

FINANCIAL REPORT AND STATEMENTS

STRATEGIC REPORT

Financial highlights

Fifth consecutive year of financial sustainability

- Corporation revenue increased by £30 million to £938 million in 2014
- Channel 4 returned to a financial surplus position in 2014 after two years of investment, and in line with our three year strategy
- Cash reserves remain above £220 million for fifth year in a row while the launch of the Growth Fund further diversified our investment portfolio
- Channel 4 portfolio viewing share was broadly stable despite a highly competitive environment with growth in our portfolio share of 16–34s and digital channels, specifically E4
- A content reserve has been established in 2014 to support our aim to achieve a long-term financial break-even position and ensure surpluses generated are re-invested into our creative ambition. We have allocated £30 million of retained earnings from surpluses generated since 2010 to set up the content reserve

Year of major creative success and achievement

- Record number of awards in 2014 including Channel of the Year
- Originated content spend increased, maintaining an average above £430 million between 2012 and 2014

Continued evolution of digital and data strategies

- Digital revenues reached £63 million in 2014
- Record number of VoD views at 587 million views, 11.3 million registrations and half of all 16–34 year olds in the UK registered
- Launch of short form programming
- Plans underway to launch a new integrated VoD proposition, All 4, in 2015

Total revenue of £938 million, an increase of £30 million year on year

- Strong advertising sales performance aided by a buoyant advertising market, growth in digital revenues, and the box office success of *The Inbetweeners 2 Movie* have contributed to the revenue uplift in 2014

Operating surplus of £4 million achieved in 2014 following two years of planned investments in Channel 4's Investment in Innovation strategy

- The contribution from increased revenues has been reinvested into content spend in 2014
- Increased surpluses generated in 4Rights through VoD and *The Inbetweeners 2 Movie* are offset by difficult DVD retail conditions and lower catalogue sales

Utilisation of cash reserves reflects continuation of the investment strategy

- Total cash and funds on deposit decreased by £16 million to £222 million reflecting further investment in content, the Growth Fund and increased Defined Benefit pension funding obligations

Income statement highlights by segment

	Advertising & sponsorship revenue £m	Other revenue £m	Total revenue £m	Operating surplus/ (deficit) £m
2014				
4Broadcast	843	17	860	(20)
4Rights	27	51	78	24
Other	–	1	1	–
Eliminations	(1)	–	(1)	–
Total	869	69	938	4

	Advertising & sponsorship revenue £m	Other revenue £m	Total revenue £m	Operating surplus/ (deficit) £m
2013				
4Broadcast	825	17	842	(36)
4Rights	22	44	66	20
Other	–	1	1	1
Eliminations	(1)	–	(1)	–
Total	846	62	908	(15)

Key revenue and cost totals

	2014 £m	2013 £m
Sales house revenues*	1,073	1,028
Corporation revenues	938	908
Of which:		
Advertising and sponsorship revenues	869	846
Digital revenues	63	61
Content spend	602	597
Of which:		
Originated content spend	430	429

* Sales house revenues include the gross revenues of all our partners including UKTV, Box and BT Sport. As we are an agent in these relationships we only recognise our commission on these sales in Corporation revenues.

STRATEGIC REPORT CONTINUED

Our business model

Channel 4 is a unique organisation: a public service publisher-broadcaster with a distinctive creative remit, funded solely from commercial revenues, existing to provide a range of distinctive, challenging and provocative content. In order to fulfil our public service remit – to innovate and experiment in television and appeal to the tastes and interests of a culturally diverse society – we seek to optimise returns from our commercial activities.

The commercial model at Channel 4 has been framed historically by a clear set of principles, many enshrined in law. Our remit encourages us to maximise our spend on screen and minimise our overheads and asks us to meet certain minimum requirements with regard to levels of original, public service and regional commissioned programming. In return, Channel 4 receives ‘privileges’ from government such as prominence on the digital terrestrial television platform (‘EPG prominence’) and access to the digital spectrum (although these benefits have been eroding over time). In contrast to other broadcasters, we are prohibited by legislation from owning our own production capability and face a statutory limit on the amount of debt capital we can raise.

The delivery of Channel 4’s unique remit has always therefore relied on a challenging funding model which requires an agile, pioneering and well-executed commercial strategy. The Members’ view is that this is one of the organisation’s strengths, forcing Channel 4 to remain at the sharp end of innovation. Over the past decade, Channel 4 has proved remarkably resilient despite radical changes in the broader audio-visual market. This resilience has been achieved through the successful implementation of a multichannel strategy, the launch of pioneering digital services and sustained innovation in advertising sales – and a stable overall portfolio share.

There has always been a balance in maintaining the creative and cultural impact of the flagship channel and our contribution, as a publisher-broadcaster, to the UK production sector, while sustaining overall revenues by growing distribution in multichannel and online viewing. This balance exists for all public service broadcasters, but accurately predicting and managing it is central to how Channel 4 can maintain its independence and sustainability into its fourth decade.

Regulatory environment

Channel 4 receives access to the digital spectrum in return for fulfilling public service obligations as set out in the 1990 and 1996 Broadcasting Acts and as amended by the Communications Act 2003, the Digital Economy Act 2010 and the ten-year licence issued by Ofcom which was renewed during 2014 and came into effect in January 2015.

Following the completion of digital switchover, the Members consider the value of this access to be significantly diminished. It is not accounted for in the financial statements.

Business segments

Our business comprises three operating segments:

1. 4Broadcast

4Broadcast comprises the broadcast and supporting activities of the Corporation. These activities include five free-to-air television channels, available on terrestrial, satellite and cable platforms, which help to maintain the Corporation’s scale and creative impact in the multichannel world.

Channel 4, the main service channel continues to maintain its core focus on the values of innovation, creativity and diversity through original UK commissioned programming. Channel 4 is available in standard and high definition on the main broadcast platforms and also encompasses our delayed transmission service Channel 4+1 and 4seven.

4seven provides another opportunity to watch Channel 4 programmes from the past week that have generated public, media and social media attention.

E4 focuses on Comedy, Drama and Entertainment including original commissions and US acquisitions. E4 is the leading digital channel for 16–34s and the third most popular digital channel in the UK.

More4 offers life enhancing content to help viewers to get the most out of their everyday lives. More4 focuses on popular factual and features programming including homes, property, food, health and fashion.

Film4, the UK’s leading dedicated film channel and the fourth most popular digital channel for individuals, offers a mix of the best British, European, US and international cinema.

E4, More4 and Film4 are available on all the main broadcast platforms and offer delayed transmission and high definition services.

In addition, 4Broadcast includes **interactive platforms** that have helped to extend the depth and impact of programming output for more than a decade, complementing television content as well as free, advertising-funded catch-up video on demand for the majority of key shows. 4Broadcast continues to use the internet and new technologies to develop new commercial opportunities and reinforce its public service contribution and to drive a deeper relationship with audiences as well as having more archive content than any other UK broadcaster. We remain committed to developing further in this area and plan to launch our new VoD proposition, All 4, in 2015 as detailed on page 96.

The 4Broadcast segment also includes our **Growth Fund** activities, an investment fund with the aim of nurturing the independent sector by providing access to funding for a broad portfolio of small and medium sized independent production companies based in the UK to help them grow and develop their business.

2. 4Rights

4Rights includes our UK secondary rights business, generating income through the distribution of programmes, sale of DVDs, syndicated video on demand through third-party digital platforms and other associated products. Third-party video on demand platforms making Channel 4 content available to viewers include Virgin Media, Sky, BT Vision, Netflix and LoveFilm, as well as PS3, Xbox 360, Xbox One, Apple iOS, Android, Samsung and Windows 8.

3. Other

Other includes the provision of creative design and production services outside of the Corporation.

STRATEGIC REPORT CONTINUED

Group financial review

As a not-for-profit public service broadcaster, we believe cash reserves should be invested back into content and digital innovation rather than building up beyond levels necessary to keep the Corporation self-reliant. Our aim is to maintain an overall financial break-even position in the long term. We have established a content reserve in 2014 to support this principle and to ensure surpluses generated are re-invested into our creative ambition in order to deliver on our remit. We have allocated £30 million of retained earnings from surpluses generated since 2010, including the £3 million post-tax surplus recognised in 2014, to the content reserve. Surpluses generated in future years will be allocated to the content reserve when realised in cash, and creative investments will be funded by drawing down on the content reserve.

Our initiative to reinvest is designed to meet the opportunities and challenges of the next phase of digital migration and evolve our commercial business model to maintain the relevance and reach of our remit through further investment in original content, innovation through data, and viewer relationship management. Our three year investment strategy has led to planned deficits in 2012 and 2013 with the aim of achieving break-even in 2014. We achieved this target and have delivered a pre-tax surplus of £4 million in 2014.

Our key corporate and financial priorities in 2014 were to ensure the long-term sustainability of Channel 4's unique business model. These included:

- establishing familiarity with content investment with emphasis on returning, longer running series creating a distinctive new spine to the schedule and stabilising share decline
- establishing deeper data and viewer relationships and the ability to deliver targeted VoD advertising
- continuing to maximise our share of the core TV market and drive incremental revenue growth
- continuing to promote programme awareness and enhance our brand awareness and understanding of our remit
- cost control to ensure additional spend was investment and remit-focused

We introduced some new initiatives in 2014 designed to further support our growth and sustainability.

The Channel 4 Growth Fund launched in 2014 which will help generate additional commercial return for Channel 4 and will add a new dimension to Channel 4's existing support for the independent production sector by stimulating growth outside of the normal commissioning cycle. In 2014 we committed to invest a total of £5 million in five independent production companies.

The Channel 4 sales house, including advertising sales generated for our partners UKTV, The Box Plus Network (Box), PBS and BT Sport, achieved £1.07 billion in sales in 2014 (2013: £1.03 billion), as our advertising sales team produced another strong performance to exceed their £1 billion target for a fourth year running. This achievement has helped to sustain our price premium in the market to maximise our revenues for content investment and continues to drive value and revenue growth for our sales house partners.

Total revenues recognised by the Group in 2014 were £938 million (2013: £908 million) and a summary of key changes in year-on-year performance by business segment is shown opposite.

As part of our creative renewal of the schedule, and to support the UK independent production industry, we have invested £430 million into originated content in 2014 (2013: £429 million). In 2014 this included high profile and ground-breaking shows such as *Gogglebox*, *Educating Yorkshire* and *Richard III*.

Investment in video on demand platforms has extended the reach of 4oD, resulting in increased registrations, views and revenue growth. By December 2014, 11.3 million viewers (2013: 10.2 million) had registered with 4oD, with 50% of all 16–34 year olds in the UK registered.

Overhead and administrative costs continue to represent a small proportion of the total cost base (less than 3%). We continue to seek efficiencies in operations to ensure we maximise investment into content.

Financial position

We maintain a robust financial position, reflected by a strong balance sheet and significant cash reserves, providing funds for our future strategic plans as well as contingency against future advertising market volatility.

The balance sheet on page 132 shows that the net assets of the Group at 31 December 2014 are £443 million (2013: £458 million). The change year-on-year reflects increased actuarial deficits on the defined benefit pension scheme of £37 million offset by an increase in the revaluation of the Horseferry Road freehold property of £13 million, net deferred tax movements on the revaluation of the pension scheme and property of £6 million and the surplus after tax of £3 million. The increase in the value of the property, the movement in the pension deficit and their associated deferred tax impacts are recorded in Other Comprehensive Income.

Cashflow

The purchasing of programme stock ahead of transmission, the acquisitions of the Growth Fund companies and contributions to the defined benefit pension scheme led to a decrease in cash and funds on deposit of £16 million in the year (2013: a decrease of £23 million) to £222 million (2013: £238 million).

As shown in the Group cashflow statement on page 133, the investment strategy adopted in 2014 resulted in a £9 million net operating cash outflow (2013: £25 million). Net cash inflows from investing activities were £30 million as less cash was placed on deposit (2013: net cash outflows of £17 million).

Group cash and cash equivalents were £152 million at 31 December 2014 (2013: £131 million) with a further £10 million held on deposit for three months or longer (2013: £50 million) and £60 million held in variable net asset value funds (2013: £57 million).

STRATEGIC REPORT CONTINUED

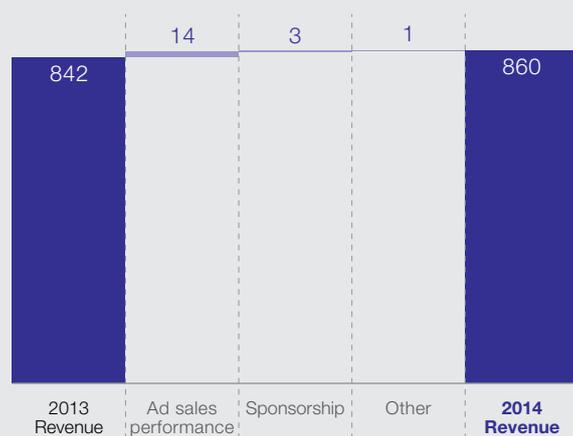
Segment financial review

4Broadcast

£860M

2014 4Broadcast revenue

Revenue (£m)



Revenue increased by £18 million in 2014, mainly due to strong TV advertising and sponsorship sales performance and TV advertising market growth.

£20M

2014 4Broadcast operating deficit

Operating result (£m)



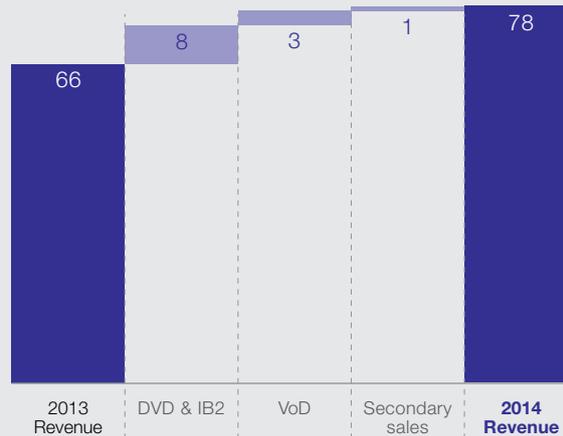
The operating deficit improved by £16 million in 2014, mainly due to the impact of the revenue growth highlighted above and careful financial cost management, offset by higher distribution & transmission costs and content spend as the additional revenues were re-invested in year.

4Rights

£78M

2014 4Rights revenue

Revenue (£m)

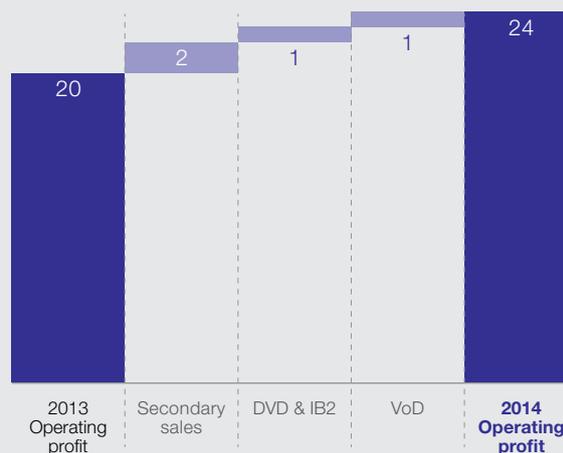


Revenue increased by £12 million in 2014, reflecting strong box office performance and DVD sales of *The Inbetweeners 2 Movie* (IB2) and further growth in VoD revenues and secondary sales. The increase in operating surplus in the year also reflected these trends.

£24M

2014 4Rights operating surplus

Operating result (£m)



STRATEGIC REPORT CONTINUED

Staff and corporate responsibility

People

At Channel 4 we pride ourselves on the wide range of passionate and talented people we employ. Not only does this reflect our audience more accurately, it also promotes creative thinking both on and off screen.

Average headcount for the year, on a full time equivalent basis, was broadly flat in 2014 at 808 (2013: 798). At the end of 2014 the total number of people of each sex employed by the Corporation for each group of employees was as follows:

2014	Male No.	Female No.
Non-Executive Members	5	4
Executive Members	3	1
Senior managers	26	14
Employees	353	512
Total Employees	387	531

Applying for roles

Channel 4 received 9,561 applications for employment from 1 January 2014 to 31 December 2014. Of overall applicants:

- 26% were BAME and 2% preferred not to say
- 57% were female and 43% were male
- 8% were lesbian, gay, bisexual or transgender (LGBT) and 7% preferred not to say
- 3% declared themselves as having a disability

Of the 168 employees who joined Channel 4 during 2014:

- 20% were BAME
- 65% were female and 35% were male
- 4% were LGBT and 2% preferred not to say
- 3% declared themselves as having a disability

Breaking down barriers to entry

Channel 4 continues to break down barriers to entering the media industry by using online and social networking, face-to-face events, and structured new entrant programmes. In 2012 we launched the Channel 4 Graduate Programme (in partnership with Creative Skillsset and Bournemouth University) to complement our Apprenticeship and Production Training Scheme.

Via these schemes we offered 26 new entrants the opportunity of paid work, and second to none on-the-job training. There were opportunities in both our offices at Channel 4 and production-based roles in the Indie sector. The talent that we find and develop is for us and the wider creative industry; we believe that we all benefit from a strong, talented Indie sector.

During 2014, 100% of our 2013 apprentices (2013: 80% of 2012 apprentices) gained permanent employment at Channel 4 or other companies on completion of their apprenticeship.

Social mobility

Following the Deputy Prime Minister's Award for Excellence in 2013, we continued to strengthen our work in this area during 2014 and have held 4Talent Open Days in six locations with high youth unemployment. 4Talent attended London and Birmingham career skills shows, as well as providing career talks in a number of schools and partnering with several youth organisations.

4Talent Open Days

Channel 4 received 3,099 applications, an increase of 43%, to attend open days or apply for work experience placements. Of overall applicants:

- 27% were BAME (an increase of 9% since last year) and 2% preferred not to say
- 68% were female, and 32% were male
- 2% declared themselves as having a disability

Work experience

In 2014 Channel 4 offered 60 work experience placements of between 1 and 2 weeks for individuals aged between 16 and 25 years of age.

Talent development

Every year we give in excess of £800,000 to a variety of bodies including Creative Skillsset, TRC Media and the National Film and TV School to help fund projects to develop diverse entry-level talent.

Diversity Charter

We pride ourselves on the wide range of people we employ. Not only does this reflect our audience more accurately, it also promotes the variety of creative thinking and programming that have made Channel 4 what it is today. It is only by attracting people from the widest possible backgrounds with the most diverse range of attitudes, opinions and beliefs that we can keep producing the kind of challenging, engaging output you've come to expect from us.

In January 2015, Channel 4 announced its 360° Diversity Charter. The Charter aims to continue delivering iconic moments on-screen, but it will also show leadership in diversity at every level. This is far reaching and involves all our staff as well as commissioners, writers, directors and talent to name a few examples and focuses on every part of the people development chain. It includes in-house employment diversity targets to be achieved by 2020 to address imbalances across a range of groups including BAME, gender split, people with disabilities and LGBT. Further details are provided on page 97.

Diversity in TV and the media is a top priority for us at Channel 4. A key part of our remit is to appeal to people whatever their culture, nationality, religious persuasion, physical and mental ability, sexual orientation, gender, race or age.

Creative Diversity Network (CDN)

As a founding Member, Channel 4 continues to play an active role in the Creative Diversity Network (CDN). The CDN is a coalition of all the major UK broadcasters which works across the UK television industry to promote, celebrate and share good practice around the diversity agenda.

In 2014, the CDN launched industry working groups, the Commissioning Leadership Programme and held the CDN Awards, all with the expressed aim of engaging and empowering the industry to drive change and understand the business case for wider representation and inclusion.

Pension

The most recent independent triennial valuation of the Channel Four Television Staff Pension Plan was carried out as at 31 December 2012. The subsequent valuation and recovery plan were approved by the Board in 2014 (note 18). The Channel Four Television Staff Pension Plan was closed to new joiners with effect from 1 September 2007 and a new Defined Contribution Scheme opened from the same date. On 24 February 2015, it was announced that the Channel Four Television Staff Pension Plan will close to future accrual with effect from 31 December 2015.

The assets and liabilities of the Channel Four Television Staff Pension Plan have been valued at 31 December 2014 in accordance with IAS 19 – Employee Benefits and the net accounting deficit of £73 million has been recorded in the year end balance sheet (2013: £39 million). The deficit has increased in 2014 primarily as a result of changes in actuarial assumptions following the approval of the triennial valuation and recovery plan and changes in discount rates.

STRATEGIC REPORT CONTINUED

Accountability

Our Board and Executive Team have committed to promoting the highest standard of responsible corporate behaviour and are ultimately accountable for this. Channel 4 has a Corporate Code of Conduct and procedures providing a framework for accountability. Since 2004, we have reported on our approach to corporate responsibility and our performance in our Annual Report and Accounts.

Corporate and social responsibility

We are committed to playing a responsible role in our communities. Our environmental sustainability statement is disclosed on page 110.

The aim of our Corporate Responsibility (CR) strategy is to fulfil our public service remit in a responsible manner through inspiring and challenging the behaviour of our people and audience to promote social, environmental and personal change.

Charitable giving

Employees are able to make tax-free donations to charity, directly from their salary via the Give As You Earn Scheme. We also support staff fundraising through a match funding scheme that encourages teamwork and collaboration. We match fund pound-for-pound up to £2,500 if teams of staff work together in support of a charitable cause.

Volunteering

Channel 4 recognises that volunteering can have a meaningful and positive impact on both our staff and community, and we support this through our Volunteering Policy.

The Disaster Emergency Committee (DEC)

Channel 4, working in partnership with ITN, has been a broadcast partner for the DEC for a number of decades. When a large-scale international crisis occurs, we broadcast a 2–3 minute national television appeal, without charge.

4better

4better is Channel 4's internal employee engagement programme, which works to promote positive change for our people, local communities and the environment.

Strategic outlook

Channel 4 strives to continually evolve and innovate in order to deliver its required levels of public service. Over the past five years the Executive Team have focused on creating long-term sustainability through commercial developments and creative success, whilst continuing to ensure that output is as creative and diverse as it can be. Some examples of this are below:

- Building a more stable programme schedule with key returning titles in order to strengthen our offering to our audiences, such as *Gogglebox*, *Educating Yorkshire*, *Benefits Street* and *24 Hours in Police Custody*
- Develop our ad sales partnerships. The combination of Channel 4 alongside UKTV, BT Sport and PBS means we continue to maintain scale and manage a demographically-efficient base in a constantly evolving and challenging market. Total sales house revenues have exceeded £1 billion for a fourth year in a row and we continue to seek to identify further complementary partnerships
- Driving differentiation and growth in our online revenues through our award winning data strategy. Data forms a key element in a growing proportion of our online deals as behavioural targeting becomes an ever more embedded expectation amongst advertisers. We remain committed to further developing and growing this area. We are also launching All 4 in 2015 (page 96), developing Viewer Interest Segments which will allow us to identify viewer preferences and promote accordingly, while also launching programmatic buying which is designed to further develop targeted promotional airtime on our digital platforms and enable agencies to buy VoD ads that are targeted at specific interests

- Diversify our revenue streams to reduce our reliance on linear advertising, examples of which include short form programming, advertiser-funded programming and Viewer Interactive Services (VIS)
- Launch of the Growth Fund. This puts our capital to work in more remit-delivering ways and opens Channel 4 up to sharing in the benefits of companies that go on to generate shareholder value in the future. In 2014 we committed to invest £5 million into 5 companies, and have earmarked a further £15 million to invest over the next 2 years

The core base for sustainability of the organisation remains the TV and video advertising market, accompanied by a stable total audience share across linear and VoD viewing, relative to the competition. In addition, growing new revenue streams such as short form and mobile are important, as is appropriate management of our cost base. Management are also seeking other growth and investment opportunities to help underpin remit delivery.

Looking forward, the Members remain confident that Channel 4 can continue to deliver against current levels of public service impact on a self-sustaining basis. Ofcom also share this view, as demonstrated by the renewal of Channel 4's licence for 10 years from January 2015.

Financial outlook for 2015

We have been implementing an investment strategy over the last three years, which led to planned deficits in 2012 and 2013 before achieving our financial breakeven target and returning to a £4 million pre-tax surplus in 2014.

We are planning further investment in 2015 providing the TV advertising market grows, reflecting our continued ambition to deliver strongly on our remit alongside an ambition to hold portfolio audience and commercial share viewing. We will use the surplus generated in 2014 to partly fund this, again highlighting our long-term breakeven goals, and our desire to reinvest surpluses into the core of our business.

Our outlook for 2015 is positive. The market outlook for 2015 is strong, with growth forecast between the range of 3% and 4%. Channel 4 budgets on a prudent growth model, and if the market grows by more than forecast then we will seek to reinvest any upside into content or other core developments.

Our investment plans centre around three key areas in 2015:

- Continue to invest in content that will drive growth (both linear and nonlinear) and resonate with our audiences. To this extent we are making a planned investment into our digital channel E4, via the content reserve which was created in 2014 for such a purpose.
- Continue to invest in data, to further deepen our viewer relationships, and ability to deliver a targeted VoD proposition. We will be launching All 4 in 2015, and are developing tools to enhance our engagement with our digital audiences, driving deeper viewer understanding and affinity.
- We will seek to grow our Growth Fund partnerships, and in 2015 will look to engage with and invest in companies that will both complement Channel 4's core business, and stimulate growth in regions and diversity-focused companies.

To achieve this we will seek to maximise advertising revenues from our core business and drive incremental revenue growth.

Overhead and administrative costs will be held constant or reduce as a proportion of total spend.

STRATEGIC REPORT CONTINUED

Key performance indicators

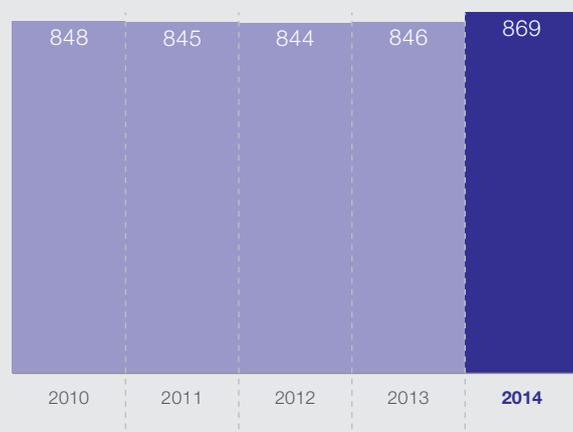
The Board uses a range of quantitative financial and non-financial indicators to monitor the Group's performance against its key objectives including the SMCP metrics set out on pages 14 to 35 of this report. Four key indicators are described below.

Advertising and sponsorship revenue

£869M

2014 advertising and sponsorship revenue

Total advertising and sponsorship revenue (£m)



Definition

Advertising and sponsorship includes all broadcast airtime, online advertising and sponsorship revenues recognised in the Group consolidated income statement. Channel 4 is funded solely from commercial activities without direct public subsidy. Our commercial performance is therefore dependent on delivering valuable airtime to advertisers, which in turn enables the delivery of our remit.

Comment

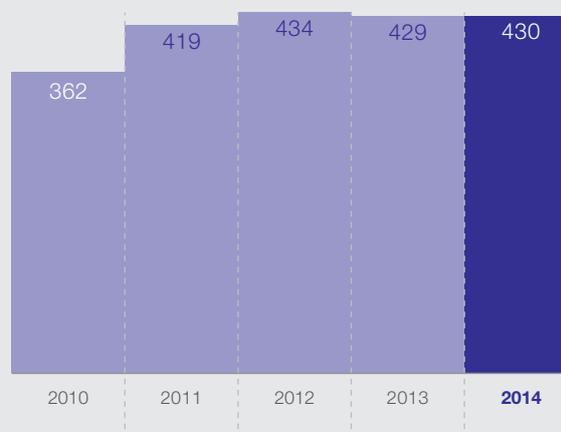
In 2014 advertising and sponsorship revenue accounted for 93% (2013: 93%) of total revenue. Total advertising and sponsorship revenue increased in the year to £869 million (2013: £846 million) as shown on page 100.

Originated content spend

£430M

2014 originated content spend

Investment in originated content (£m)



Definition

Originated content spend primarily reflects our investment across the portfolio of channels in original, UK-developed content.

Comment

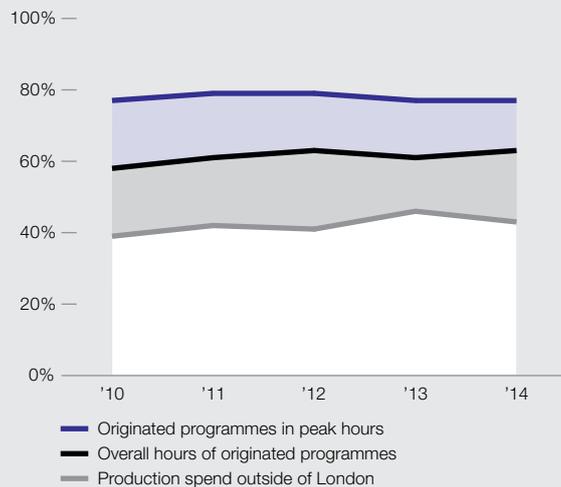
In 2014 Channel 4 continued to invest in commissions from UK independent production companies. Originated content spend was slightly higher than 2013 and only marginally lower than its highest ever level in 2012 (£434 million). The spend of £430 million (page 15) continues to demonstrate Channel 4's commitment to the UK independent production sector.

STRATEGIC REPORT CONTINUED

Ofcom requirements

EXCEEDED

Ofcom requirements

**Definition**

As a public service broadcaster, the Channel 4 main service is set various licence obligations by Ofcom, the delivery of which is central to our public service role. Targets are set for a range of production and transmission measures. These targets are set out on pages 15, 17, 18 and 165.

Comment

In 2014 and 2013 we met or exceeded all of our licence requirements.

Key quotas achieved are shown above. During 2014 the main channel achieved 63% of overall hours of originated programmes (target: 56%) and 77% in peak hours (target: 70%).

As shown on pages 18 to 19, we also comfortably exceeded our target of 35% of programme production spend outside London with £153 million of the Channel 4 portfolio's originated programming, excluding *Channel 4 News*, being supplied by production companies located outside the M25.

Portfolio audience share

10.9%

Portfolio audience share

**Definition**

Portfolio audience share data is the average proportion of the total UK television audience that has viewed our portfolio of channels in the year, and is obtained from BARB (see page 31).

Portfolio audience share is a key measure of delivering our public service remit across our portfolio of channels. It is a broad measure and an easily understood indicator of performance for a range of stakeholders. In aggregate it also helps explain our success in attracting advertising to our portfolio of channels and ultimately underpins the delivery of our remit. Financial sustainability is underpinned by our success in attracting key demographics, 16–34s and ABC1s, which are valuable to advertisers, and these are important sub measures within the top level portfolio share.

Comment

In 2014, portfolio audience share was 10.9% (2013: 11.0%).

Channel 4's audience share was 5.9% in 2014 (2013: 6.1%) and our digital channels grew marginally to 5.0% (2013: 4.9%). E4 grew by 5% with Film4 and More4 flat.

Against the backdrop of overall audience share, viewing share performance in our key demographics (16–34s and ABC1s) and in peak underpin our financial sustainability. Our 16–34s demographic improved as Channel 4's appeal to younger audiences grew further, with share up by 2% to 17.0%, while our share of the ABC1 demographic declined by 4% in 2014. Our overall share of viewing in peak (8pm – 11pm) remained stable (page 166).

Further information on audience share is provided on pages 31 and 32.

STRATEGIC REPORT CONTINUED

Managing risks

How we manage risk

The Board has a clear responsibility for the identification of risks facing the Corporation and for putting procedures in place to monitor and mitigate these risks. Channel 4 has a high appetite for creative risk taking, giving rise to potentially litigious content. Channel 4 has a low appetite for operational risks. The Board and Executive Team 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 good practice on internal controls and risk management.

A summary of the key risks that the Group faces, together with the key steps in how those risks are mitigated, is presented on the following pages.

Who does what

THE BOARD

- Leadership of risk management
- Sets strategic objectives and risk appetite
- Monitors performance
- Accountable for the effectiveness of the Group's internal control and risk management process

AUDIT COMMITTEE

- Delegated responsibility from the Board to oversee risk management and internal controls
- Reviews the effectiveness of the Group's internal control and risk management processes
- Monitors the role and effectiveness of the internal auditors and external auditors, and their independence

EXECUTIVE MEMBERS

- Communicate and disseminate risk policies
- Support and help assess risk
- Encourage open communication on risk matters
- Monitor performance
- Assess materiality of risks in context of the whole Group
- Monitor mitigation and controls
- Facilitate sharing of risk management information and best practice across the Group

BUSINESS ASSURANCE

- Independently reviews the effectiveness of the Group's risk management and internal control processes
- Monitors and validates action taken by management
- Reports four times annually to the Audit Committee

EXECUTIVE TEAM COMMITTEES

- Comprise Commercial, Operational and Creative Executive Team committees
- Define risk management roles at operational and project levels
- Use risk as an explicit part of decision-making and management of external relationships
- Continuous identification of risk, assurance and self-assessment

Risks and uncertainties

Risk	Potential impact	Mitigating actions
Failure to respond to changes in the advertising industry given the Corporation's dependence on advertising revenue	<p>In 2014, 93% of Channel 4's revenue (2013: 93%) derived from advertising and sponsorship.</p> <p>Channel 4 is subject to cyclical fluctuations and structural changes in the advertising market, including those arising from changes in regulation, and in the competitive landscape.</p> <p>Advertising and sponsorship income are variable and can change significantly during the course of the year as a result of variations in audience share or broader market or economic conditions.</p>	<p>Channel 4 actively seeks to diversify sources of revenue. The growth of digital revenues has been a direct response to the risk of failing to diversify revenues.</p> <p>Channel 4 monitors the advertising market and its share of the market closely to identify trends.</p> <p>As far as possible, Channel 4 phases commitments and maintains a flexible cost base.</p> <p>Channel 4 holds cash reserves to protect against the impact of a decline in the television advertising market.</p> <p>Channel 4 has invested strongly in online advertising.</p> <p>Channel 4 invested in commercial innovation throughout 2014, for example through Growth Fund investments in Independent Production companies.</p>

STRATEGIC REPORT CONTINUED

Risk	Potential impact	Mitigating actions
Failure to identify and develop sufficiently compelling content	<p>Channel 4 is tasked with selecting, retaining and scheduling compelling, innovative and risk-taking content from a diverse supply base using multiplatform delivery systems, while maintaining effective relationships with independent production companies.</p> <p>The impacts arising from failing to successfully meet this challenge include a material decline in audience share and reputational damage.</p>	<p>Channel 4 has pursued a strategy of investment in creative diversification in recent years.</p> <p>Channel 4's business terms with independent producers and the scale of commissioning opportunity remain highly competitive.</p> <p>Channel 4 maintains quarterly meetings with PACT.</p>
Cyber security breach	<p>Risk that the personal information of Channel 4 viewers may be lost or disclosed, or obtained without viewers' consent.</p> <p>A cyber security breach could lead to reputational damage, loss of viewer trust, and a loss of confidence in the integrity of data-driven commercial metrics.</p>	<p>Channel 4 has an established information security function, supported by specialist resources.</p> <p>Data is stored by specialist third parties.</p> <p>Channel 4 has published a Viewer Promise of principles concerning viewers' data.</p>
Challenge in recognising and investing in new, relevant technologies to deliver content and engage with audiences	<p>A challenge for all broadcasters is maintaining legacy linear distribution systems and investing in new platforms.</p> <p>The market is increasingly competitive with emerging global content providers.</p>	<p>Channel 4 has invested in a viewer data platform to build direct consumer relations and improve decision making.</p> <p>Channel 4 maintains a strategic plan to ensure that the channel stays responsive to innovation in the technology sector.</p>
Breach of Ofcom licence and regulatory obligations, and legal compliance	<p>Our licence quotas are published on pages 15, 17, 18 and 165 of this report.</p> <p>Failure to fulfil the statutory responsibilities governing delivery of our remit presents a significant risk to Channel 4.</p> <p>Transmission of content presents legal, regulatory and reputational risks to Channel 4.</p>	<p>The Board is responsible for ensuring that Channel 4 meets all of its public service obligations.</p> <p>The Board reviews current programming output and Channel 4's performance against Ofcom quotas on a regular basis.</p> <p>Channel 4 has a number of detailed legal and compliance procedures and protocols to ensure that the risks of legal and regulatory breach are identified and appropriately managed.</p>
Failure to address the defined benefit pension deficit	<p>The defined benefit pension scheme, whilst closed to new entrants, is a material liability on the balance sheet (2014: £73 million). The overall liability may worsen over time, due to broader economic and demographic conditions, and the risk exists that Channel 4 may need to divert funding activity away from spend on-screen in order to fund an increased liability.</p>	<p>The Corporation and Trustees of the scheme meet regularly to review the pension liability.</p> <p>The Corporation has made efforts to mitigate the risk and to reduce the liability and, on 24 February 2015, announced that the scheme will close to future accrual with effect from 31 December 2015.</p>

By Order of the Board

David Abraham
Chief Executive
25 March 2015

REPORT OF THE MEMBERS

Introduction

The Members present their report and the audited financial statements for the year ended 31 December 2014.

The Chairman and Chief Executive present their statements on pages 4 and 5 respectively. A review of the Group, outlining its business model, development and performance during the financial year, together with its position at 31 December 2014 and financial outlook is provided in the Strategic Report on pages 100–109. The Strategic Report also outlines the principal risks and uncertainties facing Channel 4.

The Group's financial statements are set out on pages 130–158 and Channel 4's financial statements are set out on pages 159–162.

Legal form

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

Members' interests

Channel 4 fully embraces the principles of good corporate governance and, to this end, makes full disclosure of all Members' interests. During 2014, Members, in addition to their salaries, benefits and/or fees as disclosed on page 125, were interested in the following transactions negotiated at arm's length on normal commercial terms with the Group:

David Abraham is a Non-Executive Director and MT Rainey is Vice Chair of Creative Skillset. Channel 4 paid £453,000 to Creative Skillset, the sector skills council for the creative industries, to fund industry-wide training during 2014. Channel 4 received £214,000 from Creative Skillset in relation to the Open 4 programme in 2014.

Lord Burns is Chairman of Santander UK plc. Santander UK plc advertises its services on Channel 4.

Mark Price is Managing Director of Waitrose, and Deputy Chairman of the John Lewis Partnership. Waitrose and John Lewis advertise their services on Channel 4.

Richard Rivers is a Member of the Advisory Board of WPP plc. Channel 4 sells advertising through a number of subsidiaries of WPP plc.

Dan Brooke is a Non-Executive Director of the Britdoc Foundation, a non-profit film foundation supported by Channel 4. Channel 4 paid £180,000 to the Britdoc Foundation in 2014.

Alicja Lesniak is a Non-Executive Director and Audit Chair of SThree plc. SThree plc owns Huxley Associates, a recruitment consultancy which provides IS contractors to Channel 4. Channel 4 paid £5,686,000 to Huxley Associates in 2014.

Where the Members have an interest in an advertising or sponsorship client of the Group, the amounts paid or payable are not disclosed as they are negotiated and transacted via media buying agencies. All such transactions are negotiated and transacted on an arm's length basis.

Environmental sustainability

We want to ensure that the way we conduct our day-to-day activities reflects our commitment to reducing any negative impact we may have on the environment. To support this, we have had an Environment Policy in place since 2004.

In 2014 we continued our in-house campaigns aimed at raising awareness of issues surrounding the environment and sustainability, as well as focusing on specific campaigns such as volunteering and charitable giving.

To provide accurate targets we have undertaken a benchmarking exercise for services during 2014 to provide a baseline for the Horseferry Road building now that it is fully occupied. This included a complete review of all our existing plant, which runs our building services in terms of heating, air conditioning and lighting, most of which has not been renewed since the building opened in 1994. This has allowed us to identify where we can make our existing equipment more environmentally friendly and also to update our life cycle plan so where equipment requires renewal, we can effectively cost and implement a replacement strategy that incorporates energy efficiency and sustainability.

Carbon footprint

Channel 4 registered for Phase 2 of the government's CRC scheme which commenced on 1 April 2014. Our CRC reportable carbon emissions for the April 2013 – March 2014 year saw an increase of 10% against the figures reported for the 2012–2013 year. This is due to it being the first reportable period where the building was fully occupied since the refurbishment.

Our greenhouse gas emissions for 2014 are set out in the table below.

	2014	2013
Total carbon footprint (tonnes of CO ₂)	5,922	5,925
Total carbon footprint per £m revenue	6.3	6.5

Waste

We recycled 132.628 tonnes of general office waste during 2014 (2013: 143.100 tonnes), representing 100% of identified recyclable waste. General municipal unsorted waste decreased to 30% of total waste in 2014 (2013: 36%). The mixed waste has decreased due to better food waste disposal resulting in less contaminated general waste.

Water

Following the refurbishment of the offices at Horseferry Road, we continue to monitor our consumption. The water consumption for 2014 was 9,705 cubic metres which shows an increase of 28% year-on-year, but this is attributable to the increase in occupancy of the offices.

REPORT OF THE MEMBERS CONTINUED

Channel 4 website

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

Disclosure of information to auditors

Each of the persons who is a Member at the date of approval of this Annual Report confirms that:

- so far as the Member is aware, there is no relevant audit information of which the Corporation's auditors are unaware; and
- the Member has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Corporation's auditors are aware of that information.

Auditor

KPMG LLP has been appointed as auditor to Channel 4 with the approval of the Secretary of State for Culture, Media & Sport, and has expressed their willingness to continue in office.

Going concern

The Group's business activities, the factors likely to affect its future development and performance, the financial position of the Group and its cashflows are set out in the Strategic Report (pages 100–109). In addition, note 14 to the financial statements includes the Group's approach to financial risk management, including its financial instruments and hedging activities and its exposures to liquidity and credit risks.

On 11 March 2014, Ofcom announced the renewal of Channel 4's licence. The new ten-year licence came into effect in January 2015.

The Group has sufficient financial resources and, based on normal business planning and control procedures, the Members believe that the Group is well placed to manage its business risks. The Members have a reasonable expectation that the Group will continue in operational existence for the foreseeable future, and therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

REPORT OF THE MEMBERS CONTINUED

Responsibility statement of the members in respect of the annual financial statements

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 in accordance with IFRSs as adopted by the EU and the requirements of Chapter 4 of Part 15 of the Companies Act 2006, and elected to prepare the financial statements of the Corporation in accordance with the Financial Reporting Standard 101 *Reduced Disclosure Framework*.

The Members accept responsibility for approving the financial statements only after they are satisfied that, when taken as a whole, they are fair, balanced and understandable and provide the information necessary to assess the company's performance, business model and strategy. 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 voluntarily prepare a 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 117. 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.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and surplus or deficit of the Corporation and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Corporation and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary to assess the company's performance, business model and strategy in accordance with the UK Corporate Governance Code (September 2012).

By Order of the Board

David Abraham
Chief Executive
25 March 2015

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHANNEL FOUR TELEVISION CORPORATION (THE 'CORPORATION') ONLY

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of the Corporation for the year ended 31 December 2014 set out on pages 130 to 162. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Corporation's affairs as at 31 December 2014 and of the Group's surplus for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Corporation's individual financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 as if that Act applied to the Corporation.

2 Our assessment of risks of material misstatement

We summarise below the risks of material misstatement that had the greatest effect on our audit, our key audit procedures to address those risks and our findings from those procedures in order that the Corporation's Members as a body may better understand the process by which we arrived at our audit opinion. Our findings are the result of procedures undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and consequently are incidental to that opinion, and we do not express discrete opinions on separate elements of the financial statements.

Programme and film rights (£242 million)

Refer to page 123 (Audit Committee Report), page 137 (accounting policy) and page 149 (financial disclosures).

The risk – There is significant judgement involved in estimating the value to the Group of programme and film rights, and there is a risk of a write-down being required when indicators of a reduction in the value of individual assets are identified, for example when:

- The quality of the programme means it may no longer be broadcast in the originally intended transmission slot such that there is a reduction in the related expected future viewing performance; or
- Forecast future theatrical and DVD revenues no longer support the carrying value of developed film rights.

The majority of the costs of programme and film rights are written off on first transmission. There is, however, an increased level of judgement involved in assessing the profile of expected future advertising, sponsorship or other related revenue in relation to certain types of programming including feature films, sports rights and acquired series which may be written off over more than one transmission.

Our response – Our audit procedures included:

- We focused on those programme and film rights that are the oldest or have the highest carrying amounts, and those near rights expiry. We evaluated the Group's assessment of the expected future transmissions and forecast revenues through enquiry of the programme scheduling team who operate independently from finance; inspection of the programme schedule for the three month period following the year end date; and compared a sample of programmes scheduled at the year end to third party TV listings for that period:

- With regard to film rights in production, critically assessing forecast film rights income through independent enquiry of the Film 4 commissioning team to understand performance expectations; reference to third party theatrical release data and sales of distribution rights to date; and historical experience of theatrical, distribution and DVD revenues generated from film releases; and
- Challenging the assumptions underlying the calculation of transmission cost write off profiles with reference to historical viewing data, in particular programmes and films that were not fully expensed on first transmission.

Our findings – We found:

- the estimates made in relation to expected future scheduling and forecast revenues in assessing the carrying value of programme and film delivery rights to be balanced.
- the estimates in respect of future film rights income on films in production to be mildly optimistic.
- the assumptions regarding the viewing profile used to calculate the transmission cost write off profiles to be mildly cautious.

Revenue recognition (£938 million)

Refer to page 123 (Audit Committee Report), page 135 (accounting policy) and page 139 (financial disclosures).

The risk – In terms of audit risk, the Group's revenue can be divided into two categories:

- Advertising revenues (£780 million): Whilst the majority of advertising revenue contracts are straightforward, there are a small number of individually significant one-off contracts in respect of barter arrangements, where Channel 4 exchange advertising revenue for programmes, and contracts where Channel 4 acts as a sales agent for other broadcasters' advertising. These contracts can contain unique contract terms including complex commission calculations, and judgement is required to determine the appropriate revenue recognition treatment.
- Sponsorship and other revenues (£158 million): This includes many agreements with differing individual terms in respect of the following revenues: sponsorship, subscription income from other platforms, box office and DVD sales. The volume and variety of different contracts gives rise to a risk of incorrect revenue recognition between accounting periods, in particular in relation to the allocation of revenues where contracts span the year end.

Our response – Our audit procedures included:

- Testing the design and implementation of controls operating over the standard advertising revenue arrangements, and testing of the operating effectiveness;
- Agreeing the treatment of barter and sales agent contracts, in terms of
 - i. Applying the relevant accounting standards to the contract terms and comparing with the actual treatment adopted;
 - ii. obtaining evidence of performance of contractual obligations including the delivery of airtime;
 - iii. considering the valuation basis applied for the programmes received in barter deals with reference to production costs which are seen to reflect value;
- Testing the revenue recognition approach on a sample of higher value items of sponsorship and other revenue with reference to our own analysis of the application of relevant accounting standards to non-standard contract terms and transmission schedules in respect of sponsorship campaigns, to assess whether revenue has been recognised in the appropriate accounting period; and
- Considering the adequacy of the Group's accounting policy disclosures in their description of the method applied to recognising revenue for these arrangements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHANNEL FOUR TELEVISION CORPORATION (THE 'CORPORATION') ONLY CONTINUED

Our findings – we found:

- the judgments regarding measurement of airtime delivery to reflect the fulfilment of performance obligations on barter and sales agent contracts to be balanced.
- for barter and sales agency contracts the judgments applied in determining the fair value of goods and services received, used for the recognition of revenue, to be balanced.
- the judgments applied in arriving at the revenue recognition treatments to be balanced.
- the Group's accounting policy disclosures to be proportionate.

3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £7.0 million, determined with reference to a benchmark of group revenue of £938 million (of which it represents 0.7%). We consider revenue to be an appropriate benchmark as the Corporation's aim is to achieve a long-term break even position.

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding of £0.3 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group's operations are all accounted for at the Group's office in London. The Group audit team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality level set out above and covered 100% of total Group revenue, Group profit before tax, and total Group assets.

4 Our opinion on other matters prescribed under the terms of our engagement is unmodified

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 the Corporation were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006.

In our opinion:

- the part of the Members' Remuneration Report which we were engaged to audit has been properly prepared 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 Corporation; and
- the information given in the Members' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading. In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Members' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for stakeholders to assess the Group's performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

Under the terms of our engagement we are required to report to you if, in our opinion:

- proper accounting records have not been kept by the Corporation, or returns adequate for our audit have not been received from branches not visited by us; or
- the Corporation's individual financial statements and the part of the Members' Remuneration Report which we were engaged to audit are not in agreement with the accounting records and returns; or
- certain disclosures of Members' remuneration are not made; or
- we have not received all the information and explanations we require for our audit.

In addition to our audit of the financial statements, the Members have engaged us to review their Corporate Governance Statement as if the Corporation were required to comply with the Listing Rules and the Disclosure Rules and Transparency Rules of the Financial Conduct Authority in relation to those matters. Under the terms of our engagement we are required to review:

- the Members' statement, set out on page 111, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 115–117 relating to the company's compliance with the ten provisions of the 2012 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Respective responsibilities of Members and auditor

As explained more fully in the Members' Responsibilities Statement set out on page 112, the Members are responsible for the preparation of financial statements which are intended by them to give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the UK Ethical Standards for Auditors. Scope of an audit of financial statements performed in accordance with ISAs (UK and Ireland)

A description of the scope of an audit of financial statements is provided on our website at www.kpmg.com/uk/auditscopeother2014. This report is made subject to important explanations regarding our responsibilities, as published on that website, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Corporation's Members, as a body, in accordance with the Broadcasting Act 1990 and the terms of our engagement, and, in respect of the separate opinion in relation to the Members' Remuneration Report, reporting on corporate governance, and, in order that the Corporation's Members as a body may better understand the process by which we arrived at our audit opinion, the inclusion of findings in respect of the identified risks of material misstatement, on terms that have been agreed. Our audit work has been undertaken so that we might state to the Members those matters that we have agreed to state to them in our 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 the Members, as a body, for our audit work, for this report, or for the opinions we have formed.

Karen Wightman
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL

25 March 2015

CORPORATE GOVERNANCE

The Board is committed to high standards of corporate governance. The Members have decided to voluntarily prepare 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 2012, and the disclosure and transparency provisions of the Listing Rules of the Financial Conduct 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 below.

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 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 reappointment of the Chief Executive
- confirmation of the appointment and reappointment 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 reappointment 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 and has delegated each certain responsibilities. The Audit Committee Report is set out on pages 121-123 and the Remuneration Committee Report is set out on pages 124-129.

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 & Sport
- the Chair is appointed by Ofcom for a fixed term with the approval of the Secretary of State for Culture, Media & 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.

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 is responsible for, among other things:

- leading the Board in setting the values and standards of Channel 4
- maintaining a relationship of trust with and between the executive and Non-Executive Members
- 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.

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 2014, Lord (Terry) Burns continued as Chairman and David Abraham continued as Chief Executive.

Senior independent member

In 2014, Mark Price continued as Deputy Chairman and Senior Independent Member.

Members and members' independence

The names of the 2014 Board Members, together with their brief biographies, are set out on pages 119-120.

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.

CORPORATE GOVERNANCE CONTINUED

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 (although attention is drawn to the related party transactions on page 110)
- receives remuneration other than their Member's fee
- 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 six 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 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. In January 2014, the Board had a training session from KPMG on the updates to the UK Corporate Governance Code and Board Members also completed the Channel 4 Code of Conduct training in 2014.

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.

Board meetings

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

Name	Board meetings attended (invited)	Audit Committee meetings attended (invited)	Remuneration Committee meetings attended (invited)
Lord Burns	9 (9)	4 (4) ¹	4 (5) ¹
Richard Rivers	7 (9)		5 (5)
Alicja Lesniak	9 (9)	4 (4)	
Monica Burch	8 (9)	4 (4)	
Mark Price	7 (9)		4 (5)
Paul Potts	9 (9)	4 (4)	
MT Rainey	8 (9)	4 (4)	
Josie Rourke	9 (9)		
Stewart Purvis	9 (9)		5 (5)
David Abraham	9 (9)	3 (4) ¹	5 (5) ¹
Jonathan Allan	9 (9)		
Jay Hunt	8 (9)		
Dan Brooke	9 (9)		

¹ Lord Burns and David Abraham attended Audit Committee and Remuneration Committee meetings but were not Members.

Board diversity

As shown on page 104, diversity is at the heart of Channel 4 and this is equally important at entry level as at the most senior levels of the organisation. In December 2014, the Channel 4 Board comprised four Executive Members and nine Non-Executive Members. As stated on page 115, Non-Executive Members are appointed by Ofcom, and Executive Members by the Chief Executive and Chairman. At December 2014, one of the four Executive Members was a woman (December 2013: one of four Executive Members).

At 31 December 2014 the Board comprised five women and eight men, with the five women making up 38% of the Board Membership. These details are also disclosed on page 104.

Internal control

In accordance with good corporate governance practice, the Board:

- is responsible for the Corporation'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.

The Board is not responsible for the internal control environment or corporate governance for any of the Group's joint ventures or associates.

CORPORATE GOVERNANCE CONTINUED

Internal control continued

Control environment

Clear management responsibilities are established for the Executive Members. As noted on page 105, 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 below, 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. Channel 4 has a high appetite for creative risk taking, giving rise to potentially litigious content. The Group has a low appetite for operational 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 Strategic Report on pages 108–109.

Editorial and compliance

Channel 4 has a long-established compliance culture, which is fully integrated into 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 Producers' Handbook, which encompasses the Ofcom Broadcasting Code, other relevant regulations, media law and best practice guidelines. This is supported by extensive training for both staff and independent producers. At the heart of Channel 4's creative risk-taking and compliance is the editorial 'reference-up' procedure. The Members are satisfied that Channel 4 has in place suitable procedures to fulfil the requirements of paragraph 3b of the Licence, 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 reports

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 as part of their monthly performance packs, 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 business assurance reports provided to the Audit Committee.

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 Non-Executive Member Alicja Lesniak; two of Channel 4's executives, Glyn Isherwood (Group Finance Director) 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) and Independent Trustee Services Ltd as the Independent Corporate Trustee.

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 LLP and Deloitte LLP have been appointed to be the independent parties to review the Channel's procedures. In 2014, Deloitte continued to provide third party verification over premium rate competitions. The Members are satisfied that Channel 4 has in place suitable procedures to fulfil the requirements of paragraph 3b of the Licence.

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 118. Copies of the Arrangements are available from the Board Secretary and at channel4.com.

CORPORATE GOVERNANCE CONTINUED

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 2014 with the arrangements approved by the Office of Communications ('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 21 January 2015 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 4 February 2015), 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 2014 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.

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 2014. 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 2014.

Deloitte LLP

Chartered Accountants

London
25 March 2015

MEMBERS

Non-Executive Members

Chairman

Lord Burns GCB

Appointed as Chairman on 28 January 2010, his initial appointment ran until January 2013 and has been extended to January 2016.

Lord Burns is Chairman of Santander UK plc and is a Non-Executive Member of the Office for Budget Responsibility.

He began his career in 1965 at the London Business School, becoming a professor of Economics in 1979. In 1980 he was appointed Chief Economic Adviser to HM Treasury and Head of the Government Economic Service. In 1991 he became Permanent Secretary to HM Treasury, a post he held until 1998, when he was appointed a life peer.

Previous appointments included acting as an independent adviser to the Secretary of State for Culture, Media & Sport on the previous BBC Charter Review. He has also been Chairman of Marks and Spencer plc, Glas Cymru Ltd (Welsh Water), the Governing Board of the Royal Academy of Music and the National Lottery Commission, and a Non-Executive Director of Banco Santander SA, Pearson Group plc, The British Land Company plc and Legal & General plc.

Monica Burch

Monica Burch joined the Board on 1 October 2010. Her initial appointment ran until September 2013 and has been extended until September 2016. Monica is Senior Partner of law firm Addleshaw Goddard LLP, and Chairs the firm's Board. Monica also chairs the firm's Charitable Trust and is a Board Member of charitable organisation PRIME, which promotes fair and equal access to quality work experience in the legal profession.

Monica is a Partner in Addleshaw Goddard's litigation practice where she heads contentious IP. Prior to her appointment as Senior Partner in 2011, Monica was a Board Member for six years. She also sat on the Management Board of predecessor firm Theodore Goddard.

Monica was appointed a Civil Recorder in 2010 (a part-time judicial appointment), is a CEDR-qualified mediator and was named by The Lawyer magazine as one of the 'Hot 100 Lawyers' in 2007 and 2011. She was named in the Timewise Power Part-Time List in 2013.

Monica graduated from Oxford University with a degree in Jurisprudence in 1987, and gained a distinction in her Masters Degree in Commercial Intellectual Property from Nottingham Trent University in 2007. Monica has worked in the US and UK, and has advised a variety of businesses, mainly in the consumer sector, across the globe.

Alicja Lesniak

Alicja Lesniak joined the Board on 1 October 2010. Her initial appointment ran until September 2013 and has been extended until September 2016. Alicja is also Senior Independent Director and Chair of the Audit Committee of Next 15, an AIM-listed worldwide digital communications Group, and a Non-Executive Director and Audit Chair of STthree plc, a specialist permanent and contract staffing business. She is also Business Adviser to the Board of The British Standards Institution.

Until 2009, Alicja was Chief Financial Officer of Aegis plc. Prior to this, she was Chief Financial Officer of BBDO EMEA, Chief Financial Officer of Ogilvy and Mather Worldwide, and Managing Director of J Walter Thompson.

Alicja Lesniak is a Fellow of the Institute of Chartered Accountants in England and Wales.

Mark Price

Mark Price was appointed to the Board on 1 October 2010 and his initial appointment ran until September 2013. In 2013 his term was extended and he was appointed Deputy Chairman and Senior Independent Member until September 2016. Mark joined John Lewis Partnership in 1982 as a graduate trainee. He held numerous posts before becoming Managing Director of Waitrose in April 2007. Prior to this, in 2005 Mark was appointed as the Partnership Development Director (responsible for Strategy among other things) when he became a Member of the Partnership Board. Mark became Chairman of Business in the Community in January 2011, a post he held for four years. He is also Chairman of the Prince's Countryside Fund.

Richard Rivers

Richard Rivers joined the Board on 1 October 2010. His initial appointment ran until September 2013 and has been extended until September 2016. Richard Rivers is a former Chief of Staff and Head of Corporate Development at Unilever. As well as his role as a Non-Executive Board Member for Channel 4, Richard is a Non-Executive Director of Mothercare plc and Lumene Oy and a Member of the advisory board of WPP plc.

Paul Potts CBE

Paul Potts joined the Board on 1 January 2012. His initial appointment ran until December 2014 and has been extended until December 2017. He began his career as a reporter on the *Sheffield Star* in 1968 and worked for numerous newspapers, including the *Daily Telegraph* and *Daily Express*, where he was Deputy Editor. He joined the Press Association in 1995 as Editor-in-Chief. Paul was appointed Group Chief Executive in 2000 and Executive Chairman in 2008. He retired from PA Group in 2010.

Paul became a Commander of the Order of the British Empire (CBE) in 2009. He has an honorary degree of Doctor of Letters from the University of Sheffield and in 2010 he was appointed Visiting Professor of Journalism. He is also a media consultant and former media adviser to the Joint Parliamentary Committee on Privacy and Injunctions.

MT Rainey

MT Rainey joined the Board on 1 January 2012. Her initial appointment ran until December 2014 and has been extended until December 2017. MT (Mary Teresa) Rainey was Founder and CEO of top UK advertising agency Rainey Kelly Campbell Roalfe/Y&R. Since 2008 she has been Non-Executive Chairman of the fast-growing digital strategy agency Th_nk. She is also the Founder of horsesmouth.co.uk, a social enterprise for informal online mentoring.

In a voluntary capacity, MT is Vice Chair of Creative Skillset, the sector skills council for the Creative Industries. She is a former Chairman of Marketing Group of Great Britain and recent President of The Thirty Club.

Josie Rourke

Josie Rourke joined the Board on 1 January 2012. Her initial appointment ran until December 2014 and has been extended until December 2017. Josie was born and educated in Salford, read English at Cambridge and trained at the Donmar Warehouse, where she returned as Artistic Director in 2012. Between 2007 and 2011 she was Artistic Director of the Bush Theatre, which was recognised as Theatre of the Year in 2011.

Her other work as a Director includes productions at the Young Vic, the Royal Court, Sheffield Theatres (where she was Associate Director), the Royal Shakespeare Company, the Chicago Shakespeare Theatre, the National Theatre and in the West End.

Productions as Artistic Director of the Donmar include: *The Recruiting Officer*, *The Physicists*, *Berenice*, *The Weir*, *The Machine* (also New York and Manchester International Festival), *Coriolanus*, *Privacy* and *City of Angels*. Under her artistic direction, the Donmar has transferred two shows to New York and one into the West End from its Covent Garden home in six months.

MEMBERS CONTINUED

Stewart Purvis

Stewart Purvis joined Channel 4 as a Non-Executive Director in September 2013. His initial appointment runs until August 2016.

He joined the BBC as a News Trainee in 1969, then moved to ITN in 1972 where he became Editor of *Channel 4 News*, Editor-in-Chief of ITN and then Chief Executive. After retiring from ITN in 2003 he became a Visiting Professor of Broadcast Media at Oxford University and from 2007 to 2010 he was Ofcom's Partner for Content and Standards. He has advised the House of Lords Select Committee on Communications on the governance of the BBC and was the independent chair of a multi-party negotiation to progress digital radio in the UK.

He is Professor of Television Journalism at City University London and the co-author of *When Reporters Cross the Line*.

Executive Members

David Abraham

David Abraham became Channel 4's sixth Chief Executive in 2010. His focus has been on innovation, independence, creative renewal and preparing Channel 4 for the growth of connected television. Since the launch of the data strategy, more than 10 million viewers have registered and, in partnership with UKTV and BT Sport, Channel 4 Sales House has sustained revenues above £1 billion since 2011.

David joined Channel 4 from UKTV where he was Chief Executive. Prior to this, he led The Learning Channel US following a period as General Manager of Discovery Networks UK. David gave the MacTaggart lecture in 2014 on the importance of PSB to British Creativity.

During the early part of his career David was a Co-Founder of advertising agency St Luke's. He has been a Board Member of Creative Skillset since 2009.

Jay Hunt

Jay Hunt became Chief Creative Officer of Channel 4 in January 2011 from her position as Controller BBC One. Jay's commissions during this time include critically acclaimed shows such as *Sherlock*, *Luther* and *Mrs Brown's Boys*.

She spent 15 years in BBC News working on *Breakfast*, *Newsnight* and *Panorama* before becoming Editor of the *Six O'Clock News*. In 2005 Jay became Controller of BBC Daytime, commissioning shows across BBC One and BBC Two that included returning hits such as *Great British Menu*, *Heir Hunters* and *Put Your Money Where Your Mouth Is*.

As Director of Programmes at Channel 5 in 2008, she commissioned a number of successful features including *Cowboy Builders* and *Extreme Fishing*.

Under her leadership, Channel 4 was named MGEITF Channel of the Year and won more awards than at any time in the channel's history. Her winning commissions include *Gogglebox*, *Educating Yorkshire*, *The Island*, *The Undateables* and *Utopia*.

Jonathan Allan

Jonathan Allan was appointed as Director of Sales on 13 September 2011. He graduated from Newcastle University in Economics and immediately joined a full service agency, Cravens Advertising, in the city. He joined the TV department at the major London media agency OMD UK in 1995 and was appointed to the Board as TV Director in January 2000. He then moved into planning for a number of years and was appointed Deputy Managing Director in February 2005. In January 2007 he became Managing Director.

Jonathan Allan is also on the Board of Thinkbox, the television marketing body.

Dan Brooke

Dan Brooke is Chief Marketing and Communications Officer, having rejoined Channel 4 in November 2010. He was appointed to the Board on 1 February 2012.

Dan left independent production company Rare Day, where he was Managing Director. Prior to this, he was Managing Director of Discovery Networks UK, leading it through a period of change and innovation with the launch of seven new channels, including its first Freeview channel and its first entertainment channel, as well as mobile and on demand services.

Dan worked at Channel 4 from 1998 to 2005, joining as the Head of Marketing and Development for FilmFour, rising to be Managing Director of Digital Channels. He was responsible for the development and award-winning launches of Channel 4's portfolio of digital channels and in 2001 was elected Young Marketer of the Year by the Marketing Society for his role in the birth of E4.

Dan is also a Trustee of Britdoc, the Camden Arts Centre, Headlong Theatre and the Mass Extinction Monitoring Observatory.

Paula Carter

Paula Carter joined Channel 4 as the first Viewers' Editor, before becoming Board Secretary in 2011 and Director of Planning in 2013. Her background includes experience in advertising, marketing, public and commercial broadcasting and digital media. She worked for the BBC for ten years before joining ITV to create a new digital channel jointly owned by Granada and Boots. Prior to joining Channel 4 in 2007, she ran her own communications consultancy where her clients included Ofcom, the BBC Governors, HMRC, the Royal Opera House, the Joint Scrutiny Committee for the 2003 Communications Bill and the Cabinet Office.

Paula is a magistrate on the Central Kent Bench and Chairman of Governors at St. Michael's Prep School in Otford, Kent.

AUDIT COMMITTEE REPORT

Composition of the Audit Committee

During 2014 the Audit Committee comprised Alicja Lesniak (Chair), Monica Burch, Paul Potts and MT Rainey. All the Members of the Committee are Independent Non-Executive Members. Alicja Lesniak FCA is a chartered accountant and was, until 2009, Chief Financial Officer of Aegis plc.

Further details of the Members of the Audit Committee can be found on page 119.

The Committee met four times during 2014. At the Committee Chair's invitation, the Chairman of the Board, the Chief Executive, the Group Finance Director, the Group Financial Controller, the Head of Business Assurance, the Board Secretary and the KPMG LLP external audit partner (among others) attended Committee meetings. The external audit partner and Head of Business Assurance have direct access to the Chair of the Audit Committee.

Details of attendance at Audit Committee meetings by the Members of the Corporation are disclosed in the Corporate Governance Report on page 116.

Responsibilities and activities of the Audit Committee

As noted in the Corporate Governance Report on page 115, the Board has discharged certain responsibilities to the Audit Committee.

The Committee's key responsibilities, and how these were discharged in 2014, are detailed on page 122.

AUDIT COMMITTEE REPORT CONTINUED

Responsibilities of the Audit Committee

- 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 monitor 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
- to monitor and review the effectiveness of Channel 4's Business Assurance function and activities
- 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 auditor's 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 and to ensure the Board is aware of matters that may significantly impact on the financial condition or affairs of the business

Activities of the Audit Committee in 2014

- at the March and September Audit Committee meetings, reviewed an update of the Corporation's accounting policies, significant accounting and reporting issues and a detailed financial report
- at the March meeting, reviewed the 2013 financial statements and other sections of the Annual Report including the Statement of Media Content Policy before their release, to determine that these were clear and consistent with their knowledge of the Corporation and its operations and to assess that the financial statements reflected appropriate accounting principles
- reviewed the accounting treatment in respect of the Growth Fund and new revenue contracts and initiatives
- at the January meeting, reviewed and approved the Business Assurance work plan and assessed the Corporation's risk management framework
- at the June and September meetings, discussed the Corporation's risk appetite
- throughout the year, reviewed reports on the results of Business Assurance activities, and met with the Head of Business Assurance and Management to review the findings from these activities and instances of whistleblowing, if any
- at the March meeting, reviewed the findings of the independent reporting accountants concerning compliance with the arrangements under Schedule 9 of the Communications Act 2003
- considered a report on the governance arrangements for Growth Fund investments
- reviewed a report on the management of Treasury and the Corporation's investments
- considered the tax affairs and arrangements of the Corporation ahead of the annual Senior Accounting Officer certification to HMRC
- further details in External audit section opposite
- the Chair of the Audit Committee briefed the Board as necessary on the activities of the Committee and any significant matters during the course of the year
- Audit Committee papers, including Business Assurance reports, have been made available to the Board during 2014

If necessary, the Audit Committee can instigate special investigations and, if appropriate, engage special counsel or experts to assist.

AUDIT COMMITTEE REPORT CONTINUED

Key audit risks

After discussions with both management and the external auditors, the Audit Committee determined that the key risks in relation to misstatement of the Corporation's financial statements were as follows:

- Programme and film rights
- Revenue recognition

These issues were discussed with management during the year, and with the external auditors while the audit strategy was being reviewed and at the conclusion of the audit of these financial statements.

Programme and film rights

The value of programme and film rights recognised on the balance sheet is £242 million as disclosed in note 12 to the financial statements. The total value of obsolete programmes and developments written off in the year was £45 million. Reflecting the status of Channel 4 as a public service broadcaster, the value to the Corporation of the programme and film rights portfolio is considered on an aggregate basis. As described on page 137, programme and film rights are stated at the lower of the direct cost incurred up to the balance sheet date and value to the Group.

The Committee has reviewed the results of management's provision for programme rights at the balance sheet date and is satisfied that the procedures performed and the assumptions made were robust.

The auditors have explained their audit procedures to test the carrying value of programme and film rights on the balance sheet and the results of their work. On the basis of their audit work, the auditor considered that the carrying value of programme and film rights was materially appropriate in the context of the financial statements as a whole.

Revenue recognition

Total revenue for 2014 was £938 million as detailed in note 1 to the financial statements. The revenue recognition accounting policies of the Corporation are disclosed on page 135. In 2014, £869 million or 93% of total revenues were advertising and sponsorship revenue, which are recognised on transmission of the advertisement for advertising revenue and on a straight-line basis in accordance with the transmission schedule for each sponsorship campaign for sponsorship revenue.

The accounting treatment for new, unique revenue contracts is reviewed and presented by management to the Audit Committee.

The Committee has reviewed the accounting for each material new contract in 2014, and the judgement applied in each case. Management also provided papers explaining the accounting treatment to the auditors during the 2014 financial audit. On the basis of their audit work, the auditor considered that the value of revenue recognised was materially appropriate in the context of the financial statements as a whole.

Misstatements

Management confirmed to the Committee that they were not aware of any material misstatements or immaterial misstatements made intentionally to achieve a particular presentation. The auditors reported to the Committee any misstatements that they had found in the course of their work and no material misstatements remain unadjusted. The Committee confirms that it is satisfied that the auditors have fulfilled their responsibilities with diligence and professional scepticism.

After reviewing the presentations and reports from management and consulting where necessary with the auditors, the Committee is satisfied that the financial statements appropriately address the critical judgements and key estimates, both in respect to the amounts reported and the disclosures. The Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust.

External audit

Auditor rotation

The current auditor has been in place since the audit of the financial statements for the year ending 31 December 2004. The auditor periodically rotates the lead audit partner to safeguard independence and objectivity. Karen Wightman began her tenure as audit partner in 2013. We anticipate that Karen Wightman will continue as lead audit partner until the Audit Committee reviews the need to tender the audit ahead of 2017 when her term concludes.

Auditor objectivity and independence

Channel 4 will not use its external auditors to provide other services unless it is efficient and effective to do so. The Committee has also taken action to ensure the objectivity and independence of the external auditors is maintained. To discharge this responsibility, the Committee has:

- agreed changes in senior audit personnel including the rotation of the lead audit partner in 2013
- approved the proposed audit fee
- reviewed all non-audit fees payable to the Group's external auditors
- reviewed KPMG's annual statement to the Audit Committee to confirm its independence within the meaning of regulatory and professional requirements

A summary of the fees earned by KPMG LLP in respect of all services provided in 2014 to the Corporation is shown in note 3 to the financial statements.

Effectiveness of the audit process

The Committee has reviewed the external audit process and has satisfied itself that it is effective by reviewing:

- the external auditor's plan for the audit of the Group's accounts, including the key audit risks identified above
- the external auditor's detailed reports on the Group's draft financial statements for the year ended 31 December 2014

Business Assurance

As noted elsewhere, the Corporation has a Business Assurance function. The Head of Business Assurance has direct access to the Chair of the Audit Committee and reports jointly to the Group Finance Director and the Chair of the Audit Committee.

During 2014, 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.

MEMBERS' REMUNERATION REPORT

Annual statement by the Chair of the Remuneration Committee

This report sets out the activities of the Remuneration Committee for the year ended 31 December 2014. It discloses the remuneration policy and remuneration details for the Executive and Non-Executive Members of the Corporation. It has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013. Channel 4's status as a statutory corporation without shareholders means these provisions are not directly applicable but the Members have decided to voluntarily comply with the provisions to the extent that they are relevant to Channel 4, in line with the Board's commitment to high standards of corporate governance.

The Report is set out in three sections: the statement by the Chair of the Remuneration Committee, the annual report on remuneration, and the policy report. The annual report on remuneration provides details on remuneration relating to 2014 and other information required by the Regulations.

The Companies Act 2006 requires the auditors to report on certain parts of the Members' Remuneration Report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Regulations. The parts of the Annual Report on remuneration that are subject to audit are indicated in the auditor's report. The statement by the Chair of the Remuneration Committee and the policy report are not subject to audit.

The Remuneration Committee oversees all aspects of pay for the Executive Members and staff of Channel 4, reviewing proposals for the overall annual pay awards and variable pay schemes applicable to all staff, and the details of remuneration packages for Executive Members. The Committee's recommendations and decisions in 2014 reflect its remuneration policy, which is designed to enable Channel 4 to attract, motivate and retain high calibre staff by rewarding them with both fixed and variable pay to reward commercial and creative success, while being sensitive to the position that Channel 4 occupies as a public service broadcaster.

Composition of the Remuneration Committee

During 2014 the Members of the Committee were Richard Rivers (Chair), Mark Price and Stewart Purvis. In 2014, the Committee met five times.

All the Members of the Committee are Independent Non-Executive Members. The Chairman of the Board, the Chief Executive, the Group Finance Director, the Director of Human Resources and the Board Secretary attend meetings as appropriate.

Where Executive Members or senior management are involved in advising or supporting the Remuneration Committee, care is taken to recognise and avoid conflicts of interest. No Executive Members attend meetings of the Remuneration Committee at times when any aspect of his or her individual remuneration, benefits or terms of employment is being discussed.

Non-Executive Members are appointed by Ofcom, who also determines their fees. Non-Executive Members are entitled to reimbursement of travel and accommodation expenses incurred in connection with attending Board and other meetings in relation to fulfilling their duties. Non-Executive service contracts are subject to fixed terms of a maximum of three years.

Responsibilities of the Remuneration Committee

The Committee's principal responsibilities are:

- to recommend to the Board the level of any annual salary increases, variable pay awards and the structure of remuneration, in particular for Executive Members and Senior Management
- to review any other significant change in Channel 4's remuneration arrangements and policies
- to recommend to the Board the structure of the annual Corporate Variable Pay and Advertising Sales Schemes, and to review progress against the targets set for the schemes
- to review any other aspect of HR strategy or performance as seems relevant

The Chair of the Remuneration Committee reports to the Board in general terms on the Remuneration Committee's decisions, and brings to the Board's attention any matters of an unusual or sensitive nature.

Activities of the Remuneration Committee

The Committee's work in 2014 included overseeing the introduction of a redesigned Corporate Variable Pay Scheme for 2014 and beyond, and using this to make a recommendation to the Board for variable pay in respect of 2014. The pay award for 2014 and the details of the Corporate Variable Pay Scheme are detailed on page 126. After careful consideration and review, the average pay award for the year beginning 1 April 2015 has been made at 2.75%.

The Remuneration Committee agreed that the Corporate Variable Pay Scheme for 2015 will remain largely unchanged from 2014 and continue to be focused clearly on the two common purposes of the organisation recognised by all staff: creative achievement and financial sustainability. From 1 January 2015, the maximum amount payable to Executive Members under the Corporate Variable Pay Scheme will be increased to up to 40% of total gross salary. In the light of this amendment, no pay award has been made to Executive Members for the year beginning 1 April 2015.

MEMBERS' REMUNERATION REPORT CONTINUED

Remuneration report

The following provisions of the report are subject to audit

The remuneration of the Executive Members for the years ending 31 December 2014, 2013 and 2012 is made up as follows:

£000	Salary and fees	Taxable benefits	Variable pay	Pension	Total for 2014	Salary and fees	Taxable benefits	Variable pay	Pension	Total for 2013	Total for 2012
David Abraham	550	1	166	138	855	532	1	73	133	739	744
Anne Bulford (resigned 26 February 2013)	–	–	–	–	–	156	5	–	16	177	489
Jay Hunt	407	1	123	50	581	396	1	54	46	497	542
Jonathan Allan	350	1	102	30	483	320	1	55	22	398	482
Dan Brooke	299	1	87	50	437	275	1	39	44	359	348
TOTAL	1,606	4	478	268	2,356	1,679	9	221	261	2,170	2,605

The salary figures in the table above represent the gross salaries received in 2014, after taking account of salary increases during the year where applicable.

In 2014, David Abraham, Jay Hunt and Dan Brooke received cash payments in lieu of pension benefits.

In 2013, Jonathan Allan was party to the Advertising Sales Scheme only. From 1 January 2014, his variable pay comprised a 50:50 split between the Advertising Sales Scheme and the Corporate Variable Pay Scheme.

The remuneration of the Non-Executive Members for the years ending 31 December 2014 and 2013 is made up as follows:

£000	2014 Salary and fees	2013 Salary and fees
Lord Burns	100	100
Mark Price	30	24
Monica Burch	22	22
Alicja Lesniak	22	22
Paul Potts	22	22
Stewart Purvis (appointed 1 September 2013)	22	6
MT Rainey	22	22
Richard Rivers	22	22
Josie Rourke	22	22
TOTAL	284	262

No detailed disclosure has been provided for the Non-Executive Members other than that relating to their fee, as it is the only form of remuneration they receive.

Mark Price does not retain his fees for his Non-Executive Directorship. In accordance with Waitrose policy, Mark has requested that his fee be paid over to Waitrose.

Monica Burch's firm, Addleshaw Goddard LLP, deducts her Channel 4 fees from her partner drawings.

MEMBERS' REMUNERATION REPORT CONTINUED

Variable pay

During the year, the Committee met to monitor performance as part of their oversight of variable pay across the business. A new Corporate Variable Pay Scheme for staff and executives was introduced in 2014, which is set out below. The Committee met again in January 2015 to agree on a recommendation to the Board on variable pay once results for the year were available.

Corporate Variable Pay Scheme outline

As set out in the Strategic Report on pages 100–109, the Corporation's business model and strategy is based on two key principles, creativity and long-term financial sustainability. The 2014 Corporate Variable Pay Scheme has been designed specifically to link variable pay with the business model and is based on the following areas of achievement:

- creativity – to maintain Channel 4's reputation for originality and creativity with an emphasis on innovation, impact and creative risk taking and achievement of the remit
- sustainability – with the aim of growing total revenues and successfully developing new sources of revenue that can be reinvested into content

Achievement of at least the budgeted surplus or deficit before tax for the year and Ofcom licence requirements is a condition for any element of the scheme to pay out to staff.

Most staff and Members of the executive team participate in the Corporate Variable Pay Scheme, where the amounts provided can be up to 10% of total gross salary for staff, 20% for Heads of Department and 30% for Executive team Members. These percentages represent the maximum amount that can be provided. Actual awards for each staff member will vary from the average provided to reflect their individual achievement against personal performance objectives.

Process for determining variable pay

To decide on how much variable pay should be provided each year, the Remuneration Committee considers a report written by the CEO in conjunction with the other Executive team Members, describing how the Corporation has performed in relation to creativity and commercial sustainability, and reviews business performance across a wide range of qualitative and quantitative measures which track year-on-year performance and performance against a five year average. Where relevant, performance of competitors against the same measures is also part of the Committee's deliberations. The Remuneration Committee makes a judgement on the overall performance for the year, and produces a narrative assessment of its evaluation, which is then proposed to the Board, who have the final approval of any pay-out.

The scheme is based on a mix of both qualitative and quantitative information and a degree of judgement is required around creative performance measures. Creativity and sustainability are considered to be of broadly equal weighting because they are both equally important to the long-term success of the Corporation, but the weighting allocated to each in a given year is also at the discretion of the Committee.

After due consideration of performance during the year, the Committee allocates an amount, entirely at its discretion, based on what they determine the average pay-out across the Corporation should be for the year.

The Committee will review the Corporate Variable Pay Scheme each year to ensure it remains appropriate.

Variable pay decision for 2014

The Committee noted that the two gateways to the scheme, meeting the licence requirements and the budgeted pre-tax result, had been met.

The Committee undertook a detailed review of all the information available to it, including the CEO and Executive Team's report on 2014 and the Corporation's performance across a wide range of performance measures, an extract of which is set out on pages 166 and 167 including programme quality, creative achievements, viewing share, ad sales performance, VoD viewing and commercial impact performance in key demographics. The creative achievements and financial results are also outlined in detail in the Annual Report.

The Committee determined that 2014 has been an impressive year from a creative perspective with a record number of major television and film awards (page 86–91), including Channel of the Year at the Edinburgh TV Festival, reflecting the culmination of a highly successful three year plan to renew the Channel's creative reputation and performance. In addition, the Corporation maintained or increased its lead over other broadcasters compared to 2013 across a range of the reputational Statement of Media Content Policy (SMCP) metrics (pages 14 to 35) and the *Inbetweeners 2 Movie* recorded a strong box office performance (page 68). The Committee recognises that in the pursuit of creative innovation not all endeavours will be successful, however, on balance 2014 had been a strong year of creative performance.

The Committee also determined there had been a robust commercial performance, aided by a buoyant advertising market but with significant success in initiatives designed to complement spot advertising revenue in the future and so contribute to the long term sustainability of the organisation. As set out in the financial statements on pages 130 to 158, Corporation revenues were up £30 million year-on-year and, after a planned three years of investment, the business exceeded the break-even budget with a £4 million pre-tax surplus and cash reserves of £222 million. Digital revenues reached their highest levels in the five year period and there was growth in registered VoD views as further progress was made with the development of connected relationships with viewers. The Growth Fund was also successfully launched with five companies benefitting from investment in 2014 as set out on page 38.

The Portfolio share for the year was 10.9% (page 31), marginally short of the 11.0% achieved in 2013, with strong performances from the digital channels and E4 in particular. The decline in Channel 4 share has slowed which helps to enhance sustainability. Performance in peak time, where the majority of content investment is concentrated, was strong but daytime is still a challenge with live sport on other channels continuing to attract strong audiences. The key 16–34 demographic share grew for the Portfolio, reaching its highest point in the past five years (page 166), although there was an accompanying decline in ABC1 audiences.

After a careful and detailed consideration of performance for 2014, the Committee recommended that, following an exceptional year of Creative performance and a year of strong commercial performance, staff should receive an average of 9% of year end salary under the Corporate Variable Pay Scheme, Heads of Department should receive an average of 18% of salary and the Executive team should receive an average of 28% of salary. Actual awards for each staff member varied from this average to reflect their individual achievement against personal performance objectives.

Advertising Sales Scheme

Staff working within advertising sales have a dedicated Advertising Sales Scheme, linked to advertising revenue and paid quarterly throughout the year based on performance. They are not eligible for the Corporate Variable Pay Scheme, with the exception of Executive Member Jonathan Allan whose variable pay comprised a 50:50 split between the Advertising Sales Scheme and the Corporate Variable Pay Scheme in 2014.

MEMBERS' REMUNERATION REPORT CONTINUED

Variable pay awards to Executive Members

The Committee made the following awards to Executive Members in respect of 2014 performance:

- David Abraham was awarded an amount of 30% of year end salary under the Corporate Variable Pay Scheme
- Jay Hunt was awarded an amount of 30% of year end salary under the Corporate Variable Pay Scheme
- Jonathan Allan was awarded an amount of 28.5% of the half of his year end salary which is subject to the Corporate Variable Pay Scheme. Jonathan Allan also received £52,500 through the Advertising Sales Scheme
- Dan Brooke was awarded an amount of 28.5% of year end salary under the Corporate Variable Pay Scheme

Taxable benefits

Executive Members are eligible for a range of taxable benefits, which can include a pension allowance, car allowance and membership of a private medical insurance scheme (which is provided to all staff). These benefits are not pensionable. In line with the Corporation's expenses policy, no expenses claimed by Executive Members were chargeable to UK income tax as they were incurred wholly for the purposes of the business of the Corporation.

Pension

The Corporation has two pension schemes: a defined contribution scheme open to all staff, and a defined benefit scheme which is closed to new entrants. Until the closure of the scheme to new entrants, Executive Members were eligible for membership of the Channel Four Television Staff Pension Plan (The Plan) on the same basis as all other members of staff. The Plan is contributory, at 7.5% 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.

During the year there were no Executive Members remaining within the defined benefit scheme (2013: none).

Further details relating to the defined benefit Plan are provided in note 18 to the financial statements.

Non-Executive Members are not eligible for membership of either pension scheme.

The following provisions of the report are not subject to audit

CEO remuneration table

The table below shows the percentage change in remuneration of David Abraham, the CEO and the Corporation's employees as a whole between the years 2014 and 2013:

	CEO	All staff
Salary and fees	+3%	+2.5%
Variable pay	+127%	+83%
Total	+16%	+9%

The Group are not presenting a table on CEO pay in comparison to Total Shareholder Return as it is a statutory Corporation without shareholders and the requirements are therefore not applicable.

Payment for loss of office

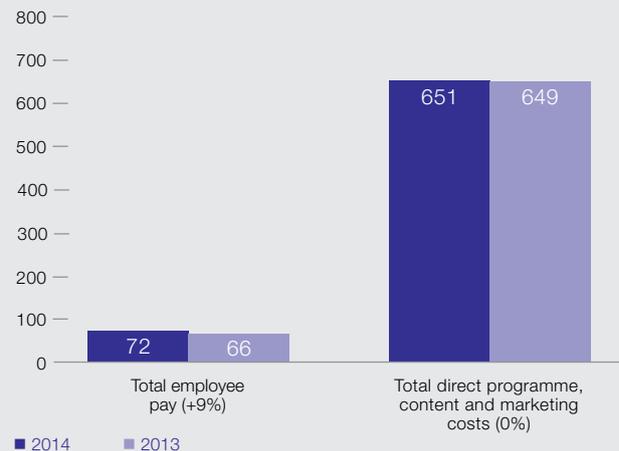
No payments were made for loss of office in 2014 to Executive Members, and at the balance sheet date there were no provisions made for compensation payable for early termination of contracts or loss of office to Executive Members.

Payment to past members

No payments were made to past members in 2014.

Relative importance of spend on pay

The graph below shows the actual expenditure of the Group and the change between the current and previous years.



The Members have chosen the change in total direct programme, content and marketing costs as disclosed in note 2 to the financial statements as the comparative measure for relative spend on pay as it is considered to be the most significant indicator in understanding total Corporation expenditure year-on-year. As in previous years, employee pay remains between 10% and 11% of on-screen expenditure.

Total employee pay is detailed in note 4 to the financial statements.

By Order of the Board

Richard Rivers

Chair of the Remuneration Committee

25 March 2015

MEMBERS' REMUNERATION REPORT CONTINUED

Remuneration policy for 2015

The remuneration of Executive Board Members is determined by the Remuneration Committee, the membership and terms of reference of which are detailed on page 124. In framing its remuneration policy, the Committee has given full consideration to the best practice provisions of the UK Corporate Governance Code.

Future policy table

The following table sets out the key components of the remuneration package for Executive Members:

Component	How this supports the strategic aims of the Group	How this operates	Maximum amount payable	Performance measures
Salary	Offering competitive remuneration packages helps the Corporation attract, motivate and retain a high calibre executive team	Salaries are paid monthly The Remuneration Committee discusses the performance of each Member with the Chairman of the Board and with the Chief Executive for other Executive Members	Salaries for the year to 31 December 2015 remain unchanged and are as follows: David Abraham – £553,730 Jay Hunt – £409,744 Jonathan Allan – £350,000 Dan Brooke – £305,000 Except where otherwise shown, salaries are reviewed annually in the first quarter of the year. Increases reflect changes in responsibility and performance	None
Taxable benefits		The Corporation offers a range of benefits to all staff including private medical insurance. Other benefits such as life assurance are available through a flexible benefits scheme	The value of private medical insurance in 2015 is expected to be £644 per Executive Member	None
Pensions		The Corporation currently offers a defined contribution pension scheme for new staff The Corporation also operates a defined benefit scheme. In 2014 there were no Executive Members of the defined benefit scheme Certain Executive Members also receive cash payments in lieu of pension benefits as disclosed on page 125	The maximum amount contributed by the Corporation under the defined contribution scheme is 13% of pensionable salary	None
Variable pay		All Members of the Executive Team participate in the Corporate Variable Pay Scheme. Pay-out is determined annually by the Remuneration Committee shortly after the financial year end based on performance and paid in March following the year end Jonathan Allan's variable pay comprises a 50:50 split between the Advertising Sales Scheme and the Corporate Variable Pay Scheme	From 1 January 2015 the Corporate Variable Pay Scheme will pay up to 40% of total gross salary for executive team Members, a 10% increase from 2014 The Advertising Sales Scheme is linked to advertising revenue and paid quarterly throughout the year based on performance	The Remuneration Committee agreed that the Corporate Variable Pay Scheme for 2015 will remain largely unchanged from 2014 and continue to be focused clearly on the two common purposes of the organisation recognised by all staff: creative achievement and financial sustainability. Details of the scheme are set out on page 126 In 2014, it was agreed that, from 2015, in coming to a view on variable pay for Executive Members, it would be appropriate to consider their performance against longer term objectives as well as the in-year performance. Up to 10% (out of the total of up to 40%) could be allocated on this basis

None of the components of remuneration contain any provisions for recovery of sums paid.

MEMBERS' REMUNERATION REPORT CONTINUED

The following table sets out the key components of the remuneration package for Non-Executive Members:

Component	Purpose	Operation
Fees	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	Fees are set by Ofcom and Fees are paid monthly and reviewed periodically

No other components of remuneration are available for Non-Executive Members.

Policy on payment for loss of office

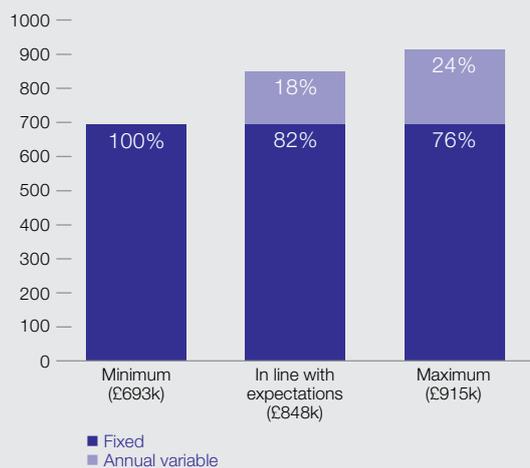
The service contracts of all the Executive Members are subject to notice periods of one year or less. The Committee's policy is to make payments in line with contractual obligations covering payment in lieu of notice including base salary and other benefits.

The Remuneration Committee will consider what compensation commitments (including pension contributions and all other elements) the Executive Members' terms of appointment would entail in the event of early termination. The aim of this is to avoid rewarding poor performance.

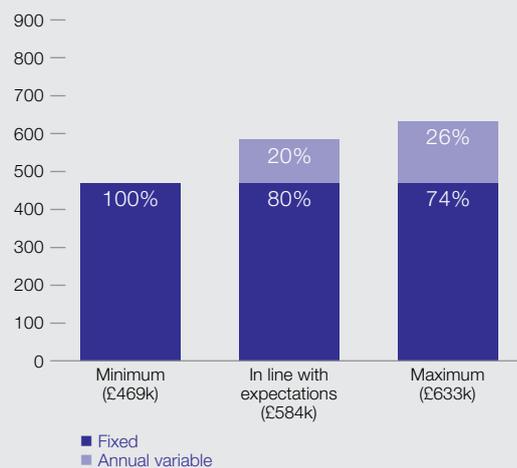
Illustration of application of remuneration policy

The graphs below represent the variations in the remuneration at different levels of performance for the 2015 remuneration policy for the Executive Members:

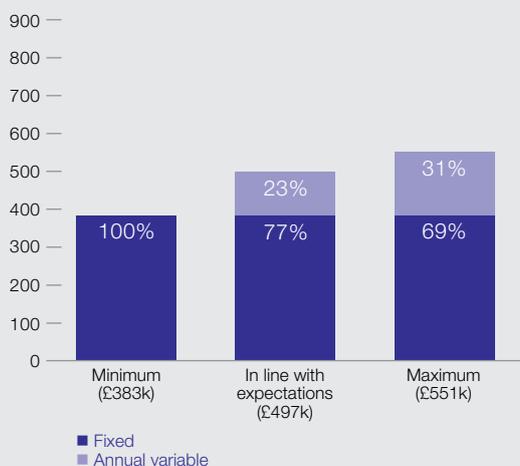
Chief Executive Officer



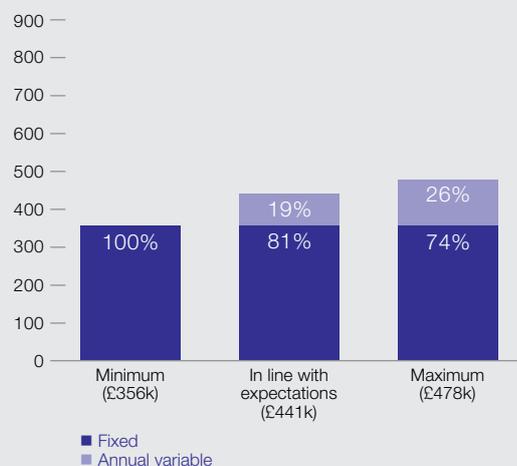
Chief Creative Officer



Director of Sales



Chief Marketing and Communications Officer



Auditable information

The remuneration information set out on pages 124 to 127, where indicated, has been audited by Channel 4's auditors, KPMG LLP, in accordance with Schedule 8 of the Companies Act 2006 as if those requirements were to apply to Channel 4.

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER

Consolidated income statement for the year ended 31 December

	Note	2014 £m	2013 £m
Revenue	1	938	908
Cost of transmission and sales	2	(903)	(892)
Gross surplus		35	16
Other operating expenditure	3	(31)	(32)
Profit on sale of investments	8	–	1
Operating surplus/(deficit)		4	(15)
Net finance expense	5	(1)	(1)
Share of profit of investments accounted for using the equity method, net of income tax and amortisation	7	1	–
Surplus/(deficit) before tax		4	(16)
Income tax (expense)/credit	6	(1)	1
Surplus/(deficit) for the year		3	(15)

Consolidated statement of comprehensive income for the year ended 31 December

	Note	2014 £m	2013 £m
Surplus/(deficit) for the year		3	(15)
Net remeasurement deficit on pension scheme	18	(37)	(1)
Revaluation of freehold land and buildings	9	13	12
Deferred tax on pension scheme	11	8	–
Deferred tax on revaluation of freehold land and buildings	11	(2)	(2)
Other comprehensive (cost)/income for the year		(18)	9
Total comprehensive cost for the year		(15)	(6)

None of the items in comprehensive income will be reclassified to the income statement.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER

	Retained earnings			Total equity £m
	Other retained earnings £m	Content reserve £m	Revaluation reserve £m	
At 1 January 2013	446	–	18	464
Deficit for the year	(15)	–	–	(15)
Other comprehensive (cost)/income	(1)	–	10	9
Total comprehensive (cost)/income for the year	(16)	–	10	(6)
At 31 December 2013	430	–	28	458
At 1 January 2014	430	–	28	458
Surplus for the year	3	–	–	3
Reserve transfer	(30)	30	–	–
Other comprehensive (cost)/income	(29)	–	11	(18)
Total comprehensive (cost)/income for the year	(56)	30	11	(15)
At 31 December 2014	374	30	39	443

We have established a content reserve in 2014 to ensure surpluses generated are re-invested into our creative ambition in order to deliver on our remit. Our aim is to maintain an overall financial break-even position in the long term. We have allocated £30 million of retained earnings from surpluses generated since 2010 including the £3 million surplus recognised in 2014 to the content reserve. Surpluses generated in future years will be allocated to the content reserve when realised in cash and creative investments will be funded by drawing down on the content reserve.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER

	Note	2014 £m	2013 £m
Assets			
Investments accounted for using the equity method	7	26	23
Property, plant and equipment	9	103	90
Intangible assets	10	2	3
Deferred tax assets	11	18	11
Total non-current assets		149	127
Programme and film rights and other inventories	12	242	224
Trade and other receivables	13	196	182
Corporation tax		–	1
Other financial assets	14	70	107
Cash and cash equivalents	14	152	131
Total current assets		660	645
Total assets		809	772
Liabilities			
Employee benefits – pensions	18	(73)	(39)
Provisions	16	(1)	(2)
Deferred tax liabilities	11	(5)	(3)
Total non-current liabilities		(79)	(44)
Trade and other payables	15	(286)	(269)
Provisions	16	(1)	(1)
Total current liabilities		(287)	(270)
Total liabilities		(366)	(314)
Net assets		443	458
Revaluation reserve		39	28
Retained earnings:			
Content reserve		30	–
Other retained earnings		374	430
Total equity		443	458

The financial statements on pages 130 to 158 were approved by the Board of Members on 25 March 2015 and were signed on its behalf by:

Lord Burns
Chairman

David Abraham
Chief Executive

The notes on pages 134 to 158 form part of these financial statements.

CONSOLIDATED CASHFLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER

	Note	2014 £m	2013 £m
Cashflow from operating activities			
Surplus/(deficit) for the year		3	(15)
Adjustments for			
Income tax expense/(credit)	6	1	(1)
Depreciation	9	6	6
Amortisation of intangibles	10	1	2
Net financial expense	5	1	1
Share of profit from investments accounted for using the equity method, net of income tax and amortisation	7	(1)	–
Current service pension cost	18	3	3
		14	(4)
Increase in programme and film rights and other inventories	12	(18)	(5)
Increase in trade and other receivables	13	(14)	(10)
Increase in trade and other payables	15	17	2
Decrease in provisions, excluding unwinding of discounts	16	(1)	(1)
		(2)	(18)
Pension contributions	18	(8)	(6)
Tax repaid/(paid)		1	(1)
Net cash from operating activities		(9)	(25)
Cashflow from investing activities			
Acquisition of investments	7	(4)	–
Proceeds from disposal of investment	8	–	2
Purchase of property, plant and equipment	9	(6)	(3)
Interest received	5	1	1
Dividends received	7	2	2
Decrease/(increase) in other financial assets ¹	14	37	(19)
Net cashflow from investing activities		30	(17)
Net increase/(decrease) in cash and cash equivalents		21	(42)
Cash and cash equivalents at 1 January		131	173
Cash and cash equivalents at 31 December		152	131

1 Amounts invested in term deposits of three months or longer and other funds with time restricted access.

GROUP ACCOUNTING POLICIES

Introduction

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 2014 comprise Channel 4 and its subsidiaries (together referred to as the Group) and the Group's investments accounted for using the equity method. Channel 4's own financial statements present information relating to Channel 4 as a separate entity and not about its Group.

The financial statements were authorised for issue by the Members on 25 March 2015. The registered office of Channel 4 is 124 Horseferry Road, London, SW1P 2TX.

Basis of preparation

The financial statements of the Group have been prepared and approved by the Members in accordance with International Financial Reporting Standards as adopted by the European Union (Adopted IFRSs). The Corporation's individual financial statements have been prepared under the Financial Reporting Standard 101 Reduced Disclosure Framework.

The financial statements as a whole have been prepared in a form directed by the Secretary of State for Culture, Media & Sport with the approval of HM Treasury, and are principally prepared under the historical cost convention (except that freehold properties, derivatives and certain financial instruments are stated at fair value). In line with IFRS 13, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The financial statements are presented in pounds Sterling, rounded to the nearest million.

The preparation of financial statements in conformity with Adopted IFRSs 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 may ultimately differ from those estimates.

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 Adopted IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are summarised below:

Revenue recognition

Revenues are stated net of value added tax and are recognised when persuasive evidence of a sale exists, a service has been performed, and when collectability is reasonably assured. The key area of judgement on recognising revenue is the timing of recognition, which reflects the point or period when the Group has transferred the main risks and rewards of ownership to third parties. Channel 4's full revenue recognition policy is detailed on page 135.

Programme and film rights held for broadcast

Programme and film rights are stated at the lower of the direct cost incurred up to the balance sheet date and value to the Group. The cost of broadcast programmes and acquired films are wholly written off on first transmission, except for certain feature films, sports rights and certain acquired series, the costs of which are written off over more than one transmission in line with the expected value to the Group. The key area of judgement is estimating value to the Group, which is assessed both qualitatively and quantitatively, with reference to the quality of programme that has ultimately been delivered and its expected viewing performance. Channel 4's full programme and film rights policy is detailed on page 137.

Judgement is also required when estimating future revenues from distribution, when evaluating the carrying value of film rights held for exploitation.

Going concern

The Group's business activities, the factors likely to affect its future development and performance, the financial position of the Group and its cashflows are set out in the Strategic Report of the Members (pages 100 to 109). As discussed on page 101, on 11 March 2014 Ofcom announced the renewal of Channel 4's licence. The new ten-year licence came into effect in January 2015.

In addition, notes 13 to 15 to the financial statements include the Group's approach to financial risk management, including its financial instruments and hedging activities and its exposures to liquidity and credit risks.

The Group has sufficient financial resources and, based on normal business planning and control procedures, the Members believe that the Group is well placed to manage its business risks. The Members have a reasonable expectation that the Group will continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Basis of consolidation

A subsidiary is an entity that is controlled by the Group. Control exists when the Group has exposure, or has rights to variable returns from its involvements with the investee and has the ability to affect those returns through its power over the investee. To have power, the Group needs to have existing rights that give it the current ability to direct the relevant activities of the investee (i.e. the activities that significantly affect the investee's returns). The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences to the date that control ceases.

Investments accounted for using the equity method by the Group comprise associates and joint ventures.

Associates are those entities over which the Group has significant influence. Where the Group holds 20% or more of the voting power (directly or through subsidiaries) of an investee, it will be presumed the Group has significant influence unless it can be clearly demonstrated that this is not the case. If the holding is less than 20%, it will be presumed the Group does not have significant influence unless such influence can be clearly demonstrated. Significant influence exists when the Group has the power to participate in the financial and operating policy decisions of the investee but does not have control or joint control of those policies.

Joint arrangements are those entities over whose activities the Group has joint control. Joint control is established by a contractual agreement whereby the decisions about the relevant activities (i.e. the activities that significantly affect the investee's returns) of the entity require the unanimous consent of the two or more parties sharing joint control of the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

GROUP ACCOUNTING POLICIES CONTINUED

Basis of consolidation continued

Under equity accounting, the consolidated financial statements include the Group's share of the total recognised gains and losses of associates and joint ventures on an equity accounted basis, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases or until the associate or joint venture is classified as held for sale in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.

When the Group's share of losses exceeds its interest in an associate or joint venture, 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 or joint venture.

As explained in note 8, certain of the Group's other investments are not-for-profit organisations. Cost contributions to those organisations are charged to the income statement in the period to which they relate.

Intra-Group balances and any unrealised gains and losses or income and expense arising from intra-Group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and joint ventures 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.

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. All accounting policies have been applied consistently in all material respects to all periods presented in these financial statements.

The following new standards became effective for the first time from 1 January 2014:

- IFRS 10 – Consolidated financial statements
- IFRS 11 – Joint arrangements
- IFRS 12 – Disclosure of interests in other entities
- IAS 27 – Separate financial statements
- IAS 28 – Investments in associates and joint ventures

The Group adopted the above standards from 1 January 2014. Their adoption has not had a significant impact on the consolidated financial statements of the Group.

A number of new standards, amendments to standards and interpretations have been issued and became effective on 1 January 2015. None of these are expected to have a significant effect on the consolidated financial statements of the Group.

Revenue recognition

Revenues are stated net of value added tax and are recognised when persuasive evidence of a sale exists, a service has been performed, and when collectability is reasonably assured. The key area of judgement in recognising revenue is the timing of recognition, which reflects the point or period when the Group has transferred the main risks and rewards of ownership to third parties. For each of the Group's significant revenue streams, revenues are recognised as described below:

Advertising and sponsorship revenues

Revenues are stated net of advertising agency commissions.

Television advertising revenue is recognised on transmission of the advertisement. Revenue from sponsorship of the Group's programmes and films is recognised on a straight line basis in accordance with the transmission schedule for each sponsorship campaign. Online advertising revenues are recognised on a straight line basis over the period of display of the advertisement or, if lower, as advertising impressions are delivered.

Commission earned from advertising representation for third parties, including The Box Plus Network Limited, is recognised on transmission of the related advertisements in line with contractual arrangements. As the Group acts as an agent for these parties, and does not have exposure to the significant risks and rewards of the sale, the gross advertising sales of these arrangements are not recognised in revenue, but the commission earned by the Group in its capacity as agent is.

Revenues are recognised from barter and other similar contractual arrangements involving advertising when the services exchanged are dissimilar. Revenues are measured with reference to the fair value of the goods or services received.

Other revenues

Revenues earned from syndicating content to third-party online platforms are typically generated from some or all of the following contractual arrangements:

- milestones – non-refundable milestone payments are recognised once the Group's performance obligations are satisfied, for example upon launch
- ongoing service fees – revenue is recognised on a straight line basis over the contract term as service obligations are performed
- pence-per-view or revenue share – revenues are calculated based on the number of content views and are recognised when the amounts can be reliably measured

DVD revenues are principally recognised when stock is delivered to retailers, net of a provision for anticipated returns based on historical trends and an assessment of market conditions at the balance sheet date. Consignment sales, when made, are recognised when the sales made to the ultimate customers can be reliably measured.

Revenues generated from the exploitation of developed film rights (for example, from theatrical box office releases) are recognised when revenues can be reliably measured.

Segment reporting

Segments are reported in accordance with IFRS 8 'Operating Segments'. Segments are aggregated only where the nature of the products and services provided are similar and where the segments have similar economic characteristics.

The chief operating decision-maker has been identified as the Channel 4 Board. Segments follow management reporting to the Board in order to make decisions on the allocation of resources within the Group.

GROUP ACCOUNTING POLICIES CONTINUED

Taxation

Tax on the surplus or deficit 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 other comprehensive income, in which case it is also recognised directly in other comprehensive income.

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 following temporary timing differences are not provided for: the initial recognition of goodwill; the initial recognition of assets and liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries and joint ventures to the extent that they will probably not reverse in the foreseeable future.

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.

Investments in associates and joint ventures

These investments are recognised in the consolidated balance sheet, initially at cost. The carrying amount is subsequently increased or decreased to recognise the share of other comprehensive income or share of profit or loss if these are the same, after the date of acquisition or investment.

Further details are set out under the basis of consolidation accounting policy on pages 134 to 135.

Other investments

Other investments includes equity holdings without significant influence. Equity investments are normally carried at fair value. Where an active market value is not available, the Members believe that valuation at cost less provision for impairment is a reasonable approximation of fair value.

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 & 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 other comprehensive income, unless the gain reverses an impairment 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 other comprehensive income to the extent of any credit balance existing in the revaluation surplus of that asset. Otherwise, the loss is recognised in the income statement.

Fixtures, fittings and equipment are stated at cost less accumulated 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.

Useful lives are estimated taking into account the rate of technological change and the intensity of use of each asset. 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	14% – 25%

Freehold land is not depreciated.

The carrying values of property, plant and equipment are reviewed for impairment when events or other changes in circumstances indicate that the carrying values may not be recoverable. Where an indicator of impairment exists, an estimate is made of the recoverable amount. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to the recoverable amount.

GROUP ACCOUNTING POLICIES CONTINUED

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 of capitalised software 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 between two and five years.

Other intangible assets acquired by the Group are stated at cost less accumulated amortisation and any provision for impairment. Where assets are considered to have finite lives, amortisation is charged to the income statement on a straight line basis over their estimated useful life.

Impairment

An impairment charge is recognised if the carrying value of an asset or a cash-generating unit exceeds its estimated recoverable amount. Impairment charges are recognised in the income statement.

The carrying values of the Group's 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 fair value less costs to sell 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 unit to which it belongs.

Estimates are used in deriving these cashflows and the discount rate that reflects current market assessments of the risks specific to the asset and the time value of money. The complexity of the estimation process, including projected performance, the discount rate and long-term growth rate applied, affects the amounts reported in the financial statements.

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 groups of assets.

Reversal of impairments

An impairment charge in respect of freehold land and buildings is reversed in the event of a subsequent increase in fair value. Such a gain is recognised in other comprehensive income, unless the gain reverses an impairment of the same asset previously recognised in the income statement, in which case it is also recognised in the income statement.

An impairment charge in respect of goodwill is not reversed.

In respect of other assets, an impairment charge is reversed when there is an indication that the impairment may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

Programme rights and other inventories

All programme and film rights are valued at the lower of the direct cost incurred up to the balance sheet date and value to the Group. Development expenditure is included in programme and film rights after charging any expenditure that is not expected to lead to a commissioned programme, or a 'green-lit' film, directly to the income statement.

Programme and acquired film rights

Direct cost

Direct cost is defined as payments made or due to programme suppliers.

Value to the Group

Consistent with Channel 4's business model, in which programmes that generate more revenue cross-subsidise programmes with a higher public but sometimes lower commercial value, the value to the Group of the programme and acquired film rights portfolio is assessed on an aggregate basis.

This assessment is overlaid by an evaluation of individual programmes when there is an indicator that the value of these specific programmes may be less than originally envisaged. Value to the Group of individual programmes is assessed both qualitatively and quantitatively, with reference to the quality of programme that has ultimately been delivered and its expected viewing performance.

In certain instances Channel 4 is committed to funding the acquisition or production of specific programmes where the value to the Group no longer warrants the level of expenditure to which the Group is committed. In these instances provision is first made against the costs incurred to date and then a liability recognised to reflect the unavoidable costs in relation to the remaining commitment.

Amortisation

Programme and acquired film rights are exploited by transmission on the Channel 4 suite of channels. The cost of broadcast programmes and acquired films are wholly written off on first transmission, except for certain feature films, sports rights and certain acquired series, the costs of which are written off over more than one transmission in line with the expected value to the Group.

Developed film rights

Direct cost

Direct cost is defined as payments made or due to the film producer.

Value to the Group

Developed film rights are exploited both through broadcast on Channel 4's suite of channels and through distribution.

Broadcast film rights are assessed in the same way as programme and acquired film rights.

To the extent that developed film rights are expected to generate revenue, where Channel 4's share of distribution revenues the film is anticipated to earn does not support the associated cost held within inventory, provision is made. The main assumptions employed to estimate future distribution revenues are minimum guaranteed contracted revenues and sales forecasts by territory.

Amortisation

Broadcast film rights are amortised in the same way as programme and acquired film rights.

Developed film rights expected to generate future revenues from distribution are held on the balance sheet and expensed to the income statement in the proportion that the revenue in the year bears to the estimated ultimate revenue, after provision for any anticipated shortfall.

Other inventories

Other inventories principally comprise DVDs held within the 4Rights segment, and are stated at the lower of cost and net realisable value.

GROUP ACCOUNTING POLICIES CONTINUED

Trade and other receivables

Trade receivables are reflected net of an estimated impairment for doubtful accounts.

Other financial assets

Other financial assets comprise deposits of three or more months' duration and other funds with time restricted access, and are stated at fair value.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits of less than three months' duration from the date of placement, including money market funds repayable on demand.

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

The Group transacts in a number of currencies as well as Sterling, and is a net purchaser of Euros and US Dollars. 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 based on quoted market rates. Changes in the fair value of these derivative financial instruments are recognised in the income statement. The Group does not hold or issue derivative financial instruments for trading purposes.

Channel 4 has not sought to apply hedge accounting treatment for any of its foreign exchange hedging activity in either of the years presented. As a result, changes in the fair value of hedging instruments have been recognised in the income statement as they have arisen.

Where Channel 4 has identified forward foreign exchange derivative instruments within certain contracts (embedded derivatives), these have been included in the balance sheet at fair value. Fair value of these derivatives is determined by reference to quoted market rates. The value of the derivatives is reviewed on an annual basis or when the relevant contract matures.

Leases

Assets held under finance leases (those in which the Group assumes substantially all the risks and rewards of ownership) are treated as property, plant and equipment 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.

Employee benefits – pensions

Defined benefit scheme

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 a value at today's prices, 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.

Remeasurement gains and losses that arise in calculating the Group's obligation in respect of the plan are recognised directly in other comprehensive income within the statement of comprehensive income in the period in which they arise. The current service cost, interest expense on pension scheme liabilities and interest income on plan assets are recognised in the income statement in the current period.

Defined contribution scheme

Obligations under the Group's defined contribution scheme are recognised as an expense in the income statement as 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.

Before provisions are established in relation to onerous contracts, impairment reviews are carried out and impairment charges recognised on assets dedicated to the contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Segment reporting

The reportable segments are shown in accordance with IFRS 8 'Operating Segments'. The segments are measured in a manner consistent with the management reports reviewed by the Board, which is considered to be the chief operating decision-maker. Summaries of the principal activities, products and services and financial performance for each segment are provided within the Strategic Report on pages 100–103.

Segment results, assets and liabilities include items directly attributable to a segment, along with certain costs which are allocated on an equitable basis in accordance with the Group's cost allocation policies which are reviewed under arrangements required under Schedule 9 of the Communications Act (page 117). All costs and revenues are fully allocated across the segments.

Inter-segment pricing is determined on an arm's length basis.

Gross revenues from transactions with one individual external customer comprised more than 10% of the Group's revenues in 2014 amounting to £145 million (2013: one external customer amounting to £131 million). The Group's major customers are all media buying agencies and these revenues are attributable to the 4Broadcast segment. Approximately 3% of the Group's revenues (2013: 3%) are attributable to external customers outside the UK and these are therefore not separately presented.

The following is an analysis of the Group's investment in content and revenue by reportable segment:

Year ended 31 December 2014	4Broadcast £m	4Rights £m	Other £m	Eliminations £m	Total Channel 4 £m
Programme and other content	(612)	–	–	–	(612)
Funded by:					
External sales	859	78	1	–	938
Inter-segment sales	1	–	–	(1)	–
Total revenue	860	78	1	(1)	938
Operating surplus/(deficit)	(20)	24	–	–	4
Net finance expense					(1)
Share of profit of investments accounted for using the equity method, net of income tax and amortisation					1
Surplus before tax					4

Programme and other content is comprised of investment into content across all services (the main channel, digital TV channels and digital media services) of £602 million (2013: £597 million), access services (subtitling, audio description and signing) and amounts due to collection societies. Programme and content spend is typically funded by television advertising and other commercial operations but can also be funded by the content reserve in years when a deficit arises following creative investment.

Balance sheet as at 31 December 2014	4Broadcast £m	4Rights £m	Other £m	Eliminations £m	Total £m
Segment assets	828	163	36	(218)	809
Segment liabilities	(468)	(33)	(83)	218	(366)
Net assets/(liabilities)	360	130	(47)	–	443

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

1. Segment reporting continued

	4Broadcast £m	4Rights £m	Other £m	Eliminations £m	Total Channel 4 £m
Year ended 31 December 2013					
Programme and other content	(608)	(1)	–	–	(609)
Funded by:					
External sales	841	66	1	–	908
Inter-segment sales	1	–	–	(1)	–
Total revenue	842	66	1	(1)	908
Operating surplus/(deficit)	(36)	20	1	–	(15)
Net finance expense					(1)
Deficit before tax					(16)
Balance sheet as at 31 December 2013					
Segment assets	798	133	36	(195)	772
Segment liabilities	(399)	(27)	(83)	195	(314)
Net assets/(liabilities)	399	106	(47)	–	458

2. Cost of transmission and sales

	Programme and other content £m	Indirect programme costs £m	Transmitter and regulatory costs £m	Cost of sales £m	Cost of marketing £m	Total £m
2014						
4Broadcast	612	40	108	51	37	848
4Rights	–	9	4	39	3	55
Other	–	–	–	1	–	1
Eliminations	–	–	–	–	(1)	(1)
Continuing operations	612	49	112	91	39	903
2013						
4Broadcast	608	41	106	55	38	848
4Rights	1	6	4	31	2	44
Other	–	–	–	–	–	–
Eliminations	–	–	–	–	–	–
Continuing operations	609	47	110	86	40	892

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

3. Other operating expenditure

Other operating expenditure includes:

	2014 £m	2013 £m
Depreciation of property, plant and equipment (note 9)	6	6
Amortisation of intangible assets (note 10)	1	2
Restructuring costs	1	2
Members' remuneration (page 125)	3	2
Operating lease rentals	1	1
Other administrative expenses	19	19
Other operating expenditure	31	32

Auditors' remuneration

Fees in respect of services provided by the auditors were:

	2014 £000	2013 £000
Audit of these financial statements	145	125
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	15	15
Other audit related and assurance	58	65
Total audit and assurance	218	205
Taxation compliance services	42	79
All other services	128	70
Total other services	170	149
Auditors' remuneration	388	354

In addition to the above services, £19,245 (2013: £19,295) is payable to the Group's auditors who 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. Employee expenses and information

A detailed analysis of Members' remuneration, including salaries and variable pay, is provided in the report on Members' remuneration on pages 124–129.

The direct costs of all employees, including Members, appear below:

	2014 £m	2013 £m
Aggregate gross salaries	61	55
Employer's national insurance contributions	6	6
Employer's defined benefit pension current service cost (note 18)	3	3
Employer's defined contribution pension contributions	2	2
Total direct costs of employment	72	66

In addition to the above, in 2014 £1 million of costs were expensed to the income statement in respect of restructuring initiatives to increase operational efficiency within the Group (2013: £2 million).

As disclosed in the Members' Remuneration Report on page 125, the total remuneration of the Executive and Non-Executive Members for the year ending 31 December 2014 was £2,640,000 (2013: £2,432,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4. Employee expenses and information continued

The salary multiple of highest to median employee was as follows:

	2014 £000	2013 £000
Total remuneration of highest paid employee (page 125)	855	739
Total remuneration of median employee	54	51
Multiple of highest paid to median employee	15.8	14.5

Total remuneration is defined as base salary, variable pay, employer pension contribution and other benefits.

The average number of employees, including Executive Members, was as follows:

	2014 Number	2013 Number
4Broadcast		
Programme commissioning	214	210
Advertising and sponsorship sales and research	192	191
Marketing and creative services	110	110
Corporate affairs and press office	36	36
Information systems	40	45
Corporate and strategy	17	17
Transmission and engineering	51	46
Finance, human resources and facilities management	69	68
4Talent	13	12
	742	735
4Rights	66	63
Group total	808	798
Permanent employees	766	746
Contract staff	42	52
Group total	808	798

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

5. Net finance expense

Net finance income/(expense) recognised in the year comprised:

	2014 £m	2013 £m
Interest receivable on short-term deposits	1	1
Net interest expense on pension scheme (note 18)	(2)	(2)
Net finance expense	(1)	(1)

6. Income tax expense

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

	2014 £m	2013 £m
Current tax:		
Current year	-	-
Adjustments for prior years	-	(1)
	-	(1)
Deferred tax: origination and reversal of temporary differences		
Current year	1	(2)
Prior year	-	2
Total income tax expense/(credit)	1	(1)

Corporation tax is charged at the standard UK rate of 21.5% for the year (2013: 23.25%).

Reconciliation of income tax:

	2014 %	2014 £m	2013 %	2013 £m
Surplus/(deficit) excluding income tax		4		(16)
Income tax using the domestic corporation tax rate	21.5%	1	23.25%	(4)
Effects of:				
Non-deductible expenses		1		1
Non-taxable gains		(1)		-
Deferred tax not recognised		-		1
Other tax adjustments		-		1
Total income tax expense/(credit)		1		(1)

The income tax expense excludes the Group's share of income tax of investments accounted for using the equity method of £1 million (2013: £nil) which has been included in the Group's share of post acquisition profits, net of income tax (note 7).

Current tax assets and liabilities

The current tax asset of £nil (2013: £1 million) represents the amount of income tax recoverable in respect of current and prior periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7. Investments accounted for using the equity method

The carrying value of the Group's investments accounted for using the equity method is as follows:

	Box £m	Growth Fund £m	Total £m
Carrying value at 1 January 2013	25	–	25
Share of post acquisition profits, net of income tax	1	–	1
Amortisation	(1)	–	(1)
Share of dividends received	(2)	–	(2)
Total carrying value at 31 December 2013	23	–	23
	Box £m	Growth Fund £m	Total £m
Carrying value at 1 January 2014	23	–	23
Acquisitions	–	4	4
Share of post acquisition profits, net of income tax	2	–	2
Amortisation	(1)	–	(1)
Share of dividends received	(2)	–	(2)
Total carrying value at 31 December 2014	22	4	26

The Box Plus Network Ltd

The Box Plus Network Ltd (Box) broadcasts a number of music television channels on free-to-air and pay platforms. Box is accounted for as a joint venture and the investment reflects 500 ordinary shares of £1, representing 50% of the share capital of Box.

Impairment tests on the investment in Box are carried out annually or if indications arise of a possible impairment. The recoverable amounts of the goodwill and intangible assets in Box are determined based on their value in use.

An impairment review was carried out by estimating the future expected cashflows for Box using a pre-tax discount rate of 9% (2013: 10%), reflecting the Group's estimated cost of capital for its commercial television segments and comprising a risk-free rate and an equity risk premium. Cashflows were based on management's best estimate of future performance to 2024, reflecting management's cautious view of the long-term potential in music viewing in commercial television. The present value of the cashflows accruing to the Group was compared with the carrying value of the investment held on the balance sheet. No impairment was required as a result.

Management has approved the forecast on which the cashflow analysis has been based and believes that there are currently no likely changes in revenues or discount rate which would reduce the value in use for Box down to a level where an impairment would arise.

The broadcast licence acquired as part of the investment in Box is amortised over the duration of the licence period (eight years). This amount is included within the carrying value of the investment.

There are no contingent liabilities and no capital commitments in respect of Box or other joint ventures to be included within the Group's financial statements. During 2014, Channel 4 received a dividend of £2.5 million (2013: £2 million) from Box. Channel 4 also sold £8 million (2013: £8 million) of services to Box including commissions earned on advertising sales and made payments on Box's behalf for other services including transmission, programme costs, brand royalties, marketing, facilities management, information systems, finance and other administrative support and pensions. Box owed Channel 4 £1 million at 31 December 2014 (2013: £1 million) in respect of these services. Channel 4 paid £nil (2013: £nil) to Box in 2014 and owed Box £nil at 31 December 2014 (2013: £nil).

Summary annual financial information of investment in Box

	Current assets £m	Non-current assets £m	Current liabilities £m	Long-term liabilities £m	Revenue £m	Profit from continuing operations £m
2014	12	1	(6)	–	35	6
2013	13	–	(6)	–	35	4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

7. Investments accounted for using the equity method continued

The Growth Fund

During 2014 Channel 4 launched the Growth Fund, a fund with the aim of nurturing the independent sector. The fund will seek to invest up to £20 million over a period of three years, in a broad portfolio of television and digital companies. Channel 4 invested £4 million in acquiring minority shareholdings in five companies in 2014, with a further £1 million committed for subsequent equity subscriptions in these companies at 31 December 2014.

Channel 4 set out two key aims when launching the Growth Fund. Firstly, to provide access to funding for a broad portfolio of small and medium sized independent production companies based in the UK to help them grow and develop their business. Secondly, to put our capital to work in more remit-delivering ways and open Channel 4 up to sharing in the benefits of companies that go on to generate shareholder value in the medium term. As such, the Growth Fund Companies are held for investment purposes and it is not Management's intention to control these entities. The Growth Fund companies have been classified as associates as Channel 4 generally has commitments to purchase more than 20% of the equity and voting rights in these entities. Where this is not the case, Management is satisfied that significant influence exists over these entities due to Channel 4's ability to influence, but not control, the financial and operating policies of these entities. Management have reviewed the carrying value of the Growth Fund as at 31 December 2014 and concluded that there are no indicators of impairment at the balance sheet date.

Programme rights and other inventories to the value of £594 million were recognised as expenses in the year across the main and digital television channels (2013: £589 million) representing programmes commissioned from both independent and non-independent production companies as well as programme and film rights acquisitions. Of this total, Channel 4 commissioned £10 million of content from Growth Fund companies in 2014 which includes commissions sanctioned both pre and post-acquisition. Channel 4 owed the Growth Fund companies £nil in respect of these transactions at 31 December 2014.

The Growth Fund is comprised of the following entities as at 31 December 2014:

Company	Place of business	Proportion of equity owned at 31 December 2014*
Arrow International Media Ltd	UK	12.0%
Eleven Film Ltd	UK	13.5%
Lightbox Media Ltd	UK	12.0%
Popkorn Media Ltd	UK	16.1%
True North Productions Ltd	UK	21.0%

* This represents the proportion of equity owned as at 31 December 2014 and does not include commitments for subsequent equity subscriptions after the balance sheet date.

Summary annual financial information of Growth Fund investments

	Current assets £m	Non-current assets £m	Current liabilities £m	Long-term liabilities £m	Revenue £m	Profit from continuing operations £m
2014	6	1	(4)	(2)	26	1

8. Other investments

Other investments held comprise:

	2014 £m	2013 £m
At 1 January	–	2
Disposals	–	(2)
At 31 December	–	–

Espresso Broadband Ltd

£1.5 million of the other investments held by the Group at 1 January 2013 related to a 10% equity holding in Espresso Broadband Ltd, a producer and distributor of digital education programming, held since March 2007. The Corporation sold its investment in Espresso Broadband Ltd in 2013 and received a consideration of £2.2 million. A profit on the sale of the investment of £0.7 million was recognised in 2013.

Protagonist Pictures Ltd

£0.1 million of the other investments held by the Group reflect a 15% equity holding in Protagonist Pictures Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

8. Other investments continued

Other

Channel Four Television Corporation contributes to the funding of the following organisations, each of which is incorporated in Great Britain. The table below presents Channel 4's ownership of the entities, or legal guarantee (indicated with *), and transactions with them during the year.

	Ownership	Activity	Services received year ended 31 December £m	Funding & services provided year ended 31 December £m
2014				
Broadcasters' Audience Research Board Ltd	*	Research	–	2
Clearcast Ltd	16.70%	Regulator	–	1
Digital 3 and 4 Ltd	50.00%	Operator	1	25
DTV Services Ltd	20.00%	Marketing	5	5
Digital UK*	*	Marketing	–	2
Thinkbox Ltd	20.00%	Marketing	1	1
YouView Ltd	14.30%	Platform	1	2
2013				
Broadcasters' Audience Research Board Ltd	*	Research	–	2
Clearcast Ltd	16.70%	Regulator	–	1
Digital 3 and 4 Ltd	50.00%	Operator	1	30
DTV Services Ltd	20.00%	Marketing	3	5
Digital UK*	*	Marketing	–	1
Thinkbox Ltd	20.00%	Marketing	1	2
YouView Ltd	14.30%	Platform	4	6

Channel 4 owed DTV Services £0.5 million at 31 December 2014 (2013: £nil). There were no trade receivable or trade payable balances with any of the other related parties listed above at 31 December 2014 or 31 December 2013. No dividends were received in 2014 (2013: £nil) from any of the related parties listed above.

The investments listed have not been accounted for as joint ventures or associates as they are not-for-profit, cost-sharing organisations which will not generate returns for the Group. The Group recognises its share of funding contributions of these organisations in the appropriate line in the income statement in the period to which they relate. They are held at £nil carrying amount in the consolidated financial statements of the Group and therefore the accounting treatment applied is not deemed material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

9. Property, plant and equipment

	Freehold land and building £m	Fixtures, fittings and equipment £m	Total £m
Cost or valuation			
At 1 January 2013	62	125	187
Additions	–	3	3
Revaluation	11	–	11
At 31 December 2013	73	128	201
At 1 January 2014	73	128	201
Additions	–	6	6
Revaluation	12	–	12
At 31 December 2014	85	134	219
Depreciation			
At 1 January 2013	–	106	106
Charge for the year	1	5	6
Revaluation	(1)	–	(1)
At 31 December 2013	–	111	111
At 1 January 2014	–	111	111
Charge for the year	1	5	6
Revaluation	(1)	–	(1)
At 31 December 2014	–	116	116
Net book value			
At 1 January 2014	73	17	90
At 31 December 2014	85	18	103
At 1 January 2013	62	19	81
At 31 December 2013	73	17	90

There were no commitments to purchase property, plant and equipment at the balance sheet date (2013: none). There were no material assets held under finance leases at the balance sheet date (2013: none). No assets have been pledged for security (2013: none).

Valuation of freehold property

The freehold property at 124 Horseferry Road, London SW1P 2TX, was valued at 31 December 2014 by external valuers BNP Paribas Real Estate, 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, which the Members believe approximates to current value. In reaching their conclusions, the valuers have paid attention to comparable transactions which have taken place in recent months within the Victoria area of London.

The open market value for this property was £85 million (2013: £73 million). After depreciation charged on the open market value at 31 December 2014 (£1 million), a gain on revaluation of £13 million has been recognised in the Statement of Other Comprehensive Income.

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

	2014 £m	2013 £m
Cost	62	62
Accumulated depreciation	(19)	(18)
Impairment	(6)	(6)
Net book value based on cost	37	38

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

10. Intangible assets

	Developed software £m	Broadcasting licence £m	Total £m
Cost			
At 1 January 2013 and 31 December 2013	23	5	28
At 1 January 2014 and 31 December 2014	23	5	28
Amortisation			
At 1 January 2013	18	5	23
Amortisation for the year	2	–	2
At 31 December 2013	20	5	25
At 1 January 2014	20	5	25
Amortisation for the year	1	–	1
At 31 December 2014	21	5	26
Carrying amount			
At 1 January 2014	3	–	3
At 31 December 2014	2	–	2
At 1 January 2013	5	–	5
At 31 December 2013	3	–	3

Developed software represents amounts capitalised on internally developed computer software, principally in relation to the management of advertising and sponsorship revenues and programme scheduling applications meeting the recognition criteria for internally generated intangible assets under IAS 38 'Intangible Assets'. Assets are amortised on a straight-line basis over two to five years from the date the asset becomes available for use. The amortisation charge for developed software is recognised in the income statement (note 3).

The broadcast licence represents the broadcasting licence acquired as part of the acquisition of Life One Broadcasting Ltd in 2007 and transferred to Channel 4 on 1 January 2012 at its carrying value and was fully amortised as of 31 December 2012.

11. Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised at 20% (2013: 20%) reflecting the corporation tax rate substantially enacted as at 31 December 2014.

	Assets 2014 £m	Assets 2013 £m	Liabilities 2014 £m	Liabilities 2013 £m	Net 2014 £m	Net 2013 £m
Property, plant and equipment	2	2	–	–	2	2
Employee benefits	14	7	–	–	14	7
Carried forward trading losses	2	2	–	–	2	2
Revaluation of freehold land and buildings	–	–	(4)	(2)	(4)	(2)
Other short-term timing differences	–	–	(1)	(1)	(1)	(1)
Group deferred tax assets/(liabilities)	18	11	(5)	(3)	13	8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

11. Deferred tax assets and liabilities continued

Unrecognised deferred tax assets and liabilities

Deferred tax assets have not been recognised in respect of:

	2014 £m	2013 £m
Carried forward capital losses	1	1
Carried forward trading losses	7	7
Tax assets	8	8

Unrecognised deferred tax assets include trading and capital losses carried forward that the Group is not yet able to utilise. A deferred tax asset is only recognised to the extent that it is probable that taxable profit will be available in the near future against which the deductible temporary difference can be utilised.

Movements in temporary differences during the year

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

	Balance at 1 Jan 13 £m	Recognised in income £m	Recognised in other comprehensive income £m	Balance at 31 Dec 13 £m
Property, plant and equipment	2	–	–	2
Intangible assets – internally-developed software	(1)	1	–	–
Employee benefits	9	(2)	–	7
Carried forward trading losses	–	2	–	2
Revaluation of freehold land and buildings	–	–	(2)	(2)
Other short-term timing differences	–	(1)	–	(1)
Group deferred tax assets/(liabilities)	10	–	(2)	8

	Balance at 1 Jan 14 £m	Recognised in income £m	Recognised in other comprehensive income £m	Balance at 31 Dec 14 £m
Property, plant and equipment	2	–	–	2
Employee benefits	7	(1)	8	14
Carried forward trading losses	2	–	–	2
Revaluation of freehold land and buildings	(2)	–	(2)	(4)
Other short-term timing differences	(1)	–	–	(1)
Group deferred tax assets/(liabilities)	8	(1)	6	13

12. Programme and film rights and other inventories

	2014 £m	2013 £m
Programmes and films completed but not transmitted	91	74
Acquired programme and film rights	51	50
Programmes and films in the course of production	100	97
Other inventories	–	3
	242	224

Certain programmes and film rights may not be utilised within one year.

Programme rights and other inventories to the value of £594 million were recognised as expenses in the year across the main and digital television channels (2013: £589 million). Of this amount, obsolete programmes and developments written off totalled £45 million (2013: £39 million). Programme rights and other inventories include £28 million (2013: £30 million) in respect of developed film rights.

Other inventories represent amounts held within the 4Rights segment for DVDs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

13. Trade and other receivables

	2014 £m	2013 £m
Trade receivables	157	136
Prepayments and accrued income	38	43
Distribution and producer advances	1	3
Total trade and other receivables	196	182

There is no difference between the fair value and book value of trade and other receivables. For trade and other receivables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables are estimated as the present value of future cashflows discounted at the market rate of interest at the reporting date.

Trade receivables are shown net of impairment charges amounting to £nil (2013: £nil) recognised in the current year in relation to outstanding balances from customers, the receipt of which management view as unlikely.

Distribution and producer advances are shown net of impairment charges amounting to £2 million (2013: £4 million) recognised in the current year in relation to advances paid on DVD development deals, which management consider are unlikely to be recouped through future sales.

Credit risk

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

(i) Trade receivables

Credit risk with respect to trade receivables is principally related to amounts due from advertising agencies and retailers. A risk strategy exists to protect against exposure to these receivables working to approved terms of reference including insurance for most customers. Exposure 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.

The Group establishes an allowance for impairment that represents our estimate of likely losses in respect of trade and other receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures. Losses with regard to these receivables are historically low as advertising agencies must settle their debts before advertising transmissions are broadcast.

(ii) Counterparty

See Interest rate risk and exposure on page 152.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum credit exposure at the balance sheet date in relation to trade receivables, net of allowance for impairment, was £157 million for the Group (2013: £136 million), with £70 million of other financial assets (2013: £107 million) and cash and cash equivalents of £152 million (2013: £131 million). The exposure to credit risk all arises in the UK.

Trade receivables of £157 million for the Group (2013: £136 million) were aged under six months and which were not yet due under standard credit terms at the balance sheet date. £122 million of the receivables were insured at the balance sheet date (2013: £114 million) and £146 million has been subsequently collected by the Group since the balance sheet date.

The allowance for impairment of trade receivables was £nil at the balance sheet date (2013: £nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

14. Treasury

	2014 £m	2013 £m
Bank balances	38	37
Money market funds ¹	84	64
Money market deposits maturing in less than three months	30	30
Cash and cash equivalents	152	131
Money market deposits maturing after three months	10	50
Investment funds	60	57
Other financial assets	70	107

¹ Amounts held in money market funds are repayable within seven days.

There is no difference between the fair value and book value of cash and cash equivalents and other financial assets.

Cashflow information

	2014 £m	2013 £m
Cash and cash equivalents at 1 January	131	173
Other financial assets at 1 January	107	88
Total cash and cash equivalents and other financial assets at 1 January	238	261
Net cashflow from operating activities	(9)	(25)
Net cashflow from investing activities	(7)	2
Total cashflow	(16)	(23)
Cash and cash equivalents at 31 December	152	131
Other financial assets at 31 December	70	107
Total cash and cash equivalents and other financial assets at 31 December	222	238

Capital structure and management

Channel 4 is a statutory corporation without shareholders. Whilst returns to shareholders are therefore not relevant, the Group maintains cash reserves to help protect against short-term fluctuations in revenue and meet its business objectives in a timely and efficient manner. The Group is committed to efficient utilisation of the cash resources at its disposal to generate an appropriate return taking into account the liquidity needs of the business and the scope of treasury policy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

14. Treasury continued

Interest rate risk and exposure

The Group invests surplus cash in fixed rate money market deposits, high interest bank accounts and variable net asset value money market funds. Funds are invested only with an agreed list of counterparties that carry a minimum of an A credit rating or equivalent from Standard and Poor's and Moody's credit rating services with government support, or with money market funds that have an AAA credit rating from either of these credit rating services.

It is estimated that if interest rates had been 0.1% lower/higher throughout the year, with all other variables held constant the Group's deficit before tax would have been £0.1 million lower/higher (2013: £0.1 million).

The Group does not have any debt and as such is not exposed to fluctuations in interest rates in this regard.

The interest rate profile of the Group's cash and deposits at 31 December 2014 and 31 December 2013 is set out below:

	Effective interest rate 2014 %	Effective interest rate 2013 %	Total 2014 £m	Total 2013 £m
Interest bearing deposits maturing in less than three months held in Sterling	0.5	0.5	150	130
Interest bearing deposits maturing in less than three months held in foreign currencies	0.1	0.1	2	1
Total cash and cash equivalents	0.5	0.5	152	131
Money market deposits maturing after three months held in Sterling	0.7	0.6	10	50
Investment funds	0.8	0.7	60	57
Other financial assets	0.8	0.6	70	107

Foreign currency risk and derivative financial instruments

The Group is exposed to currency risk on sales and purchases that are denominated in currencies other than Sterling. The currencies that give rise to this risk are US Dollars and Euros. The Group uses forward exchange contracts and currency cash receipts to hedge its currency risk. Changes in the fair value of 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. 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). The Group does not have any foreign subsidiaries and as a result is not exposed to foreign currency risk in this regard. The Group is exposed to currency movements on foreign cash holdings. Amounts held by currency are detailed above within the analysis of the Group's and Channel 4's cash and deposits.

At 31 December 2014, the total value of forward contracts used as economic hedges of monetary liabilities was £11 million (2013: £11 million). This represented eighteen Euro forward purchase contracts, sixteen of which have a fixed maturity date with settlement within 12 months from the balance sheet date, and two thereafter, and three US Dollar forward purchase contracts, all of which have a fixed maturity date with settlement within 12 months from the balance sheet date. At 31 December 2014, these have been revalued with reference to forward exchange rates based on maturity. The change in fair value of £0.1 million (2013: £0.3 million) has been recognised in the income statement and the associated liability recorded on the balance sheet as at 31 December 2014. The forward contracts have been assessed as level 2 in the fair value hierarchy under IFRS 13.

It is estimated that if Sterling had strengthened/weakened by 10% at the balance sheet date against other currencies with all other variables held constant, the Group's surplus before tax would have been £1.5 million lower/higher (2013: £1.4 million).

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its assets and liabilities. These risks are managed by the Group's treasury function as described below.

The Board is responsible for approving the treasury policy for the Group. The Group's policy is to ensure that adequate liquidity and financial resource is available to support the Group's continuing activities and growth while managing these risks. The Group's policy is not to engage in speculative financial transactions. The Group does not seek to apply hedge accounting. The Group's treasury and funding activities are undertaken by a treasury function, which reports to the Group Finance Director. Its primary activities are to manage the Group's liquidity, funding requirements and financial risk, principally arising from movements in interest and foreign currency exchange rates.

Group treasury operates within clearly defined objectives and controls and is subject to periodic review by the business assurance function.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

15. Trade and other payables

	2014 £m	2013 £m
Trade payables	15	13
National insurance	1	1
Other creditors	48	43
Accruals	200	195
VAT	22	17
Total trade and other payables	286	269

There is no difference between the fair value and book value of trade and other payables. The contractual cashflows are equal to the carrying amount and are classified as payable within six months or less at 31 December 2014 and 2013.

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 number of days taken to pay suppliers of services in 2014, as calculated using average payable balances, was 7 (2013: 6). This is significantly lower than the Group's standard payment terms of 30 days due to the payment arrangements required for programme and transmission costs.

Liquidity risk

Liquidity risk is the risk that the Group fails to meet its financial obligations as they fall due. The management of operational liquidity risk aims primarily to ensure that the Group always has a liquidity buffer that is able, in the short term, to absorb the net effects of transactions made and expected changes in liquidity both under normal and stressed conditions without incurring unacceptable losses or risking damage to the Group's reputation. The cash balances held by the Group are considered to be sufficient to support the Group's medium-term funding requirements.

16. Provisions

	Onerous contracts £m	Restructuring costs £m	Total £m
At 1 January 2013	3	1	4
Utilised in the year	(1)	(1)	(2)
Charged to the income statement	1	–	1
At 31 December 2013	3	–	3
At 1 January 2014	3	–	3
Released in the year	(1)	–	(1)
Charged to the income statement	–	–	–
At 31 December 2014	2	–	2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

16. Provisions continued

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

	2014 £m	2013 £m
Current	1	1
Non-current	1	2
	2	3

Onerous contracts

The provision relates to the rental deficit on a building that is surplus to requirements but for which the Group has contracted commitments at the balance sheet date. The property rental agreement is due to expire in 2020. The provision represents the discounted net cashflows of the property rental agreement until its expiry. An amount of £0.1 million (2013: £0.1 million) has been recognised as an interest cost relating to the passage of time of the discounted provision.

Contingent liabilities

The Members are not aware of any legal or arbitration proceedings, pending or threatened, against any Member of the Group which gives rise to a significant contingent liability.

17. Commitments

2014	Due within 1 year £m	Due within 2–5 years £m	Due after 5 years £m	Total £m
Programme commitments	309	288	3	600
Operating leases	2	7	–	9
Total	311	295	3	609
2013	Due within 1 year £m	Due within 2–5 years £m	Due after 5 years £m	Total £m
Programme commitments	324	281	–	605
Operating leases	2	7	2	11
Total	326	288	2	616

In addition to the above, the Corporation is party to the shareholder agreement for Digital 3 and 4 Ltd. The Corporation is committed to meeting its share of contracted costs entered into by that company.

The Corporation's share of Digital 3 and 4 Ltd's committed payments was £25 million in 2014 (2013: £29 million) and is forecast to be £25 million in 2015. Digital 3 and 4 Ltd has entered into long-term distribution contracts that expire in 2022 and 2034 and the Corporation is committed to funding its contractual share.

The Corporation is committed to paying capacity costs for transmission on the digital terrestrial and satellite network. Committed payments for digital terrestrial transmission capacity costs amounted to £37 million in 2014 (2013: £36 million) and are forecast to be £25 million in 2015. Committed payments for satellite transmission capacity costs were £16 million in 2014 (2013: £16 million) and are forecast to be £16 million in 2015. The digital terrestrial transmission contracts expire between 2026 and 2031 and the satellite transmission contracts expire between 2018 and 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

18. Employee benefits – pensions

The Group operates a defined benefit pension scheme – the Channel 4 Television Staff Pension Plan ('the Plan'), providing benefits based on final salary for employees.

Nature of benefits, regulatory framework and governance of the Plan

The Plan is a registered defined benefit final salary scheme subject to the UK regulatory framework for pensions, including the Scheme Specific Funding requirements. The Plan is operated under trust and as such the Trustees of the Plan are responsible for operating the Plan and have a statutory responsibility to act in accordance with the Plan's Trust Deed and Rules, in the best interest of the beneficiaries of the Plan, and UK legislation (including Trust law). The employer has the power to set the contributions that are paid to the Plan, following advice from the scheme actuary. However, these must be agreed by the Trustees to the extent required by Part 3 of the Pensions Act 2004 (scheme funding).

Risks to which the Plan exposes the employer

The nature of the Plan exposes the employer to the risk of paying unanticipated additional contributions to the Plan in times of adverse experience. The most financially significant risks are likely to be:

- members living for longer than expected;
- higher than expected actual inflation and salary increase experience;
- lower than expected investment returns; and
- the risk that movements in the value of the Plan's liabilities are not met by corresponding movements in the value of the Plan's assets.

The sensitivity analysis disclosed on page 157 is intended to provide an indication of the impact on the value of the Plan's liabilities of the risks highlighted.

Plan amendments, curtailments and settlements

There have not been any material curtailments or settlements during the year.

Amounts recognised in the consolidated balance sheet

	2014 £m	2013 £m
Present value of funded obligations	(396)	(309)
Fair value of plan assets	323	270
Recognised liability for defined benefit obligations	(73)	(39)

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

	2014 £m	2013 £m
Fair value of scheme assets at 1 January	270	244
Interest income on plan assets	12	11
Return on plan assets (excluding amounts in interest income)	37	12
Employer contributions net of charges	8	6
Employee contributions net of charges	1	1
Benefits paid	(5)	(4)
Fair value of scheme assets at 31 December	323	270

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

18. Employee benefits – pensions continued

The fair value of the plan assets at the balance sheet date is comprised as follows:

	2014 £m	2013 £m
UK equity	7	7
Overseas equity	66	59
Emerging markets equity	9	9
Total equity securities	82	75
Corporate bonds	61	37
Fixed interest gilts	–	6
Index linked gilts	101	86
Total debt securities	162	129
UK equity linked inflation	58	50
Overseas equity linked inflation	20	16
Total investment funds	78	66
Cash and cash equivalents	1	–
Fair value of scheme assets at 31 December	323	270

The plan assets do not include any directly or indirectly owned financial instruments issued by Channel Four Television Corporation.

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

	2014 £m	2013 £m
Present value of scheme liabilities at 1 January	309	284
Current service cost	3	3
Interest expense on pension scheme liabilities	14	13
Remeasurement deficit/(gain) on plan liabilities arising from changes in demographic assumptions	31	(2)
Remeasurement deficit on plan liabilities arising from changes in financial assumptions	43	22
Experience remeasurement	–	(7)
Employee contributions net of charges	1	1
Benefits paid	(5)	(5)
Present value of scheme liabilities at 31 December	396	309

Expenses recognised in the income statement arose as follows:

	2014 £m	2013 £m
Current service cost	3	3
Interest expense on pension scheme liabilities	14	13
Interest income on plan assets	(12)	(11)
Net charge to income statement	5	5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

18. Employee benefits – pensions continued

The expense has been recognised in the following lines in the income statement:

	2014 £m	2013 £m
Cost of transmission and sales	2	2
Other operating expenditure	1	1
Net financial expense	2	2
Net charge to income statement	5	5

The remeasurement deficit recognised in other comprehensive income arose as follows:

	2014 £m	2013 £m
Remeasurement deficit on plan liabilities	(74)	(13)
Remeasurement gain on plan assets (excluding amounts in interest income)	37	12
Net remeasurement deficit on pension scheme	(37)	(1)

The cumulative amount of net remeasurement deficits/gains recognised in the Statement of Changes in Equity since transition to IFRS is £99 million (2013: £62 million).

Principal actuarial assumptions at the balance sheet date

	2014 %	2013 %
Discount rate	3.50	4.50
Rate of increase in salaries	2.65	3.20
Rate of increase in pensions	3.05	3.40
Inflation	3.15	3.50
	2014 years	2013 years
Life expectancy from 65 (now aged 45) – male	23.2	23.2
Life expectancy from 65 (now aged 45) – female	26.5	26.4
Life expectancy from 65 (now aged 65) – male	22.9	22.9
Life expectancy from 65 (now aged 65) – female	26.0	25.9

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.

Sensitivity analysis

The table below sets out the sensitivity of the scheme's pension liabilities to changes in actuarial assumptions at 31 December 2014:

	Revised present value of scheme liabilities £m
0.5% decrease in discount rate	442
1 year increase in life expectancy	408
0.5% increase in inflation (and inflation-linked) assumptions	441

The sensitivities disclosed are calculated using approximate methods taking into account the duration of the Plan's liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

18. Employee benefits – pensions continued

Funding arrangements

Contribution rates to the scheme are determined by a qualified independent actuary (the Actuary to the Plan) on the basis of triennial valuation using the projected unit method. The most recent triennial valuation was carried out as at 31 December 2012. The results of the valuation at 31 December 2012 showed that the scheme's assets represented 71% of the benefits that had accrued to Members, reflecting a deficit of £101 million. The next triennial valuation will be carried out as at 31 December 2015.

Following the valuation and discussions with the Actuary to the Plan, the Trustees and the Board agreed a revised schedule of contributions to reduce the Plan's funding deficit of £588,000 per month with effect from 1 August 2014 to 31 December 2014 and increasing to £708,000 per month with effect from 1 January 2015 to 31 December 2025.

The estimated total employer contributions in 2015 are £12 million, comprised of £8.5 million in respect of the deficit funding payments described above with the balance representing Channel 4's contributions of monthly pensionable salary of those employees who are Members of the scheme.

The weighted average duration of the Plan's defined benefit obligation is approximately 22 years. The majority of the Plan's benefits are to be paid as annuities from retirement of a Member until their death.

The Plan is closed to new entrants. On 24 February 2015, it was announced that the scheme will close to future accrual with effect from 31 December 2015.

19. Related party transactions

Members

Details of transactions in which Members have an interest are disclosed on page 110.

Details of Members' remuneration are shown in the Remuneration Report on pages 124–129.

Joint Ventures and Associates

Details of transactions between the Group and its joint ventures and associates are disclosed in note 7 on pages 144–145.

Equity investments

During 2014, Channel 4 paid £0.1 million to Protagonist Pictures Ltd for agency sales and film acquisition services (2013: £0.3 million). No amounts were due at 31 December 2014 (2013: £nil).

Other

Channel Four Television Corporation contributes to the funding of several not-for-profit, cost-sharing organisations. Details of transactions between the Group and these organisations are disclosed in note 8 on page 146.

CHANNEL 4 BALANCE SHEET AS AT 31 DECEMBER

	Group note	Channel 4 note	2014 £m	2013 £m
Assets				
Property, plant and equipment	9		103	90
Intangible assets	10		2	3
Investments in subsidiaries and joint ventures		2	28	28
Deferred tax assets	11		18	11
Total non-current assets			151	132
Programme and film rights and other inventories	12		242	224
Trade and other receivables	13		196	182
Corporation tax			–	1
Other financial assets	14		70	107
Cash and cash equivalents	14		152	131
Total current assets			660	645
Total assets			811	777
Liabilities				
Employee benefits – pensions	18		(73)	(39)
Provisions	16		(1)	(2)
Deferred tax liabilities	11		(5)	(3)
Total non-current liabilities			(79)	(44)
Trade and other payables		3	(431)	(417)
Provisions	16		(1)	(1)
Total current liabilities			(432)	(418)
Total liabilities			(511)	(462)
Net assets			300	315
Revaluation reserve			39	28
Retained earnings:				
Content reserve			30	–
Other retained earnings			231	287
Total equity			300	315

The financial statements on pages 159 to 162 were approved by the Board of Members on 25 March 2015 and were signed on its behalf by:

Lord Burns
Chairman

David Abraham
Chief Executive

The notes on pages 161 to 162 form part of these financial statements.

CHANNEL 4 STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER

	Retained earnings			Total equity £m
	Other retained earnings £m	Content reserve £m	Revaluation reserve £m	
At 1 January 2013	303	–	18	321
Deficit for the year	(15)	–	–	(15)
Other comprehensive (cost)/income	(1)	–	10	9
Total comprehensive (cost)/income for the year	(16)	–	10	(6)
At 31 December 2013	287	–	28	315
At 1 January 2014	287	–	28	315
Surplus for the year	3	–	–	3
Reserve transfer	(30)	30	–	–
Other comprehensive (cost)/income	(29)	–	11	(18)
Total comprehensive (cost)/income for the year	(56)	30	11	(15)
At 31 December 2014	231	30	39	300

CHANNEL 4 ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention, except that freehold properties, derivatives and certain financial instruments are stated at fair value, and are presented in pounds Sterling, rounded to the nearest million.

The financial statements have been prepared under the Financial Reporting Standard 101 Reduced Disclosure Framework. The Corporation's financial result and balance sheet are included in the consolidated financial statements presented on pages 130 to 158. As permitted by the Financial Reporting Standard 101, the Corporation has not presented its own cashflow statement and has not provided the disclosures required by IFRS 7 Financial Instruments: Disclosures.

As permitted by section 408 of the Companies Act 2006, Channel Four Television Corporation has not presented its own income statement. A surplus of £3 million (2013: £15 million deficit) was recorded in relation to the Corporation. Accounting policies applied in the preparation of the Corporation's financial statements are consistent with the Group policies presented on pages 134 to 138, except as stated below.

Investments in subsidiaries

Investments in subsidiaries are carried at historical cost less provision for impairment.

Investments in associates and joint ventures

Investments in associates and joint ventures are carried at historical cost less provision for impairment.

Equity investments

Equity investments represent equity holdings without significant influence. Equity investments are normally carried at fair value. Where an active market value is not available, the Members believe that valuation at cost less provision for impairment is a reasonable approximation of fair value.

Trade and other receivables

Trade receivables are reflected net of an estimated impairment for doubtful accounts if applicable.

NOTES TO THE CHANNEL 4 FINANCIAL STATEMENTS

1. Operating expenditure

Auditor's remuneration

Fees in relation to the audit of the Corporation financial statements and additional fees paid to the auditors for the year ended 31 December 2014 are presented in note 3 to the consolidated financial statements on page 141.

Staff costs

All staff costs are borne by Channel 4 and are presented in note 4 to the consolidated financial statements on page 141.

2. Investments in subsidiaries and joint ventures

Joint ventures

The investment in The Box Plus Network Ltd is recorded on Channel Four Television Corporation's balance sheet at historical cost. The balance as at 31 December 2014 was £28 million.

Subsidiaries

The cost of investments at 31 December was:

	2014 £000	2013 £000
4 Ventures Ltd	1	1

4 Ventures Ltd is a 100% owned subsidiary of Channel 4.

At the balance sheet date 4 Ventures Ltd owned more than 50% of the issued share capital of the following companies each of which was incorporated in Great Britain:

	Activity	Issued ordinary £1 shares	Ownership %
FilmFour Ltd	Film distribution	1,000	100
Channel Four Investments Ltd	Growth Fund	1	100

FilmFour Ltd sells rights from its film library to Protagonist Pictures Ltd (Group note 19).

3. Trade and other payables

	2014 £m	2013 £m
Trade payables	15	13
National insurance	1	1
Other creditors	48	43
Amounts due to subsidiaries	145	148
Accruals	200	195
VAT	22	17
Total trade and other payables	431	417

The number of days taken to pay suppliers of services in 2014, as calculated using average payable balances, was 7 (2013: 6). This is significantly lower than the Group's standard payment terms of 30 days due to the payment arrangements required for programme and transmission costs.

Included within trade and other payables is £nil to be settled in more than 12 months.

PROGRAMMES AND THE LICENCE

Sources of programmes

Channel 4

Channel 4 commissions programmes from both independent and non-independent producers and purchases programmes from the international markets. The source and cost of the programmes transmitted on the main Channel 4 service in 2014 are shown in the table below:

	2014 Hours	2013 Hours	2014 £m	2013 £m
Originated				
Independents	3,460	3,822	283	297
Other	2,035	1,526	99	88
	5,495	5,348	382	385
Acquired	3,265	3,412	110	101
Programmes total	8,760	8,760	492	486
Other direct programme costs			7	6
Total	8,760	8,760	499	492
All hours	Hours	Hours	%	%
Originated	5,495	5,348	63	61
Acquired	3,265	3,412	37	39
Total	8,760	8,760	100	100
Peak hours	Hours	Hours	%	%
Originated	1,266	1,272	77	77
Acquired	377	371	23	23
Total	1,643	1,643	100	100

Independent production companies are the most important source of originated programmes. Programmes transmitted on Channel 4 in 2014 were provided by 194 independent companies (2013: 224).

Other direct programme costs reflect access services such as subtitling and sign-language services and amounts payable to music royalty collection societies.

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 2014 amounted to £150 million (2013: £164 million).

PROGRAMMES AND THE LICENCE CONTINUED

Programme transmissions*

Channel 4

The main Channel 4 service broadcast 8,760 hours in 2014 (2013: 8,760) – 24 hours each day. The hours and costs of the channel's wide range of programme transmissions were as follows:

	2014 Hours	2013 Hours	2014 £m	2013 £m
Drama	579	601	100	109
Entertainment	2,349	2,378	117	111
Education	2,622	2,375	98	88
Feature films	978	1,162	42	40
Other factual	165	189	25	18
News	242	240	25	25
Current affairs	238	245	20	23
Documentaries	274	295	25	31
Arts and music	92	125	8	8
Sport	814	710	22	19
Quiz and gameshows	396	418	9	12
Religion	11	22	1	2
Total	8,760	8,760	492	486

* The data in the table above is consistent with prior years and based on Channel 4's internal reporting genres. Data presented in the Statement of Media Content Policy (SMCP) is structured around the key genres reflecting Channel 4's internal commissioning structure.

E4, More4 and Film4 channels

The E4 channel broadcast for a total of 8,760 hours in 2014 (2013: 8,760 hours) with 100% of these hours being subtitled (2013: 100%).

The More4 channel broadcast for 6,832 hours (2013: 6,791 hours) with 100% of these hours being subtitled (2013: 100%).

The Film4 channel broadcast for 6,062 hours (2013: 6,076 hours) with 100% of these hours being subtitled (2013: 100%).

4seven broadcast for 7,187 hours in 2014 (2013: 7,180 hours) with 100% of these hours being subtitled (2013: 100%).

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.

Channel 4

Ofcom recorded three breaches of its Code on standards in programmes by the main Channel 4 service in 2014 (2013: three). None were judged serious enough to merit a statutory sanction (2013: none). In 2014 one complaint about fairness/privacy in Channel 4's programmes was upheld (2013: two) and two complaints were upheld in part (2013: two).

E4, More4 and Film4

No recorded breach of the Code on standards in programmes was noted against More4 (2013: one) and no recorded breach of the Code on standards in programmes was noted against E4 in 2014 (2013: none). There were no recorded breaches of the Code on standards against Film4 in 2014 (2013: none). In 2014 no complaints about fairness/privacy were upheld against E4, More4 or Film4 (2013: none).

PROGRAMMES AND THE LICENCE CONTINUED

ASA

ASA regulates all broadcast and non-broadcast UK advertising. All non-broadcast advertising should comply with the Code of Non-broadcast Advertising, Sales Promotion and Direct Marketing (the 'CAP Code'). All broadcast advertisements and programme sponsorship credits on television services licensed by Ofcom should comply with the UK Code of Broadcast Advertising (the 'BCAP Code'). Ofcom retains direct responsibility under the BCAP Code for sponsorship, product placement and participation TV advertising. The ASA recorded two breaches of the BCAP Code in 2014 (2013: four breaches of the BCAP Code).

The licence

The wide range and diversity of programmes shows that the remit is central to Channel 4's programming policy. Our licence from Ofcom, in addition to stipulating the need to meet the remit, places certain specific programme obligations on Channel 4.

	Compliance minimum	2014	2013
Average hours per week			
News			
– in peak-time (6pm – 10.30pm)	4	4	4
Current affairs			
– overall	4	5	5
– in peak-time (6pm – 10.30pm)	2	3	3
Hours per year			
Schools	1	4	10
Percentage			
Original production			
– overall	56	63	61
– in peak-time (6pm – 10.30pm)	70	77	77
Independent production*	25	73	75
European independent production*	10	40	45
European origin	50	66	66
Subtitling for the deaf and hard-of-hearing	90	100	100
Audio description	10	28	31
Signing	5	5	5
Regional production	35	43	46
Regional hours	35	52	55
Production in the Nations	3	6	6
Nations hours	3	6	7

The 2014 Ofcom licence disclosure reflects Channel 4's Digital Replacement Licence (DRL), which was renewed in 2014 and came into effect in January 2015. This encompasses the requirements set out in the Communications Act 2003.

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

Several of the measures reflected in this section of the report are discussed in more detail on pages 15–18 of the Statement of Media Content Policy and the Strategic Report on page 107.

HISTORICAL METRICS 2010–2014

	Page ref	2010	2011	2012	2013	2014
Creativity						
Commissioning success						
Number of major television and film awards won	86–91	48	46	48	43	66
Originated content spend (£m)	15	362	419	434	429	430
Engaging audiences						
Portfolio high peak viewing share (2000–2300)	N/A	12.9%	12.7%	12.6%	12.4%	12.5%
Portfolio viewing share 16–34s	32	16.9%	17.0%	16.9%	16.7%	17.0%
Portfolio viewing share	31	11.4%	11.6%	11.5%	11.0%	10.9%
Portfolio viewing share ABC1s	N/A	11.7%	11.5%	11.4%	11.3%	10.9%
Portfolio 15 minute reach	30	87.7%	88.8%	88.1%	86.8%	85.2%
Digital and innovation measures						
VoD views (m)	34	372	429	450	476	587
Registered viewers (m)*	39	0.5	3.2	6.3	10.2	11.3
* registered viewers are net of duplicate and active users within the last two years						
Sustainability						
Financial metrics						
Corporation revenue (£m)	130	935	941	925	908	938
Content and marketing spend (£m)	140	622	635	667	649	651
Year end cash (£m)	132	261	290	261	238	222
Non-advertising and sponsorship revenue (£m)	N/A	87	96	81	62	69
Content and marketing spend and surplus/(deficit) as a % of revenue	N/A	72%	72%	69%	70%	70%
Other operating costs as a % of total costs	N/A	29%	29%	30%	30%	30%
Pre-tax surplus/(deficit) (£m)	130	54	45	(27)	(16)	4
Ad sales measures						
Sales House SONAR	168	24.8%	27.8%	27.4%	26.3%	25.9%
Advertising and sponsorship revenue (£m)	106	848	845	844	846	869
SOCI Portfolio high peak (2000–2300)	N/A	20.2%	19.7%	19.9%	18.7%	19.1%
SOCI portfolio 16–34s	N/A	25.3%	24.7%	24.8%	23.3%	23.3%
SOCI portfolio	N/A	18.3%	18.4%	18.5%	17.1%	16.6%
SOCI portfolio ABC1s	N/A	20.1%	19.7%	19.9%	19.0%	18.2%

HISTORICAL METRICS 2010–2014 CONTINUED

	2010	2011	2012	2013	2014
Performance versus competitors					
Portfolio viewing share					
C4	11.4%	11.6%	11.5%	11.0%	10.9%
BBC	32.9%	32.9%	33.6%	32.4%	33.1%
ITV	22.9%	23.1%	22.4%	23.1%	22.0%
Channel 5	5.9%	5.9%	6.0%	6.0%	5.9%

Source: BARB all individuals

Portfolio high peak viewing share 2000–2300					
C4	12.9%	12.7%	12.6%	12.4%	12.5%
BBC	32.9%	33.0%	34.1%	32.8%	33.3%
ITV	25.6%	25.4%	24.3%	24.9%	24.0%
Channel 5	7.3%	7.3%	7.2%	7.2%	7.0%

Source: BARB all individuals

SOCI Portfolio					
C4	18.3%	18.4%	18.5%	17.1%	16.6%
ITV	39.8%	39.5%	38.3%	38.3%	36.2%
Channel 5	10.2%	10.1%	10.1%	9.7%	9.5%
Sky	17.3%	21.4%	21.7%	21.7%	25.6%

Source: Donovan Data Systems (DDS)

SOCI Portfolio 16–34s					
C4	25.3%	24.7%	24.8%	23.3%	23.3%
ITV	29.8%	29.4%	27.5%	27.3%	26.3%
Channel 5	8.2%	8.5%	8.5%	8.0%	7.7%
Sky	21.1%	26.3%	27.6%	27.7%	30.1%

Source: Donovan Data Systems (DDS)

SOCI portfolio ABC1s					
C4	20.1%	19.7%	19.9%	19.0%	18.2%
ITV	37.7%	37.2%	36.7%	36.4%	34.6%
Channel 5	9.0%	8.6%	8.9%	8.9%	8.7%
Sky	18.8%	23.3%	23.0%	22.6%	25.8%

Source: Donovan Data Systems (DDS)

HISTORICAL RECORD

	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m
Consolidated results:										
Revenue	894	937	945	906	830	935	941	925	908	938
Operating surplus/(deficit)	57	14	(9)	(1)	4	49	41	(29)	(15)	4
Net financial income/(expense)	10	7	10	14	(2)	2	2	1	(1)	(1)
Share of profit/(loss) in joint venture	–	–	1	(3)	–	3	2	1	–	1
Surplus/(deficit) before taxation	67	21	2	10	2	54	45	(27)	(16)	4
Taxation	(18)	(7)	(1)	(8)	(2)	(15)	(10)	–	1	(1)
Surplus/(deficit) for the year	49	14	1	2	–	39	35	(27)	(15)	3

All figures are shown under Adopted IFRS.

Advertising sales

	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m
Channel 4 Sales House	769	777	825	790	707	819	939	916	935	967
Other	2,718	2,523	2,608	2,487	2,179	2,490	2,442	2,430	2,616	2,769
Total broadcast	3,487	3,300	3,433	3,277	2,886	3,309	3,381	3,346	3,551	3,736
	%	%	%	%	%	%	%	%	%	%
Channel 4 Sales House share	22.1	23.5	24.0	24.1	24.5	24.8	27.8	27.4	26.3	25.9
Other share	77.9	76.5	76.0	75.9	75.5	75.2	72.2	72.6	73.7	74.1
Total	100.0									

Audience share (portfolio)

	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %
BBC (nine channels)	35.2	34.5	34.0	33.5	32.6	32.9	32.9	33.6	32.4	33.1
ITV (six channels)	24.0	22.9	23.1	23.2	23.1	22.9	23.1	22.4	23.1	22.0
Channel 4 excl S4C (six channels)	10.8	11.9	11.7	11.8	11.5	11.4	11.6	11.5	11.0	10.9
Channel 5 (four channels)	6.4	5.9	6.0	6.1	6.1	5.9	5.9	6.0	6.0	5.9
Other (> 350 channels)	23.6	24.8	25.2	25.4	26.7	26.9	26.5	26.5	27.5	28.1
Total	100.0									

The number of channels in brackets indicates the number of channels in that portfolio as at 31 December 2014.

Source: BARB all individuals

Audience share

	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %
BBC1	23.3	22.8	22.0	21.8	20.9	20.8	20.7	21.3	21.0	21.6
BBC2	9.4	8.8	8.6	7.8	7.5	6.9	6.6	6.1	5.8	6.1
ITV and GMTV	21.5	19.6	19.2	18.4	17.9	17.0	16.6	15.7	16.2	15.6
Channel 4 excl S4C	9.6	9.6	8.6	8.1	7.4	7.0	6.8	6.6	6.1	5.9
Channel Five	6.4	5.7	5.2	5.0	4.9	4.5	4.4	4.5	4.4	4.4
Other	29.8	33.5	36.4	38.9	41.4	43.8	44.9	45.8	46.5	46.4
Total	100.0									

Source: BARB all individuals