

review

CHANNEL FOUR TELEVISION CORPORATION
REPORT AND FINANCIAL STATEMENTS 2000

MORE THAN
A TELEVISION
CHANNEL



MEDIA WEEK'S
MEDIA BRAND OF
THE YEAR

Channel 4 is like no other media organisation – commercially funded with a public service remit to foster creativity, diversity and innovation in its programmes and services at no cost to tax-payers or licence fee-payers. This combination of cultural and commercial objectives has created one of the world’s most distinctive and admired television channels; the UK’s leading independent film company and one of the most enduring and potent media brands.

Channel 4’s dedication to innovative and quality content attracts to the core channel a discerning audience of particular appeal to advertisers. This audience regards Channel 4 as *its* channel, and is also the audience that is most likely to adopt digital television, the internet and interactive services, so that Channel 4 is well placed among UK media companies to take advantage of these new media platforms.

The launch of E4 and the continued success of FilmFour demonstrate Channel 4’s strategy of building new cross-platform brands based on core reputations to serve the changing demands of our audience. Channel Four Interactive is also taking these core reputations and building them into destinations and businesses of real value on the internet, backed by the strength of these brands on other platforms, Channel 4’s marketing expertise and its long tradition of creative excellence.

The commitment to innovate has also led Channel 4 to explore the potential of new platforms in a more effective and imaginative way than its competitors. The success of **Big Brother** last summer illustrated how traditional and new media – planned and developed together – can create genuinely innovative and successful programming across multiple platforms. The same imaginative cross-platform approach is brought to Channel 4’s multicultural and educational output.

In recognition of the changing nature of its business, Channel 4 has established a new subsidiary – 4 Ventures. While this incorporates all new channels and interactive services, it will also act as the corporate entity through which future new product development, joint ventures and alliances can be considered. The creation of 4 Ventures will help protect and enhance the core channel at a time of rapid change in the market.

The aim is to ensure that Channel 4’s creativity and brand values remain as vital and salient in the next ten years of convergence as they have been in the last ten years of broadcasting and that the core channel continues to be the foundation on which we build.



MORE THAN A
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CREATIVE ENERGY

Vibrant, brimming with creative energy, hungry for fresh challenges, fired by a commitment to quality – the account of Channel 4's editorial and business achievements in 2000, laid out in this report, could be a benchmark for any media organisation anywhere in the world. Put simply, Channel 4 works.

It works because as a corporation with no shareholders it can take greater creative risks with its programmes, attracting viewers sought after by advertisers, and then recycling the profits directly back into programmes and new services. It is a major cultural asset for a culturally diverse Britain, commercially financed without public funding. No wonder *The Times* recently described it as 'a British experiment in broadcasting, envied and admired throughout the world.'

Most would see this report of our activities in 2000 as a compelling argument for maintaining our current status. However we are engaged in a privatisation debate, with the Conservative Party making an election pledge to sell off the channel while maintaining its public service remit by regulation.

Whilst welcoming the Conservatives' recognition of Channel 4's distinctive role, we made a rapid and robust rebuttal of their proposal, pointing out that privatisation would inevitably divert substantial funds into dividends to shareholders and possible spectrum charges, and would fundamentally change the channel's distinctive character. We were grateful that our view was powerfully endorsed by the Independent Television Commission (ITC) and many media commentators.

In private hands, Channel 4 would no longer be such a stimulus to Britain's creative economy, with economics dictating that it would work with far fewer than the hundreds of independent producers whose programmes it transmits annually. Most importantly, it would be forced to reduce creative risk, drifting towards safe and formulaic programming and in the process diminishing consumer choice.

ITC

We are grateful for the ITC's continued support for Channel 4, and welcome the ITC's positive assessment of Channel 4's performance in 2000 when they said 'the channel succeeded not only in building the size of its audience in a very competitive market, but in delivering its remit for programmes that are diverse and distinctive'.

FUTURE STRATEGY

Our strong and consistent opposition to privatisation does not imply resistance to change.

In a multi-channel, multi-platform environment a single-channel broadcaster has a diminishing future. We recognise that Channel 4 must diversify and grow if it is to remain a salient commercial force and a pioneer of the public service values of innovation, diversity and creativity.

The new mixed economy of pay TV, free-to-air and online services demands a careful reiteration of the channel's role and structure. As part of our emerging strategy, we decided, during 2000, to group all our secondary businesses into a single company, 4 Ventures (see page 28), so that we can finance and develop them more effectively whilst strengthening the central importance of the core channel.

4 Ventures, which will have its own representative on the Channel 4 Board, will help us to diversify the corporation's revenue base – an essential safeguard as the advertising sales market changes and consolidates. The new channels and services under 4 Ventures will work together with Channel 4's core channel to ensure the most original ideas from the creative community are reflected across our different output.

We see 4 Ventures as a vital element in building Channel 4's presence in multi-channel and digital homes and ensuring, in the words of the Government's White Paper on Communications, that public service broadcasting has 'an even more important role' in the digital age than it has now.

RESULTS FOR 2000

The financial results for 2000 were encouraging and are set out from page 38. The operating profit for the year was £33.8 million, a reduction from £44.9 million in 1999. This reflects Channel 4's increased but modest investment in diversification, which amounted to 4% of turnover.

CURRENT TRADING

The television advertising sales market has shown an uncertain start in 2001, with an overall decline in the first quarter, reflecting to some extent the strong revenues from dot.com advertising in the same period of 2000. Despite this, Channel 4 has achieved revenue growth in this first quarter, but uncertainties remain over the rest of calendar year 2001. The competition for audiences is fierce.

FilmFour channel continues to grow in line with expectations, and E4 launched well on 18 January 2001 and is meeting its targets.

COMMUNICATIONS WHITE PAPER

Our evolving strategy was vindicated by the Government's Communications White Paper which, while it gave a strong vote of confidence to Channel 4's present performance and structure,

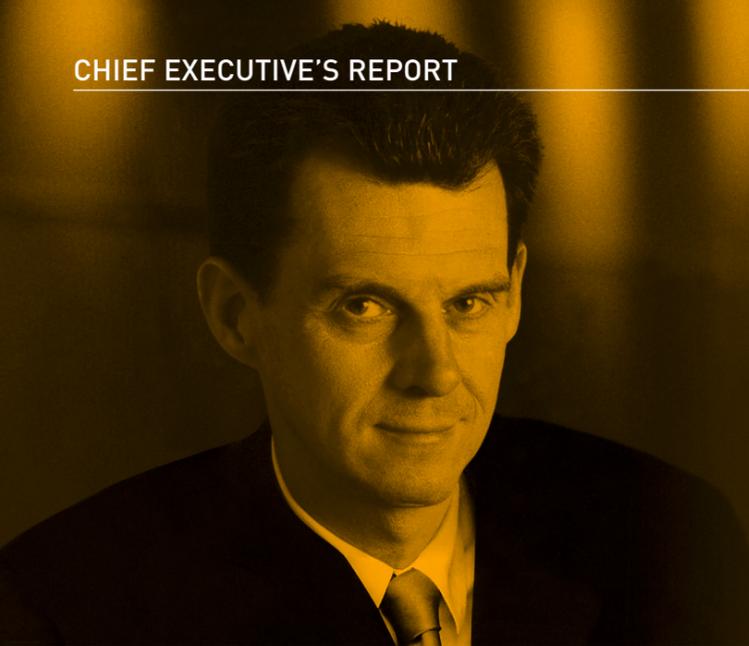
also indicated the Government's recognition that broadcasting is undergoing fundamental change. We welcomed the proposal for a single regulator, the continued commitment to public service broadcasting, and the proposals for self-regulation that will give the Board greater freedom and responsibility to interpret the public service remit in an increasingly competitive and complex environment.

SUPPLIERS AND STAFF

Our editorial and commercial success is built on our staff, and suppliers in the independent production sector, who make Channel 4 the most singular and sought-after brand in British media. Each year our debt to them grows. Everyone who contributed to the most fruitful and eventful year in Channel 4's history should feel proud of their involvement and I would like to thank them, on behalf of the Board, for their hard work, creative inspiration and commitment to Channel 4 and its ethos.

VANNI TREVES
Chairman

9 April 2001



MAKING WAVES

For Channel 4, success cannot be measured solely in bald statistics – making waves is as important to us as making money; maximising viewers' interests married to maximising the returns on our investments.

For me the success of 2000 for Channel 4 was its clarity of purpose. As the Royal Television Society's Fleming Lecturer for 2000, I likened managing a modern media company to being a 'map maker in an earthquake zone'. While some of our rivals show signs of losing their way, Channel 4 has never lost sight of who our viewers are and what they want and expect from us.

The Channel 4 schedule was studded with programmes that broke through the mundane and formulaic nature of most modern television to capture the public's imagination. **Ali G, The Day the World Took Off, Trigger Happy TV, Test Cricket, Black Books, White Tribe, Never Never, Generation Sex, Dispatches, Jam** and many others reinforced Channel 4's reputation as the home of innovative, distinctive event television. **Big Brother** was the media phenomenon of the year. Behind the scenes it was a hugely complex, multi-platform project which, in the words of one national newspaper, marked the moment when 'the internet came of age in Britain'.

The benefits of Channel 4's not-for-profit structure have never been clearer. Our dividend to viewers is greater creative risk, a higher proportion of income invested back into programmes and services and a far more diverse range of programmes than other commercial broadcasters. Channel 4 engages an audience that is young-in-spirit with public service values and makes those values relevant in the modern world. We do more to sustain the creative economy than other broadcasters, by commissioning our output mainly from independent producers. And now we do all this across multiple media platforms.

The converged media world is full of surprises, and especially full of challenges for Channel 4 as we re-think our role in the light of the changes going on. We can have only a limited future as a single television channel. At our launch in 1982 we were one amongst four; now Channel 4 is one of 200 available in the 36% of British households that are already digital and multi-channel.

Last year, against all the odds, we increased our share of audience in those multi-channel homes from 6.9% to 7.2% – an outstanding achievement but certainly no cause for complacency when compared with the 12.7% share we enjoy in conventional five-channel terrestrial homes.

4 VENTURES

If we are to maintain our salience in that fast-growing multi-channel environment and bring the values of innovative, culturally diverse programming to a new generation of viewers who, to a great extent, are passing traditional public service broadcasting by, then we not only need to invest to maintain the quality of the main channel but also we have to extend the range and creative quality of what we offer. This we are now beginning to do. Our new digital entertainment channel, E4, available in nearly seven million households, had the highest rating programme on any multi-channel service on its launch night and promises to follow the success of FilmFour channel which, with almost half a million subscribers, is itself being expanded from one channel to four.

In their start-up phase these new services require investment. In the longer term they will help keep the profile of Channel 4 visible and the public service alive. They will also allow us to

diversify our revenue base, something we must consider as the advertising market enters a period of uncertainty, with the possibility, when competition policy allows, of further consolidation of the ITV companies.

Along with our burgeoning initiatives in interactivity, broadband and online services we have grouped our new television services into a new company, 4 Ventures (see page 28), which was established at the start of 2001. That company now also houses our film production and distribution company, FilmFour Ltd, which, while it continues to develop new talent with its Lab and multicultural talent initiatives, has raised its game, and the ambitions of the whole industry, by entering into major co-production alliances with the German company Senator, Spain's Alta and Hollywood's Warner Bros.

COMMERCIAL AND CULTURAL

Channel 4's commercial success over the last two years has allowed us to build new services and brand strength, but we cannot assume the future will be so favourable. The diversity of the schedule, the fulfilment of the remit, the success of our education services (now representing £70 million of annual expenditure on-screen, online and in print), our support for hundreds of independent production companies and our extensive industry training and development programmes – all these essential elements of Channel 4's identity and purpose are dependent on winning audiences in sufficient numbers to pay our way. Drama, news, current affairs, cutting-edge entertainment and most of our multicultural output do not do so. If, as we wish, they are to continue at the heart of what we do – and what we represent – then we have to invest and diversify. The combination of commercial and cultural entrepreneurship, that has been at the heart of our success as a television channel, must now be scaled up to meet the challenge of a wider media environment.

THE FUTURE

Channel 4 has to survive and compete within the disciplines of the commercial market. It is testament to the creative skills

of our commissioning teams and supplier companies, and thanks to the extraordinary energy of our advertising sales team, that we are well positioned for the coming years.

At the very end of the year the Government's White Paper on the future of communications provided a ringing vote of confidence in Channel 4 and accorded us a central role in the development and re-invention of creativity, innovation and diversity in the digital age. We look forward with confidence and enthusiasm to fulfilling that role.

MICHAEL JACKSON
Chief Executive

9 April 2001