

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	Indie Growth Fund £m	Total £m
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
Carrying value at 1 January 2017	21	11	32
Acquisitions	–	1	1
Share of post-acquisition profits, net of income tax	–	1	1
Disposals	–	(3)	(3)
Impairment loss	–	(1)	(1)
Total carrying value at 31 December 2017	21	9	30

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. Box's principal place of business is 124 Horseferry Road, London SW1P 2TX.

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 12% (2016: 12%), reflecting the Group's estimated cost of capital for commercial television and comprising a risk-free rate and an equity risk premium. Cashflows were based on management's best estimate of future performance to 2022, 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.

Any of the following reasonably possible changes in assumptions while holding all other assumptions constant would cause the recoverable amount of Box to equal its carrying value:

- Reduction in the terminal growth rate from the 2.0% assumption applied to a revised assumption of -0.25%
- An increase in the discount rate from the 12.0% assumption to a revised assumption of 13.5%
- Shortfalls in trading performance against forecast resulting in operating cashflows decreasing by 17% each year

There are no contingent liabilities and no capital commitments in respect of Box to be included within the Group's financial statements. During 2017, Channel 4 did not receive a dividend (2016: dividend of £3 million) from Box. Channel 4 also sold £6 million (2016: £7 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 2017 (2016: £nil) in respect of these services.

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
2017	9	1	(4)	–	30	1
2016	12	1	(6)	–	37	7

THE INDIE GROWTH FUND

The Indie Growth Fund seeks to invest up to £20 million in a broad portfolio of television and digital companies. In 2017, Channel 4 invested £1 million (2016: £3 million) in the Indie Growth Fund to acquire minority shareholdings in a further two companies (2016: two). A further £1 million is committed for subsequent equity subscriptions in these companies at 31 December 2017. Channel 4 has committed a total of £16 million of the fund to date.

During 2017, Channel 4 sold its stakes in True North Productions Limited and Renowned Films Limited recognising a total gain on disposal of £3 million.

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% (2016: 11.5%), 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 2022. The present value of the cashflows accruing to the Group was compared with the carrying value of the investment held on the balance sheet. An impairment loss of £1 million (2016: £nil) was recognised 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 any further impairment would arise.

Of the £663 million (2016: £684 million) total of programme rights recognised as expenses in 2017 (note 12), Channel 4 commissioned £25 million (2016: £23 million) of content from Indie Growth Fund companies which includes commissions sanctioned both pre and post acquisition. Channel 4 owed the Indie Growth Fund companies £nil in respect of these transactions at 31 December 2017 (2016: £nil).

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

Company	Activity	Registered address and country of incorporation	Proportion of equity owned at 31 December	
			2017	2016
Arrow International Media Limited	TV programme production activities	17-18 Margaret Street, London, W1W 8RP	18.0%	18.0%
Barcroft Holdings Limited	TV programme production activities	Regina House, 124 Finchley Road, London, NW3 5JS	8.5%	7.5%
Dial Square 86 Limited	TV programme production activities	Somerset House, Strand, London, WC2R 1LA	6.0%	8.0%
Eleven Film Limited	TV programme production activities	25-26 Poland Street, London, W1F 8QN	20.0%	20.0%
Lightbox Media Limited	TV programme production activities	Regina House, 124 Finchley Road, London, NW3 5JS	22.0%	22.0%
Popkorn Media Limited	TV programme production activities	C/O Williams & Co., 8/10 South Street, Epsom, Surrey, KT18 7PF	25.0%	25.0%
Renowned Films Limited	TV programme production activities	39 Long Acre, Covent Garden, London, England, WC2E 9LG	-	25.0%
Spelthorne Community Television Limited	TV programme production activities	2nd Floor, 63-64 Margaret Street, London, W1W 8SW	21.1%	21.1%
True North Productions Limited	TV programme production activities	Grant Way, Isleworth, Middlesex, United Kingdom	-	25.0%
Voltage TV Productions Limited	TV programme production activities	5 Elstree Gate, Borehamwood, Herts, WD6 1JD	15.0%	15.0%
Whisper Films Limited	Motion picture production activities	Unit B South Avenue Studios, 7 South Avenue, Richmond, Surrey, England, TW9 3EL	25.0%	25.0%
Parable Ventures Limited	TBC	64 New Cavendish Street, London, W1G 8TB	11.0%	-
Firecrest Films Limited	TV programme production activities	Fairfield, 1048 Govan Road, Glasgow, Scotland, G51 4XS	13.3%	-

The equity owned for each of the entities listed above relates to ordinary shareholdings.

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/(loss) from continuing operations £m
2017	21	2	(11)	(1)	65	-
2016	23	4	(9)	(1)	73	-

THE COMMERCIAL GROWTH FUND

	Total £m
Carrying value at 1 January 2016	–
Acquisitions	10
Total carrying value at 31 December 2016	10
Carrying value at 1 January 2017	10
Acquisitions	8
Fair value gain	4
Impairment loss	(1)
Total carrying value at 31 December 2017	21

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 2017, the Corporation invested £8 million (2016: £10 million) in a broad range of companies for a combination of equity and convertible loan notes.

The Commercial Growth Fund investments are recorded at fair value. Fair value has been assessed against quoted prices in active markets where available or against other observable inputs. A gain of £4 million (2016: £nil) has been recognised in other comprehensive income in respect of this in 2017.

There were no other transactions with the Commercial Growth Fund companies in 2017 (2016: none).

Annual impairment tests on the Commercial Growth Fund investments are based on their recoverable amounts determined from their value in use. Management has reviewed the carrying value of the Commercial Growth Fund as at 31 December 2017 and as a result an impairment loss of £1 million (2016: £nil) was recognised in the portfolio.

OTHER INVESTMENTS

During 2017, Channel 4 sold its stake in MyBuilder Limited, a company held at £nil carrying value, and recognised a gain on disposal of £5 million. Channel 4's equity shareholding in MyBuilder Limited included an element acquired in exchange for providing advertising airtime.