age 48)

Managing Director and Deputy Chief Executive since October 2002, having been Managing Director since 1997 and Director of Finance from 1988 to 1997. He is Chairman of Digital 3 & 4 Ltd, a Director of 4 Ventures Ltd and Attheraces Holdings Ltd and a member of the British Screen Advisory Council.

Andy Barnes (age 47)

Sales Director since October 2002, having been Commercial Director since July 1997. He is a Director of British Audience Research Bureau Ltd (BARB) and Indigo Holidays Ltd. He joined Channel 4 in 1991 as Head of Advertising Sales.

Tim Gardam (age 46)

Director of Television since October 2002, having been Director of Programmes since December 1998. He is Chairman of Channel Four International Ltd. Prior to joining Channel 4 he was Controller, News and Current Affairs and Documentaries, for Channel 5 (1996 to 1998) and Head of Current Affairs for the BBC (1993 to 1996). He is a former Editor of Newsnight and Panorama and Executive Producer of Timewatch.

Janet Walker ACA (age 49)

Director of Finance and Business Affairs since 1998. She is a Director of Channel Four International Ltd and 4 Ventures Ltd, and a governor of the National Film and Television School. She was Deputy Director of Finance at Channel 4 between 1990 and 1994, Financial Controller, BBC Regional Broadcasting (1994 to 1996) and Finance Director of Granada Media Group (1996 to 1998).

Rob Woodward (age 43)

Commercial Director of Channel 4 since October 2002 and Managing Director of 4 Ventures Ltd since August 2001. He is a Director of FilmFour Ltd, Channel Four International Ltd and Attheraces Holdings Ltd. Prior to joining Channel 4 he was a Managing Director in corporate finance at UBS Warburg and co-headed the bank's European technology team.

Secretary **Andrew Brann**

The ages shown above are at 31 December 2002.



Report on members' remuneration

Remuneration policy for executive members of the Board

The remuneration of executive Board members is determined by the remuneration committee, the membership and terms of reference of which are detailed on page 64. In framing its remuneration policy, the committee has given full consideration to the best practice provisions of the Combined Code.

The group aims to attract, motivate and retain high calibre staff and executive Board members by rewarding them with competitive salary and benefit packages. These are established by reference to those salaries and benefit packages prevailing for executives of comparable status in the television industry, but without any of the share option schemes available elsewhere.

Any bonus payments made to executives are based on performance and recommended and approved by the remuneration committee.

Andy Barnes participates in the advertising sales bonus scheme, which is linked to advertising revenue targets, and Rob Woodward participates in the 4 Ventures bonus scheme. The targets for these schemes are agreed by the remuneration committee before the start of each financial year.

Service contracts

Mark Thompson has a service contract for 18 months from March 2002, and thereafter subject to six months' notice. Each of the other five executive members has a service contract subject to one year's notice.

Taxable benefits

Executive members are eligible for a range of taxable benefits which include the provision of a company car and payment of its operating expenses, and membership of a private medical insurance scheme which is open to all staff. These benefits are not pensionable.

Remuneration policy for non-executive members of the Board

The ITC appoints non-executive Board members for fixed terms and determines their fees. They are entitled to reimbursement of travel and accommodation expenses incurred in connection with attending Board meetings.

	Salary and fees £000	Bonus £000	Benefits £000	Compensation for loss of office £000	2002 Total £000	2001 Total £000
Executive members						
Mark Thompson (appointed 4 March 2002)	348	-	-	-	348	-
David Scott	360	-	20	-	380	373
Andy Barnes	243	175	3	-	421	287
Tim Gardam	255	-	10	-	265	260
Janet Walker	248	20	3	-	271	246
Rob Woodward	262	36	-	-	298	128
Non-executive members						
Vanni Treves	66	-	-	-	66	64
Barry Cox	20	-	-	-	20	20
Peter Bazalgette	16	-	-	-	16	11
Andrew Graham	16	-	-	-	16	15
Robin Miller	16	-	-	-	16	15
Ian Ritchie	16	-	-	-	16	15
Joe Sinyor	16	-	-	-	16	15
Retired members						
Millie Banerjee (resigned 25 September 2002)	12	-	-	-	12	15
David Brook (resigned 16 October 2002)	205	-	9	568	782	270
Michael Jackson (resigned 31 October 2001)	-	-	-	-	-	434
	2,099	231	45	568	2,943	2,168

None of the executive members has received a salary increase since June 2001.

Pension

Executive members are eligible for membership of the Channel 4 Staff Pension Plan on the same basis as all other members of staff. The plan is contributory, at 6% of pensionable salary, and provides members with a pension based on one-fiftieth of final pensionable pay for each year of service up to a maximum of two-thirds of final pensionable earnings.

Non-executive members are not eligible for membership of the Channel 4 Staff Pension Plan.

The executive members of the plan during 2002 were as follows:

	Members' contributions during 2002 £000	Increase in accrued pension entitlement during 2002 £000	Total accrued pension entitlement at 31 December 2002 £000	Transfer value at 1 January 2002 £000	Increase/(decrease) in transfer value less directors' contributions £000	Transfer value at 31 December 2002 £000
Mark Thompson	7	2	2	–	14	21
David Scott	22	8	153	1,865	(354)	1,533
Andy Barnes	10	2	74	896	(202)	704
Tim Gardam	10	3	13	120	(9)	121
Janet Walker	10	3	15	149	(8)	151
Rob Woodward	10	3	4	12	12	34
David Brook (resigned 16 October 2002)	10	3	16	143	(28)	125

- The total accrued pension entitlement shown is that which would be paid annually on retirement from the age of 60 but based on service to the end of 2002.
- The increase in accrued pension during the year excludes any increase for inflation.
- The accrued benefits for all members, other than David Scott who joined the scheme before June 1989, have been restricted as a result of the impact of the Inland Revenue's earnings cap.
- Members who are not subject to the earnings cap have the option to pay Additional Voluntary Contributions (AVCs) to a separate scheme. Neither the AVCs made nor the resulting benefits accrued have been included in the above table.
- All transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. They do not represent sums payable to individual directors.

The benefits provided to all members of the Channel 4 Staff Pension Plan are as follows:

- Normal retirement age is 60.
- There is a spouse's pension of one-half of a scheme member's pension in the event of death in retirement and of one half of a scheme member's present expected pension in the event of death in service. There is an additional benefit equal to one half of the benefit payable to the spouse in respect of each child up to the age of 18, or 23 if in full-time education, subject to a maximum of two children.
- Pensions in the course of payment, in excess of the Guaranteed Minimum Pension, increase at 5% per annum compound, or the increase in the retail prices index if lower.
- Scheme members who leave before completing two years' service receive a refund of their own contributions. Scheme members who leave having completed at least two years' service receive a benefit from normal retirement date preserved within the scheme, calculated as above, but relating to pensionable service and pensionable earnings up to the date of leaving.
- An early retirement option exists from the age of 50. Any scheme member taking an early retirement option receives a pension at a discounted rate.
- There is a provision for a member to exchange part of the retirement pension for cash.

Programmes and the licence

Channel 4 commissions originated programmes from a wide range of suppliers and acquires programmes in the international markets.

Independent production companies are the most important source of originated programmes. 318 independent companies provided programmes transmitted on the main Channel 4 service in 2002 (2001: 345).

The source and cost of the programmes transmitted on the main Channel 4 service in 2002 are shown in the table below:

	2002 Hours	2001 Hours	2002 £m	2001 £m
Originated				
Independents	3,786	3,636	227.1	201.7
Other	2,127	2,384	111.1	143.0
	5,913	6,020	338.2	344.7
Acquired	2,847	2,740	87.8	78.3
Programmes total	8,760	8,760	426.0	423.0
Other direct programme costs			8.7	8.6
Channel 4 programme and other content			434.7	431.6

The main Channel 4 service broadcast 8,760 hours in 2002 (2001: 8,760) – 24 hours each day, and is transmitted on analogue and digital terrestrial, cable and satellite. The hours and costs of the wide range of programme transmissions were as follows:

Channel 4: hours and costs of programmes

	2002 Hours	2001 Hours	2002 £m	2001 £m
Entertainment	1,622	1,708	100.9	96.6
Drama	1,244	930	87.2	71.7
Education	1,327	1,231	58.7	61.4
Sport	1,133	1,033	39.5	39.0
Feature films	1,052	1,129	24.8	27.9
Other factual	414	509	23.4	26.9
News	280	305	19.9	20.6
Documentaries	286	322	19.7	20.1
Current affairs	250	261	14.8	14.6
Quiz and gameshows	461	374	10.0	8.8
Arts and music	250	290	9.9	11.7
Multicultural	209	210	9.4	11.3
Children	180	385	4.1	7.5
Religion	52	73	3.7	4.9
	8,760	8,760	426.0	423.0

FilmFour channels

The FilmFour channels broadcast for 12,227 hours in 2002 (2001: 10,300) with 57% of these hours being subtitled (2001: 55%).

E4

E4 broadcast for 5,717 hours in 2002 (2001: 5,014) with 34% of these hours being subtitled (2001: 35%).

ITC

The ITC monitors compliance with broadcasters' licence obligations (including compliance with its regulatory codes) and deals with complaints about programmes. In spite of the group's rigorous compliance procedures, the ITC recorded eight breaches of its Programme Code by the main Channel 4 service in 2002 (2001: five), but none was judged serious enough to merit a sanction (2001: one).

Broadcasting Standards Commission

The Broadcasting Standards Commission entertains complaints about:

- unfair treatment and/or infringement of privacy. In 2002 no complaints about Channel 4's programmes were upheld (2001: two) and one was partially upheld (2001: one).
- standards of taste and decency. In 2002 six were upheld (2001: four) and none was partially upheld (2001: one).

Channel 4: the licence

The wide range and diversity of programmes shows that the remit is central to Channel 4's programming policy. Channel 4 takes pride and pleasure in the challenge of fulfilling it in different ways each year. Our licence from the ITC, in addition to stipulating the need to meet the remit, places certain specific programme obligations on Channel 4.

Principal licence requirements

	Compliance minimum	2002	2001
Average hours per week			
Education	7	12	12
News	4	5	5
Current affairs	4	5	5
Multicultural	3	4	4
Religion	1	1	1
Hours per year			
Schools	330	672	565
Percentage			
Original production			
- overall	60	67	69
- in peak time (6pm to 10.30pm)	70	78	82
First run			
- overall	60	60	61
- in peak time	80	85	81
Independent production*	25	65	61
European independent production*	10	42	42
European origin	50	72	73
Subtitling for the deaf and hard-of-hearing	72	84	81
Production expenditure outside London (by 2002)	30	30	29
Training and development (% of qualifying revenue)	0.5	0.6	0.7

*There are material differences in the definitions contained in the European and UK legislation for qualifying independent production.

Historical record

Profit and loss account

For the year ended 31 December	1995 £m	1996 £m	1997 £m	1998 £m	1999 £m	2000 £m	2001 £m	2002 £m
Group turnover	464.0	518.6	552.7	590.5	642.1	716.4	730.7	762.7
Cost of transmissions and sales	(309.0)	(358.1)	(406.9)	(467.4)	(564.1)	(643.1)	(709.6)	(683.2)
Gross profit	155.0	160.5	145.8	123.1	78.0	73.3	21.1	79.5
Administrative expenses	(19.1)	(20.6)	(21.2)	(25.7)	(24.4)	(29.0)	(33.4)	(23.3)
Depreciation	(7.7)	(7.6)	(7.9)	(8.9)	(8.7)	(10.5)	(10.4)	(11.1)
Operating profit/(loss) before operating exceptional items	128.2	132.3	116.7	88.5	44.9	33.8	(22.7)	45.1
Operating exceptional items – restructuring costs:								
Channel 4	–	–	–	–	–	–	(1.5)	(5.0)
FilmFour Ltd	–	–	–	–	–	–	–	(11.2)
Operating profit/(loss) after operating exceptional items	128.2	132.3	116.7	88.5	44.9	33.8	(24.2)	28.9
Share of joint venture's loss	–	–	–	–	–	–	(3.9)	(9.9)
Net interest	(0.1)	2.0	2.4	3.8	1.1	2.0	(0.1)	(2.5)
Profit/(loss) before ITV subsidy and taxation	128.1	134.3	119.1	92.3	46.0	35.8	(28.2)	16.5
Subsidy payable to ITV	(74.0)	(87.1)	(89.9)	(66.0)	–	–	–	–
Profit/(loss) before taxation	54.1	47.2	29.2	26.3	46.0	35.8	(28.2)	16.5
Taxation	(19.3)	(17.9)	(10.7)	(8.6)	(13.1)	(14.3)	7.6	(6.3)
Retained profit/(loss) for the year	34.8	29.3	18.5	17.7	32.9	21.5	(20.6)	10.2

Advertising and sponsorship revenue

	1995 £m	1996 £m	1997 £m	1998 £m	1999 £m	2000 £m	2001 £m	2002 £m
Channel 4	448.0	490.4	513.4	559.6	600.5	651.7	619.4	645.9
ITV, GMTV, S4C and Five	1,693.4	1,762.2	1,876.8	2,023.0	2,176.9	2,315.7	2,012.4	2,031.6
	2,141.4	2,252.6	2,390.2	2,582.6	2,777.4	2,967.4	2,631.8	2,677.5
	%	%	%	%	%	%	%	%
Channel 4	20.9	21.8	21.5	21.7	21.6	22.0	23.5	24.1
ITV, GMTV, S4C and Five	79.1	78.2	78.5	78.3	78.4	78.0	76.5	75.9
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Audience share

	1995 %	1996 %	1997 %	1998 %	1999 %	2000 %	2001 %	2002 %
BBC 1	32.2	32.5	30.8	29.5	28.4	27.2	26.9	26.2
BBC 2	11.1	11.5	11.6	11.3	10.8	10.8	11.1	11.4
ITV and GMTV	37.3	35.1	32.9	31.7	31.2	29.3	26.7	24.1
Channel 4 and S4C	10.9	10.7	10.6	10.3	10.3	10.5	10.0	10.0
Five	–	–	2.3	4.3	5.3	5.7	5.8	6.3
Satellite and cable	8.5	10.2	11.8	12.9	14.0	16.5	19.5	22.0
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: BARB all individuals



Which one have you got?

Channel 4 has a 10% share of UK television viewing, but it's not just for 10% of viewers. Three-quarters of Britain's television audience tunes in to Channel 4 in the course of an average week – almost 40 million people – each with their own interests and expectations. The four viewers on our four different covers represent that diversity.

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