

FINANCIAL REPORT AND STATEMENTS

**FOR THE
YEAR ENDED
31 DECEMBER 2016**

Consolidated income statement for the year ended 31 December

| | Note | 2016 £m | 2015 £m |
|--|------|-------------|------------|
| Revenue | 1 | 995 | 979 |
| Cost of transmission and sales | 2 | (986) | (923) |
| Gross surplus | | 9 | 56 |
| Other operating expenditure | 3 | (27) | (32) |
| Operating (deficit)/surplus | | (18) | 24 |
| Net finance expense | 5 | – | (1) |
| Share of profit of investments accounted for using the equity method, net of income tax and amortisation | 7 | 3 | 3 |
| (Deficit)/surplus before tax | | (15) | 26 |
| Income tax expense | 6 | (3) | – |
| (Deficit)/surplus for the year | | (18) | 26 |

Consolidated statement of comprehensive income for the year ended 31 December

| | Note | 2016 £m | 2015 £m |
|--|------|-------------|------------|
| (Deficit)/surplus for the year | | (18) | 26 |
| Net remeasurement (deficit)/surplus on pension scheme | 18 | (2) | 12 |
| Revaluation of freehold land and buildings | 9 | 2 | 12 |
| Deferred tax on pension scheme | 11 | – | (2) |
| Deferred tax on revaluation of freehold land and buildings | 11 | – | 4 |
| Other comprehensive income for the year | | – | 26 |
| Total comprehensive (cost)/income for the year | | (18) | 52 |

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 2015 | 374 | 30 | 39 | 443 |
| Surplus for the year | 26 | – | – | 26 |
| Other comprehensive income | 10 | – | 16 | 26 |
| Total comprehensive income for the year | 36 | – | 16 | 52 |
| Reserve transfer | (20) | 20 | – | – |
| At 31 December 2015 | 390 | 50 | 55 | 495 |
| At 1 January 2016 | 390 | 50 | 55 | 495 |
| Deficit for the year | (18) | – | – | (18) |
| Other comprehensive (cost)/income | (2) | – | 2 | – |
| Total comprehensive (cost)/income for the year | (20) | – | 2 | (18) |
| Reserve transfer | 15 | (15) | – | – |
| At 31 December 2016 | 385 | 35 | 57 | 477 |

We 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 drawn down £15 million from the content reserve in 2016, reducing it to £35 million at 31 December 2016.

Consolidated balance sheet as at 31 December

| | Note | 2016 £m | 2015 £m |
|---|------|--------------|--------------|
| Assets | | | |
| Investments accounted for using the equity method | 7 | 32 | 29 |
| Other investments | 8 | 10 | – |
| Property, plant and equipment | 9 | 110 | 112 |
| Intangible assets | 10 | 7 | 5 |
| Deferred tax assets | 11 | 13 | 16 |
| Total non-current assets | | 172 | 162 |
| Programme and film rights | 12 | 279 | 254 |
| Trade and other receivables | 13 | 170 | 178 |
| Other financial assets | 14 | 83 | 87 |
| Cash and cash equivalents | 14 | 132 | 165 |
| Total current assets | | 664 | 684 |
| Total assets | | 836 | 846 |
| Liabilities | | | |
| Employee benefits – pensions | 18 | (52) | (56) |
| Provisions | 16 | (1) | (1) |
| Total non-current liabilities | | (53) | (57) |
| Trade and other payables | 15 | (306) | (293) |
| Provisions | 16 | – | (1) |
| Total current liabilities | | (306) | (294) |
| Total liabilities | | (359) | (351) |
| Net assets | | 477 | 495 |
| Revaluation reserve | | 57 | 55 |
| Retained earnings: | | | |
| Content reserve | | 35 | 50 |
| Other retained earnings | | 385 | 390 |
| Total equity | | 477 | 495 |

The financial statements on pages 134 to 161 were approved by the Members of the Board on 24 April 2017 and were signed on its behalf by:

CHARLES GURASSA
Chair

DAVID ABRAHAM
Chief Executive

Consolidated cashflow statement for the year ended 31 December

| | Note | 2016 £m | 2015 £m |
|--|------|------------|------------|
| Cashflow from operating activities | | | |
| (Deficit)/surplus for the year | | (18) | 26 |
| <i>Adjustments for</i> | | | |
| Income tax expense | 6 | 3 | – |
| Depreciation | 9 | 6 | 6 |
| Amortisation of intangibles | 10 | 2 | 1 |
| Net financial expense | 5 | – | 1 |
| Share of profit from investments accounted for using the equity method, net of income tax and amortisation | 7 | (3) | (3) |
| Current service pension cost | 18 | – | 4 |
| | | (10) | 35 |
| Increase in programme and film rights | 12 | (25) | (12) |
| Decrease in trade and other receivables | 13 | 8 | 18 |
| Increase in trade and other payables | 15 | 13 | 7 |
| Decrease in provisions, excluding unwinding of discounts | 16 | (1) | – |
| | | (15) | 48 |
| Defined benefit pension contributions | 18 | (8) | (11) |
| Tax (paid)/repaid | | – | (1) |
| Net cashflow from operating activities | | (23) | 36 |
| Cashflow from investing activities | | | |
| Acquisition of investments | 7, 8 | (13) | (5) |
| Purchase of property, plant and equipment | 9 | (2) | (3) |
| Additions to internally developed software | 10 | (4) | (2) |
| Interest received and effects of foreign exchange rates | 5 | 2 | 1 |
| Dividends received | 7 | 3 | 3 |
| Decrease/(increase) in other financial assets ¹ | 14 | 4 | (17) |
| Net cashflow from investing activities | | (10) | (23) |
| Net (decrease)/increase in cash and cash equivalents | | (33) | 13 |
| Cash and cash equivalents at 1 January | | 165 | 152 |
| Cash and cash equivalents at 31 December | | 132 | 165 |

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 2016 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 Company 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 24 April 2017. 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 ('IFRS'). 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 and 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 accordance with IFRS requires the use of estimation and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of income and expense during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results 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 IFRS that have a significant risk of material adjustment on the financial statements and estimates are summarised as follows:

- Revenue recognition – timing of recognition to reflect the point or period when the Group has transferred the main risks and rewards of ownership to third parties (detailed policy on page 139)
- Programme and film rights (detailed policy on pages 140 to 141)
 - Estimate of value with reference to the quality of programme that has ultimately been delivered and its expected viewing performance
 - Estimate of future revenues from distribution when evaluating the carrying value of film rights held for exploitation

Going concern

The annual financial statements have been prepared on a going concern basis where the Members have a reasonable expectation that the Group will continue in operational existence, as set out in the Report of the Members.

The Group has sufficient financial resources, and the Members believe that the Group is well placed to manage its business risks based on normal business planning and control procedures.

As discussed on page 105, Ofcom have renewed 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.

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. The Group has 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 in associates and joint ventures are accounted for using the equity method.

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.

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.

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.

Cost contributions to the Group's other not-for-profit, cost-sharing investments are charged to the income statement in the period to which they relate.

Group accounting policies continued

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 significant 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.

A number of new standards, amendments to standards and interpretations have been issued and became effective on 1 January 2016. 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. Each of the Group's significant revenues are recognised as described below:

Advertising and sponsorship revenues

Revenues are stated net of advertising agency commissions and rebates.

Television advertising revenue and online advertising revenue are 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.

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

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.

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

Investments in associates and joint ventures are recognised using the equity method, where the investment is recorded at cost and adjusted thereafter to include the Group's share of profit or loss and other comprehensive income.

Other investments

Other investments includes equity holdings without significant influence. Equity investments are normally carried at fair value in accordance with IFRS 13 'Fair Value Measurement'. Where an active market value is not available or when it is not possible to measure fair value, the investment is recorded at cost less provision for impairment. The Members believe that this valuation reflects a reasonable approximation of fair value.

Group accounting policies continued

Property, plant and equipment

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

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.

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is not subject to amortisation but is tested annually for impairment.

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 and film rights

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.

Group accounting policies continued

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.

Trade and other receivables

Trade receivables are reflected net of an estimated impairment for doubtful accounts. The fair value of trade and other receivables equals its book value. 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.

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 and net interest are recognised in the income statement.

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 significant, 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 108 to 109.

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. 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 2016, amounting to £169 million (2015: one external customer amounting to £159 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 (2015: 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 2016 | 4Broadcast £m | 4Rights £m | Other £m | Eliminations £m | Total £m |
|--|------------------|---------------|-------------|--------------------|-------------|
| Programme and other content | (706) | – | – | – | (706) |
| Funded by: | | | | | |
| Total revenue | 912 | 82 | 1 | – | 995 |
| Operating (deficit)/surplus | (60) | 42 | – | – | (18) |
| Net finance expense | | | | | – |
| Share of profit of investments accounted for using the equity method, net of income tax and amortisation | | | | | 3 |
| Deficit before tax | | | | | (15) |

Programme and other content is comprised of investment into content across all services (the main channel, digital TV channels and digital media services) of £695 million (2015: £629 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 2016 | 4Broadcast £m | 4Rights £m | Other £m | Eliminations £m | Total £m |
|--------------------------------------|------------------|---------------|-------------|--------------------|-------------|
| Segment assets | 896 | 224 | 29 | (313) | 836 |
| Segment liabilities | (572) | (24) | (76) | 313 | (359) |
| Net assets/(liabilities) | 324 | 200 | (47) | – | 477 |

Notes to the consolidated financial statements continued

1. Segment reporting continued

| Year ended 31 December 2015 | 4Broadcast £m | 4Rights £m | Other £m | Eliminations £m | Total £m |
|--|------------------|---------------|-------------|--------------------|-------------|
| Programme and other content | (640) | (1) | – | – | (641) |
| Funded by: | | | | | |
| Total revenue | 906 | 72 | 1 | – | 979 |
| Operating (deficit)/surplus | (4) | 28 | – | – | 24 |
| Net finance expense | | | | | (1) |
| Share of profit of investments accounted for using the equity method, net of Income tax and amortisation | | | | | 3 |
| Surplus before tax | | | | | 26 |
| Balance sheet as at 31 December 2015 | 4Broadcast £m | 4Rights £m | Other £m | Eliminations £m | Total £m |
| Segment assets | 915 | 181 | 29 | (279) | 846 |
| Segment liabilities | (531) | (23) | (76) | 279 | (351) |
| Net assets/(liabilities) | 384 | 158 | (47) | – | 495 |

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 |
|------------------------------|---|--------------------------------------|---|------------------------|----------------------------|-------------|
| 2016 | | | | | | |
| 4Broadcast | 706 | 46 | 90 | 61 | 43 | 946 |
| 4Rights | – | 16 | 4 | 18 | 1 | 39 |
| Other | – | – | – | 1 | – | 1 |
| Continuing operations | 706 | 62 | 94 | 80 | 44 | 986 |
| | Programme and other content £m | Indirect programme costs £m | Transmitter and regulatory costs £m | Cost of sales £m | Cost of marketing £m | Total £m |
| 2015 | | | | | | |
| 4Broadcast | 640 | 42 | 90 | 65 | 43 | 880 |
| 4Rights | 1 | 15 | 4 | 21 | 1 | 42 |
| Other | – | – | – | 1 | – | 1 |
| Continuing operations | 641 | 57 | 94 | 87 | 44 | 923 |

FINANCIAL REPORT AND STATEMENTS CONTINUED

Notes to the consolidated financial statements continued

3. Other operating expenditure

Other operating expenditure includes:

| | 2016 £m | 2015 £m |
|--|------------|------------|
| Depreciation of property, plant and equipment (note 9) | 6 | 6 |
| Amortisation of intangible assets (note 10) | 2 | 1 |
| Restructuring costs | 1 | 2 |
| Operating lease rentals | 2 | 2 |
| Other administrative expenses | 16 | 21 |
| Other operating expenditure | 27 | 32 |

Auditor's remuneration

Fees in respect of services provided by the auditor were:

| | 2016 £000 | 2015 £000 |
|---|--------------|--------------|
| Audit of these financial statements | 150 | 147 |
| Amounts receivable by auditors and their associates in respect of: | | |
| Audit of financial statements of subsidiaries pursuant to legislation | 20 | 23 |
| Other audit related and assurance | 42 | 41 |
| Total audit and assurance | 212 | 211 |
| Taxation compliance services | – | 31 |
| All other services | 184 | 71 |
| Total other services | 184 | 102 |
| Auditor's remuneration | 396 | 313 |

4. Employee expenses and information

A detailed analysis of Members' remuneration, including salaries and variable pay, is provided in the Members' Remuneration Report.

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

| | 2016 £m | 2015 £m |
|---|------------|------------|
| Aggregate gross salaries | 69 | 65 |
| Employer's National Insurance contributions | 7 | 6 |
| Employer's defined benefit pension current service cost (note 18) | – | 4 |
| Employer's defined contribution pension contributions | 4 | 2 |
| Total direct costs of employment | 80 | 77 |

In addition to the above, in 2016 £1 million of costs were expensed to the Income statement in respect of restructuring initiatives to increase operational efficiency within the Group (2015: £2 million).

As disclosed in the Members' Remuneration Report on page 129, the total remuneration of the Executive and Non-Executive Members for the year ending 31 December 2016 is £2,939,000 (2015: £2,784,000).

Notes to the consolidated financial statements continued

4. Employee expenses and information continued

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

| | 2016 £000 | 2015 £000 |
|--|--------------|--------------|
| Total remuneration of highest paid employee (page 129) | 957 | 881 |
| Total remuneration of median employee | 59 | 57 |
| Multiple of highest paid to median employee | 16.2 | 15.5 |

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:

| | 2016 Number | 2015 Number |
|---------------------|----------------|----------------|
| 4Broadcast | | |
| Commercial | 230 | 235 |
| Creative | 250 | 252 |
| Operational | 282 | 279 |
| 4Talent | 17 | 13 |
| 4Rights | 35 | 40 |
| Group total | 814 | 819 |
| Permanent employees | 770 | 773 |
| Contract staff | 44 | 46 |
| Group total | 814 | 819 |

The average number of employees is computed on a Full Time Equivalent basis where any individual working less than 37 hours a week is classified as 0.5 of a full head. If headcount reflected the actual proportion of hours worked in a week for each individual employee, the average number of employees in 2016 would be 842.

FINANCIAL REPORT AND STATEMENTS CONTINUED

Notes to the consolidated financial statements continued

5. Net finance expense

Net finance expense recognised in the year comprised:

| | 2016 £m | 2015 £m |
|--|------------|------------|
| Interest receivable on short-term deposits | 1 | 1 |
| Foreign exchange gain on forward contracts | 1 | – |
| Net interest expense on pension scheme (note 18) | (2) | (2) |
| Net finance expense | – | (1) |

6. Income tax expense

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

| | 2016 £m | 2015 £m |
|---|------------|------------|
| Current tax: | | |
| Current year | – | 1 |
| Deferred tax: origination and reversal of temporary differences (Note 11) | | |
| Current year | 3 | (2) |
| Prior year | – | 1 |
| Total income tax expense | 3 | – |

Corporation tax is charged at the standard UK rate of 20.0% for the year (2015: 20.25%).

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Corporation's future current tax charge accordingly. The deferred tax asset at 31 December 2016 has been calculated based on these rates.

Reconciliation of income tax:

| | 2016 Rate | 2016 £m | 2015 Rate | 2015 £m |
|---|---------------|-------------|--------------|------------|
| (Deficit)/surplus before income tax | | (15) | | 26 |
| Income tax using the domestic corporation tax rate | 20.00% | (3) | 20.25% | 5 |
| Effects of: | | | | |
| Non-deductible expenses | | 1 | | 1 |
| Non-taxable gains | | (1) | | (1) |
| Utilisation of unrecognised trading losses brought forward | | – | | (5) |
| Recognition of deferred tax on trading losses carried forward | | – | | (2) |
| Deferred tax not recognised | | 5 | | 1 |
| Other tax adjustments | | 1 | | 1 |
| Total income tax expense | | 3 | | – |

The income tax expense excludes the Group's share of income tax of investments accounted for using the equity method of £1 million (2015: £1 million) which has been included in the Group's share of post-acquisition profits, net of income tax (note 7).

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 | India Growth Fund £m | Total £m |
|--|-----------|-------------------------------|-------------|
| Carrying value at 1 January 2015 | 22 | 4 | 26 |
| Acquisitions | – | 3 | 3 |
| Share of post-acquisition profits, net of Income tax | 3 | – | 3 |
| Share of dividends received | (3) | – | (3) |
| Total carrying value at 31 December 2015 | 22 | 7 | 29 |
| Carrying value at 1 January 2016 | 22 | 7 | 29 |
| Acquisitions | – | 3 | 3 |
| Share of post-acquisition profits, net of Income tax | 2 | 1 | 3 |
| Share of dividends received | (3) | – | (3) |
| Total carrying value at 31 December 2016 | 21 | 11 | 32 |

The Box Plus Network Limited

The Box Plus Network Limited ('Box'), incorporated and operating in the United Kingdom, 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.

Annual impairment tests on Box's goodwill and intangible assets are based on their recoverable amounts determined from 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 10% (2015: 11%), 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 2021, 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.

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 2016, Channel 4 received a dividend of £3 million (2015: £3 million) from Box. Channel 4 also sold £7 million (2015: £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 £nil at 31 December 2016 (2015: £1 million) in respect of these services. Channel 4 had no balances outstanding to Box at 31 December 2016 (2015: £nil) as no services were rendered by Box to Channel 4 in 2016 (2015: £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 |
|-------------|-------------------------|-----------------------------|------------------------------|--------------------------------|---------------|---|
| 2016 | 12 | 1 | (6) | – | 37 | 7 |
| 2015 | 12 | 1 | (7) | – | 38 | 7 |

Notes to the consolidated financial statements continued

7. Investments accounted for using the equity method continued

The Indie Growth Fund

During 2014, Channel 4 launched the Indie Growth Fund, a fund with the aim of nurturing the Independent sector. The fund seeks to invest up to £20 million in a broad portfolio of television and digital companies. In 2016, Channel 4 invested £3 million (2015: £3 million) in the Indie Growth Fund and acquired minority shareholdings in a further two companies (2015: four). A further £1 million is committed for subsequent equity subscriptions in these companies at 31 December 2016. Channel 4 has committed a total of £14 million of the fund since the balance sheet date. Channel 4 sold its stake in True North Productions Limited after the balance sheet date making a profit on the sale. Since the year end, Channel 4 has invested in two further companies; Firecrest Films, a Scottish production company and Parable Ventures Limited, a virtual reality start up.

Channel 4 set out two key aims when launching the Indie 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. Therefore, the Indie Growth Fund companies are held for investment purposes and it is not Management's intention to control these entities. The Indie 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.

Annual impairment tests on the Indie Growth Fund investments are based on their recoverable amounts determined from their value in use. An impairment review was carried out by estimating the future expected cashflows for investments using a pre-tax discount rate of 11.5% (2015: 12.5%), reflecting the Group's estimated cost of capital for the Indie Growth Fund investment portfolio and comprising a risk-free rate and an equity risk premium. Cashflows were based on management's best estimate of future performance to 2021. 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 to the fund portfolio was required as a result.

Management believes that there are currently no likely changes in cashflows or discount rate which would reduce the value in use for Indie Growth Fund investments down to a level where an impairment would arise.

Of the £684 million (2015: £621 million) total of programme rights recognised as expenses in 2016 (note 12), Channel 4 commissioned £23 million (2015: £6 million) of content from Indie Growth Fund companies which includes commissions sanctioned both pre and post acquisition. Channel 4 and the Indie Growth Fund companies have no balances outstanding to each other in respect of these transactions at 31 December 2016 (2015: £nil).

The Indie Growth Fund is comprised of the following entities incorporated in the United Kingdom:

| Company | Proportion of equity owned at 31 December ¹ | |
|---|---|-------|
| | 2016 | 2015 |
| Arrow International Media Limited | 18.0% | 15.0% |
| Barcroft Holdings Limited | 7.5% | – |
| Dial Square 86 Limited | 8.0% | – |
| Eleven Film Limited | 20.0% | 16.8% |
| Lightbox Media Limited | 22.0% | 17.0% |
| Popkorn Media Limited | 25.0% | 25.0% |
| Renowned Films Limited | 25.0% | 16.0% |
| Spelthorne Community Television Limited | 21.1% | 16.7% |
| True North Productions Limited | 25.0% | 23.0% |
| Voltage TV Productions Limited | 15.0% | 10.0% |
| Whisper Films Limited | 25.0% | 12.5% |

¹ This represents the proportion of equity owned as at the balance sheet date and does not include commitments for subsequent equity subscriptions after the balance sheet date.

Summary annual financial information of Indie Growth Fund investments

| | Current assets £m | Non-current assets £m | Current liabilities £m | Long-term liabilities £m | Revenue £m | Profit from continuing operations £m |
|-------------|-------------------------|-----------------------------|------------------------------|--------------------------------|---------------|---|
| 2016 | 23 | 4 | (9) | (1) | 73 | – |
| 2015 | 9 | 1 | (6) | – | 29 | – |

Notes to the consolidated financial statements continued

8. Other investments

The Commercial Growth Fund

| | Total £m |
|---|-------------|
| Carrying value at 1 January 2015 and 2016 | – |
| Acquisitions | 10 |
| Total carrying value at 31 December 2016 | 10 |

During 2015, Channel 4 launched the Commercial Growth Fund, a fund with the aim of attracting new advertisers to TV and stimulating existing sectors where the Corporation exchanges advertising airtime in return for equity shareholdings or convertible loan instruments. During 2016, the Corporation made six investments in a broad range of companies for a combination of equity interest and convertible loan notes.

The Commercial Growth Fund investments are recorded at fair value. Management has reviewed the carrying value of the Commercial Growth Fund as at 31 December 2016 and concluded that there were no indicators of impairment at the balance sheet date.

Channel 4 sold its stake in My Builder Limited after the balance sheet date, a company held at £nil carrying value. Channel 4's equity shareholding in My Builder Limited included an element acquired in exchange for providing advertising airtime.

Other

The Group also contributes to the funding of the following organisations, each of which is incorporated in the United Kingdom. The table below presents the Group's ownership of the entities, or legal guarantee (indicated with *), and transactions with them during the year.

| Name | Nature of business | Share class | Ownership interest | Services received | | Funding and services provided | |
|---|--------------------|--------------------|--------------------|-------------------|------------|-------------------------------|------------|
| | | | | 2016 £m | 2015 £m | 2016 £m | 2015 £m |
| Broadcasters' Audience Research Board Limited | Research | * | – | – | – | 1 | 2 |
| Clearcast Limited | Regulator | Ordinary, deferred | 25.0% | – | – | 1 | 1 |
| Digital 3 and 4 Limited | Operator | 'A' Ordinary | 50.0% | 1 | 1 | 22 | 24 |
| DTV Services Limited | Marketing | Ordinary | 20.0% | 8 | 7 | 6 | 6 |
| Digital Production Partnership Limited | Standards | * | – | – | – | – | – |
| Digital UK | Marketing | * | – | – | – | 1 | 2 |
| Thinkbox Limited | Marketing | Ordinary | 20.0% | 1 | 1 | 2 | 2 |
| YouView Limited | Platform | Voting, non-voting | 14.3% | – | – | 1 | 1 |

At 31 December 2016, Channel 4 owed £nil to Digital 3 and 4 Limited (2015: £4 million).

At 31 December 2016, Channel 4 owed £nil to DTV Services Limited (2015: £nil).

There are no trade receivable or trade payable balances with any of the other related parties listed above at 31 December 2015 and 2016. No dividends were received in 2016 (2015: £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 (2015: £nil) carrying amount in the consolidated financial statements of the Group and therefore the accounting treatment applied is not deemed material.

FINANCIAL REPORT AND STATEMENTS CONTINUED

Notes to the consolidated financial statements continued

9. Property, plant and equipment

| | Freehold land and building £m | Fixtures, fittings and equipment £m | Assets under construction £m | Total £m |
|----------------------------|--|--|---------------------------------------|-------------|
| Cost or valuation | | | | |
| At 1 January 2015 | 85 | 134 | – | 219 |
| Additions | – | 3 | – | 3 |
| Disposals | – | (29) | – | (29) |
| Revaluation | 11 | – | – | 11 |
| At 31 December 2015 | 96 | 108 | – | 204 |
| At 1 January 2016 | 96 | 108 | – | 204 |
| Additions | – | 1 | 1 | 2 |
| Revaluation | 1 | – | – | 1 |
| At 31 December 2016 | 97 | 109 | 1 | 207 |
| Depreciation | | | | |
| At 1 January 2015 | – | 116 | – | 116 |
| Charge for the year | 1 | 5 | – | 6 |
| Disposals | – | (29) | – | (29) |
| Revaluation | (1) | – | – | (1) |
| At 31 December 2015 | – | 92 | – | 92 |
| At 1 January 2016 | – | 92 | – | 92 |
| Charge for the year | 1 | 5 | – | 6 |
| Revaluation | (1) | – | – | (1) |
| At 31 December 2016 | – | 97 | – | 97 |
| Net book value | | | | |
| At 1 January 2016 | 96 | 16 | – | 112 |
| At 31 December 2016 | 97 | 12 | 1 | 110 |
| At 1 January 2015 | 85 | 18 | – | 103 |
| At 31 December 2015 | 96 | 16 | – | 112 |

There is a £1 million commitment to purchase property, plant and equipment at the balance sheet date (2015: £1 million). There are no material assets held under finance leases at the balance sheet date (2015: none). No assets have been pledged for security (2015: none).

Valuation of freehold property

The freehold property at 124 Horseferry Road, London SW1P 2TX was valued at 31 December 2016 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 £97 million (2015: £96 million). After depreciation charged on the open market value at 31 December 2016 (£1 million), a gain on revaluation of £2 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:

| | 2016 £m | 2015 £m |
|-------------------------------------|-------------|------------|
| Cost | 62 | 62 |
| Accumulated depreciation | (21) | (20) |
| Impairment | (6) | (6) |
| Net book value based on cost | 35 | 36 |

Notes to the consolidated financial statements continued

10. Intangible assets

| | Goodwill £m | Developed software £m | Broadcasting licence £m | Software under construction £m | Total £m |
|----------------------------|----------------|-----------------------------|-------------------------------|---|-------------|
| Cost | | | | | |
| At 1 January 2015 | – | 23 | 5 | – | 28 |
| Additions | 2 | 2 | – | – | 4 |
| At 31 December 2015 | 2 | 25 | 5 | – | 32 |
| At 1 January 2016 | 2 | 25 | 5 | – | 32 |
| Additions | – | 1 | – | 3 | 4 |
| At 31 December 2016 | 2 | 26 | 5 | 3 | 36 |
| Amortisation | | | | | |
| At 1 January 2015 | – | 21 | 5 | – | 26 |
| Amortisation for the year | – | 1 | – | – | 1 |
| At 31 December 2015 | – | 22 | 5 | – | 27 |
| At 1 January 2016 | – | 22 | 5 | – | 27 |
| Amortisation for the year | – | 2 | – | – | 2 |
| At 31 December 2016 | – | 24 | 5 | – | 29 |
| Carrying amount | | | | | |
| At 1 January 2016 | 2 | 3 | – | – | 5 |
| At 31 December 2016 | 2 | 2 | – | 3 | 7 |
| At 1 January 2015 | – | 2 | – | – | 2 |
| At 31 December 2015 | 2 | 3 | – | – | 5 |

Goodwill represents goodwill arising on the acquisition of Global Series Network Limited ('GSN') on 30 July 2015.

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.

The broadcast licence, acquired in 2007, was fully amortised as at 31 December 2012.

FINANCIAL REPORT AND STATEMENTS CONTINUED

Notes to the consolidated financial statements continued

11. Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised at 17% (2015: 18%) reflecting the corporation tax rate substantially enacted as at 31 December 2016.

| | Assets 2016 £m | Assets 2015 £m | Liabilities 2016 £m | Liabilities 2015 £m | Net 2016 £m | Net 2015 £m |
|--|----------------------|----------------------|---------------------------|---------------------------|-------------------|-------------------|
| Property, plant and equipment | 2 | 2 | – | – | 2 | 2 |
| Employee benefits | 9 | 10 | – | – | 9 | 10 |
| Trading losses | 2 | 3 | – | – | 2 | 3 |
| Revaluation of freehold land and buildings | – | – | – | – | – | – |
| Other short-term timing differences | – | 1 | – | – | – | 1 |
| Group deferred tax assets | 13 | 16 | – | – | 13 | 16 |

Unrecognised deferred tax assets and liabilities

Deferred tax assets have not been recognised in respect of:

| | 2016 £m | 2015 £m |
|--------------------------------|------------|------------|
| Carried forward capital losses | 1 | 1 |
| Carried forward trading losses | 5 | – |
| Tax assets | 6 | 1 |

Unrecognised deferred tax assets include 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 against which the deductible temporary difference can be utilised (either now or in later accounting periods).

Movements in temporary differences during the year

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

| | Balance at 1 Jan 2016 £m | Recognised in income £m | Recognised in other comprehensive income £m | Balance at 31 Dec 2016 £m |
|-------------------------------------|--------------------------------|-------------------------------|---|---------------------------------|
| Property, plant and equipment | 2 | – | – | 2 |
| Employee benefits | 10 | (1) | – | 9 |
| Trading losses | 3 | (1) | – | 2 |
| Other short-term timing differences | 1 | (1) | – | – |
| Group deferred tax assets | 16 | (3) | – | 13 |

| | Balance at 1 Jan 2015 £m | Recognised in income £m | Recognised in other comprehensive income £m | Balance at 31 Dec 2015 £m |
|--|--------------------------------|-------------------------------|---|---------------------------------|
| Property, plant and equipment | 2 | – | – | 2 |
| Employee benefits | 14 | (2) | (2) | 10 |
| Trading losses | 2 | 1 | – | 3 |
| Revaluation of freehold land and buildings | (4) | – | 4 | – |
| Other short-term timing differences | (1) | 2 | – | 1 |
| Group deferred tax assets | 13 | 1 | 2 | 16 |

Notes to the consolidated financial statements continued

12. Programme and film rights

| | 2016 £m | 2015 £m |
|--|------------|------------|
| Programmes and films completed but not transmitted | 94 | 87 |
| Acquired programme and film rights | 65 | 65 |
| Programmes and films in the course of production | 120 | 102 |
| Total programme and film rights | 279 | 254 |

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

Programme and film rights to the value of £684 million were recognised as expenses in the year across the main and digital television channels (2015: £621 million). Of this amount, obsolete programmes and developments written off totalled £30 million (2015: £31 million). Programme and film rights include £30 million (2015: £22 million) in respect of developed film rights.

13. Trade and other receivables

| | 2016 £m | 2015 £m |
|--|------------|------------|
| Trade receivables | 141 | 140 |
| Prepayments and accrued income | 29 | 38 |
| Total trade and other receivables | 170 | 178 |

Trade receivables are shown net of impairment charges amounting to £nil (2015: £nil) recognised in the current year in relation to outstanding balances from customers, the receipt of which management view as unlikely.

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 continually and reviewed on a weekly basis, and any issues are formally reported to an executive committee chaired by the Group Financial Controller. 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 in note 14.

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 £141 million for the Group (2015: £140 million), with £83 million of other financial assets (2015: £87 million), and cash and cash equivalents of £132 million (2015: £165 million). The exposure to credit risk all arises in the UK.

Trade receivables of £141 million for the Group (2015: £140 million) were aged under six months and were not yet due under standard credit terms at the balance sheet date. £129 million of the receivables were insured at the balance sheet date (2015: £127 million) and £141 million (2015: £135 million) has been subsequently collected by the Group since the balance sheet date.

FINANCIAL REPORT AND STATEMENTS CONTINUED

Notes to the consolidated financial statements continued

14. Treasury

| | 2016 £m | 2015 £m |
|--|------------|------------|
| Bank balances | 25 | 20 |
| Money market funds ¹ | 97 | 105 |
| Money market deposits maturing in less than three months | 10 | 40 |
| Cash and cash equivalents | 132 | 165 |
| Money market deposits maturing after three months | 10 | – |
| Investment funds | 73 | 87 |
| Other financial assets | 83 | 87 |

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, cash equivalents and other financial assets.

Cashflow information

| | 2016 £m | 2015 £m |
|--|-------------|------------|
| Cash and cash equivalents at 1 January | 165 | 152 |
| Other financial assets at 1 January | 87 | 70 |
| Total cash and cash equivalents and other financial assets at 1 January | 252 | 222 |
| Net cashflow from operating activities | (23) | 36 |
| Net cashflow from investing activities | (14) | (6) |
| Total cashflow | (37) | 30 |
| Cash and cash equivalents at 31 December | 132 | 165 |
| Other financial assets at 31 December | 83 | 87 |
| Total cash and cash equivalents and other financial assets at 31 December | 215 | 252 |

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 and constant 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 0.5% points lower/higher throughout the year, with all other variables held constant, the Group's deficit before tax would have been £1 million lower/higher (2015: £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 2016 and 31 December 2015 is set out below:

| | Effective interest rate 2016 % | Effective interest rate 2015 % | Total 2016 £m | Total 2015 £m |
|---|--|--|---------------------|---------------------|
| Interest-bearing deposits maturing in less than three months held in Sterling | 0.3 | 0.5 | 122 | 163 |
| Interest-bearing deposits maturing in less than three months held in foreign currencies | 0.5 | 0.2 | 10 | 2 |
| Total cash and cash equivalents | 0.3 | 0.5 | 132 | 165 |
| Money market deposits maturing after three months held in Sterling | 0.4 | – | 10 | – |
| Investment funds | 0.9 | 0.6 | 73 | 87 |
| Other financial assets | 0.8 | 0.6 | 83 | 87 |

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 2016, the total value of forward contracts used as economic hedges of monetary liabilities was £7 million (2015: £4 million). This represented eleven (2015: six) Euro forward purchase contracts of which ten had fixed maturity dates with settlement within 12 months from the balance sheet date and one had a fixed maturity date with settlement more than 12 months from the balance sheet date, and one (2015: one) US Dollar forward purchase contract with a fixed maturity date with settlement within 12 months from the balance sheet date. At 31 December 2016, these contracts were revalued with reference to forward exchange rates based on maturity. A fair value gain of £1 million (2015: £nil) has been recognised in the income statement and the associated liability recorded on the balance sheet as at 31 December 2016. 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 deficit before tax would have been £2 million lower/higher (2015: £1 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 Audit Committee 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 the risks described above. 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 within the parameters of the approved treasury policy.

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

FINANCIAL REPORT AND STATEMENTS

CONTINUED

Notes to the consolidated financial statements continued

15. Trade and other payables

| | 2016 £m | 2015 £m |
|---------------------------------------|------------|------------|
| Trade payables | 12 | 10 |
| National Insurance | 1 | 1 |
| Other creditors | 62 | 61 |
| Accruals and deferred income | 218 | 211 |
| VAT | 13 | 10 |
| Total trade and other payables | 306 | 293 |

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 2016 and 2015.

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 2016, as calculated using average payable balances, was six (2015: six). 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 lease/ dilapidations £m | Restructuring costs £m | Total £m |
|---------------------------------|--|------------------------------|-------------|
| At 1 January 2015 | 2 | – | 2 |
| Released in the year | (1) | – | (1) |
| Charged to the Income statement | – | 1 | 1 |
| At 31 December 2015 | 1 | 1 | 2 |
| At 1 January 2016 | 1 | 1 | 2 |
| Released in the year | – | (1) | (1) |
| At 31 December 2016 | 1 | – | 1 |

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

| | 2016 £m | 2015 £m |
|--------------|------------|------------|
| Current | – | 1 |
| Non-current | 1 | 1 |
| Total | 1 | 2 |

Onerous lease and dilapidations provision

Prior to 2015, the provision was an onerous contract related to a rental deficit on a building that was surplus to requirements but for which the Group had contracted commitments at the balance sheet date. In 2015, the property rental agreement was reviewed and revised, resulting in a contract that was no longer onerous. The provision as at the year end represents the discounted dilapidations cost when the property rental agreement expires in 2020.

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.

Notes to the consolidated financial statements continued

17. Commitments

| | Due within 1 year £m | Due within 2-5 years £m | Due after 5 years £m | Total £m |
|-------------------------------|----------------------------|-------------------------------|----------------------------|-------------|
| 2016 | | | | |
| Programme commitments | 390 | 295 | – | 685 |
| Operating leases | 2 | 4 | – | 6 |
| Property, plant and equipment | 1 | – | – | 1 |
| Total | 393 | 299 | – | 692 |
| 2015 | | | | |
| Programme commitments | 324 | 292 | 7 | 623 |
| Operating leases | 2 | 6 | – | 8 |
| Property, plant and equipment | 1 | – | – | 1 |
| Total | 327 | 298 | 7 | 632 |

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

The Group's share of Digital 3 and 4 Limited's committed payments was £22 million in 2016 (2015: £24 million) and is forecast to be £23 million in 2017. Digital 3 and 4 Limited has entered into long-term distribution contracts that expire in 2022 and 2034 and the Group is committed to funding its contractual share.

The Group 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 £24 million in 2016 (2015: £26 million) and are forecast to be £25 million in 2017. The digital terrestrial transmission contracts expire between 2018 and 2031. Committed payments for satellite transmission capacity costs were £16 million in 2016 (2015: £14 million) and are forecast to be £17 million in 2017. The satellite transmission contracts expire between 2018 and 2022.

The Group has commitments for equity subscriptions for minority shareholdings in companies in the Indie Growth Fund due within one year as disclosed in note 7.

18. Employee benefits – pensions

During 2015, the Group operated a defined benefit pension scheme – the Channel 4 Television Staff Pension Plan (the "Plan"), providing benefits based on final salary for employees. The scheme closed to future accrual with effect from 31 December 2015 without material impact to the Group's defined benefit obligation.

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 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 interests 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 160 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.

Notes to the consolidated financial statements continued

18. Employee benefits – pensions continued

Strategic investment policy

The Trustees' primary objectives are that the Plan should meet benefit payments as they fall due; and that the Plan's funding position should remain at an appropriate level. The Trustees are aware that there are various measures of funding, and have given due weight to those considered most relevant to the Plan.

The Trustees undertook a comprehensive strategy review in 2015. The result of the 2015 review was that the Plan should have a diversified mix of UK and global equities and bonds. It was also decided that a part of the Plan's assets would be invested in a multi-asset portfolio with an absolute return focus, and that part of the Plan's bond assets would be invested in a dynamic liability driven ('LDI') portfolio, so that the Plan's assets better match its liabilities under movements in long-term interest rates and inflation assumptions.

The Trustees regularly seek advice from their investment adviser about the benchmark allocation and consider the impact of further opportunities to enhance the current investment strategy, taking into account market conditions and anticipated future cashflows.

Amounts recognised in the consolidated balance sheet

| | 2016 £m | 2015 £m |
|---|-------------|-------------|
| Present value of funded obligations | (476) | (388) |
| Fair value of Plan assets | 424 | 332 |
| Recognised liability for defined benefit obligations | (52) | (56) |

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

| | 2016 £m | 2015 £m |
|--|------------|------------|
| Fair value of scheme assets at 1 January | 332 | 323 |
| Interest income on Plan assets | 12 | 12 |
| Return on Plan assets (excluding amounts in Interest Income) | 82 | (7) |
| Employer contributions net of charges | 8 | 11 |
| Employee contributions net of charges | – | 1 |
| Benefits paid | (10) | (8) |
| Fair value of scheme assets at 31 December | 424 | 332 |

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

| | 2016 £m | 2015 £m |
|---|------------|------------|
| UK equity | 8 | 7 |
| Overseas and emerging markets equity | 100 | 79 |
| Total equity securities | 108 | 86 |
| Corporate bonds | 59 | 65 |
| Index-linked gilts | – | – |
| Total debt securities | 59 | 65 |
| Multi-asset absolute return | 81 | 79 |
| Liability driven investments | 155 | 84 |
| Total investment funds | 236 | 163 |
| Cash and cash equivalents | 21 | 18 |
| Fair value of scheme assets at 31 December | 424 | 332 |

The Plan assets do not include any directly or indirectly owned financial instruments issued by the Corporation.

All equities and bonds are held as part of investment portfolios which have quoted prices in active markets.

Notes to the consolidated financial statements continued

18. Employee benefits – pensions continued

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

| | 2016 £m | 2015 £m |
|--|------------|------------|
| Present value of scheme liabilities at 1 January | 388 | 396 |
| Current service cost | – | 4 |
| Interest expense on pension scheme liabilities | 14 | 14 |
| Remeasurement deficit on plan liabilities arising from changes in demographic assumptions | 6 | – |
| Remeasurement deficit/(gain) on plan liabilities arising from changes in financial assumptions | 90 | (14) |
| Experience remeasurement | (12) | (5) |
| Employee contributions net of charges | – | 1 |
| Benefits paid | (10) | (8) |
| Present value of scheme liabilities at 31 December | 476 | 388 |

Expenses recognised in the Income statement arose as follows:

| | 2016 £m | 2015 £m |
|---------------------------------------|------------|------------|
| Current service cost | – | 4 |
| Net interest expense | 2 | 2 |
| Net charge to income statement | 2 | 6 |

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

| | 2016 £m | 2015 £m |
|---------------------------------------|------------|------------|
| Cost of transmission and sales | – | 3 |
| Other operating expenditure | – | 1 |
| Net financial expense | 2 | 2 |
| Net charge to income statement | 2 | 6 |

The remeasurement (deficit)/gain recognised in other comprehensive income arose as follows:

| | 2016 £m | 2015 £m |
|--|------------|------------|
| Remeasurement (deficit)/gain on plan liabilities | (84) | 19 |
| Remeasurement gain/(deficit) on plan assets (excluding amounts in Interest Income) | 82 | (7) |
| Net remeasurement (deficit)/gain on pension scheme | (2) | 12 |

The cumulative amount of net remeasurement deficits/gains recognised in the statement of changes in equity since transition to IFRS is £89 million (2015: £87 million).

Notes to the consolidated financial statements continued

18. Employee benefits – pensions continued

Principal actuarial assumptions at the balance sheet date

| | 2016 % | 2015 % |
|--|---------------|---------------|
| Discount rate | 2.75 | 3.65 |
| Rate of Increase In salaries | 2.75 | 2.60 |
| Rate of Increase In pensions | 3.15 | 3.05 |
| Inflation | 3.25 | 3.10 |
| | 2016 years | 2015 years |
| Life expectancy from 65 (now aged 45) – male | 23.7 | 23.3 |
| Life expectancy from 65 (now aged 45) – female | 26.2 | 26.6 |
| Life expectancy from 65 (now aged 65) – male | 23.1 | 23.0 |
| Life expectancy from 65 (now aged 65) – female | 24.7 | 26.1 |

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 2016:

| | Revised present value of scheme liabilities £m |
|---|---|
| 0.5% decrease in discount rate | 533 |
| 1 year increase in life expectancy | 495 |
| 0.5% increase in salary assumptions | 481 |
| 0.5% increase in inflation (and inflation-linked) assumptions | 520 |

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

Funding arrangements

The Plan was closed to future accrual with effect from 31 December 2015. The Corporation's contributions 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 2015. The results of the valuation at 31 December 2015 showed that the scheme's assets represented 74% of the benefits that had accrued to Members, reflecting a deficit of £115 million. The next triennial valuation will be carried out as at 31 December 2018.

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 by £9.5 million in 2016, £10.5 million in 2017 and £11 million from 2018.

The estimated total employer contributions in 2017 are £11.5 million, representing the deficit funding payments described above for 2017 and a one-off payment of £1 million to retrospectively settle the increased 2016 contributions.

The weighted average duration of the Plan's defined benefit obligation is approximately 23 years. The majority of the Plan's benefits are to be paid as annuities from retirement of a Member until their death.

In accordance with the fund rules, the Corporation can realise any surplus on the winding up of the scheme after all other benefits have been paid. As a result no adjustment is required in respect of IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'.

Notes to the consolidated financial statements continued

19. Related party transactions

Members

Details of transactions in which Members have an interest are disclosed in the Report of the Members (page 115).

Details of Members' remuneration are shown in the Members' Remuneration Report (page 129).

Joint ventures and associates

Details of transactions between the Group and its joint ventures and associates are disclosed in note 7.

Equity investments

The Group holds a 15% equity holding in Protagonist Pictures Limited. During 2016, Channel 4 paid £0.1 million to Protagonist Pictures Limited for agency sales and film acquisition services (2015: £0.1 million). An amount of £nil was due at 31 December 2016 (2015: £nil).

Other

The Group 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.

Channel 4 balance sheet as at 31 December

| | Group note | Channel 4 note | 2016 £m | 2015 £m |
|--|---------------|-------------------|--------------|--------------|
| Assets | | | | |
| Property, plant and equipment | 9 | | 110 | 112 |
| Intangible assets | | 2 | 5 | 3 |
| Investments in subsidiaries and joint ventures | | 3 | 28 | 28 |
| Deferred tax assets | 11 | | 13 | 16 |
| Total non-current assets | | | 156 | 159 |
| Programme and film rights | | 4 | 277 | 252 |
| Trade and other receivables | 13 | | 170 | 178 |
| Other financial assets | 14 | | 83 | 87 |
| Cash and cash equivalents | 14 | | 132 | 165 |
| Total current assets | | | 662 | 682 |
| Total assets | | | 818 | 841 |
| Liabilities | | | | |
| Employee benefits – pensions | 18 | | (52) | (56) |
| Provisions | 16 | | (1) | (1) |
| Total non-current liabilities | | | (53) | (57) |
| Trade and other payables | | 5 | (430) | (431) |
| Provisions | 16 | | – | (1) |
| Total current liabilities | | | (430) | (432) |
| Total liabilities | | | (483) | (489) |
| Net assets | | | 335 | 352 |
| Revaluation reserve | | | 57 | 55 |
| Retained earnings: | | | | |
| Content reserve | | | 35 | 50 |
| Other retained earnings | | | 243 | 247 |
| Total equity | | | 335 | 352 |

The financial statements on pages 162 to 166 were approved by the Members of the Board on 24 April 2017 and were signed on its behalf by:

CHARLES GURASSA
Chair

DAVID ABRAHAM
Chief Executive

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 2015 | 231 | 30 | 39 | 300 |
| Surplus for the year | 26 | – | – | 26 |
| Other comprehensive Income | 10 | – | 16 | 26 |
| Total comprehensive income for the year | 36 | – | 16 | 52 |
| Reserve transfer | (20) | 20 | – | – |
| At 31 December 2015 | 247 | 50 | 55 | 352 |
| At 1 January 2016 | 247 | 50 | 55 | 352 |
| Deficit for the year | (17) | – | – | (17) |
| Other comprehensive (cost)/income | (2) | – | 2 | – |
| Total comprehensive (cost)/income for the year | (19) | – | 2 | (17) |
| Reserve transfer | 15 | (15) | – | – |
| At 31 December 2016 | 243 | 35 | 57 | 335 |

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 134 to 161. As permitted by 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, the Corporation has not presented its own Income statement. A deficit of £17 million (2015: £26 million surplus) 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 138 to 141, 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 auditor for the year ended 31 December 2016 are presented in note 3 to the consolidated financial statements on page 144.

Staff costs

All staff costs are borne by Channel 4 and are presented in note 4 to the consolidated financial statements on pages 144 to 145.

2. Intangible assets

| | Developed software £m | Assets under construction £m | Total £m |
|----------------------------|--------------------------|---------------------------------|-------------|
| Cost | | | |
| At 1 January 2015 | 23 | – | 23 |
| Additions | 2 | – | 2 |
| At 31 December 2015 | 25 | – | 25 |
| At 1 January 2016 | 25 | – | 25 |
| Additions | 1 | 3 | 4 |
| At 31 December 2016 | 26 | 3 | 29 |
| Amortisation | | | |
| At 1 January 2015 | 21 | – | 21 |
| Amortisation for the year | 1 | – | 1 |
| At 31 December 2015 | 22 | – | 22 |
| At 1 January 2016 | 22 | – | 22 |
| Amortisation for the year | 2 | – | 2 |
| At 31 December 2016 | 24 | – | 24 |
| Carrying amount | | | |
| At 1 January 2016 | 3 | – | 3 |
| At 31 December 2016 | 2 | 3 | 5 |
| At 1 January 2015 | 2 | – | 2 |
| At 31 December 2015 | 3 | – | 3 |

FINANCIAL REPORT AND STATEMENTS CONTINUED

Notes to the Channel 4 financial statements continued

3. Investments

Joint ventures

The investment in The Box Plus Network Limited is recorded on the Corporation's balance sheet at historical cost. The balance as at 31 December 2016 is £28 million (2015: £28 million).

Subsidiary undertakings

The cost of investments at 31 December is:

| | 2016 £000 | 2015 £000 |
|--------------------|--------------|--------------|
| 4 Ventures Limited | 1 | 1 |

The subsidiary undertakings incorporated in the United Kingdom at 31 December 2016 are as follows:

| Name | Nature of business | Issued ordinary £1 shares | Ownership Interest |
|--|--|---------------------------------|-----------------------|
| 4 Ventures Limited | Intermediate holding company and non-primary function activities | 1,000 | 100% |
| Film Four Limited ¹ | Film distribution | 1,000 | 100% |
| Channel Four Investments Limited ¹ | Indie Growth Fund | 1 | 100% |
| Global Series Network Limited ¹ (Group note 20) | TV and film distribution | 2,000 ² | 80% |
| Channel Four Television Company Limited | Non-trading | 100 | 100% |
| Channel Four Racing Limited ¹ | Non-trading | 2 | 100% |
| E4.com Limited ¹ | Non-trading | 1,000 | 100% |
| E4 Television Limited ¹ | Non-trading | 1,000 | 100% |
| Film on Four Limited ¹ | Non-trading | 100 | 100% |
| Four Ventures Limited ¹ | Non-trading | 1,000 | 100% |
| Sport on Four Limited ¹ | Non-trading | 2 | 100% |

1 Indirect shareholding through 4 Ventures Limited.

2 Issued 'A' ordinary shares of £1,000 each.

Film Four Limited sells rights from its film library to Protagonist Pictures Limited (Group note 19).

Associated undertakings

For the Corporation's indirect shareholdings in the Indie Growth Fund through Channel Four Investments Limited, refer to Group note 7.

For the Corporation's indirect shareholdings in the Commercial Growth Fund through 4 Ventures Limited, refer to Group note 8.

For the Corporation's direct shareholdings in not-for-profit, cost-sharing organisations, refer to Group note 8.

4. Programme and film rights

| | 2016 £m | 2015 £m |
|--|------------|------------|
| Programmes and films completed but not transmitted | 94 | 87 |
| Acquired programme and film rights | 63 | 63 |
| Programmes and films in the course of production | 120 | 102 |
| Total programme and film rights | 277 | 252 |

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

5. Trade and other payables

| | 2016 £m | 2015 £m |
|---------------------------------------|------------|------------|
| Trade payables | 12 | 10 |
| National Insurance | 1 | 1 |
| Other creditors | 60 | 60 |
| Amounts due to subsidiaries | 126 | 139 |
| Accruals and deferred income | 218 | 211 |
| VAT | 13 | 10 |
| Total trade and other payables | 430 | 431 |