Financial Report and Statements

For the year ended 31 December 2018

Consolidated income statement

for the year ended 31 December

	Note	2018 £m	2017 £m
Revenue	1	**975**	960
Cost of transmission and sales	2	**(951)**	(951)
Gross surplus		**24**	9
Other operating expenditure	3	**(28)**	(34)
Other operating income	3	**12**	–
Operating surplus/(deficit)		**8**	(25)
Net finance expense	5	**–**	(1)
Gain on sale of investments	7, 8	**1**	8
Share of profit of investments accounted for using the equity method, net of income tax and amortisation	7	**–**	1
Fair value loss on joint venture	7, 20	**(9)**	–
Gain on bargain purchase	20	**5**	–
Surplus/(deficit) before tax		**5**	(17)
Income tax (expense)/credit	6	**(2)**	2
Surplus/(deficit) for the year		**3**	(15)

Consolidated statement of comprehensive income

for the year ended 31 December

	Note	2018 £m	2017 £m
Surplus/(deficit) for the year		**3**	(15)
Net remeasurement surplus/(deficit) on pension scheme	18	**3**	(25)
Revaluation of freehold land and buildings	9	**(4)**	1
Deferred tax on pension scheme	11	**–**	4
(Loss)/gain on revaluation of investments	8	**(9)**	4
Other comprehensive cost for the year		**(10)**	(16)
Total comprehensive cost for the year		**(7)**	(31)

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

Consolidated statement of changes in equity

for the year ended 31 December

	Retained earnings			
	Other retained earnings £m	Content reserve £m	Revaluation reserve £m	Total equity £m
At 1 January 2017	385	35	57	477
Deficit for the year	(15)	–	–	(15)
Other comprehensive (cost)/income	(17)	–	1	(16)
Total comprehensive (cost)/income for the year	(32)	–	1	(31)
Reserve transfer	15	(15)	–	–
At 31 December 2017	368	20	58	446
At 1 January 2018	**368**	**20**	**58**	**446**
Surplus for the year	**3**	**–**	**–**	**3**
Other comprehensive cost	**(6)**	**–**	**(4)**	**(10)**
Total comprehensive cost for the year	**(3)**	**–**	**(4)**	**(7)**
At 31 December 2018	**365**	**20**	**54**	**439**

We established a content reserve in 2014 to ensure surpluses generated are reinvested 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. There has been no movement on this reserve during 2018 (2017: drawdown of £15m).

Consolidated balance sheet

as at 31 December

	Note	2018 £m	2017 £m
Assets			
Investments accounted for using the equity method	7	**10**	30
Other investments	8	**16**	21
Property, plant and equipment	9	**103**	106
Intangible assets	10	**36**	9
Deferred tax assets	11	**17**	19
Total non-current assets		**182**	185
Programme and film rights	12	**285**	255
Trade and other receivables	13	**167**	169
Other financial assets	14	**48**	75
Cash and cash equivalents	14	**132**	115
Total current assets		**632**	614
Total assets		**814**	799
Liabilities			
Employee benefits – pensions	18	**(56)**	(67)
Deferred tax liabilities	11	**(5)**	–
Total non-current liabilities		**(61)**	(67)
Trade and other payables	15	**(313)**	(282)
Provisions	16	**(1)**	(4)
Total current liabilities		**(314)**	(286)
Total liabilities		**(375)**	(353)
Net assets		**439**	446
Revaluation reserve		**54**	58
Retained earnings:			
Content reserve		**20**	20
Other retained earnings		**365**	368
Total equity		**439**	446

The financial statements on pages 198 to 225 were approved by the Members of the Board on 3 April 2019 and were signed on its behalf by:

Charles Gurassa
Chair

Alex Mahon
Chief Executive

Consolidated cashflow statement

for the year ended 31 December

	Note	2018 £m	2017 £m
Cashflow from operating activities			
Surplus/(deficit) for the year		**3**	(15)
Adjustments for:			
Income tax expense/(credit)	6	**2**	(2)
Depreciation	9	**5**	6
Amortisation of intangibles	10	**–**	2
Impairment of intangibles	10	**8**	–
Net financial expense	5	**–**	1
Gain on sale of investments	7, 8	**(1)**	(8)
Impairment losses on investments	7, 8	**–**	2
Share of profit from investments accounted for using the equity method, net of income tax and amortisation	7	**–**	(1)
Fair value loss on joint venture	7, 20	**9**	–
Gain on bargain purchase	20	**(5)**	–
		21	(15)
(Increase)/decrease in programme and film rights	12	**(30)**	24
Decrease in trade and other receivables	13	**2**	1
Increase/(decrease) in trade and other payables	15	**31**	(24)
(Decrease)/increase in provisions, excluding unwinding of discounts	16	**(3)**	3
		21	(11)
Defined benefit pension contributions	18	**(11)**	(11)
Net cashflow from operating activities		**10**	(22)
Cashflow from investing activities			
Acquisition of investments	7, 8	**(6)**	(9)
Acquisition of subsidiary (net of cash acquired)	20	**(5)**	–
Proceeds on sale of investments	7, 8	**2**	11
Purchase of property, plant and equipment	9	**(6)**	(1)
Additions to internally developed software	10	**(7)**	(4)
Interest received and effects of foreign exchange rates	5	**2**	–
Decrease in other financial assets[1]	14	**27**	8
Net cashflow from investing activities		**7**	5
Net increase/(decrease) in cash and cash equivalents		**17**	(17)
Cash and cash equivalents at 1 January		**115**	132
Cash and cash equivalents at 31 December		**132**	115

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 2018 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 3 April 2019. 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 Digital, 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.

Critical accounting judgements and sources of estimation uncertainty
The preparation of financial statements in accordance with IFRS requires the Group to use estimates 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, the relative uncertainty means actual results may ultimately differ from those estimates.

The preparation of financial statements also requires management to make critical judgements in the application of accounting policies.

Where a significant risk of materially different outcomes exists due to management assumptions or sources of estimation uncertainty, this represents a critical accounting estimate. Estimates and underlying assumptions are reviewed on an ongoing basis and based on historical experience and other factors including expectation of future events.

The critical accounting judgements made by management in the application of IFRS that have a significant risk of material adjustment on the financial statements are summarised as follows:
- The following aspects of our programme and film rights policy require judgement:
  - The transmission profile over which to amortise programme and film rights
  - Assessment of programme value with reference to the quality of programme that has ultimately been delivered and its expected viewing performance
  - Assessment of the future revenues from distribution when evaluating the carrying value of film rights held for exploitation
- Acquisition accounting for The Box Plus Network Limited ('Box') – on 31 December 2018, Channel 4 acquired the remaining 50% shareholding in Box. This results in the remeasurement and disposal of the existing 50% investment (previously accounted for as a joint venture), with the assets and liabilities of Box then consolidated as part of the Group as at 31 December 2018 in line with IFRS 3 'Business Combinations'. A significant portion of the fair value attributed to the investment is allocated to intangible assets not previously recorded in Box's financial statements (including network distribution rights and the Box brand), and the valuation of these items is judgemental, particularly given that observable inputs to assess the fair value of these intangibles are not available. The transaction also results in a gain on bargain purchase, recognised in the income statement. Management have instructed external valuation specialists to provide an estimate of the fair value of these items as at the acquisition date based on forecast future cashflows provided by management. Sensitivity analysis performed supports management's view that a change in the key assumptions used would not create a significant risk of material adjustment to the carrying amount of assets and liabilities within the next financial year, and therefore the fair value attributed to the investment is not considered a key source of estimation uncertainty.

Alternative performance measures
In reporting financial information, the Group presents its underlying operating surplus as an alternative performance measure (not defined under IFRS) in the Strategic Report to provide stakeholders with additional useful information on the underlying performance of the business.In determining adjusting items, management and the Board considers the size, nature and/or incidence of gains and losses arising outside the ordinary course of business. Judgement is exercised in identifying these items. In 2018 these items were £12 million of other operating income relating to a gain on the disposal of certain distribution rights, and an £8 million reduction in the carrying value of certain technology assets.

The Group also presents Cash reserves as an alternative performance measure which reflects the sum of the Group's cash and cash equivalents and other financial assets at the balance sheet date. This has been done to provide stakeholders with more useful information relating to the cash resources available to the Group.

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.

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 involvement with the investee and has the ability to affect those returns through its power over the investee by directing 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.

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.

The following new standards became effective for the first time from 1 January 2018:
- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'

Neither of these standards has had a material impact on the consolidated financial statements of the Group.

The following new standards became effective for the first time from 1 January 2019:
- IFRS 16 'Leases'
- IFRIC 23 'Uncertainty over Income Tax Treatments'

In assessing the impact of IFRS 16, management has performed a review of the Group's existing contracts to ensure these are correctly classified as leases in line with the new standard, and assessed the impact of applying the changes in lessee accounting required to its current contracts. Based on the work performed to date, Management has concluded that the application of IFRS 16 is highly unlikely to have a material impact on the financial statements when it is adopted in 2019. The detailed assessment will be completed in 2019. There are no other standards that will become effective during 2019 that 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 a contract with a customer has been identified and as each of the Group's performance obligations are fulfilled. Contract assets and liabilities are recognised on the balance sheet as accrued and deferred income respectively. Each of the Group's significant revenues are recognised as described below:

Advertising (TV/digital) and sponsorship revenues

Revenues are stated net of advertising agency commissions and rebates.

Television and digital 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, reflecting the satisfaction of the Group's performance obligations.

Commission revenue earned from advertising representation for third parties is recognised on transmission of the related advertisements in line with contractual arrangements. Following the adoption of IFRS 15 'Revenues from Contracts with Customers' the Group reviewed its treatment of this revenue stream, concluding that it does not control the specified goods or services in these transactions before they are transferred to the customer, and therefore acts as an agent for these parties. 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. Judgement is required in assessing 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:
- Licence fee income – revenue is recognised on a straight-line basis over the contract term as performance obligations are met
- 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 programme rights are recognised when the rights are transferred to the customer, reflecting the fact that the Group's performance obligations have been fulfilled.

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

IFRS 8 'Operating Segments' requires the segment information presented in the financial statements to be that which is used internally by the chief operating decision-maker to evaluate performance and allocate resources.

Following a review in 2018 after the appointment of the new Chief Executive Officer, the Group has determined that the Board of Members continues to be its chief operating decision-maker, and the financial statements will be presented in aggregate as a single operating segment consistent with how the Board evaluates performance and allocates resources.

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 and dividends received.

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. On adopting IFRS 9 'Financial Instruments' during 2018 the Group has elected to recognise any changes in the fair value of the Commercial Growth Fund investments through other comprehensive income, reflecting the fact that these investments are not part of the Group's core activities.

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 Digital, 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, including network distribution rights, are stated at cost less accumulated amortisation and any provision for impairment. Network distribution rights are amortised over an estimated useful life of 16 years.

Group accounting policies
(continued)

Broadcast licences are amortised over a useful life of seven years. 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. Brand intangibles are deemed to have an indefinite useful life and are tested annually for impairment.

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 subsequently measured at cost less any accumulated impairment losses. Goodwill is not subject to amortisation but is tested annually for impairment.

A gain realised on bargain purchase arising on the acquisition of an entity represents the excess of 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 over the cost of acquisition.

Any gain realised on bargain purchase is recognised in the income statement in the year that it arises.

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 (with the exception of impairments which the Group has elected to recognise in other comprehensive income under IFRS 9 'Financial Instruments').

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 value in use calculation and 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 'greenlit' 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.

Payments for programme and film rights made in advance of taking delivery and/or of the legal right to broadcast the programmes are recorded in programme and film rights, but are separately identified as in the course of production. Before being included in programme rights, the rights are disclosed as contractual commitments (see note 17).

Value to the Group

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

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

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

Amortisation

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

Developed film rights

Direct cost

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

Rights are recorded on the balance sheet when the Group commits to financing a film.

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

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. Management has rebutted the presumption under IAS 38 'Intangible Assets' and concluded that a revenue-based amortisation profile is appropriate for developed film rights as the revenue and consumption of economic benefits embodied in the film rights are highly correlated and management does not consider there to be any methodology that is more appropriate.

Trade and other receivables

Trade and other receivables are reflected net of any expected credit loss. For trade and other receivables with a remaining life of less than one year, the Group applies the practical expedient under IFRS 9 'Financial Instruments' to assume that there is no significant financing component, and the receivables are therefore measured at the transaction price. All other receivables are recognised at fair value, estimated as the present value of future cashflows discounted at the market rate of interest at the reporting date. The adoption of IFRS 9 has not had a material impact on the value of the Group's trade and other receivables as it has no significant record of historical credit losses.

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 primarily in Sterling but also in 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

In the 2018 financial statements 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 even where payments are not made on such a basis.

The Group will adopt the lessee accounting model required under IFRS 16 'Leases' from 1 January 2019.

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 finance cost is 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. Revenue

	2018 £m	2017 £m
TV advertising and sponsorship revenue	**791**	798
Digital revenue	**138**	124
Other commercial revenue	**46**	38
Total revenue	**975**	960

The Group adopted IFRS 15 'Revenue from Contracts with Customers' on 1 January 2018, and has presented disclosures in these financial statements in line with the updated requirements contained in the standard.

Gross revenues from transactions with one individual external customer comprised more than 10% of the Group's revenues in 2018, amounting to £111 million (2017: one external customer amounting to £142 million). The Group's major customers are all media buying agencies.

Approximately 4% of the Group's revenues (2017: 2%) are attributable to external customers outside the UK and these are therefore not separately presented.

The Group has material contracts with customers with a duration of more than one year, relating to sponsorship and distribution of channels and services. The aggregate amount of the transaction price for these contracts allocated to performance obligations which are still unfulfilled as at 31 December 2018 is £49 million. The Group expects to recognise £29 million of revenue relating to these performance obligations in 2019, with the remainder recognised on a straight line basis until 2023.

2. Cost of transmission and sales

	2018 £m	2017 £m
Programme and other content	**673**	686
Indirect programme costs	**60**	63
Transmitter and regulatory costs	**98**	97
Cost of sales	**85**	69
Cost of marketing	**35**	36
Total cost of transmission and sales	**951**	951

The Group's cost of transmission and sales is reported here as one segment, in line with the changes made to the Group's operating segment structure during 2018 as described in the 'Group Accounting Policies' section on page 203.

Programme and other content is comprised of investment into content across all services (the main channel, digital TV channels and digital media services) of £662 million (2017: £675 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.

3. Other operating income and expenditure

Other operating expenditure includes:

	2018 £m	2017 £m
Depreciation of property, plant and equipment (note 9)	**5**	6
Amortisation of intangible assets (note 10)	**–**	2
Restructuring costs	**2**	1
Increase in onerous lease provision (note 16)	**–**	2
Operating lease rentals	**–**	2
Other administrative expenses	**21**	21
Other operating expenditure	**28**	34

Other operating income of £12 million was recognised in 2018 (2017: £nil) relating to gains on disposal of certain distribution rights.

3. Other operating income and expenditure continued

Auditor's remuneration

Fees in respect of services provided by the auditor were:

	2018 £000	2017 £000
Audit of these financial statements	**166**	155
Amounts receivable by auditor and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**36**	20
Audit-related assurance services	**35**	34
Other assurance services	**–**	25
Total audit and assurance	**237**	234
Total other services	**46**	169
Auditor remuneration	**283**	403

Other assurance services in 2017 relate to assurance provided by Deloitte LLP over the Corporation's gender pay methodology and reporting. Other services during 2018 and 2017 relate to certain permitted advisory services provided by Deloitte LLP.

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:

	2018 £m	2017 £m
Aggregate gross salaries	**69**	65
Employer's National Insurance contributions	**7**	7
Employer's defined contribution pension contributions	**4**	4
Total direct costs of employment	**80**	76

In addition to the above, in 2018 £2 million of costs were expensed to the income statement in respect of restructuring initiatives to increase operational efficiency within the Group (2017: £1 million).

The Executive Members are considered to be the key management of the Corporation. As disclosed in the Members' Remuneration Report on page 185, the total remuneration of the Executive and Non-Executive Members for the year ending 31 December 2018 is £2,797,000 (2017: £2,770,000).

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

	2018 £000	2017 £000
Total remuneration of highest paid Executive Member[1] (page 185)	**936**	907
Total remuneration of median employee	**65**	58
Multiple of highest paid to median employee	**14.4**	15.6

1 Total remuneration of £907,000 in 2017 includes salary and benefits received by David Abraham from the end of his term as CEO to the end of his notice period and is therefore different from the remuneration disclosed in the table in the Remuneration Report on page 185.

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

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

	2018 Number	2017 Number
Commercial	**260**	255
Creative	**256**	263
Operational	**309**	318
4Talent	**26**	22
Total	**851**	858

The headcount calculation reflects the actual proportion of hours worked in a week for each individual employee. The employee information disclosed in this note excludes a small number of on-screen talent who are remunerated via Channel 4's payroll.

5. Net finance expense

Net finance expense recognised in the year comprised:

	2018 £m	2017 £m
Interest receivable on short-term deposits	**1**	1
Foreign exchange gain/(loss) on forward contracts and cash and cash equivalents	**1**	(1)
Net interest expense on pension scheme (note 18)	**(2)**	(1)
Net finance expense	**–**	(1)

6. Income tax expense

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

	2018 £m	2017 £m
Current tax:		
Current year	**–**	–
Deferred tax: origination and reversal of temporary differences (note 11)		
Current year	**3**	(2)
Prior year	**(1)**	–
Total income tax expense/(credit)	**2**	(2)

Corporation tax is charged at the standard UK rate of 19% for the year (2017: 19.25%).

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015. A further 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 2018 has been calculated based on these rates.

Reconciliation of income tax:

	2018 Rate	2018 £m	2017 Rate	2017 £m
Surplus before income tax		**5**		(17)
Income tax using the domestic corporation tax rate	**19.0%**	**1**	19.25%	(3)
Effects of:				
Non-deductible expenses		**2**		1
Non-taxable gains		**(1)**		(2)
Deferred tax not recognised		**1**		2
Other tax adjustments		**(1)**		–
Total income tax expense/(credit)		**2**		(2)

The income tax expense excludes the Group's share of income tax of investments accounted for using the equity method of £nil (2017: £nil) which has been included in the Group's share of post-acquisition profits, net of income tax (note 7).

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	Indie Growth Fund £m	Other £m	Total £m
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
Carrying value at 1 January 2018	**21**	**9**	**–**	**30**
Acquisitions	**–**	**1**	**1**	**2**
Share of post-acquisition profits/(losses), net of income tax	**–**	**1**	**(1)**	**–**
Disposals	**(12)**	**(1)**	**–**	**(13)**
Fair value loss	**(9)**	**–**	**–**	**(9)**
Total carrying value at 31 December 2018	**–**	**10**	**–**	**10**

The Box Plus Network Limited
The Group disposed of its existing 50% shareholding in The Box Plus Network Limited ('Box') on 31 December 2018 as part of a step acquisition of the full business under IFRS 3 'Business Combinations'. Note 20 provides details of the disposal and fair value loss for Box presented above, as well as of the subsequent acquisition and business combination.

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 2018, Channel 4 invested £1 million (2017: £1 million) in the Indie Growth Fund. There were no further commitments for subsequent equity subscriptions in these companies at 31 December 2018. Channel 4 has committed a total of £12 million of the fund to date. The Indie Growth Fund set a new investment strategy in 2018, geared to fast-growing independent production companies in the nations and regions as well as digital and diverse businesses across the whole of the UK.

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.

During 2018, Channel 4 sold its stake in Arrow International Media Limited recognising a total gain on disposal of £nil.

The Indie Growth Fund investments are assessed annually to identify any indicators of impairment, and if any are noted then a full impairment review is performed. Management have not identified any indicators of impairment at 31 December 2018. An impairment loss of £1 million was recognised in 2017 split between cost of sales and other operating expenditure.

Of the £662 million (2017: £675 million) total of programme rights recognised as expenses in 2018 (note 12), Channel 4 commissioned £18 million (2017: £25 million) of content from Indie Growth Fund companies. Channel 4 owed the Indie Growth Fund companies £nil in respect of these transactions at 31 December 2018 (2017: £nil).

7. Investments accounted for using the equity method continued

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

Company	Activity	Registered address	Proportion of equity owned at 31 December 2018	2017
Arrow International Media Limited	TV programme production activities	17-18 Margaret Street, London W1W 8RP	–	18.0%
Barcroft Studios Limited	TV programme production activities	Regina House, 124 Finchley Road, London NW3 5JS	**15.0%**	8.5%
Dial Square 86 Limited	TV programme production activities	Somerset House, Strand, London WC2R 1LA	**4.7%**	6.0%
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	Dissolved during 2018	3 Field Court, London WC1R 5EF	–	25.0%
Spelthorne Community Television Limited	TV programme production activities	2nd Floor, 63-64 Margaret Street, London W1W 8SW	**25.0%**	21.1%
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 TW9 3EL	**25.0%**	25.0%
Parable Ventures Limited	TV programme production activities	64 New Cavendish Street, London W1G 8TB	**18.0%**	11.0%
Firecrest Films Limited	TV programme production activities	Fairfield, 1048 Govan Road, Glasgow G51 4XS	**25.0%**	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
2018	**24**	**3**	**(11)**	**(1)**	**73**	**–**
2017	21	2	(11)	(1)	65	–

Other

During 2018, Channel 4 acquired 25% of the shares and voting rights in European Broadcaster Exchange (EBX) Limited, a digital advertising sales venture with other European broadcasters. European Broadcaster Exchange (EBX) Limited is incorporated in the United Kingdom.

Company	Activity	Registered address	Proportion of equity owned at 31 December 2018	2017
European Broadcaster Exchange (EBX) Limited	Television programming and broadcasting activities	6th Floor 65 Gresham Street, London EC2V 7NQ United Kingdom	**25%**	–

8. Other investments

The Commercial Growth Fund

	Total £m
Carrying value at 1 January 2017	10
Acquisitions	8
Fair value gain	4
Impairment loss	(1)
Total carrying value at 31 December 2017	21
Carrying value at 1 January 2018	**21**
Acquisitions	**9**
Fair value loss	**(5)**
Impairment loss	**(4)**
Disposals	**(5)**
Total carrying value at 31 December 2018	**16**

During 2015, Channel 4 launched the Commercial Growth Fund, a fund with the aim of attracting new advertisers to TV and stimulating existing sectors. The Commercial Growth Fund exchanges advertising airtime in return for equity shareholdings or convertible loan instruments. During 2018, the Corporation invested a further £9 million (2017: £8 million) in the Commercial Growth Fund.

The Commercial Growth Fund investments are recorded at fair value. The Group elected to recognise any movement in the fair value of the Commercial Growth Fund investments through other comprehensive income from 1 January 2018 when it adopted IFRS 9 'Financial Instruments.' Fair value has been assessed against quoted prices in active markets where available or against other observable inputs. A loss of £9 million (2017: gain of £4 million) has been recognised in other comprehensive income in respect of fair value adjustments and impairment losses in 2018. In 2017 a loss of £1 million was recognised through the income statement relating to impairment losses on Commercial Growth Fund investments.

There were no other transactions with the Commercial Growth Fund companies in 2018 (2017: none).

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. During 2018, Channel 4 recognised a further £1 million gain on the disposal of MyBuilder Limited relating to deferred consideration not previously recognised.

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 2017	97	109	1	207
Additions	–	1	–	1
Transfers	1	–	(1)	–
Revaluation	(1)	–	–	(1)
Disposals	–	(2)	–	(2)
At 31 December 2017	97	108	–	205
At 1 January 2018	**97**	**108**	**–**	**205**
Additions	**3**	**3**	**–**	**6**
Acquisitions	**–**	**2**	**–**	**2**
Revaluation	**(6)**	**–**	**–**	**(6)**
Disposals	**–**	**(61)**	**–**	**(61)**
At 31 December 2018	**94**	**52**	**–**	**146**
Depreciation				
At 1 January 2017	–	97	–	97
Charge for the year	2	4	–	6
Revaluation	(2)	–	–	(2)
Disposals	–	(2)	–	(2)
At 31 December 2017	–	99	–	99
At 1 January 2018	**–**	**99**	**–**	**99**
Charge for the year	**2**	**3**	**–**	**5**
Acquisitions	**–**	**2**	**–**	**2**
Revaluation	**(2)**	**–**	**–**	**(2)**
Disposals	**–**	**(61)**	**–**	**(61)**
At 31 December 2018	**–**	**43**	**–**	**43**
Net book value				
At 1 January 2018	**97**	**9**	**–**	**106**
At 31 December 2018	**94**	**9**	**–**	**103**
At 1 January 2017	97	12	1	110
At 31 December 2017	97	9	–	106

The disposals made during 2018 relate to retirement of assets previously held at nil net book value and no longer in use by the Group.

There is no commitment to purchase property, plant and equipment at the balance sheet date (2017: £nil). There are no material assets held under finance leases at the balance sheet date (2017: none). No assets have been pledged for security (2017: none).

Valuation of freehold property
The freehold property at 124 Horseferry Road, London SW1P 2TX was valued at 31 December 2018 by independent valuers Allsop LLP, in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors. Allsop LLP have appropriate qualifications and recent experience in the fair value measurement of properties in the relevant location. 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 £94 million (2017: £97 million). After depreciation charged on the open market value at 31 December 2018 (£2 million), a loss on revaluation of £4 million has been recognised in the statement of other comprehensive income (2017: gain of £1 million).

9. Property, plant and equipment continued

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

	2018 £m	2017 £m
Cost	**63**	62
Additions	**3**	1
Accumulated depreciation	**(25)**	(23)
Impairment	**(6)**	(6)
Net book value based on cost	**35**	34

10. Intangible assets

	Goodwill £m	Developed software £m	Broadcasting licence £m	Software under construction £m	Network distribution rights £m	Brands £m	Total £m
Cost							
At 1 January 2017	2	26	5	3	–	–	36
Additions	–	–	–	4	–	–	4
At 31 December 2017	2	26	5	7	–	–	40
At 1 January 2018	**2**	**26**	**5**	**7**	**–**	**–**	**40**
Additions	**–**	**1**	**–**	**6**	**–**	**–**	**7**
Acquisitions	**–**	**–**	**–**	**–**	**27**	**1**	**28**
Disposal	**–**	**(1)**	**–**	**–**	**–**	**–**	**(1)**
Impairment	**–**	**–**	**–**	**(8)**	**–**	**–**	**(8)**
At 31 December 2018	**2**	**26**	**5**	**5**	**27**	**1**	**66**
Amortisation							
At 1 January 2017	–	24	5	–	–	–	29
Amortisation for the year	–	2	–	–	–	–	2
At 31 December 2017	–	26	5	–	–	–	31
At 1 January 2018	**–**	**26**	**5**	**–**	**–**	**–**	**31**
Amortisation for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Disposal	**–**	**(1)**	**–**	**–**	**–**	**–**	**(1)**
At 31 December 2018	**–**	**25**	**5**	**–**	**–**	**–**	**30**
Carrying amount							
At 1 January 2018	**2**	**–**	**–**	**7**	**–**	**–**	**9**
At 31 December 2018	**2**	**1**	**–**	**5**	**27**	**1**	**36**
At 1 January 2017	2	2	–	3	–	–	7
At 31 December 2017	2	–	–	7	–	–	9

Goodwill represents goodwill arising on the acquisition of Global Series Network Limited ('GSN') on 30 July 2015. GSN holds the rights to the Walter Presents foreign language content transmitted across the Channel 4 portfolio.

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 network distribution rights and brands have arisen during 2018 on the acquisition of Box (see note 20).

11. Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised at 17% (2017: 17%) reflecting the corporation tax rate substantially enacted as at 31 December 2018.

	Assets 2018 £m	Assets 2017 £m	Liabilities 2018 £m	Liabilities 2017 £m	Net 2018 £m	Net 2017 £m
Property, plant and equipment	3	2	–	–	3	2
Employee benefits	9	11	–	–	9	11
Trading losses	5	6	–	–	5	6
Channel 4 deferred tax assets	17	19	–	–	17	19
Temporary timing differences on acquired intangible assets	–	–	(5)	–	(5)	–
Group deferred tax assets/(liabilities)	17	19	(5)	–	12	19

Unrecognised deferred tax assets and liabilities

Deferred tax assets have not been recognised in respect of:

	2018 £m	2017 £m
Carried forward capital losses	1	1
Carried forward trading losses	8	7
Tax assets	9	8

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 2018 £m	Recognised in income £m	Arising on acquisition £m	Recognised in other comprehensive income £m	Balance at 31 Dec 2018 £m
Property, plant and equipment	2	1	–	–	3
Employee benefits	11	(2)	–	–	9
Trading losses	6	(1)	–	–	5
Channel 4 deferred tax assets	19	(2)	–	–	17
Temporary timing differences on acquired intangible assets	–	–	(5)	–	(5)
Group deferred tax assets	19	(2)	(5)	–	12

	Balance at 1 Jan 2017 £m	Recognised in income £m	Arising on acquisition £m	Recognised in other comprehensive income £m	Balance at 31 Dec 2017 £m
Property, plant and equipment	2	–	–	–	2
Employee benefits	9	(2)	–	4	11
Trading losses	2	4	–	–	6
Group deferred tax assets	13	2	–	4	19

12. Programme and film rights

	2018 £m	2017 £m
Programmes and films completed but not transmitted	**122**	114
Acquired programme and film rights	**65**	64
Programmes and films in the course of production	**98**	77
Total programme and film rights	**285**	255

Certain programmes and film rights may not be utilised within one year but are expected to be consumed during the normal operating cycle and are therefore disclosed as current assets. The proportion of total programme and film rights not expected to be utilised within one year is 11% (2017: 17%).

Programmes and films in the course of production are disclosed within programme and film rights, rather than within prepayments, as management believes this most clearly reflects the total value of current assets relating to the production of content and that it is most useful to the readers of the financial statements to include the total value of current assets relating to the production and acquisitions of content in one line on the balance sheet.

Programme and film rights to the value of £662 million were recognised as expenses in the year across the main and digital television channels (2017: £675 million). Of this amount, obsolete programmes and developments written off totalled £29 million (2017: £28 million).

Programme and film rights include £32 million (2017: £39 million) in respect of developed film rights.

13. Trade and other receivables

	2018 £m	2017 £m
Trade receivables	**133**	138
Prepayments	**18**	19
Accrued income	**16**	12
Total trade and other receivables	**167**	169

There is no difference between the fair value and book value of trade and other receivables. Trade receivables are shown net of impairment charges amounting to £nil (2017: £nil) recognised in the current year in relation to outstanding balances from customers.

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 these receivables including insurance for most customers. Exposure is monitored continually and reviewed on a weekly basis, and any issues are formally reported. Based on credit evaluation and discussions with insurers, customers may be required to provide security in order to trade with the Group.

The Group may establish an allowance for impairment that represents our expected credit loss 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 revenue is either protected by trade credit insurance or pre-paid prior to transmission. The Group's expected lifetime credit loss at 31 December 2018 was £nil.

(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 was £133 million for the Group (2017: £138 million), with £48 million of other financial assets (2017: £75 million), and cash and cash equivalents of £132 million (2017: £115 million). The exposure to credit risk all arises in the UK.

Trade receivables of £133 million for the Group (2017: £138 million) were aged under six months and were not yet due under standard credit terms at the balance sheet date. £121 million of the receivables were insured at the balance sheet date (2017: £131 million) and £133 million (2017: £138 million) has been subsequently collected by the Group since the balance sheet date.

14. Treasury

	2018 £m	2017 £m
Bank balances	**39**	42
Money market funds[1]	**83**	73
Money market deposits maturing in less than three months	**10**	–
Cash and cash equivalents	**132**	115
Money market deposits maturing after three months	**40**	–
Investment funds	**6**	75
Restricted cash	**2**	–
Other financial assets	**48**	75

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

	2018 £m	2017 £m
Cash and cash equivalents at 1 January	**115**	132
Other financial assets at 1 January	**75**	83
Total cash and cash equivalents and other financial assets at 1 January	**190**	215
Net cashflow from operating activities	**10**	(22)
Net cashflow from investing activities	**(20)**	(3)
Total cashflow	**(10)**	(25)
Cash and cash equivalents at 31 December	**132**	115
Other financial assets at 31 December	**48**	75
Total cash and cash equivalents and other financial assets at 31 December	**180**	190

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 surplus before tax would have been £1 million lower/higher (2017: £1 million).

At the balance sheet date the Group had no debt and was not exposed to fluctuations in interest rates. In 2018 the Group has entered into a revolving credit facility ('RCF'). The RCF is for a five-year term until March 2023 and provides £75 million of additional liquidity. The facility is unsecured and is committed with a single tangible net worth covenant.

14. **Treasury** continued

The interest rate profile of the Group's cash and deposits at 31 December 2018 and 31 December 2017 is set out below:

	Effective interest rate 2018 %	Effective interest rate 2017 %	**Total 2018 £m**	Total 2017 £m
Interest-bearing deposits maturing in less than three months held in Sterling	**0.7**	0.2	**127**	105
Interest-bearing deposits maturing in less than three months held in foreign currencies	**1.5**	1.3	**5**	10
Total cash and cash equivalents	**0.7**	0.3	**132**	115
Money market deposits maturing after three months held in Sterling	**1.0**	–	**40**	–
Investment funds	**0.4**	0.6	**6**	75
Restricted cash	**n/a**	n/a	**2**	–
Other financial assets	**0.9**	0.6	**48**	75

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 holds bank accounts in foreign currencies and 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 finance expense (note 5).

The Group does not have any material 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 2018, the total net value of forward contracts used as economic hedges of monetary liabilities was £nil (2017: £10 million). At 31 December 2018, these have been revalued with reference to forward exchange rates based on maturity. The change in fair value of £nil (2017: £nil) has been recognised in the income statement and the associated liability recorded on the balance sheet as at 31 December 2018. The forward contracts have been assessed as level 2 in the fair value hierarchy under IFRS 13 and assessed against observable market inputs. The settlement profile of the forward contracts at 31 December 2018 and 31 December 2017 is set out below:

	Maturity within 12 months of balance sheet date 2018 No.	Maturity within 12 months of balance sheet date 2017 No.	**Maturity more than 12 months after balance sheet date 2018 No.**	Maturity more than 12 months after balance sheet date 2017 No.	**Total 2018 No.**	Total 2017 No.
Forward contracts to purchase Euros	**8**	17	**–**	1	**8**	18
Forward contracts to purchase US Dollars	**–**	2	**–**	–	**–**	2
Total forward contracts with fixed maturity dates	**8**	19	**–**	1	**8**	20

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 £1 million lower/higher (2017: £2 million).

Market risk

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

The Board is responsible for approving the treasury policy for the Group. The Group's policy is to ensure that adequate liquidity and financial resource is available to support the Group's continuing activities and growth while managing 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, whose work is overseen by a Treasury Risk Committee reporting in to the Chief Operating Officer. 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.

15. Trade and other payables

	2018 £m	2017 £m
Trade payables	**40**	6
Taxation and social security	**1**	1
Other creditors	**36**	58
Accruals	**200**	164
Deferred income	**20**	23
VAT	**16**	30
Total trade and other payables	**313**	282

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 payable within six months or less at 31 December 2018 and 2017.

The Group endeavours to pay all invoices in accordance with contract terms and, unless agreed payment terms specify otherwise. The Group's standard payment terms are within 45 days of the date of the invoice, with the exception of certain programme and transmission costs with qualifying independent production companies who are on immediate payment terms. Any complaints about failure to pay on time should be addressed to the Chief Operating Officer, who will ensure that they are investigated and responded to appropriately.

The number of days taken to pay suppliers of services in 2018, as calculated using average payable balances, was eight (2017: five). This is significantly lower than the Group's standard payment terms due to the impact of the immediate payment terms described above.

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 and, from March 2018, the £75 million revolving credit facility, 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 2017	1	–	1
Charged to the income statement	2	1	3
At 31 December 2017	3	1	4
At 1 January 2018	**3**	**1**	**4**
Utilised in the year	**(3)**	**(1)**	**(4)**
Charged to the income statement	**–**	**1**	**1**
At 31 December 2018	**–**	**1**	**1**

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

	2018 £m	2017 £m
Current	**1**	4
Non-current	**–**	–
Total	**1**	4

Onerous lease and dilapidations provision
In 2017, an agreement was reached to exit a property rental agreement ahead of its expiration in 2020. A provision was made representing the discounted net cashflows of the contractual commitments in respect of this. This provision was utilised in full during 2018.

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

17. Commitments

2018	Due within 1 year £m	Due within 2–5 years £m	Due after 5 years £m	Total £m
Programme commitments	377	308	6	691
Operating leases	–	–	–	–
Property, plant and equipment	–	–	–	–
Total	**377**	**308**	**6**	**691**

2017	Due within 1 year £m	Due within 2–5 years £m	Due after 5 years £m	Total £m
Programme commitments	438	408	16	862
Operating leases	1	–	–	1
Property, plant and equipment	–	–	–	–
Total	439	408	16	863

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 £23 million in 2018 (2017: £23 million) and is forecast to be £23 million in 2019. 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 2018 (2017: £25 million) and are forecast to be £23 million in 2019. The digital terrestrial transmission contracts expire between 2019 and 2031. Committed payments for satellite transmission capacity costs were £15 million in 2018 (2017: £16 million) and are forecast to be £8 million in 2019. The satellite transmission contracts expire in 2024.

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
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 223 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.

18. Employee benefits – pensions continued

Investment strategy

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, with the help of their advisers and in consultation with Channel 4, undertake a review of investment strategy from time to time. This includes consideration of the broad split between growth and matching assets, as well as asset class and asset manager arrangements.

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.

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 latest investment strategy discussions in 2017 and 2018 focused on alternative growth investments and liability matching solutions using insurance.

The Plan's commitment to the IFM Global Infrastructure Fund was funded in October 2018; the commitment to the J.P. Morgan Infrastructure Investments Fund, which follows a similar strategy, had already been funded in October 2017. Together these allocations account for c. 10% of the Plan's non-insurance assets.

In order to begin to tackle longevity risk (that is, the risk that members of the Plan live for longer than expected over time), the Trustees entered into a c. £45 million bulk annuity policy with Just Retirement in March 2018. This provides income to match the requirements of certain pensioner liabilities (providing protection against interest rates, inflation and longevity risks).

Amounts recognised in the consolidated balance sheet

	2018 £m	2017 £m
Present value of funded obligations	**(461)**	(506)
Fair value of Plan assets	**405**	439
Recognised liability for defined benefit obligations	**(56)**	(67)

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

	2018 £m	2017 £m
Fair value of scheme assets at 1 January	**439**	424
Interest income on Plan assets	**10**	12
Return on Plan assets (excluding amounts in interest income)	**(29)**	21
Employer contributions net of charges	**11**	11
Benefits paid	**(26)**	(29)
Fair value of scheme assets at 31 December	**405**	439

18. Employee benefits – pensions continued

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

	2018 £m	2017 £m
UK equity	–	9
Overseas and emerging markets equity	66	75
Total equity securities	**66**	84
Corporate bonds	53	60
Infrastructure	46	21
Total debt securities	**99**	81
Multi-asset absolute return	32	67
Liability driven investments	163	181
Total investment funds	**195**	248
Cash and cash equivalents	8	26
Annuity policy buy-in	37	–
Fair value of scheme assets at 31 December	**405**	439

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.

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

	2018 £m	2017 £m
Present value of scheme liabilities at 1 January	506	476
Interest expense on pension scheme liabilities	12	13
Remeasurement deficit on plan liabilities arising from changes in demographic assumptions	–	19
Remeasurement deficit on plan liabilities arising from changes in financial assumptions	(35)	22
Experience remeasurement	3	5
GMP equalisation	1	–
Benefits paid	(26)	(29)
Present value of scheme liabilities at 31 December	**461**	506

Expenses recognised in the income statement arose as follows:

	2018 £m	2017 £m
Net interest expense	2	1
Other administrative expenses	1	–
Net charge to income statement	**3**	1

Following a high court ruling during the year regarding the gender equalisation of guaranteed minimum pensions, the Group has recognised an additional liability arising in respect of this based on an estimated impact of 0.1% of total Plan liabilities, with the corresponding cost recognised in Other administrative expenses in the income statement in 2018.

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

	2018 £m	2017 £m
Remeasurement gain/(deficit) on plan liabilities	32	(46)
Remeasurement (deficit)/gain on plan assets (excluding amounts in interest income)	(29)	21
Net remeasurement surplus/(deficit) on pension scheme	**3**	(25)

The cumulative amount of net remeasurement deficits/gains recognised in the statement of changes in equity since transition to IFRS is £111 million (2017: £114 million).

18. Employee benefits – pensions continued

Principal actuarial assumptions at the balance sheet date

	2018 %	2017 %
Discount rate	**2.85**	2.50
Rate of increase in salaries	**2.70**	2.70
Rate of increase in pensions	**3.10**	3.10
Inflation	**3.20**	3.20

	2018 years	2017 years
Life expectancy from 65 (now aged 45) – male	**23.9**	23.8
Life expectancy from 65 (now aged 45) – female	**26.4**	26.3
Life expectancy from 65 (now aged 65) – male	**23.2**	23.1
Life expectancy from 65 (now aged 65) – female	**24.8**	24.8

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 2018:

	Revised present value of scheme liabilities £m
0.5% decrease in discount rate	**511**
1 year increase in life expectancy	**479**
0.5% increase in salary assumptions	**465**
0.5% increase in inflation (and inflation-linked) assumptions	**503**

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 of £11 million per annum from January 2018 until August 2028.

The weighted average duration of the Plan's defined benefit obligation is approximately 21 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.'

19. Related party transactions

Members

Details of transactions in which Members have an interest are disclosed in the Report of the Members (page 172).

Details of Members' remuneration are shown in the Members' Remuneration Report (page 185).

Joint ventures and associates

Details of transactions between the Group and its joint ventures and associates as at 31 December 2018 are disclosed in note 7.

During 2018, Channel 4 did not receive a dividend (2017: did not receive a dividend) from Box. Channel 4 also sold £7 million (2017: £6 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.

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.

				Services received		Funding and services provided	
Name	Nature of business	Share class	Ownership interest	2018 £m	2017 £m	2018 £m	2017 £m
Broadcasters' Audience Research Board Limited	Research	*	–	–	–	2	1
Clearcast Limited	Regulator	Ordinary, deferred	25.0%	–	–	1	1
Digital 3 and 4 Limited	Operator	'A' Ordinary	50.0%	2	2	23	23
DTV Services Limited	Marketing	Ordinary	20.0%	7	7	5	5
Digital UK	Marketing	*	–	–	–	2	1
Thinkbox Limited	Marketing	Ordinary	20.0%	1	1	2	2
YouView Limited	Platform	Voting, non-voting	14.3%	–	–	1	1

There are no trade receivable or trade payable balances with any of the related parties listed above at 31 December 2017 and 2018. No dividends were received in 2018 (2017: £nil) from any of the related parties listed above.

These related party disclosures are also applicable to the Channel 4 financial statements.

20. Business Combinations

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.

Channel 4 acquired 500 ordinary shares of £1 representing 50% of the share capital of Box in 2007.

From the date of acquisition until 31 December 2018, Box was accounted for as a joint venture and equity accounting was applied in line with IAS 28.

On 31 December 2018, Channel 4 completed the acquisition from Bauer Media of the remaining 50% shareholding in Box, for a total consideration of £11 million, consisting of £10 million of cash plus £1 million of non-cash consideration. The remaining interest in Box was acquired to realise both revenue and cost synergies. In acquiring the remaining 50% of the business, the Group obtained control of Box and has therefore accounted for this as a business combination under IFRS 3 'Business Combinations', from the date on which control was achieved.

In line with IFRS 3, the transaction is treated as a step acquisition and is recognised in the consolidated financial statements as:

- **the remeasurement (to fair value) and subsequent disposal of the existing holding in Box**

The estimated fair value of the existing joint venture holding in Box was calculated by estimating Channel 4's share of the future expected cashflows (to 2023) for Box, using a post-tax discount rate of 11.5% and a terminal growth rate of 0%. This exercise estimated the fair value of the Group's previous holding to be £12 million. This remeasurement leads to a fair value loss on the existing investment of £9 million (recognised in the income statement on the date of disposal) calculated as follows:

20. Business Combinations continued

Remeasurement of existing investment

	2018 £m
Carrying value of investment	21
Fair value of investment	(12)
Fair value loss on joint venture	**9**

– **the subsequent full acquisition of Box**

Given that the business combination occurred on the last day of the accounting period, as at 31 December 2018 only the balance sheet position of Box is consolidated in the financial statements; the entity's financial performance for the full year is accounted for under the equity method (reflecting circumstances throughout the period). From 31 December 2018 Box will be accounted for as a subsidiary of Channel 4 and fully consolidated in the Group financial statements.

Summary of assets and liabilities assumed

	2018 £m
Trade and other receivables	5
Cash and cash equivalents	5
Trade and other payables	(5)
Net assets assumed	**5**

The acquisition accounting for Box is based on the fair value of the business's identifiable assets and liabilities acquired. The Group has identified intangible assets which were not previously recognised in Box's financial statements, but which should be recognised as part of the business combination as Channel 4 has obtained control of them. These intangible assets (as disclosed in note 10) relate to network distribution rights reflecting Box's rights to transmit its portfolio of channels across all major broadcast platforms in the UK, plus the Box brand. Management instructed external valuation specialists to assess the fair value of these items as at the acquisition date, based on discounted forecast future cashflows and key management assumptions.

The fair value of the identifiable net assets for the 100% interest in Box are estimated at £28 million, based on forecast future cashflows (to 2023) extended over a 20-year period using a terminal growth rate of 0%. A post-tax discount rate of 12.5% was applied for Box's network distribution rights and 11.5% for the other material elements of the business.

Sensitivity analysis performed supports management's view that a change in the key assumptions used would not create a significant risk of material adjustment to the fair value of Box's identifiable net assets.

Based on the external assessment of the fair value of Box's identifiable net assets, a gain on bargain purchase arises on the transaction, recognised in the income statement on the acquisition date and calculated as follows:

Gain on bargain purchase

	£m
Fair value of identifiable net assets	28
Consideration paid	(11)
Fair value of previously held interest	(12)
Gain on bargain purchase	**5**

In line with IFRS 3, management have performed a review to ensure the identification of assets and liabilities is complete, and that measurements appropriately reflect consideration of all available information before the gain on bargain purchase was recognised in the income statement. The gain on bargain purchase reflects management's assessment of the incremental cashflows that can be generated from realising further value from Box's network distribution rights and synergy savings, and arises due to the fair value management have attributed to the network distribution rights exceeding the consideration paid.

Channel 4 balance sheet

as at 31 December

	Group note	Channel 4 note	2018 £m	2017 £m
Assets				
Property, plant and equipment	9		**103**	106
Intangible assets		2	**6**	7
Investments in subsidiaries and joint ventures		3	**23**	28
Deferred tax assets	11		**17**	19
Total non-current assets			**149**	160
Programme and film rights		4	**280**	250
Trade and other receivables		5	**161**	167
Other financial assets		6	**48**	75
Cash and cash equivalents		6	**127**	115
Total current assets			**616**	607
Total assets			**765**	767
Liabilities				
Employee benefits – pensions	18		**(56)**	(67)
Total non-current liabilities			**(56)**	(67)
Trade and other payables		7	**(425)**	(402)
Provisions	16		**(1)**	(4)
Total current liabilities			**(426)**	(406)
Total liabilities			**(482)**	(473)
Net assets			**283**	294
Revaluation reserve			**54**	58
Retained earnings:				
Content reserve			**20**	20
Other retained earnings			**209**	216
Total equity			**283**	294

As permitted by section 408 of the Companies Act 2006, the Corporation has not presented its own income statement. A deficit of £10 million has been recognised in relation to the Corporation in 2018.

The financial statements on pages 226 to 231 were approved by the Members of the Board on 3 April 2019 and were signed on its behalf by:

Charles Gurassa
Chair

Alex Mahon
Chief Executive

Channel 4 statement of changes in equity

for the year ended 31 December

	Retained earnings			
	Other retained earnings £m	Content reserve £m	Revaluation reserve £m	Total equity £m
At 1 January 2017	243	35	57	335
Deficit for the year	(21)	–	–	(21)
Net remeasurement deficit on pension scheme	(25)	–	–	(25)
Deferred tax on pension scheme	4	–	–	4
Revaluation of freehold land and buildings	–	–	1	1
Total comprehensive (cost)/income for the year	(42)	–	1	(41)
Reserve transfer	15	(15)	–	–
At 31 December 2017	216	20	58	294
At 1 January 2018	**216**	**20**	**58**	**294**
Deficit for the year	**(10)**	**–**	**–**	**(10)**
Net remeasurement surplus on pension scheme	**3**	**–**	**–**	**3**
Revaluation of freehold land and buildings	**–**	**–**	**(4)**	**(4)**
Total comprehensive cost for the year	**(7)**	**–**	**(4)**	**(11)**
At 31 December 2018	**209**	**20**	**54**	**283**

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 198 to 225. 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 £10 million (2017: £21 million deficit) was recorded in relation to the Corporation. Accounting policies applied in the preparation of the Corporation's financial statements are consistent with the Group policies presented on pages 202 to 206, except as stated below.

In preparing these financial statements the Corporation has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore, these financial statements do not include disclosure of related party transactions with other wholly owned members of the Group headed by the Corporation. Details of transactions between the Group and its related parties are disclosed in Group note 19 on page 224.

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 any expected credit loss.

Critical accounting judgements and sources of estimation uncertainty

The critical accounting judgements made by management and the sources of estimation uncertainty in the application of IFRS that have a significant risk of material adjustment on the financial statements of the Corporation are considered to be certain advertising revenues recognised from barter and other similar contractual arrangements and programme and film rights amortisation, as disclosed for the Group on page 202.

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 2018 are presented in note 3 to the consolidated financial statements on page 208.

Staff costs
All staff costs are borne by Channel 4 and are presented in note 4 to the consolidated financial statements on pages 208 and in the Members' Remuneration Report on pages 183 to 191.

The average monthly number of employees of the Corporation is 844 (2017: 850).

The key management of the Corporation are considered to be the same as for the Group, as disclosed in Group note 4.

2. Intangible assets

	Developed software £m	Assets under construction £m	Total £m
Cost			
At 1 January 2017	26	3	29
Additions	–	4	4
At 31 December 2017	26	7	33
At 1 January 2018	**26**	**7**	**33**
Additions	**1**	**6**	**7**
Disposal	**(1)**	**–**	**(1)**
Impairment	**–**	**(8)**	**(8)**
At 31 December 2018	**26**	**5**	**31**
Amortisation			
At 1 January 2017	24	–	24
Amortisation for the year	2	–	2
At 31 December 2017	26	–	26
At 1 January 2018	**26**	**–**	**26**
Amortisation for the year	**–**	**–**	**–**
Disposal	**(1)**	**–**	**(1)**
At 31 December 2018	**25**	**–**	**25**
Carrying amount			
At 1 January 2018	**–**	**7**	**7**
At 31 December 2018	**1**	**5**	**6**
At 1 January 2017	2	3	5
At 31 December 2017	–	7	7

Notes to the Channel 4 financial statements (continued)

3. Investments

Subsidiary undertakings and joint ventures

The cost of investments at 31 December is:

	2018 £000	2017 £000
4 Ventures Limited	1	1
The Box Plus Network Limited	23,000	28,000

The previous investment in The Box Plus Network Limited was recorded on the Corporation's balance sheet as a joint venture at 31 December 2017 at historical cost of £28 million. On 31 December 2018, Channel 4 acquired the remaining 50% in Box and the increased shareholding is recorded as a subsidiary undertaking on the balance sheet as at this date. The carrying value of £23 million represents the consideration paid for the full acquisition plus the fair value of the previously held interest as disclosed in Group Note 20.

The subsidiary undertakings incorporated in the United Kingdom at 31 December 2018 are as follows:

Name	Nature of business	Issued ordinary £1 shares	Ownership interest
Registered office address is: 124 Horseferry Road, London SW1P 2TX			
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%
The Box Plus Network Limited	Music TV channels	1,000	100%
Global Series Network Limited[1]	TV and film distribution	2,000	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%

Name	Nature of business	Issued 'A' ordinary shares of £1,000 each	Ownership interest
Registered office address is: 35 Soho Square 6th Floor, Soho Square, London W1D3QX			
GSN Holdings International Limited[1]	TV and film distribution	1,000	82.5%

1 Indirect shareholding through 4 Ventures Limited.

Associated undertakings

For the Corporation's indirect shareholdings in the Indie Growth Fund through Channel Four Investments Limited and European Broadcast Exchange (EBX) 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.

4. Programme and film rights

	2018 £m	2017 £m
Programmes and films completed but not transmitted	121	114
Acquired programme and film rights	61	59
Programmes and films in the course of production	98	77
Total programme and film rights	**280**	250

Certain programme and film rights may not be utilised within one year as disclosed in note 12 to the consolidated financial statements.

Notes to the Channel 4 financial statements (continued)

5. Trade and other receivables

	2018 £m	2017 £m
Trade receivables	132	136
Prepayments	17	19
Accrued income	12	12
Total trade and other receivables	**161**	167

6. Treasury

	2018 £m	2017 £m
Bank balances	34	42
Money market funds	83	73
Money market deposits maturing in less than three months	10	–
Cash and cash equivalents	**127**	115
Money market deposits maturing after three months	40	–
Investment funds	6	75
Restricted cash	2	–
Other financial assets	**48**	75

7. Trade and other payables

	2018 £m	2017 £m
Trade payables	39	6
Taxation and social security	1	1
Other creditors	37	54
Amounts due to subsidiaries	120	125
Accruals	193	163
Deferred income	20	23
VAT	15	30
Total trade and other payables	**425**	402