Financial Report and Statements

For the year ended 31 December 2019

Consolidated income statement

for the year ended 31 December

	Note	2019 £m	2018 £m
Revenue	1	**985**	975
Cost of transmission and sales	2	**(967)**	(951)
Gross surplus		**18**	24
Other operating expenditure	3	**(45)**	(28)
Other operating income	3	**–**	12
Operating (deficit)/surplus		**(27)**	8
Net finance expense	5	**(1)**	–
Gain on sale of investments	7, 8	**4**	1
Impairment losses on investments	7	**(2)**	–
Fair value loss on joint venture	7, 21	**–**	(9)
Gain on bargain purchase	21	**–**	5
(Deficit)/surplus before tax		**(26)**	5
Income tax credit/(expense)	6	**1**	(2)
(Deficit)/surplus for the year		**(25)**	3

Consolidated statement of comprehensive income

for the year ended 31 December

	Note	2019 £m	2018 £m
(Deficit)/surplus for the year		**(25)**	3
Net remeasurement (deficit)/surplus on pension scheme	19	**(33)**	3
Revaluation of freehold land and buildings	9	**2**	(4)
Deferred tax on pension scheme	12	**6**	–
Adjustment to non-controlling interest	21	**(4)**	–
Loss on revaluation of investments	7, 8	**–**	(9)
Other comprehensive cost for the year		**(29)**	(10)
Total comprehensive cost for the year		**(54)**	(7)

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 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**
At 1 January 2019	**365**	**20**	**54**	**439**
Deficit for the year	**(25)**	–	–	**(25)**
Transfer	**20**	**(20)**	–	–
Other comprehensive (cost)/income	**(31)**	–	**2**	**(29)**
Total comprehensive (cost)/income for the year	**(36)**	**(20)**	**2**	**(54)**
At 31 December 2019	**329**	–	**56**	**385**

We established a content reserve in 2014 to ensure surpluses generated are reinvested into original content and digital innovation in order to maintain the relevance and reach of our remit. Our aim is to remain commercially self-sufficient in the long term. In 2019, the deficit after tax for the year of £25 million has been partially funded by a £20 million transfer from the content reserve. This transfer reflects the Group's strategic investment during 2019 in youth and digital, and in delivering our Nations & Regions remit.

Consolidated balance sheet

as at 31 December

	Note	2019 £m	2018 £m
Assets			
Investments accounted for using the equity method	7	**7**	10
Other investments	8	**22**	16
Property, plant and equipment	9	**114**	103
Right-of-use asset	11	**3**	–
Intangible assets	10	**30**	36
Deferred tax assets	12	**22**	17
Total non-current assets		**198**	182
Programme and film rights	13	**291**	285
Trade and other receivables	14	**179**	167
Other financial assets	15	**7**	48
Cash and cash equivalents	15	**130**	132
Total current assets		**607**	632
Total assets		**805**	814
Liabilities			
Employee benefits – pensions	19	**(79)**	(56)
Lease liability	11	**(3)**	–
Deferred tax liabilities	12	**(4)**	(5)
Total non-current liabilities		**(86)**	(61)
Trade and other payables	16	**(332)**	(313)
Provisions	17	**(2)**	(1)
Total current liabilities		**(334)**	(314)
Total liabilities		**(420)**	(375)
Net assets		**385**	439
Revaluation reserve		**56**	54
Retained earnings:			
Content reserve		**–**	20
Other retained earnings		**329**	365
Total equity		**385**	439

The financial statements on pages 180 to 211 were approved by the Members of the Board on 28 September 2020 and were signed on its behalf by:

Charles Gurassa
Chair

Alex Mahon
Chief Executive

Consolidated cashflow statement

for the year ended 31 December

	Note	2019 £m	2018 £m
Cashflow from operating activities			
(Deficit)/surplus for the year		**(25)**	3
Adjustments for:			
Income tax (credit)/expense	6	**(1)**	2
Depreciation	9	**6**	5
Amortisation of intangibles	10	**2**	–
Impairment of intangibles	10	**–**	8
Net financial expense	5	**1**	–
Gain on sale of investments	7, 8	**(4)**	(1)
Impairment losses on investments	7, 8	**2**	–
Fair value loss on joint venture	7, 21	**–**	9
Gain on bargain purchase	21	**–**	(5)
		(19)	21
(Increase)/decrease in programme and film rights	13	**(6)**	(30)
(Increase)/decrease in trade and other receivables	14	**(12)**	2
Increase in trade and other payables	16	**19**	31
Increase/(decrease) in provisions, excluding unwinding of discounts	17	**1**	(3)
		(17)	21
Defined benefit pension contributions	19	**(11)**	(11)
Net cashflow from operating activities		**(28)**	10
Cashflow from investing activities			
Acquisition of investments	7, 8, 21	**(14)**	(6)
Acquisition of subsidiary (net of cash acquired)	21	**–**	(5)
Proceeds on sale of investments	7, 8	**9**	2
Purchase of property, plant and equipment	9	**(11)**	(6)
Additions to internally developed software	10	**–**	(7)
Interest received and effects of foreign exchange rates	5	**1**	2
Decrease in other financial assets[1]	15	**41**	27
Net cashflow from investing activities		**26**	7
Net (decrease)/increase in cash and cash equivalents		**(2)**	17
Cash and cash equivalents at 1 January		**132**	115
Cash and cash equivalents at 31 December		**130**	132

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 2019 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 28 September 2020. 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.

Critical accounting judgements

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
- Management's application of IFRS 16 'Leases' requires judgement regarding the classification of transponder contracts under the standard. Management have concluded that these contracts do not constitute leases under the definition given by IFRS 16, as the Group does not control these assets due to the nature of the operation of these assets and due to certain rights which the supplier retains based on the detailed terms provided in the contracts. Further details of these contracts (including remaining term and estimated payments) are disclosed in note 18.

In 2018 management recognised a critical accounting judgement in relation to the acquisition accounting for The Box Plus Network Limited ('Box') on 31 December 2018, as the valuation of significant intangible assets arising on the acquisition was judgemental, particularly in the absence of observable inputs to assess their fair value. The accounting treatment for this transaction is discussed in note 21. There is no ongoing critical accounting judgement in the 2019 financial statements with regard to this transaction or the intangible assets arising.

Key sources of estimation uncertainty

Under IAS 12 Income Taxes, deferred tax assets are recognised to the extent it is probable that future taxable profit will be available against which they can be recognised. Management applies estimates in calculating the deferred tax assets with regards to the level of future taxable surpluses that are expected, meaning significant changes to our estimation of forecast profitability could lead to a material change in the valuation of deferred tax assets or their derecognition.

Alternative performance measures

In reporting financial information the Group presents alternative performance measures ('APMs') which are not defined or specified under the requirements of IFRS. The Group believes that the presentation of APMs provides stakeholders with additional and helpful information on the performance of the business, but does not consider them to be a substitute for or superior to IFRS measures. APMs are also used to enhance the comparability of information between reporting periods, by adjusting for uncontrollable factors which affect IFRS measures, to aid users in understanding the Group's performance.

Group accounting policies (continued)

The Group presents its underlying operating surplus as an APM 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. This APM is calculated in 2019 and 2018 as follows:

	2019	2018
Operating (deficit)/surplus	**(27)**	**8**
Add back:		
4 All the UK costs	10	–
Impairment of technology assets	–	8
Gain on disposal of distribution rights	–	(12)
Underlying operating (deficit)/surplus	**(17)**	**4**

The Group also presents Cash reserves as an APM which reflects the sum of the Group's cash and cash equivalents and other financial assets at the balance sheet date. This provides stakeholders with additional relevant information relating to the overall cash resources available to the Group, not only those categorised as cash and cash equivalents.

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. As noted on page 144, the outbreak of Covid-19 in the UK had a very significant impact on the demand for advertising, and there remains uncertainty around the timing of recovery. In response to this, we have modelled a range of revenue scenarios and assessed their impact on the Group's cash flow, and revised our financial targets for the next 12 months.

We anticipate that total 2020 revenues will be materially lower than 2019, but our base case expectation is that the year-on-year declines experienced in April and May 2020 will remain the most severe. We have subsequently seen revenues start to recover, although we do not anticipate a full recovery over the course of 2020 and 2021 in any of the scenarios considered. In our base case scenario we are able to mitigate revenue declines over 2020 and 2021 by implementing identified cost savings, while remaining within our existing credit facility and covenants.

We have considered the potential downside scenarios during 2021 in the eventuality of a deeper recession than our industry analysis currently indicates, or of a second national lockdown in Q1 2021. We have additional contingency plans ready to implement to offset further revenue declines and ensure we remain within our existing credit facility and covenants. While there remains uncertainty related to the size of the impact and the timing and level of recovery in the advertising market, analysis of these downside scenarios (including a severe case deemed plausible but beyond the worst case scenario currently anticipated by management) and the range of mitigating actions available indicates that the Group will be able to continue to operate for at least 12 months from the date that this Annual Report is approved. Accordingly, the Group continues to adopt the going concern basis in preparing its financial statements.

Basis of consolidation

A subsidiary is an entity that is controlled by the Group. Control exists when the Group has exposure, or has rights, to variable returns from its 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 on the next page. All accounting policies have been applied consistently in all material respects to all periods presented in these financial statements.

Group accounting policies (continued)

The following new standards became effective for the first time from 1 January 2019:

- IFRS 16 'Leases'
- IFRIC 23 'Uncertainty over Income Tax Treatments'

Neither of these standards has had a material impact on the consolidated financial statements of the Group during 2019. Consideration of how the Group has implemented IFRS 16 is set out on pages page 189 and the critical accounting judgement made by management in applying IFRS 16 is disclosed on page 184.

There are no new standards that will become effective during 2020 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. The total recognised for such revenues in 2019 is £43 million (2018: £47 million).

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.

The Group has determined that the Board of Members is its chief operating decision-maker, and the financial statements are 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

Group accounting policies (continued)

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 elected to recognise any changes in the fair value of the Commercial Growth Fund investments through other comprehensive income, reflecting the fact that the management of these investments is 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. 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

Group accounting policies (continued)

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 18).

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 in 2018 did not have 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.

Group accounting policies (continued)

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
The Group adopted the lessee accounting model required under IFRS 16 'Leases' on 1 January 2019. This removes the distinction between finance leases and operating leases previously reflected in the Group's accounting policy.

Management have performed a review of the Group's material contracts, including but not limited to those previously classified as leases, applying a control model to identify which contracts should be considered leases in line with the new standard.

On adoption of the standard (and at the inception of subsequent new leases) a right-of-use asset is recognised in the Group's financial statements reflecting its right to control the underlying lease assets and use them to generate future economic benefits. A corresponding lease liability is also recognised in line with the principal and interest to be repaid over the lease term. These amounts are determined based on the present value of the minimum lease payments to be made over the contract term, discounted using the rate implicit in the lease if this can be determined, and otherwise using the Group's incremental borrowing rate.

The Group subsequently recognises depreciation relating to the right-of-use asset, as well as interest accrued on the lease liability, in the income statement.

The Group has opted to apply the modified retrospective approach on implementation with the right-of-use asset equal to the lease liability at the transition date. The Group has applied practical expedients provided in IFRS 16 to exclude short-term and low-value lease contracts from the new accounting model, and these continue to be presented as operating costs.

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

	2019 £m	2018 £m
TV advertising and sponsorship revenue	**772**	791
Digital revenue	**163**	138
Other commercial revenue	**50**	46
Total revenue	**985**	975

The Group had no individual external customers with gross revenues comprising more than 10% of the Group's overall revenues in 2019 (2018: one external customer amounting to £111 million). The Group's major customers are all media buying agencies. Approximately 4% of the Group's revenues (2018: 4%) 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 2019 is £71 million (2018: £38 million). The Group expects to recognise £24 million of revenue relating to these performance obligations in 2020 (2018: £18 million to be recognised in 2019), with the remainder recognised on a straight-line basis until 2023.

2. Cost of transmission and sales

	2019 £m	2018 £m
Content	**660**	662
Other content-related costs	**70**	63
Broadcast and transmission costs	**98**	97
Other cost of sales	**139**	129
Total cost of transmission and sales	**967**	951

The Group's cost of transmission and sales is reported here as one segment as described in the 'Group Accounting Policies' section on page 186. Other cost of sales includes direct costs of linear and digital advertising and rights, marketing, technology and audience research costs.

The Group's cost of transmission and sales has been reclassified for 2019 and 2018 in the 2019 Annual Report, to more closely reflect the allocation of expenditure used in the Group's internal reporting. The cost of transmission and sales presented in the 2018 Annual Report has been reclassified as follows:

	Per 2018 Annual Report					
2018 £m	Programme and other content	Indirect programme costs	Transmitter and regulatory costs	Cost of sales	Cost of marketing	**Total**
As above						
Content	662	–	–	–	–	**662**
Other content-related costs	9	54	–	–	–	**63**
Transmitter and regulatory costs	2	–	95	–	–	**97**
Other cost of sales	–	6	3	85	35	**129**
Total	673	60	98	85	35	**951**

Notes to the consolidated financial statements (continued)

3. Other operating income and expenditure

Other operating expenditure includes:

	2019 £m	2018 £m
Depreciation of property, plant and equipment (note 9)	6	5
Amortisation of intangible assets (note 10)	2	–
4 All The UK programme	9	–
Other restructuring costs	1	2
Impairment of trade receivables (note 14)	1	–
Box administrative expenses	2	–
Other administrative expenses	24	21
Other operating expenditure	**45**	28

The total cost of the 4 All the UK programme recognised in the income statement in 2019 was £10 million, with £9 million recognised in Other operating expenditure and £1 million recognised in Cost of transmission and sales. Other operating income of £12 million was recognised in 2018 relating to gains on disposal of certain distribution rights. No other operating income was recognised in 2019.

Auditor's remuneration

Fees in respect of services provided by the auditor were:

	2019 £000	2018 £000
Audit of these financial statements	195	166
Amounts receivable by auditor and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	–	36
Audit-related assurance services	35	35
Total audit and assurance	**230**	237
Total other services	–	46
Auditor remuneration	**230**	283

Other services during 2018 relate to certain permitted advisory services provided by Deloitte LLP.

Notes to the consolidated financial statements (continued)

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:

	2019 £m	2018 £m
Aggregate gross salaries	73	69
Employer's National Insurance contributions	7	7
Employer's defined contribution pension contributions	5	4
Total direct costs of employment	**85**	80

In addition to the above, in 2019 £7 million of restructuring costs were expensed to the income statement, predominantly in respect of the 4 All The UK programme, as well as other initiatives to increase operational efficiency within the Group (2018: £2 million). Of this amount, £3 million is recognised within Cost of transmission and sales, with the remainder in Other operating expenditure.

The Executive Members are considered to be the key management of the Corporation. As disclosed in the Members' Remuneration Report on page 166, the total remuneration of the Executive and Non-Executive Members for the year ending 31 December 2019 is £2,460,000 (2018: £2,797,000).

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

	2019 £000	2018 £000
Total remuneration of highest paid Executive Member (page 166)	943	936
Total remuneration of median employee	61	65
Multiple of highest paid to median employee	**15.5**	14.4

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:

	2019 Number	2018 Number
Commercial	264	260
Creative	287	256
Operational	329	309
4Talent	23	26
Total	**903**	851

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. The average monthly number of employees increased in 2019 mainly due to the full acquisition of Box on 31 December 2018. In 2019 the average monthly number of employees includes 41 FTEs previously employed by Box (2018: nil).

5. Net finance expense

Net finance expense recognised in the year comprised:

	2019 £m	2018 £m
Interest receivable on short-term deposits	1	1
Foreign exchange (loss)/gain on forward contracts and cash and cash equivalents	(1)	1
Net interest expense on pension scheme (note 19)	(1)	(2)
Net finance expense	**(1)**	–

6. Income tax expense

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

	2019 £m	2018 £m
Current tax:		
Current year	–	–
Prior year	(1)	–
Deferred tax: origination and reversal of temporary differences (note 12)		
Current year	–	3
Prior year	–	(1)
Total income tax (credit)/expense	**(1)**	2

Corporation tax is charged at the standard UK rate of 19% for the year (2018: 19%).

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 2019 has been calculated based on these rates.

Reconciliation of income tax:

	2019 Rate	2019 £m	2018 Rate	2018 £m
(Deficit)/surplus before income tax		**(26)**		5
Income tax using the domestic corporation tax rate	**19.0%**	**(5)**	19.0%	1
Effects of:				
Non-deductible expenses		1		2
Non-taxable gains		–		(1)
Deferred tax not recognised		4		1
Other tax adjustments		(1)		(1)
Total income tax (credit)/expense		**(1)**		2

The income tax expense excludes the Group's share of income tax of investments accounted for using the equity method of £nil (2018: £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 2018	21	9	–	30
Acquisitions	–	1	1	2
Share of post-acquisition profits, net of income tax	–	1	(1)	–
Disposals	(12)	(1)	–	(13)
Impairment loss	(9)	–	–	(9)
Total carrying value at 31 December 2018	–	10	–	10
Carrying value at 1 January 2019	–	**10**	–	**10**
Acquisitions	–	**2**	–	**2**
Share of post-acquisition profits/(losses), net of income tax	–	–	–	–
Disposals	–	**(2)**	–	**(2)**
Impairment loss	–	**(2)**	–	**(2)**
Fair value loss	–	**(1)**	–	**(1)**
Total carrying value at 31 December 2019	–	**7**	–	**7**

The Indie Growth Fund

In 2019, Channel 4 invested £2 million (2018: £1 million) in the Indie Growth Fund. £2 million is committed for subsequent investment in these companies at 31 December 2019 (2018: £nil). 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 2019, Channel 4 sold its stake in Barcroft Studios Limited for a total consideration of £6 million to Future plc, recognising a total gain on disposal of £4 million. The consideration received comprised cash of £4 million and a £2 million equity shareholding in Future plc (See note 8). 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 identified indicators of impairment relating to certain Indie Growth Fund companies at 31 December 2019 and, following an impairment review, an impairment loss of £2 million was recognised in non-operating expenditure. Channel 4 also recognised a fair value loss of £1 million through other comprehensive income in 2019 on one Indie Growth Fund entity which is not accounted for as an associate.

Of the £660 million (2018: £662 million) total of programme rights recognised as expenses in 2019 (note 13), Channel 4 commissioned £17 million (2018: £18 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 2019 (2018: £nil).

Notes to the consolidated financial statements (continued)

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 2019	2018
Barcroft Studios Limited	TV programme production activities	Quay House, The Ambury, Bath BA1 1UA	–	15.0%
Dial Square 86 Limited	TV programme production activities	Somerset House, Strand, London WC2R 1LA	**4.7%**	4.7%
Eleven Film Limited	TV programme production activities	14-18 Great Titchfield Street, 4th Floor, Great Titchfield House, London W1W 8BD	**20.0%**	20.0%
Lightbox Media Limited	TV programme production activities	Regina House, 124 Finchley Road, London NW3 5JS	**22.0%**	22.0%
Spelthorne Community Television Limited	TV programme production activities	2nd Floor, 63-64 Margaret Street, London W1W 8SW	**25.0%**	25.0%
Voltage TV Productions Limited	TV programme production activities	5 Elstree Gate, Borehamwood, Herts WD6 1JD	**15.0%**	15.0%
Whisper Films Limited	Motion picture production activities	Unit B South Avenue Studios, 7 South Avenue, Richmond, Surrey TW9 3EL	**25.0%**	25.0%
Parable Ventures Limited	TV programme production activities	64 New Cavendish Street, London W1G 8TB	**18.0%**	18.0%
Firecrest Films Limited	TV programme production activities	Fairfield, 1048 Govan Road, Glasgow G51 4XS	**25.0%**	25.0%
Two Rivers Media Limited	TV programme production activities	1st Floor, Tontine Building, 20 Trongate, Glasgow G1 5ES	**10.0%**	–
True Vision Yorkshire Limited	TV programme production activities	18 The Glasshouse Studios, Fryern Court Road, Burgate, Fordingbridge, Hampshire SP6 1QX	**16.0%**	–
Five Mile Films Limited	TV programme production activities	Lower Ground Floor, 2 St Pauls Road, Clifton, Bristol BS8 1LT	**18.0%**	–
Eagle Eye Drama Limited	TV programme production activities	35 Soho Square, London W1D 3QX	**2.5%**	–

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
2019	**28**	**1**	**(16)**	**(2)**	**72**	**2**
2018	24	3	(11)	(1)	73	–

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 21 provides details of the disposal and fair value loss for Box presented above, as well as of the subsequent acquisition and business combination.

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 2019	2018
European Broadcaster Exchange (EBX) Limited	Television programming and broadcasting activities	6th Floor 65 Gresham Street, London EC2V 7NQ	**25%**	25%

8. Other investments

The Commercial Growth Fund

	Commercial Growth Fund £m	Other £m	Total £m
Carrying value at 1 January 2018	21	–	21
Acquisitions	9	–	9
Fair value loss	(5)	–	(5)
Impairment loss	(4)	–	(4)
Disposals	(5)	–	(5)
Total carrying value at 31 December 2018	16	–	16
Carrying value at 1 January 2019	**16**	–	**16**
Acquisitions	**8**	**2**	**10**
Fair value movement	**2**	–	**2**
Impairment loss	**(1)**	–	**(1)**
Disposals	**(5)**	–	**(5)**
Total carrying value at 31 December 2019	**20**	**2**	**22**

The Commercial Growth Fund

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 2019, the Corporation invested a further £8 million (2018: £9 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 fair value gain of £2 million (2018: loss of £5 million) and an impairment loss of £1 million (2018: £4 million) have been recognised in other comprehensive income during 2019.

There were no other transactions with the Commercial Growth Fund companies in 2019 (2018: none).

Other investments

During 2019 Channel 4 acquired a £2 million equity shareholding in Future plc as consideration relating to the sale of Barcroft Studios Limited, one of its Indie Growth Fund investments.

During 2018, Channel 4 recognised a £1 million gain in the income statement on the disposal of MyBuilder Limited, relating to deferred consideration not previously recognised on the sale which took place during 2017.

Notes to the consolidated financial statements (continued)

9. Property, plant and equipment

	Freehold land and building £m	Fixtures, fittings and equipment £m	Assets under construction £m	Total £m
Cost or valuation				
At 1 January 2018	97	108	–	205
Additions	3	3	–	6
Acquisitions	–	2	–	2
Revaluation	(6)	–	–	(6)
Disposals	–	(61)	–	(61)
At 31 December 2018	94	52	–	146
At 1 January 2019	**94**	**52**	–	**146**
Additions	**6**	**4**	**1**	**11**
Transfers from intangible assets	–	**4**	–	**4**
Revaluation	–	–	–	–
Disposals	–	**(7)**	–	**(7)**
At 31 December 2019	**100**	**53**	**1**	**154**
Depreciation				
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
At 1 January 2019	–	**43**	–	**43**
Charge for the year	**2**	**4**	–	**6**
Revaluation	**(2)**	–	–	**(2)**
Disposals	–	**(7)**	–	**(7)**
At 31 December 2019	–	**40**	–	**40**
Net book value				
At 1 January 2019	**94**	**9**	–	**103**
At 31 December 2019	**100**	**13**	**1**	**114**
At 1 January 2018	97	9	–	106
At 31 December 2018	94	9	–	103

The disposals made during 2019 and 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 (2018: £nil). No assets have been pledged for security (2018: none).

Valuation of freehold property

The freehold property at 124 Horseferry Road, London SW1P 2TX was valued at 31 December 2019 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 £100 million (2018: £94 million). After additions made to the building during 2019 and depreciation charged on the open market value at 31 December 2019 (£2 million), a gain on revaluation of £2 million has been recognised in the statement of other comprehensive income (2018: loss of £4 million).

Notes to the consolidated financial statements (continued)

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:

	2019 £m	2018 £m
Cost	**62**	62
Additions	**10**	4
Accumulated depreciation	**(27)**	(25)
Impairment	**(6)**	(6)
Net book value based on cost	**39**	35

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 2018	2	26	5	7	–	–	40
Additions	–	1	–	6	–	–	7
Acquisitions	–	–	–	–	27	1	28
Impairment	–	–	–	(8)	–	–	(8)
Disposals	–	(1)	–	–	–	–	(1)
At 31 December 2018	2	26	5	5	27	1	66
At 1 January 2019	**2**	**26**	**5**	**5**	**27**	**1**	**66**
Additions	–	–	–	–	–	–	–
Transfers to property, plant and equipment	–	–	–	(4)	–	–	(4)
Disposal	–	–	–	–	–	–	–
Impairment	–	–	–	–	–	–	–
At 31 December 2019	**2**	**26**	**5**	**1**	**27**	**1**	**62**
Amortisation							
At 1 January 2018	–	26	5	–	–	–	31
Amortisation for the year	–	–	–	–	–	–	–
Disposal	–	(1)	–	–	–	–	(1)
At 31 December 2018	–	25	5	–	–	–	30
At 1 January 2019	–	**25**	**5**	–	–	–	**30**
Amortisation for the year	–	–	–	–	**2**	–	**2**
Disposal	–	–	–	–	–	–	–
At 31 December 2019	–	**25**	**5**	–	**2**	–	**32**
Carrying amount							
At 1 January 2019	**2**	**1**	–	**5**	**27**	**1**	**36**
At 31 December 2019	**2**	**1**	–	**1**	**25**	**1**	**30**
At 1 January 2018	2	–	–	7	–	–	9
At 31 December 2018	2	1	–	5	27	1	36

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 arose during 2018 on the acquisition of Box (see note 21).

11. Lease assets and liabilities

Right-of-use assets

	Property £m	Total £m
At 1 January 2019	1	**1**
Additions and changes in terms	2	**2**
Charge for the year	–	**–**
At 31 December 2019	**3**	**3**

The Group expenses short-term leases and low-value assets as incurred in accordance with the exemption permitted by IFRS 16. These expenses amounted to less than £0.1 million in 2019.

Lease liabilities

	Property £m	Total £m
Current		
Within one year	1	**1**
Non-current		
Between two to five years	1	**1**
Greater than five years	1	**1**
Total	**3**	**3**

The interest expense relating to lease liabilities under IFRS 16 was £nil in 2019.

12. Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised at 17% (2018: 17%) reflecting the corporation tax rate substantively enacted as at 31 December 2019.

	Assets 2019 £m	Assets 2018 £m	**Liabilities 2019 £m**	Liabilities 2018 £m	**Net 2019 £m**	Net 2018 £m
Property, plant and equipment	**3**	3	**–**	–	**3**	3
Employee benefits	**13**	9	**–**	–	**13**	9
Trading losses	**6**	5	**–**	–	**6**	5
Channel 4 deferred tax assets	**22**	17	**–**	–	**22**	17
Temporary timing differences on acquired intangible assets	**–**	–	**(4)**	(5)	**(4)**	(5)
Group deferred tax assets/(liabilities)	**22**	17	**(4)**	(5)	**18**	12

Unrecognised deferred tax assets and liabilities

Deferred tax assets have not been recognised in respect of:

	2019 £m	2018 £m
Carried forward capital losses	**1**	1
Carried forward trading losses	**12**	8
Tax assets	**13**	9

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). At 31 December 2019, based on long term forecasts, and in line with the Group's aim to remain commercially self-sustainable in the long term, management consider it probable that future taxable profit will be available against which to recognise these assets.

Notes to the consolidated financial statements (continued)

12. Deferred tax assets and liabilities continued

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 2019 £m	Recognised in income £m	Arising on acquisition £m	Recognised in other comprehensive income £m	Balance at 31 Dec 2019 £m
Property, plant and equipment	3	–	–	–	3
Employee benefits	9	(2)	–	6	13
Trading losses	5	1	–	–	6
Channel 4 deferred tax assets	**17**	**(1)**	**–**	**6**	**22**
Temporary timing differences on acquired intangible assets	(5)	1	–	–	(4)
Group deferred tax assets	**12**	**–**	**–**	**6**	**18**

	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**

13. Programme and film rights

	2019 £m	2018 £m
Programmes and films completed but not transmitted	132	122
Acquired programme and film rights	68	65
Programmes and films in the course of production	91	98
Total programme and film rights	**291**	**285**

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 14% (2018: 11%).

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 £660 million were recognised as expenses in the year across the main and digital television channels (2018: £662 million). Of this amount, obsolete programmes and developments written off totalled £26 million (2018: £29 million).

Programme and film rights include £33 million (2018: £32 million) in respect of developed film rights.

14. Trade and other receivables

	2019 £m	2018 £m
Trade receivables	139	133
Prepayments	24	18
Accrued income	16	16
Total trade and other receivables	**179**	167

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 £1 million (2018: £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 2019 was £1 million in line with the provision made during the year.

(ii) Counterparty
See interest rate risk and exposure in note 15.

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 £139 million for the Group (2018: £133 million), with £7 million of other financial assets (2018: £48 million), and cash and cash equivalents of £130 million (2018: £132 million). The exposure to credit risk all arises in the UK.

Trade receivables of £139 million for the Group (2018: £133 million) were aged under six months and were not yet due under standard credit terms at the balance sheet date. £119 million of the receivables were insured at the balance sheet date (2018: £121 million) and £136 million (2018: £133 million) has been subsequently collected by the Group since the balance sheet date.

Notes to the consolidated financial statements (continued)

15. Treasury

	2019 £m	2018 £m
Bank balances	**37**	39
Money market funds[1]	**93**	83
Money market deposits maturing in less than three months	**–**	10
Cash and cash equivalents	**130**	132
Money market deposits maturing after three months	**–**	40
Investment funds	**7**	6
Restricted cash	**–**	2
Other financial assets	**7**	48

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

	2019 £m	2018 £m
Cash and cash equivalents at 1 January	**132**	115
Other financial assets at 1 January	**48**	75
Total cash reserves[1] at 1 January	**180**	190
Net cashflow (used in)/from operating activities	**(28)**	10
Net cashflow used in investing activities	**(15)**	(20)
Total cashflow	**(43)**	(10)
Cash and cash equivalents at 31 December	**130**	132
Other financial assets at 31 December	**7**	48
Total cash reserves[1] at 31 December	**137**	180

1 The Group presents Cash reserves as an alternative performance measure; an explanation of this APM is provided on page 184. Cash reserves represents the total of Cash and cash equivalents and Other financial assets above.

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 (2018: £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 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.

Notes to the consolidated financial statements (continued)

15. Treasury continued

The interest rate profile of the Group's cash and deposits at 31 December 2019 and 31 December 2018 is set out below:

	Effective interest rate 2019 %	Effective interest rate 2018 %	**Total 2019 £m**	Total 2018 £m
Interest-bearing deposits maturing in less than three months held in Sterling	**0.7**	0.7	**126**	127
Interest-bearing deposits maturing in less than three months held in foreign currencies	**0.9**	1.5	**4**	5
Total cash and cash equivalents	**0.7**	0.7	**130**	132
Money market deposits maturing after three months held in Sterling	**–**	1.0	**–**	40
Investment funds	**1.0**	0.4	**7**	6
Restricted cash	**n/a**	n/a	**–**	2
Other financial assets		0.9	**7**	48

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 2019, the total net value of forward contracts used as economic hedges of monetary liabilities was £nil (2018: £nil). 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 2019 and 31 December 2018 is set out below:

	Maturity within 12 months of balance sheet date 2019 No.	Maturity within 12 months of balance sheet date 2018 No.	**Maturity more than 12 months after balance sheet date 2019 No.**	Maturity more than 12 months after balance sheet date 2018 No.	**Total 2019 No.**	Total 2018 No.
Forward contracts to purchase Euros	**–**	8	**–**	–	**–**	8
Total forward contracts with fixed maturity dates	**–**	8	**–**	–	**–**	8

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 £nil lower/higher (2018: £1 million).

Market risk

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

The 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.

16. Trade and other payables

	2019 £m	2018 £m
Trade payables	**38**	40
Taxation and social security	**1**	1
Other creditors	**49**	36
Accruals	**197**	200
Deferred income	**28**	20
VAT	**19**	16
Total trade and other payables	**332**	313

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 2019 and 2018.

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 2019, as calculated using average payable balances, was nine (2018: eight). 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.

17. Provisions

	Onerous leases/ dilapidations £m	Restructuring costs £m	Total £m
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
At 1 January 2019	**–**	**1**	**1**
Utilised in the year	**–**	**(1)**	**(1)**
Charged to the income statement	**–**	**2**	**2**
At 31 December 2019	**–**	**2**	**2**

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

	2019 £m	2018 £m
Current	**2**	1
Non-current	**–**	–
Total	**2**	1

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.

18. Commitments

2019	Due within 1 year £m	Due within 2–5 years £m	Due after 5 years £m	Total £m
Programme commitments	385	303	1	689
Transmission contracts	37	108	71	216
Total	**422**	**411**	**72**	**905**

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
Transmission contracts	37	118	94	249
Total	414	426	100	940

Transmission contracts represent committed capacity costs for transmission on the digital terrestrial and satellite network. Committed payments for digital terrestrial transmission capacity costs amounted to £29 million in 2019 (2018: £30 million). The digital terrestrial transmission contracts expire between 2020 and 2031. Committed payments for satellite transmission capacity costs were £8 million in 2019 (2018: £15 million). The satellite transmission contracts expire in 2024.

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 2019 (2018: £23 million) and is forecast to be £24 million in 2020. 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 has commitments for further subscriptions for minority shareholdings in companies in the Indie Growth Fund due within one year as disclosed in note 7.

19. 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 208 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.

19. 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' investment objective is to target an appropriate return on the Plan's assets to meet the objectives above whilst managing and maintaining investment risk, taking into account the strength of the employer covenant.

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 2019 focused on efficiently achieving returns. Due to new offerings in the liability driven investment (LDI) market, the Plan was able to increase its credit exposure and maintain its exposure to equities, whilst leaving the levels of interest rate and inflation liability matching broadly the same.

The 2019 review, which occurred in conjunction with the actuarial valuation as at 31 December 2018, resulted in the Plan:

- replacing its passive global equity allocation with equity-linked LDI (which maintained overall equity exposure);
- replacing part of the existing LDI allocation with credit-linked LDI (introducing credit exposure but, in combination with the above switch, maintaining overall liability matching); and
- increasing its allocation to absolute return bonds.

These changes increased the expected return of the investment portfolio whilst keeping the investment risk to an acceptable level.

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).

Notes to the consolidated financial statements (continued)

19. Employee benefits – pensions continued

Amounts recognised in the consolidated balance sheet

	2019 £m	2018 £m
Present value of funded obligations	(532)	(461)
Fair value of Plan assets	453	405
Recognised liability for defined benefit obligations	**(79)**	**(56)**

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

	2019 £m	2018 £m
Fair value of scheme assets at 1 January	405	439
Interest income on Plan assets	12	10
Return on Plan assets (excluding amounts in interest income)	43	(29)
Employer contributions net of charges	11	11
Benefits paid	(18)	(26)
Fair value of scheme assets at 31 December	**453**	**405**

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

	2019 £m	2018 £m
Overseas and emerging markets equity	46	66
Total equity securities	**46**	**66**
Corporate bonds	87	53
Infrastructure	47	46
Total debt securities	**134**	**99**
Multi-asset absolute return	35	32
Liability driven investments	141	163
Total investment funds	**176**	**195**
Cash and cash equivalents	58	8
Annuity policy buy-in	39	37
Fair value of scheme assets at 31 December	**453**	**405**

The Plan assets do not include any directly or indirectly owned financial instruments issued by the Corporation. The valuation of the assets above is based on Level 1 inputs in the IFRS 13 fair value hierarchy, with the exception of the annuity policy buy-in which is valued in line with relevant Level 2 inputs.

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:

	2019 £m	2018 £m
Present value of scheme liabilities at 1 January	461	506
Interest expense on pension scheme liabilities	13	12
Remeasurement deficit on plan liabilities arising from changes in demographic assumptions	(7)	–
Remeasurement deficit on plan liabilities arising from changes in financial assumptions	69	(35)
Experience remeasurement	14	3
GMP equalisation	–	1
Benefits paid	(18)	(26)
Present value of scheme liabilities at 31 December	**532**	**461**

Notes to the consolidated financial statements (continued)

19. Employee benefits – pensions continued

Expenses recognised in the income statement arose as follows:

	2019 £m	2018 £m
Net interest expense	**1**	2
Other administrative expenses	**–**	1
Net charge to income statement	**1**	3

Following a high court ruling during 2018 regarding the gender equalisation of guaranteed minimum pensions, the Group 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:

	2019 £m	2018 £m
Remeasurement (deficit)/gain on plan liabilities	**(76)**	32
Remeasurement gain/(deficit) on plan assets (excluding amounts in interest income)	**43**	(29)
Net remeasurement (deficit)/surplus on pension scheme	**(33)**	3

The cumulative amount of net remeasurement deficits/gains recognised in the statement of changes in equity since transition to IFRS is a £144 million deficit (2018: £111 million deficit).

Principal actuarial assumptions at the balance sheet date

	2019 %	2018 %
Discount rate	**2.05**	2.85
Rate of increase in salaries	**2.95**	2.70
Rate of increase in pensions	**2.90**	3.10
Inflation	**2.95**	3.20

	2019 years	2018 years
Life expectancy from 65 (now aged 45) – male	**23.4**	23.9
Life expectancy from 65 (now aged 45) – female	**26.0**	26.4
Life expectancy from 65 (now aged 65) – male	**22.2**	23.2
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 2019:

	Revised present value of scheme liabilities £m
0.5% decrease in discount rate	**591**
1 year increase in life expectancy	**553**
0.5% increase in salary assumptions	**537**
0.5% increase in inflation (and inflation-linked) assumptions	**577**

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

19. Employee benefits – pensions continued

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 2018. The results of the valuation at 31 December 2018 showed that the scheme's assets represented 75% of the benefits that had accrued to Members, reflecting a deficit of £134 million. The next triennial valuation will be carried out as at 31 December 2021.

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 £9 million per annum from January 2020 until August 2028.

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

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.'

20. Related party transactions

Members

Details of transactions in which Members have an interest are disclosed in the Report of the Members (page 150).

Details of Members' remuneration are shown in the Members' Remuneration Report (page 166).

Joint ventures and associates

Details of transactions between the Group and its joint ventures and associates as at 31 December 2019 are disclosed in note 7.

Other

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

Name	Nature of business	Share class	Ownership interest	Services received 2019 £m	Services received 2018 £m	Funding and services provided 2019 £m	Funding and services provided 2018 £m
Broadcasters' Audience Research Board Limited	Research	*	–	–	–	**2**	2
Clearcast Limited	Regulator	Ordinary, deferred	25.0%	–	–	**1**	1
Digital 3 and 4 Limited	Operator	'A' Ordinary	50.0%	**1**	2	**24**	23
DTV Services Limited	Marketing	Ordinary	20.0%	**7**	7	**4**	5
Digital UK	Marketing	*	–	–	–	**2**	2
Thinkbox Limited	Marketing	Ordinary	20.0%	**1**	1	**2**	2
YouView Limited	Platform	Voting, non-voting	14.3%	–	–	**1**	1

The Group had £3 million trade payables remaining with the organisations listed above at 31 December 2019 (2018: £nil). No dividends were received in 2019 (2018: £nil) from any of the related parties listed above.

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

21. Business combinations

Global Series Network Limited ('GSN')

On 1 January 2019 Channel 4 acquired the remaining 20% holding in GSN for £4 million which comprised cash of £2 million and deferred consideration of £2 million. GSN had been accounted for (following the acquisition of the previous 80% shareholding in 2015) as a subsidiary and fully consolidated into the Group's financial statements. This resulted in an adjustment to the previous non-controlling interest, recognised in other comprehensive income:

Equity adjustment on change in non-controlling interest

	£m
Carrying value of non-controlling interest	–
Consideration on date of acquisition	2
Deferred consideration	2
Adjustment to parent's equity	**4**

The Box Plus Network Limited ('Box')

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. Channel 4 acquired the previous 50% shareholding in Box in 2007. In acquiring the remaining 50% of the business, the Group obtained control of Box and 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 was treated as a step acquisition and is recognised in the consolidated financial statements for 2018 as:

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

The fair value of the Group's previous holding was estimated to be £12 million. This remeasurement led 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:

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**

From 31 December 2018 Box has been 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 was based on the fair value of the business's identifiable assets and liabilities acquired. The Group 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 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.

Based on the external assessment of the fair value of Box's identifiable net assets, a gain on bargain purchase arose on the transaction, recognised in the income statement on the acquisition date in 2018 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**

22. Post Balance Sheet Events ("PBSE")
In March 2020, Channel 4 drew down its full £75 million revolving credit facility to provide additional liquidity if required as a response to the Covid-19 pandemic and its impact on the TV advertising market.

The financial impact on the Group of the Covid-19 pandemic is considered on page 144. Management's assessment is that the pandemic should not be considered an adjusting event for the 2019 financial statements and that recovery is at too early a stage to quantify the overall impact on the valuation of the Group's net assets. We have summarised below the balance sheet items which may be subject to material changes in valuation as a result of the economic challenges resulting from the outbreak:

Investments – Commercial Growth Fund
Certain investees within our Commercial Growth Fund have been severely affected by restrictions on their business as a result of government lockdown measures. Our investments in these entities are carried at fair value and are therefore required to be revalued at each reporting period end. At 31 December 2019, the fair value of these investments was £20m. Management anticipate that the fair value of investments will change as a result of the impact of Covid-19 on certain investees, but do not expect a material net impact on the value of the Fund at 31 December 2020.

Property, plant and equipment – freehold land and buildings
Our Horseferry Road building (which is currently valued at £100m) will be revalued as at 31 December 2020; it is too early at the date of this report to quantify the impacts of Covid-19 and recession in the UK on the value of this property, but it is possible that any continuing factors could lead to a material decrease in its value. Our valuation exercise later in the year will show any such change and we will continue to monitor the market indicators.

Intangible assets – network distribution rights
The intangible asset recognised in relation to certain acquired network distribution rights (currently valued at £25m) is reviewed for indicators on impairment annually in line with IAS 36 'Impairment of Assets'. No indicators of impairment were noted as at 31 December 2019 and so no detailed impairment testing was considered necessary. It is possible that if a similar review was performed as at the date of signing these financial statements that indicators of impairment would be present as a result of the current economic downturn, and therefore a detailed impairment review would be required. This asset forms part of a wider cash generating unit ("CGU"), and it cannot be quantified as at the date of signing what change (if any) there may in the recoverable amount for the CGU as a whole (or how this might be allocated to the intangible asset). We will review the network distribution rights again for indicators of impairment on 31 December 2020 in line with IAS 36.

Deferred tax assets
Management applies estimates in calculating the Group's deferred tax assets with regards to the level of future taxable surpluses that are expected and against which the assets will be utilised. Due to current economic uncertainty, future iterations of these estimates could be materially different to those currently applied, which creates the risk of a material change in the valuation of (or full derecognition of) the Group's deferred tax asset (recognised at £18m as at 31 December 2019).

Programme and film rights
Although Channel 4 has announced reductions to its content budget in 2020 as a result of the Covid-19 crisis and production was largely paused for several months during lockdown, we maintain a content schedule and cashflow budget that is agile and carefully managed to react to a range of revenue scenarios and we have an ability to defer content when required. Therefore management do not anticipate material write downs in the valuation of the Group's programme or film rights as a result of the Covid-19 outbreak.

Employee benefits – pensions
The actuarial valuation of the pension liability reflected in the financial statements was £79m as at 31 December 2019. The outbreak of coronavirus has subsequently caused significant volatility in financial markets, with a dramatic fall in global stock markets and bond yields. Equities are particularly volatile, as are high yield bond and high risk debt markets. However, government bonds have seen strong performance, pushing yields lower, as investors seek safer assets and the effects of quantitative easing are felt. The Plan's investments have reflected some of this volatility, albeit with some protection against adverse market movements given the Plan's investments are weighted towards matching assets.

Corporate bond yields, on which the Plan's discount rate is based, have also been volatile, with increases over the levels seen at the year-end in March, before falls since. Whilst a fall in the discount rate will place a higher value on pension liabilities, this is likely to be offset somewhat by falls in the level of expected inflation since the year-end.

Channel 4 balance sheet

as at 31 December

	Group note	Channel 4 note	2019 £m	2018 £m
Assets				
Property, plant and equipment	9		**114**	103
Intangible assets		2	**2**	6
Right-of-use asset	11		**3**	–
Investments in subsidiaries and joint ventures		3	**23**	23
Deferred tax assets	12		**22**	17
Total non-current assets			**164**	149
Programme and film rights		4	**289**	280
Trade and other receivables		5	**174**	161
Other financial assets		6	**7**	48
Cash and cash equivalents		6	**125**	127
Total current assets			**595**	616
Total assets			**759**	765
Liabilities				
Employee benefits – pensions	19		**(79)**	(56)
Lease liabilities	11		**(3)**	–
Total non-current liabilities			**(82)**	(56)
Trade and other payables		7	**(441)**	(425)
Provisions	17		**(2)**	(1)
Total current liabilities			**(443)**	(426)
Total liabilities			**(525)**	(482)
Net assets			**234**	283
Revaluation reserve			**56**	54
Retained earnings:				
Content reserve			**–**	20
Other retained earnings			**178**	209
Total equity			**234**	283

As permitted by section 408 of the Companies Act 2006, the Corporation has not presented its own income statement. A deficit of £24 million has been recognised in relation to the Corporation in 2019.

The financial statements on pages 212 to 217 were approved by the Members of the Board on 28 September 2020 and were signed on its behalf by:

Charles Gurassa
Chair

Alex Mahon
Chief Executive

The notes on pages 215 to 217 form part of these financial statements.

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 2018	216	20	58	294
Deficit for the year	(10)	–	–	(10)
Net remeasurement deficit on pension scheme	3	–	–	3
Revaluation of freehold land and buildings	–	–	(4)	(4)
Total comprehensive (cost)/income for the year	(7)	–	(4)	(11)
At 31 December 2018	209	20	54	283
At 1 January 2019	209	20	54	283
Deficit for the year	**(24)**	–	–	**(24)**
Net remeasurement surplus on pension scheme	**(33)**	–	–	**(33)**
Deferred tax on pension	**6**	–		**6**
Revaluation of freehold land and buildings	–	–	**2**	**2**
Total comprehensive cost for the year	**(51)**	–	**2**	**(49)**
Reserve transfer	**20**	**(20)**	–	–
At 31 December 2019	**178**	–	**56**	**234**

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 180 to 211. 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 £24 million (2018: £10 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 184 to 189, 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 20 on page 209.

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 programme and film rights amortisation and the classification of transponder assets as service contracts under IFRS 16, as disclosed for the Group on page 184.

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 2019 are presented in note 3 to the consolidated financial statements on page 191.

Staff costs

All staff costs are borne by Channel 4 and are presented in note 4 to the consolidated financial statements on page 192 and in the Members' Remuneration Report on pages 164 to 172.

The average monthly number of employees of the Corporation is 854 (2018: 844).

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 2018	26	7	33
Additions	1	6	7
Disposal	(1)	–	(1)
Impairment	–	(8)	(8)
At 31 December 2018	26	5	31
At 1 January 2019	**26**	**5**	**31**
Additions	–	–	–
Transfer to property, plant and equipment	–	**(4)**	**(4)**
Disposal	–	–	–
At 31 December 2019	**26**	**1**	**27**
Amortisation			
At 1 January 2018	26	–	26
Amortisation for the year	–	–	–
Disposal	(1)	–	(1)
At 31 December 2018	25	–	25
At 1 January 2019	**25**	–	**25**
Amortisation for the year	–	–	–
Disposal	–	–	–
At 31 December 2019	**25**	–	**25**
Carrying amount			
At 1 January 2019	**1**	**5**	**6**
At 31 December 2019	**1**	**1**	**2**
At 1 January 2018	–	7	7
At 31 December 2018	1	5	6

Notes to the Channel 4 financial statements (continued)

3. Investments

Subsidiary undertakings and joint ventures

The cost of investments at 31 December is:

	2019 £000	2018 £000
4 Ventures Limited	**1**	1
The Box Plus Network Limited	**23,000**	23,000

The subsidiary undertakings incorporated in the United Kingdom at 31 December 2019 are as follows. Where the Members have taken the exemption under Companies Act s479A from having an audit of the financial statements for subsidiaries controlled and consolidated by the Group, this is noted below:

Name	Nature of business	Issued ordinary £1 shares	Ownership interest
Registered office address is: 124 Horseferry Road, London SW1P 2TX			
4 Ventures Limited[1]	Intermediate holding company and non-primary function activities	1,000	100%
Film Four Limited[1,2]	Film distribution	1,000	100%
Channel Four Investments Limited[1,2]	Indie Growth Fund	1	100%
The Box Plus Network Limited[1]	Music TV channels	1,000	100%
Global Series Network Limited[1,2]	TV and film distribution	2,000	100%
Channel Four Television Company Limited	Non-trading	100	100%
Channel Four Racing Limited[2]	Non-trading	2	100%
E4.com Limited[2]	Non-trading	1,000	100%
E4 Television Limited[2]	Non-trading	1,000	100%
Film on Four Limited[2]	Non-trading	100	100%
Four Ventures Limited[2]	Non-trading	1,000	100%
Sport on Four Limited[2]	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 Exemption from audit of subsidiary financial statements taken by the Members
2 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

	2019 £m	2018 £m
Programmes and films completed but not transmitted	**133**	121
Acquired programme and film rights	**65**	61
Programmes and films in the course of production	**91**	98
Total programme and film rights	**289**	280

Certain programme and film rights may not be utilised within one year as disclosed in note 13 to the consolidated financial statements.

Notes to the Channel 4 financial statements (continued)

5. Trade and other receivables

	2019 £m	2018 £m
Trade receivables	135	132
Prepayments	24	17
Accrued income	15	12
Total trade and other receivables	**174**	**161**

6. Treasury

	2019 £m	2018 £m
Bank balances	32	34
Money market funds	93	83
Money market deposits maturing in less than three months	–	10
Cash and cash equivalents	**125**	**127**
Money market deposits maturing after three months	–	40
Investment funds	7	6
Restricted cash	–	2
Other financial assets	**7**	**48**

7. Trade and other payables

	2019 £m	2018 £m
Trade payables	37	39
Taxation and social security	1	1
Other creditors	52	37
Amounts due to subsidiaries	118	120
Accruals	186	193
Deferred income	27	20
VAT	20	15
Total trade and other payables	**441**	**425**

8. Post Balance Sheet Events ('PBSE')

The Post Balance Sheet Events disclosed in Group note 22 are also considered to be applicable to the Corporation's financial statements.

The Corporation's investment in Box is held at historical cost less provision for impairment, and currently valued at £23m. No indicators of impairment were noted as at 31 December 2019 and so no detailed impairment testing was considered necessary. It is possible that if a similar review was performed as at the date of signing these financial statements that indicators of impairment would be present as a result of the current economic downturn, and therefore a detailed impairment review would be required.