

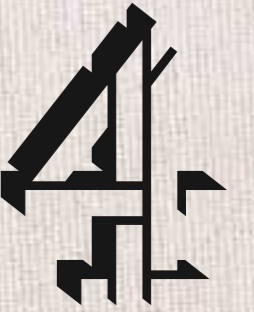
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Review

Channel Four Television Corporation
Report and Financial Statements 2005

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Anatomy for Beginners
The UK's most innovative broadcaster



Jamie's School Dinners
"...one of the best examples of a public service programme so far this century."



Torture Season
Channel 4 has more than doubled its commitment to current affairs



The Government Inspector
Channel 4 commissions more new programmes than any other channel



E4
E4 becomes the most popular multi-channel service for young audiences



FilmFour
A major force in British cinema



The Ashes
The highest audience share in Channel 4's history



The Queen's Sister
A vintage year for drama on Channel 4



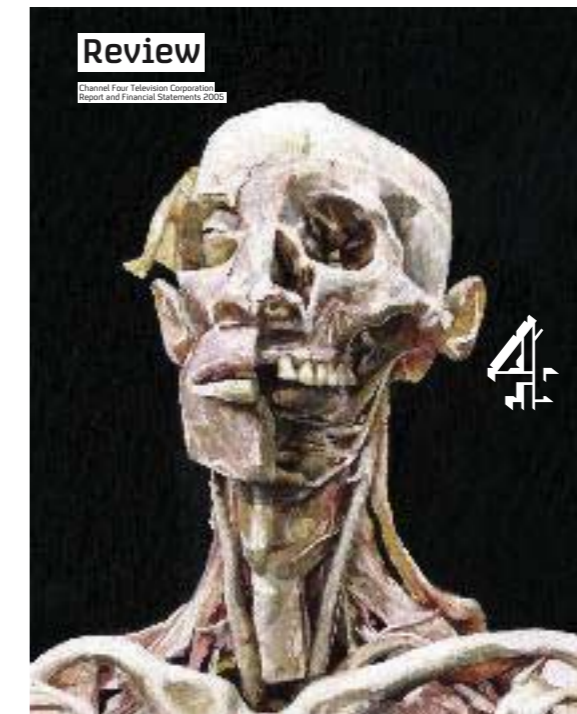
Demolition
Public service that goes beyond television



More4
A public service channel for the 21st century

FourDocs
The world's first documentary broadband channel

The four covers of the annual report reflect the range of Channel 4's programmes in 2005:



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"...one of the best examples of a public service programme so far this century."

Anatomy for Beginners
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Channel 4 provides more distinctive entertainment and enlightenment at less cost, to more citizens, than any equivalent body in Britain today.

Since it first went on air on 2 November 1982, Channel 4 has been reinventing itself. In 2005 we accelerated the process, with a number of major strategic initiatives. These are all aimed at strengthening the organisation and our core offering, as we adapt to the digital revolution already underway and prepare for the switch-off of analogue.

We launched our second digital channel, More4, a free-to-air, public service station offering 'adult entertainment' – a compelling mix of incisive and thoughtful television. It now enjoys one of the most upmarket audiences of any digital channel. We took E4, our spiky, cheeky digital channel, free-to-air as well. It increased its audience and advertising revenues dramatically. And we started Quiz Call, the first transactional channel available on Freeview. Meanwhile we continued to invest more than ever in original programming, making more new shows than any other station. In addition, the Channel 4 Corporation was able to commit £10 million to top up the pension plan.

In the last two years, the makeup of the Board has altered dramatically. Ten new members have been appointed since 2003. The past year has seen the retirement of four non-executive members who have all served the Board with distinction and I would like to take this opportunity to formally record our thanks to Barry Cox, Ian Ritchie, Sir Robin Miller and Andrew Graham.

Such change is a constant at Channel 4: fresh ideas and energy are its lifeblood. I believe we now have an outstanding team of executives, and an excellent line-up of non-executive talent. We will need all the expertise we can get if we are to maintain the success we have achieved in recent times in audience share, awards, critical coverage and revenue growth.

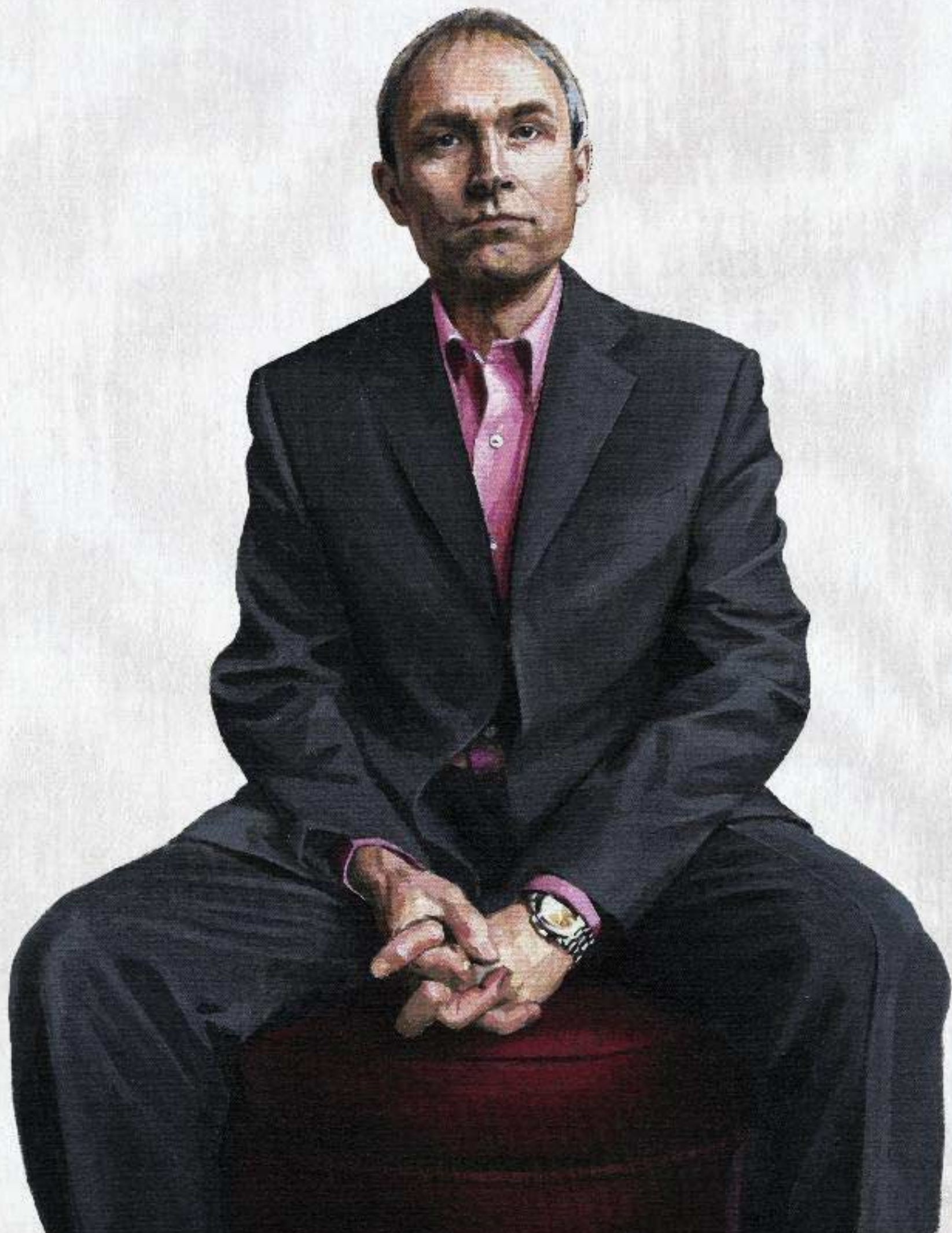
Channel 4 is a highly unusual organisation. Although it remains part of the state, it behaves in many ways as an independent, entrepreneurial outfit: flexible, market-facing and irreverent. Channel 4 is a true testament to the idea that public and private can be a potent and effective mix – a fact that many other areas of the public sector are still struggling with. We are

of course privileged, thanks to our gifted spectrum: but we also have to fulfil an extensive public service remit, which requires us to commission diverse, experimental and educative programmes. I believe we deliver above and beyond those requirements. Channel 4 provides more distinctive entertainment and enlightenment at less cost, to more citizens, than any equivalent body in Britain today.

We continue to discover and showcase new creative talent, and to push the boundaries in terms of traditional broadcasting. In drama, news, documentaries, comedy, film, US imports, reality and makeover television, Channel 4 is always attempting something new, something different, something to stir up debate. In February last year, with Jamie's School Dinners, I believe Channel 4 invented a new genre: reality TV as a political force.

By our 25th anniversary in 2007 we shall have a strong family of digital channels available free-to-air, funded principally by advertising, to complement Channel 4 itself. This year we plan to invest a record budget in original commissions of UK programmes across an extraordinary array of topics and genres. Competition for the attention of viewers is greater than ever before, and the medium term challenges remain: but I believe we can deliver for our stakeholders and our viewers. There is a magic at Channel 4 which engenders goodwill and breakthroughs in equal measure.

Channel 4 is the only terrestrial channel which grew its peaktime audience last year, a remarkable achievement given the expansion of multichannel viewing. This is entirely thanks to the hundreds of independent programme makers and the enthusiastic staff who make up the Corporation. It works because we have the confidence to take risks and believe in the future. The buzz at Channel 4 echoes Teddy Roosevelt's words: "Far better it is to dare mighty things, to win glorious triumphs, even though chequered by failure, than to rank with those poor spirits who neither enjoy much nor suffer much, because they live in a grey twilight that knows not victory nor defeat."



The success of 2005 has demonstrated the soundness of our strategy: sustain the quality and values of the core Channel 4 service; extend them to a broader family of digital channels; extend them again into the new media world.

If 2004 saw Channel 4 reaching new heights, 2005 seems to have defied gravity. We were the only terrestrial channel to maintain our all-hours audience share, and actually increase our peak-time share. We won as many BAFTAs as the rest of the industry put together, had a higher percentage of young adult viewers than BBC2 and Five combined, and generated more column inches of comment and controversy than any other broadcaster. Already in 2006, we have won more RTS programme and journalism awards than any other single channel for shows as varied as Channel 4 News, Jamie's School Dinners, The Government Inspector, Peep Show, The Unteachables and Anatomy for Beginners.

What has given me most satisfaction as Chief Executive in 2005 is that we have made a hugely encouraging start to extending Channel 4's unique brand of public service onto every significant distribution platform – something that the Government noted and welcomed in the recent BBC White Paper. That is vital to the continued health and relevance of Channel 4, and, I believe, to the future of public service broadcasting in Britain. For anyone under 25, television is no longer the default medium of choice for entertainment or information. Half of all 13 and 14 year-olds would rather say good-bye to television than the internet. That does not mean public service broadcasting is in terminal decline; rather it is a wake-up call to find new ways of expressing the values to which good public service broadcasting has always aspired. We are doing just that. What's more, we intend to do so across the full range of our output, not only on the main Channel 4 service. As BBC3 abandons its commitment to news, the 30-minute daily news programme on our new channel, More4, is attracting exactly the young viewers which BBC3 was aiming for. Sixteen of the top thirty current affairs programmes watched by 16-34 year-olds in 2005 were on Channel 4. Just because we have a particularly strong appeal to a younger audience does not mean we have abandoned our core values. We plan to take both the values and the audiences with us into the new digital world.

This is an appropriate moment to thank David Scott, who stood down as Deputy Chief Executive in 2005, having served the Channel since its birth in 1982. His financial and managerial ability, coupled with his passionate commitment to the channel and what it stands for over a quarter century earn him a special and richly deserved place in the story of Channel 4.

In this annual review, we look beyond Channel 4 itself to what the Channel 4 group has done across the whole spectrum of its activities. By launching More4; by taking E4 free-to-air; by doubling our investment in new media; by raising the core

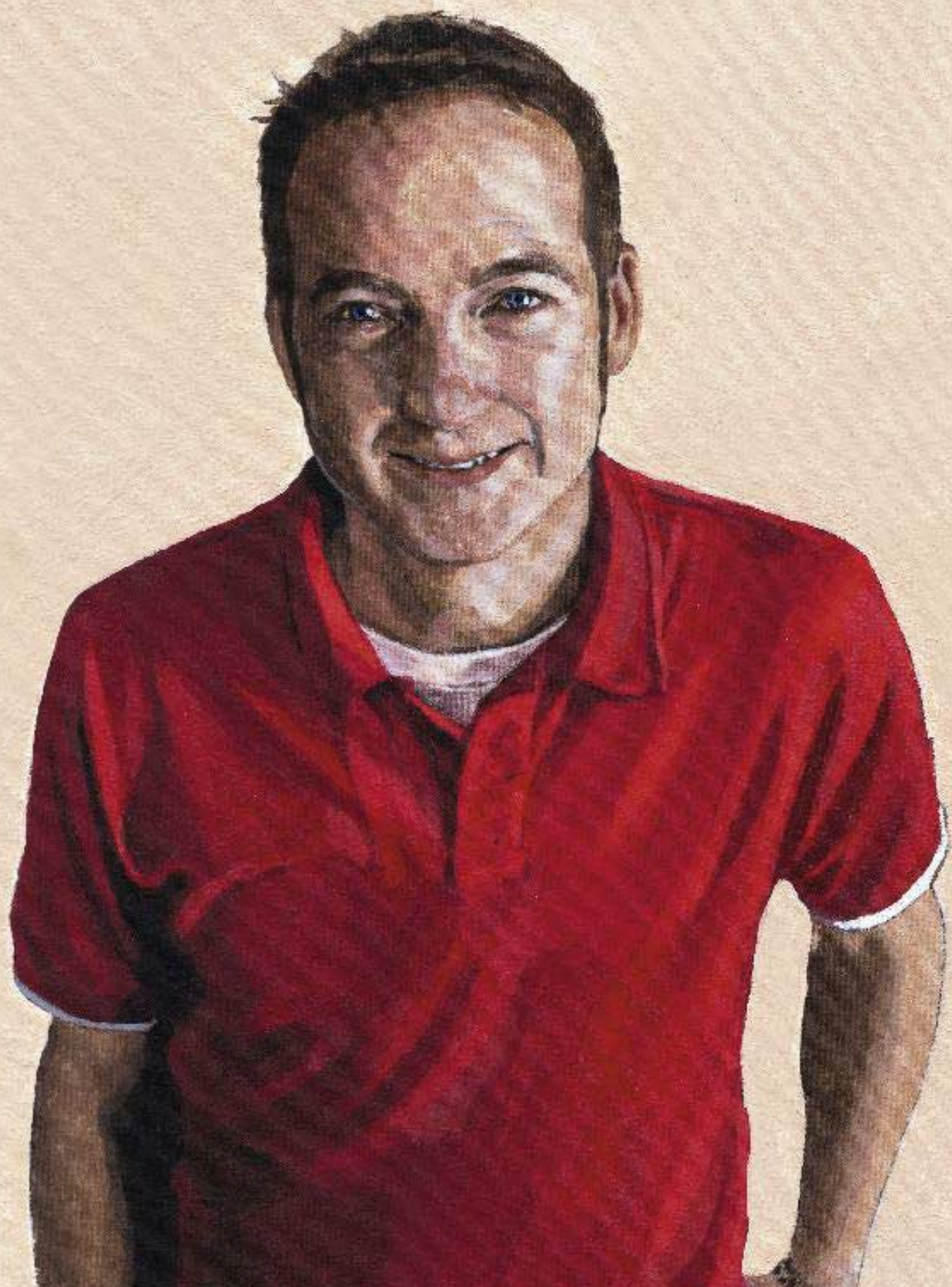
Channel 4 budget to an all-time high; and, of course, by continuing to take risks, we have grown our audience, our reach and our revenues. In 2006 we intend to make a digital radio bid and make our FilmFour service free to viewers, backed up by a new range of on-demand services. All these decisions are integral elements of a coherent commercial strategy – which is what we must have as a commercially funded broadcaster as the means to the end of delivering our public purpose. The necessary focus on commercial disciplines is what pushes us to develop new ways of delivering public benefit – and that, after all, was the intention behind the unique structure with which Channel 4 was launched 24 years ago. We have to be wherever the audience is, and available on whatever device they want to use.

2005 saw significant moves into broadband and mobile. FourDocs, the world's first documentary broadband channel is followed by a comedy channel, by online music sites and other web and mobile services that allow users to engage in totally new ways; accessing information; downloading content; showcasing their own work; exchanging information, experience and ideas. All of that opens up extraordinary new opportunities for public service broadcasting in the 21st century.

The success of 2005 has demonstrated the soundness of our basic strategy: sustain the quality and values of the core Channel 4 service; extend them to a broader family of digital channels; extend them again into the new media world.

Pleasant though it is to report success, it would be foolish to pretend that public service broadcasting can make a painless and cost-free transition to an all-digital world. ITV and Five provide daily evidence that public service programming and commercial realities do not sit easily together in this new environment. And the BBC has made it clear that the price of fulfilling its remit in the next Charter period is a substantially above-inflation settlement for the licence-fee. The blunt fact is that Channel 4 is still the only public service broadcaster for which absolutely no settlement has been agreed to accommodate the realities of a post analogue world and the end of privileged access to spectrum. We may have defied gravity in 2005, but it would be naïve to assume we can do so forever.

The dazzling success of 2005 and our strong start to 2006 is a tribute to the talent of our staff – and to the hundreds of independent production companies with whom we work in partnership. I hope you enjoy this review of what we have achieved together. I hope you enjoy Channel 4's output – on all channels and all platforms. Most of all, I hope you will help us ensure that Channel 4 continues to be a unique national asset of which Britain can be proud.



In response to the question “which channel always tries something new?” viewers rank Channel 4 50% higher than any other channel. Channel 4’s remit requires it to keep pushing the boundaries of the ‘new’ and, in 2005, we were soon testing public sensitivities with a series that began on January 14.

The UK’s most innovative broadcaster

It’s a truism that we know more about the distant planets than we know about what goes on beneath the surface of the oceans. The embarrassing truth is that most of us are just as ignorant of what goes on beneath our own skins. **Anatomy for Beginners** did exactly what it said in the title, taking the centuries old idea of the ‘theatre’ as the best way to introduce medical students to the intricacies of the human body, and using the power of television to give a wider audience a similar opportunity. Dr Gunther von Hagens and Yorkshire pathologist, Prof John Lee, methodically dissected a human corpse on four successive nights of live television. One recently qualified doctor wrote to the newspapers to say he had found the series more instructive than the first year of his degree course. Widely praised in the national press as public service television at its best, the series was nevertheless undeniably tough viewing. Nancy Banks-Smith, writing in *The Guardian*, said of the ever-controversial Dr von Hagens “The great taboo breakers are usually people with whom I would hesitate to share a table at an all-night café.” *The Sunday Express* was more direct – “weak-stomached couch potatoes should give this a miss”.



And...

Channel 4 —

Angus McQueen's three-part series, **Cocaine**, looked at the impact the drug has on those who grow and sell it, from the coca fields of the Andes to the favelas of Rio and, ultimately, to the master criminals who control its international trade. The series was a classic piece of documentary film-making, described by The Mail on Sunday as "television journalism par excellence".

Channel 4 —

A film by Simon Beaufoy, **Yasmin** questioned what it means to be Asian, British and Muslim in a post 9/11 world for a young woman, confident and at ease in western society, but also committed to the traditional values of her own and her family's culture.

T4 —

Channel 4's regular weekly strand aimed at a young audience was turned over to politics as presenter June Sarpong spent a week shadowing the Prime Minister. The television programme which resulted, **Tony and June**, included an hour-long live session in which she invited an audience of young people to question the Prime Minister about his views, policies and personal values.

Off air —

Within hours of the Indian Ocean tsunami, and well ahead of any other media organisation, Channel 4 engineers established a live link which allowed viewers to contribute to the appeal funds. Channel 4 was able to add this to the substantial sums that were also raised through **Celebrity Big Brother**.



February 23

With a General Election looming in May, late February seemed the ideal time to screen **Jamie's School Dinners**, a series that demonstrated the power of television – shocking the parents of Britain and embarrassing the Government into promising new funds and higher standards for school meals.

"...one of the best examples of a public service programme so far this century."

David Liddiment, *The Guardian*

In the drab kitchens of a south London secondary school, passion and high drama raged as Jamie Oliver and his sometimes sceptical team of dinner ladies struggled to re-invent school dinners; not only creating radically new menus on impossibly tight budgets but, at the same time, winning the hearts and minds of the children they served. Re-enforced by visits to primary schools in other parts of Britain and to doctors treating unheard of levels of child obesity, Jamie presented a catalogue of dreadful revelations about the standard of school meals, the evolution of a system of supply contracts focused entirely on cost rather than nutritional value and, finally, the impact on the health and behaviour of Britain's school-children. As the four-part series progressed, the drama off-air became even more intense than the action on-screen as parents, teachers, nutritionists and the press demanded action from the Government. In a fitting climax, the Department for Education announced new nutritional standards and, as importantly, some hundreds of millions of pounds to achieve them. Jamie became a national hero.





And...

Channel 4 —

Chris Morris's comic genius demolished forever the notion of urban cool as his toe-curlingly uncool character, **Nathan Barley**, stumbled his way through a six-part series which, in the best Morris tradition, was as sharply perceptive as it was hilarious.

Channel 4 —

Blood on our Hands: The English Civil War told the story, in three specially commissioned films, of how the England of 1640, so peaceful that there were only four people in the country who knew how to fire a mortar cannon, became, in just a decade, a nation soaked in blood, torn apart by religious and political hatred and riddled by networks of informers and secret agents.

channel4.com —

A major web initiative added to the impact of **Jamie's School Dinners** with a wealth of nutritional and policy information, suggested recipes for school dinners and tips for campaigners seeking to change the quality of school dinners in their own areas. Back-up information packs were sent to schools in every part of the UK.

FilmFour —

FilmFour continued its Oscar-winning habit as two of its films carried off the ultimate movie accolade: the Spanish language feature film **Motorcycle Diaries**; and a short film, **Wasp**, the product of Channel 4's consistent and long-term commitment to promoting young talent in the UK.

With a controversial mix of drama, reality TV and conventional documentary, the three-part **Torture Season** exposed what was to emerge as one of the great scandals of 2005 – the “extraordinary rendition” of suspected terrorists to a worldwide network of secret detention centres.

Channel 4 has more than doubled its commitment to current affairs

In 2005, while other broadcasters cut back on current affairs, or pushed it to the margins of their schedules, Channel 4 increased the number of programmes in its long-established current affairs strand, **Dispatches**, from 12 per year to 28. This uplift allowed important new initiatives such as **The Torture Season**, a week-long series of programmes which examined the impact on human rights of the US-led ‘war on terror’. Clive Stafford-Clark, the first British lawyer allowed into the Guantanamo Bay prison camp, argued for an end to illegal and abusive practices in the detention and interrogation of prisoners. Andrew Gilligan, the journalist at the centre of the Hutton Inquiry into the BBC’s reporting of Britain’s involvement in the invasion of Iraq, revealed the still unacknowledged practice of the US authorities in shuffling terrorist detainees between secret interrogation camps around the world. But the centrepiece of the season proved to be a dramatic re-construction in which a group of volunteers were subjected to a regime identical to that operated by the US military in Guantanamo Bay. Assuming this to be a perverse reality game show, one national organisation denounced the programme in advance as “sick entertainment”, but after its screening it was widely applauded. One viewer, typical of many, called Channel 4 to say “Thank you. I did not know these things were going on and I’m very glad you made the programme”.

And...

Channel 4 —

The New Ten Commandments, a two-hour special presented by Jon Snow, asked 50,000 people to recite the Ten Commandments (few could) and then spell out the tenets by which they tried to live their own lives in 21st-century Britain. The overwhelming theme of the new commandments was mutual respect and generosity of spirit.

FilmFour —

The UK television premiere of **Supersize Me**, an Oscar-nominated documentary, followed its maker Morgan Spurlock as he lived for a month on a relentless diet of McDonald's meals, graphically demonstrating the impact of fast-food on the physical and emotional health of a fit young adult.



Channel 4 works with more independent production companies than any other broadcaster and, in 2005, brought more new and original programmes to the screen than any other channel in the UK – and did it right across the board from drama and current affairs to comedy and animation.

Channel 4 commissions more new programmes than any other channel

Of many high-profile and highly-regarded original commissions in 2005, few exceeded the impact of **The Government Inspector**, written and directed by Peter Kosminsky. It told the story of Dr David Kelly, the weapons expert whose death came as a tragic and shocking climax to a year of political controversy over the Government's decision to join the American invasion of Iraq. The *Government Inspector* proved to be a particularly powerful example of Channel 4's increasing commitment to drama as a means of exploring issues of contemporary and near-contemporary public concern. Starring Mark Rylance as Dr Kelly, the piece was described by *The Guardian* as "television drama in excelsis, hitting all the right buttons – action, comedy, pathos, satire... as well as having shedloads of righteous political anger".

And...

Channel 4 —

In **Gospel Truth** theologian Robert Beckford tested the extraordinary view of Yale University's Professor of Music that the true roots of black gospel music lie not in Africa but in the metrical psalms which Scots highlanders took to the New World as immigrants.

Channel 4 —

Many of the RAF's Battle of Britain fighter pilots had time for only nine hours training in Spitfires before going into combat. In a four-part series, **Spitfire Ace**, modern-day pilots were put through an identical training programme in one of the few Spitfires still flying, while veteran pilots recalled tales of death and daring from Britain's "finest hour".

Channel 4 —

Search for the Northwest Passage was a tale of two expeditions – and of two very different philosophies. The British explorer Franklin set out to conquer the Arctic with all the confidence of Victorian England, but perished with his entire crew. The Norwegian Amundsen, with rather more humility, adopted the approach and the technologies of the local Inuit people, and became the first human to reach the North Pole.

Off air —

A Special Award at the British Book Trade Awards for **Richard & Judy**, whose book club helped sell 7.5 million books. The Award Committee estimated 1.8 million people had bought a book they would not otherwise have bought.





May 23

On May 23 our entertainment channel, **E4**, moved from a pay service to being free to nine million digital homes. The result was dramatic – it doubled its audience share.



E4 becomes the most popular multi-channel service for young audiences

When **E4** launched in 2001, Channel 4 became the first terrestrial broadcaster with a digital entertainment channel targeted at younger viewers. It quickly became an essential and much-loved part of what audiences expected from Channel 4. Unsurprisingly, others looked to copy the formula so, in 2005, E4 moved on again, becoming available without the need to pay a subscription and with significant new investment and a 24-hour schedule which includes a major commitment to new music. The result has been to make it the strongest performing channel in its class, beating Sky 1, ITV2, BBC3 and Living TV, amongst others. By the end of the year it had the biggest 16-34 year-old audience of any non-terrestrial channel on British TV. Does that matter? Yes, because in an increasingly competitive environment dominated by a handful of media giants, a genuinely independent public service broadcaster like Channel 4 will only grow if it continues to find new ways of attracting new audiences.



And...

Channel 4 and E4 —

The sixth series of **Big Brother** kicked off, revealing once again the values and attitudes of Britain today and, in the process, re-establishing its unarguable position as the biggest, best and most original of all TV reality shows.

channel4.com —

slashmusic, a £1 million site, promotes the best of new music, allows fans to download 350,000 tracks (making Channel 4 the first terrestrial broadcaster to offer this facility), lists gigs nationwide and, in its 'Making Music' section, allows new bands to showcase themselves and their music.

New media —

Channel 4 became the first commercial broadcaster to open a **mobile portal**, offering viewers access to Channel 4 content and information via their mobile phones, and including the first UK-based mobi-soap – a drama specially designed to be seen on mobile phone screens.

Off air —

As broadcaster and core sponsor of Britain's premier literary festival, at **Hay-on-Wye**, attended by 90,000 people, Channel 4 added to the range of events with film screenings and a series of interviews with film-makers and script writers.



Channel 4 has been responsible for many of the most distinctive British films of the last 25 years, and for discovering much of the nation's top film talent, in front of the camera as well as behind it. The story has been one of consistent commitment to new talent and new ideas.

A major force in British cinema

In 2005, Channel 4 dedicated £10 million to the development and production of feature films. But the total investment in new film and major single dramas (as opposed to drama series and serials) was over £30 million, with a further £2 million devoted to training and talent initiatives for writers, directors and actors. The result has been a continuing flow of films that reflect life and values in contemporary Britain. Amongst these, in 2005, were titles as varied as **Unknown White Male**; **Me and You and Everyone We Know**; and **Festival** (see illustration opposite), a first feature by the Scottish American film-maker, Annie Griffin. Her wickedly sharp observation of life at the Edinburgh festival, won the Best Comedy Film award at the UK Comedy Awards. After learning much of her craft on Channel 4's short film schemes, Annie went on to build one of Scotland's leading television production companies. She says one of the attractions of working with Channel 4 is that "there is real respect for the individual voice". There is respect for the viewer, too – with the FilmFour channels, and their associated websites, Channel 4 offers dedicated cineastes the best selection of British cinema available on television.

FILMFOUR

And...

Channel 4 —

As the G8 leaders gathered in Gleneagles, **Channel 4 News** went to Africa for a week, broadcasting from a different country each day to give British viewers a fresh perspective on the world's highly topical development agenda.

Channel 4 —

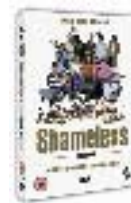
The British Working Class, one of a three-part series on class, argued that the white working class has been left disenfranchised and disinherited by social change in Britain and has allowed itself to be marginalised and caricatured as nothing but yobs, racists and chavs.

channel4.com —

channel4.com provided online support for the biggest ever exploration of Roman Britain in **The Big Roman Dig**. Initiated by Channel 4's **Time Team**, the most popular archaeology programme on television, thousands of amateur archaeologists, working with expert professional supervision, probed new and established sites for evidence of the Romans in Britain.

Off air —

Channel 4's Consumer Products division launched its own **DVD label** which, in just seven months, sold more than a million units, including Britain's fastest selling fitness title, **Max & Paddy's The Power of Two**.





In 2005 Channel 4 doubled its investment in new media, focusing particularly on content and services for broadband and mobile users. One such initiative, **FourDocs**, launched in mid-August, provided a foretaste of the future of public service broadcasting.

The world's first documentary broadband channel

Part of Channel 4's long-term strategy of transforming itself into a multi-platform media business, the launch of **FourDocs** harnessed digital technology for public service broadcasting in a radically new way. It combines the content viewers might expect from a high-quality specialist TV channel with a comprehensive information resource for aspiring documentary film-makers and a platform for them to showcase their work. And, of course, it is accessible anywhere in the world through channel4.com. FourDocs allows users to view classic and contemporary documentaries and to explore films and online resources about the art, and business of documentary-making. Its unique extra dimension is to allow documentary-makers to upload their own films. All contributors are required to make their work available on a Creative Commons licence, giving them the right to download and use anything on the site, providing they make their work available to others on a similar basis – a true virtual community of film-makers.

 **four docs**



And...

Channel 4 —

Born to be Different recorded the birth and first five years of six severely disabled children and the impact on their families. The most poignant of the three episodes was the last, as the children reached school age and their hard won struggles to lead 'normal' lives contrasted sharply with the growing independence of their school peer-groups.

E4 —

To celebrate the 10th anniversary of the **V Festival**, one of the major live music events of the year, E4 sponsored the Festival's second stage and streamed content from the Festival on both days, including live backstage interviews with performers.

channel4.com —

Channel 4's online services provide background information for hundreds of television programmes each year, from education to entertainment. On what was probably the most sophisticated site ever devised to support a TV programme, aficionados of Channel 4's hugely popular drama series **Lost** were able to interact with characters from the series through a bespoke game and dig deeper into the mysteries of the plot by accessing a dedicated website.

FilmFour —

Using the spectacular courtyard of Somerset House, in central London, FilmFour held a week of **open-air film screenings**. Titles ranged from *Close Encounters* and *Shaun of the Dead* to *Flash Gordon*.



September 12

The final day of the Summer's fifth and final Test against Australia, saw Channel 4's share of Britain's TV audience hit an all-time high of just over 23%... and England won **The Ashes**.

The highest audience share in Channel 4's history

It was a fitting climax to what had been one of the most thrilling Test series in living memory, and a poignant finale to Channel 4's seven-year commitment to re-position cricket for a new, younger and more diverse audience after decades of slow decline. Along the way, Channel 4 and the production company, Sunset and Vine, won almost every national TV sports award, transformed the experience of watching cricket on television with innovations such as the snickometer and Hawkeye, and ran a major programme of initiatives to re-vitalise school and community cricket. To some it seemed a touch ironic that, following the decision by the England and Wales Cricket Board to end the contract with Channel 4, cricket's last day on free-to-air terrestrial television should have prompted one national newspaper to splash the headline "Cricket fever helps TV ratings hit new peak".





And...

Channel 4 —

140,000 school children are excluded from school each year for bad behaviour. **The Unteachables** took 16 of the most intractable culprits and, in a four-part series, showed how over a four-month period of intensive and often fraught experiences in a 'study-camp', they were inspired to re-engage with learning and with their own best aspirations.

Channel 4 —

In the first of a three-part series, Matt Collings looked at **Self Portraits** through the ages, each episode featuring the creation of a new self-portrait by a contemporary artist – in this case Julian Opie. In a linked initiative, Channel 4 sponsored a major exhibition of self-portraiture from the Renaissance to the present day at the National Portrait Gallery.

E4 —

Overall, the Channel 4 group invested £10 million in live and commissioned music in 2005. A significant part of this investment allowed E4 to become a 24-hour-a-day channel, with music being broadcast every day from 6am to 2pm. As with much of E4's programming, the emphasis from the beginning was on interactivity and audience involvement.

Off air —

With traditional documentary film-making under growing pressure in the competitive schedules of today's commercial television, Channel 4 sponsored an initiative to raise the skills – and the ambitions – of a new generation of documentary film-makers, and to assist them in getting distribution for their work. **The Channel 4 British Documentary Film Foundation** was born with £2 million from Channel 4.



While most broadcasters launch new digital channels in an ever more frantic chase for younger viewers, Channel 4's new free-to-air service, **More4**, promised "adult entertainment" for an intelligent adult audience. The result has delighted viewers – of all ages.

A public service channel for the 21st century

With a mixture of high-profile premieres, new commissions, focused 'seasons', a daily programme of serious world news, the best of American imports – and the best of Channel 4, More4 added a new and distinctly 21st-century dimension to public service broadcasting in Britain. Its launch night featured **A Very Social Secretary**, a dramatised account of Labour Home Secretary David Blunkett's much publicised affair with Kimberley Quinn, the high-society publisher of the emphatically not-Labour Spectator. Satirical and, at times, almost surreal, the two-hour drama drew praise from the national press. The Times hoped that it provided "a microcosm of the Channel's promised remit". The gratifyingly large audience for the Channel's opening night seemed hooked. Within weeks More4 was beating many of its rivals out of sight and its daily half-hour news programme had become the most watched on any digital channel. By the end of the year More4's audiences were bigger than those for BBC4, demonstrating, as Channel 4 had always believed, that here was a sizeable group of viewers still being underserved – despite the hundreds of channels available to most British viewers.



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And...

Channel 4 —

Set against the back-drop of a fully working restaurant kitchen, Gordon Ramsay's **The F Word** aimed, over nine weeks, to provide the definitive guide to food – in shops, restaurants, recipe books and domestic fridges.

Channel 4 —

A four-programme season looking at Islam's centuries-old relationship with European art and culture, **Hidden Civilisations** explored the history of Muslims in Britain, the musical and artistic traditions of Islam and the story of the Spanish Moors.

channel4.com —

ORIGINATION invited users to create a new online cultural map of Britain by uploading the story of their and their family's history, wherever they came from, and spelling out the contribution they felt their community had made, and was making, to British culture. **ORIGINATION** is a development of the Black and Asian History Map, an initiative by Channel 4 which helped to establish Black History Month and which has spawned literally hundreds of autonomous websites built and maintained by school and community groups.



Coming at the end of a year in which new drama was a central feature of Channel 4's schedule, **The Queen's Sister** epitomised the Channel's role as the pioneer and provocateur of British television – it generated praise and rage in almost equal measure, and stimulated energetic discussion.

A vintage year for drama on Channel 4

With the line "disobedience is my joy", the character of Princess Margaret unleashed a torrent of powerful and contradictory responses from the critics in what several newspapers described as an "explosive" drama. Most agreed that the central performance by Lucy Cohu was brilliant. The Daily Mail and the Daily Express dismissed the whole piece as "vulgar slander" and "royal travesty". Rupert Smith of The Guardian confessed that "... by the end of the two hours I was thinking... she should have been Queen". Taking a more dispassionate and analytical view, Bryan Appleyard, writing in The Sunday Times thought it marked "the moment when the royals stop being news and become, instead, a modern myth". For The Daily Telegraph it highlighted "the pointlessness of being a princess at the end of the 20th century". In a year in which Channel 4 increased its investment in new single dramas by £13 million, **The Queen's Sister** provided ample evidence that drama still is, in every sense, a vital and relevant part of public service broadcasting.

And...

Channel 4 —

Peep Show follows the private worlds of Mark and Jeremy, two sadly inadequate 20-somethings who share a south London flat and struggle vainly to find love and fulfilment amidst the confusion of modern life. Now in its third series and already a winner of awards in Britain and overseas, it has grown from a tentative late-night experimental comedy into a mainstream success.

More4 —

Long after most digital channels have stopped thinking for the night, More4's late night **The Last Word** gives viewers lively and opinionated discussion four nights a week, with a rotating cast of argumentative presenters including David Starkey, Oona King and Alexei Sayle.

channel4.com —

Developed jointly with the Imperial War Museum, **Lost Generation** puts online for the first time the names of the First World War dead recorded on UK war memorials. Visitors to the website can trace long-dead members of their families and, by uploading text and images, help turn a mere list of names back into real people.

channel4.com —

The **Breaking the News** project gave 150 16 year-olds the chance to create a full national television news bulletin which was webcast on channel4.com. A linked online resource for schools allows material to be downloaded from **Channel 4 News** so that students can create their own news programmes, and so learn how news is created and reported.





Many Channel 4 programmes have an ambition to shape and change public debate in Britain, rather than simply reflect it. Jamie's School Dinners may have been the undoubted classic of 2005 – but it was by no means the only one.

Public service that goes beyond television

Demolition invited the public to nominate the building they most wanted to see removed from the landscape of Britain. More than a thousand were nominated, from toilets and multi-storey car parks to palaces and parliaments. A sobering note was that nearly all of them have been designed and built since the 1950s. The four-part series, in which 10,000 viewers voted, triggered an intense and heated national debate about the quality of buildings and public space. The London magazine *Time Out* called it “an intelligent and provocative series about the nature of architecture in society and our relationship with the built environment”. The most hated building in Britain was revealed to be the shopping mall of Cumbernauld New Town, just outside Glasgow. One Cumbernauld resident commented wryly that at least it was better to win than come second. Others said they wanted to vote for the demolition of the entire town, not just the shopping centre. With the new Scottish Parliament building also in the top ten of ‘hates’ it seemed, as *The Times* put it, that “the poll has particularly caught the imagination of people in Scotland who are angry about many of the public buildings around them”.

And...

Channel 4 —

Married to the Prime Minister gave a unique insight into contemporary public life as Cherie Booth, talked about 'living above the shop' in Downing Street, and met three of her predecessors to discuss what is expected of a Prime Minister's spouse in an age of unrelenting media focus on politicians.

Channel 4 —

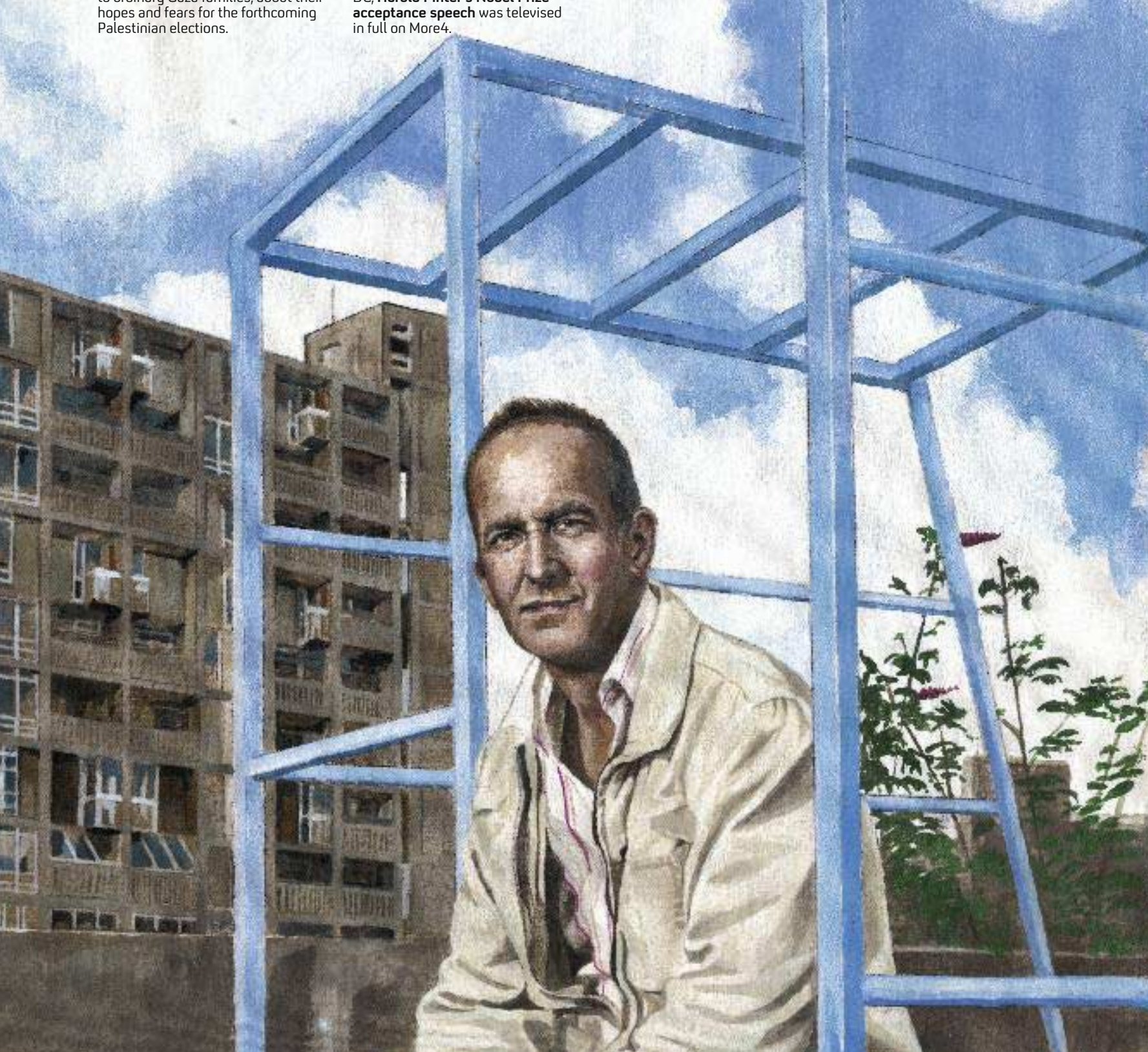
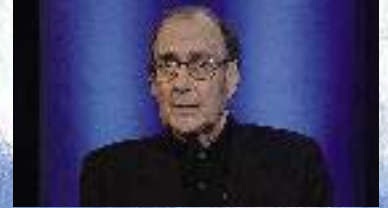
Unreported World, Channel 4's regular current affairs strand on international issues, visited Gaza to talk to Hamas militants, some in Israeli prisons, some in their own training camps, and to ordinary Gaza families, about their hopes and fears for the forthcoming Palestinian elections.

E4 —

Run jointly with the magazine *Creative Review*, E4's annual **E-stings** competition invites young designers to create five-second idents for E4. The best 25 pieces of work are broadcast on E4 and the overall winner, decided by an online vote, receives a £15,000 commission for further work.

More4 —

In a surprise deal which delighted viewers, fuelled countless energetic dinner table debates throughout Britain and probably caused acute indigestion in parts of Washington DC, **Harold Pinter's Nobel Prize acceptance speech** was televised in full on More4.



Awards

From start to finish, 2005 was a record year for awards won by Channel 4 and our many supplier companies. To put it in context – Channel 4 won as many BAFTAs (the gold standard for British TV awards), as all the other broadcasters put together.

Channel 4's best year ever of awards success

* Note: names in brackets next to the programme denote the relevant production company

January —

Broadcast Awards

- *Brat Camp* (Twenty Twenty)
- Best Documentary Series
- *Shameless* (Company)
- Best Drama Series

Dance on Camera Festival

- *DV8 The Cost of Living* (DV8 Films)
- Jury Prize

Halloween Short Film Festival

- *Monsters*
- Audience Award 2005

South Bank Awards

- *Dead Man's Shoes*
- Best Film

Sundance Film Festival

- *Me & You & Everyone We Know*
- Special Jury Prize for Originality of Vision
- *Wasp*
- Short Filmmaking Award (International)

Workworld Media

- *Channel 4 News* (ITN)
- TV Programme Award (Business & Economics team)

February —

BAFTA Film Awards

- *The Motorcycle Diaries*
- Film Not in the English Language; Film Music

BAFTA Interactive Awards

- *IDEASFACTORY West Midlands*
- New Talent Award (Dan Jones)

Evening Standard Awards

- *Dead Man's Shoes*
- Best Actor (Paddy Considine)

London Critics' Circle Film Awards

- *Enduring Love*
- British Actor of the Year (Daniel Craig)
- *The Motorcycle Diaries*
- Foreign Language Film of the Year

RTS Journalism Awards

- *Channel 4 News*
- Television Journalist of the Year (Lindsey Hilsum)

March —

Business Journalist Of The Year Awards

- *Channel 4 News*
- Best Broadcast Story (Liam Halligan on Pensions)

EU Awards (Northern Ireland)

- *Sarah Moves On* (Westway Film Productions)
- Achievements in Peace and Reconciliation

House Beautiful Awards

- *Location Location Location* (Ideal World Productions)

Indie Awards

- *Ramsay's Kitchen Nightmares* (Optomen)
- Best Programme offering Advice, Information or Instruction Award
- *The Boy Whose Skin Fell Off* (Yipp Films)
- Best Contemporary Documentary
- *Shameless*
- Best Drama Award, London Studios Indie
- *That'll Teach 'Em* (Twenty Twenty)
- Reality Award
- *What We Still Don't Know* (Darlow Smithson)
- Science, Technology/Natural History Award
- *Peter Kay Live at Manchester Arena* (Phil McIntyre/Goodnight Vienna Prods)
- Scripted Comedy Award

Learning on Screen Awards

- *Bricking It* (IWC Media)
- Broadcast Award – Graphics
- *Karbala website*
- Interactive Multimedia Award – Lifelong Learning

The Oscars

- *The Motorcycle Diaries*
- Music (Song)
- *Wasp*
- Short Film (Live Action)

Philadelphia Film Festival

- *Me & You & Everyone We Know*
- Archie Award for Best First Film

Reims Film & Television Festival

- *Sex Traffic* (Granada co-produced with the Canadian Broadcasting Corp)
- First Prize – Series/Serial category

RTS Programme Awards

- *Shameless*
- Drama Series, Writer (Paul Abbott)
- *Sex Traffic*
- Drama Serial, Actor Female (Anamaria Marinca)
- *Omagh* (Tiger Aspect/Hells Kitchen Prod)
- Actor Male (Gerald McSorley)
- *Green Wing* (Talkback Thames)
- Comedy Performance (Tamsin Greig)
- *Supernanny* (Ricochet South)
- Features and Factual Entertainment
- *The Boy Whose Skin Fell Off*
- Network Newcomer – Behind the Screen (Patrick Collerton)
- *Sopranos* (HBO)
- RTS International Award

April —

BAFTA Television Awards

- *Shameless*
- Drama Series
- *Sex Traffic*
- Drama Serial, Actress (Anamaria Marinca)
- *Omagh*
- Single Drama
- *Ramsay's Kitchen Nightmares*
- Features
- *Death In Gaza* (Frostbite Films)
- Current Affairs
- *Not Only But Always* (Company)
- Actor (Rhys Ifans)

- *Black Books* (Assembly Film & Television)
- Sitcom
- *Green Wing*
- Pioneer Audience Award
- Jon Snow
- Richard Dimbleby Award
- *Omagh*
- Alan Clarke Award for Outstanding Contribution to Television (Paul Greengrass)

B-EST International Film Festival

- *Hamburg Cell* (Mentorn Prods)
- Best Director (Antonia Bird), Jury's Award, Critic's Award, Best Actor (Karim Salah)

Broadcasting Press Guild Awards

- *Shameless*
- Best Drama Series, Best Writer (Paul Abbott), Best Actress (Anne-Marie Duff)
- *Omagh*
- Best Single Drama

Campaign Magazine Awards

- *Friends* (Warner Bros)
- Press – Best Advertisement in Consumer Magazines, Press – Best Media & Entertainment Advertisement (Ends Fri)

Roger Ebert's Overlooked Film Festival

- *Me & You & Everyone We Know*
- Golden Thumb

Voice of the Listener Awards

- *Bremner Bird & Fortune* (Vera Productions)
- Best Television Programme

May —

BAFTA Craft Awards

- *Sex Traffic*
- Editing Fiction/Entertainment (Mark Day), Make Up & Hair Design (Caroline Noble), Original Television Music (Jonathan Goldsmith), Photography & Lighting Fiction/Entertainment

- (Chris Seager), Production Design (Candida Otton), Sound Fiction (Simon Okin, Jane Tattersall, David McCallum, Lou Solakofski)
- *The Boy Whose Skin Fell Off* New Director Factual (Patrick Collerton), Editing Factual (Nick Fenton)

Cannes (Critics Week)

- *Me & You & Everyone We Know* Critic's Week Grand Prize, Camera d'Or Cannes, Youth Jury Prize

Cannes 2005 (Director's Fortnight)

- *Sisters In Law* (Vixen Films) Prix Art Et Essai

D&AD Awards 2005

- Channel 4 Identity Television & Cinema Graphics & Idents – Brand Identity – Gold Award, Television & Cinema Advertising Crafts – Special Effects – Silver Award

Rose D'or (Lucerne)

- *Supernanny* (Ricochet Prods) Reality Programme
- *Max & Paddy's Road to Nowhere* (Ovation Ent.) Sitcom Performance (Peter Kay)
- *DVB – The Cost of Living* Arts & Specials
- *Green Wing* Female Comedy Performance (Pippa Heywood)

RTS Sports Television Awards

- *Freesports on 4* (Boomerang Prods) Sports Show or Series
- *Channel 4 Racing* (Highflyer Prods) Sports Pundit Award (John Francome)

June —

Anecny Animation Festival

- *City Paradise* (Gaelle Denis) Special Distinction Award

BANFF Television Awards

- *Not Only But Always* Best Made-For-TV Movie

One World Media Awards

- *Death in Gaza* Children's Rights Award

RTS Educational Television Awards

- *Howard Goodall's 20th Century Greats – Lennon & McCartney* (Tiger Aspect) Secondary Arts and Languages
- *My Shakespeare* (Shine Prods) Educational Impact in the Primetime Schedule

July —

ANNA's

- *A Bear's Tail* (Bellyache Production) Press Ad of the Month

Cambridge Film Festival

- *Get The Picture* Audience Award

Cinedans (Amsterdam)

- *DVB – The Cost of Living* Audience Award

Monte Carlo Television Festival

- *Omagh* Best Television Film, Best Performance by an Actor (Gerald McSorley), Best Performance by an Actress (Michelle Forbes), Signis Prize
- *Sex Traffic* Best Performance by an Actress (Anamaria Marinca)
- *The Illustrated Mum* (Granada Kids) Prize of the Monaco Red Cross
- *Six Feet Under* (HBO) Outstanding Actor of the Year (Michael C. Hall)

August —

Multi-Cultural Scotland Awards

- Channel 4 Multi-Culturism in the Media Award

TV Quick/TV Choice Awards

- *Jamie's School Dinners* (Fresh One Prods) Best Factual Show
- *Desperate Housewives* (Disney) Best New Drama

September —

Clarion Awards

- *Sarah Moves On* Television Award

Emmy News & Documentary Awards

- *DNA: The Human Race* (Windfall Films) Outstanding Science & Technology Programme

Primetime Emmys

- *Lost* (Disney) Drama Series
- *Desperate Housewives* Direction, Actress Comedy Series (Felicity Huffman)

Prix Italia

- *Sex Traffic* Drama
- *DVB – The Cost of Living* Performing Arts

Royal Anthropological Institute Film Festival, Oxford

- *Sisters In Law* Audience Award Best Film

virtualfestivals.com Awards

- *T4 on the Beach* (Done & Dusted) Best One Day Festival of 2005

October —

AOP Awards

- Channel 4 Chairman's Award

Bar Council Awards for Legal Reporting

- *Channel 4 News* (Report on the leak of the Attorney General's advice on the legality of the Iraq War)

Campaign Magazine Awards

- *Shameless* Posters – Best 96 Sheet Poster (Lost Supper)

Mental Health Media Awards

- *Make Me Normal* (Century) Best Television Documentary
- *A-Z Of Your Head* (Lambent Prods) Best Children & Youth Programme
- *Channel 4 News* Making a Difference Award
- *Channel 4 News* Best News Category (for an item dealing with prison suicides)

National Television Awards

- *Jamie's School Dinners* Best Popular Factual Programme, Special Recognition Award (Jamie Oliver)
- *Big Brother 6* (Endemol Entertainment) Best Reality Programme

Remploy Leading the Way Awards

- Channel 4 Taking the Initiative Award

RTS Midlands Awards

- *IDEASFACTORY West Midlands* Best Creative Innovation

November —

ANNA's

- *The Queen's Sister* (Commemorative plate) Press Ad of the Month

BAFTA Children's Programmes Awards

- *School of Hard Knocks* (UMTV) Schools Factual Secondary Award

BAFTA Scotland Awards

- *Location Location Location* Best Factual Show
- *Festival* (Pirate Productions) Best Actor (Chris O'Dowd), Best Director (Annie Griffin)

BIFAs

- *Festival* Best Debut Director
- *Six Shooter* Best British Short

British Comedy Awards

- *Shameless 2* Best Comedy Drama
- *The Simpsons* (20th Century Fox) Best International Comedy
- *Festival* Best Comedy Film

Campaign Media Gold Awards

- Andy Duncan Media Achiever of the Year

Foreign Press Awards

- *Channel 4 News* Young Journalist of the Year (Ali Fadhil)

Gemini Awards

- *Sex Traffic* Best Costume Design, Best Dramatic Mini-Series, Best Supporting Actress (Anamaria Marinca), Best Production Design

Glenfiddich Spirit of Scotland Awards

- Stuart Cosgrove Broadcaster of the Year

Grierson Awards

- *Sisters in Law* Best Documentary on a Contemporary Issue

Promax UK

- Channel 4 received a record 26 awards (11 Gold and 15 Silver). Including Gold Awards for:
 - *Jamie's School Dinners* Best Television Campaign
 - *Desperate Housewives* Best Launch
 - *Shameless* Best Print and Poster

RTS Craft and Design Awards

- *Sex Traffic* Tape and Film Editing (Mark Day), Production Design – Drama (Candida Otton)
- *Cocaine* (October Films) Tape and Film Editing – Documentary/Factual (Brand Thumim), Music – Original Score (Jonathan Whitehead)
- *Playing It Straight* (Lion TV Productions) Music – Original Title Music (Jamie Forsyth and Brian Beacock)
- *Life Before Birth* (Pioneer Film and Television Productions) Visual Effect – Special Effects (Toby MacDonald, David Barlow and Artem)
- *Anatomy for Beginners* (Firefly Film and Television) Graphic Design – Programme, Content Sequences (Juliet Percival and Nick Curwin)
- *Channel 4 Cricket* (Sunset & Vine) Judges Award

RTS Regional Awards

- *Why Men Wear Frocks* (TwoFour Prods) Best Network Programme

Screen Nation Awards

- *Last Rights* (Touchpaper Television) Best Drama Television & Film, Best Leading Male (Ashley Walters)

Stockholm International Film Awards

- *Festival* Best Screenplay

December —

Campaign Magazine Awards

- Channel 4 Medium of the Year, Advertiser of the Year

New Media Age Awards

- Channel 4 Companies of the Year Award

4 Talent

Talent is the lifeblood of television. Channel 4's success depends on identifying and nurturing the very best new and emerging talent, on and off-screen, and helping the 311 independent producers from whom we commission programmes to do the same. In 2005 we invested more than £5 million in some 40 schemes that reached every nation and region of the United Kingdom.

Britain's biggest investor in independent creative talent

3 Minute Wonders —

Commissions new film-makers to create three-minute programmes for prime TV slots, every week night.

4 Theatre Directors' Scheme —

Provides an intensive year-long training for three young directors each year, based in regional theatres. Past participants include Trevor Nunn, Adrian Noble and Vicky Featherstone.

Animate! —

Is a collaboration with the Arts Council to create experimental animation for television.

Animators In Residence (AIR) —

Located within the National Museum of Photography, Film & Television in Bradford, this scheme allows four animators each year to develop projects with Channel 4.

Birkbeck College MA In Theatre Directing —

Channel 4 supports one student each year on this post-graduate course.

The Channel 4 British Documentary Film Foundation —

This new Foundation aims to shape a brighter future for British documentary-making by helping young film-makers and by supporting the development, production and distribution of documentary films.

The Channel 4 TV Journalism Trainee Scheme Bursary —

Supports journalists on the postgraduate course in Television and Current Affairs Journalism at City University in London, with a guarantee of six months' work to follow.



Cheltenham Science Festival —

From 2005, Channel 4 has been the television media partner for the world's leading science festival.

Cinema Extreme —

A joint initiative with the UK Film Council to help film-makers develop their first feature film.

Comedy Lab —

Gives new writers and performers the opportunity to create a half-hour programme for late-night TV. Past successes include Trigger Happy TV, Peter Kay's Phoenix Nights and The Last Chancers.

Coming Up —

Is run on Channel 4's behalf by IWC Media to help new script-writers and directors.

Company Development Deals —

Provide up to £50k to help small independent TV production companies to grow.

Deaf Training —

An initiative with independent production companies to train deaf talent working on Channel 4's long-running strand for deaf viewers, Vee-TV. It also supports them in gaining subsequent experience on mainstream programmes.

FT2 and '4Skills' —

Channel 4 sponsors four people from diverse communities to undertake apprenticeships with two of the industry's recognised training providers.

Future Perfect —

FilmFour and the Channel 4 drama department sponsor this writing scheme run by Paines Plough Theatre for six new writers aged 18-26.

IDEASFACTORY —

Channel 4's regionally-based online and on-the-ground initiative to empower, motivate and inspire young people to get in and get on in the creative industries.

London Film School Bursary —

Offers bursary support to two students from ethnic minority communities to achieve a postgraduate qualification in film-making and scriptwriting.

MESH —

Run jointly with NESTA, MESH funds animators, gamers and graphic designers to use new techniques in digital animation and interactive fiction. The four best script ideas are developed and screened on Channel 4.

New Comedy Writers —

A new scheme to find new comedy writers or teams of writers, with guaranteed commissions with a leading production company to follow.

National Film and Television School —

Channel 4 commits over £250k a year to one of the world's top film schools.

National Youth Theatre (NYT) —

Channel 4 funds a programme at the NYT to help young writers from diverse communities create short plays for the Soho Theatre.

One World Broadcasting Trust —

Channel 4 supports the Trust's work in providing training bursaries for up-and-coming film-makers from the developing world.

Perrier Comedy Awards —

Channel 4 co-sponsors these awards, which showcase the best new comedians at the Edinburgh Fringe Festival. Past winners include Dylan Moran, Jenny Éclair and The League of Gentlemen.

Producer Pilot Training Scheme —

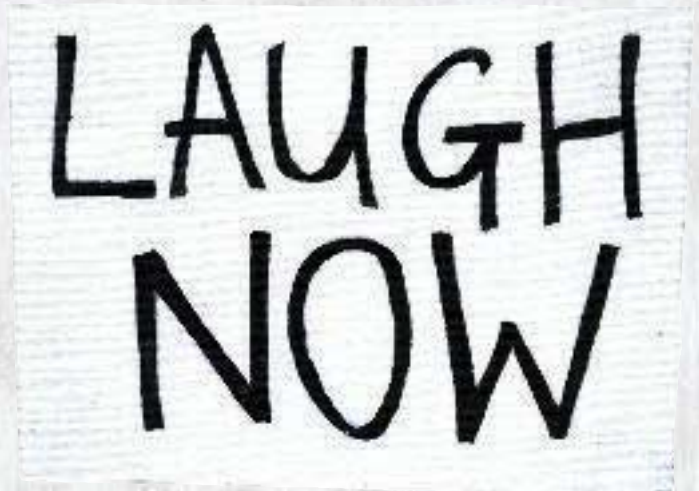
This 18-month course boosts two young TV professionals to the role of series producer. It is designed to attract and retain talent within the Scottish TV industry.

Research Centre for Television & Interactivity —

Serves small production companies from all the nations and regions of the UK. It is based in Channel 4's Glasgow office.

Researcher Development Programme —

Allows 14 non-London based production companies to employ a full-time research and development worker for one year, and gives them access to senior commissioning editors from all major UK broadcasters.



Researcher Training Programme —

An entry-level programme for young people from diverse backgrounds, with structured training and intensive work experience.

Rory Peck Trust —

Channel 4 funds the Trust's practical training for freelance film crews working in war zones and other hostile regions.

Runners' Scheme —

Gives new recruits to the industry four months' experience as 'runners' based at Channel 4.

Sheffield International Documentary Festival —

As part of its sponsorship of the Festival, Channel 4 gives young documentary-makers the opportunity to pitch a proposal for a 30-minute documentary. The winner is given a £30k commission to make their programme.

Skillset Freelance Training Fund —

Channel 4 contributed £300k to this fund, which provides high-quality training for freelancers in the television industry.

Talent Fund for Actors with disabilities —

Run jointly by the BBC and the Channel 4-funded Actors' Centres in London, Manchester and Newcastle, the programme offers masterclasses, workshops and networking opportunities.

Television for Young People (TVYP) —

With Channel 4 as one of its sponsors, TVYP is the educational arm of the Media Guardian Edinburgh TV Festival and provides 150 young people (18-21 years) with the chance to attend the Festival, as well as attending bespoke masterclasses, workshops and career surgeries.

The Club —

With the ICA, the Arts Council and NESTA, Channel 4 supports this business exchange and skills network for 500 young creative entrepreneurs

The Factual Holy Grail —

An intensive development scheme, dedicated to producing one or more major history series for television from Scotland.

The Other Side —

An eight-programme TV series, with a £500k budget, which allows first-time directors to cut their teeth on Channel 4's evening schedule.

Trainee Disabled Journalist on Channel 4 News —

Channel 4 and ITN have developed this new scheme to create high-profile opportunities for journalists with disabilities. Participants receive extensive training and mentoring from senior producers and reporters at ITN while working as TV journalists.

Youth Culture TV (YCTV) —

A pioneering youth project in West London that teaches young people, mainly from disadvantaged backgrounds, a variety of television skills.







Operating and financial review

Objectives

Channel 4 exists to provide a range of innovative, creative and distinctive content to cater for the rapidly changing society we live in today. In order to fulfil our remit in a fully digital world and to optimise commercial revenue in a multi-channel, multi-platform environment, our strategy is to maintain a strong core Channel 4, to develop a multi-channel portfolio in preparation for digital switchover and to develop a position on new media platforms.

Preparing for the future

The media environment is changing at an ever increasing rate and the impact of new technological developments will be significant to commercial terrestrial broadcasters. During 2005, we invested in New Media and other ventures, to help support Channel 4 as digital switchover draws closer and to reach out to audiences across a wide range of media platforms.

In 2005 we achieved a surplus after tax of £48.5 million (2004: £44.6 million) which will be used to invest in new and existing services to help retain our unique position in the UK broadcast environment.

Investing in original programming

In 2005, we increased the group's total investment in programming and content by almost 8% to reach £573.2 million. This investment supported our strategy of maintaining a strong Channel 4 and developing a portfolio of channels in preparation for the transition to a fully digital environment. Central to this was taking E4 free-to-air, the launch of our newest channel, More4, and preparing for the launch of FilmFour on Freeview in 2006.

Audience

Our commercial performance is dependent on delivering valuable airtime to advertisers. All aspects of audience data (including total audience, audience share, demographics and commercial impacts) are monitored closely throughout the year and compared with previously agreed targets. In line with our strategy to develop a diverse and engaging portfolio of channels prior to digital switchover, the group's portfolio audience share rose to 11.0% (2004: 10.5%). Growth was driven by the performance of new channels, a key objective in defending advertising income in a fully digital world.

Financial performance

	Revenue		Operating profit	
	2005 £m	2004 £m	2005 £m	2004 £m
Channel 4	735.2	710.0	80.0	46.1
4 Channels	88.0	77.0	(34.8)	0.1
4 Rights	53.5	41.6	10.6	14.1
New Media	24.5	18.4	0.3	3.1
Other	15.7	7.6	(2.6)	(4.1)
FilmFour Ltd	6.5	20.2	3.4	0.5
Eliminations	(29.1)	(33.4)	–	–
	894.3	841.4	56.9	59.8

Group

Revenue

Group revenue rose by more than 6% to reach £894.3 million (2004: £841.4 million). Channel 4 achieved growth in advertising and sponsorship revenue of 5%. Digital channels revenue increased from E4 launching on Freeview and the launch of More4. New Media and 4 Rights increased revenues and revenue earned by businesses other than Channel 4 represented 18% of the group total after removing the impact of intragroup sales (2004: 17%).

Operating profit

Increased advertising and sponsorship revenue improved Channel 4's year on year operating profit. Group operating profit reflects investment in 4 Channels and New Media services to establish a strategic position and to make our services available to as wide an audience as possible, sustaining group revenues in the short to medium term.

Channel 4

Channel 4's operating profit rose to £80.0 million from £46.1 million. Advertising and sponsorship revenue increased by £35.2 million, which was partly offset by additional investment in programme and other content and marketing.

Restructuring costs reduced by £8.9 million year on year to £2.8 million. A £2.9 million increase in the value of the Horseferry Road building (2004: £7.7 million decrease) contributed £10.6 million to the improvement in Channel 4 operating profit.

Programmes and the Ofcom licence

In 2005 Channel 4 increased expenditure on programmes to almost £500 million. Channel 4's total expenditure on programmes was £499.3 million (2004: £485.5 million). We met all our Ofcom licence obligations. The percentage of hours of originated programmes was 61% overall (target 60%) and 74% in peak hours (target 70%). We also achieved the target of 30% (£107.7 million) of Channel 4's originated programming being supplied by production companies from outside the M25.

Other businesses

In the first quarter of 2005, the structure of our other businesses was revised. The aim of the review was to enhance management effectiveness and co-operation across our various activities, as the media environment evolves and delivery platforms become less well delineated. The main changes were moving the constituent elements of 4 Learning into other operating divisions, including 4 Rights, New Media and Channel 4. The businesses which were previously included in the 4 Services unit have also been reallocated.

2005 saw a number of significant developments for 4 Channels, most notably launching E4 on Freeview (combined with an increase in the programme budget of more than 30%) and launching our third digital channel, More4.

4 Rights revenue increased primarily as a result of a restructure of the DVD business, which brought more activities in-house. 4 Rights operating profit, however, reduced. As reported last year, the impact of the Programme Supply Review will significantly reduce returns from the exploitation of secondary rights over the coming years.

New Media revenue increased by more than 30%, but investment in new services including the launch of FourDocs and the Channel 4 mobile portal (the first commercial broadcaster to do so), along with enhanced video content for both online and mobile resulted in reduced profit.

The main contributors to the increase in other revenue and operating performance were 124 Facilities, 4 Creative and our new transaction based digital channel, Quiz Call.

Group foreign currency, cash and treasury management

Details of the group's foreign currency, cash and treasury matters are disclosed in note 19. The group's treasury management policies and strategies were reviewed during the year, contributing to an increase in interest earned. Further details of the accounting policy for financial instruments are set out on page 43.

Group taxation

The group is subject to corporation tax on its profits. The group profit recorded for 2005 has given rise to a £18.3 million tax charge (2004: £19.1 million). The group effective tax rate of 27% (2004: 30%) is broadly in line with the standard UK corporation tax rate, as explained in note 6.

The Channel Four Television Staff Pension Plan

As explained in note 22, the group operates a defined benefit pension plan providing benefits based on final pay. The plan assets and liabilities have been revalued at 31 December 2005 in accordance with IAS 19 'Employee benefits' and the net accounting deficit on the scheme of £32.1 million has been recorded on the year end balance sheet (2004: £25.5 million). The related deferred tax asset of £9.6 million (2004 £7.6 million) has also been recorded.

Contributions to the plan are determined following a triennial review by a qualified independent actuary. The most recent valuation was at 1 January 2006 which showed the actuarial value of the plan's assets represented 90% of the benefits accrued to members. To ensure the plan continues to be adequately funded, the Board approved additional contributions of £4.3 million (paid in December 2005) and £5.7 million (paid in March 2006). The actuarial valuation takes account of the 2005 additional payment of £4.3 million. The 2006 additional payment increases the scheme's asset ratio to 94%. Proposals for eliminating the remaining deficit in the scheme are being discussed by the trustees of the Plan and Channel 4. In light of this actuarial valuation, the employer's standard contribution rates are also under review.

International Financial Reporting Standards

The 2005 accounts are the first that the group has prepared under International Financial Reporting Standards (IFRS). The adoption of IFRS gives rise to the following changes:

- (i) Recognition in the balance sheet of the net liability on the Channel Four Television Staff Pension Plan, which amounted to £32.1 million at 31 December 2005 (2004: £25.5 million).
- (ii) Recognition of costs of internally developed computer software as an intangible asset in the balance sheet. The net value of these intangible assets (after amortisation) amounted to £4.2 million at the end of 2005 (2004: £5.8 million). Previously such costs were written off as incurred to the profit and loss account.
- (iii) Recognition of certain financial instruments at fair value. Since it was decided not to apply IAS 32 and IAS 39 to the 2004 comparative figures, these financial instruments have only been recognised in the balance sheet since 1 January 2005. At 31 December 2005, these financial instruments were included on the balance sheet as a liability of £1.1 million.
- (iv) Deferred tax adjustments have been made as necessary on these changes.

More information on the transition to IFRS is shown in note 24.

Report of the members

The members present their report and the audited financial statements for the year ended 31 December 2005.

Principal activities

Channel Four Television Corporation (Channel 4) is a statutory corporation, without shareholders, established under the terms of the Broadcasting Act 1990.

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 Ofcom, which came into effect on 28 December 2004.

The core public service channel is available on the main digital broadcast platforms. To maintain relevance and impact with audiences in a digital age, new services including More4 and FourDocs have been established in 2005.

The group also pursues various commercial activities which are incidental and conducive to the operation of Channel 4. These include:

- E4, which specialises in entertainment programming and FilmFour, the film channel, which will be launched on Freeview during 2006.
- Exploitation of secondary rights through the sale of programmes and associated products (DVDs, books etc).
- New Media businesses including internet advertising and telephony services.
- 124 Facilities providing post production and studio facilities.
- 4 Creative providing creative design and production services.
- Ostrich Media Ltd which operates the group's transaction based television channel.

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 66.

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 Channel 4 are listed on page 73. Since 1 January 2005, the following members have been appointed or retired:

Appointments	Date of appointment
Tony Hall CBE	1 April 2005
Anne Bulford	4 July 2005
Rod Henwood	25 July 2005
Stephen Hill	1 January 2006
Lord Puttnam CBE	1 February 2006
Martha Lane Fox	1 February 2006
Retirements	Date of retirement
Rob Woodward	31 January 2005
Andrew Graham	31 March 2005
David Scott CBE	25 July 2005
Ian Ritchie	31 December 2005
Barry Cox	31 January 2006
Sir Robin Miller	31 January 2006

Details of members' remuneration are contained within the report on members' remuneration on pages 74 and 75.

Members' interests

Channel 4 fully embraces the principles of good corporate governance and, to this end, makes full disclosure of all members' interests. During 2005, members, in addition to their non-executive member fees as disclosed on page 74, were interested in the following contracts negotiated at arm's length on normal commercial terms with the group:

- Barry Cox's company, Mapledene TV Productions Ltd, received £15,600 for consultancy services.
- Luke Johnson is a director of the Cobden Club, which received £11,100 for services provided.
- Andy Mollett is a director of EMI Music Publishing Ltd. EMI group companies received a total of £456,500 during 2005 for programme related costs.

Employment policy

Channel 4 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.

Channel 4 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 2005 was 12% (2004: 12%). Women continue to form the majority of its staff at 54% (2004: 51%).

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. Channel 4 has continued to invest significantly in its staff through training and development. Channel 4 has been accredited with the Investors In People standard since 2001. In addition, 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. The group has two recognised trade unions, BECTU and Equity.
- an internal communications function, which aids effective communication across the organisation, co-ordinates internal culture activities and helps to implement business change projects.

Charitable donations

During 2005, the group donated £1.8 million to charities (2004: £1.3 million). Of this amount, £1.3 million (2004: £1.2 million) was paid to charities to provide training that will improve the overall expertise of television staff in the industry. The remainder, £0.5 million (2004: £0.1 million) was raised from voting in **Celebrity Big Brother** and **The Games** and was donated to other charities.

Development

The group devotes substantial resources to the development of scripts and treatments for possible commissioning. Programme development expenditure charged to the income statement in 2005 amounted to £12.1 million (2004: £9.1 million).

Financial instruments

The group makes use of financial instruments to assist in managing exposure to foreign exchange risks. Further details are provided in note 19.

Channel 4 website

In keeping with our strategy to connect with viewers across all platforms, Channel 4 has published this report on its website, channel4.com

International Financial Reporting Standards (IFRS)

The group and Channel 4's 2005 financial statements are the first that have been drawn up under IFRS. The impact of the change from UK GAAP is described in more detail in note 24.

Auditors

KPMG LLP have been appointed as auditors to 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:

Andy Duncan

Chief Executive
27 March 2006

Report of the auditors

Independent auditors' report to the members of Channel Four Television Corporation (Channel 4)

We have audited the financial statements of the group and Channel 4 (the "financial statements") for the year ended 31 December 2005 which comprise the consolidated Income Statement, the consolidated and Channel 4 Balance Sheets, the consolidated and Channel 4 Cashflow Statements, the consolidated and Channel 4 Statements of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

In addition to our audit of the financial statements, the members have engaged us to audit the information in the members' remuneration report that is described as having been audited, which the members have decided to prepare as if Channel 4 were required to comply with the requirements of Schedule 7A to the Companies Act 1985.

This report is made solely to Channel 4's members, as a body, in accordance with the Broadcasting Act 1990 and direction thereunder by the Secretary of State and the terms of our engagement. Our audit work has been undertaken so that we might state to Channel 4's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Channel 4 and Channel 4's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of members and auditors

The members' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU are set out in the Statement of members' responsibilities on page 67.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) and under the terms of our engagement letter, to audit the part of the members' remuneration report that is described as having been audited.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 as if those requirements were to apply. We also report to you whether the part of the members' remuneration report to be audited has been properly prepared in accordance with the Companies Act 1985 as if the disclosure and measurement requirements of the Act had applied to these financial statements and if, in our opinion, Channel 4 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 other transactions is not disclosed.

In addition to our audit of the financial statements, the members have engaged us to review their corporate governance statement as if Channel 4 were required to comply with the Financial Services Authority listing rules in relation to these matters. We review whether the statement on page 67 reflects Channel 4's compliance with the nine provisions of the FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not.

We are not required under the terms of our engagement to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. Our responsibilities do not extend to any other information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 part of the members' remuneration report to be audited. 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 group's and Channel 4'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 part of the members' remuneration report to be audited 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 and the part of the members' remuneration report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the group's affairs as at 31 December 2005 and of its profit for the year then ended;
- Channel 4's financial statements give a true and fair view, in accordance with IFRS as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of Channel 4's affairs as at 31 December 2005;
- the financial statements have been properly prepared in accordance with the Broadcasting Act 1990 and the Companies Act 1985, to the extent that those provisions are applicable;
- the part of the members' remuneration report which we were engaged to audit has been properly prepared in accordance with Schedule 7A to the Companies Act 1985, as if those requirements were to apply to Channel 4.

KPMG LLP

Chartered Accountants
Registered Auditors
London
27 March 2006

Consolidated income statement for the year ended 31 December

	Note	2005 £m	2004 £m
Revenue	1	894.3	841.4
Cost of transmission and sales	2	(794.8)	(720.5)
Gross profit		99.5	120.9
Other operating income	3	–	1.3
Other operating expenditure	2,3	(42.6)	(62.4)
Operating profit	1,3	56.9	59.8
Financial income	5	9.9	4.5
Financial expense	5	–	(0.6)
Net financial income		9.9	3.9
Profit before tax		66.8	63.7
Income tax expense	6	(18.3)	(19.1)
Profit for the period		48.5	44.6
Attributable to:			
Equity holders of Channel Four Television Corporation		48.5	44.6

All results relate to continuing operations.

Statements of recognised income and expense for the year ended 31 December

	Note	Group 2005 £m	Group 2004 £m	Channel 4 2005 £m	Channel 4 2004 £m
Actuarial losses in pension scheme	22	(10.9)	(1.7)	(10.9)	(1.7)
Deferred tax on pension scheme recognised directly in equity	13	3.3	0.5	3.3	0.5
Net losses not recognised in income statement		(7.6)	(1.2)	(7.6)	(1.2)
Profit for the period		48.5	44.6	65.2	34.7
Effect of adoption of IAS 39 on 1 January 2005 (with 2004 not restated) on Retained earnings	20	(0.8)	–	(0.8)	–
Total recognised income for the period		40.1	43.4	56.8	33.5
Attributable to:					
Equity holders of Channel Four Television Corporation		40.1	43.4	56.8	33.5

The notes on pages 42 to 66 form part of these financial statements.

Balance sheets

as at 31 December

	Note	Group 2005 £m	Group 2004 £m	Channel 4 2005 £m	Channel 4 2004 £m
Assets					
Property, plant and equipment	11	56.8	51.4	56.8	51.4
Intangible assets	12	5.2	5.8	4.2	5.8
Deferred tax assets	13	12.3	11.6	11.9	10.8
Total non-current assets		74.3	68.8	72.9	68.0
Programme rights and other inventories	14	209.9	162.8	191.1	149.6
Trade and other receivables	15	140.5	126.0	118.5	98.7
Loans and other receivables	16	30.0	30.0	30.0	30.0
Cash and cash equivalents	16	167.9	158.4	167.7	158.3
Total current assets		548.3	477.2	507.3	436.6
Total assets		622.6	546.0	580.2	504.6
Liabilities					
Employee benefits – pensions	22	(32.1)	(25.5)	(32.1)	(25.5)
Provisions	18	(5.7)	(6.1)	(5.5)	(5.5)
Deferred tax liabilities	13	(1.3)	(1.7)	(1.3)	(1.7)
Other non-current liabilities	19	(1.1)	–	(1.1)	–
Total non-current liabilities		(40.2)	(33.3)	(40.0)	(32.7)
Trade and other payables	17	(159.6)	(121.7)	(95.5)	(79.7)
Current tax liabilities	17	(8.1)	(11.3)	(6.2)	(7.1)
Provisions	18	(0.4)	(5.5)	–	(3.4)
Total current liabilities		(168.1)	(138.5)	(101.7)	(90.2)
Total liabilities		(208.3)	(171.8)	(141.7)	(122.9)
Net assets		414.3	374.2	438.5	381.7
Equity					
Retained earnings	20	414.3	374.2	438.5	381.7
Total equity attributable to equity holders of Channel Four Television Corporation		414.3	374.2	438.5	381.7

The financial statements on pages 39 to 66 were approved by the Board of members on 27 March 2006 and were signed on its behalf by:

Luke Johnson
Chairman

Andy Duncan
Chief Executive

The notes on pages 42 to 66 form part of these financial statements.

Cashflow statements

for the year ended 31 December

	Note	Group 2005 £m	Group 2004 £m	Channel 4 2005 £m	Channel 4 2004 £m
Cashflow from operating activities					
Profit for the period		48.5	44.6	65.2	34.7
Adjustments for:					
Income tax expense	6	18.3	19.1	25.1	15.6
Depreciation	3	6.1	7.2	6.1	7.2
Amortisation of intangible assets	3	2.0	2.0	2.0	2.0
Net financial income	5	(9.9)	(3.9)	(10.4)	(3.7)
Profit on sale of investment	3	–	(1.3)	–	–
Revaluation of freehold land and buildings	3	(2.9)	7.7	(2.9)	7.7
Write-down of investment in joint venture	10	0.6	–	0.6	–
Changes in working capital:					
(Increase)/decrease in programme rights and other inventories	14	(47.1)	38.1	(41.5)	16.3
(Increase)/decrease in trade and other receivables	15	(14.5)	(9.2)	(19.8)	19.3
Increase in trade and other payables	17	37.9	12.3	15.8	13.5
(Decrease)/increase in provisions	18	(5.5)	5.6	(3.4)	5.7
Cash generated from operations		33.5	122.2	36.8	118.3
Tax paid		(19.0)	(11.8)	(23.8)	(8.4)
Additional contribution to employee benefits – pensions	22	(4.3)	–	(4.3)	–
Net cashflow from operating activities		10.2	110.4	8.7	109.9
Cashflow from investing activities					
Acquisition of subsidiaries	8	(1.0)	–	–	–
Investment in joint venture	10	(0.6)	–	(0.6)	–
Proceeds from sale of investment in attheraces	3	–	1.3	–	–
Purchase of property, plant and equipment	11	(8.6)	(5.3)	(8.6)	(5.3)
Internally developed software	12	(0.4)	–	(0.4)	–
Interest received	5	8.6	4.5	9.0	4.5
Loans made to joint ventures		–	(1.7)	–	–
Investment in money market deposits of more than three months duration	16	–	(30.0)	–	(30.0)
Net cashflow from investing activities		(2.0)	(31.2)	(0.6)	(30.8)
Cashflow from financing activities					
Finance lease principal payments		–	(0.5)	–	(0.5)
Net cashflow from financing activities		–	(0.5)	–	(0.5)
Net increase in cash and cash equivalents		8.2	78.7	8.1	78.6
Cash and cash equivalents at 1 January		158.4	80.3	158.3	80.3
Effect of exchange rates on cash held	5	1.3	(0.6)	1.3	(0.6)
Cash and cash equivalents at 31 December		167.9	158.4	167.7	158.3

Significant accounting policies

Channel Four Television Corporation (Channel 4) is a statutory corporation domiciled in the United Kingdom. The consolidated financial statements of Channel 4 for the year ended 31 December 2005 comprise Channel 4 and its subsidiaries (together referred to as the "group") and the group's interest in associates and jointly controlled entities. Channel 4's financial statements present information relating to Channel 4 as a separate entity.

The financial statements were authorised for issue by the members on 27 March 2006.

Statement of compliance

Both Channel 4's and the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS). These are Channel 4's and the group's first financial statements under IFRS and IFRS 1 'First-time adoption of International Financial Reporting Standards' has been applied. The main changes relate to the recognition of the pension scheme deficit on the balance sheet, the capitalisation of software development costs previously written off, and recognition of financial derivatives within certain contracts. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cashflows of Channel 4 and the group is provided in note 24. Advantage has been taken of the following exemptions on first time adoption of IFRS; IFRS 3 'Business combinations' and International Accounting Standard (IAS) 19 'Employee benefits'. In addition, IAS 32 'Financial Instruments: Disclosure and presentation' and IAS 39 'Financial Instruments: Recognition and measurement', which were adopted as of 1 January 2005, have not been applied to the 2004 comparative figures.

Basis of preparation

The financial statements have been prepared under the historical cost convention, except that the following assets and liabilities are stated at fair value: derivative financial instruments and freehold properties; and are presented in pounds sterling, rounded to the nearest one hundred thousand. 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 disclosure and measurement requirements, in so far as they are applicable, of the Companies Act 1985 and IFRS.

The preparation of financial statements in conformity with IFRS requires the use of estimation and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in notes 18 (Provisions) and 22 (Employment benefits – pensions). Judgements are also made when establishing provisions for broadcast programme and film rights, as described in the accounting policy note for 'Programme

rights and other inventories' on page 44, and similarly for the capitalisation of development costs (Intangible assets, page 43).

Accounting policies

A summary of the group and Channel 4 accounting policies that are material in the context of the accounts is set out below.

The accounting policies have been, unless otherwise stated, applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of transition to IFRS. The exception is that accounting for financial instruments is determined on different bases in 2005 and 2004 due to the transitional provisions of IAS 32 and IAS 39, the adoption of which in 2005 constitutes a change in accounting policy.

Basis of consolidation

Subsidiaries are entities controlled by the group. Control exists when the group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences to the date that control ceases.

Associates are those entities in which the group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant control commences until the date that significant influence ceases. When the group's share of losses exceeds its interest in an associate, the group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of an associate.

Joint ventures are those entities over whose activities the group has joint control, established by contractual agreement. As explained in note 10, all the group's joint ventures are not-for-profit organisations. Cost contributions to those organisations are charged to the income and expenditure account in the period that they occur.

Intragroup balances and any unrealised gains and losses or income and expense arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the group's interest in the equity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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

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 pay television services is recognised over the period of the subscription.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Derivative financial instruments

Derivative financial instruments have been accounted for under IFRS in 2005 and (since advantage has been taken of the option not to restate 2004 comparatives under IFRS) under UK GAAP in 2004, using FRS 13 'Derivatives and other financial instruments'.

The group transacts in a number of currencies as well as sterling, and is a net purchaser of euros. Certain exposures to fluctuations in exchange rates are managed by transactions in the forward foreign exchange markets. These derivative financial instruments are stated at fair value. The group does not hold or issue derivative financial instruments for trading purposes.

The group has not sought to apply hedge accounting treatment for any of its foreign exchange hedging activity in 2005. As a result, changes in the fair value of hedging instruments have been recognised in the income statement as they have arisen. As the group and Channel 4 has taken advantage of the option not to restate the 2004 comparatives for IAS 32 and IAS 39, changes in the fair value of hedging contracts were not recognised until the hedged transactions matured.

As disclosed in note 24c, it has been necessary to identify forward foreign exchange derivative instruments within certain contracts (embedded derivatives) and include these in the balance sheet at fair value. Fair value of these derivatives is determined by reference to future forward exchange rates. The value of the derivatives is reviewed on an annual basis or when the relevant contract matures.

The main effect on the primary statements in the comparative year, had IAS 32 and IAS 39 been adopted, would have been the recognition of a liability of approximately £2.0 million in the opening balance sheet, reflecting the fair value of outstanding forward foreign exchange contracts at 31 December 2003. These contracts matured early in 2004.

Investments in subsidiaries, associates and joint ventures in Channel 4's accounts

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

Property, plant and equipment

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

Any gain arising from a change in fair value is recognised directly in equity, unless the gain reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case it is also recognised in the income statement. Any loss arising from a change in fair value is charged directly to equity to the extent of any credit balance existing in the revaluation surplus of that asset. Otherwise the loss is recognised in the income statement.

Other property, plant and equipment is 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%

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

Business combinations

All business combinations are accounted for by applying the purchase method.

Intangible assets

Expenditure on internally developed computer software applications is capitalised to the extent that the project is technically and commercially feasible, sufficient resources exist to complete the development and it is probable that the asset will generate future economic benefits. The expenditure capitalised includes the cost of software licences, direct staff costs and consultancy costs.

Amortisation on capitalised development costs is charged to the income statement on a straight-line basis over the estimated useful lives of the assets from the date that they are available for use. For capitalised computer software, the estimated useful life is five years.

Significant accounting policies continued

Other intangible assets that are acquired by the group are stated at cost less accumulated amortisation and any impairment loss. At 31 December 2005, this balance represents a radio broadcast licence acquired as part of the group's acquisition of Oneworld Radio Ltd (see also note 8). Amortisation is charged to the income statement on a straight line basis over the life of the licence.

Impairment

The carrying values of the group's assets, except deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its net selling price and its value in use. Value in use is determined by discounting the future net cashflows for the specific asset, or if the asset does not generate independent cashflows, the discounted future net cashflows for the cash generating units to which it belongs. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

Programme rights and other inventories

Inventories 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 programmes and films which are unlikely to be transmitted or sold. Direct cost is defined as payments made or due to programme suppliers.

Broadcast 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 after making provision for any development expenditure that is not expected to lead to a commissioned programme.

The cost of broadcast programme and film rights is wholly written off on first transmission, except for certain feature films, the costs of which are written off over more than one transmission in line with expected revenue.

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 income statement in the proportion that the revenue bears in the year to the estimated ultimate revenue after provision for any anticipated shortfall.

Trade and other receivables

Trade and other receivables are stated at their nominal amount (discounted if material) less impairment losses.

Employee benefits – pensions

The group maintains a defined benefit pension scheme. The net obligation under the scheme is calculated by estimating the future benefits that employees have earned in return for their service in the current and prior periods, discounting to determine its present value and deducting the fair value of scheme assets at bid price. The assumed discount rate for the liabilities is the current rate of return of high quality corporate bonds with similar maturity dates. The calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses as at 1 January 2004, the date of transition to IFRS, were recognised. In respect of actuarial gains and losses that arise subsequent to 1 January 2004 in calculating the group's obligation in respect of the plan, these are recognised within the consolidated statement of recognised income and expense in the period in which they arise. The current service cost, interest cost and return on plan assets are recognised in the income statement in the current period.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits of less than three months duration.

Loans and other receivables

Loans and other receivables comprise deposits of more than three months duration.

Leases

Assets held under finance leases (those in which the group assumes substantially all the risks and rewards of ownership) 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 income statement 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 income statement in the year in which they are incurred.

Provisions

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cashflows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Segment reporting

A segment is a distinguishable component of the group that is engaged in providing products or services (business segment).

Exemptions on first time adoption

In addition to the exemption from the requirement to restate comparatives for IAS 32 and IAS 39, IFRS 1 grants certain exemptions from the full requirements of IFRS in the transition period. The following exemptions have been taken in these financial statements:

- IFRS 3 – business combinations that took place prior to 1 January 2004 have not been restated.
- IAS 19 – all cumulative actuarial gains and losses on the defined benefit pension plan have been recognised in equity at 1 January 2004.

Notes to the financial statements

1 Segmental analysis*

Segment information is only included in the primary format, business segment, which is based on the group's management and internal reporting structure. Geographical segments outside the UK account for approximately 2% of the group's activities and are therefore not presented.

Segment results, assets and liabilities include items directly attributable to a segment, along with certain costs which are allocated on an equitable basis.

Intersegment pricing is determined on an arm's length basis.

Year ended 31 December 2005	Channel 4 £m	4 Channels £m	4 Rights £m	New Media £m	Other £m	FilmFour Ltd £m	Eliminations £m	Group £m
Revenue								
External sales	732.8	88.0	44.2	18.1	8.7	2.5	–	894.3
Inter-segment sales	2.4	–	9.3	6.4	7.0	4.0	(29.1)	–
Total revenue	735.2	88.0	53.5	24.5	15.7	6.5	(29.1)	894.3
Result								
Gross profit	112.7	(33.0)	13.0	1.4	1.6	1.9	1.9	99.5
Other operating income	–	–	–	–	–	–	–	–
Other operating expenditure	(32.7)	(1.8)	(2.4)	(1.1)	(4.2)	1.5	(1.9)	(42.6)
Operating profit	80.0	(34.8)	10.6	0.3	(2.6)	3.4	–	56.9
Net financial income								9.9
Profit before tax								66.8
Income tax expense								(18.3)
Profit for the period								48.5
Other information								
Capital additions (notes 11 and 12)	9.0	–	–	–	–	–	–	9.0
Depreciation/amortisation (notes 11 and 12)	(8.1)	–	–	–	–	–	–	(8.1)

As at 31 December 2005	Channel 4 £m	4 Channels £m	4 Rights £m	New Media £m	Other £m	FilmFour Ltd £m	Eliminations £m	Group £m
Balance sheet								
Segment assets	580.2	28.3	41.2	5.8	41.1	0.4	(74.4)	622.6
Segment liabilities	(141.7)	(94.1)	(25.5)	(12.1)	(8.0)	(1.3)	74.4	(208.3)

* During 2005, the elements of the 4 Learning and 4 Services businesses were separated and transferred to other operating business units. The table above represents this new structure.

Notes to the financial statements continued

1 Segmental analysis* continued

Year ended 31 December 2004	Channel 4 £m	4 Channels £m	4 Rights £m	New Media £m	Other £m	FilmFour Ltd £m	Eliminations £m	Group £m
Revenue								
External sales	700.3	77.0	31.2	14.3	2.6	16.0	–	841.4
Inter-segment sales	9.7	–	10.4	4.1	5.0	4.2	(33.4)	–
Total revenue	710.0	77.0	41.6	18.4	7.6	20.2	(33.4)	841.4
Result								
Gross profit	99.5	1.7	14.9	3.7	(0.8)	0.9	1.0	120.9
Other operating income	–	–	–	–	1.3	–	–	1.3
Other operating expenditure	(53.4)	(1.6)	(0.8)	(0.6)	(4.6)	(0.4)	(1.0)	(62.4)
Operating profit	46.1	0.1	14.1	3.1	(4.1)	0.5	–	59.8
Net financial income								3.9
Profit before tax								63.7
Income tax expense								(19.1)
Profit for the period								44.6
Other information								
Capital additions (notes 11 and 12)	5.3	–	–	–	–	–	–	5.3
Depreciation/amortisation (notes 11 and 12)	(9.2)	–	–	–	–	–	–	(9.2)

As at 31 December 2004	Channel 4 £m	4 Channels £m	4 Rights £m	New Media £m	Other £m	FilmFour Ltd £m	Eliminations £m	Group £m
Balance sheet								
Segment assets	504.6	20.5	31.1	2.1	44.4	7.3	(64.0)	546.0
Segment liabilities	(122.9)	(60.7)	(23.3)	(8.5)	(10.5)	(9.9)	64.0	(171.8)

* During 2005, the elements of the 4 Learning and 4 Services businesses were separated and transferred to other operating business units. The table above represents this new structure.

2 Total operating expenditure

Cost of transmission 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				
2005							
Channel 4	499.3	20.5	27.3	21.4	23.2	30.8	622.5
4 Channels	83.4	–	16.0	3.7	2.1	15.8	121.0
4 Rights	0.1	–	–	1.1	35.0	4.3	40.5
New Media	2.2	–	–	11.6	8.3	1.0	23.1
Other	0.9	–	1.5	0.1	10.7	0.9	14.1
FilmFour Ltd	3.7	–	–	(0.1)	1.1	(0.1)	4.6
Eliminations	(16.4)	–	(0.6)	(4.7)	(8.0)	(1.3)	(31.0)
Group	573.2	20.5	44.2	33.1	72.4	51.4	794.8
2004							
Channel 4	485.5	26.5	21.3	28.7	24.6	23.9	610.5
4 Channels	54.1	–	7.0	2.5	1.8	9.9	75.3
4 Rights	–	–	–	1.0	23.5	2.2	26.7
New Media	2.1	–	–	6.1	6.3	0.2	14.7
Other	–	–	2.0	–	6.3	0.1	8.4
FilmFour Ltd	11.0	–	–	–	7.6	0.7	19.3
Eliminations	(20.8)	–	(0.4)	(2.8)	(9.0)	(1.4)	(34.4)
Group	531.9	26.5	29.9	35.5	61.1	35.6	720.5

Other operating expenditure

	2005 £m	2004 £m
Administrative expenses	(34.6)	(34.1)
Restructuring costs	(2.8)	(11.4)
Depreciation/amortisation	(8.1)	(9.2)
Revaluation of freehold buildings	2.9	(7.7)
	(42.6)	(62.4)

Notes to the financial statements continued

3 Operating profit

Other operating expenditure includes:

	2005 £m	2004 £m
Depreciation of fixed assets (note 11)		
– owned	6.0	6.5
– held under finance leases	0.1	0.7
	6.1	7.2
Restructuring costs	2.8	11.4
Development	12.1	9.1
Revaluation of freehold property	(2.9)	7.7
Training	3.3	3.6
Members' remuneration (page 74)	3.8	2.8
Amortisation of intangible assets (note 12)	2.0	2.0
Equipment hire	0.1	0.1
Other operating lease rentals (note 21)	2.9	2.6
Write-off of investment in DTV Services Ltd (note 10)	0.6	–

Other operating income includes:

	2005 £m	2004 £m
Profit on sale of investment in attheraces	–	1.3

In accordance with the exemption available under section 230 of the Companies Act 1985 Channel 4 has not presented its own income statement. Of the profit for the period of £48.5 million (2004: £44.6 million) recorded in the consolidated income statement, a profit of £65.2 million (2004: £34.7 million) results from Channel 4's accounts.

Revaluation of freehold property

The revaluation credit of £2.9 million relates to the increase in the value of the Horseferry Road building (2004: reduction of £7.7 million), based on the open market value of the property at 31 December 2005. This is discussed further in note 11, 'Property, plant and equipment'.

Restructuring costs

As part of the ongoing process to reduce costs, additional staff restructuring took place in 2005 which resulted in costs of £2.4 million (2004: £2.6 million).

In 2005, the project to enhance the efficiency of the group's office space continued. Costs associated with the project were £0.4 million (2004: £7.8 million).

No other costs relating to restructuring were incurred by Channel 4 in 2005 (2004: £1.3 million).

No further costs were incurred in relation to the restructuring of FilmFour Ltd (2004: £0.3 million).

All of the 2005 restructuring costs have been allocated to other operating expenditure (2004: £11.4 million). In 2004, the remainder (£0.6 million) was allocated to cost of transmission and sales. These costs result in a reduction to the tax charge for the year of £0.8 million (2004: £3.4 million).

Auditor remuneration

Fees in respect of services provided by the auditors were:

	2005 £000	2004 £000
Statutory audit:		
Channel 4	65	54
Subsidiaries	50	42
Non-audit fees for other services:		
Taxation services	21	–
Assurance services	102	–
	238	96

In addition to the above services, the group's auditors acted as auditors to the Channel Four Television Staff Pension Plan. The appointment of auditors to the Channel Four Television 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 Personnel expenses and employee information

A detailed analysis of members' remuneration, including salaries and performance-related bonuses, is provided in the report on members' remuneration on page 74.

The aggregate gross salaries of all employees, including members, appears below:

	2005 Group £m	2004 Group £m	2005 Channel 4 £m	2004 Channel 4 £m
Aggregate gross salaries	49.4	53.4	33.2	38.0
Employer's national insurance contributions	5.9	5.5	5.0	4.3
Pension scheme – current service cost	5.3	5.6	4.5	4.1
Total direct costs of employment	60.6	64.5	42.7	46.4

Current service cost is the expected increase in the plan liabilities in respect of benefits accruing over the period.

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

	2005 Number	2004 Number
Channel 4		
Programme commissioning	189	185
Transmission and engineering	103	104
Corporate affairs and press office	40	39
Advertising and sponsorship sales and research	110	120
Corporate and strategy	17	17
Information systems	53	61
Marketing and creative services	37	34
Finance, human resources and facilities management	62	60
	611	620
4 Channels	96	79
New Media	72	48
4 Rights	58	31
4 Learning	–	48
Ostrich Media Ltd	7	–
Other	44	55
FilmFour Ltd	1	3
	278	264
Group total	889	884

During 2005, the elements of the 4 Learning and 4 Services businesses were separated and transferred to other operating business units. The table above represents this new structure, and where applicable, the 2004 comparatives have been reallocated.

Permanent employees	751	826
Contract staff	138	58
	889	884
Male	409	433
Female	480	451
	889	884

Travel, subsistence and hospitality expenditure was as follows:

	2005 £000	2004 £000
Members	128	110
Other employees:		
Channel 4	1,752	1,400
Other businesses	848	701
	2,728	2,211

Notes to the financial statements continued

4 Personnel expenses and employee information continued

Staff loans outstanding at 31 December were as follows:

	2005 £000	2004 £000
Season ticket loans	120	121

There were no loans to members.

5 Net financial income

	2005 £m	2004 £m
Interest receivable on short-term deposits	8.4	4.0
Foreign exchange gain	1.3	–
Interest receivable on employee benefits	0.2	0.5
Financial income	9.9	4.5
Interest payable on bank loans and overdrafts	–	–
Foreign exchange loss	–	(0.6)
Financial expense	–	(0.6)

6 Income tax expense

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

	2005 £m	2004 £m
Current tax:		
Current year	17.6	22.3
Less relief for overseas taxation	(0.3)	(0.3)
Overseas taxation	0.3	0.5
Adjustment for prior years	(1.8)	(3.4)
	15.8	19.1
Deferred tax: origination and reversal of temporary differences		
Current year	2.6	(0.1)
Prior year	(0.1)	0.1
Income tax expense	18.3	19.1

Reconciliation of effective tax rate

The tax rate for the year is lower than (2004: equal to) the standard UK 30% rate of corporation tax.

The differences are explained below:

	2005 %	2005 £m	2004 %	2004 £m
Profit before tax		66.8		63.7
Income tax using the domestic corporation tax rate	30.0	20.0	30.0	19.1
Effects of:				
Expenses not deductible for tax purposes	–	–	4.9	3.1
Tax losses not recognised	0.3	0.2	–	–
Adjustments to tax charge in respect of previous periods	(2.9)	(1.9)	(5.2)	(3.3)
Overseas taxation	–	–	0.3	0.2
Income tax expense	27.4	18.3	30.0	19.1

6 Income tax expense continued

Current tax assets and liabilities

The current tax liability of £8.1 million represents the amount of income tax payable in respect of current and prior periods.

Deferred tax recognised in equity

The following movement in deferred tax has been recognised directly in equity and is shown in the Statement of recognised income and expense:

	2005 £m	2004 £m
Relating to employee benefits	3.3	0.5
Deferred tax recognised in equity	3.3	0.5

An analysis of deferred tax assets and liabilities is provided in note 13.

7 Subsidiary undertakings

The cost of fixed asset investments at 31 December was:

	2005 Channel 4 £000	2004 Channel 4 £000
Subsidiary companies	1	1

Channel 4 owns, directly* or indirectly, more than 50% of the issued share capital of the following companies, each of which is incorporated in England:

	Activity	Issued ordinary £1 shares	Ownership %
Trading			
4 Ventures Ltd*	Digital channels, new media, educational and related services	1,000	100
Channel Four International Ltd	Exploitation of secondary rights	1,000	100
FilmFour Ltd	Film distribution	1,000	100
Ostrich Media Ltd	Transaction based TV channel, Quiz Call	1	100
Oneword Radio Ltd	Digital radio channel	102,000	51

8 Acquisition of subsidiary

On 5 April 2005, the group acquired 51% of the issued share capital of Oneword Radio Ltd for £1.0 million, satisfied in cash. The company operates a digital radio channel, Oneword, on the Digital One DAB radio network. In the nine months to 31 December 2005 the subsidiary contributed a net loss of £0.7 million to the consolidated net profit for the year. If the acquisition had occurred on 1 January 2005, group revenue would have been an estimated £894.4 million and net profit would have been an estimated £48.3 million.

Effect of acquisition

The acquisition had the following effect on the group's assets and liabilities:

	Acquisition values £m
Acquiree's net assets at the acquisition date:	
Trade and other receivables	0.1
Trade and other payables	(0.1)
Net identifiable assets and liabilities	–
Group's share of net liabilities at acquisition	–
Fair value of radio transmission licence recognised on acquisition	1.0
Fair value of identifiable assets and liabilities acquired	1.0
Consideration paid (including legal fees of £28,000 satisfied in cash)	(1.0)
Goodwill on acquisition	–

Notes to the financial statements continued

9 Investment in associate

Popworld Ltd

During 2004, Channel 4 acquired 11,867,932 ordinary £0.001 shares in Popworld Ltd, representing 29% of the share capital for consideration of £0.2 million. Popworld Ltd, incorporated in England, exploits a pop music brand. Given the uncertainties in existence over its future trading, the investment has been provided for in full. The shares are therefore held in the balance sheet at nil value.

Summary financial information

Popworld Ltd	2005 £m	2004 £m
Assets	0.1	0.6
Liabilities	(0.1)	(0.4)
Revenue	2.4	2.1
Profit/(loss) for the year	-	(0.2)

10 Joint ventures

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 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 2005, 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.

TV Eye Ltd

Channel 4 holds one ordinary £1 share in TV Eye Ltd, representing 20% of the share capital. ITV, Channel 5 Broadcasting, and GMTV own the other 80%. The company is incorporated in England and provides advertising agency credit assessment services.

DTV Services Ltd

In 2005, Channel 4 purchased 6,000 ordinary £1 shares in DTV Services Ltd, the company responsible for marketing the Freeview digital terrestrial TV network, for cash consideration of £600,000. The BBC, National Grid Wireless, BSkyB and ITV own the remaining 80%. DTV Services Ltd is a not-for-profit marketing vehicle. As a result, the cost of the investment has been written off in full.

Broadcasters' Audience Research Board Ltd (BARB)

BARB is a not-for-profit company limited by guarantee. Channel 4 is a joint member along with the BBC, ITV Network, Channel 5 Broadcasting, BSkyB and the IPA.

All the group's joint ventures are not-for-profit, cost-sharing organisations. Contributions that the group makes to the funding requirements of these organisations are recognised in the income statement in the period to which they relate.

11 Property, plant and equipment

Group and Channel 4	Freehold land and buildings £m	Fixtures, fittings and equipment £m	Total £m
Cost or valuation			
At 1 January 2004	49.0	77.9	126.9
Additions	–	5.3	5.3
Disposals	–	(4.2)	(4.2)
Revaluation	(8.4)	–	(8.4)
At 31 December 2004	40.6	79.0	119.6
At 1 January 2005	40.6	79.0	119.6
Additions	–	8.6	8.6
Revaluation	2.4	–	2.4
At 31 December 2005	43.0	87.6	130.6
Depreciation			
At 1 January 2004	–	65.9	65.9
Charge for the year	0.7	6.5	7.2
Disposals	–	(4.2)	(4.2)
Revaluation	(0.7)	–	(0.7)
At 31 December 2004	–	68.2	68.2
At 1 January 2005	–	68.2	68.2
Charge for the year	0.5	5.6	6.1
Revaluation	(0.5)	–	(0.5)
At 31 December 2005	–	73.8	73.8
Net book value			
At 1 January 2004	49.0	12.0	61.0
At 31 December 2004	40.6	10.8	51.4
At 1 January 2005	40.6	10.8	51.4
At 31 December 2005	43.0	13.8	56.8

Valuation of freehold properties

The freehold property, comprising the office, studio and transmission centre at 124 Horseferry Road, London SW1, was valued as at 31 December 2005, 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 £43.0 million (2004: £40.6 million). The net increase in valuation of £2.9 million in the year (2004: reduction of £7.7 million) has been taken directly to the income statement as it reduces a previously recognised loss on the same asset.

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

	2005 £m	2004 £m
Cost	62.3	62.3
Accumulated depreciation	(12.3)	(11.5)
Net book value based on cost	50.0	50.8

Notes to the financial statements continued

12 Intangible assets

	Channel 4	Other	Group
	Developed software £m	Radio licence £m	Total £m
Cost			
Balance at 1 January 2004	10.1	–	10.1
Internally developed	–	–	–
Balance at 31 December 2004	10.1	–	10.1
Balance at 1 January 2005	10.1	–	10.1
Acquired through business combinations	–	1.0	1.0
Internally developed	0.4	–	0.4
Balance at 31 December 2005	10.5	1.0	11.5
Amortisation			
Balance at 1 January 2004	2.3	–	2.3
Amortisation for the year	2.0	–	2.0
Balance at 31 December 2004	4.3	–	4.3
Balance as at 1 January 2005	4.3	–	4.3
Amortisation for the year	2.0	–	2.0
Balance at 31 December 2005	6.3	–	6.3
Carrying amount			
At 1 January 2004	7.8	–	7.8
At 31 December 2004	5.8	–	5.8
At 1 January 2005	5.8	–	5.8
At 31 December 2005	4.2	1.0	5.2

The amortisation charge for developed software is recognised in the depreciation/amortisation line (see note 2).

The radio licence acquired as part of the acquisition of Oneword Radio Ltd is amortised over the duration of the licence.

13 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2005 £m	Assets 2004 £m	Liabilities 2005 £m	Liabilities 2004 £m	Net 2005 £m	Net 2004 £m
Property, plant and equipment	2.3	3.2	–	–	2.3	3.2
Intangible assets	–	–	(1.1)	(1.7)	(1.1)	(1.7)
Employee benefits	9.6	7.6	–	–	9.6	7.6
Other short-term timing differences	–	–	(0.2)	–	(0.2)	–
Channel 4 deferred tax assets/(liabilities)	11.9	10.8	(1.3)	(1.7)	10.6	9.1
Other short-term timing differences	0.4	0.8	–	–	0.4	0.8
Group deferred tax assets/(liabilities)	12.3	11.6	(1.3)	(1.7)	11.0	9.9

Unrecognised deferred tax assets and liabilities

Deferred tax assets have not been recognised in respect of:

	2005 £m	2004 £m
Carried forward capital losses	1.4	1.4
Carried forward trading losses	0.2	–
Tax assets	1.6	1.4

Unrecognised deferred tax assets comprise capital losses carried forward that the group is not yet able to utilise and trading losses carried forward in Oneword Radio Ltd. A deferred tax asset is only recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised (either now or in later accounting periods).

Movement in temporary differences during the year

The amount of deferred tax recognised in the income statement in respect of each type of temporary timing difference is as follows:

	Balance at 1 Jan 04 £m	Recognised in income £m	Recognised in equity £m	Balance at 31 Dec 04 £m
Property, plant and equipment	3.8	(0.6)	–	3.2
Intangible assets	(2.3)	0.6	–	(1.7)
Employee benefits	7.1	–	0.5	7.6
Channel 4 deferred tax assets	8.6	–	0.5	9.1
Other short-term timing differences	0.8	–	–	0.8
Group deferred tax assets	9.4	–	0.5	9.9

	Balance at 31 Dec 04 £m	Adoption of IAS 39 £m	Balance at 1 Jan 05 £m	Recognised in income £m	Recognised in equity £m	Balance at 31 Dec 05 £m
Property, plant and equipment	3.2	–	3.2	(0.9)	–	2.3
Intangible assets	(1.7)	–	(1.7)	0.6	–	(1.1)
Employee benefits	7.6	–	7.6	(1.3)	3.3	9.6
Other short-term timing differences	–	0.3	0.3	(0.5)	–	(0.2)
Channel 4 deferred tax assets/(liabilities)	9.1	0.3	9.4	(2.1)	3.3	10.6
Other short-term timing differences	0.8	–	0.8	(0.4)	–	0.4
Group deferred tax assets/(liabilities)	9.9	0.3	10.2	(2.5)	3.3	11.0

Notes to the financial statements continued

14 Programme rights and other inventories

	2005 Group £m	2004 Group £m	2005 Channel 4 £m	2004 Channel 4 £m
Programmes and films completed but not transmitted	63.1	68.1	59.0	61.8
Acquired programme and film rights	62.0	38.8	54.4	35.8
Programmes and films in the course of production	84.8	55.9	77.7	52.0
	209.9	162.8	191.1	149.6

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

Distribution advances totalling £8.5 million (2004: £9.1 million) have been reclassified into 'Trade and other receivables'. In the 2004 financial statements these items were included in inventories.

15 Trade and other receivables

	2005 Group £m	2004 Group £m	2005 Channel 4 £m	2004 Channel 4 £m
Trade receivables	88.4	84.7	71.6	67.4
Amounts due from subsidiaries	–	–	24.9	14.5
Prepayments and accrued income	43.6	32.2	22.0	16.8
Distribution advances	8.5	9.1	–	–
	140.5	126.0	118.5	98.7

Amounts due from subsidiaries are unsecured and bear interest at the Bank of England base rate.

Trade receivables are shown net of impairment losses amounting to £0.3 million recognised in the current year in relation to outstanding balances from customers, the receipt of which management view as unlikely.

16 Cash and cash equivalents and Loans and other receivables

	2005 Group £m	2004 Group £m	2005 Channel 4 £m	2004 Channel 4 £m
Bank balances	72.8	128.4	72.6	128.3
Money market deposits maturing in less than three months	20.0	30.0	20.0	30.0
Money market funds	75.1	–	75.1	–
Cash and cash equivalents	167.9	158.4	167.7	158.3
Money market deposits maturing after three months	30.0	30.0	30.0	30.0
Loans and other receivables	30.0	30.0	30.0	30.0

17 Trade and other payables and Current tax liabilities

	2005 Group £m	2004 Group £m	2005 Channel 4 £m	2004 Channel 4 £m
Trade payables	4.8	10.7	4.8	10.2
National insurance	0.6	0.9	0.6	0.9
Other creditors	5.6	3.0	4.9	3.0
Accruals	145.4	101.9	83.1	61.7
VAT	3.2	5.2	2.1	3.9
Total trade and other payables	159.6	121.7	95.5	79.7
Corporation tax	8.1	11.3	6.2	7.1
Current tax liabilities	8.1	11.3	6.2	7.1

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 Group Finance Director, 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 2005 was 22 for both the group and Channel 4 (2004: 27). Programme suppliers are generally paid more quickly as Channel 4's cash advances are usually required more promptly to meet production needs.

18 Provisions

	Channel 4		FilmFour Ltd	Group
	Onerous leases £m	Restructuring costs £m	Restructuring costs £m	Total £m
At 1 January 2004	2.2	1.0	2.8	6.0
Utilised in the year	(0.3)	(5.7)	(0.4)	(6.4)
Charged to the income statement	4.1	7.6	0.3	12.0
At 31 December 2004	6.0	2.9	2.7	11.6
At 1 January 2005	6.0	2.9	2.7	11.6
Utilised in the year	(1.0)	(2.9)	(1.1)	(5.0)
Charged to the income statement	0.5	–	–	0.5
Written back to the income statement	–	–	(1.0)	(1.0)
At 31 December 2005	5.5	–	0.6	6.1

Provisions have been analysed as current and non-current as follows:

	2005 Group £m	2004 Group £m	2005 Channel 4 £m	2004 Channel 4 £m
Current	0.4	5.5	–	3.4
Non-current	5.7	6.1	5.5	5.5
	6.1	11.6	5.5	8.9

Onerous leases

The provision relates to rental deficits on three buildings which are surplus to requirements. The provision represents the future net rental commitments to the end of the current leases in 2014 and 2020, based on current market conditions. The key judgements involved in determining the necessary provisions are estimates of rental income over the outstanding period of the lease, and costs of reinstating properties to their condition at the inception of the lease.

Restructuring costs

The Channel 4 provision was for redundancy payments and other initiatives to increase the operational efficiency of the group's support functions. The FilmFour Ltd restructuring costs are for film-related provisions and legal expenses.

Notes to the financial statements continued

19 Derivatives and other financial instruments

Advantage has been taken of the option not to apply IAS 32 and IAS 39 to the 2004 comparative figures. The 2004 comparative figures are shown under FRS 13.

Exposure to credit, interest rate and currency risks arises in the normal course of the group's business. Derivative financial instruments are used to hedge exposures to fluctuations in foreign exchange rates.

Treasury related matters are dealt with by the group treasury function whose role is to implement the group's treasury policies and strategies. During 2005, new treasury policies were implemented to improve returns achieved on investments and provide enhanced risk management. The group's treasury management policies were reviewed and approved by the Board. The policies aim to manage the treasury related risks the business faces, in particular:

- 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.

The group invests surplus cash in fixed rate money market deposits and variable rate money market funds. Funds are invested only with an agreed list of organisations that carry a minimum of AA- credit rating or equivalent from Standard & Poor's and Moodys credit rating services, or with money market funds that have a AAA credit rating from either of these credit rating services. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations.

At the balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented in the balance sheet by the carrying amount of each financial asset, including derivative financial instruments.

A risk strategy exists for the protection of all advertising sales revenue working to approved terms of reference. Exposure to credit risk is monitored and reviewed on a weekly basis, and any issues are formally reported to an executive committee chaired by the Group Finance Director. Based on credit evaluation and discussions with both the committee and insurers, customers may be required to provide security in order to trade with the group.

Channel 4 has available a £10 million overdraft facility which incurs interest at 1% over base rate, on any amounts drawn. Amounts drawn against this facility are unsecured.

Interest rate risk

2005	Group		Channel 4	
	Effective interest rate %	Total £m	Effective interest rate %	Total £m
Cash and cash equivalents				
Interest bearing deposits maturing in less than three months	4.5	112.5	4.5	112.3
Non-interest bearing assets	–	55.4	–	55.4
	3.0	167.9	3.0	167.7

The non-interest bearing assets comprise receipts which were in the process of clearing the bank account over the year end period.

2005	Group		Channel 4	
	Effective interest rate %	Total £m	Effective interest rate %	Total £m
Loans and other receivables	4.5	30.0	4.5	30.0

The only financial assets held by the group and Channel 4 are 'Cash and cash equivalents' and 'Loans and other receivables'. The fair value of these assets equals their book value.

19 Derivatives and other financial instruments continued

The group's only financial liabilities are finance leases and trade and other payables. The group has no exposure to interest rates on its financial liabilities.

Finance leases

During the year, office equipment was leased under a finance lease running to 2008. Of the total lease liability of £0.2 million, £0.1 million is payable within one year, and £0.1 million within two to five years. The fair value of this finance lease equals its book value. Under the terms of the lease agreement, no contingent rents are payable.

Trade and other payables

Trade and other payables are shown in note 17. The value of trade and other payables at 31 December 2005 was £159.6 million (group) and £95.5 million (Channel 4). The fair value of these financial liabilities equals their book values.

Currency risk

The group is exposed to currency risk on sales and purchases that are denominated in a currency other than sterling. The currencies that give rise to this risk are dollars and euros.

The group uses forward exchange contracts and currency cash receipts to hedge its currency risk. Changes in the fair value exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the income statement from 1 January 2005. Both the change in the fair value of the forward contracts and the foreign exchange gains and losses relating to monetary items are recognised as part of 'Net financial income' (note 5). At 31 December 2005, the fair value of forward contracts used as economic hedges of monetary liabilities was nil (2004: nil).

The group purchases programmes and satellite transponder capacity in currencies other than sterling. In some cases, the requirements of IAS 39 deem that the contracts under which these services are purchased include forward foreign exchange derivatives that need to be recognised separately. The fair value of these derivatives are determined at the end of each financial year, or when the derivative matures, by reference to forward foreign exchange quotes at that time. Changes in the fair value of these derivatives are recognised in the income and expenditure account, and the associated liability is included in the balance sheet in 'Other non-current liabilities'.

Embedded derivatives

	Group and Channel 4 £m
Fair value at 1 January 2005	1.1
Changes in fair value during the year	(0.3)
Derivatives maturing during the year	0.3
Fair value at 31 December 2005	1.1

As the group has taken advantage of the exemption not to apply IAS 32 and IAS 39 to the 2004 comparatives, these items have not been accounted for in the 2004 comparative figures, and a reconciliation between closing net assets in 2004 and opening net assets in 2005 is shown in note 24.

Sensitivity analysis

It is estimated that an increase of one percentage point in the value of sterling against other currencies would have reduced the group's profit before tax by approximately £0.1 million.

Notes to the financial statements continued

19 Derivatives and other financial instruments continued

FRS 13 disclosures in respect of 2004

Interest rate risk profile

Group	Total £m	Financial assets on which no interest is paid £m	Variable rate assets £m	Fixed rate assets		
				£m	Weighted average interest rate %	Weighted average for which period is fixed Days
2004						
Sterling	137.1	15.6	–	121.5	4.2	11
US dollar	19.3	0.7	–	18.6	2.1	13
Euro	2.0	2.0	–	–	–	–
Total	158.4	18.3	–	140.1	3.9	11

At 31 December 2004, the group's financial liabilities comprised £11.6 million of financial liabilities on which no interest was paid.

As permitted by FRS 13, short term debtors and creditors have been excluded from the above interest rate risk profiles. Fair value equals book value for the group's assets and liabilities disclosed above.

Maturity of financial liabilities

The maturity of financial liabilities other than short term creditors at 31 December 2004 was:

	Channel 4		FilmFour Ltd	Group
	Rental deficits £m	Restructuring £m	Restructuring £m	£m
Within one year	0.5	2.9	2.7	6.1
Between one and two years	1.0	–	–	1.0
Between two and five years	4.5	–	–	4.5
	6.0	2.9	2.7	11.6

Obligations under finance leases in respect of computer hardware were satisfied during 2004. Repayments of interest and capital averaging £0.1 million were made each quarter.

Currency exposure

The group's total currency exposure at 31 December 2004 was £21.3 million, which was made up of US dollars (£19.3 million) and euros (£2.0 million). These were the transactional exposures that gave rise to net currency gains and losses. Such exposures comprised the cash balances at year end that were not denominated in sterling. These amounts took into account the effect of forward currency contracts the group entered into to manage its currency requirements.

20 Reserves

	Group £m	Channel 4 £m
At 1 January 2004	330.8	348.2
Net losses not recognised in income statement	(1.2)	(1.2)
Profit for the period	44.6	34.7
Total recognised income and expense	43.4	33.5
At 31 December 2004	374.2	381.7
At 1 January 2005 (excluding impact of IAS 32 and IAS 39)	374.2	381.7
IFRS adjustment (impact of IAS 32 and IAS 39 – see note 24)	(0.8)	(0.8)
At 1 January 2005 (including impact of IAS 32 and IAS 39)	373.4	380.9
At 1 January 2005	373.4	380.9
Net losses not recognised in income statement	(7.6)	(7.6)
Profit for the period	48.5	65.2
Total recognised income and expense (excluding impact of IAS 32 and IAS 39)	40.9	57.6
At 31 December 2005	414.3	438.5

21 Commitments

a) Programme and film

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

	2005 Group £m	2004 Group £m	2005 Channel 4 £m	2004 Channel 4 £m
Within one year	317.7	305.0	274.5	274.4
After one year	215.3	232.4	186.8	214.3
	533.0	537.4	461.3	488.7

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 five 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 total commitments under non-cancellable operating leases, all of which were for land and buildings, as set out below:

	2005 £m	2004 £m
Operating leases which expire:		
Within one year	–	1.5
Within two to five years	0.1	–
After five years	38.6	41.5
	38.7	43.0

The group leases office space in four properties in London under operating leases expiring between 2014 and 2020. Annual rentals of £2.8 million were charged to the income statement in 2005 and the total future rental commitment amounts to £37.7 million. Office space in two of the properties has been sublet by the group, the minimum future payments due amounting to £2.3 million on sub-leases expiring in 2007 and 2010.

In addition, the group leases office space in Glasgow and Manchester under operating leases expiring between 2013 and 2015. Annual rentals of £0.1 million were charged to the income statement in 2005 and the total commitment under the leases amounts to £1.0 million.

d) Capital commitments

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

	2005 £m	2004 £m
Property, plant and equipment:		
Contracted but not provided in the financial statements	1.9	1.9

Notes to the financial statements continued

22 Employee benefits – pensions

The group operates a defined benefit pension scheme – the Channel Four Television Staff Pension Plan (the Plan) providing benefits based on final salary for employees.

The amounts recognised in the group and Channel 4 balance sheets are as follows:

	2005 £m	2004 £m
Present value of funded obligations	(165.4)	(129.8)
Fair value of plan assets	133.3	104.3
Recognised liability for defined benefit obligations	(32.1)	(25.5)

Movements in the fair value of plan assets recognised in the balance sheet:

	2005 £m	2004 £m
Fair value of scheme assets at 1 January	104.3	91.1
Expected return on plan assets	7.4	6.5
Benefits paid	(2.7)	(1.9)
Employer contributions net of charges *	9.4	4.7
Employee contributions	1.6	2.0
Actuarial gain on plan assets	13.3	1.9
Fair value of scheme assets at 31 December	133.3	104.3

*The employer contribution includes an additional contribution of £4.3 million paid in December 2005.

The fair value of the plan assets and the return on those assets were as follows:

	2005 Actual return %	2004 Actual return %	2005 Fair value £m	2004 Fair value £m
Equities	21.7	9.9	81.4	71.8
Bonds	10.6	6.0	43.2	28.2
Other	4.0	4.0	8.7	4.3
			133.3	104.3

Movements in the present value of scheme liabilities for defined benefit obligations recognised in the balance sheet:

	2005 £m	2004 £m
Present value of scheme liabilities at 1 January	129.8	114.9
Current service cost	5.3	5.6
Employee contributions	1.6	2.0
Interest costs	7.2	5.6
Benefits paid	(2.7)	(1.9)
Actuarial loss on scheme liabilities	24.2	3.6
Present value of scheme liabilities at 31 December	165.4	129.8

Expense recognised in the income statement:

	2005 £m	2004 £m
Current service cost	5.3	5.6
Interest on pension scheme liabilities	7.2	6.1
Return on plan assets	(7.4)	(6.5)
Net charge to income statement	5.1	5.2

The expense has been recognised in the following line items in the income statement:

	2005 £m	2004 £m
Cost of transmission and sales	3.8	4.0
Other operating expenditure	1.5	1.6
Net financial income	(0.2)	(0.4)
Net charge to income statement	5.1	5.2

22 Employee benefits – pensions continued

Net actuarial losses recognised directly in equity:

	2005 £m	2004 £m
Experience loss on plan liabilities	(24.2)	(3.6)
Experience gain on plan assets	13.3	1.9
Actuarial losses	(10.9)	(1.7)

Principal actuarial assumptions at the balance sheet date

	2005 %	2004 %
Discount rate	4.85	5.30
Rate of increase in salaries	3.00	3.00
Rate of increase in pensions	2.75	2.75
Inflation	2.75	2.75
Expected return on plan assets – equities	8.00	8.00
Expected return on plan assets – bonds	4.10	4.60
Expected return on plan assets – cash	4.00	4.00

	2005 years	2004 years
Life expectancy from 65 (now aged 40) – male	22.0	19.9
Life expectancy from 65 (now aged 40) – female	24.8	22.8
Life expectancy from 65 (now aged 65) – male	19.9	19.9
Life expectancy from 65 (now aged 65) – female	22.8	22.8

These assumptions were adopted in consultation with the independent actuary to the Channel Four Television Staff Pension Plan. If experience is different from these assumptions, or if the assumptions need to be amended in future, there will be a corresponding impact on the net pension scheme liability recorded on the group balance sheet. The expected returns on plan assets are set by reference to historical returns, current market indicators and the expected long term asset allocation of the plan.

Contribution rates to the scheme are determined by a qualified independent actuary on the basis of triennial valuations using the projected unit method. The most recent independent valuation was carried out as at 1 January 2006 which showed that the scheme's assets represented 90% of the benefits that had accrued to members. This includes the impact of the £4.3 million additional contribution made in December 2005. In March 2006, a second additional contribution of £5.7 million was made into the scheme, taking the scheme asset ratio to 94%. In light of this valuation, Channel 4 and the trustees of the Plan are discussing options for eliminating the remaining deficit on the scheme. In addition, Channel 4 is reviewing the standard contribution rates. The estimated employer contributions in 2006 are £10.3 million (including the £5.7 million additional contribution referred to above).

23 Related party transactions

Details of transactions in which members have an interest are disclosed on page 36. Details of members' remuneration are shown in the remuneration report on pages 74 and 75.

Subsidiary undertakings

During 2005, Channel 4 has purchased film rights from FilmFour Ltd totalling £9.6 million (2004: £7.6 million), of which £6.9 million (2004: £3.4 million) remained in 'Programme rights and other inventories' at 31 December. Channel Four International Ltd sold film rights to Channel 4 in 2005 totalling £1.5 million (2004: nil), all of which remain in 'Programme rights and other inventories' at the year end. In addition, Channel 4 advanced co-production funding totalling £2.9 million in 2005 (2004: £2.1 million) to Channel Four International Ltd. Channel 4 purchased studio, creative and interactive services from 4 Ventures Ltd in 2005 totalling £13.6 million (2004: £11.8 million).

At 31 December 2005, the total receivable to Channel 4 from subsidiary undertakings was £24.9 million (2004: £14.5 million).

Associate

During 2005, Channel 4 purchased £2.3 million of programmes from Popworld Ltd (2004: £2.0 million). No amounts were due to Popworld Ltd at 31 December 2005.

Joint ventures

During 2005, Channel 4 paid £11.8 million to Digital 3 and 4 Ltd for digital terrestrial transmission services (2004: £9.4 million), £0.4 million to DTV Services Ltd for promoting the Freeview platform (2004: nil), £1.3 million to BARB for research services (2004: £1.2 million) and £0.1 million to TV Eye Ltd for accreditation services (2004: £0.1 million). No amounts were due to any of these companies at 31 December 2005.

Notes to the financial statements continued

24 Explanation of transition to IFRS

As stated in the significant accounting policies, these are the group's first financial statements prepared in accordance with IFRS.

The accounting policies set out in the significant accounting policies have been applied in preparing the financial statements for the year ended 31 December 2005, the comparative information presented in these financial statements for the year ended 31 December 2004 and in the preparation of an opening IFRS balance sheet at 1 January 2004 (the group's date of transition).

In preparing its opening IFRS balance sheet, the group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to IFRS has affected the group and Channel 4's financial position, financial performance and cashflows is set out in the following tables and the notes that accompany the tables.

Balance sheet reconciliation

Group	Note	As at 1 January 2004			As at 31 December 2004		
		UK GAAP £m	Effect of transition to IFRS £m	IFRS £m	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
Assets							
Property, plant and equipment		61.0	–	61.0	51.4	–	51.4
Intangible assets	b	–	7.8	7.8	–	5.8	5.8
Deferred tax assets	a	4.6	7.1	11.7	4.0	7.6	11.6
Total non-current assets		65.6	14.9	80.5	55.4	13.4	68.8
Programme rights and other inventories		200.9	–	200.9	162.8	–	162.8
Trade and other receivables		116.8	–	116.8	126.0	–	126.0
Loans and other receivables	d	–	–	–	–	30.0	30.0
Cash and cash equivalents	d	80.3	–	80.3	188.4	(30.0)	158.4
Total current assets		398.0	–	398.0	477.2	–	477.2
Total assets		463.6	14.9	478.5	532.6	13.4	546.0
Liabilities							
Interest in net liabilities of joint ventures		(1.7)	–	(1.7)	–	–	–
Employee benefits – pensions	a	–	(23.8)	(23.8)	–	(25.5)	(25.5)
Provisions		(6.0)	–	(6.0)	(6.1)	–	(6.1)
Deferred tax liabilities	b	–	(2.3)	(2.3)	–	(1.7)	(1.7)
Total non-current liabilities		(7.7)	(26.1)	(33.8)	(6.1)	(27.2)	(33.3)
Trade and other payables		(109.3)	–	(109.3)	(121.7)	–	(121.7)
Current tax liabilities		(4.6)	–	(4.6)	(11.3)	–	(11.3)
Provisions		–	–	–	(5.5)	–	(5.5)
Total current liabilities		(113.9)	–	(113.9)	(138.5)	–	(138.5)
Total liabilities		(121.6)	(26.1)	(147.7)	(144.6)	(27.2)	(171.8)
Net assets		342.0	(11.2)	330.8	388.0	(13.8)	374.2
Equity							
Retained earnings		342.0	(11.2)	330.8	388.0	(13.8)	374.2
Total equity		342.0	(11.2)	330.8	388.0	(13.8)	374.2

The adoption of IAS 32 and IAS 39 on 1 January 2005 results in a difference between net assets as at 31 December 2004 and as at 1 January 2005. A reconciliation of the movement is shown below:

	Group £m
Net assets at 31 December 2004	374.2
Impact of IAS 32 and IAS 39 (note c)	(0.8)
Net assets at 1 January 2005	373.4

24 Explanation of transition to IFRS continued

Channel 4	Note	As at 1 January 2004			As at 31 December 2004		
		UK GAAP £m	Effect of transition to IFRS £m	IFRS £m	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
Assets							
Property, plant and equipment		61.0	–	61.0	51.4	–	51.4
Intangible assets	b	–	7.8	7.8	–	5.8	5.8
Deferred tax assets	a	3.8	7.1	10.9	3.2	7.6	10.8
Total non-current assets		64.8	14.9	79.7	54.6	13.4	68.0
Inventories		165.9	–	165.9	149.6	–	149.6
Trade and other receivables		118.0	–	118.0	98.7	–	98.7
Loans and other receivables	d	–	–	–	–	30.0	30.0
Cash and cash equivalents	d	80.3	–	80.3	188.3	(30.0)	158.3
Total current assets		364.2	–	364.2	436.6	–	436.6
Total assets		429.0	14.9	443.9	491.2	13.4	504.6
Liabilities							
Employee benefits – pensions	a	–	(23.8)	(23.8)	–	(25.5)	(25.5)
Provisions		(3.2)	–	(3.2)	(5.5)	–	(5.5)
Deferred tax liabilities	b	–	(2.3)	(2.3)	–	(1.7)	(1.7)
Total non-current liabilities		(3.2)	(26.1)	(29.3)	(5.5)	(27.2)	(32.7)
Trade and other payables		(66.2)	–	(66.2)	(79.7)	–	(79.7)
Current tax liabilities		(0.2)	–	(0.2)	(7.1)	–	(7.1)
Provisions		–	–	–	(3.4)	–	(3.4)
Total current liabilities		(66.4)	–	(66.4)	(90.2)	–	(90.2)
Total liabilities		(69.6)	(26.1)	(95.7)	(95.7)	(27.2)	(122.9)
Net assets		359.4	(11.2)	348.2	395.5	(13.8)	381.7
Equity							
Retained earnings		359.4	(11.2)	348.2	395.5	(13.8)	381.7
Total equity		359.4	(11.2)	348.2	395.5	(13.8)	381.7

The adoption of IAS 32 and IAS 39 on 1 January 2005 results in a difference between net assets as at 31 December 2004 and as at 1 January 2005. A reconciliation of the movement is shown below:

	Group £m
Net assets at 31 December 2004	381.7
Adoption of IAS 32 and IAS 39 (note c)	(0.8)
Net assets at 1 January 2005	380.9

Notes to the balance sheet reconciliation

(a) Under UK GAAP, the group was not required to recognise the net liability arising on its defined benefit pension scheme and had followed the transitional arrangements of FRS 17 'Retirement Benefits'. In accordance with IAS 19 'Employee Benefits', a pension liability has been recognised on the opening IFRS balance sheet of £23.8 million, with an associated deferred tax asset of £7.1 million and £16.6 million taken against reserves. The group has taken advantage of the exemption in IFRS 1 and recognised the cumulative actuarial deficit at 1 January 2004 in full against retained earnings.

As at 31 December 2004, the pension liability had increased by £1.7 million to £25.5 million and the associated deferred tax asset by £0.5 million to £7.6 million. The actuarial loss of £1.2 million has in accordance with IAS 19 been taken against reserves rather than through the income statement. The adoption of IAS 19 has resulted in an additional £0.5 million charge for current service costs and £0.5 million net financial income in the 2004 group and Channel 4 income statements.

Notes to the financial statements continued

24 Explanation of transition to IFRS continued

- (b) Under UK GAAP, the group had been writing off the cost of internally developed software to the profit and loss account as incurred. In accordance with IAS 38 'Intangible Assets', some of the group's developed software packages meet the recognition criteria of IAS 38 and must be capitalised and amortised.

For the opening IFRS balance sheet, software development costs of £10.1 million were capitalised. In accordance with the significant accounting policies, the useful economic life of developed software is deemed to be five years. Assets with a net book value of £7.8 million, including accumulated amortisation of £2.3 million have been included in the opening IFRS balance sheet. As the expenditure had previously been charged to the income statement, a £7.8 million credit has been made to reserves.

Included in the IFRS opening balance sheet is a £2.3 million deferred tax liability, representing the timing difference arising on the tax charge at 30% from capitalising software costs that had previously been expensed.

In the year ended 31 December 2004, amortisation on capitalised software development costs charged to the income statement was £2.0 million, reducing the net book value to £5.8 million. The deferred tax liability at 30% reduced to £1.7 million, with £0.6 million credited to the income statement.

- (c) As part of the conversion to IFRS, the group has undertaken a review of significant contracts to identify potential embedded derivatives. Under IAS 39 a feature within a contract that introduces a price variation that is not closely related to the service being provided by the contract should be separated and recorded in the balance sheet at fair value.

Advantage has been taken of the option not to apply IAS 32 and IAS 39 to the 2004 comparative figures. At 1 January 2005, a liability of £1.1 million (along with an associated deferred tax asset of £0.3 million) has been included in the balance sheet, representing the change in value of deemed foreign exchange derivatives in certain contracts. The contracts to which the derivatives relate cover the period to 2008 and as a result the associated liability is included in 'Other non-current liabilities'.

- (d) IAS 7 'Cashflow statements' requires that only deposits of less than three months duration are included in 'Cash and cash equivalents'. As a result it has been necessary to reclassify deposits of more than three months duration as 'Loans and other receivables'.

Income statement

	Note	Group				Channel 4	
		UK GAAP £m	Effect of transition to IFRS £m	IFRS £m	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
For the year ended 31 December 2004							
Revenue		841.4	–	841.4	693.5	–	693.5
Cost of transmission and sales	a	(720.0)	(0.5)	(720.5)	(597.5)	(0.5)	(598.0)
Gross profit		121.4	(0.5)	120.9	96.0	(0.5)	95.5
Other operating expenditure	b	(60.4)	(2.0)	(62.4)	(47.5)	(2.0)	(49.5)
Other operating income		1.3	–	1.3	–	–	–
Operating profit		62.3	(2.5)	59.8	48.5	(2.5)	46.0
Net financial income	a	3.4	0.5	3.9	3.7	0.5	4.2
Profit before tax		65.7	(2.0)	63.7	52.2	(2.0)	50.2
Income tax expense	b	(19.7)	0.6	(19.1)	(16.2)	0.6	(15.6)
Profit for the period		46.0	(1.4)	44.6	36.0	(1.4)	34.6

Refer to the notes above for more information.

Explanation of material adjustments to the cashflow statement for 2004

There are no material differences between the cashflow statement presented under IFRS and the cashflow statement presented under UK GAAP.

Corporate governance

The group is committed to high standards of corporate governance.

Since the publication of the revised Combined Code in 2003, we have been working to ensure the group continues to comply with corporate governance best practice.

Channel 4's status as a statutory corporation without shareholders means those provisions concerning relations with shareholders are not directly applicable. Also, instead of a nominations committee, there are formal nominations procedures which are described on page 70.

The terms of reference for Channel 4's audit committee and remuneration committee are available at channel4.com

The Board

Channel Four Television Corporation is controlled through its Board of members. The Board's main roles are to provide entrepreneurial leadership of the group, to approve the group's strategic objectives and to ensure that Channel 4's responsibilities are discharged in accordance with all applicable laws and regulations. The Board, which meets at least 10 times a year, has a schedule of matters reserved for its approval.

The following matters must be referred to the full Board:

- Channel 4's annual budget (programme and non-programme).
- the appointment and re-appointment of the Chief Executive.
- confirmation of the appointment and re-appointment of the other executive members nominated by the Chief Executive and the Chairman acting jointly.
- banking arrangements and loan facilities.
- any significant proposal outside the ordinary course of Channel 4's business.
- the appointment and re-appointment of the Corporation Secretary.
- the appointment and re-appointment of auditors.
- the audited accounts of Channel 4 presented by the audit committee.
- the establishment, purchase or acquisition of any qualifying company and the approval or variation of terms of reference for any subsidiary.
- approval of any significant new business investment.
- such other matters as the Board may from time to time resolve to review or decide.

The Board has delegated authority for certain other activities to a number of sub-committees and groups.

Statement of members' responsibilities

The members are responsible for preparing the annual report and the group and Channel 4 financial statements, in accordance with applicable law and regulations.

Channel 4 is required by the Broadcasting Act 1990 to keep proper accounting records and proper records in relation to the accounts, and to prepare financial statements in respect of each financial year in the form as directed by the Secretary of State for Culture, Media and Sport with the approval of the treasury.

The members are therefore responsible for preparing the annual report and the group and Channel 4 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 the group and Channel 4 as at the end of the financial year and of the profit or loss and cashflow for the group and Channel 4 for that year.

The members have voluntarily decided to comply with the disclosure provisions of the Financial Services Authority Listing Rules, where applicable. In line with the latest developments concerning listed company accounts, the members have elected to prepare the group and Channel 4 financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. In preparing those financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The members are responsible for keeping proper accounting records and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and Channel 4 and to prevent and detect fraud and other irregularities.

The roles of the Chairman and Chief Executive

The division of responsibilities between the Chairman of the Board, Luke Johnson, and the Chief Executive, Andy Duncan, is clearly defined as described below.

The Chairman has the responsibility for leading the Board in setting the values and standards of Channel 4 and of maintaining a relationship of trust with and between the executive and non-executive members. The Chairman is responsible for inter alia:

- leadership of the Board, ensuring its effectiveness on all aspects of its role including the setting of the agenda.
- ensuring that all members receive accurate, timely and clear information.
- arranging the regular evaluation of the performance of the Board.
- ensuring that all members continually update their skills and the knowledge and familiarity with Channel 4 required to fulfil their role both on the Board and on committees.
- facilitating the effective contribution of non-executive members and ensuring constructive relations between executive and non-executive members.

The role of the Chief Executive is to run the business of Channel 4 under the delegated authority from the Board and to implement the policies and strategy agreed by the Board. In addition, the Chief Executive, on behalf of the Board, should ensure effective communication with Ofcom and other key stakeholders.

Corporate governance continued

Senior independent member

Lord Puttnam was appointed Deputy Chairman and Senior Independent Director on 1 February 2006, replacing Barry Cox, who retired on 31 January 2006.

Members and members' independence

The Board currently comprises the Chairman, eight non-executive members and five executive members. The names of the members together with their biographical details are set out on page 73. The non-executive members constructively challenge and help develop proposals on strategy, and bring strong, independent judgement, knowledge, and experience to the Board's deliberations. The non-executive members are of sufficient calibre and number that their views carry significant weight in the Board's decision making. The members are given access to independent professional advice at the group's expense, when the members deem it is necessary in order for them to carry out their responsibilities. Details of the Chairman's professional commitments are included in the Chairman's biography. These do not impact on his role with Channel 4.

The Board considers all its non-executive members to be independent in character and judgement. At the time of this report, no non-executive member:

- has been an employee of the group within the past five years.
- has, or has had within the past three years, a material business relationship with the group.
- receives remuneration other than their member's fee (although attention is drawn to the related party transactions on page 36).
- has close family ties with any of the group's advisers, members or senior employees.
- holds cross-directorships or has significant links with other members through involvement in other companies or bodies.
- has served on the Board for more than five years from the date of their first election.

Professional development

On appointment, the members take part in an induction programme when they receive information about the group, the role of the Board and the matters reserved for its decision, the terms of reference and membership of the principal Board and management committees, and the powers delegated to those committees, the group's corporate governance practices and procedures, including the powers reserved to the group's most senior executives, and the latest financial information about the group. This is supplemented by meetings with members of the senior management team. On appointment, all members are advised that they have access to advice and the services of the Corporation Secretary. Throughout their period in office the members are continually updated on the group's business, the environments in which it operates and other changes affecting the group and the industry it operates in as a whole, by written briefings and meetings with senior executives.

Performance evaluation

Procedures have been established to undertake a formal annual evaluation of the performance of the Board.

The Corporation Secretary

The Corporation Secretary's responsibilities include ensuring good information flows within the Board and its committees and between senior management and non-executive members, and assisting with professional development as required.

The Corporation Secretary is responsible for advising the Board through the Chairman on all governance matters.

The Corporation Secretary is available to provide advice and services to all members, to ensure compliance with Board procedures.

Information

Regular reports and papers are circulated to the members in a timely manner in preparation for Board and committee meetings. These papers are supplemented by information specifically requested by the members from time to time. Each executive member circulates a report in advance of each Board meeting, and on a quarterly basis provides a review of performance, together with comments on future plans and outlook.

Internal control

In accordance with the guidance of the Turnbull committee the Board of members:

- is responsible for the company's system of internal control.
- sets appropriate policies on internal control.
- seeks regular assurance and receives regular reports that enables it to satisfy itself that the system is functioning effectively.
- ensures that the system of internal control is effective in managing risks in the manner which it has approved.

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

The Board and 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 process for identifying, evaluating and managing (rather than eliminating) significant risks faced by Channel 4 and the group. This business risk evaluation process accords with the Combined Code's guidance on internal controls. The quarterly reports prepared by the executive members include a summary of risks and the corresponding action taken to mitigate those risks.

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. An electronic invoice authorisation system is used to further enhance the control environment. 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. The members have continued to review and improve the effectiveness of the group's system of financial and non-financial controls, including operational and compliance controls, risk management and the group's high-level internal control arrangements. These reviews have included an assessment of internal controls, and in particular internal financial controls, by:

- reports from management.
- reports from the external auditors on matters identified in the course of their statutory audit work.

Board meetings

The number of full Board meetings and committee meetings attended by each member during the year was as follows:

	Appointed	Number of meetings attended			
		Board	Audit committee	Remuneration committee	
Executives					
Andy Duncan		11 (11)			
Andy Barnes		11 (11)			
Anne Bulford	(4 July 2005)	5 (5)			
Rod Henwood	(25 July 2005)	5 (5)			
Kevin Lygo		10 (11)			
Non-executives					
Luke Johnson		11 (11)			
Sue Ashtiany		8 (11)			
Karren Brady		10 (11)	3 (3)	1 (1)	
Tony Hall	(1 April 2005)	7 (8)			
Andy Mollett		11 (11)	3 (3)		

	Resigned	Number of meetings attended			
		Board	Audit committee	Remuneration committee	
Retired members					
Barry Cox	(31 January 2006)	10 (11)		3 (3)	
Robin Miller	(31 January 2006)	9 (11)	3 (3)	1 (3)	
Ian Ritchie	(31 December 2005)	10 (11)			
David Scott	(25 July 2005)	6 (6)			
Andrew Graham	(30 March 2005)	3 (3)		2 (2)	
Rob Woodward	(31 January 2005)	1 (1)			

Figure in brackets indicate maximum number of meetings in the period in which the individual was a Board/committee member.

Remuneration committee

The remuneration committee comprises Karren Brady (Chair), Tony Hall and Martha Lane Fox. During 2005, the committee members were Andrew Graham (retired 30 March 2005) and Robin Miller and Barry Cox, who both retired on 31 January 2006. All the members of the committee are independent non-executive members. The remuneration committee met three times during the year. Luke Johnson, Andy Duncan and Anne Bulford attend meetings as appropriate. No executive member attends meetings of the remuneration committee at times when any aspect of his or her remuneration or terms of employment is being discussed.

The committee's principal responsibilities are:

- approving the level of any annual salary increases and the structure of remuneration for executive members and senior management.
- approving the terms of employment of the executive members.
- approving Channel 4's vehicle policy.
- agreeing the structure of bonus schemes and approving the amounts paid under these schemes.
- reviewing any other significant change in Channel 4's remuneration package.
- Channel 4's pension fund arrangements and related employee benefits. In particular, the remuneration committee will consider the pension consequences and associated costs to Channel 4 of basic salary increases and any other changes in pensionable remuneration, especially for members close to retirement.

Further details concerning members' remuneration is shown in the report on members' remuneration on pages 74 and 75.

Corporate governance continued

Nomination committee

Given its constitution, Channel 4 does not 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 Channel 4'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.

Audit committee

The audit committee comprises Andy Mollett and Karren Brady. Robin Miller retired from the committee in January 2006 and the process of identifying a successor is underway. Andy Mollett is Chairman of the committee. All the members of the committee are independent non-executive members. The audit committee met three times during the year. At the committee Chairman's invitation, Luke Johnson, Andy Duncan, Anne Bulford and the KPMG LLP audit partner attend meetings of the committee. The audit partner has direct access to the Chairman of the audit committee as required. The committee has at least one member possessing what the Smith Report describes as recent and relevant experience. Andy Mollett, a chartered accountant, is Chief Financial Officer of EMI Music Publishing Ltd. It will be seen from the members' biographical details, appearing on page 73, that the other members of the committee bring to it a wide range of experience from positions at the highest level.

The audit committee's key responsibilities are:

- to monitor the integrity of the financial statements of Channel 4 and any formal announcements relating to Channel 4's financial performance, reviewing significant financial reporting judgements contained in them.
- to review Channel 4's internal financial controls and Channel 4's internal control and risk management systems.
- to make recommendations to the Board in relation to the appointment, reappointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors.
- to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process taking into consideration relevant UK professional and regulatory requirements.
- to develop and implement policy on the engagement of the external auditors to supply non-audit services taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.
- to regularly update the Board about the audit committee's activities and make appropriate recommendations.
- to ensure the Board is aware of matters that may significantly impact on the financial condition or affairs of the business.
- to monitor and review the effectiveness of Channel 4's business assurance function and activities.
- to make recommendations regarding the Schedule 9 audit.

If necessary, the audit committee can instigate special investigations and, if appropriate, engage special counsel or experts to assist. The committee meets with the executive members and management and the Chairman of the audit committee meets privately with the external auditors.

In 2005 the audit committee discharged its responsibilities by:

- reviewing the group's draft financial statements prior to Board approval and reviewing the external auditors' detailed reports thereon.
- reviewing the appropriateness of the group's accounting policies.
- reviewing regularly the potential impact in the group's financial statements of certain matters such as impairments of fixed asset values.
- reviewing and approving the audit fee and reviewing non-audit fees payable to the group's external auditors.
- reviewing the external auditors' plan for the audit of the group's accounts, which included key areas of extended scope work, key risks on the accounts, confirmations of auditors' independence and the proposed audit fee.
- appointing external specialists to develop a business assurance function that will review controls in place and their effectiveness, and where appropriate, recommend enhancements.
- reviewing the findings of the independent reporting accounts concerning compliance with the arrangements under Schedule 9 of the Communications Act.
- commissioning a follow up report on financial controls across the group, following a detailed review in 2004.

The audit committee also monitors the group's whistle-blowing procedures, ensuring that appropriate arrangements are in place for employees to be able to raise matters of possible impropriety in confidence, and with suitable subsequent follow-up action.

An alternative reporting channel has been created whereby perceived wrongdoing may be reported via telephone and or in writing, anonymously if necessary. Channel 4 will not use the external auditors to provide other services unless it is efficient and effective to do so. Details of the work that KPMG LLP have undertaken in 2005 are shown in note 3. KPMG LLP also make an annual statement to the audit committee to confirm their independence.

Budget committee

The role of the budget committee is to review the details of the group's annual budget and any other significant financial matters which the Board refers to the budget committee for detailed consideration. The budget committee comprises Luke Johnson (Chair), Andy Duncan, Anne Bulford and Andy Mollett, and meets at least twice a year.

New business board

The new business board assists the Channel 4 Board by scrutinising, reviewing and agreeing significant commercial new business investment proposals before they are referred to the Channel 4 Board. The new business board is chaired by Robin Miller, acting in a consultancy capacity. The other members of the new business board are Luke Johnson, Stephen Hill, Andy Duncan, Anne Bulford, Rod Henwood, Jonathan Thompson (Head of Strategy and Research), Michael Hodgson (Head of Corporate Development) and Sara Geater (Head of Commercial Affairs).

Internal audit

During 2005, Channel 4 invited a number of firms to tender for a new business assurance function. Grant Thornton was selected. The business assurance team will undertake a number of specific projects, to provide assurance that control processes are appropriate and working effectively, and where necessary, recommend improvements.

Pension plan

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

The trustees are Luke Johnson (trustees' Chairman); an independent member, Louise Botting; two of Channel 4's executives, Anne Bulford and Diane Herbert (Director of Human Resources); and two employee representative trustees. These employee representative posts are filled by Julie Kortens and Neil Pepin.

Ofcom regulation

On 17 December 2004 Channel 4 was granted a new licence by Ofcom for the broadcasting of Channel 4. The new licence, which is referred to as the Digital Replacement Licence, came into effect on 28 December 2004. The licence implements a new legislative regime created in relation to Channel 4's public service remit, to ensure that Channel 4 provides a broad range of high quality and diverse programming which demonstrates innovation, experimentation and creativity, appeals to the tastes and interests of a culturally diverse society, makes a significant contribution to meeting the need for Channels 3, 4 and 5 to include programmes of an educational nature and exhibits a distinctive character.

The licence is also geared to the achievement of digital switchover. Accordingly, it requires Channel 4 inter alia:

- to provide the Channel 4 service in digital form, with the same coverage as is required for an analogue service. In addition the coverage is to extend to the area reached by the analogue transmissions of the ITV licensee for Wales, HTV;
- to report annually to Ofcom on its compliance with the switchover requirements and timetable and on its plans in the following year to fund the rolling out of equipment and/or infrastructure relating to switchover; and
- to use reasonable endeavours to ensure that viewers of the analogue Channel 4 service are informed of the timetable for switchover in their area at least two years in advance of the relevant switchover date, and are provided in the nine months leading up to the switchover date with information on how they may receive the digital Channel 4 service both before and after switchover.

Requirements of Schedule 9 of the Communications Act 2003 (the Act)

The Act requires that Channel 4 submit proposals to Ofcom detailing the arrangements under which it proposes to secure, so far as reasonably practicable, that all significant risks that the other activities will have an adverse effect on the carrying out, during the relevant licence period, of their primary functions are identified, evaluated and properly managed. These proposals are referred to as the Arrangements.

In addition, the Arrangements must include proposals which Channel 4 considers appropriate for securing the transparency objectives as set out in the Act, namely:

- an appropriate financial and organisational separation between the activities of Channel 4 that relate to the carrying out of their primary functions and their other activities; and
- an appropriate degree of transparency in financial and other reporting where resources are shared between separated activities or where there is some other financial or practical connection between otherwise separated activities.

The Act sets out the matters to which the submitted Arrangements may relate. These include the procedures and other practices to be followed by Channel 4 in the case of the initiation and management of new ventures, the exercise of particular powers, the assessment of risks, the imposition of charges and the keeping of records.

The Act requires Channel 4 to put in place regular checks to confirm that Channel 4 is complying with the Arrangements. The Arrangements proposed by Channel 4 must contain provision for compliance with the Arrangements to be checked regularly by a person (other than Channel 4's auditor) appointed in accordance with that provision.

Channel 4 has proposed arrangements to Ofcom and agreed these arrangements during the year. Channel 4 has appointed Deloitte & Touche LLP to review compliance with the Arrangements and their report is shown on page 72. Copies of the Arrangements are available from the Corporation Secretary and at channel4.com/about_c4.html

Corporate governance continued

Independent reporting accountants' report to Channel Four Television Corporation (Channel 4) and the Office of Communications (Ofcom)

We have performed a review of Channel 4's compliance during the year ended 31 December 2005 with the Arrangements agreed between Channel 4 and the Office of Communications under section 2 of Schedule 9 of the Communications Act 2003.

This report is made solely to Channel Four Television Corporation and Ofcom in accordance with our letter of engagement dated 9 February 2006 and in order to (a) allow Channel 4 to meet its obligations under the Licence and Schedule 9 of the Communications Act 2003 to procure such reports and (b) to facilitate the carrying out by Ofcom of its regulatory functions. Our work has been undertaken so that we might state to Channel 4 and Ofcom those matters we are required to state to them in a reporting accountant's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Channel 4 and Ofcom (in accordance with our contract with Ofcom dated 9 February 2006), for our work, for this report, or for the opinions we have formed.

Respective responsibilities of Channel Four Television Corporation and Reporting Accountants

Channel 4 has agreed Arrangements with Ofcom to secure the following objectives (the Objectives) as set out in Schedule 9 of the Communications Act 2003:

- So far as reasonably practicable, secure that all significant risks that their other activities will have an adverse effect on the carrying out, during the relevant licence period, of their primary functions are:
 - a) identified;
 - b) evaluated; and
 - c) properly managed.
- The transparency objectives of securing:
 - a) an appropriate financial and organisational separation between the activities of Channel 4 that relate to the carrying out of their primary functions and their other activities; and
 - b) an appropriate degree of transparency in financial and other reporting where resources are shared between separate activities or where there is some other financial or practical connection between otherwise separated activities.

The Arrangements agreed between Channel 4 and Ofcom are available from the Corporation Secretary and at channel4.com/about_c4.html

The responsibility of Channel 4 in terms of Schedule 9 of the Communications Act 2003 is to act in accordance with these Arrangements throughout the review period.

Our responsibility is to check whether Channel 4 has complied with these Arrangements during the year ended 31 December 2005 and report to you our independent conclusion as to whether they have done so.

Basis of opinion

We carried out our work in accordance with International Standard on Assurance Engagements 3000 Assurance Engagements. Our work consisted of:

- confirming our understanding of Channel 4 and the internal procedures and controls in place made to comply with the Arrangements made under Schedule 9 of the Communications Act 2003 through enquiry of senior management and other appropriate personnel; and
- testing the operation of the relevant internal procedures and controls and examining of the financial records relating to the above.

Our work was carried out based on the internal procedures and controls in place to comply with the Arrangements during the year ended 31 December 2005. We are not responsible for concluding whether the Arrangements are sufficient and appropriate to achieve the objectives set out above. Any system of internal control can only give reasonable, not absolute assurance, that the Objectives will be met.

Opinion

In our opinion, Channel 4 has complied with the Arrangements under Schedule 9 of the Communications Act 2003, in all material respects, for the year ended 31 December 2005.

Deloitte & Touche LLP

Chartered Accountants
London
27 March 2006

Members

Non-executive members

Chairman

Luke Johnson

Appointed Chairman in January 2004. His appointment runs until 27 January 2007. He is Chairman of Risk Capital Partners and a Governor of the University of the Arts, London.

Deputy Chairman

Lord Puttnam

Joined the Board as Deputy Chairman in February 2006. His appointment runs until 31 January 2009. After 30 years as an independent film producer, David now focuses on his interests in education, and has been President of UNICEF UK since 2002. He was awarded a CBE in 1982, knighted in 1995 and appointed to the House of Lords in 1997.

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.

Karren Brady^{A,R}

Joined the Board in July 2004. Her appointment runs until 18 July 2007. She is Managing Director of Birmingham City Football Club, Chairman of Emap's Kerrang digital radio station and a non-executive Director of Mothercare and a non-executive Director of Sport England.

Tony Hall^R

Appointed to the Board on 1 April 2005. His appointment runs until 31 March 2008. He is Chief Executive of the Royal Opera House and a former Chief Executive of BBC News.

Stephen Hill

Joined the Board in January 2006. His appointment runs until 31 December 2008. From 2003 to 2005, Stephen was Chief Executive of Betfair Ltd. Previously he worked at Pearson plc, including six years as Chief Executive of the Financial Times, and was also closely involved in setting up BSB and its subsequent merger with Sky.

Martha Lane Fox^R

Joined the Board in February 2006. Her appointment runs until 31 January 2009. Martha co-founded lastminute.com in 1998, floated the business in 2000, and remained on the company's board until it was purchased by Sabre Holdings in 2005. Martha is Trustee of Reprieve, Patron of CAMFED and Founder of Lucky Voice Private Karaoke.

Andy Mollett^A ACA

Joined the Board in July 2004. His appointment runs until 18 July 2007. He is Chief Financial Officer and Director of EMI Music Publishing Ltd, Director of EMI Songs Ltd and various EMI subsidiary companies. He is also a non-executive Director of Incentivated Ltd.

^AMember of the audit committee

^RMember of the remuneration committee

Executive members

Andy Duncan

Appointed Chief Executive in July 2004. Prior to this he was the Director of Marketing, Communications and Audiences at the BBC and a member of the BBC's Executive Board. He also led the project to launch Freeview and was Chairman of the joint venture with BBC, Sky and Crown Castle for its first two years. Prior to that he worked at Unilever for more than 16 years.

Andy Barnes

Sales Director since October 2002, having been Commercial Director since July 1997. He is a Director of Broadcasters' Audience Research Board Ltd (BARB). He is also Chairman of Thinkbox, the television marketing body, Chairman of the BACC (Broadcasting Advertising Clearance Centre) and a member of the Advertising Association's council. He joined Channel 4 in 1991 as Head of Advertising Sales.

Anne Bulford FCA

Appointed Group Finance Director in July 2005. Before joining Channel 4, Anne spent three years with the Royal Opera House as Director of Finance and Business Affairs. From 1999 to 2002 she was Finance Director at Carlton Productions, prior to which she worked at the BBC, as Finance Director of BBC Productions, and Head of Internal Audit.

Rod Henwood

Joined the Board in July 2005 as New Business Director. Prior to joining Channel 4, he was Chief Executive of Premium TV. His previous roles have included Director of Television at NTL, Managing Director of Fox Kids (UK) and Managing Director of Central Television. He was also co-founder of Prism Entertainment.

Kevin Lygo

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

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 69. 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 maximum bonus payable under that scheme is 75% of salary. The other executive members participate in the Channel 4 Executive Bonus Scheme, which in 2005 set maximum bonus which could be payable at 30% of salary.

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	2005 Total £000	2004 Total £000
Executive members						
Andy Duncan ¹	416	120	13	–	549	247
Andy Barnes	267	129	13	–	409	464
Anne Bulford (appointed 4 July 2005)	131	36	6	–	173	–
Rod Henwood (appointed 25 July 2005)	122	52	6	–	180	–
Kevin Lygo	428	124	13	–	565	589
Non-executive members						
Luke Johnson	71	–	–	–	71	94
Sue Ashtiany	21	–	–	–	21	20
Karren Brady	21	–	–	–	21	10
Tony Hall (appointed 1 April 2005)	14	–	–	–	14	–
Andy Mollett	21	–	–	–	21	10
Retired members						
Barry Cox (resigned 31 January 2006)	29	–	–	–	29	27
Robin Miller (resigned 31 January 2006)	21	–	–	–	21	20
Ian Ritchie (resigned 31 December 2005)	21	–	–	–	21	20
David Scott ² (resigned 25 July 2005)	245	–	–	973	1,218	588
Andrew Graham (resigned 31 March 2005)	5	–	–	–	5	20
Rob Woodward (resigned 31 January 2005)	34	–	1	491	526	432
Peter Bazalgette (resigned 30 June 2004)	–	–	–	–	–	10
Joe Sinyor (resigned 30 June 2004)	–	–	–	–	–	10
Mark Thompson (resigned 9 June 2004)	–	–	–	–	–	230
Vanni Treves (resigned 25 January 2004)	–	–	–	–	–	7
	1,867	461	52	1,464	3,844	2,798

¹In addition to the amounts shown above, a proportion of Andy Duncan's salary is deferred in the form of a long-term loyalty scheme. This scheme requires Andy to remain with Channel 4 for at least three years and accrues at a rate of £150,000 per annum up to a maximum of £450,000 which will become payable on 19 July 2007. The 2005 financial statements include provision for Andy's accrued entitlement (£225,000) at the end of 2005.

²David Scott retired as a member on 25 July 2005 but remained an employee until 30 September 2005. His salary and fees included in the above table are for the period during which he was a member.

Pension

Executive members are eligible for membership of the Channel Four Television 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 Four Television Staff Pension Plan. The executive members of the plan during 2005 were as follows:

	Increase in accrued pension entitlement during 2005 £000	Total accrued pension entitlement at 31 December 2005 £000	Transfer value of increase in accrued pension entitlement less members' contributions £000	Transfer value at 1 January 2005 £000	Increase in transfer value less members' contributions during 2005 £000	Members' contributions during 2005 £000	Transfer value at 31 December 2005 £000
Kevin Lygo	1	13	8	149	20	5	174
Andy Barnes	8	92	101	952	322	11	1,285
David Scott (resigned 25 July 2005)	6	152*	124	2,234	1,386	20	3,640
Rob Woodward (resigned 31 January 2005)	1	12	11	110	28	1	139

* After commuting pension for cash.

- 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 2005.
- 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 members.

The benefits provided to all members of the Channel Four Television 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 Channel 4 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 Channel 4's auditors, KPMG 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. 311 independent companies provided programmes transmitted on the main Channel 4 service in 2005 (2004: 305).

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

	2005 Hours	2004 Hours	2005 £m	2004 £m
Originated				
Independents	4,360	4,316	296.0	271.6
Other	1,018	1,147	83.0	97.7
	5,378	5,463	379.0	369.3
Acquired	3,382	3,321	112.9	108.2
Programmes total	8,760	8,784	491.9	477.5
Other direct programme costs	–	–	7.4	8.0
Total programme and other content	–	–	499.3	485.5

	2005 Hours	2004 Hours	2005 %	2004 %
All hours				
Originated	5,378	5,463	61	62
Acquired	3,382	3,321	39	38
	8,760	8,784	100	100
Peak hours				
Originated	1,214	1,294	74	79
Acquired	428	353	26	21
	1,642	1,647	100	100

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 2005 amounted to £107.7 million (2004: £112.5 million).

Channel 4: hours and costs of programmes

The main Channel 4 service broadcast 8,760 hours in 2005 (2004: 8,784) – 24 hours each day. The hours and costs of the wide range of programme transmissions were as follows:

	2005 Hours	2004 Hours	2005 £m	2004 £m
Entertainment	1,547	1,764	99.2	101.9
Drama	953	1,227	101.6	102.5
Education	1,729	1,552	89.3	92.4
Sport	973	1,074	36.8	40.0
Feature films	1,073	961	35.1	25.8
Other factual	883	575	46.7	29.4
News	320	313	20.4	20.9
Documentaries	186	232	18.2	19.5
Current affairs	219	217	15.3	18.6
Quiz and gameshows	250	433	6.6	8.4
Arts and music	490	281	17.9	13.6
Children	61	96	0.2	0.8
Religion	76	59	4.6	3.7
	8,760	8,784	491.9	477.5

E4, More4 and FilmFour channels

The E4 channels broadcast for a total of 15,074 hours in 2005 (2004: 12,782) with 48% of these hours being subtitled (2004: 41%). The More4 channels (comprising More4, which launched on 10 October 2005, and More4+1 which launched on 17 October 2005) broadcast for 2,440 hours (2004: nil). The FilmFour channels broadcast for 7,906 hours in 2005 (2004: 11,083) with 55% of these hours being subtitled (2004: 49%).

Ofcom

Ofcom monitors compliance with broadcasters' licence obligations (including compliance with its Broadcasting Code) and deals with complaints concerning standards in programmes and complaints of unfair treatment and/or infringement of privacy. Ofcom will consider a matter to have been resolved where the broadcaster has taken appropriate action in response to an issue.

Channel 4

Ofcom recorded six breaches of its Code on standards in programmes by the main Channel 4 service in 2005 (2004: four), one of which was judged serious enough to merit a statutory sanction* (2004: none). Nine matters were treated as resolved by Ofcom in 2005 (2004: seven). In 2005 three complaints about fairness/privacy in Channel 4's programmes were upheld in part (2004: none), six complaints were not upheld (2004: three) and no complaints were treated as resolved (2004: one).

E4/More4/FilmFour/Quiz Call

Two recorded breaches of the Code on standards in programmes were noted against E4 in 2005 (2004: two), none for FilmFour (2004: none) and none for More4. One matter each concerning E4 and Quiz Call was treated as resolved by Ofcom in 2005 (2004: none). In 2005 no complaints about fairness/privacy on E4, More4 and FilmFour programmes were upheld (2004: none).

* Ofcom imposed a fine of £5,000 and a direction to broadcast a statement of its finding in respect of an episode of **Richard & Judy** broadcast on 19 July 2004 which gave undue prominence to a commercial product.

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	2005	2004
Average hours per week			
News			
– in peak-time (6 pm to 10.30 pm)	4	4	4
Current affairs			
– overall	4	4	4
– in peak-time (6 pm to 10.30 pm)	1.54	2	2
Hours per year			
Schools	330	681	673
Percentage			
Original production			
– overall	60	61	62
– in peaktime (6 pm to 10.30 pm)	70	74	79
Independent production*	25	87	85
European independent production*	10	54	54
European origin	50	71	71
Subtitling for the deaf and hard-of-hearing	84	87	82
Audio description	6	9	10
Signing	3	3	3
Production expenditure outside London	30	30	30
Regional hours	30	33	35

The 2005 Ofcom licence quotas disclosure reflects Channel 4's Digital Replacement Licence (DRL) which came into force on 28 December 2004. This encompasses the requirements set out in the Communications Act 2003.

Amongst other changes (which are summarised on page 71) the DRL introduced a revised schedule of quotas. This removed the following specific requirements which were part of the previous licence: hours per week quotas for Education, Overall News, Multicultural and Religion, percentage of first run programming in peak and overall, and the requirement to invest at least 0.5% of qualifying revenue in training and development.

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

Corporate responsibility

As a publicly owned broadcaster with a remit set out by an Act of Parliament, Channel 4 has a clearly defined social purpose. But at a time of growing public awareness that big businesses have big responsibilities, we have gone beyond the remit to set out a formal statement of Channel 4's wider role as a good corporate citizen. Last year, a programme of change was set in place with the adoption of a statement, drawn up by a staff working group and approved by the Channel 4 Board, which read:

"Channel 4's role goes beyond creating powerful television. In terms of corporate responsibility our mission is to inspire and challenge the behaviour of *our people, our producers and suppliers* and *our audiences* to promote positive social, environmental and personal change."

A year on, how have we done?

Our people

**98% of staff say they feel proud to work for Channel 4
95% support the strategic direction of Channel 4**

Training

Investment in staff training and development increased 12% in 2005 to the equivalent of £869 per employee, far higher than the UK average for similar sized organisations. A whole new portfolio of in-house courses was established to help staff develop and extend their competencies, and to encourage better communication within and between teams. A new programme of leadership development was created. We now routinely make available places on our in-house courses to Channel 4 suppliers and production partners. During the year two-thirds of staff took part in some personal or professional training programme provided by Channel 4.

Staff Appraisal

To ensure better quality conversations between managers and their reports, and encourage greater focus on development, we introduced a new appraisal process and supporting online system in 2005. This is complemented by a confidential system of colleague feedback to focus staff on how they achieve their objectives. The process will continue to be developed in the future and is related to a staff bonus scheme.

National Skills Day

Channel 4 was once again a major sponsor of National Skills Day, an industry-wide initiative aimed at raising awareness of the importance of professional and personal development.

Environment

We routinely measure air quality, energy and water use and the volume of waste we generate from our offices. We make practical provision for recycling and for the responsible and minimal use of energy. In 2005, we commissioned a full environmental audit of Channel 4 by independent experts.

Diversity

Channel 4 is an active member of the Cultural Diversity Network which brings together all major broadcasters in a common commitment to achieve an industry whose workforce more appropriately mirrors the diversity of British society. We have set ourselves the target of having 13% of our workforce and 9% of our senior management from black or minority ethnic communities. The current figures are 12% and 7% respectively. Channel 4 is also an active member of the Broadcasting and

Creative Industries Disability Network which is committed to increasing the presence of disabled people on screen and in all areas of the workforce.

Staff Survey

A staff survey asked respondents to assess their understanding of and support for such issues as the strategic direction of the business, its customer focus, the quality of teamwork and creative thinking. The findings showed a marked improvement across the board compared with a similar survey conducted in 2003. 94% thought Channel 4 was a fair employer, 95% agreed with the strategic direction provided by management, and a remarkable 98% said they were proud to be working for Channel 4.

Our producers and suppliers

Channel 4 is the UK's biggest investor in independent creative businesses.

In 2005, Channel 4 broadcast programmes made by 311 different independent production companies (substantially more than any other channel), representing every nation and region in the UK. In a London-dominated industry we invested £107.7 million outside the M25 area and, in doing so, we estimate we provided employment for more than 7,000 skilled men and women. To sustain this ecology of production we invested more than £5 million in training and development schemes – many of which are described on pages 30 and 31 of this annual review.

Channel 4 invests heavily in and actively supports the industry training organisation Skillset, the National Film and Television School and many other schemes and courses. In 2005, we funded the establishment of the Channel 4 British Documentary Foundation. As well as dozens of opportunities to benefit individuals at every stage of their careers, we offer structural support to a very fragmented and volatile production sector with initiatives such as:

- **Company Development Deals** of up to £50,000 each which are offered to production companies. These deals are not tied to particular commissions or outputs but allow companies to invest in new people, new policies and new ideas in a way their normal cashflow would not allow.
- **Researcher Development Programme** has, over the last six years, enabled 60 small, non-London based production companies to employ full-time researchers for a year so that they can plan a more systematic flow of projects, reduce their costs and raise their ambition. The scheme also gives them access to commercially valuable industry data and, perhaps most importantly, to senior commissioning editors, not just within Channel 4 but right across the broadcast industry.
- **The Research Centre for Television and Interactivity** offers tailored packages of support and training to independent production companies outside London, including overseas visits to enable small independent producers to familiarise themselves with the international marketplace.

Our audiences

“Thank you. I did not know these things were going on and I’m glad you made the programme.” Viewer calling in response to Channel 4’s Torture Season

Enriching

Channel 4 programmes provide a stimulating and original contribution to Britain’s national conversation – from **Big Brother**’s exploration of the norms and values of contemporary society to documentaries, dramas and reality programmes that explore issues of political, cultural, social and scientific interest. Some eight hours of Channel 4 programming each week was backed up by online resources and, often, by printed material and telephone support, too. Our websites provide information but they also encourage visitors to share and exchange experiences and ideas of their own. For example, **IDEASFACTORY** (channel4.com/ideasfactory) has grown into a major national network, with support from Regional Development Agencies, which helps young people who want to make a career in the creative industries, by providing information about work and training and by showcasing development and networking opportunities. Channel 4’s own talent website (channel4.com/4talent) gives visitors information about our training and development schemes, as well as tips about how to find work in the broadcasting sector.

Engaging

Channel 4 seeks to engage its viewers in new ways, through television and the online world and, most of all, by exploring ways in which different media platforms can work together to provide a unique kind of public service. Here are a few examples, some of which are mentioned elsewhere in this review:

– Election coverage

Channel 4 complemented its TV coverage of the 2005 general election with three linked websites: one providing information about the parties and leading politicians; one, called **fact-check**, which allowed visitors to verify from independent sources the claims made by politicians on the campaign trail. The site proved its worth in the very first days of the campaign when claims about health service provision made by a Cabinet minister had to be withdrawn after fact-check demonstrated them to be false. The third site focused on younger voters, asking them to map their concerns against the official party manifestos and then analysing the consequent impact on their intentions to vote. Oxford University’s Professor of e-democracy called it the most significant interactive project by a UK broadcaster during the whole election campaign.

– Media Literacy

4 Learning presented a two-hour special **Why is there so much rubbish on telly?** to explore the commercial pressures on TV schedulers. A three-part series **Last Rights** dramatised a future in which Government control of the internet undermines citizens’ rights and the whole democratic process. **Breaking the News** (channel4.com/breakingthenews), mounted in partnership with ITN, allowed a group of young people to create a national news bulletin in real time, web-broadcast it and use it as the basis for a national resource for schools and colleges to find out more about how news is created and reported.

– Community

Websites such as **ORINATION** and **Lost Generation**, **The Big Roman Dig** and **IDEASFACTORY** – and many others – enable visitors to create or contribute to virtual communities of interest by sharing and exchanging information and, in the process, creating valuable new databases which enrich existing permanent collections. Other activities during the year included **Digital Africa**, a weekend event which brought young African film-makers to the UK to share their expertise and innovative techniques with their British counterparts.

Challenging

Channel 4 seeks to challenge its viewers with television and new media services that promote debate, offer platforms to alternative and minority opinions and which ‘think out of the box’.

Jamie’s School Dinners and **Demolition** were two powerful examples of such an approach during 2005. Another, **The Big Art Project**, invites communities to propose sites and ideas for major works of public art and will offer the expertise and finance to bring half a dozen of them to realisation. The response has been overwhelming with some 1,500 proposals from communities up and down Britain.

In 2005, Channel 4 explored issues of disability in a range of ground-breaking programmes including **Born to be Different**, **Make Me Normal**, **the House of the Obsessive Compulsives**, **Being Pamela**, **I’m Spasticus** and **DV8: The Cost of Living**. Channel 4’s long-running series **Vee-TV** is a youth entertainment show, presented in British Sign Language with in-vision subtitles. Being made by and for deaf people it challenges many of the norms of network television but, in 2005, the production team sought to engage a wider audience and increased its ratings by 28%. Channel 4 also funded 15 training placements for deaf and disabled people. In partnership with ITN, a disabled journalist post was created within the Channel 4 News team, with appropriate training and mentoring. All these initiatives give disabled people experience, confidence and contacts; as important is the learning experience for the independent producers with whom they work.

The series **War on Terra** looked at climate change and carbon emissions. By providing a platform for the view that it was time to re-assess the contribution of nuclear power generation, the series, broadcast in early January, opened up a debate which was to grow in intensity as the year progressed. The TV series was backed up by a dedicated website. **Channel 4 News** also ran a series of debates on global warming in the run-up to the G8 summit.

Further details can be found at:
channel4.com/citizen4

Historical record

	2000 £m	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m
Consolidated results:						
Revenue	716.4	730.7	766.9	769.6	841.4	894.3
Operating profit/(loss)	33.8	(24.2)	28.9	55.6	59.8	56.9
Share of loss in joint venture	–	(3.9)	(9.9)	(10.5)	–	–
Operating profit	33.8	(28.1)	19.0	45.1	59.8	56.9
Net financial income/(expense)	2.0	(0.1)	(2.5)	0.2	3.9	9.9
Profit/(loss) before taxation	35.8	(28.2)	16.5	45.3	63.7	66.8
Taxation	(14.3)	7.6	(6.3)	(11.0)	(19.1)	(18.3)
Profit for the year	21.5	(20.6)	10.2	34.3	44.6	48.5

Figures for 2000 to 2003 are shown under UK GAAP. Figures for 2004 and 2005 are shown under IFRS. For analysis of the key differences arising on the transition to IFRS, see note 24.

Advertising and sponsorship revenue

	2000 £m	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m
Channel 4	651.7	619.4	645.9	643.0	692.1	729.3
ITV, GMTV, S4C and Five	2,315.7	2,012.4	2,031.6	1,993.8	2,106.5	2,063.6
	2,967.4	2,631.8	2,677.5	2,636.8	2,798.6	2,792.9
	%	%	%	%	%	%
Channel 4	22.0	23.5	24.1	24.4	24.7	26.1
ITV, GMTV, S4C and Five	78.0	76.5	75.9	75.6	75.3	73.9
	100.0	100.0	100.0	100.0	100.0	100.0

Audience share (portfolio)

	2000 %	2001 %	2002 %	2003 %	2004 %	2005 %
BBC (10 channels)	38.3	38.8	38.8	38.3	36.6	35.2
ITV (six channels)	29.3	26.9	24.8	24.6	24.1	24.0
Channel 4 and S4C (five channels)	10.5	10.3	10.8	10.4	10.5	11.0
Five (one channel)	5.7	5.8	6.3	6.5	6.6	6.4
Other (>350 channels)	16.2	18.2	19.3	20.2	22.2	23.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

The figures in brackets indicate the number of channels in that portfolio as at 31 December 2005.

Source: BARB all individuals.

Audience share

	2000 %	2001 %	2002 %	2003 %	2004 %	2005 %
BBC1	27.2	26.9	26.2	25.6	24.7	23.3
BBC2	10.8	11.1	11.4	11.0	10.0	9.4
ITV and GMTV	29.3	26.7	24.1	23.7	22.8	21.5
Channel 4 and S4C	10.5	10.0	10.0	9.6	9.7	9.7
Five	5.7	5.8	6.3	6.5	6.6	6.4
Other	16.5	19.5	22.0	23.6	26.2	29.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: BARB all individuals.