

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

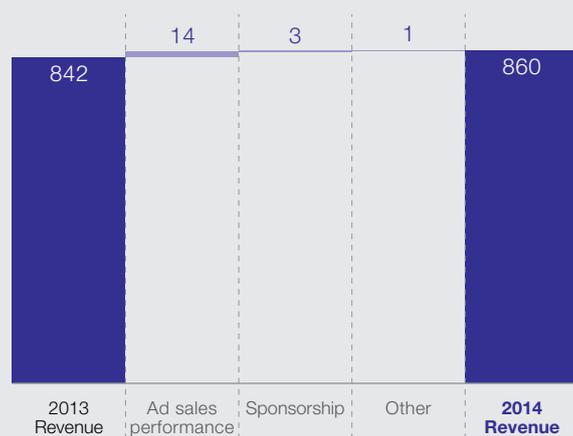
Segment financial review

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)



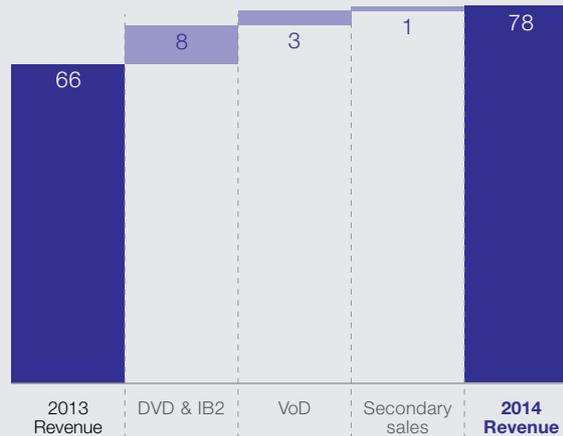
The operating deficit improved by £16 million in 2014, mainly due to the impact of the revenue growth highlighted above and careful financial cost management, offset by higher distribution & transmission costs and content spend as the additional revenues were re-invested in year.

4Rights

£78M

2014 4Rights revenue

Revenue (£m)

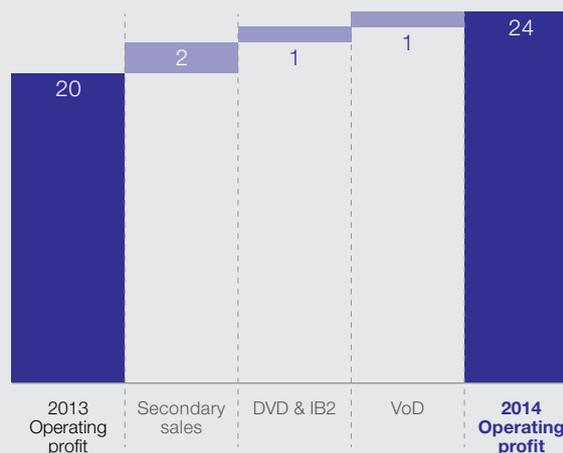


Revenue increased by £12 million in 2014, reflecting strong box office performance and DVD sales of *The Inbetweeners 2 Movie* (IB2) and further growth in VoD revenues and secondary sales. The increase in operating surplus in the year also reflected these trends.

£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 Skillset 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 Skillset, 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

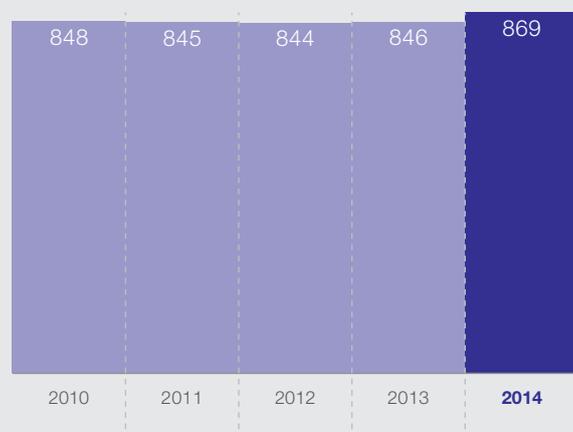
The Board uses a range of quantitative financial and non-financial indicators to monitor the Group's performance against its key objectives including the SMCP metrics set out on pages 14 to 35 of this report. Four key indicators are described below.

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

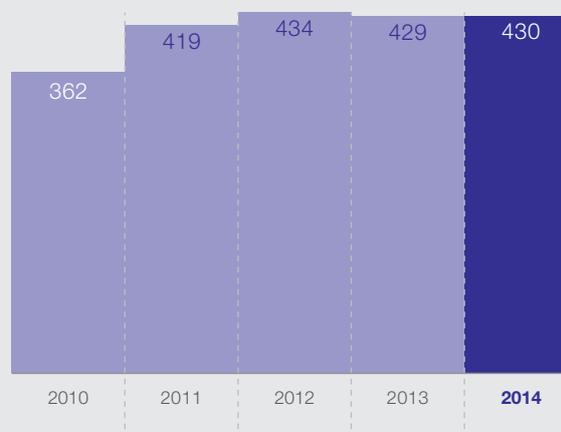
In 2014 advertising and sponsorship revenue accounted for 93% (2013: 93%) of total revenue. Total advertising and sponsorship revenue increased in the year to £869 million (2013: £846 million) as shown on page 100.

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

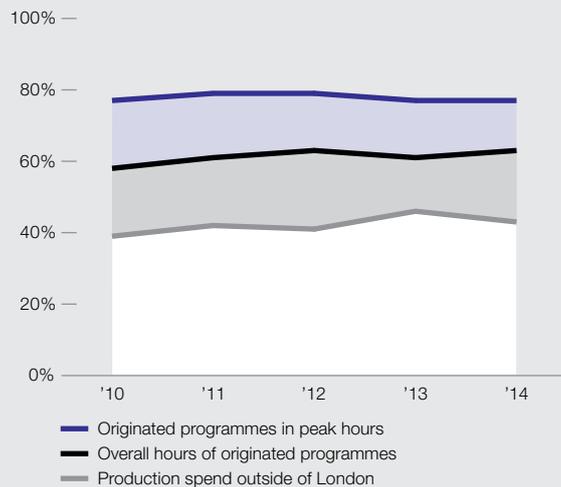
In 2014 Channel 4 continued to invest in commissions from UK independent production companies. Originated content spend was slightly higher than 2013 and only marginally lower than its highest ever level in 2012 (£434 million). The spend of £430 million (page 15) continues to demonstrate Channel 4's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