

FINANCIAL
REVIEW
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Operating and financial review

Objectives

Channel 4 primarily exists to provide a range of innovative, creative and distinctive programming to cater for the diverse society we live in today.

Investing in original programming

We seek to maximise our investment in high quality, original programmes, and in 2003 we spent more on programmes than ever before. This was despite the flat advertising market and was made possible by the continued drive for cost savings across the group and further improvement in performance of 4 Ventures' businesses. Looking forward, the 2004 programme budget has again been set at its highest ever level.

Audience

To ensure we retain our position in the UK broadcasting market and our reputation for delivering valuable airtime to advertisers, audience share targets are set. These targets are analysed across various demographic groups and performance is monitored closely throughout the year.

The growing 4 Ventures' businesses

4 Ventures is integral to the future of the group's long-term strategy to adapt to the growing multi-channel market. The ongoing core business divisions of 4 Ventures (4 Channels, 4 Rights, 4 Learning and 4 Services) together returned an operating profit for the first time since 4 Ventures was established in 2001.

Future performance

Whilst the contribution made by 4 Ventures continues to increase, the most significant factor affecting the group's performance is the UK television advertising market, and the share of that market that Channel 4 achieves. Recent developments, most notably the merger of Carlton and Granada, and the continued growth of digital channels will make competition in the market even fiercer. Our strategies of seeking original and innovative programming, strengthening the existing 4 Ventures' business and making focused investments in opportunities that support our core activities will help protect the group from the impact of these developments.

Group

Turnover

Group turnover for 2003 was almost constant at £770 million (2002: £767 million). The group's 2003 advertising and sponsorship revenue increased year on year to £683 million (2002: £673 million) and represented 89% of group turnover. In line with our objectives, the contribution to revenue from 4 Ventures increased, driven primarily by the success of E4.

Profit

Group profit before tax for the year showed an almost threefold increase to £45 million (2002: £17 million), despite minimal growth in turnover and a considerable increase in the investment we made in on screen programming. The year's results can be summarised as follows:

	2003 £m	2002 £m
Profit/(loss) before tax and restructuring costs		
Channel 4	59.4	80.2
4 Ventures (excluding attheraces and FilmFour Ltd)	4.1	(17.7)
attheraces	(10.5)	(9.9)
FilmFour Ltd	(1.0)	(17.5)
Net interest receivable/(payable)	0.2	(2.5)
Group consolidation adjustments	(0.1)	0.1
Group profit before tax and restructuring costs	52.1	32.7
Restructuring costs		
Channel 4	(4.1)	(5.0)
FilmFour Ltd	(2.7)	(11.2)
Group profit before tax	45.3	16.5
Tax charge	(11.0)	(6.3)
Group profit after tax	34.3	10.2

Channel 4

Profit

Channel 4's operating profit before interest, tax and restructuring costs decreased to £59 million (2002: £80 million). The key contributing factors can be summarised as follows:

	£m
Channel 4 profit before interest, tax and restructuring costs for 2002	80.2
Reduction in advertising and sponsorship revenue	(3.0)
Increased investment in programmes	(23.4)
Other movements including further cost reductions	5.6
Channel 4 profit before interest, tax and restructuring costs for 2003	59.4

Programmes and the Ofcom licence

Channel 4 increased expenditure on programmes by £23 million to reach its highest amount ever at £457 million (2002: £434 million).

We met all our Ofcom licence obligations. The percentage of hours of originated programmes was 71% overall, (target 60%) and 83% in peak hours (target 70%). In peak, 89% 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% (£114 million)

of Channel 4's originated programming being supplied by production companies from outside the M25.

Cost reduction

The Channel 4 cost reduction programme continued to show real benefits in 2003. We achieved a £9 million year on year reduction in operating costs other than programmes costs, driven largely by salary savings following the headcount reductions made at the end of 2001 and 2002. Marketing and information systems costs also showed significant savings.

At the end of 2003, our operating costs other than programmes were 32% lower than they were in 2000, in line with our target that by 2003 these costs would have been reduced by one third.

	£m
Operating costs in 2000	103.3
Cost reduction since 2000	
Indirect programme costs	(1.7)
Cost of sales and marketing	(18.3)
Administrative costs	(13.0)
Operating costs in 2003	70.3

During that period we increased by 6% our programming costs from £431 million in 2000 to £457 million in 2003.

4 Ventures

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

	2003 £m	2002 £m
4 Channels		
E4	(5.1)	(16.1)
FilmFour channels	(2.7)	(6.7)
4 Rights	11.7	10.9
4 Learning	1.4	0.1
4 Services	1.5	(3.5)
4 Ventures corporate	(3.6)	(2.0)
4 Ventures' consolidation adjustments	0.9	(0.4)
4 Ventures (excluding FilmFour Ltd and attheraces)	4.1	(17.7)
attheraces	(10.5)	(9.9)
FilmFour Ltd		
Operating loss	(1.0)	(17.5)
Restructuring costs	(2.7)	(11.2)
4 Ventures	(10.1)	(56.3)

Performance (excluding FilmFour Ltd and attheraces)

Turnover

The turnover for 4 Ventures' ongoing businesses increased year on year by 12% to £139 million (2002: £124 million).

Profitability

4 Ventures has moved into profit a year ahead of its business plan. The profit of £4 million in 2003 compares with a loss of £18 million in 2002. This has been delivered by the continued growth in turnover referred to above and further efficiencies in the cost base. The key contributing factors can be summarised as follows:

	£m
4 Ventures' ongoing businesses 2002 loss	(17.7)
4 Channels' improved performance	
E4	11.0
FilmFour channels	4.0
4 Services' improved performance	5.0
Improved performance in other businesses	1.8
4 Ventures' ongoing businesses 2003 profit	4.1

The 4 Channels division, made up of the five E4 and FilmFour channels, had another successful year. E4+1 was launched and helped deliver an increase in advertising sales and sponsorship of 52%. The structure of the FilmFour channels was reviewed, with FilmFour World and FilmFour Extreme being replaced by FilmFour Weekly, contributing to the 11% increase in viewing.

The business of attheraces has not developed as expected. Our share of losses during 2003 was limited to £10.5 million, on reaching the £23.3 million financial commitment cap.

Following the decision to transfer future film financing activities into Channel 4, the business remaining in FilmFour Ltd relates to productions already in progress when the restructuring decision was taken.

Group foreign currency, cash and treasury management

Details of the group's foreign currency, cash and treasury matters are disclosed in note 16. 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. With the continued improvement in performance across the group, our cashflow has strengthened considerably.

Group taxation

The group is subject to corporation tax on its profits. The group profit recorded for 2003 has given rise to a £11 million tax charge (2002: £6 million). The group effective tax rate decreased this year to 24% (2002: 38%), compared with the standard UK corporation tax rate of 30%. This decrease is because tax relief has been claimed in 4 Ventures Ltd for attheraces' loan provisions but the group share of attheraces losses has no tax effect.

Report of the members

The members present their report and the audited financial statements for the year ended 31 December 2003.

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. Channel 4 receives free spectrum in return for fulfilling public service obligations as set out in the 1990 and 1996 Broadcasting Acts and the licence issued by the ITC (for 2003) and Ofcom (for 2004 onwards).

On 29 December 2003, Ofcom assumed all the duties and licensing activities which, prior to this date, were the responsibility of the ITC. The ITC issued a new licence to Channel 4 on 31 December 2002, which was effective for 10 years from 1 January 2003. This was replaced by a new licence issued by Ofcom, which came into effect from 1 January 2004.

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:

- 4 Channels operates basic tier and premium subscription entertainment and film channels.
- 4 Rights exploits programme rights through sales of programmes in the international markets and distribution of various consumer products such as DVDs and books.
- 4 Learning delivers the Corporation's schools programming and support materials across all media.
- 4 Services includes the internet and interactive businesses, operates Channel 4's studio and post-production facilities and offers creative design and production services.
- 4 Ventures corporate is responsible for the strategic direction, development and overall management of the 4 Ventures group.

Business review

The Chairman's statement on page 2, the Chief Executive's report on page 4 and the operating and financial review on pages 34 to 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 2003, the following members have been appointed or retired:

Appointments	Date of appointment
Luke Johnson	28 January 2004
Kevin Lygo	3 November 2003
Retirements	Date of retirement
Vanni Treves	25 January 2004
Tim Gardam	31 December 2003
Janet Walker	30 June 2003

Details of members' remuneration are contained within the report on members' remuneration on page 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.

During 2003 three members, in addition to their non-executive member 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 plc and a director of Zeppotron Ltd, Victoria Real Ltd, and Brighter Pictures Ltd. In 2003 £40.9 million of the group's expenditure related to programmes provided by these companies. These programmes included *Big Brother 4*, *Beat the Nation*, *The Salon* and *Pet Rescue*. Peter Bazalgette played no part in the decisions to commission these programmes.
- Ian Ritchie is a director of Epic Group PLC, Active Navigation Ltd and the Edinburgh International Film Festival. In 2003 these companies received a total of £155,500 for commercial services provided to Channel 4.
- Barry Cox's company, Mapledene TV Productions Ltd, received £17,300 for consultancy services relating to the Communications Act and group strategy.

In addition two members are involved, but have no personal financial interest in two charities which Channel 4 supports. Mark Thompson is a Trustee of The Media Trust, a charitable organisation which provides advice on communication to other charities. The Media Trust received £10,000 from Channel 4 in 2003. Peter Bazalgette is a director of the National Film & Television School which received £225,000 from Channel 4 during the year.

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 for both 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 2003 was 12% (2002: 10%). Women continue to form the majority of its staff at 51% (2002: 54%).

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 was awarded the Investors In People standard in 2001, and the accreditation was retained following a review carried out in 2003.

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.
- an internal communications function, established in the final quarter of 2003, which will improve communication across the organisation, co-ordinate internal culture activities and help to implement business change projects.

Charitable donations

During 2003 the group donated £329,929 to charities (2002: £277,951).

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 2003 amounted to £7.5 million (2002: £7.1 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

International Financial Reporting Standards (IFRS)

In 2002 the European Commission decided that with effect from 1 January 2005, all listed companies in Europe will have to comply with IFRS. Although not a listed company, Channel 4 will adopt IFRS from that date.

Auditors

PricewaterhouseCoopers LLP have been appointed as auditors by Channel 4 with the approval of the Secretary of State for Culture, Media and Sport, and have expressed their willingness to continue in office.

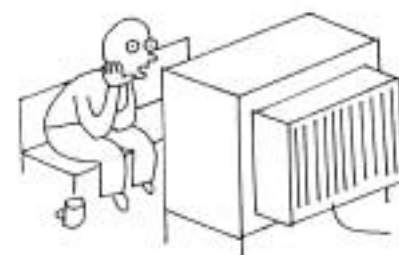
Going concern

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
29 March 2004



Report of the auditors

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

We have audited the financial statements which include the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out in the statement of accounting policies. 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 and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of members' responsibilities. The members are also responsible for preparing the report on members' remuneration.

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 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 also, at the request of the members (because the Corporation applies the Financial Services Authority listing rules as if it were a listed company), review whether the corporate governance statement reflects the Corporation's compliance with the seven provisions of the Combined Code (as issued in June 1998) specified by the Financial Services Authority for review by auditors of listed companies, 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 the affairs of the Corporation and the group at 31 December 2003 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 A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London
29 March 2004

Consolidated profit and loss account for the year ended 31 December

	Note	2003 £m	2002* £m
Total turnover (including share of joint venture)	1	779.3	773.7
Less share of joint venture's turnover	9	(9.7)	(6.8)
Group turnover		769.6	766.9
Cost of transmissions and sales			
recurring	2	(665.5)	(679.1)
exceptional	4	(5.7)	(14.5)
Gross profit		98.4	73.3
Administrative expenses			
recurring		(28.9)	(31.6)
exceptional	4	(1.1)	(1.7)
Depreciation	10	(10.2)	(11.1)
Revaluation	10	(2.6)	–
Group operating profit		55.6	28.9
Share of joint venture's operating loss	9	(10.5)	(9.9)
Total operating profit	1 and 3	45.1	19.0
Net interest receivable/(payable)	6	0.2	(2.5)
Profit on ordinary activities before taxation		45.3	16.5
Taxation	7	(11.0)	(6.3)
Profit for the financial year	17	34.3	10.2

*Restated – see note 1.

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

	Note	2003 £m	2002 £m
Profit for the financial year	17	34.3	10.2
Unrealised deficit on revaluation of buildings	10 and 17	(0.6)	(8.3)
Total recognised gains for the year		33.7	1.9

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



Balance sheets

as at 31 December

	Note	Group 2003 £m	Group 2002 £m	Channel 4 2003 £m	Channel 4 2002 £m
Fixed assets					
Tangible assets	10	61.0	75.2	61.0	75.2
Current assets					
Stock and work in progress	11	200.9	189.9	165.9	138.9
Debtors	12	121.4	119.1	121.8	176.8
Cash at bank and in hand	16c	80.3	70.7	80.3	70.8
		402.6	379.7	368.0	386.5
Creditors – amounts falling due within one year	13	(113.9)	(135.8)	(66.4)	(87.5)
Net current assets		288.7	243.9	301.6	299.0
Total assets less current liabilities		349.7	319.1	362.6	374.2
Creditors – amounts falling due after more than one year		–	(0.5)	–	(0.5)
Interest in net liabilities of joint venture					
Share of gross assets		5.0	17.3	–	–
Share of gross liabilities		(28.3)	(30.1)	–	–
Share of net liabilities		(23.3)	(12.8)	–	–
Loans to joint venture		21.6	12.5	–	–
	9	(1.7)	(0.3)	–	–
Provisions for liabilities and charges	14	(6.0)	(10.0)	(3.2)	(6.9)
Net assets		342.0	308.3	359.4	366.8
Profit and loss account					
Statutory reserve	17	–	84.8	–	84.8
Revaluation reserve	17	–	0.6	–	0.6
		342.0	308.3	359.4	366.8

The financial statements on pages 39 to 62 were approved by the Board of members on 29 March 2004 and were signed on its behalf by:

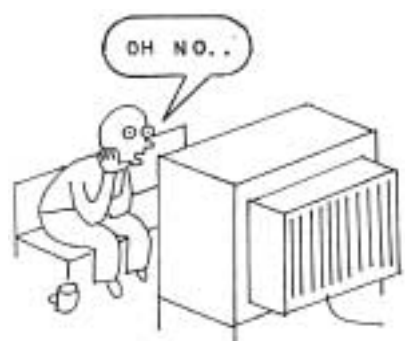
Luke Johnson

Chairman

David Scott

Managing Director and Deputy Chief Executive

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

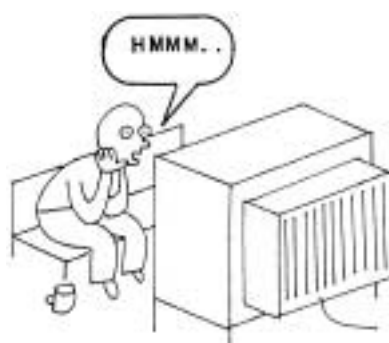


Consolidated cashflow statement

for the year ended 31 December

	Note	2003 £m	2003 £m	2002 £m	2002 £m
Net cash inflow from operating activities	15		34.4		81.9
Returns on investments and servicing of finance					
Interest received		0.8		0.4	
Interest paid		(0.6)		(2.5)	
Interest element of finance lease rentals		-		(0.1)	
			0.2		(2.2)
Taxation					
UK corporation tax paid			(11.3)		(3.1)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets	10	(3.3)		(3.1)	
Receipts from sales of tangible fixed assets		4.1		0.6	
Loans made to joint venture	9	(9.1)		(10.3)	
			(8.3)		(12.8)
Net cash inflow before financing			15.0		63.8
Financing					
Capital element of finance lease payments	15		(0.8)		(1.3)
Decrease in borrowings	15		-		(50.0)
Increase in cash in the year	15		14.2		12.5

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 2003.

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 taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have been accrued at the balance sheet date. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

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.

Fixed assets

Freehold land and buildings are stated at open market valuation and are revalued at 31 December each year. Directions from the Secretary of State for Culture, Media and Sport require land and buildings to be valued at current value. The members believe that open market value approximates to current value.

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.

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.

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.

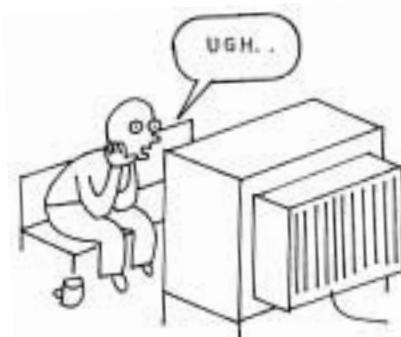
Joint ventures

Investments in which the group has a continuing 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)	
	2003 £m	2002* £m	2003 £m	2002 £m	2003 £m	2002 £m
Channel 4						
Before restructuring costs	645.0	648.0	59.4	80.2	363.5	371.8
Restructuring costs	-	-	(4.1)	(5.0)	(4.1)	(5.0)
	645.0	648.0	55.3	75.2	359.4	366.8
4 Ventures						
4 Channels						
E4	56.9	42.5	(5.1)	(16.1)	(42.3)	(38.0)
FilmFour channels	13.9	12.4	(2.7)	(6.7)	2.2	(12.6)
4 Rights	33.3	36.9	11.7	10.9	5.4	21.4
4 Learning	21.4	20.9	1.4	0.1	1.0	0.1
4 Services**	19.4	16.7	1.5	(3.5)	(7.1)	(12.5)
4 Ventures corporate	0.2	-	(3.6)	(2.0)	26.5	(2.1)
4 Ventures' consolidation adjustments	(6.3)	(5.5)	0.9	(0.4)	(0.1)	(1.0)
4 Ventures (excluding attheraces and FilmFour Ltd)	138.8	123.9	4.1	(17.7)	(14.4)	(44.7)
attheraces	9.7	6.8	(10.5)	(9.9)	(23.3)	(12.8)
FilmFour Ltd						
Before restructuring costs	24.2	33.2	(1.0)	(17.5)	1.1	12.3
Restructuring costs	-	-	(2.7)	(11.2)	(2.7)	(11.3)
	33.9	40.0	(14.2)	(38.6)	(24.9)	(11.8)
4 Ventures' consolidated business	172.7	163.9	(10.1)	(56.3)	(39.3)	(56.5)
Group consolidation adjustments	(38.4)	(38.2)	(0.1)	0.1	21.9	(2.0)
Group	779.3	773.7	45.1	19.0	342.0	308.3

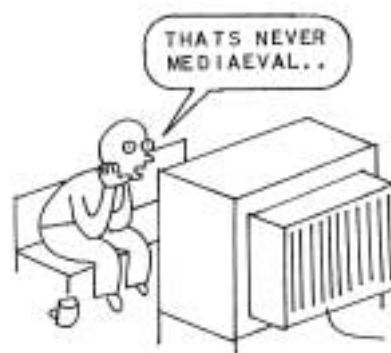
*Reclassification of costs and turnover

In light of increased guidance from FRS 5 Application Note G 'Revenue recognition', and as part of our ongoing review of financial reporting, certain elements of income and costs have been recategorised and the relevant comparatives restated. This has had the following impact on the 2002 comparative figures:

	£m
Turnover increased	4.2
Cost of transmissions and sales reduced	4.1
Administrative costs increased	(8.3)

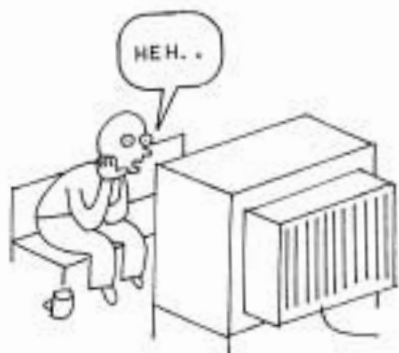
There has been no net impact on the profit before or after taxation for 2002.

**On 1 January 2004 the 4 Interactive business was transferred from the 4 Channels division to 4 Services. The table above represents this new group structure.



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				
2003							
Channel 4	457.5	26.8	19.7	19.0	19.8	13.1	555.9
4 Ventures							
4 Channels	51.8	-	5.5	2.3	6.3	11.4	77.3
4 Rights	-	-	-	-	18.5	1.2	19.7
4 Learning	10.3	-	-	0.7	5.1	1.9	18.0
4 Services	0.8	-	-	4.7	10.2	0.3	16.0
4 Ventures corporate	-	-	0.1	-	0.2	-	0.3
	62.9	-	5.6	7.7	40.3	14.8	131.3
FilmFour Ltd	21.7	-	-	-	2.6	0.7	25.0
4 Ventures' consolidation adjustments	(4.1)	-	-	(0.6)	(6.1)	(0.3)	(11.1)
4 Ventures' consolidated business	80.5	-	5.6	7.1	36.8	15.2	145.2
Group consolidation adjustments	(27.2)	-	(0.5)	(1.4)	(5.5)	(1.0)	(35.6)
Group	510.8	26.8	24.8	24.7	51.1	27.3	665.5
2002							
Channel 4	434.1	27.4	17.8	19.7	23.3	16.4	538.7
4 Ventures							
4 Channels	47.7	-	5.9	2.7	5.6	14.2	76.1
4 Rights	-	-	-	-	23.2	1.0	24.2
4 Learning	12.4	-	-	0.3	3.9	2.3	18.9
4 Services	1.2	-	-	6.1	10.4	0.4	18.1
	61.3	-	5.9	9.1	43.1	17.9	137.3
FilmFour Ltd	29.1	-	-	-	14.3	4.7	48.1
4 Ventures' consolidation adjustments	(2.0)	-	-	-	(4.8)	(0.2)	(7.0)
4 Ventures' consolidated business	88.4	-	5.9	9.1	52.6	22.4	178.4
Group consolidation adjustments	(25.5)	-	(0.8)	(0.8)	(9.9)	(1.0)	(38.0)
Group	497.0	27.4	22.9	28.0	66.0	37.8	679.1



Notes to the financial statements continued

3 Operating profit

Operating profit is stated after charging:

	2003 £m	2002 £m
Depreciation of fixed assets (note 10)		
– owned	9.4	10.6
– held under finance leases	0.8	0.5
	10.2	11.1
Research and development	7.5	7.1
Training	3.5	3.9
Members' remuneration (page 68)	3.4	2.9
Equipment hire	0.2	0.3
Other operating lease rentals	2.6	2.6
Exchange losses	0.3	0.7
Loss on disposal of fixed assets	0.1	–

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 £34.3 million (2002: £10.2 million) recorded in the consolidated profit and loss account for the year, a loss of £6.8 million (2002: profit of £22.0 million) results from the Corporation's accounts.

Fees in respect of services provided by the auditors were:

	2003 £000	2002 £000
Statutory audit:		
Channel 4	50	41
Subsidiaries	40	30
Non-audit fees for other services:		
Taxation services	16	18
Financial information technology	90	70
Further assurance services	7	4
	203	163

In addition to the above services, the group's auditor acted as auditor to the Channel 4 Staff Pension Plan. The appointment of auditors to the Channel 4 Staff Pension Plan and the fees paid in respect of those audits are agreed by the trustees of the Plan, who act independently from the management of the group.

4 Exceptional costs

As part of the ongoing process to reduce costs, additional staff restructuring took place in 2003. This resulted in further reductions to headcount across the group and exceptional costs of £3.4 million.

In the final quarter of 2003, work started on a project to make more efficient use of the group's office space, which will deliver savings in rent and associated expenses. Costs relating to this project in 2003, which will continue into 2004, amounted to £0.7m.

Whilst there was no further restructuring of FilmFour Ltd during 2003, additional costs of £2.7 million were incurred relating to the 2002 restructure. These costs were mainly in respect of film related provisions.

The majority of these 2003 exceptional costs have been allocated to cost of transmissions and sales (£5.7 million) and the remainder to administrative expenses (£1.1 million).

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:

	2003 £m	2002 £m
Aggregate gross salaries	41.9	48.1
Employer's national insurance contributions	4.1	4.2
Employer's pension contributions (note 19)	5.7	6.0
Total direct costs of employment	51.7	58.3

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

	2003 Number	2002 Number
Channel 4		
Programme commissioning	178	192
Transmission and engineering	115	122
Advertising and sponsorship sales and research	110	117
Information systems	67	76
Finance, human resources and facilities management	66	74
Corporate affairs and press office	32	43
Marketing and creative services	25	29
Corporate and strategy	13	13
	606	666

4 Ventures

4 Channels		
E4	50	60
FilmFour channels	29	42
4 Rights	38	38
4 Learning	43	49
4 Services	86	92
4 Ventures	13	8
FilmFour Ltd	3	42
	262	331
Group total	868	997

Permanent employees	834	964
Contract staff	34	33
	868	997
Male	429	456
Female	439	541
	868	997

Notes to the financial statements continued

5 Employee information continued

Travel, subsistence and hospitality expenditure was as follows:

	2003 £000	2002 £000
Members	84	177
Other employees:		
Channel 4	1,264	1,335
4 Ventures	560	756
	1,908	2,268

Staff loans outstanding at 31 December were as follows:

	2003 £000	2002 £000
Season ticket loans	107	94

There were no loans to members.

6 Net interest receivable/(payable)

	2003 £m	2002 £m
Interest receivable on short-term deposits	0.8	0.4
Interest payable on bank loans and overdrafts	(0.6)	(2.8)
Interest element of finance lease rentals	-	(0.1)
Net interest receivable/(payable)	0.2	(2.5)



7 Tax on profit on ordinary activities

The taxation charge is based on the taxable profit for the year and comprises:

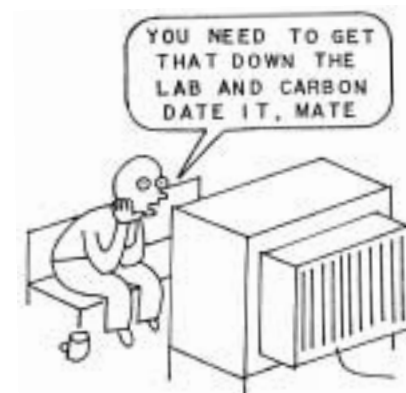
	2003 £m	2002 £m
Current tax:		
UK corporation tax at 30%	10.7	7.7
Less relief for overseas taxation	(0.3)	(0.6)
Overseas taxation	0.3	0.6
Adjustment in respect of prior years	0.5	0.3
Share of joint venture's tax credit	-	(1.0)
	11.2	7.0
Deferred tax: origination and reversal of timing differences		
Current year	0.8	1.4
Prior year	(1.0)	(2.1)
Tax on profit on ordinary activities	11.0	6.3

Factors affecting the tax charge for the year

The tax rate for the year is lower (2002 higher) than the standard UK 30% rate of corporation tax.

The differences are explained below:

	2003 £m	2002 £m
Profit on ordinary activities before tax.	45.3	16.5
Profit on ordinary activities before tax multiplied by the standard UK 30% rate of corporation tax	13.6	4.9
Effects of:		
Expenses not deductible for tax purposes	1.7	1.2
Tax credit for provision against loan to joint venture	(7.0)	-
Share of joint venture's losses	3.2	2.0
Capital allowances in excess of depreciation	(0.4)	(0.4)
Release of short-term timing differences	(0.4)	(1.0)
Adjustments to tax charge in respect of previous periods	0.5	0.3
Current tax charge for the year	11.2	7.0



Notes to the financial statements continued

8 Fixed asset investments

The cost of fixed asset investments at 31 December was:

	2003 Channel 4 £000	2002 Channel 4 £000
Subsidiary companies	1	1
Associated company	1	1
	2	2

Subsidiary undertakings

Channel 4 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 Ofcom to operate the Channel 3 and Channel 4 digital terrestrial multiplex. At 31 December 2003, 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 Ventures attheraces

4 Ventures Ltd holds 1,000 Ordinary £1 shares representing 33.3% of the issued share capital of Attheraces Holdings Ltd (attheraces), a company incorporated in England. 4 Ventures' financial commitment to this company is capped at £23.3 million, of which £21.6 million had been advanced at 31 December 2003. Full provision has been made for this investment, which represents the group's total commitments to the business.

The business of attheraces has not developed as expected. In January 2004, following the recognition that the blended Tote take out rate had fallen to below the 20% specified in the Media Rights Agreement dated 11 May 2001 attheraces served notice on the Racecourse Association to terminate the Media Rights Agreement with effect from 29 March 2004. The future of the business is uncertain, but the group has decided that it will provide no further funding to attheraces. In line with the shareholder agreement, we have no further obligation to attheraces.

During 2003, the group's share of attheraces losses has been limited to £10.5 million, bringing the group share of attheraces net liabilities up to the capped commitment of £23.3 million. Any losses in excess of this amount have no impact on group results. The group's share of Attheraces Holdings Ltd net liabilities, net of loans advanced, is:

	2003 Group £m	2002 Group £m
At 1 January	(0.3)	(1.7)
Loans advanced	9.1	10.3
Share of joint venture's operating loss	(10.5)	(9.9)
Share of joint venture's tax credit	-	1.0
At 31 December	(1.7)	(0.3)

The balance at 31 December 2003 represents amounts still to be advanced to attheraces.

The following information shows the group's share of Attheraces Holdings Ltd:

	2003 £m	2002 £m
Turnover	9.7	6.8
Loss before tax	(10.5)	(9.9)
Taxation	-	1.0
Loss after tax	(10.5)	(8.9)
Fixed assets	0.4	1.6
Current assets	4.6	15.7
Current liabilities	(5.4)	(5.3)
Liabilities due after more than one year	(22.9)	(24.8)
Net liabilities	(23.3)	(12.8)

TV Eye Ltd

Channel 4 holds 1 ordinary £1 share in TV Eye Ltd, representing 20% of the share capital. Carlton Television Ltd, Channel 5 Broadcasting Ltd, GMTV Ltd and Granada Media Group Ltd own the other 80% in equal shares. The company is incorporated in England and provides advertising agency accreditation and attribution services.

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 2003	57.1	76.1	133.2
Additions	–	3.3	3.3
Disposals	(4.1)	(1.5)	(5.6)
Revaluation	(4.0)	–	(4.0)
At 31 December 2003	49.0	77.9	126.9
Depreciation			
At 1 January 2003	0.2	57.8	58.0
Charge for the year	0.8	9.4	10.2
Disposals	(0.2)	(1.3)	(1.5)
Revaluation	(0.8)	–	(0.8)
At 31 December 2003	–	65.9	65.9
Net book value			
At 1 January 2003	56.9	18.3	75.2
At 31 December 2003	49.0	12.0	61.0

Included in equipment and furniture are assets held under finance leases with a net book value of £0.7 million (2002: £1.5 million).

Valuation of freehold properties

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

	2003 £m	2002 £m
At valuation	49.0	56.7
At cost	–	0.2
	49.0	56.9

The freehold property, comprising the office, studio and transmission centre at 124 Horseferry Road, London SW1, was valued as at 31 December 2003, 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 (which the members believe approximates to current value) for this property was £49.0 million.

Of the net reduction in valuation of £3.2 million in the year (2002: £8.3 million), £0.6 million has been taken through the revaluation reserve (note 17), and the £2.6 million remainder taken directly to the profit and loss account.

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

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

	2003 £m	2002 £m
Cost	62.3	66.5
Accumulated depreciation	(10.7)	(10.2)
Net book value based on cost	51.6	56.3

11 Stock and work in progress

	2003 Group £m	2002 Group £m	2003 Channel 4 £m	2002 Channel 4 £m
Programmes and films completed but not transmitted	102.9	97.4	82.3	67.6
Acquired programme and film rights	41.4	39.3	29.4	27.1
Programmes and films in the course of production	56.6	53.2	54.2	44.2
	200.9	189.9	165.9	138.9

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

12 Debtors

	2003 Group £m	2002 Group £m	2003 Channel 4 £m	2002 Channel 4 £m
Trade debtors	92.0	92.0	76.7	73.5
Amounts due from subsidiaries	–	–	23.7	81.5
Prepayments and accrued income	24.8	22.7	17.6	15.4
Corporation tax	–	–	–	2.4
Deferred tax	4.6	4.4	3.8	4.0
	121.4	119.1	121.8	176.8

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 2003	4.1	0.3	4.4
(Charged)/credited to the profit and loss account	(0.3)	0.5	0.2
At 31 December 2003	3.8	0.8	4.6
Channel 4			
At 1 January 2003	4.0	–	4.0
Charged to the profit and loss account	(0.2)	–	(0.2)
At 31 December 2003	3.8	–	3.8

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

A further deferred tax asset of £1.0 million (2002: £1.3 million) has not been recognised. This asset relates to capital losses carried forward in Channel 4 at 31 December 2003.

Notes to the financial statements continued

13 Creditors – amounts falling due within one year

	2003 Group £m	2002 Group £m	2003 Channel 4 £m	2002 Channel 4 £m
Bank overdraft	–	4.6	–	4.6
Trade creditors	10.2	5.6	10.2	5.5
Obligations under finance leases	0.5	0.8	0.5	0.8
Corporation tax	4.6	1.8	0.2	–
National insurance	0.7	0.1	0.7	0.1
Other creditors	2.4	6.0	1.4	4.9
Accruals	87.1	103.9	45.9	59.7
VAT	8.4	13.0	7.5	11.9
	113.9	135.8	66.4	87.5

The group supports the Better Payment Practice Code, copies of which can be obtained from the Better Payment Practice Group (website.payontime.co.uk).

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, 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 2003 was 28 (2002: 28). 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

	Channel 4		FilmFour Ltd		Group
	Rental deficits £m	Restructuring costs £m	Total £m	Restructuring costs £m	Total £m
Group and Channel 4					
At 1 January 2003	2.5	4.4	6.9	3.1	10.0
Charged to the profit and loss account	–	4.1	4.1	2.7	6.8
Utilised in the year	(0.3)	(7.5)	(7.8)	(3.0)	(10.8)
At 31 December 2003	2.2	1.0	3.2	2.8	6.0

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

The Channel 4 provision is for redundancy payments. The FilmFour Ltd restructuring costs are for film related provisions and legal expenses.

15 Cashflow from operating activities
Reconciliation of operating profit to net cash inflow from operating activities

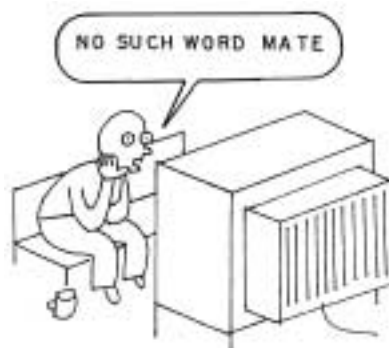
	2003 £m	2002 £m
Operating profit	55.6	28.9
Depreciation	10.2	11.1
Revaluation	2.6	–
(Increase)/decrease in stock and work in progress	(11.0)	31.0
(Increase)/decrease in debtors	(2.1)	7.9
(Decrease)/increase in creditors and provisions	(21.0)	3.0
Loss on disposal of fixed assets	0.1	–
Net cash inflow from operating activities	34.4	81.9

Reconciliation of net cashflow to movement in net funds

	2003 £m	2002 £m
Increase in cash for the year	14.2	12.5
Cash outflow from decrease in debt	–	50.0
Capital element of finance lease payments	0.8	1.3
Increase in net funds	15.0	63.8
Net funds at 1 January	64.8	1.0
Net funds at 31 December	79.8	64.8

Analysis of changes in net funds

	1 January 2003 £m	Cashflow 2003 £m	Other movements 2003 £m	31 December 2003 £m
Cash at bank and in hand	70.7	9.6	–	80.3
Overdraft	(4.6)	4.6	–	–
	66.1	14.2	–	80.3
Finance leases due within one year	(0.8)	–	0.3	(0.5)
Finance leases due after one year	(0.5)	–	0.5	–
Net funds	64.8	14.2	0.8	79.8



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 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. 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 £45 million syndicated loan facility (the facility reduced from £55 million on 8 April 2003) with a maturity date of 8 April 2004. The interest rate on advances under this facility is determined by reference to LIBOR, plus a premium of 0.45%, at the time of the advance and are fixed over the term of the advance. It is not intended to renew this facility when it expires on 8 April 2004. The syndicated loan facility was not utilised during 2003.

The Corporation has available a £10 million overdraft facility which incurs interest at 1% over base rate.

Amounts drawn against these facilities are unsecured.

c) Interest rate risk profile

The interest rate risk 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
2003					
Sterling	67.9	62.0	5.9	3.0	5
US dollar	12.4	0.3	12.1	0.7	5
Total	80.3	62.3	18.0	1.5	5
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

The financial assets on which no interest is paid represent cheques that were banked in December 2003 but did not clear until January 2004.

16 Derivatives and other financial instruments continued

The interest rate risk 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
2003 Sterling	6.5	–	6.0	0.5	2.5	304
2002 Sterling	15.9	4.6	10.0	1.3	2.5	617

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

The floating rate financial liability in 2002 consisted of amounts drawn on Channel 4'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 was as follows:

	Finance leases £m	Rental deficits £m	Restruct- uring costs £m	2003 Total £m	2002 Total £m
Within one year	0.5	0.3	3.8	4.6	13.2
Between one and two years	–	0.3	–	0.3	0.8
Between two and five years	–	1.6	–	1.6	1.9
	0.5	2.2	3.8	6.5	15.9

Obligations under finance leases are in respect of computer hardware. Repayments of interest and capital averaging £0.2 million (2002: £0.3 million) were made each quarter. The finance leases are secured over the associated assets.

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 cash balances at year end 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	
	2003 £m	2002 £m
US dollar	12.4	2.2
Euro	–	1.0
	12.4	3.2



Notes to the financial statements continued

16 Derivatives and other financial instruments continued

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 2003, the group had entered into commitments to purchase foreign currencies amounting to £17.2 million (2002: £98.4 million), maturing throughout 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 and euros amounted to £2.0 million (2002: £10.1 million), at the balance sheet date. There were no other significant unrealised losses on hedging contracts at year end.

17 Reserves

Group	Profit and loss account £m	Statutory reserve £m	Revaluation reserve £m	Total £m
At 1 January 2003	222.9	84.8	0.6	308.3
Reclassification of statutory reserve	84.8	(84.8)	–	–
Retained profit for the year	34.3	–	–	34.3
Deficit on revaluation of property	–	–	(0.6)	(0.6)
At 31 December 2003	342.0	–	–	342.0
Channel 4				
At 1 January 2003	281.4	84.8	0.6	366.8
Reclassification of statutory reserve	84.8	(84.8)	–	–
Retained loss for the year	(6.8)	–	–	(6.8)
Deficit on revaluation of property	–	–	(0.6)	(0.6)
At 31 December 2003	359.4	–	–	359.4

The statutory reserve was established under the terms of the 1990 Broadcasting Act, as amended by subsequent Parliamentary Orders. Clause 201 of the Communications Act 2003 removed the requirement for the statutory reserve. This clause came into effect on 29 December 2003 and as a result the statutory reserve has been reclassified into the profit and loss account reserve.

The revaluation reserve arose 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:

	2003 Group £m	2002 Group £m	2003 Channel 4 £m	2002 Channel 4 £m
Within one year	291.1	289.5	263.4	250.5
After one year	293.6	292.0	267.8	278.0
	584.7	581.5	531.2	528.5

b) Digital 3 and 4 Ltd

Under the terms of the shareholder agreement for Digital 3 and 4 Ltd, Channel 4 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 seven years for digital transmission and distribution. The exact annual monetary commitment will be dependent upon the time and extent of the roll-out of the digital transmission network. The group's share of the present commitments 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:

	2003 £m	2002 £m
Operating leases which expire:		
Within one year	0.2	0.2
Within two to five years	1.6	1.6
After five years	2.8	2.8
	4.6	4.6

d) Capital commitments

At 31 December the group had contracted commitments, as set out below:

	2003 £m	2002 £m
Tangible fixed assets:		
Contracted but not provided in the financial statements	0.8	0.7



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 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 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 2003 was £5.7 million (2002: £6.0 million). The contributions of the group and employees were 15.3% and 6% of earnings respectively until 1 April 2003, when they increased to 16.5% and 6.5% respectively.

FRS 17 disclosures

The pension scheme assets and liabilities have been revalued at 31 December 2003 in accordance with FRS 17 'Retirement benefits'. The assumptions which have the most significant effect on the results of the valuation at 31 December 2003 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:

	2003 %	2002 %	2001 %
Discount rate	5.30	5.50	5.75
Rate of increase in salaries	3.00	3.75	4.25
Rate of increase in pensions	2.90	2.50	2.50
Inflation	2.90	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 be a prudent reflection of recent and projected salary increases, taking account of inflation. Inflation has been applied with reference to the Retail Prices Index.

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 as 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		
	2003 %	2002 %	2001 %	2003 £m	2002 £m	2001 £m
Equities	8.00	8.00	7.00	65.3	51.6	61.2
Fixed interest	4.80	4.50	5.75	21.4	15.9	14.8
Secured annuities	5.30	5.50	5.75	3.7	3.4	3.4
Cash	4.00	4.50	5.75	0.8	0.4	0.1
				91.2	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':

	2003 £m	2002 £m
Total market value of assets	91.2	71.3
Present value of scheme liabilities	(114.9)	(92.9)
Deficit in scheme	(23.7)	(21.6)
Related deferred tax asset	7.1	6.5
Net pension liability	(16.6)	(15.1)

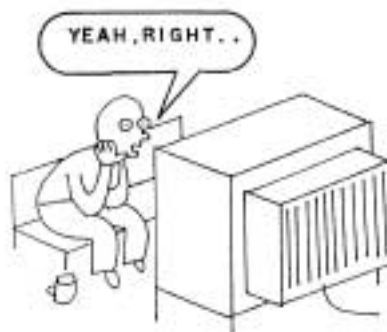
The increase in the present value of scheme liabilities to £114.9 million (2002: £92.9 million) is mainly due to members accruing further benefits, interest on prior years' liabilities, changes in the major financial assumptions used, as determined by economic and market indicators, and an updating of the mortality assumptions applied by the actuary.

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:

	2003 £m	2002 £m
Net assets excluding pension liability	342.0	308.3
Pension liability	(16.6)	(15.1)
Net assets including pension liability	325.4	293.2
Profit and loss reserve, excluding pension reserve	342.0	307.7
Pension reserve	(16.6)	(15.1)
	325.4	292.6

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

	2003 £m	2002 £m
Operating profit:		
Current service cost	5.5	5.2
Total charge to operating profit	5.5	5.2
Other finance income:		
Expected return on pension scheme assets	5.3	6.1
Interest on pension scheme liabilities	(5.5)	(4.6)
Total amount (charged)/credited to other finance income	(0.2)	1.5



Notes to the financial statements continued

19 Pension costs continued

	2003 £m	2002 £m
Statement of total recognised gains and losses (STRGL):		
Actual return less expected return on the pension scheme assets	7.8	(21.7)
Experience (losses)/gains arising on the pension scheme liabilities	(0.9)	0.4
Changes in actuarial assumptions underlying the present value of the scheme liabilities	(9.0)	(3.2)
Actuarial loss recognised in STRGL	(2.1)	(24.5)
(Deficit)/surplus in scheme at 1 January	(21.6)	0.6
Movement in year:		
Current service cost	(5.5)	(5.2)
Contributions – employer	5.7	6.0
Other finance costs	(0.2)	1.5
Actuarial loss	(2.1)	(24.5)
Deficit in scheme at 31 December	(23.7)	(21.6)

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

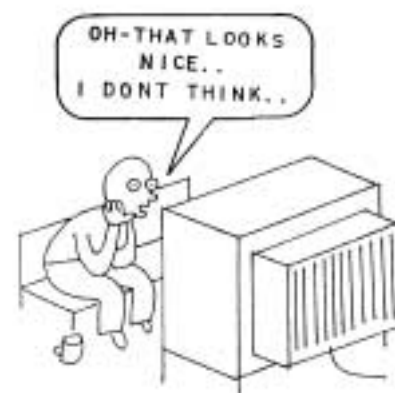
	2003 £m	2003 %	2002 £m	2002 %
Difference between the expected and annual return on scheme assets:	7.8		(21.7)	
Percentage of scheme assets		8.6		30.4
Experience (losses)/gains on scheme liabilities:	(0.9)		0.4	
Percentage of the present value of the scheme liabilities		0.8		0.4
Total actuarial loss recognised in the STRGL:	(2.1)		(24.5)	
Percentage of the present value of the scheme liabilities		1.8		26.4

20 Related party transactions

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

During 2003 Channel 4 purchased £2.2 million of terrestrial racing rights (2002: £2.2 million) from, and sold £2.2 million (2002: £1.3 million) of television pictures to, Attheraces Holdings Ltd.

In accordance with the exemption permitted in FRS 8 'Related party disclosures', Channel 4 does not disclose transactions with subsidiary group companies because these subsidiaries are wholly owned.



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 (as issued in June 1998). 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. Following the issue of the revised Combined Code in July 2003, corporate governance procedures and processes have been reviewed and are being amended to ensure continued compliance.

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 Ofcom 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 Ofcom broadcasting licences and policies regulated by the Board and in accordance with arrangements and procedures which have, to the extent required, the approval of Ofcom.

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 that 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 judgement to bear on issues of strategy, performance and resources. The Board does not consider that the transactions referred to on page 36 affect the independence of the non-executive members concerned.

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 judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2003. 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.

Corporate governance continued

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.

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, Robin Miller (committee Chairman), Sue Ashtiany and Joe Sinyor form the membership of the audit committee. Prior to his retirement, Vanni Treves was Chairman of the audit committee. Sue Ashtiany was appointed to the committee following his retirement.

At the committee Chairman's invitation, Luke Johnson, Mark Thompson, David Scott 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: Luke Johnson (committee Chairman), Robin Miller, Joe Sinyor, Mark Thompson and David Scott.

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 bonus and pension fund arrangements and related employee benefits.

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

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

Luke Johnson, Mark Thompson and David Scott attend meetings as appropriate. No executive member attends meetings of the remuneration committee at times when any aspect of his 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), Capital International Fund, Henderson Global Investors and Deutsche Asset Management at least once a year.

The trustees are Luke Johnson (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.

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.

ITC regulation

Channel 4 like other organisations is subject to domestic and European competition law, as well as regulation until the end of 2003 by ITC. Since 29 December 2003, the ITC's regulatory role has been assumed by Ofcom.

Under the terms of ITC Licence, which came into effect on 1 January 2003, Channel 4 was 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 ITC licence required that Channel 4 appoint 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.

These requirements will be revised for 2004 as a result of the Communications Act 2003 and the new Ofcom licence which took effect on 1 January 2004.

Members statement on new Ventures

Channel 4 has appointed Deloitte & Touche LLP to provide an independent review and opinion in respect of our compliance with the terms of the ITC licence as stated above. No new ventures were established in 2003.

Performance of FilmFour channels, E4 and attheraces is continually monitored against business plans approved by the Board.

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 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.

Corporate governance continued

Report to the members by Deloitte & Touche LLP

Our role is to undertake an independent review of Channel 4, in respect of their 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. They determine the procedures and controls that ensure compliance and monitor such activities.

No new ventures were established in 2003. 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 to 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 2003. We have made enquiry of management and reviewed documentary evidence and financial reporting systems operated by Channel 4 in arriving at our findings.

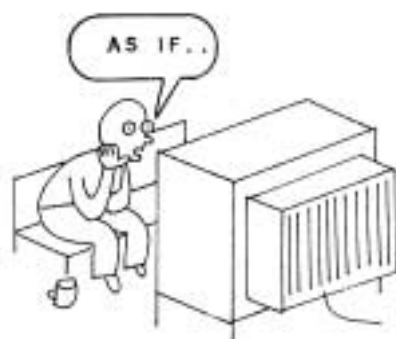
Our report has been prepared solely for the use of the members for the purpose of their fulfilling their ITC licence conditions and we assume no responsibility to any other party.

Opinion

- Based on our review of the procedures and controls and documentary evidence supplied by the members, we can confirm that: The Board has been presented with and considered business plans and investment summaries for all new ventures, upon which investment decisions are 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.
- Channel 4 has established and applied procedures and controls, which provide reasonable assurance that 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 LLP

Reporting Accountants
16 March 2004



Members

Non-executive members

Chairman

Luke Johnson

Appointed Chairman in January 2004. His appointment runs until 28 January 2007. He is Chairman of Signature Restaurants and a Governor of the University of the Arts, London.

Deputy Chairman

Barry Cox

Appointed Deputy Chairman in February 1999. His appointment runs until 31 January 2005. He is a consultant with ITN and chairs the Digital Television Stakeholders' Group.

Sue Ashtiany

Joined the Board in July 2003. Her appointment runs until 30 June 2006. She is a Solicitor and a partner in the city firm of Nabarro Nathanson. She is also a Commissioner for the Equal Opportunities Commission, a member of the Court of Oxford Brookes University and an Honorary Fellow of Harris Manchester College, Oxford.

Peter Bazalgette

Joined the Board in April 2001. His appointment runs until 30 June 2004. He is Chairman of Endemol UK plc and a Director of Brighter Pictures Ltd, Victoria Real Ltd and Zeppotron Ltd.

Andrew Graham

Joined the Board in April 1998. His appointment runs until 31 March 2005. He is Master of Balliol College, Oxford.

Sir Robin Miller

Joined the Board in February 1999. His appointment runs until 31 January 2005. He is Chairman of HMV plc and the former Chief Executive of EMAP plc.

Ian Ritchie CBE

Joined the Board in January 2000. His appointment runs until 31 December 2005. He is a Director of the Edinburgh International Film Festival and serves on the board of Scottish Enterprise.

Joe Sinyor

Joined the Board in April 1998. His appointment runs until 30 June 2004. He is an operational Managing Director with Terra Firma Capital Partners Ltd.

Executive members

Mark Thompson

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

David Scott FCA

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 a Director of 4 Ventures Ltd and Attheraces Holdings Ltd and a member of the British Screen Advisory Council.

Andy Barnes

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

Kevin Lygo

Director of Television since November 2003. Prior to joining Channel 4 he was Director of Programmes at Five. He has previously worked for Channel 4, as Head of Entertainment from 1998 to 2001, and the BBC.

Rob Woodward

Commercial Director of Channel 4 since October 2002, having joined Channel 4 in 2001 as Managing Director of 4 Ventures Ltd. He is a Director of 4 Ventures Ltd, FilmFour Ltd and Attheraces Holdings Ltd. Prior to joining Channel 4 he was a Managing Director in corporate finance at UBS Warburg.

Secretary

Paola Tedaldi



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. The other executive members participate in the Channel 4 Executive Bonus Scheme. The targets and terms for these schemes are agreed by the remuneration committee.

Service contracts

The service contracts of all the executive members are subject to notice periods of one year or less.

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

Ofcom 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	2003 Total £000	2002 Total £000
Executive members						
Mark Thompson	452	129	-	-	581	348
David Scott	381	101	20	-	502	380
Andy Barnes	255	41	-	-	296	421
Kevin Lygo (appointed 3 November 2003)	67	313	2	-	382	-
Rob Woodward	281	74	-	-	355	298
Non-executive members						
Vanni Treves	73	-	-	-	73	66
Barry Cox	24	-	-	-	24	20
Sue Ashtiany	10	-	-	-	10	-
Peter Bazalgette	18	-	-	-	18	16
Andrew Graham	18	-	-	-	18	16
Robin Miller	18	-	-	-	18	16
Ian Ritchie	18	-	-	-	18	16
Joe Sinyor	18	-	-	-	18	16
Retired members						
Tim Gardam (resigned 31 December 2003)	283	-	3	280	566	265
Janet Walker (resigned 30 June 2003)	126	-	-	388	514	271
Millie Banerjee (resigned 25 September 2002)	-	-	-	-	-	12
David Brook (resigned 16 October 2002)	-	-	-	-	-	782
	2,042	658	25	668	3,393	2,943

Kevin Lygo's bonus was in compensation for bonuses due from his previous employer.

The compensation for loss of office payments made to Tim Gardam and Janet Walker were approved by the remuneration committee and were paid in respect of past service to the company.

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 6.5% of pensionable salary, and provides members with a pension based on 1/50th of final pensionable pay for each year of service up to a maximum of two-thirds of final pensionable earnings.

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

The executive members of the plan during 2003 were as follows:

	Members' contributions during 2003 £000	Increase in accrued pension entitlement during 2003 £000	Total accrued pension entitlement at 31 December 2003 £000	Transfer value at 1 January 2003 £000	Increase in transfer value less directors' contributions £000	Transfer value at 31 December 2003 £000
Mark Thompson	10	3	6	21	25	56
David Scott	24	7	160	1,533	196	1,753
Andy Barnes	10	2	76	704	82	796
Kevin Lygo	–	–	12	102	19	121
Rob Woodward	10	3	8	34	24	68
Tim Gardam (resigned 31 December 2003)	10	4	17	121	39	170
Janet Walker (resigned 30 June 2003)	5	1	16	151	105	261

- 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 2003.
- 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 (the 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.
- from 1 May 2003, new employees are required to complete two years continuous service with the Corporation before they can join the Plan. During the two year waiting period employees are covered for death in service benefits.
- scheme members who leave within two years of joining the Plan receive a refund of their own contributions.
- scheme members who leave after being in the Plan for two years 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 are provisions for a member to exchange part of the retirement pension for cash.

Auditable information

The information in the remuneration and pension tables have been audited by the Corporation's auditors, PricewaterhouseCoopers LLP, as required by Schedule 7A to the Companies Act 1985.

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. 312 independent companies provided programmes transmitted on the main Channel 4 service in 2003 (2002: 318).

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

	2003 Hours	2002 Hours	2003 £m	2002 £m
Originated				
Independents	3,823	3,786	238.6	227.1
Other	2,360	2,127	138.3	111.1
	6,183	5,913	376.9	338.2
Acquired	2,577	2,847	71.7	87.8
Programmes total	8,760	8,760	448.6	426.0
Other direct programme costs	-	-	8.9	8.1
Channel 4 programme and other content	8,760	8,760	457.5	434.1

Production outside London

Channel 4 is keen to encourage film and television production throughout the Nations and Regions of the United Kingdom and has a number of schemes to achieve that objective. The total cost of those programmes in 2003 amounted to £114.2 million (2002: £102.3 million).

Channel 4: hours and costs of programmes

The main Channel 4 service broadcast 8,760 hours in 2003 (2002: 8,760) – 24 hours each day. The hours and costs of the wide range of programme transmissions were as follows:

	2003 Hours	2002 Hours	2003 £m	2002 £m
Entertainment	1,791	1,622	108.1	100.9
Drama	929	1,244	81.6	87.2
Education	1,426	1,327	74.4	58.7
Sport	1,041	1,133	40.6	39.5
Feature films	1,061	1,052	19.4	24.8
Other factual	530	414	29.3	23.4
News	346	280	22.5	19.9
Documentaries	295	286	17.6	19.7
Current affairs	225	250	12.7	14.8
Quiz and gameshows	448	461	10.9	10.0
Arts and music	247	250	9.3	9.9
Multicultural	191	209	12.0	9.4
Children	175	180	5.0	4.1
Religion	55	52	5.2	3.7
Other direct programme costs	-	-	8.9	8.1
	8,760	8,760	457.5	434.1

FilmFour channels

The FilmFour channels broadcast for 11,460 hours in 2003 (2002: 12,227) with 51% of these hours being subtitled (2002: 57%).

E4

E4 broadcast for 9,922 hours in 2003 (2002: 5,717) with 29% of these hours being subtitled (2002: 34%).

Ofcom

From 29 December 2003 the duties and powers of the ITC and the BSC have been transferred to Ofcom.

ITC

Prior to Ofcom assuming their responsibilities, the ITC monitored compliance with broadcasters' licence obligations (including compliance with its regulatory codes) and dealt with complaints about programmes. The ITC recorded 10 breaches of its Programme Code by the main Channel 4 service in 2003 (2002: eight), but none were judged serious enough to merit a sanction (2002: none).

Two recorded breaches of its Programme Code were noted against E4 in 2003 (2002: two), and none for FilmFour (2002: none).

Broadcasting Standards Commission ('the BSC')

Prior to the transfer of their powers to Ofcom, the BSC handled complaints concerning:

- unfair treatment and/or infringement of privacy. In 2003 three complaints about Channel 4's programmes were upheld (2002: none) and none were partially upheld (2002: one).
- standards of taste and decency. In 2003 11 complaints were upheld (2002: six) and three were partially upheld (2002: none).

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 Ofcom, in addition to stipulating the need to meet the remit, places certain specific programme obligations on Channel 4.

Principal licence requirements

	Compliance minimum	2003	2002
Average hours per week			
Education	7	13	12
News	4	6	5
Current affairs	4	4	5
Multicultural	3	4	4
Religion	1	1	1
Hours per year			
Schools	330	695	672
Percentage			
Original production			
- overall	60	71	67
- in peak-time (6 pm to 10.30 pm)	70	83	78
First run			
- overall	60	62	60
- in peak-time	80	89	85
Independent production*	25	63	65
European independent production*	10	45	42
European origin	50	77	72
Subtitling for the deaf and hard-of-hearing	76	83	84
Production expenditure outside London	30	30	30
Training and development (% of qualifying revenue)	0.5	0.6	0.6

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

Historical record

	1999 £m	2000 £m	2001 £m	2002 £m	2003 £m
Consolidated results:					
Group turnover	642.1	716.4	730.7	766.9	769.6
Group operating profit/(loss)	44.9	33.8	(24.2)	28.9	55.6
Share of joint venture's loss	–	–	(3.9)	(9.9)	(10.5)
Total operating profit/(loss)	44.9	33.8	(28.1)	19.0	45.1
Net interest	1.1	2.0	(0.1)	(2.5)	0.2
Profit/(loss) before taxation	46.0	35.8	(28.2)	16.5	45.3
Taxation	(13.1)	(14.3)	7.6	(6.3)	(11.0)
Retained profit/(loss) for the year	32.9	21.5	(20.6)	10.2	34.3

Advertising and sponsorship revenue

	1999 £m	2000 £m	2001 £m	2002 £m	2003 £m
Channel 4	600.5	651.7	619.4	645.9	643.0
ITV, GMTV, S4C and Five	2,176.9	2,315.7	2,012.4	2,031.6	1,993.8
	2,777.4	2,967.4	2,631.8	2,677.5	2,636.8
	%	%	%	%	%
Channel 4	21.6	22.0	23.5	24.1	24.4
ITV, GMTV, S4C and Five	78.4	78.0	76.5	75.9	75.6
	100.0	100.0	100.0	100.0	100.0

Audience share

	1999 %	2000 %	2001 %	2002 %	2003 %
BBC 1	28.4	27.2	26.9	26.2	25.6
BBC 2	10.8	10.8	11.1	11.4	11.0
ITV and GMTV	31.2	29.3	26.7	24.1	23.7
Channel 4 and S4C	10.3	10.5	10.0	10.0	9.6
Five	5.3	5.7	5.8	6.3	6.5
Satellite and cable	14.0	16.5	19.5	22.0	23.6
	100.0	100.0	100.0	100.0	100.0

Source: BARB all individuals

