

## Corporate governance

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The Board is committed to high standards of corporate governance. The members have decided to prepare voluntarily a Corporate Governance Statement to demonstrate compliance with the main principles, where relevant, of the UK Corporate Governance Code issued by the Financial Reporting Council (FRC) in 2010, and the disclosure and transparency provisions of the Listing Rules of the Financial Services Authority.

The Board considers that, throughout the year, it was compliant with the relevant provisions of the UK Corporate Governance Code.

Channel 4's status as a statutory corporation without shareholders means those provisions concerning shareholders' interests are not directly applicable. Also, instead of a nominations committee, there are formal nominations procedures which are described on page 170.

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### **Statement of members' responsibilities in respect of the Annual Report and the Financial Statements of Channel Four Television Corporation (the 'Corporation')**

The members are responsible for preparing the Annual Report and the group and Corporation's financial statements in accordance with applicable law and regulations. The Corporation is required by its governing legislation (the Broadcasting Act 1990) to keep proper accounts and proper records in relation to the accounts, and to prepare financial statements in respect of each financial year. Under that law the members have elected to prepare the financial statements of the group and the Corporation in accordance with IFRSs as adopted by the EU and the requirements of Chapter 4 of Part 15 of the Companies Act 2006 as if the Corporation were a company incorporated under that Act.

The members accept responsibility for approving the financial statements only after they are satisfied that they give a true and fair view of the state of affairs of the group and Corporation and of their profit or loss for that period. In preparing each of the group and Corporation financial statements, the members:

- 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 IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the Corporation will continue in business.

The members have accepted responsibility for keeping proper accounting records that are sufficient to show and explain the group and Corporation's transactions and disclose with reasonable accuracy at any time the financial position of the group and Corporation. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The members have decided to prepare voluntarily a Members' Remuneration Report in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, made under the Companies Act 2006, as if those requirements were to apply to the group and Corporation.

The members are responsible for ensuring compliance with the requirements of Schedule 9 of the Communications Act 2003, as set out on page 176. Following the Digital Economy Act 2010, revised arrangements, approved by Ofcom, were implemented from 24 January 2012.

The members are responsible for the maintenance and integrity of the corporate and financial information included on the Corporation's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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### The Board

Channel Four Television Corporation is controlled through its Board of members. The Board's main role is to discharge Channel 4's statutory functions and ensure the fulfilment of the public service remit (as amended by the Digital Economy Act 2010) in accordance with all applicable laws and regulations.

The Board, which meets at least nine 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 (content and non-content)
- 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 statutory 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
- significant proposed changes to Channel 4's headcount
- such other matters as the Board may from time to time resolve to review or decide upon.

In addition, as part of its overall responsibility to ensure the fulfilment of Channel 4's statutory duties and functions, the Board continues to focus on ensuring the successful delivery of Channel 4's remit and other public service responsibilities. Content output and plans for future investment of the content budget are regularly discussed as part of the overall Board agenda, as are regular updates on audience reactions to Channel 4's content. The Board also approves Channel 4's proposed Statement of Media Content Policy (incorporating the Statement of Programme Policy and Review) prior to publication.

The Board has an established audit committee and remuneration committee to assist with the discharge of its functions.

### The roles of the Chairman and Chief Executive

The division of responsibilities between the Chairman of the Board and the Chief Executive is clearly defined as described below.

The Chairman has the responsibility of 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, among other things:

- 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
- 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
- undertaking an annual evaluation of Board and committee performance.

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The role of the Chief Executive is to run the business of Channel 4 under the delegated authority from the Board, to implement the policies and strategy agreed by the Board, and to communicate with Ofcom and other key stakeholders.

In 2012, Lord (Terry) Burns continued as Chairman and David Abraham continued as Chief Executive.

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### Senior independent member

Lord Hall was appointed Deputy Chairman and senior independent member on 1 February 2012 replacing Lord Puttnam after the expiry of his term on 31 January 2012. Lord Hall resigned his position on the Board on 25 November 2012.

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### Members and members' independence

The names of the 2012 Board members, together with their brief biographies, are set out on pages 179–182.

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 his biography. These do not adversely affect 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 116)
  - 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 (with the exception of Lord Hall, who was appointed on 1 April 2005 and resigned on 25 November 2012) served on the Board for more than six years from the date of their first election.
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- ### Board members and executive nominations
- Given its constitution and specific statutory provisions regarding the appointment of members, Channel 4 does not have a formal nominations committee. 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 Chair is appointed by Ofcom for a fixed term with the approval of the Secretary of State for Culture, Media and Sport
  - the Chief Executive is appointed by the Board
  - other executive members are appointed to the Board after nomination by the Chief Executive and the Chairman acting jointly
  - the Board Secretary is appointed jointly by the Chairman and Chief Executive.

### 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 Board Secretary. Throughout their period in office the members are continually updated on the group's business and environment and other changes affecting the group and the industry it operates in as a whole, by written briefings and meetings with senior executives.

A formal Board evaluation process that uses a detailed questionnaire to allow Board members to express both qualitative and quantitative views on Board performance is undertaken annually. The process is managed by the Board Secretary, with results anonymised in order to enable an impartial discussion of results. Results are fully discussed at a Board meeting and proposals tabled and agreed to address any actions arising. We believe the current Board evaluation process to be sufficient and accordingly have not engaged a third party to conduct the exercise. This will be kept under review.

### Board information

Regular reports and papers are circulated to the members before Board and committee meetings. These papers are supplemented by information specifically requested by the members from time to time. A monthly Performance Pack is prepared covering all key areas of the business and providing a month by month report on progress against the main performance indicators set by the Board.

The Board Secretary's responsibilities include ensuring an effective flow of information within the Board and its committees and between senior management and non-executive members, induction of new members and assisting with professional development as required.

The Head of Legal, Governance, Regulatory and Trading is responsible for advising the Board through the Chairman on all governance matters.

Both posts are available to provide advice and services to all members, as relevant, to ensure compliance with Board procedures.

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### Board meetings

The number of full Board meetings and committee meetings attended by each member during the year is shown in the table below:

	Appointed/resigned/retired	Number of meetings attended		
		Board	Audit committee	Remuneration committee
<b>Executives</b>				
David Abraham		9 (9)	3 (3)	4 (4)
Anne Bulford	resigned 26 February 2013	8 (9)	3 (3)	3 (4)
Jay Hunt		9 (9)	–	–
Jonathan Allan		9 (9)	–	2 (2)
Dan Brooke	appointed 1 February 2012	8 (8)	–	–
<b>Non-executives</b>				
Lord Burns		9 (9)	3 (3)	4 (4)
Lord Puttnam	retired 31 January 2012	–	–	–
Lord Hall	resigned 25 November 2012	8 (8)	–	4 (4)
Monica Burch		8 (9)	3 (3)	–
Alicja Lesniak		8 (9)	3 (3)	–
Mark Price		7 (9)	–	3 (4)
Richard Rivers		8 (9)	–	4 (4)
Paul Potts	appointed 1 January 2012	9 (9)	2 (2)	–
MT Rainey	appointed 1 January 2012	9 (9)	2 (2)	–
Josie Rourke	appointed 1 January 2012	7 (8)	–	–
Martha Lane Fox	retired 31 January 2012	–	–	–

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

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### Internal control

In accordance with good corporate governance practice the Board:

- is responsible for the company's system of internal control
- sets appropriate policies on internal control
- seeks regular assurance and receives regular reports that enable it to satisfy itself that the system is functioning effectively
- ensures that the system of internal control is effective in identifying key risks and reporting on the adequacy of actions to respond to and manage those risks
- is responsible for the group's process for the preparation of the consolidated accounts.

### Control environment

Clear management responsibilities are established for the executive members. The Corporation has a Code of Conduct and a suite of policies and procedures which encompass ethical behaviour, conduct and internal controls.

### Risk management

In addition to its requirements under Schedule 9 of the Communications Act 2003 set out on page 176, the Board and management have a clear responsibility for the identification of risks facing the Corporation and for putting in place procedures to monitor and mitigate such risks. The Board and Executive operate a risk management framework for identifying, evaluating and managing (rather than eliminating) significant risks faced by Channel 4. This framework has been developed in accordance with relevant good practice guidance on internal controls and risk management.

A summary of the key risks that the group faces, together with how those risks are mitigated, is presented in the business review of the members on pages 113 and 114.

### Editorial and compliance

Channel 4 has a long established compliance culture which is fully integrated to its commissioning process and provides clear editorial reference-up to senior executives and appropriate Board oversight. Its importance is widely recognised and understood by independent production companies we work with and they share equal responsibility for ensuring that programmes and online content conform to the compliance culture we work within. The Commissioning team works in close collaboration with the Legal and Compliance department on all significant commissions. There are strong editorial, legal and compliance systems and controls in place over the content commissioned by Channel 4. These include specific guidance and protocols contained within the Channel 4 Producer's Handbook which encompasses the Ofcom Broadcasting Code, other relevant regulations, media law and best practice guidelines. This is supported by extensive training to both staff and independent producers. At the heart of Channel 4's creative risk-taking and compliance is the editorial 'reference-up' procedure, which exists to ensure that difficult or fine-cut decisions on editorial and compliance issues are properly considered by the most appropriately experienced and senior editorial executives and programme lawyers within Channel 4.

### Management systems

Detailed annual budgets and business plans are prepared for each area of the business, and are approved by the Board. Monthly management reports are produced, comparing actual income and expenditure with budget 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 is authorised in line with a delegated authorities framework. 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. Financial controls are monitored by management review and through assurance reviews provided to the audit committee.

### Internal audit

During 2012, the business assurance function undertook a number of specific projects to provide assurance that control processes were appropriate and working effectively, and where necessary recommend improvements.

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The audit committee reviews the output and performance of business assurance and reports these to the Board.

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### Remuneration committee

During 2012 the remuneration committee comprised Richard Rivers (Chair), Mark Price and Lord Hall (appointed 1 February 2012, resigned 25 November 2012). The remuneration committee met four times during the year.

All the members of the committee are independent non-executive members. The Chairman of the Board, the Chief Executive and the Chief Operating Officer amongst others 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:

- to recommend to the Board the level of any annual salary increases, variable pay awards payable where applicable and the structure of remuneration for executive members and senior management
- to review any other significant change in Channel 4's remuneration package
- to monitor Channel 4's pension fund arrangements and related employee benefits. In particular, the remuneration committee considers 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 are shown in the report on members' remuneration on pages 183–187.

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### Audit committee

During 2012 the audit committee comprised Alicja Lesniak (Chair), Martha Lane Fox (retired 31 January 2012), Monica Burch, Paul Potts (appointed 1 June 2012) and MT Rainey (appointed 1 June 2012). The audit committee met three times during the year.

All the members of the committee are independent non-executive members. At the committee Chairman's invitation, the Chairman of the Board, the Chief Executive, the Chief Operating Officer, Director of Finance, the Head of Business Assurance and the KPMG LLP external audit partner (amongst others) attended meetings of the committee.

The external audit partner and Head of Business Assurance have direct access to the Chairman of the audit committee as required. In 2012 the committee had at least one member possessing recent and relevant experience. Alicja Lesniak FCA is a chartered accountant and was, until 2009, Chief Financial Officer of Aegis plc.

Other members of the committee bring to it a wide range of experience from positions at the highest level.

The 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

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- 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.

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 and Head of Business Assurance.

In 2012 the committee discharged its responsibilities by:

- reviewing the group's draft financial statements for the year ended 31 December 2011 prior to Board review and 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 asset impairments
- 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, key risks on the accounts, confirmations of auditors' independence and the proposed audit fee
- reviewing and approving the annual business assurance plan and findings of business assurance reviews
- reviewing the effectiveness of Channel 4's risk management framework and internal controls framework
- reviewing the findings of the independent reporting accountants concerning compliance with the arrangements under Schedule 9 of the Communications Act 2003.

Channel 4 will not use its external auditors to provide other services unless it is efficient and effective to do so. A summary of the fees earned by KPMG LLP in respect of services provided in 2012 is shown in note 3 to the financial statements. KPMG also makes an annual statement to the audit committee to confirm its independence within the meaning of regulatory and professional requirements.

The audit committee also monitors the group's whistleblowing 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. Mechanisms are in place to allow employees to report perceived wrongdoing.

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### 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, Henderson Global Investors Ltd, Veritas Funds plc and F&C Fund Management Ltd at least once a year.

During the year the trustees were Alicja Lesniak; two of Channel 4's executives, Anne Bulford (Chief Operating Officer) and Diane Herbert (Director of Human Resources); two member-nominated trustees, Julie Kortens (Head of Corporate Services) and Neil Pepin (Deputy Head of Legal and Compliance); Independent Trustee Services were appointed on 18 July 2012 as the independent trustee to the plan, replacing Louise Botting who resigned on 23 February 2012.

Anne Bulford resigned as a Trustee on 19 March 2013. Glyn Isherwood, Director of Finance, will be formally nominated as Channel 4's representative at the next meeting of the Trustees.



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### Third party verification statement

The Channel's Ofcom Digital Replacement Licence requires it to appoint an independent party to review and report on procedures in relation to the provision of Premium Rate Telephony Services.

PricewaterhouseCoopers were appointed to be the independent party to review the Channel's procedures. Reviews were conducted of all processes and procedures in relation to *The British Comedy Awards 2012* and *Stand Up To Cancer*. The members are satisfied that Channel 4 has in place suitable procedures to fulfil the requirements of paragraph 3b of the Licence.

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

The Act requires Channel 4 to submit proposals to Ofcom detailing the arrangements under which it proposes to secure, so far as reasonably practicable, that all significant risks to the primary function 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. Revised arrangements came into force on 24 January 2012 following the extension of the public service remit following the Digital Economy Act 2010.

Channel 4 has appointed Deloitte LLP to review compliance with the Arrangements and their report is shown on page 177. Copies of the Arrangements are available from the Board Secretary and at [channel4.com](http://channel4.com).

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

We have performed a review of the Corporation's compliance during the year ended 31 December 2012 with the arrangements approved by Ofcom in January 2012 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 20th December 2012 and in order to (a) allow the Corporation 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 the Corporation 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 the Corporation and Ofcom (in accordance with our contract with Ofcom dated 21st February 2013), for our work, for this report, or for the opinions we have formed.

Respective responsibilities of Channel Four Television Corporation and Reporting Accountants.

The Corporation 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 the Corporation 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 the Corporation and Ofcom are available from <http://stakeholders.ofcom.org.uk/binaries/consultations/c4-arrangements/statement/approved.pdf>. The responsibility of the Corporation 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 the Corporation has complied with these arrangements during the year ended 31 December 2012 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 the Corporation 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;
- review of the relevant internal procedures and controls and examining of the financial records relating to the above; and
- review of which of the Corporation's activities fall under the primary functions and which fall under 4Ventures Limited.

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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 2012. 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, the Corporation has complied with the arrangements under Schedule 9 of the Communications Act 2003, in all material respects, for the year ended 31 December 2012.

### **Deloitte LLP**

Chartered Accountants

London

27 March 2013