Financial report and statements

Strategic report

2015 financial review and highlights

Record financial results and content reserve increased to £50 million

- Revenue increased by £41 million to £979 million, the highest in the Corporation's history, driven by strong advertising sales performance, advertising market growth and digital revenue growth
- Record content investment with spend increasing to £629 million
- Post-tax surplus of £26 million and £20 million of this allocated to the content reserve for future creative investment to protect the long-term delivery of our remit
- Overhead and administrative costs continue to represent a small proportion of the total cost base (approximately 3%). We continue to seek efficiencies in operations to maximise investment into content and our remit

Channel 4 Sales House increases market reach

- The Channel 4 Sales House, including advertising sales generated for our partners UKTV, The Box Plus Network ('Box') and BT Sport, achieved £1.17 billion in sales and improved market share to 26.4% (2014: 25.9%)

Year of creative success and achievement

- Originated content spend reached record levels of £455 million
- Channel 4 viewing share improved for the first time since 2006 with multiple successes on-screen in every genre
- Portfolio share down due to pressures facing all digital channels but portfolio viewing in peak-time, where content performance and investment is concentrated, increased for the second year running
- Multiple awards with key wins including Channel 4 as the Broadcast Awards Channel of the Year

Digital growth

- Digital revenues increased by 30% to £82 million
- Targeted advertising revenue accounted for 31% of digital advertising revenue in 2015
- New integrated video on demand ('VoD') proposition, All 4, launched extending the reach of our digital offering and developing new tools to enhance viewer engagement and understanding
- Over 13 million net All 4 registrations recorded by December 2015

Increase in cash reserves reflects financial stability

- Total cash and funds on deposit increased by £30 million to £252 million
- Strong platform for future growth and commercial self-sufficiency

Expansion of the Indie Growth Fund

- Four further investments taking the total portfolio to nine companies with a total investment commitment of £9 million out of the £20 million fund

Revenue and cost highlights

	2015 £m	2014 £m
Sales house[1]	**1,171**	1,073
Corporation revenues	**979**	938
Advertising and sponsorship revenues[2]	**925**	869
Digital revenues[3]	**82**	63
Content spend	**629**	602
Originated content spend	**455**	430

1 Sales house includes the gross revenues of our partners UKTV, Box and BT Sport. As Channel 4 is an agent in these relationships we only recognise our commission on these sales within Corporation revenue.
2 Advertising and sponsorship revenues include digital advertising revenues.
3 Digital revenues include digital advertising revenues and platform licence fee income.

Financial position

We maintain a robust financial position, reflected by a strong balance sheet and significant cash reserves. These reserves will provide funds for future growth plans as well as contingency against future advertising market volatility.

The balance sheet on page 140 shows that the net assets of the Group at 31 December 2015 were £495 million (2014: £443 million). The year-on-year improvement reflects our surplus after tax of £26 million, an increase in the revaluation of the Horseferry Road freehold property of £12 million, decreased actuarial deficits on the defined benefit pension scheme of £12 million and net deferred tax movements on the revaluation of the pension scheme and property of £2 million.

The increase in the value of the property, the movement in the pension deficit and their associated deferred tax impacts are recorded in Other Comprehensive Income.

Cashflow

Total cash and funds on deposit increased by £30 million in the year (2014: a decrease of £16 million) to £252 million (2014: £222 million). The increase was driven by the 2015 surplus and an improved working capital position offset by the acquisition of Global Series Network Limited, further Growth Fund investments and contributions to the defined benefit pension scheme.

Group cash and cash equivalents were £165 million at 31 December 2015 (2014: £152 million) with a further £87 million held in variable net asset value funds (2014: £60 million) and £nil held on deposit for three months or longer (2014: £10 million).

Strategic report *continued*

Regulatory environment

Under the regulatory model, Channel 4 receives access to the digital spectrum and prominence on the digital terrestial television platform. In return Channel 4 must fulfil its public service remit obligations as set out in the 1990 and 1996 Broadcasting Acts and as amended by the Communications Act 2003, the Digital Economy Act 2010 and the ten-year licence issued by Ofcom, which came into effect in January 2015. We are prohibited by legislation from owning our own production capability and there is a statutory limit on the amount of debt we can raise.

Our remit and business model

Channel 4 is a unique organisation: a public service publisher-broadcaster with a distinctive creative remit, funded solely from commercial revenues, existing to provide a range of distinctive, challenging and provocative content. In order to fulfil our public service remit (which is set out on pages 12 and 13 and throughout the Statement of Media Content Policy) we seek to optimise returns from our commercial activities and minimise our overheads in order to maximise our spend on-screen.

As a not-for-profit public service broadcaster, our aim is to maintain an overall financial break-even position in the long term. A key element of our long-term break-even target is the way we cross-fund commercially challenging genres with profitable programming. We believe surpluses and cash reserves should be invested back into original content and digital innovation to evolve our commercial business model and to maintain the relevance and reach of our remit.

To support and demonstrate this principle, we established a content reserve in 2014. Subject to Board approval, surpluses generated will be allocated to the content reserve when realised in cash, and creative investments meeting certain criteria may be funded by drawing down from the content reserve.

The delivery of Channel 4's unique remit has always relied on a challenging funding model which requires an agile, pioneering and well-executed commercial strategy. The Members' view is that this is one of the organisation's strengths, forcing Channel 4 to remain at the sharp end of innovation. Under this regime Channel 4 has achieved the successful implementation of a multichannel strategy, the launch of pioneering digital services and sustained innovation in advertising sales – and a stable overall portfolio share.

Over the past six years the Executive team has focused on creating long-term sustainability through commercial innovation and creative success, by ensuring output is as distinctive and diverse as it can be. Key corporate and financial priorities have included:

- sustaining creative excellence, maintaining current levels of public service impact and stabilising share decline
- stabilising our share of commercial viewing, maximising our share of the core TV market and identifying and driving incremental revenue growth
- developing our ad sales partnerships. The combination of Channel 4 alongside UKTV, BT Sport and Box means we continue to maintain scale and manage a demographically-efficient base
- bolstering and differentiating our VoD proposition to drive digital revenue and the ability to deliver targeted VoD advertising through our award winning data strategy
- reviewing operational efficiency to ensure incremental spend is investment and remit-focused. We also target keeping operational cost increases below inflation.

Strategic report *continued*

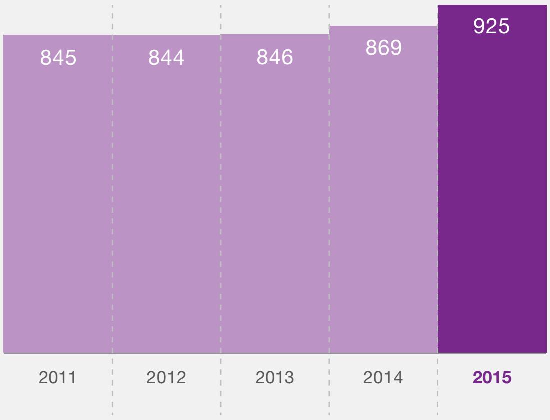
Key performance indicators

The Board uses a range of quantitative financial and non-financial indicators to monitor the Group's performance against its key objectives including the Statement of Media Content Policy ('SMCP') metrics set out on pages 16 to 39 of this report and the performance metrics set out on pages 175 to 177. Four key indicators are described below.

Advertising and sponsorship revenue

£925m

Total advertising and sponsorship revenue (£m)



Definition

Advertising and sponsorship includes all broadcast airtime, digital advertising and sponsorship revenues recognised in the Group consolidated income statement. Channel 4 is funded solely from commercial activities without direct public subsidy. Our commercial performance is therefore dependent on delivering valuable airtime to advertisers, which in turn enables the delivery of our remit.

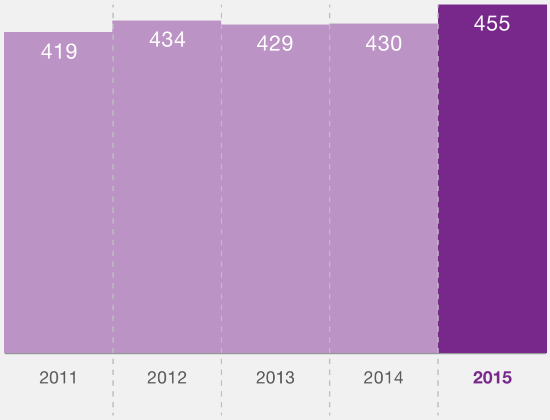
2015 performance

In 2015, advertising and sponsorship revenue accounted for 94% (2014: 93%) of total revenue. Total advertising and sponsorship revenue increased in the year to £925 million (2014: £869 million).

Originated content spend

£455m

Investment in originated content (£m)



Definition

Originated content spend primarily reflects our investment across the portfolio of channels in original, UK-developed content. It is a key metric showing how we are delivering the remit.

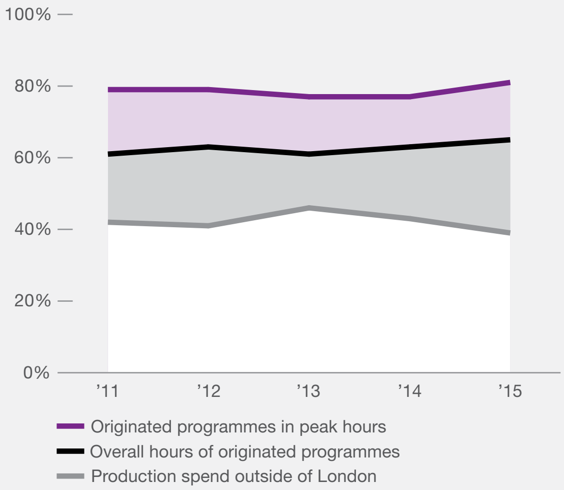
2015 performance

In 2015, Channel 4 continued to invest in commissions from UK independent production companies and originated content spend was at a record level of £455 million (page 19) demonstrating Channel 4's continuing commitment to the UK independent production sector.

Strategic report *continued*

Ofcom requirements

EXCEEDED



Definition
As a public service broadcaster, the Channel 4 main service is set various licence obligations by Ofcom. Targets are set for a range of production and transmission measures. Our delivery against these targets is set out on pages 19, 21 to 23 and 174.

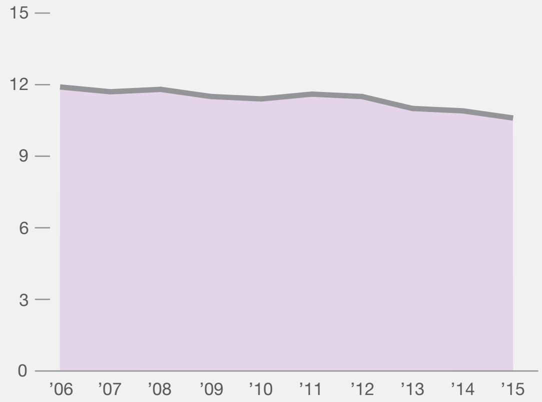
2015 performance
In 2015 and 2014, we met or exceeded all of our licence requirements.

Key quotas achieved are shown above. During 2015, the main channel achieved 65% of overall hours of originated programmes (target: 56%) and 81% in peak hours (target: 70%).

As shown on page 22, we also comfortably exceeded our target of 35% of programme production spend outside London with 39% (2014: 42%) of the main channel's originated programming, excluding *Channel 4 News*, being supplied by production companies located outside the M25. The decline in 2015 reflects the timing of regional Drama spend and fewer episodes being transmitted of long-running daytime formats.

Portfolio audience share

10.6%



Definition
Portfolio audience share data is the average proportion of the total UK television audience that has viewed our portfolio of channels in the year, and is obtained from BARB (see pages 35 and 176).

Portfolio audience share is a broad measure and an easily understood indicator of performance. It shows our viewer impact and also helps explain our success in attracting advertising to our portfolio of channels.

Financial sustainability is underpinned by our success in attracting key demographics, 16–34-year-olds and ABC1s, and in peak-time viewing which are valuable to advertisers, and these are important sub-measures within the top level portfolio share.

2015 performance
Channel 4 reached an important milestone in 2015 with audience share improving for the first time since 2006 to 5.92% (2014: 5.86%).

In 2015, portfolio audience share was 10.6% (2014: 10.9%) as the main channel performance was offset by challenges facing all digital channels with our digital channel viewing share declining to 4.7% (2014: 5.0%). E4 was particularly affected, although the declines experienced were smaller than many broadcast competitors.

Against the backdrop of overall audience share, viewing share performance in peak-time and our key demographics (16–34-year-olds and ABC1s) ultimately underpin our advertising revenues.

Performance in peak-time, where the majority of content investment is concentrated, was strong versus other terrestrial channels and once again improved year-on-year from 12.5% to 12.9%.

Our ABC1 demographic improved due to a slate of successful drama and entertainment programmes, with share up from 10.9% to 11.0%, while our share of the 16–34-year-olds demographic declined to 16.5% in 2015.

Further information on audience share is provided on pages 34 to 39 and 175.

Strategic report *continued*

Business segments

Our business comprises three operating segments:

1. **4Broadcast**
   4Broadcast comprises the broadcast and supporting activities of the Corporation. These activities include five free-to-air television channels, available on terrestrial, satellite and cable platforms, which help to maintain the Corporation's scale and creative impact in the multichannel world.

   Channel 4, the main service channel, continues to maintain its core focus on the values of innovation, creativity and diversity through original UK commissioned programming. Channel 4 is available in standard and high definition on the main broadcast platforms and also encompasses our delayed transmission service Channel 4+1 and **4seven**, which provides another opportunity to watch Channel 4 programmes from the past week that have generated public, media and social media attention.

   E4 focuses on Comedy, Drama and Entertainment, including original commissions and US acquisitions. E4 is the leading digital channel for 16–34-year-olds and the third most popular digital channel in the UK.

   More4 offers lifestyle based content to help viewers to get the most out of their everyday lives. More4 focuses on popular factual and features programming including homes, property, food, health and fashion.

   Film4, the UK's leading dedicated film channel and the fourth most popular digital channel for individuals, offers a mix of the best British, European, US and international cinema.

   E4, More4 and Film4 are available on all the main broadcast platforms and offer delayed transmission and high definition services.

   4Broadcast includes **All 4,** our new VoD proposition and other interactive platforms that have helped to extend the depth and impact of programming output, as well as free, advertising-funded catch-up video on demand. The Corporation continues to innovate and use new technologies to drive a deeper relationship with audiences.

   The 4Broadcast segment also includes our **Indie Growth Fund**, an investment fund to nurture the independent production sector by providing access to funding for a broad portfolio of small and medium-sized companies based in the UK to help them grow and develop their business.

2. **4Rights**
   4Rights includes our UK secondary rights business, generating income through the distribution of programmes, syndicated video on demand through third-party digital platforms, sale of DVDs, and other associated products. Third-party VoD platforms making Channel 4 content available to viewers include Virgin Media, Sky, BT Vision and Amazon Prime, as well as PlayStation, Xbox, iOS, Android, Samsung and Windows.

3. **Other**
   Other includes the provision of creative design and production services outside of the Corporation.

Income statement highlights by segment

2015	Advertising and sponsorship revenue £m	Other revenue £m	Total revenue £m	Operating surplus/ (deficit) £m
4Broadcast	889	17	906	(4)
4Rights	36	36	72	28
Other	–	1	1	–
Eliminations	–	–	–	–
Total	**925**	**54**	**979**	**24**

2014	Advertising and sponsorship revenue £m	Other revenue £m	Total revenue £m	Operating surplus/ (deficit) £m
4Broadcast	843	17	860	(20)
4Rights	27	51	78	24
Other	–	1	1	–
Eliminations	(1)	–	(1)	–
Total	**869**	**69**	**938**	**4**

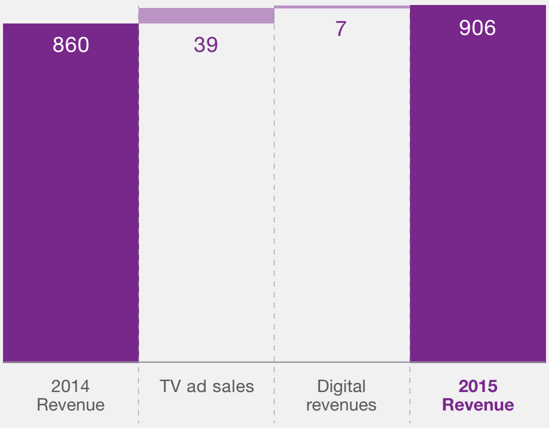
Strategic report *continued*

Segment financial review

4Broadcast revenue

£906m

Revenue (£m)

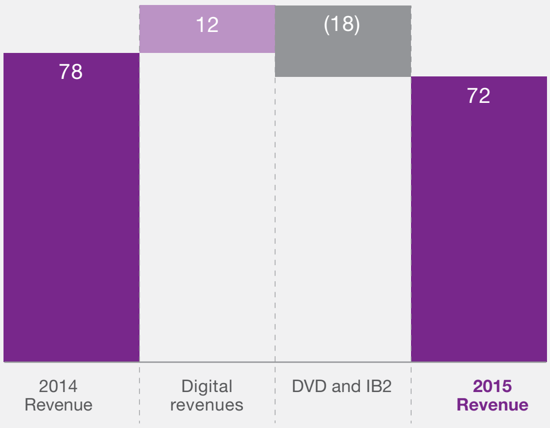


Revenue increased by £46 million in 2015, mainly due to strong TV advertising sales performance, TV advertising market growth and growth in digital revenues on Channel 4 owned platforms.

4Rights revenue

£72m

Revenue (£m)

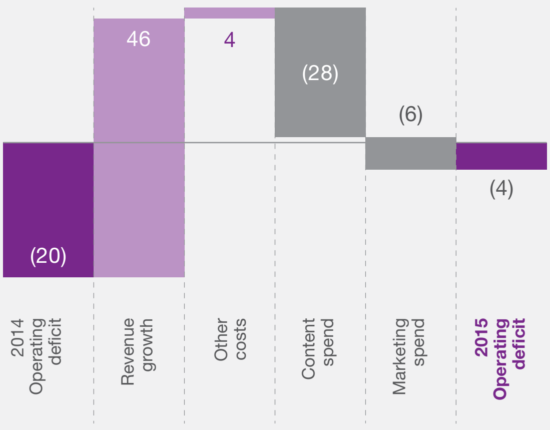


Revenue decreased by £6 million in 2015, reflecting one-off box office and DVD revenue contributed by *The Inbetweeners 2* ('IB2') in 2014 offset by growth in digital revenues on third-party platforms.

4Broadcast operating deficit

£4m

Operating result (£m)

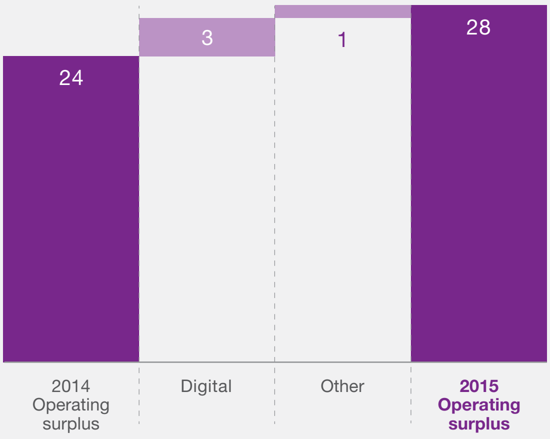


The operating deficit improved by £16 million in 2015, mainly due to the impact of the revenue growth highlighted above offset by higher content and marketing spend as some of the incremental revenue was reinvested in the year.

4Rights operating surplus

£28m

Operating result (£m)



The £4 million increase in the operating surplus in the year mainly reflects digital growth on third-party platforms.

Strategic report *continued*

Staff and corporate responsibility

People

At Channel 4 we pride ourselves on how diverse, passionate and talented the people we employ are. Not only does this reflect our audience more accurately, it also promotes creative output both on-and off-screen.

The average number of employees for the year, on a full-time equivalent basis, was 819 in 2015, an increase of 1% (2014: 808). At the end of 2015, the average number of people employed by the Corporation for each group of employees was as follows:

2015	Male No.	Female No.
Executive Members	3	1
Senior managers	25	13
Employees	333	444
Total employees	**361**	**458**
Non-Executive Members	5	4
Total including Non-Executive Members	**366**	**462**

Employee diversity

In 2015, Channel 4 launched the 360° Diversity Charter, which focuses action on improving support for under-represented groups, not only in our programming but also at every level of our organisation.

One of our biggest actions was to promote transparent, measurable employee diversity targets, aiming to reflect the diversity of the United Kingdom population by 2020.

When the Diversity Charter was launched, our employee diversity information was incomplete. We needed to understand our current employee profile more fully in order to set our 2020 targets. We ran a diversity data campaign to our employees during early 2015 **('What's it got to do with you?')** to share the benefits of recording diversity information. The campaign ran in conjunction with our e-learning module '**Born Different**' to raise employees' understanding of diversity and inclusion issues, and to explain how they can play a part in shaping Channel 4.

The campaign was successful on two fronts:

- Internally: Our employee self-declaration, especially with LGBT and disabled employees, increased significantly. 80% of staff completed the 'Born Different' e-learning module within five weeks of its launch. 85% of those who completed the training said it made them more thoughtful and aware of the importance of diversity at Channel 4. We also ran optional face-to-face Diversity and Inclusion development sessions; 89% of participants said they would "definitely use" what they learned
- Externally: 'Born Different' won two silver E-Learning Awards. 'What's it got to do with you?' has been embraced by Stonewall, who then asked us to work with them to help showcase the potential of this exercise to other organisations

At the end of 2014 and 2015, our employees identified with the following key diversity groups:

	December 2014	December 2015	2020 Target (Staff)
Disabled	2%	3%	6%
BAME	16%	18%	20%
LGBT	4%	6%	6%
Female	58%	58%	50% equal split

Since the launch of the Diversity Charter, the first annual update 'One Year On' has been published and is available at channel4.com showing the progress against our targets by December 2015. We have nominated 2016 as our Year of Disability and plan to boost our efforts to improve access to the industry for disabled people. Subsequent years will carry new themes whilst our work to support all underrepresented groups continues.

Diversity breakfasts

During 2015, Channel 4 launched Diversity Breakfasts, which were a series of facilitator-led breakfast sessions with our employees to encourage discussion on different diversity subjects to improve understanding and to provide an opportunity for staff to discuss and to make suggestions.

The sessions led to the set up and launch of two employee networks in 2016 – a women's network **4WomenCan** and an LGBT network **C4Pride**. Both of these were set up by employees who were working to drive initiatives and forums for all.

We also ran a number of successful sessions during an **Inspiration Week** which focused on individuals from diverse backgrounds who came to talk to our staff about their lives, work experiences and achievements.

Applying for roles

In 2015, Channel 4 received 8,129 applications for employment.

- 54% of all applicants were female
- 28% declared themselves as BAME
- 8% of applicants declared themselves as LGBT, with a further 7% of all applicants who "preferred not to declare"
- 3% of applicants declared a disability
- Five applicants who applied for roles in 2015 declared themselves as transgender

Of the new employees who joined Channel 4 during 2015:

- 66% were female
- 32% declared themselves as BAME
- 6% declared a disability
- 4% declared as LGBT

Nurturing our people

In 2015, 84% of Channel 4 staff attended a workshop, training course or a tailored coaching/mentoring programme.

In 2015, we enhanced our focus on coaching/mentoring through establishing two new programmes on mentoring and maternity coaching. Mid-level mentoring focused on career development and enhancing inter-departmental awareness. 38 employees completed our mentoring programme. 50% of women who went on or returned from maternity leave completed our maternity coaching programme.

To prepare for our Year of Disability in 2016, 15 members of the Human Resources team received specialist training provided by the Business Disability Forum to increase their skills, confidence and knowledge in connection with working with disabled people.

Strategic report *continued*

Accountability

Our Board and Executive team have committed to promoting the highest standard of responsible corporate behaviour and are ultimately accountable for this. Channel 4 has a Corporate Code of Conduct and procedures providing a framework for accountability. Since 2004, we have reported on our approach to corporate responsibility and our performance in our Annual Report and Accounts.

Corporate and social responsibility

We are committed to playing a responsible role in our communities. The aim of our corporate responsibility strategy is to fulfil our public service remit in a responsible manner through inspiring and challenging the behaviour of our people and audience to promote social, environmental and personal change.

Charitable giving

Employees are able to make tax-free donations to charity, directly from their salary via the Give As You Earn Scheme. We also support staff fundraising through a matched funding scheme that encourages teamwork and collaboration. We match funding pound-for-pound up to £2,500 if teams of staff work together in support of a charitable cause.

Volunteering

Channel 4 recognises that volunteering can have a meaningful and positive impact on both our staff and community, and we support this through our volunteering policy.

The Disaster Emergency Committee ('DEC')

Channel 4, working in partnership with ITN, has been a broadcast partner for the DEC for a number of decades. When a large-scale international crisis occurs, we broadcast a 2–3 minute national television appeal, without charge.

Stand Up To Cancer

Channel 4 broadcast *Stand Up To Cancer* in 2015 which was hugely successful both from a programming and fundraising perspective, delivering huge audiences and smashing fundraising targets. The plans for *Stand Up To Cancer* in 2016 are our most ambitious ever and it is now the fastest growing TV fundraiser, raising £30 million to date.

Environmental sustainability

We want to ensure that the way we conduct our day-to-day activities reflects our commitment to reducing any negative impact we may have on the environment. To support this, we have had an environment policy in place since 2004.

Environmental and charitable campaigns continued to run internally through 2015 with the aim of raising awareness and promoting good practice.

Following a benchmarking exercise on electrical and gas consumption in 2014, we set ourselves targets in 2015 to achieve a 5% reduction in consumption at our Horseferry Road premises.

From increased awareness and informed decision-making we achieved a reduction in our electrical consumption of 10% while gas consumption reduced by 14% in 2015. We aim to reduce this further in 2016 following the installation of new, more efficient boilers at Horseferry Road.

We continue to identify assets which can be replaced in order to reduce our carbon footprint, and are preparing a strategy to replace those assets over the coming years.

Carbon footprint

We continue to report on our Carbon Reduction Commitment ('CRC') and registered for the Environmental Savings Opportunity Scheme in 2015 to ensure statutory compliance.

Our greenhouse gas emissions for 2015 are set out in the table below.

	2015	2014
Total carbon footprint (tonnes of CO_2)	**5,078**	5,922
Total carbon footprint per £m revenue	**5.2**	6.3

Waste

We recycled 142.441 tonnes of general office waste during 2015 (2014: 132.628 tonnes), representing 100% of identified recyclable waste. General municipal unsorted waste remained at 30% of total waste in 2015. In 2016, we are targeting a 5% reduction in general municipal unsorted waste through a waste awareness campaign.

Water

We continue to monitor our water consumption in our fully occupied premises at Horseferry Road. The water consumption for 2015 was 9,429 cubic metres, a decrease of 3% from 2014.

Strategic report *continued*

Managing risks

How we manage risk

The Board has a clear responsibility for the identification of risks facing the Corporation and for putting procedures in place to monitor and mitigate these risks. In order to deliver on our remit, Channel 4 has a high appetite for creative risk taking, giving rise to potentially litigious content. However, Channel 4 has a low appetite for operational risks. The Board and Executive team operate a risk management framework for identifying, evaluating and managing (rather than eliminating) significant risks faced by Channel 4. This framework has been developed in accordance with good practice on internal controls and risk management.

A summary of the key risks that the Group faces, together with the key steps in how those risks are mitigated, is presented on the following pages.

Who does what

THE BOARD

- Leadership of risk management
- Sets strategic objectives and risk appetite
- Responsible for maintaining sound risk management and internal control systems
- Monitors performance

EXECUTIVE MEMBERS

- Delegated responsibility from the Board for the operation of systems of risk management and internal control
- Communicate and disseminate risk management policies
- Support and help assess risk
- Encourage open communication on risk matters
- Monitor performance
- Assess materiality of risks in context of the whole Group
- Monitor mitigation and controls
- Facilitate sharing of risk management information and best practice across the Group

EXECUTIVE TEAM COMMITTEES

- Comprise commercial, operational and creative Executive team committees
- Define risk management roles at operational and project levels
- Use risk as an explicit part of decision-making and management of external relationships
- Continuous identification of risk, assurance and self-assessment

AUDIT COMMITTEE

- Delegated responsibility from the Board to oversee risk management and internal controls
- Reviews the effectiveness of the Group's internal control and risk management processes
- Monitors the role and effectiveness of the internal auditor and external auditor, and their independence

BUSINESS ASSURANCE

- Independently reviews the effectiveness of the Group's risk management and internal control processes
- Monitors and validates action taken by management
- Reports four times annually to the Audit Committee

Strategic report *continued*

Risks and uncertainties

Risk	Potential impact	Mitigating actions
Failure to respond to changes in the advertising industry given the Corporation's dependence on advertising revenue	In 2015, 94% of Channel 4's revenue (2014: 93%) derived from advertising and sponsorship. Channel 4 is subject to cyclical fluctuations and structural changes in the advertising market, including those arising from changes in regulation, and in the competitive landscape. Advertising and sponsorship income are variable and can change significantly during the course of the year as a result of variations in audience share or broader market or economic conditions.	Channel 4 actively seeks to diversify sources of revenue. The investment in digital and growth of digital revenues has been a direct response to the risk of failing to diversify revenues. Channel 4 has also invested in commercial innovation throughout 2015. Channel 4 monitors the advertising market and its share of the market closely to identify trends. As far as possible, Channel 4 phases commitments and maintains a flexible cost base. Channel 4 holds cash reserves to protect against the impact of a decline in the television advertising market.
Failure to identify and develop sufficiently compelling content	Channel 4 is tasked with selecting, retaining and scheduling compelling, innovative and risk-taking content from a diverse supply base using multiplatform delivery systems, while maintaining effective relationships with independent production companies. The impacts arising from failing to successfully meet this challenge include a material decline in audience share and reputational damage.	Channel 4 has pursued a strategy of investment in creative diversification in recent years. Channel 4's business terms with independent producers and the scale of commissioning opportunity remain highly competitive. Channel 4 maintains quarterly meetings with the TV production industry body, PACT.
Cybersecurity breach	Risk that the personal information of Channel 4 viewers may be lost or disclosed, or obtained without viewers' consent. A cybersecurity breach could lead to reputational damage, loss of viewer trust and a loss of confidence in the integrity of data-driven commercial metrics.	Channel 4 has an established information security function, supported by specialist resources. Data is stored by specialist third parties. Channel 4 has published our Viewer Promise regarding our principles concerning viewers' data.
Challenge in recognising and investing in new, relevant technologies to deliver content and engage with audiences	A challenge for all broadcasters is maintaining legacy linear distribution systems and investing in new platforms. The market is increasingly competitive with emerging global content providers.	Channel 4 has invested in a viewer data platform to build direct consumer relations and improve decision-making. Channel 4 maintains a strategic plan to ensure that it stays responsive to innovation in the technology sector.
Breach of Ofcom licence and regulatory obligations, and legal compliance	Our licence quotas are published on pages 19, 21 to 23 and 174 of this report. Failure to fulfil the statutory responsibilities governing delivery of our remit presents a significant risk to Channel 4. Transmission of content presents legal, regulatory and reputational risks to Channel 4.	The Board is responsible for ensuring that Channel 4 meets all of its public service obligations. The Board reviews current programming output and Channel 4's performance against Ofcom quotas on a regular basis. Channel 4 has a number of detailed legal and compliance procedures and protocols to ensure that the risks of legal and regulatory breach are identified and appropriately managed.
Uncertainty over outcome of government review of Channel 4	Potential destabilising impact on Channel 4's third-party, investee and employee relationships.	Continuing commitment to communicating Channel 4's long-term financial stability, commercial sustainability, and ongoing remit delivery. Engaging with the government to ensure they understand the potential consequences of alternative scenarios.
Failure to address the defined benefit pension deficit	The defined benefit pension scheme, whilst closed to new entrants, is a material liability on the balance sheet (2015: £56 million). The overall liability may worsen over time, due to broader economic and demographic conditions, and the risk exists that Channel 4 may need to divert funding activity away from spend on-screen in order to fund an increased liability.	The Corporation and Trustees of the scheme meet regularly to review the pension liability. The scheme was closed to future accrual with effect from 31 December 2015.

Strategic report *continued*

Strategic and financial outlook for 2016

To sustain strong remit delivery, we have targeted £1 billion of revenue in 2016 and maintain an ambition to hold both portfolio audience and commercial share viewing at 2015 levels, despite a highly competitive environment and a number of major sporting events.

To achieve this our plans are to maximise advertising revenues from our core business and drive incremental revenue growth. Overhead and administrative costs will be held constant or reduce as a proportion of total spend to maintain our operational efficiency.

The outlook for 2016 is once again strong with market growth forecast between the range of 3% and 5%. We set a prudent budget, and if the market grows by more than forecast then we will seek to reinvest any upside into content or other strategic initiatives.

We hold a content reserve of £50 million which can be deployed to strengthen our remit delivery in 2016 and beyond or in the event of an unforeseen downturn.

Looking forward, the Members remain confident that Channel 4 can continue to deliver against current levels of public service impact on a self-sustaining basis.

Our corporate ambitions and 2016 content strategy are detailed further on pages 102 to 105.

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code (the ‘Code’), the Members have assessed the prospects of the Group over the three-year period to December 2018. This period was selected as this is the normal planning horizon in our strategic planning process. The Members also noted that in January 2015 Ofcom awarded a new ten-year licence to the Corporation and that Ofcom had concluded that its financial plan was credible and would enable it to meet its licence obligations over this period.

The Members review the three-year strategy and financial plan annually, taking account of the Board’s agreed risk appetite, the Corporation strategy, and the remit as mandated by legislation and the Ofcom broadcast licence. The plan makes certain assumptions, including TV advertising market growth and our share of that market, and is stress-tested annually for adverse market impacts and other principal risks to assess their impact on long-term revenues, profitability and cashflows. In 2015, these other principal risks included the failure to develop sufficiently compelling content or to develop and maintain suitable technology platforms, a significant reduction in share commitment from a major advertising agency, cyber and physical security risks, and the risks associated with a protracted debate over, and a significant change in the ownership status of the Corporation.

In its overall assessment of the viability of the Group, the Members have:

- considered revenue, cost and cashflow forecasts for the next three years as well as its current financial position and cash resources, and reviewed the Group’s strategic objectives and other key performance metrics
- considered each of the principal risks and uncertainties above and how they are managed
- through the Audit Committee, assessed the Group’s risk management framework and considered reports summarising business assurance work during the year
- discussed the sensitivity of the Group’s Three Year Plan to a combination of severe but plausible risks materialising
- reviewed performance updates in the normal course of business that underpin the long-term strategy
- discussed the purpose of the content reserve, which exists to protect investment into content and sustain delivery of the remit in the event of a downturn.

Although this assessment does not consider all of the risks the Group may face, the Members confirm that their assessment of the principal risks facing the Group was robust. Based on the results of their activities around principal risks and viability, the Members have a reasonable expectation that the Group will be able to continue to operate and meet its liabilities, as they fall due, over the three-year period of their assessment.

By Order of the Board

Charles Gurassa
Chair
7 April 2016

Report of the Members

Introduction

The Members present their report and the audited financial statements for the year ended 31 December 2015.

The Chair and Chief Executive present their statements on pages 4 to 5 and 6 to 7 respectively. A review of the Group, outlining its business model, development and performance during the financial year, together with its position at 31 December 2015 and financial outlook is provided in the Strategic Report on pages 108 to 118. The Strategic Report also outlines the principal risks and uncertainties facing Channel 4.

The Group's financial statements are set out on pages 138 to 166 and Channel 4's financial statements are set out on pages 167 to 171.

Legal form

Channel Four Television Corporation ('Channel 4') is a statutory corporation, without shareholders, established under the terms of the Broadcasting Act 1990.

Members' interests

Channel 4 fully embraces the principles of good corporate governance and, to this end, makes full disclosure of all Members' interests. During 2015, Members, in addition to their salaries, benefits and/or fees as disclosed on page 133, were interested in the following transactions negotiated at arm's length on normal commercial terms with the Group:

David Abraham is a Non-Executive Director and MT Rainey is Vice Chair of Creative Skillset. Channel 4 paid £363,000 to Creative Skillset, the sector skills council for the creative industries, to fund industry-wide training during 2015. Channel 4 received £78,000 from Creative Skillset in 2015 to fund a diversity training programme.

Lord Burns was Chairman of Santander UK plc until 30 March 2015. Santander UK plc advertises its services on Channel 4.

Mark Price was the Managing Director of Waitrose and the Deputy Chairman of the John Lewis Partnership until 3 April 2016. Waitrose and John Lewis advertise their services on Channel 4.

Richard Rivers is a Member of the Advisory Board of WPP plc. Channel 4 sells advertising through a number of subsidiaries of WPP plc.

Dan Brooke is a Non-Executive Director of the Britdoc Foundation, a non-profit film foundation supported by Channel 4, and a Director of Creative Diversity Network Limited. Channel 4 paid £182,000 to the Britdoc Foundation in 2015, and £168,000 to Creative Diversity Network in 2015.

Alicja Lesniak was a Non-Executive Director and Audit Chair of SThree plc until 23 April 2015. SThree plc owns Huxley Associates, a recruitment consultancy which provides technology contractors to Channel 4. Channel 4 paid £5,198,000 to Huxley Associates in 2015.

MT Rainey is a Director of Hays plc. Channel 4 paid £6,000 to Hays plc in 2015.

Josie Rourke is an Artistic Director of Donmar Warehouse Limited. Channel 4 paid £371,000 to Donmar in 2015 Warehouse Limited for the production of a live theatre broadcast.

Where the Members have an interest in an advertising or sponsorship client of the Group, the amounts paid or payable are not disclosed as they are negotiated and transacted via media buying agencies. All such transactions are negotiated and transacted on an arm's length basis.

Channel 4 website

In keeping with our strategy to connect with viewers across all platforms, Channel 4 has published this report on its website at **channel4.com/annualreport**

Disclosure of information to the auditor

Each of the persons who is a Member at the date of approval of this Annual Report confirms that:

- so far as the Member is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- the Member has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Auditor

KPMG LLP has been appointed as auditor to Channel 4 with the approval of the Secretary of State for Culture, Media and Sport, and has expressed its willingness to continue in office.

Going concern

The Group's business activities, the factors likely to affect its future development and performance, the financial position of the Group, its cashflows and Viability Statement are set out in the Strategic Report. In addition, note 14 to the financial statements includes the Group's approach to financial risk management, including its financial instruments and hedging activities and its exposures to liquidity and credit risks.

Channel 4's current ten-year licence with Ofcom came into effect in January 2015.

The Group has sufficient financial resources, and based on normal business planning and control procedures, the Members believe that the Group is well placed to manage its business risks. The Members have a reasonable expectation that the Group will continue in operational existence for the foreseeable future, and therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Report of the Members *continued*

Responsibility statement of the Members in respect of the annual financial statements

The Members are responsible for preparing the Annual Report and the Group and the Corporation's financial statements in accordance with applicable law and regulations. The Corporation is required by its governing legislation (the Broadcasting Act 1990) to keep proper accounts and proper records in relation to the accounts, and to prepare financial statements in respect of each financial year. Under that law, the Members have elected to prepare the financial statements of the Group in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU and the requirements of Chapter 4 of Part 15 of the Companies Act 2006, and elected to prepare the financial statements of the Corporation in accordance with the Financial Reporting Standard 101 *Reduced Disclosure Framework*.

The Members accept responsibility for approving the financial statements only after they are satisfied that, when taken as a whole, they are fair, balanced and understandable, and provide the information necessary to assess the Corporation's performance, business model and strategy. In preparing each of the Group and the Corporation financial statements, the Members:

– select suitable accounting policies and then apply them consistently;
– make judgements and estimates that are reasonable and prudent;
– state whether they have been prepared in accordance with IFRS as adopted by the EU;
– and prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Corporation will continue in business.

The Members have accepted responsibility for keeping proper accounting records that are sufficient to show and explain the Group and the Corporation's transactions and to disclose with reasonable accuracy at any time the financial position of the Group and the Corporation. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Members have voluntarily decided to prepare a Remuneration Report in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, made under the Companies Act 2006, as if those requirements were to apply to the Group and the Corporation.

The Members are responsible for ensuring compliance with the requirements of Schedule 9 of the Communications Act 2003, as set out on page 125. Following the Digital Economy Act 2010, revised arrangements, approved by Ofcom, were implemented from 24 January 2012.

The Members are responsible for the maintenance and integrity of the corporate and financial information included on the Corporation's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

– the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and surplus or deficit of the Group and the Corporation and the undertakings included in the consolidation taken as a whole;
– the Strategic Report includes a fair review of the development and performance of the business and the position of the Group, and the Corporation and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
– that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary to assess the Corporation's performance, business model and strategy in accordance with the UK Corporate Governance Code (September 2014).

By Order of the Board

Charles Gurassa
Chair
7 April 2016

Independent auditor's report to the Members of Channel Four Television Corporation (the 'Corporation') only

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of the Corporation for the year ended 31 December 2015 set out on pages 138 to 171. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Corporation's affairs as at 31 December 2015 and of the Group's surplus for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS as adopted by the EU');
- the Corporation's financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 as if that Act applied to the Corporation.

2 Our assessment of risks of material misstatement

We summarise below the risks of material misstatement (unchanged from 2014) that had the greatest effect on our audit (in decreasing order of audit significance), our key audit procedures to address those risks and our findings from those procedures in order that the Corporation's Members as a body may better understand the process by which we arrived at our audit opinion. Our findings are the result of procedures undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and consequently are incidental to that opinion, and we do not express discrete opinions on separate elements of the financial statements.

Programme and film rights £254 million (2014: £242 million)

Refer to page 131 (Audit Committee Report), page 145 (accounting policy) and page 158 (financial disclosures).

The risk – Programme and film rights are written-down to their value to the Group when indicators of a reduction in the value of individual assets are identified, for example when:

- the quality of the programme means it may no longer be broadcast in the originally intended transmission slot; or
- forecast future theatrical and DVD revenues no longer support the carrying value of developed film rights.

The majority of the costs of programme and film rights are written off on first transmission. There is, however, an increased level of judgement involved in assessing the value to the Group of rights in relation to certain types of programming including feature films, sports rights, acquired series and developed film rights which may be written off over more than one transmission. Judgements made include assessing viewing performance and revenue profile based on expected future advertising, sponsorship or other related revenue.

Our response – Our audit procedures included:

- with regard to developed film rights exploited through distribution, critically assessing forecast film rights income through independent enquiry of the Film4 commissioning team to understand revenue expectations; reference to third-party theatrical release data and sales of distribution rights to date; and historical experience of theatrical, distribution and DVD revenues generated from film releases;
- for other programme and film rights, we focused on those programme and film rights that are the oldest or have the highest carrying amounts, and those near rights expiry. We evaluated the Group's assessment of the expected future transmissions through enquiry of the programme scheduling team who operate independently from finance; inspection of the programme schedule for the three-month period following the year end date, and longer-term sporting event schedules. We also compared a sample of programmes scheduled at the year end to third-party TV listings for that period; and
- challenging the assumptions underlying the calculation of transmission cost write-off profiles with reference to historical viewing data, in particular programmes and films that were not fully expensed on first transmission.

Our findings – We found:

- the estimates in respect of future film rights income on developed film rights exploited through distribution to be balanced (2014: mildly optimistic);
- the judgements made in relation to the effects of expected future scheduling and in assessing the carrying value of programme and film rights to be balanced (2014: balanced); and
- the assumptions regarding the viewing profile used to calculate the transmission cost write-off profiles to be balanced (2014: mildly cautious).

Revenue recognition £979 million (2014: £938 million)

Refer to page 131 (Audit Committee Report), page 143 (accounting policy) and page 147 (financial disclosures).

The risk – In terms of audit risk, the Group's revenue can be divided into two categories:

- advertising revenues (£812 million): Whilst the majority of advertising revenue contracts are straightforward, there are a small number of individually significant one-off contracts in respect of barter arrangements, where the Group exchanges advertising revenue for programmes, and contracts where the Group acts as a sales agent for other broadcasters' advertising. These contracts can contain unique contract terms including complex commission calculations, and judgement is required to determine the appropriate revenue recognition treatment.
- sponsorship and other revenues (£167 million): This includes many agreements with differing individual terms in respect of the following revenues: sponsorship, subscription income from other platforms, box office and DVD sales. The volume and variety of different contracts gives rise to a risk of incorrect revenue recognition between accounting periods, in particular in relation to the allocation of revenues where contracts span the year end.

Our response – Our audit procedures included:

- testing the controls over the standard advertising revenue arrangements;
- reviewing the terms of barter and sales agent contracts, and agreeing the accounting treatment in terms of
  i. applying the relevant accounting standards to the contract terms and comparing with the actual treatment adopted;
  ii. obtaining evidence of performance of contractual obligations including the delivery of airtime; and
  iii. considering the valuation basis applied for the programmes received in barter deals with reference to third-party production costs which are seen to reflect fair value;
- testing the revenue recognition approach on a sample of higher value items of sponsorship and other revenue with reference to our own analysis of the application of relevant accounting standards to non-standard contract terms and transmission schedules in respect of sponsorship campaigns, to assess whether revenue has been recognised in the appropriate accounting period; and
- considering the adequacy of the Group's accounting policy disclosures in their description of the method applied to recognising revenue for these arrangements.

Our findings – We found:

- our testing did not identify weaknesses in the controls that would have required us to expand the extent of our planned detailed testing;
- the judgements regarding measurement of airtime delivery to reflect the fulfilment of performance obligations on barter and sales agent contracts to be balanced (2014: balanced);
- for barter and sales agency contracts the judgements applied in determining the fair value of programme rights received, used for the recognition of revenue, to be balanced (2014: balanced);

Independent auditor's report to the Members of Channel Four Television Corporation (the 'Corporation') only *continued*

– the judgements applied in arriving at the revenue recognition treatments to be balanced (2014: balanced); and
– the Group's accounting policy disclosures to be proportionate (2014: proportionate).

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £7.0 million (2014: £7.0 million), determined with reference to a benchmark of Group revenue (of which it represents 0.7% (2014: 0.7%)). We consider revenue, rather than profit, to be the appropriate benchmark as the Corporation's aim is to achieve a long-term breakeven position.

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding of £0.3 million (2014: £0.3 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Group's operations are all accounted for at the Group's office in London. The Group audit team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality level set out above and covered 100% of total Group revenue, Group profit before tax and total Group assets.

4 Our opinion on other matters prescribed under the terms of our engagement is unmodified

In addition to our audit of the financial statements, the Members have engaged us to audit the information in the Members' Remuneration Report that is described as having been audited, which the Members have decided to prepare as if the Corporation were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006.

In our opinion:

– the part of the Members' Remuneration Report which we were engaged to audit has been properly prepared in accordance SI 2008 No. 410 made under the Companies Act 2006, as if those requirements were to apply to the Corporation; and
– the information given in the Strategic Report and the Report of the Members for the financial year for which the financial statements are prepared is consistent with the financial statements.

5 We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

– the Members' viability statement on page 118, concerning the principal risks, their management, and, based on that, the Members' assessment and expectations of the Group's continuing in operation over the next three years to 2018; or
– the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

6 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:
– we have identified material inconsistencies between the knowledge we acquired during our audit and the Members' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for stakeholders to assess the Group's position and performance, business model and strategy; or
– the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

Under the terms of our engagement, we are required to report to you if, in our opinion:

– proper accounting records have not been kept by the Corporation, or returns adequate for our audit have not been received from branches not visited by us; or
– the Corporation's individual financial statements and the part of the Members' Remuneration Report which we were engaged to audit are not in agreement with the accounting records and returns; or
– certain disclosures of Members' remuneration are not made; or
– we have not received all the information and explanations we require for our audit.

In addition to our audit of the financial statements, the Members have engaged us to review the Corporate Governance Statement as if the Corporation were required to comply with the Listing Rules and the Disclosure Rules and Transparency Rules of the Financial Conduct Authority in relation to those matters.

Under the terms of our engagement we are required to review:

– the Members' statements, set out on page 118, in relation to going concern and longer-term viability; and
– the part of the Corporate Governance Statement on pages 123 to 125 relating to the Corporation's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Respective responsibilities of Members and auditor

As explained more fully in the Members' Responsibilities Statement set out on page 120, the Members are responsible for the preparation of financial statements which are intended by them to give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the UK Ethical Standards for Auditors.

Scope of an audit of financial statements performed in accordance with ISAs (UK and Ireland)

A description of the scope of an audit of financial statements is provided on our website at www.kpmg.com/uk/auditscopeother2014. This report is made subject to important explanations regarding our responsibilities, as published on that website, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

The purpose of our audit work and to whom we owe responsibilities

This report is made solely to the Corporation's Members as a body, in accordance with the Broadcasting Act 1990 and the terms of our engagement, and, in respect of the separate opinion in relation to the Members' Remuneration Report, reporting on corporate governance, and, in order that the Corporation's Members as a body may better understand the process by which we arrived at our audit opinion, the inclusion of findings in respect of the identified risks of material misstatement, on terms that have been agreed. Our audit work has been undertaken so that we might state to the Members those matters that we have agreed to state to them in our report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation and the Members, as a body, for our audit work, for this report, or for the opinions we have formed.

Karen Wightman
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL
7 April 2016

Corporate governance

The Board is committed to high standards of corporate governance. The Members have decided to voluntarily prepare a Corporate Governance Statement to demonstrate compliance with the main principles, where relevant, of the UK Corporate Governance Code issued by the Financial Reporting Council ('FRC') in 2014, and the disclosure and transparency provisions of the Listing Rules of the Financial Conduct Authority.

The Board considers that, throughout the year, it was compliant with the relevant provisions of the UK Corporate Governance Code.

Channel 4's status as a statutory corporation without shareholders means those provisions concerning shareholders' interests are not directly applicable. Also, instead of a nominations committee, there are formal nominations procedures which are described below.

Given its constitution and specific statutory provisions regarding the appointment of Members, Channel 4 does not have a formal nominations committee. The following formal nomination procedures are in place:

– Non-Executive Members are appointed for fixed terms by Ofcom following consultation with Channel 4's Chair and the approval of the Secretary of State for Culture, Media and Sport
– the Chair is appointed by Ofcom for a fixed term with the approval of the Secretary of State for Culture, Media and Sport
– the Chief Executive is appointed by the Board
– other Executive Members are appointed to the Board after nomination by the Chief Executive and the Chair acting jointly
– the Board Secretary is appointed jointly by the Chair and Chief Executive

The Board

Channel Four Television Corporation is controlled through its Board of Members. The Board's main role is to discharge Channel 4's statutory functions and ensure the fulfilment of the public service remit in accordance with all applicable laws and regulations.

The Board, which meets at least nine times a year, has a schedule of matters reserved for its approval. The following matters must be referred to the full Board:

– Channel 4's annual budget (content and non-content)
– the appointment and reappointment of the Chief Executive
– confirmation of the appointment and reappointment of the other Executive Members nominated by the Chief Executive and the Chair acting jointly
– banking arrangements and loan facilities
– any significant proposal outside the ordinary course of Channel 4's business
– the appointment and reappointment of the statutory auditor
– the audited accounts of Channel 4 presented by the Audit Committee
– the establishment, purchase or acquisition of any qualifying company and the approval or variation of terms of reference for any subsidiary
– approval of any significant new business investment
– significant proposed changes to Channel 4's headcount
– such other matters as the Board may from time to time resolve to review or decide upon.

In addition, as part of its overall responsibility to ensure the fulfilment of Channel 4's statutory duties and functions, the Board continues to focus on ensuring the successful delivery of Channel 4's remit and other public service responsibilities. Content output and plans for future investment of the content budget are regularly discussed as part of the overall Board agenda, as are regular updates on audience reactions to Channel 4's content. The Board also approves Channel 4's proposed Statement of Media Content Policy (incorporating the Statement of Programme Policy and Review) prior to publication.

The Board has an established Audit Committee and Remuneration Committee to assist with the discharge of its functions and has delegated each certain responsibilities. The Audit Committee Report is set out on pages 129 to 131 and the Remuneration Committee Report is set out on pages 132 to 137.

The roles of the Chair and Chief Executive

The division of responsibilities between the Chair of the Board and the Chief Executive is clearly defined as described below.

The Chair is responsible for, among other things:

– leading the Board in setting the values and standards of Channel 4
– maintaining a relationship of trust with and between the executive and Non-Executive Members
– leadership of the Board, ensuring its effectiveness on all aspects of its role including the setting of the agenda
– ensuring that all Members receive accurate, timely and clear information
– ensuring that all Members continually update their skills and the knowledge and familiarity with Channel 4 required to fulfil their role both on the Board and on committees
– facilitating the effective contribution of Non-Executive Members and ensuring constructive relations between Executive and Non-Executive Members
– undertaking an annual evaluation of Board and committee performance

The role of the Chief Executive is to run the business of Channel 4 under the delegated authority from the Board, to implement the policies and strategy agreed by the Board, and to communicate with Ofcom and other key stakeholders.

In 2015, Lord (Terry) Burns continued as Chairman and David Abraham continued as Chief Executive. Lord Burns retired as Chairman on 27 January 2016, and Charles Gurassa was appointed Chair for an initial three-year term from 28 January 2016.

Senior independent member

In 2015, Mark Price continued as Deputy Chairman and Senior Independent Member.

Members and Members' independence

The names of the 2015 Board Members, together with their brief biographies, are set out on pages 127 to 128.

The Non-Executive Members constructively challenge and help develop proposals on strategy, and bring strong, independent judgement, knowledge and experience to the Board's deliberations. The Non-Executive Members are of sufficient calibre and number that their views carry significant weight in the Board's decision-making. The Members are given access to independent professional advice at the Group's expense when the Members deem it is necessary in order for them to carry out their responsibilities. Details of the former and current Chairmen's professional commitments are included in their biographies. These do not adversely affect their role with Channel 4.

Corporate governance *continued*

The Board considers all its Non-Executive Members to be independent in character and judgement. At the time of this report, no Non-Executive Member:

- has been an employee of the Group within the past five years
- has, or has had within the past three years, a material business relationship with the Group (although attention is drawn to the related party transactions on page 119)
- receives remuneration other than their Member's fee
- has close family ties with any of the Group's advisers, Members or senior employees
- holds cross-directorships or has significant links with other Members through involvement in other companies or bodies
- with the exception of Lord Burns, has served on the Board for more than six years from the date of their first election. Lord Burns was appointed to the Board on 5 November 2009, became Chairman on 28 January 2010 and retired on 27 January 2016, serving a total term of six years and three months

Professional development

On appointment, the Members take part in an induction programme when they receive information about the Group, the role of the Board and the matters reserved for its decision, the terms of reference and Membership of the principal Board and management committees and the powers delegated to those committees, the Group's corporate governance practices and procedures including the powers reserved to the Group's most senior executives, and the latest financial information about the Group. This is supplemented by meetings with Members of the senior management team. On appointment, all Members are advised that they have access to advice and the services of the Board Secretary. Throughout their period in office the Members are continually updated on the Group's business and environment and other changes affecting the Group and the industry it operates in as a whole, by written briefings and meetings with senior executives.

A formal Board evaluation process that uses a detailed questionnaire to allow Board Members to express both qualitative and quantitative views on Board performance is undertaken annually. The process is managed by the Board Secretary, with results anonymised in order to enable an impartial discussion of results. Results are fully discussed at a Board meeting and proposals tabled and agreed to address any actions arising. We believe the current Board evaluation process to be sufficient and accordingly have not engaged a third party to conduct the exercise. This will be kept under review.

Board information

Regular reports and papers are circulated to the Members before Board and committee meetings. These papers are supplemented by information specifically requested by the Members from time to time. A monthly performance pack is prepared covering all key areas of the business and providing a month by month report on progress against the main performance indicators set by the Board.

The Board Secretary's responsibilities include ensuring an effective flow of information within the Board and its committees, and between senior management and Non-Executive Members, induction of new Members and assisting with professional development as required.

The Head of Legal, Governance, Regulatory and Trading is responsible for advising the Board through the Chair on all governance matters.

Both posts are available to provide advice and services to all Members, as relevant, to ensure compliance with Board procedures.

Board meetings

The number of full Board meetings and committee meetings attended by each Member during the year is shown in the table below:

Name	Board meetings attended (invited)	Audit Committee meetings attended (invited)	Remuneration Committee meetings attended (invited)
Lord Burns	9 (9)	4 (4)[1]	4 (4)[1]
Richard Rivers	9 (9)	–	4 (4)
Alicja Lesniak	8 (9)	4 (4)	–
Monica Burch	8 (9)	4 (4)	–
Mark Price	7 (9)	–	2 (4)
Paul Potts	8 (9)	3 (4)	–
MT Rainey	9 (9)	4 (4)	–
Josie Rourke	8 (9)	–	–
Stewart Purvis	9 (9)	–	4 (4)
David Abraham	9 (9)	4 (4)[1]	4 (4)[1]
Jonathan Allan	9 (9)	–	–
Jay Hunt	9 (9)	–	–
Dan Brooke	9 (9)	–	–

1 Lord Burns and David Abraham attended Audit Committee and Remuneration Committee meetings but were not members of those committees.

Board diversity

As shown on page 114, diversity is at the heart of Channel 4 and this is equally important at entry level as at the most senior levels of the organisation. In December 2015, the Channel 4 Board comprised four Executive Members and nine Non-Executive Members. As stated on page 123, Non-Executive Members are appointed by Ofcom, and Executive Members by the Chief Executive and Chair.

At 31 December 2015, one of the four Executive Members was a woman (2014: one of four). At 31 December 2015, the Board comprised five women and eight men, with the five women making up 38% of the Board membership.

Internal control

In accordance with good corporate governance practice, the Board:

- is responsible for maintaining sound risk management and internal control systems
- seeks regular assurance and receives regular reports that enable it to satisfy itself that the system is functioning effectively
- ensures that the system of internal control is effective in identifying key risks and reporting on the adequacy of actions to respond to and manage those risks
- is responsible for the Group's process for the preparation of the consolidated accounts

The Board is not responsible for the internal control environment or corporate governance for any of the Group's joint ventures or associates.

Control environment

Clear management responsibilities are established for the Executive Members. As noted on page 115, the Corporation has a Code of Conduct and a suite of policies and procedures which encompass ethical behaviour, conduct and internal controls.

Corporate governance *continued*

Risk management

In addition to its requirements under Schedule 9 of the Communications Act 2003 set out below, the Board and management have a clear responsibility for the identification of risks facing the Group and for putting in place procedures to monitor and mitigate such risks. Channel 4 has a high appetite for creative risk taking, giving rise to potentially litigious content. The Group has a low appetite for operational risks. The Board and Executive operate a risk management framework for identifying, evaluating and managing (rather than eliminating) significant risks faced by Channel 4. Material controls, including financial, operational and compliance controls, are monitored and reviewed by senior management, business assurance and the Audit Committee. Remedial plans are put in place where internal reviews identify control weaknesses or opportunities for improvement. Serious control weakness (if any) are reported to the Board and appropriate actions taken. This framework has been developed in accordance with relevant good practice guidance on internal controls and risk management. A summary of the key risks that the Group faces, together with how those risks are mitigated, is presented in the Strategic Report on pages 116 to 117.

Editorial and compliance

Channel 4 has a long-established compliance culture, which is fully integrated into its commissioning process and provides clear editorial reference-up to senior executives and appropriate Board oversight. Its importance is widely recognised and understood by independent production companies we work with and they share equal responsibility for ensuring that programmes and online content conform to the compliance culture we work within. The Commissioning team works in close collaboration with the Legal and Compliance department on all significant commissions. There are strong editorial, legal and compliance systems and controls in place over the content commissioned by Channel 4.

These include specific guidance and protocols contained within the Channel 4 Producers' Handbook, which encompasses the Ofcom Broadcasting Code, other relevant regulations, media law and best practice guidelines. This is supported by extensive training for both staff and independent producers. At the heart of Channel 4's creative risk-taking and compliance is the editorial 'reference-up' procedure. The Members are satisfied that Channel 4 has in place suitable procedures to fulfil the requirements of paragraph 3b of the Ofcom licence (page 109), which exists to ensure that difficult or fine-cut decisions on editorial and compliance issues are properly considered by the most appropriately experienced and senior editorial executives and programme lawyers within Channel 4.

Reporting to the Board

Information is provided to the Members in advance of each Board or Committee meeting. The information provided over the course of the year includes strategic plans, detailed annual budgets, reforecasts and key projects and initiatives as well as performance packs prepared for each Board meeting. Amongst other things, performance packs monitor progress against the agreed objectives for the year, and compare actual income and expenditure to date with budget and prior year. Explanations are provided for significant variances to facilitate discussion and review at the Board meetings.

The Members also receive information in between Board meetings as appropriate, including weekly risk and viewing updates. The Board Secretary is responsible for the provision of information to the Members.

Control procedures

All expenditure is authorised in line with a delegated authorities framework. An electronic invoice authorisation system is used to further enhance the control environment. Authorisation and payment duties are strictly segregated, and bank signatory limits are clearly defined by bank mandate. Financial controls are monitored by management review and business assurance reports provided to the Audit Committee.

Pension plan

There are six Trustees of the Channel Four Television Staff Pension Plan who meet several times each year, who also meet the Plan's investment managers: Legal & General Assurance (Pensions Management) Ltd, Henderson Global Investors Ltd, Veritas Funds plc and Grantham, Mayo, Van Otterloo & Co. LLC ('GMO') at least once a year. GMO replaced F&C Fund Management Ltd as an investment manager on 3 June 2015.

During the year the Trustees were as follows:

Alicja Lesniak	Non-Executive Member
Channel 4 Executives	
Glyn Isherwood	Group Finance Director
Diane Herbert (resigned[1])	Director of Human Resources
Martin Baker (appointed[2])	Director of Commercial Affairs
Member-nominated Trustees	
Neil Pepin	Deputy Head of Legal & Compliance
Julie Kortens (resigned[2])	Head of Corporate Services
Rebecca O'Connor (appointed[2])	Senior Production Finance Manager
Independent Trustee Services	Independent Corporate Trustee

1 As Trustee on 30 April 2015.
2 As Trustee on 10 February 2016.

Requirements of Schedule 9 of the Communications Act 2003 (the 'Act')

The Act requires Channel 4 to submit proposals to Ofcom detailing the arrangements under which it proposes to secure, so far as reasonably practicable, that all significant risks to the primary function are identified, evaluated and properly managed. These proposals are referred to as the Arrangements.

In addition, the Arrangements must include proposals which Channel 4 considers appropriate for securing the transparency objectives as set out in the Act, namely:

- an appropriate financial and organisational separation between the activities of Channel 4 that relate to the carrying out of their primary functions and their other activities; and
- an appropriate degree of transparency in financial and other reporting where resources are shared between separated activities or where there is some other financial or practical connection between otherwise separated activities.

The Act sets out the matters to which the submitted Arrangements may relate. These include the procedures and other practices to be followed by Channel 4 in the case of the initiation and management of new ventures, the exercise of particular powers, the assessment of risks, the imposition of charges and the keeping of records.

The Act requires Channel 4 to put in place regular checks to confirm that Channel 4 is complying with the Arrangements. The Arrangements proposed by Channel 4 must contain provision for compliance, with the Arrangements to be checked regularly by a person (other than Channel 4's auditor) appointed in accordance with that provision. Revised Arrangements came into force on 24 January 2012 following the extension of the public service remit following the Digital Economy Act 2010.

Channel 4 appointed Deloitte LLP to review compliance with the Arrangements. Copies of the Arrangements are available from the Board Secretary and at channel4.com.

Corporate governance *continued*

Third-party verification statement

The Channel's Ofcom Digital Replacement Licence requires it to appoint an independent party to review and report on procedures in relation to the provision of Premium Rate Telephony Services.

Deloitte LLP provided third party verification over premium rate competitions. The Members are satisfied that Channel 4 had in place suitable procedures to fulfil the requirements of paragraph 3b of the Licence.

Independent assurance report to Channel Four Television Corporation (the 'Corporation') and the Office of Communications ('Ofcom')

We have performed a review of the Corporation's compliance during the year ended 31 December 2015 with the arrangements approved by the Ofcom in January 2012 under section 2 of Schedule 9 of the Act.

This report is made solely to Channel Four Television Corporation and Ofcom in accordance with our letter of engagement dated 17 December 2015 and in order to (a) allow the Corporation to meet its obligations under the Licence and Schedule 9 of the Communications Act 2003 to procure such reports and (b) to facilitate the carrying out by Ofcom of its regulatory functions. Our work has been undertaken so that we might state to the Corporation and Ofcom those matters we are required to state to them in a reporting accountant's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation and Ofcom (in accordance with our contract with Ofcom dated 21 January 2016), for our work, for this report, or for the opinions we have formed.

Respective responsibilities of Channel Four Television Corporation and Reporting Accountants

The Corporation has agreed arrangements with Ofcom to secure the following objectives (the Objectives) as set out in Schedule 9 of the Communications Act 2003:

- So far as reasonably practicable, secure that all significant risks that their other activities will have an adverse effect on the carrying out, during the relevant licence period, of their primary functions are:
  a) identified;
  b) evaluated; and
  c) properly managed.

- The transparency objectives of securing:
  a) an appropriate financial and organisational separation between the activities of the Corporation that relate to the carrying out of their primary functions and their other activities; and
  b) an appropriate degree of transparency in financial and other reporting where resources are shared between separate activities or where there is some other financial or practical connection between otherwise separated activities.

The arrangements agreed between the Corporation and Ofcom are available from http://stakeholders.ofcom.org.uk/binaries/consultations/c4-arrangements/statement/approved.pdf. The responsibility of the Corporation in terms of Schedule 9 of the Communications Act 2003 is to act in accordance with these arrangements throughout the review period.

Our responsibility is to check whether the Corporation has complied with these arrangements during the year ended 31 December 2015 and report to you our independent conclusion as to whether they have done so.

The firm applies International Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control. We have complied with the independence and other ethical requirements of the ICAEW Code of Ethics for Professional Accountants.

Basis of opinion

We carried out our work in accordance with International Standard on Assurance Engagements 3000 (revised) Assurance Engagements.

Our engagement provides reasonable assurance as defined in ISAE 3000. Reasonable assurance means a high but not absolute level of assurance. Absolute assurance is very rarely attainable as a result of factors such as the following: the use of selective testing, the inherent limitations of internal control, the fact that much of the evidence available to us is persuasive rather than conclusive and the use of judgement in gathering and evaluating evidence and forming conclusions based on that evidence.

Our work consisted of:

- confirming our understanding of the Corporation and the internal procedures and controls in place made to comply with the arrangements made under Schedule 9 of the Communications Act 2003 through enquiry of senior management and other appropriate personnel;
- review of the relevant internal procedures and controls and examining of the financial records relating to the above; and
- review of which of the Corporation's activities fall under the definition of the primary functions and which fall under other activities.

Our work was carried out based on the internal procedures and controls in place to comply with the arrangements during the year ended 31 December 2015. We are not responsible for concluding whether the arrangements are sufficient and appropriate to achieve the objectives set out above. Any system of internal control can only give reasonable, not absolute assurance, that the objectives will be met.

Opinion

In our opinion, the Corporation has complied with the arrangements under Schedule 9 of the Communications Act 2003, in all material respects, for the year ended 31 December 2015.

Deloitte LLP
Chartered Accountants

London
7 April 2016

Members

Non-Executive Members

Lord Burns GCB
Chairman (retired 27 January 2016)
Appointed as Chairman on 28 January 2010, Lord Burns' initial appointment ran until January 2013 and was subsequently extended to January 2016. Lord Burns is a Senior Adviser to Grupo Santander and a Non-Executive Member of the Office for Budget Responsibility.

He began his career in 1965 at the London Business School, becoming a professor of Economics in 1979. In 1980, he was appointed Chief Economic Adviser to HM Treasury and Head of the Government Economic Service. In 1991, he became Permanent Secretary to HM Treasury, a post he held until 1998, when he was appointed a life peer.

Previous appointments included acting as an independent adviser to the Secretary of State for Culture, Media and Sport on the previous BBC Charter Review. He has also been Chairman of Santander UK plc, Marks and Spencer plc, Glas Cymru Ltd (Welsh Water), the Governing Board of the Royal Academy of Music and the National Lottery Commission, and a Non-Executive Director of Banco Santander SA, Pearson Group plc, the British Land Company plc and Legal & General plc.

Lord Burns completed his second term as Chairman on 27 January 2016.

Charles Gurassa
Chair (appointed 28 January 2016)
Charles Gurassa was elected Chair of Channel 4 for an initial three-year term from 28 January 2016. He is also the Non-Executive Chairman of Genesis Housing Association, Deputy Chairman at EasyJet plc, Senior Independent Director of Merlin Entertainments plc, and a trustee of English Heritage and the Migration Museum.

He is a former Chairman of Virgin Mobile, LOVEFiLM, Phones4U, MACH, Tragus, Parthenon Entertainments and Alamo/National Rent a Car and former Deputy Chairman of the National Trust.

His executive career included roles as Chief Executive of Thomson Travel Group plc, Executive Chairman TUI Northern Europe, Director TUI AG and as Director, Passenger & Cargo business at British Airways. He is a former Non-Executive Director at Whitbread plc, trustee of the children's charity Whizz-Kidz and a Member of the Development Board of the University of York.

Mark Price
Mark Price was appointed to the Board on 1 October 2010 and his initial appointment ran until September 2013. In 2013, his term was extended and he was appointed Deputy Chairman and Senior Independent Member until September 2016.

Mark joined the John Lewis Partnership in 1982 as a graduate trainee and had numerous roles during his 34 years with the organisation. He became Managing Director of Waitrose in April 2007 and was also Deputy Chairman from 2013. Mark was appointed Chairman of Business in the Community in January 2011, a post he held for four years. Mark was previously also Non-Executive Director of the Cabinet Office and Chairman of The Prince's Countryside Fund.

Mark stepped down as Non-Executive Member of Channel 4 on 1 April 2016, and from his positions on the Board of Waitrose and his Non-Executive Director positions with the Cabinet Office and Chairman of The Prince's Countryside Fund in March 2016 to become Minister of State for Trade and Investment.

Monica Burch
Monica Burch joined the Board on 1 October 2010. Her initial appointment ran until September 2013 and has been extended until September 2016. Monica is Senior Partner of law firm Addleshaw Goddard LLP and chairs the firm's Board and Charitable Trust.

Monica also chairs The Mentoring Foundation, a not-for-profit foundation, which helps women reach the very top of large organisations, and was a Board Member of charitable organisation PRIME, which promotes fair and equal access to quality work experience in the legal profession, from 2012 to 2015.

Monica was appointed a Civil Recorder in 2010 (a part-time judicial appointment), is a CEDR-qualified mediator and was named by The Lawyer magazine as one of the 'Hot 100 Lawyers' in 2007 and 2011. She was named in the Timewise Power Part-Time List in 2013. Monica graduated from Oxford University with a degree in Jurisprudence in 1987, and gained a distinction in her Masters Degree in Commercial Intellectual Property from Nottingham Trent University in 2007. Monica has worked in the US and UK, and has advised a variety of businesses, mainly in the consumer sector, across the globe.

Alicja Lesniak
Alicja Lesniak joined the Board on 1 October 2010. Her initial appointment ran until September 2013 and has been extended until September 2016. Alicja is also Senior Independent Director and Chair of the Audit Committee of Next 15, an AIM-listed worldwide digital communications group. She is also a Director of the British Standards Institution and the Chair of its Social Responsibility Committee.

Until 2009, Alicja was Chief Financial Officer of Aegis plc. Prior to this, she was Chief Financial Officer of BBDO EMEA, Chief Financial Officer of Ogilvy and Mather Worldwide, and Managing Director of J Walter Thompson.

Alicja Lesniak is a Fellow of the Institute of Chartered Accountants in England and Wales.

Richard Rivers
Richard Rivers joined the Board on 1 October 2010. His initial appointment ran until September 2013 and has been extended until September 2016. Richard Rivers is a former Chief of Staff and Head of Corporate Development at Unilever. As well as his role as a Non-Executive Member for Channel 4, Richard is a Non-Executive Director of Mothercare plc and Lumene Oy, and a Member of the Advisory Board of WPP plc.

Paul Potts CBE
Paul Potts joined the Board on 1 January 2012. His initial appointment ran until December 2014 and has been extended until December 2017. He began his career as a reporter on the Sheffield Star in 1968 and worked for numerous newspapers, including the Daily Telegraph and Daily Express, where he was Deputy Editor. He joined the Press Association in 1995 as Editor-in-Chief. Paul was appointed Group Chief Executive in 2000 and Executive Chairman in 2008. He retired from PA Group in 2010.

Paul became a Commander of the Order of the British Empire in 2009. He has an honorary degree of Doctor of Letters from the University of Sheffield and in 2010 he was appointed Visiting Professor of Journalism. He is also a media consultant and former media adviser to the Joint Parliamentary Committee on Privacy and Injunctions. He is also a member of the Advisory Board on WW1 Centenary Commemoration and a Trustee of the Imperial War Museum.

MT Rainey
MT (Mary Teresa) Rainey joined the Board on 1 January 2012. Her initial appointment ran until December 2014 and has been extended until December 2017. MT was Founder and CEO of top UK advertising agency Rainey Kelly Campbell Roalfe/Y&R. From 2008 to 2015 she served as Non-Executive Chairman of the fast-growing digital strategy agency Th_nk. She is also a Non-Executive Director of Pinewood Studios Group and Hays plc.

Members *continued*

In a voluntary capacity, MT is Vice Chair of Creative Skillset, the sector skills council for the Creative Industries and is the Founder of horsesmouth.co.uk, a social enterprise for informal online mentoring. She is a former Chairman of Marketing Group of Great Britain and recent President of The Thirty Club.

Josie Rourke
Josie Rourke joined the Board on 1 January 2012. Her initial appointment ran until December 2014 and has been extended until December 2017. Josie is the Artistic Director of the Donmar Warehouse, London, where she has recently directed *The Weir*, which transferred to Wyndham's Theatre; *Coriolanus* and *Les Liaisons Dangereuses*, which were broadcast to cinemas around the world in partnership with National Theatre Live; *The Vote* and *Privacy*, new plays by James Graham; and the musical *City of Angels* for which she won the Olivier Award.

Her work in New York includes *The Machine*, a new play by Matt Charman which played at Park Avenue Armory, New York. In 2015, Josie collaborated again with James Graham on *The Vote*, a new play for theatre and television, broadcast live onto More4 on the night of the General Election and watched by over 650,000 viewers. Her upcoming projects include Nick Payne's new play *Elegy*.

Josie trained at the Donmar under Sam Mendes, through the theatre's annual Resident Assistant Director Scheme. Prior to this, she was Artistic Director of the Bush Theatre in West London from 2007 to 2011, which she moved into its new home in 2011 and subsequently won Theatre of the Year.

Stewart Purvis CBE
Stewart Purvis joined Channel 4 as a Non-Executive Member in September 2013. His initial appointment runs until August 2016.

He joined the BBC as a News Trainee in 1969, then moved to ITN in 1972 where he became Editor of *Channel 4 News*, Editor-in-Chief of ITN and then Chief Executive. He won two BAFTA awards, a Royal Television Society ('RTS') gold medal for an outstanding contribution to television and was awarded a CBE in 2000 for services to journalism. After retiring from ITN in 2003 he became a Visiting Professor of Broadcast Media at Oxford University and Professor of Television Journalism at City University London.

From 2007 to 2010 he was Ofcom's Partner for Content and Standards. He has advised the House of Lords Select Committee on Communications on the governance of the BBC and is a member of the Committee advising the DCMS Secretary of State on BBC Charter renewal. He is a Vice-President of the RTS and Chairman of its Television Journalism Awards. He is the co-author of *When Reporters Cross the Line* and *Guy Burgess – The Spy Who Knew Everyone*.

Executive Members

David Abraham
David Abraham became Channel 4's sixth Chief Executive in 2010. His focus has been on innovation, independence, creative renewal and preparing Channel 4 for the growth of connected television. Since the launch of the data strategy, more than 13 million viewers have registered to access online content, and in partnership with UKTV and BT Sport, Channel 4 Sales House has sustained £1 billion of sales since 2011.

David joined Channel 4 from UKTV where he was Chief Executive. Prior to this, he led The Learning Channel US following a period as General Manager of Discovery Networks UK. David gave the MacTaggart lecture in 2014 on the importance of public service broadcasting to British creativity.

During the early part of his career David was a Co-Founder of advertising agency St Luke's. He has been a Board Member of Creative Skillset since 2009.

Jay Hunt
Jay Hunt became Chief Creative Officer of Channel 4 in January 2011 from her position as Controller at BBC One. Jay's commissions during this time include critically acclaimed shows such as *Sherlock*, *Luther* and *Mrs Brown's Boys*. Jay started her career in news, running both the *One O'clock News* and *Six O'clock News* before becoming the Controller of Daytime at BBC and the Director of Programmes at Channel 5.

Under her leadership, Channel 4 was named the Broadcast Awards Channel of the Year in 2015, the Guardian Edinburgh International Television Festival Channel of the Year in 2014, and won more awards than at any other time in the channel's history. Her award winning commissions include *Humans*, *Indian Summers*, *Catastrophe*, *Gogglebox*, *The Island*, *The Undateables*, *Hunted*, *Benefits Street* and *First Dates*.

Jonathan Allan
Jonathan Allan became Sales Director of Channel 4 in July 2011 having been appointed to the Board from media agency network OMD UK.

After completing an economics degree at Newcastle University, Jonathan joined OMD as a TV buyer in 1995. After a number of years running client businesses, Jonathan was promoted to Deputy Managing Director in 2005. In 2007, aged 32, he was promoted to Managing Director for OMD. In this role, he defined the agency's future direction and broadened its offer expanding digital capability as well as launching marketing services, data planning and creative functions.

Under Jonathan's stewardship, Channel 4 is now an industry leader in delivering commercial innovation by working with brands and agencies to adapt and to evolve in the face of unprecedented technological advances. In 2015, this approach saw Jonathan's sales team take the coveted titles of Media Week Sales Team of the Year, Campaign TV Sales Team of the Year and Campaign Medium of the Year.

Dan Brooke
Dan Brooke heads up Marketing, Press and Publicity, 4creative and Corporate Relations at Channel 4. He joined from documentary producer Rare Day where he was Managing Director. He was Managing Director of Discovery Networks UK, leading Discovery's portfolio of channels through a period of change and innovation with the launches of seven new channels and several digital media services. He is also a Board Member of Britdoc, the Camden Arts Centre and the Mass Extinction Monitoring Observatory.

Dan also worked at Channel 4 from 1998 to 2005, joining as the Head of Marketing and Development for Film4, rising to be Managing Director of Digital Channels. He was responsible for the development and award-winning launches of E4, Film4 and More4 and, in 2001, was elected Young Marketer of the Year by the Marketing Society for his role in the birth of E4.

Under Dan's direction, Channel 4's 4creative and Marketing teams were awarded in 2015 Campaign Advertiser of the Year, Promax Channel of the Year and Marketing Week's Diversity Brand of the Year.

Paula Carter
Paula Carter joined Channel 4 as the first Viewers' Editor, before becoming Board Secretary in 2011 and Director of Planning in 2013. Her background includes experience in advertising, marketing, public and commercial broadcasting and digital media. She worked for the BBC for ten years before joining ITV to create a new digital channel jointly owned by Granada and Boots. Prior to joining Channel 4 in 2007, she ran her own communications consultancy where her clients included Ofcom, the BBC Governors, HMRC, the Royal Opera House, the Joint Scrutiny Committee for the 2003 Communications Bill and the Cabinet Office.

Paula is a magistrate on the South East London Bench and Chairman of Governors at St. Michael's Prep School in Otford, Kent. She sits on the RFU's Disciplinary Panel in London and Chairs Surrey Rugby Disciplinary Panels.

Audit Committee report

Composition of the Audit Committee

During 2015 the Audit Committee comprised Alicja Lesniak (Chair), Monica Burch, Paul Potts and MT Rainey. All the Members of the Committee are Independent Non-Executive Members. Alicja Lesniak FCA is a chartered accountant and was, until 2009, Chief Financial Officer of Aegis plc.

Further details of the Members of the Audit Committee can be found on pages 127 to 128.

The Committee met four times during 2015. At the Committee Chair's invitation, the Chair of the Board, the Chief Executive, the Group Finance Director, the Group Financial Controller, the Head of Business Assurance, the Board Secretary and the KPMG LLP external audit partner (among others) attended Committee meetings. The external audit partner and Head of Business Assurance have direct access to the Chair of the Audit Committee.

Details of attendance at Audit Committee meetings by the Members of the Corporation are disclosed in the Corporate Governance Report on page 124.

Responsibilities and activities of the Audit Committee

As noted in the Corporate Governance Report on page 123, the Board has discharged certain responsibilities to the Audit Committee.

The Committee's key responsibilities, and how these were discharged in 2015, are detailed on page 130.

Audit Committee report *continued*

Responsibilities of the Audit Committee	Activities of the Audit Committee in 2015
– To monitor the integrity of the financial statements of Channel 4 and any formal announcements relating to Channel 4's financial performance, reviewing significant financial reporting judgements contained in them	– At the March meeting, reviewed the 2014 financial statements and other sections of the Annual Report including the Statement of Media Content Policy, to determine that these were clear and consistent with their knowledge of the Corporation and its operations and to assess that the financial statements reflected appropriate accounting principles – At the March and September Audit Committee meetings, reviewed an update of the Corporation's accounting policies, significant accounting and reporting issues and a detailed financial report and discussed matters arising with the external auditor, KPMG LLP – At the September 2015 and January 2016 meetings, considered the requirements of the Viability Statement and the Corporation's disclosure in respect of this – At the September 2015 and January 2016 meetings, considered how much of the 2015 surplus to allocate to the content reserve – At the September 2015 and January 2016 meetings, discussed the key audit risks for 2015 with the external auditor – During the year, reviewed the accounting treatment in respect of the Commercial Growth Fund and other new initiatives
– To review the Corporation's internal financial controls and internal control and risk management systems – To monitor the Corporation's whistleblowing procedures, ensuring that appropriate arrangements are in place for employees to be able to raise matters of possible impropriety in confidence, and with suitable subsequent follow-up action – To monitor and review the effectiveness of Channel 4's Business Assurance function and activities	– At the January meeting, reviewed and approved the Business Assurance work plan and assessed the Corporation's risk management framework – At the March meeting, reviewed the findings of the independent reporting accountants concerning compliance with the arrangements under Schedule 9 of the Communications Act 2003 in relation to 2014 – At the June and September meetings, discussed the Corporation's risk appetite – At the June and September meetings, reviewed and approved the Corporation's revised Treasury policy – At the September meeting considered the tax affairs and arrangements of the Corporation ahead of the annual Senior Accounting Officer certification to HMRC – Throughout the year, reviewed reports on the results of Business Assurance activities, and met with the Head of Business Assurance and Management to review the findings from these activities and instances of whistleblowing, if any
– To make recommendations to the Board in relation to the appointment, reappointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor – To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements – To develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken	– Further details in external audit section on page 131
– To regularly update the Board about the Audit Committee's activities and make appropriate recommendations and to ensure the Board is aware of matters that may significantly impact on the financial condition or affairs of the business	– The Chair of the Audit Committee briefed the Board as necessary on the activities of the Committee and any significant matters during the course of the year – Audit Committee papers, including Business Assurance reports, were made available to the Board during 2015

If necessary, the Audit Committee can instigate special investigations and, if appropriate, engage special counsel or experts to assist.

Audit Committee report *continued*

Key audit risks

After discussions with both management and the external auditor, the Audit Committee determined that the key risks in relation to misstatement of the Corporation's financial statements continued to be as follows:

– Programme and film rights
– Revenue recognition

These issues were discussed while the audit strategy was being reviewed and at the conclusion of the audit of these financial statements.

Programme and film rights

The value of programme and film rights recognised on the balance sheet at 31 December 2015 is £254 million as disclosed in note 12 to the financial statements. The total value of obsolete programmes and developments written off in the year was £31 million. Reflecting the status of Channel 4 as a public service broadcaster, the value to the Corporation of the programme and film rights portfolio is considered on an aggregate basis. As described on page 145, programme and film rights are stated at the lower of direct cost incurred up to the balance sheet date and value to the Group.

The Committee has reviewed the results of management's provision for programme rights at the balance sheet date, and is satisfied that the procedures performed and the assumptions made were robust.

The auditor has explained its audit procedures to test the carrying value of programme and film rights on the balance sheet and the results of their work. On the basis of their audit work, the auditor considered that the carrying value of programme and film rights was appropriate in the context of the materiality of the financial statements as a whole.

Revenue recognition

Total revenue for 2015 was £979 million as detailed in note 1 to the financial statements. The revenue recognition accounting policies of the Corporation are disclosed on page 143. In 2015, £925 million or 94% of total revenues were advertising and sponsorship revenue. Advertising revenue is recognised on transmission of the advertisement while sponsorship revenue is recognised on a straight-line basis in accordance with the transmission schedule for each sponsorship campaign.

The accounting treatment for new or unusual revenue contracts is reviewed and presented by management to the Audit Committee.

The Committee has reviewed the accounting for each material new contract in 2015, and the judgement applied in each case. Management also provided papers explaining the accounting treatment to the auditor during the 2015 financial audit. On the basis of its audit work, the auditor considered that the value of revenue recognised was appropriate in the context of the materiality of the financial statements as a whole.

Misstatements

Management confirmed to the Committee that they were not aware of any material misstatements or immaterial misstatements made intentionally to achieve a particular presentation. The auditor reported to the Committee any misstatements that it found in the course of their work. No material misstatements remain unadjusted. The Committee confirms that it is satisfied that the auditor has fulfilled its responsibilities with diligence and professional scepticism.

After reviewing the presentations and reports from management and consulting where necessary with the auditor, the Committee is satisfied that the financial statements appropriately address the critical judgements and key estimates, both in respect to the amounts reported and the disclosures. The Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust.

External audit

Auditor rotation

The current auditor has been in place since the audit of the financial statements for the year ending 31 December 2004. The auditor periodically rotates the lead audit partner to safeguard independence and objectivity. Karen Wightman began her tenure as audit partner in 2013. We anticipate that Karen Wightman will continue as lead audit partner until the Audit Committee reviews the need to tender the audit under a competitive tender process ahead of 2017 when her term concludes.

Auditor objectivity and independence

Channel 4 will not use its external auditor to provide other services unless it is efficient and effective to do so and authorised by the Committee. The Committee has also taken action to ensure the objectivity and independence of the external auditor is maintained. To discharge this responsibility, the Committee has:

– approved the proposed audit fee and scope of the audit
– reviewed and approved all non-audit fees payable to the Group's external auditor
– reviewed KPMG's annual statement to the Audit Committee to confirm its independence within the meaning of regulatory and professional requirements

A summary of the fees earned by KPMG LLP in respect of all services provided in 2015 to the Corporation is shown in note 3 to the financial statements.

The Committee has complied with the provisions of the Competitions & Markets Authority Order during 2015.

Effectiveness of the audit process

The Committee has reviewed the external audit process and has satisfied itself that it is effective by reviewing:

– the external auditor's plan for the audit of the Group's accounts, including the key audit risks identified above
– the external auditor's reports on the Group's draft financial statements for the year ended 31 December 2015
– the conduct of the audit through enquiries with management
– the robustness and perceptiveness of the external auditor in their handling of key accounting and audit judgements identified and in responding to questions in one-on-one meetings

Business assurance

As noted elsewhere, the Corporation has a business assurance function. The Head of Business Assurance has direct access to the Chair of the Audit Committee, and reports jointly to the Group Finance Director and the Chair of the Audit Committee.

During 2015, the business assurance function undertook a number of specific projects to provide assurance that control processes were appropriate and working effectively, and where necessary recommend improvements.

By Order of the Board

Alicja Lesniak
Chair of the Audit Committee
7 April 2016

Members' remuneration report

Annual statement by the Chair of the Remuneration Committee

This report sets out the activities of the Remuneration Committee for the year ended 31 December 2015. It discloses the remuneration policy and remuneration details for the Executive and Non-Executive Members of the Corporation. It has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013. Channel 4's status as a statutory corporation without shareholders means these provisions are not directly applicable but the Members have decided to comply voluntarily with the provisions to the extent that they are relevant to Channel 4, in line with the Board's commitment to high standards of corporate governance.

The report is set out in three sections: the statement by the Chair of the Remuneration Committee, the annual report on remuneration, and the policy report. The annual report on remuneration provides details on remuneration relating to 2015 and other information required by the Regulations.

The Companies Act 2006 requires the auditor to report on certain parts of the Members' Remuneration Report and to state whether, in its opinion, those parts of the report have been properly prepared in accordance with the Regulations. The parts of the Annual Report on remuneration that are subject to audit are indicated in the Auditor's Report. The statement by the Chair of the Remuneration Committee and the policy report are not subject to audit.

The Remuneration Committee oversees all aspects of pay for the Executive Members and staff of Channel 4, reviewing proposals for the overall annual pay awards and variable pay schemes applicable to all staff, and the details of remuneration packages for Executive Members. The Committee's recommendations and decisions in 2015 reflect its remuneration policy, which is designed to enable Channel 4 to attract, motivate and retain high calibre staff by offering both fixed and variable pay to reward commercial and creative success, while being sensitive to the position that Channel 4 occupies as a public service broadcaster.

Composition of the Remuneration Committee

During 2015, the Members of the Committee were Richard Rivers (Chair), Mark Price and Stewart Purvis. In 2015, the Committee met four times.

All the Members of the Committee are Independent Non-Executive Members. The Chair of the Board, the Chief Executive, the Group Finance Director, the Head of Human Resources and the Board Secretary attend meetings as appropriate.

Where Executive Members or senior management are involved in advising or supporting the Remuneration Committee, care is taken to recognise and avoid conflicts of interest. No Executive Members attend meetings of the Remuneration Committee at times when any aspect of his or her individual remuneration, benefits or terms of employment is being discussed.

Non-Executive Members are appointed by Ofcom, which also determines their fees. Non-Executive Members are entitled to reimbursement of travel and accommodation expenses incurred in connection with attending Board and other meetings in relation to fulfilling their duties. Non-Executive service contracts are subject to fixed terms of a maximum of three years.

Responsibilities of the Remuneration Committee

The Committee's principal responsibilities are:

- to recommend to the Board the level of any annual salary increases, variable pay awards and the structure of remuneration, in particular for Executive Members and senior management
- to review any other significant change in Channel 4's remuneration arrangements and policies
- to recommend to the Board the structure of the annual Corporate Variable Pay and Advertising Sales Schemes, and to review progress against the targets set for the schemes
- to review any other aspect of HR strategy or performance as seems relevant.

The Chair of the Remuneration Committee reports to the Board on the Remuneration Committee's discussions and recommendations, and brings to the Board's attention any matters of an unusual or sensitive nature.

Activities of the Remuneration Committee

The Committee's work in 2015 included reviewing the design of the Advertising Sales Scheme and making an award recommendation to the Board for the Variable Pay Scheme and Advertising Sales Scheme in respect of the year.

The Committee imposes a cap on the Advertising Sales Scheme, restricting the maximum payout under the scheme to 75% of gross salary. The Committee agreed to defer a portion of this pay as an additional bonus under the scheme in Q1 2016, to maintain the momentum of strong sales performance in 2015 and contingent on further performance targets being achieved.

The variable pay award for 2015 and the details of the Corporate Variable Pay Scheme are detailed on page 134.

After careful consideration and review, the average pay award for the year beginning 1 April 2016 has been made at 2.75%. This applies to all staff with the exception of Executive team Board Members who have been awarded a pay award of 2.75% from 1 July 2016.

The Remuneration Committee agreed that the Corporate Variable Pay Scheme for 2016 will remain largely unchanged from 2015 and continue to be focused on creative achievement and financial sustainability. From 1 January 2015, the maximum amount payable to Executive team Board Members under the Corporate Variable Pay Scheme was increased to up to 40% of total gross salary.

Members' remuneration report *continued*

Remuneration report

The following provisions of the report are subject to audit

The remuneration of the Executive Members for the years ending 31 December 2015 and 2014 is made up as follows:

£000	**Salary**	**Taxable benefits**	**Variable pay**	**Pension**	**Total for 2015**	Salary	Taxable benefits	Variable pay	Pension	Total for 2014
David Abraham	**554**	**1**	**188**	**138**	**881**	550	1	166	138	855
Jay Hunt	**410**	**1**	**139**	**62**	**612**	407	1	123	50	581
Jonathan Allan	**350**	**1**	**164**	**32**	**547**	350	1	102	30	483
Dan Brooke	**305**	**1**	**104**	**50**	**460**	299	1	87	50	437
Total	**1,619**	**4**	**595**	**282**	**2,500**	**1,606**	**4**	**478**	**268**	**2,356**

The salary figures in the table above represent the gross salaries received in 2015, after taking account of salary increases during the year where applicable.

In 2015 and 2014, David Abraham, Jay Hunt and Dan Brooke received cash payments in lieu of pension benefits.

Jonathan Allan's variable pay comprises a 50:50 split between the Advertising Sales Scheme and the Corporate Variable Pay Scheme.

The remuneration of the Non-Executive Members for the years ending 31 December 2015 and 2014 is as follows:

£000	**2015 salary and fees**	2014 salary and fees
Lord Burns (term concluded on 27 January 2016)	**100**	100
Mark Price	**30**	30
Monica Burch	**22**	22
Alicja Lesniak	**22**	22
Paul Potts	**22**	22
Stewart Purvis	**22**	22
MT Rainey	**22**	22
Richard Rivers	**22**	22
Josie Rourke	**22**	22
Total	**284**	**284**

No detailed disclosure has been provided for the Non-Executive Members other than that relating to their fee, as it is the only form of remuneration they receive.

Mark Price does not retain his fees for his Non-Executive Directorship. In accordance with Waitrose policy, Mark has requested that his fee be paid over to Waitrose.

Monica Burch's firm, Addleshaw Goddard LLP, deducts her Channel 4 fees from her partner drawings.

Members' remuneration report *continued*

Variable pay
During the year, the Committee met to monitor performance as part of its oversight of variable pay across the business. The Committee met again in January 2016 to agree on a recommendation to the Board on variable pay once results for the year were available.

Corporate Variable Pay Scheme outline
The Corporation's business model and strategy are set out in the Strategic Report on page 109. The Corporate Variable Pay Scheme has been designed specifically to link variable pay with the business model and is based on the following areas of achievement:

– creativity – to maintain Channel 4's reputation for originality and creativity with an emphasis on innovation, impact and creative risk taking and achievement of the remit
– sustainability – with the aim of growing total revenues and successfully developing new sources of revenue that can be reinvested into content.

Achievement of at least the budgeted surplus or deficit before tax for the year and Ofcom licence requirements is a condition for any element of the scheme to pay out to staff.

Most staff and the Executive team participate in the Corporate Variable Pay Scheme, where the amounts provided can be up to 10% of total gross salary for staff, 20% for Heads of Department, 30% for the Executive team and 40% for Executive team Board Members. These percentages represent the maximum average amount that can be provided across each employee category. Actual awards for each staff member will vary from the average to reflect their individual achievement against personal performance objectives.

Process for determining variable pay
Delivery of the remit is the overarching aim of the Corporation which, for the purposes of the Corporate Variable Pay Scheme, is considered to consist of two pillars; creativity and sustainability. To decide on how much variable pay should be provided each year, the Remuneration Committee reviews business performance across 76 qualitative and quantitative metrics which track year-on-year performance and performance against a five-year average. Where relevant, performance versus competitors against the same metrics is also a key part of the Committee's deliberations. The Committee also considers a report written by the CEO in conjunction with others in the Executive team, describing how the Corporation has performed in relation to creativity, commercial sustainability and diversity.

The Remuneration Committee makes a judgement on the overall performance for the year, and produces a narrative assessment of its evaluation. This is then presented to the Board which has the final approval of any payout.

The scheme is based on a mix of both qualitative and quantitative information, and a degree of judgement is required around creative performance measures. Creativity and sustainability are considered to be of broadly equal weighting because they are both equally important to the long-term success of the Corporation, but the weighting allocated to each in a given year is at the discretion of the Committee.

After due consideration of performance during the year, the Committee proposes an amount, entirely at its discretion, based on what they consider the average payout across the Corporation should be for the year. These proposals are agreed by the Board.

The Committee will review the Corporate Variable Pay Scheme each year to ensure it remains appropriate.

Variable pay decision for 2015
The Committee noted that the two gateways to the scheme, meeting the licence requirements and the budgeted pre-tax result, had been met. It also noted the achievement of all diversity goals for the year.

The Committee undertook a detailed review of all the information available to it, including the CEO and Executive team's 2015 Creativity, Sustainability and Diversity Report, and the Corporation's performance across a wide range of performance metrics. Diversity was added to the report in 2015 to reflect the launch of the 360° Diversity Charter. An update on how the Charter has progressed in 2015 is described on page 114. An extract of the performance metrics considered by the Remuneration Committee is set out on pages 175 to 176 and includes programme quality, creative achievements, viewing share, diversity targets, ad sales performance, VoD viewing and commercial impact performance in key demographics. The creative achievements and financial results are also outlined in detail throughout this Annual Report.

The Committee determined that 2015 had been another impressive year of remit delivery. From a creative perspective there had been major television and film awards (pages 94 to 101) and hit shows across every genre. In addition, the Corporation maintained or increased its lead over other broadcasters compared to 2014 across a range of the Statement of Media Content Policy ('SMCP') metrics (pages 16 to 39). The Committee recognise that in the pursuit of creative innovation not all endeavours will be successful; however, overall 2015 had been another strong year of creative performance.

The Committee also determined there had been an exceptional commercial performance with the Corporation reporting record revenue and content results, a surplus of £26 million and an increase in cash reserves to £252 million. Revenue was once again aided by a buoyant advertising market, and new initiatives such as the Commercial Growth Fund and All4 Games were launched to contribute to the Corporation's long-term sustainability and to diversify sources of revenue. Digital revenues grew by more than 30% and Channel 4's new digital platform, All 4, was launched in 2015 with registered viewers surpassing 13 million by December 2015. The Indie Growth Fund progressed with a further four companies benefiting from investment in 2015, taking the total portfolio to nine companies.

Channel 4 reached an important milestone in 2015 with viewing share on Channel 4 improving for the first time since 2006, the culmination of several years of investment in the schedule and multiple successes on-screen in every genre. Performance in peak-time, where the majority of content investment is concentrated, was strong versus other terrestrial channels and once again improved year-on-year, although daytime continues to present a challenge. The portfolio share for the year was 10.6% (pages 35, 111 and 175), short of the 10.9% achieved in 2014, as growth in Channel 4 was offset by challenges facing all digital channels. E4 was particularly affected, although the declines experienced were smaller than many broadcast competitors. The key ABC1 demographic (page 175) improved in 2015 due to a slate of successful drama and entertainment programmes, although the 16–34 demographic share, which reached its highest point in the past five years in 2014, declined.

After a careful and detailed consideration of performance for 2015, the Committee recommended that, following an exceptional year of commercial performance and a year of impressive creative performance, staff should receive an average of 9% of year end salary under the Corporate Variable Pay Scheme, Heads of Department should receive an average of 18% of salary, the Executive team should receive an average of 27% of salary and Executive team Board Members should receive an average of 34% of salary. Actual awards for each staff member varied from this average to reflect their individual achievement against personal performance objectives.

Advertising Sales Scheme
Staff working within advertising sales have a separate Advertising Sales Scheme, linked to advertising revenue and paid bi-annually based on performance. They are not eligible for the Corporate Variable Pay Scheme, with the exception of Executive Member Jonathan Allan whose variable pay comprises a 50:50 split between the Advertising Sales Scheme and the Corporate Variable Pay Scheme.

Members' remuneration report *continued*

Variable pay awards to Executive Members
The Committee made the following awards to Executive Members in respect of 2015 performance:

- David Abraham, Jay Hunt and Dan Brooke were each awarded an amount of 34% of year end salary under the Corporate Variable Pay Scheme
- Jonathan Allan was awarded an amount of 34% of the half of his year end salary which is subject to the Corporate Variable Pay Scheme. Jonathan Allan also received £105,000 through the Advertising Sales Scheme

Taxable benefits
Executive Members are eligible for a range of taxable benefits, which can include a pension allowance and membership of a private medical insurance scheme (which is provided to all staff). In line with the Corporation's expenses policy, no expenses claimed by Executive Members were chargeable to UK income tax as they were incurred wholly for the purposes of the business of the Corporation.

Pension
The Corporation has two pension schemes: a defined contribution scheme open to all staff, and a defined benefit scheme which is closed to new entrants and closed to future accrual from 31 December 2015. Further details relating to the defined benefit plan are provided in note 18 to the financial statements.

David Abraham, Jay Hunt and Dan Brooke all received cash payments in lieu of pension benefits. Jonathan Allan is a member of the defined contribution scheme.

Non-Executive Members are not eligible for membership of either pension scheme.

The following provisions of the report are not subject to audit:

CEO remuneration table
The table below shows the percentage change in remuneration of David Abraham, the CEO and the Corporation's employees as a whole between the years 2014 and 2015:

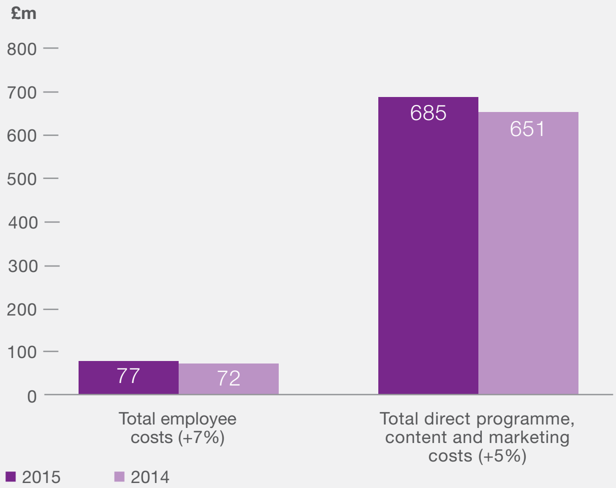
	CEO	All staff
Salary and fees	0%	+2.75%
Variable pay	+13%	+33%
Total	**+3%**	**+7%**

The Group is not presenting a table on CEO pay in comparison to Total Shareholder Return as it is a statutory Corporation without shareholders and the requirements are therefore not applicable.

Payment for loss of office
No payments were made for loss of office in 2015 to Executive Members, and at the balance sheet date there were no provisions made for compensation payable for early termination of contracts or loss of office to Executive Members.

Payment to past Members
No payments were made to past Members in 2015.

Relative importance of spend on pay
The graph below shows the actual expenditure of the Group and the change between the current and previous years.



The Members have chosen the change in total direct programme, content and marketing costs as disclosed in note 2 to the financial statements as the comparative measure for relative spend on pay as it is considered to be the most significant indicator in understanding total Corporation expenditure year-on-year. As in the previous year, employee pay remains approximately 11% of on-screen expenditure.

Total employee pay is detailed in note 4 to the financial statements.

By Order of the Board

Richard Rivers
Chair of the Remuneration Committee
7 April 2016

Members' remuneration report *continued*

Remuneration policy for 2016

The remuneration of Executive Members is determined by the Remuneration Committee, the membership and terms of reference of which are detailed on page 132. In framing its remuneration policy, the Committee has given full consideration to the best practice provisions of the UK Corporate Governance Code. There have been no significant changes to the Remuneration Policy for 2016.

Future policy table

The following table sets out the key components of the remuneration package for Executive Members:

Component	How this supports the strategic aims of the Group	How this operates	Maximum amount payable	Performance measures
Salary	Offering competitive remuneration packages helps the Corporation attract, motivate and retain a high calibre Executive team.	Salaries are paid monthly. The Remuneration Committee discusses the performance of each Member with the Chair of the Board and with the Chief Executive for other Executive Members.	Annual salaries from 1 July 2016 are approved as follows: David Abraham – £568,958 Jay Hunt – £421,012 Jonathan Allan – £359,625 Dan Brooke – £313,388 Except where otherwise shown, salaries are reviewed annually in the first quarter of the year. Increases reflect changes in responsibility and performance.	None.
Taxable benefits		The Corporation offers a range of benefits to all staff including private medical insurance. Other benefits such as life assurance are available through a flexible benefits scheme.	The value of private medical insurance in 2016 is expected to be £790 per Executive Member.	None.
Pensions		The Corporation currently offers a defined contribution pension scheme for new staff. Certain Executive Members also receive cash payments in lieu of pension benefits as disclosed on page 133.	The maximum amount contributed by the Corporation under the defined contribution scheme is 13% of pensionable salary. David Abraham, Jay Hunt and Dan Brooke receive cash payments in lieu of pension benefits.	None.
Variable pay		All of the Executive team participate in the Corporate Variable Pay Scheme. Payout is determined annually by the Remuneration Committee shortly after the financial year end based on performance and paid in March following the year end. Jonathan Allan's variable pay comprises a 50:50 split between the Advertising Sales Scheme and the Corporate Variable Pay Scheme.	The Corporate Variable Pay Scheme will pay up to 40% of total gross salary for the Executive team. The Advertising Sales Scheme is linked to advertising revenue and paid bi-annually throughout the year based on performance.	The Remuneration Committee agreed that the Corporate Variable Pay Scheme for 2016 will remain largely unchanged from 2015 and continue to be focused clearly on the two common purposes of the organisation recognised by all staff: creative achievement and financial sustainability. Details of the scheme are set out on page 134.

None of the components of remuneration contain any provisions for recovery of sums paid.

Members' remuneration report *continued*

The following table sets out the key components of the remuneration package for Non-Executive Members:

Component	Purpose	Operation
Fees	The Non-Executive Members constructively challenge and help develop proposals on strategy, and bring strong, independent judgement, knowledge and experience to the Board's deliberations.	Fees are set by Ofcom and fees are paid monthly and reviewed periodically.

No other components of remuneration are available for Non-Executive Members.

Policy on payment for loss of office

The service contracts of all the Executive Members are subject to notice periods of one year or less. The Committee's policy is to make payments in line with contractual obligations covering payment in lieu of notice including base salary and other benefits.

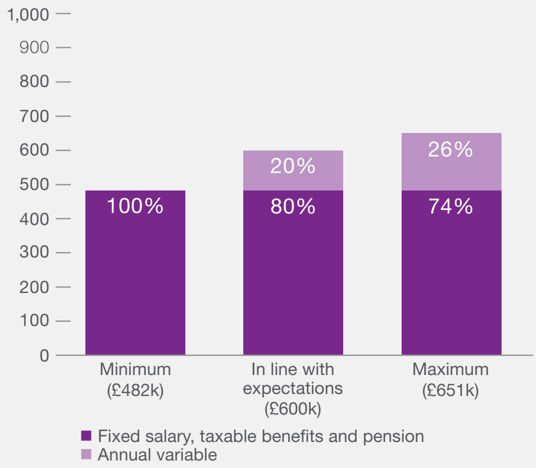
The Remuneration Committee will consider what compensation commitments (including pension contributions and all other elements) the Executive Members' terms of appointment would entail in the event of early termination. The aim of this is to avoid rewarding poor performance.

Illustration of application of remuneration policy

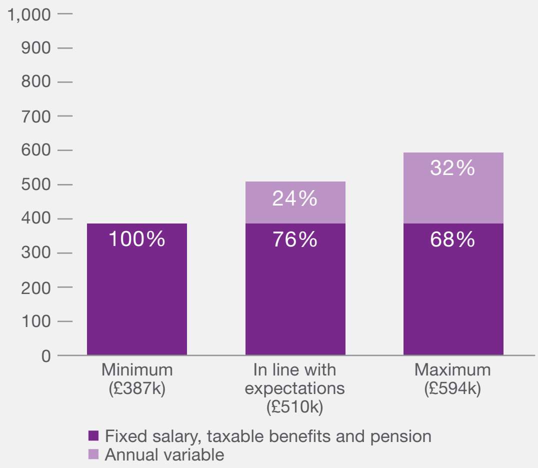
The graphs below represent the variations in the remuneration at different levels of performance for the 2016 remuneration policy for the Executive Members:

Chief Executive Officer

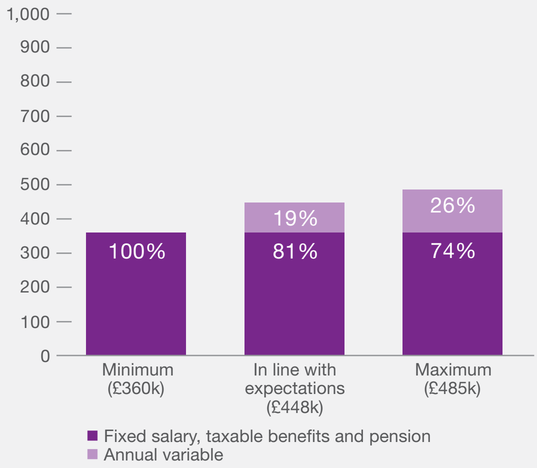
Chief Creative Officer



Director of Sales



Chief Marketing and Communications Officer



Audited information

The Members' Remuneration Report (pages 132 to 137), where indicated, has been audited by the Corporation's auditor in accordance with Schedule 8 of the Companies Act 2006 as if those requirements were to apply to the Corporation.

Consolidated income statement and statement of comprehensive income for the year ended 31 December

Consolidated income statement for the year ended 31 December

	Note	2015 £m	2014 £m
Revenue	1	**979**	938
Cost of transmission and sales	2	**(923)**	(903)
Gross surplus		**56**	**35**
Other operating expenditure	3	**(32)**	(31)
Operating surplus		**24**	**4**
Net finance expense	5	**(1)**	(1)
Share of profit of investments accounted for using the equity method, net of income tax and amortisation	7	**3**	1
Surplus before tax		**26**	**4**
Income tax expense	6	**–**	(1)
Surplus for the year		**26**	**3**

Consolidated statement of comprehensive income for the year ended 31 December

	Note	2015 £m	2014 £m
Surplus for the year		**26**	3
Net remeasurement surplus/(deficit) on pension scheme	18	**12**	(37)
Revaluation of freehold land and buildings	9	**12**	13
Deferred tax on pension scheme	11	**(2)**	8
Deferred tax on revaluation of freehold land and buildings	11	**4**	(2)
Other comprehensive income/(cost) for the year		**26**	**(18)**
Total comprehensive income/(cost) for the year		**52**	**(15)**

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

Consolidated statement of changes in equity for the year ended 31 December

	Retained earnings			
	Other retained earnings £m	Content reserve £m	Revaluation reserve £m	**Total equity £m**
At 1 January 2014	430	–	28	**458**
Surplus for the year	3	–	–	**3**
Reserve transfer	(30)	30	–	**–**
Other comprehensive (cost)/income	(29)	–	11	**(18)**
Total comprehensive (cost)/income for the year	**(56)**	**30**	**11**	**(15)**
At 31 December 2014	**374**	**30**	**39**	**443**
At 1 January 2015	374	30	39	**443**
Surplus for the year	26	–	–	**26**
Reserve transfer	(20)	20	–	**–**
Other comprehensive income	10	–	16	**26**
Total comprehensive income for the year	**16**	**20**	**16**	**52**
At 31 December 2015	**390**	**50**	**55**	**495**

We established a content reserve in 2014 to ensure surpluses generated are re-invested into our creative ambition in order to deliver on our remit. Our aim is to maintain an overall financial break-even position in the long term. We have allocated an additional £20 million from our 2015 surplus to the content reserve, increasing it to £50 million at 31 December 2015. Creative investments may be funded by drawing down on the content reserve in future years.

Consolidated balance sheet as at 31 December

	Note	2015 £m	2014 £m
Assets			
Investments accounted for using the equity method	7	**29**	26
Property, plant and equipment	9	**112**	103
Intangible assets	10	**5**	2
Deferred tax assets	11	**16**	18
Total non-current assets		**162**	**149**
Programme and film rights	12	**254**	242
Trade and other receivables	13	**178**	196
Other financial assets	14	**87**	70
Cash and cash equivalents	14	**165**	152
Total current assets		**684**	**660**
Total assets		**846**	**809**
Liabilities			
Employee benefits – pensions	18	**(56)**	(73)
Provisions	16	**(1)**	(1)
Deferred tax liabilities	11	**–**	(5)
Total non-current liabilities		**(57)**	**(79)**
Trade and other payables	15	**(293)**	(286)
Provisions	16	**(1)**	(1)
Total current liabilities		**(294)**	**(287)**
Total liabilities		**(351)**	**(366)**
Net assets		**495**	**443**
Revaluation reserve		**55**	39
Retained earnings:			
Content reserve		**50**	30
Other retained earnings		**390**	374
Total equity		**495**	**443**

The financial statements on pages 138 to 166 were approved by the Members of the Board on 7 April 2016 and were signed on its behalf by:

Charles Gurassa
Chair

David Abraham
Chief Executive

The notes on pages 142 to 166 form part of these financial statements.

Consolidated cashflow statement for the year ended 31 December

	Note	2015 £m	2014 £m
Cashflow from operating activities			
Surplus for the year		**26**	3
Adjustments for			
Income tax expense	6	**–**	1
Depreciation	9	**6**	6
Amortisation of intangibles	10	**1**	1
Net financial expense	5	**1**	1
Share of profit from investments accounted for using the equity method, net of income tax and amortisation	7	**(3)**	(1)
Current service pension cost	18	**4**	3
		35	**14**
Increase in programme and film rights	12	**(12)**	(18)
Decrease/(increase) in trade and other receivables	13	**18**	(14)
Increase in trade and other payables	15	**7**	17
Decrease in provisions, excluding unwinding of discounts	16	**–**	(1)
		48	**(2)**
Pension contributions	18	**(11)**	(8)
Tax (paid)/repaid		**(1)**	1
Net cash from operating activities		**36**	**(9)**
Cashflow from investing activities			
Acquisition of investments	7, 20	**(5)**	(4)
Purchase of property, plant and equipment	9	**(3)**	(6)
Additions to internally developed software	10	**(2)**	–
Interest received	5	**1**	1
Dividends received	7	**3**	2
(Increase)/decrease in other financial assets[1]	14	**(17)**	37
Net cashflow from investing activities		**(23)**	**30**
Net increase in cash and cash equivalents		**13**	21
Cash and cash equivalents at 1 January		**152**	131
Cash and cash equivalents at 31 December		**165**	**152**

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 2015 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 7 April 2016. The registered office of Channel 4 is 124 Horseferry Road, London SW1P 2TX.

Basis of preparation

The financial statements of the Group have been prepared and approved by the Members in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS'). The Corporation's individual financial statements have been prepared under the Financial Reporting Standard 101 *Reduced Disclosure Framework*.

The financial statements as a whole have been prepared in a form directed by the Secretary of State for Culture, Media and Sport with the approval of HM Treasury, and are principally prepared under the historical cost convention (except that freehold properties, derivatives and certain financial instruments are stated at fair value). In line with IFRS 13, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The financial statements are presented in pounds Sterling, rounded to the nearest million.

The preparation of financial statements in accordance with IFRS requires the use of estimation and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of income and expense during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by management in the application of IFRS that have a significant risk of material adjustment on the financial statements and estimates are summarised as follows:

- revenue recognition – timing of recognition to reflect the point or period when the Group has transferred the main risks and rewards of ownership to third parties (detailed policy on page 143)
- programme and film rights (detailed policy on page 145)
  - estimate of value with reference to the quality of programme that has ultimately been delivered and its expected viewing performance
  - estimate of future revenues from distribution when evaluating the carrying value of film rights held for exploitation

Going concern

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

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

As discussed on page 109, Ofcom have renewed Channel 4's licence. The new ten-year licence came into effect in January 2015.

In addition, notes 13 to 15 to the financial statements include the Group's approach to financial risk management, including its financial instruments and hedging activities and its exposures to liquidity and credit risks.

Basis of consolidation

A subsidiary is an entity that is controlled by the Group. Control exists when the Group has exposure, or has rights to variable returns from its involvements with the investee and has the ability to affect those returns through its power over the investee. The Group has rights that give it the current ability to direct the relevant activities of the investee (i.e. the activities that significantly affect the investee's returns). The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences to the date that control ceases.

Investments in associates and joint ventures are accounted for using the equity method.

Associates are those entities over which the Group has significant influence. Where the Group holds 20% or more of the voting power (directly or through subsidiaries) of an investee, it will be presumed the Group has significant influence unless it can be clearly demonstrated that this is not the case. If the holding is less than 20%, it will be presumed the Group does not have significant influence unless such influence can be clearly demonstrated. Significant influence exists when the Group has the power to participate in the financial and operating policy decisions of the investee but does not have control or joint control of those policies.

Joint arrangements are those entities over whose activities the Group has joint control. Joint control is established by a contractual agreement whereby the decisions about the relevant activities (i.e.: the activities that significantly affect the investee's returns) of the entity require the unanimous consent of the two or more parties sharing joint control of the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Group accounting policies *continued*

Basis of consolidation *continued*

Under equity accounting, the consolidated financial statements include the Group's share of the total recognised gains and losses of associates and joint ventures on an equity accounted basis, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases or until the associate or joint venture is classified as held for sale.

When the Group's share of losses exceeds its interest in an associate or joint venture, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate or joint venture.

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

Intra-Group balances and any unrealised gains and losses or income and expense arising from intra-Group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and joint ventures are eliminated to the extent of the Group's interest in the equity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Accounting policies

A summary of the Group and Channel 4 significant accounting policies that are material in the context of the accounts is set out below. All accounting policies have been applied consistently in all material respects to all periods presented in these financial statements.

A number of new standards, amendments to standards and interpretations have been issued and became effective on 1 January 2016. None of these are expected to have a significant effect on the consolidated financial statements of the Group.

Revenue recognition

Revenues are stated net of value added tax and are recognised when persuasive evidence of a sale exists, a service has been performed, and when collectability is reasonably assured. For each of the Group's significant revenue streams, revenues are recognised as described below:

Advertising and sponsorship revenues

Revenues are stated net of advertising agency commissions.

Television advertising revenue and online advertising revenue are recognised on transmission of the advertisement. Revenue from sponsorship of the Group's programmes and films is recognised on a straight-line basis in accordance with the transmission schedule for each sponsorship campaign.

Commission earned from advertising representation for third parties, including The Box Plus Network Limited, is recognised on transmission of the related advertisements in line with contractual arrangements. As the Group acts as an agent for these parties, and does not have exposure to the significant risks and rewards of the sale, the gross advertising sales of these arrangements are not recognised in revenue, but the commission earned by the Group in its capacity as agent is.

Revenues are recognised from barter and other similar contractual arrangements involving advertising when the services exchanged are dissimilar. Revenues are measured with reference to the fair value of the goods or services received.

Other revenues

Revenues earned from syndicating content to third-party online platforms are typically generated from some or all of the following contractual arrangements:

- milestones – non-refundable milestone payments are recognised once the Group's performance obligations are satisfied, for example upon launch
- ongoing service fees – revenue is recognised on a straight-line basis over the contract term as service obligations are performed
- pence-per-view or revenue share – revenues are calculated based on the number of content views and are recognised when the amounts can be reliably measured

Revenues generated from the exploitation of developed film rights (for example, from theatrical box office releases) are recognised when revenues can be reliably measured.

Segment reporting

Segments are reported in accordance with IFRS 8 'Operating Segments'. Segments are aggregated only where the nature of the products and services provided are similar and where the segments have similar economic characteristics.

The chief operating decision-maker has been identified as the Channel 4 Board. Segments follow management reporting to the Board in order to make decisions on the allocation of resources within the Group.

Group accounting policies *continued*

Taxation

Tax on the surplus or deficit for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is also recognised directly in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary timing differences are not provided for: the initial recognition of goodwill, the initial recognition of assets and liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries and joint ventures to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Investments in associates and joint ventures

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

Other investments

Other investments includes equity holdings without significant influence. Equity investments are normally carried at fair value. Where an active market value is not available, the investment is recorded at cost less provision for impairment. The Members believe that this valuation reflects a reasonable approximation of fair value.

Property, plant and equipment

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

Any gain arising from a change in fair value is recognised directly in other comprehensive income, unless the gain reverses an impairment of the same asset previously recognised in the income statement, in which case it is also recognised in the income statement. Any loss arising from a change in fair value is charged directly to other comprehensive income to the extent of any credit balance existing in the revaluation surplus of that asset. Otherwise, the loss is recognised in the income statement.

Fixtures, fittings and equipment are stated at cost less accumulated depreciation.

Depreciation is calculated so as to write off the cost or valuation of the asset evenly, on a straight-line basis, over its estimated useful life.

Useful lives are estimated taking into account the rate of technological change and the intensity of use of each asset. The annual rates used for this purpose are as follows:

Freehold buildings	2%
Computer hardware	25%–50%
Office equipment and fixtures and fittings	25%
Technical equipment	14%–25%

Freehold land is not depreciated.

The carrying values of property, plant and equipment are reviewed for impairment when events or other changes in circumstances indicate that the carrying values may not be recoverable. Where an indicator of impairment exists, an estimate is made of the recoverable amount. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to the recoverable amount.

Group accounting policies *continued*

Intangible assets

Expenditure on internally developed computer software applications is capitalised to the extent that the project is technically and commercially feasible, sufficient resources exist to complete the development and it is probable that the asset will generate future economic benefits. The expenditure capitalised includes the cost of software licences, direct staff costs and consultancy costs.

Amortisation of capitalised software development costs is charged to the income statement on a straight-line basis over the estimated useful lives of the assets from the date that they are available for use. For capitalised computer software, the estimated useful life is between two and five years.

Other intangible assets acquired by the Group are stated at cost less accumulated amortisation and any provision for impairment. Where assets are considered to have finite lives, amortisation is charged to the income statement on a straight-line basis over their estimated useful life.

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

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

Impairment

An impairment charge is recognised if the carrying value of an asset or a cash-generating unit exceeds its estimated recoverable amount. Impairment charges are recognised in the income statement.

The carrying values of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. Value in use is determined by discounting the future net cashflows for the specific asset, or if the asset does not generate independent cashflows, the discounted future net cashflows for the cash-generating unit to which it belongs.

Estimates are used in deriving these cashflows and the discount rate that reflects current market assessments of the risks specific to the asset and the time value of money. The complexity of the estimation process, including projected performance, the discount rate and long-term growth rate applied, affects the amounts reported in the financial statements.

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Reversal of impairments

An impairment charge in respect of freehold land and buildings is reversed in the event of a subsequent increase in fair value. Such a gain is recognised in other comprehensive income, unless the gain reverses an impairment of the same asset previously recognised in the income statement, in which case it is also recognised in the income statement.

An impairment charge in respect of goodwill is not reversed.

In respect of other assets, an impairment charge is reversed when there is an indication that the impairment may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

Programme and film rights

All programme and film rights are valued at the lower of the direct cost incurred up to the balance sheet date and value to the Group. Development expenditure is included in programme and film rights after charging any expenditure that is not expected to lead to a commissioned programme, or a 'green-lit' film, directly to the income statement.

Programme and acquired film rights

Direct cost

Direct cost is defined as payments made or due to programme suppliers.

Value to the Group

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

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

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

Amortisation

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

Developed film rights

Direct cost

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

Value to the Group

Developed film rights are exploited both through broadcast on Channel 4's suite of channels and through distribution.

Broadcast film rights are assessed in the same way as programme and acquired film rights.

To the extent that developed film rights are expected to generate revenue, where Channel 4's share of distribution revenues the film is anticipated to earn does not support the associated cost held within inventory, provision is made. The main assumptions employed to estimate future distribution revenues are minimum guaranteed contracted revenues and sales forecasts by territory.

Amortisation

Broadcast film rights are amortised in the same way as programme and acquired film rights.

Developed film rights expected to generate future revenues from distribution are held on the balance sheet and expensed to the income statement in the proportion that the revenue in the year bears to the estimated ultimate revenue, after provision for any anticipated shortfall.

Group accounting policies *continued*

Trade and other receivables

Trade receivables are reflected net of an estimated impairment for doubtful accounts. The fair value of trade and other receivables equals its book value. For trade and other receivables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables are estimated as the present value of future cashflows discounted at the market rate of interest at the reporting date.

Other financial assets

Other financial assets comprise deposits of three or more months' duration and other funds with time restricted access, and are stated at fair value.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits of less than three months' duration from the date of placement, including money market funds repayable on demand.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Derivative financial instruments

The Group transacts in a number of currencies as well as Sterling, and is a net purchaser of Euros and US Dollars. Certain exposures to fluctuations in exchange rates are managed by transactions in the forward foreign exchange markets. These derivative financial instruments are stated at fair value based on quoted market rates. Changes in the fair value of these derivative financial instruments are recognised in the income statement. The Group does not hold or issue derivative financial instruments for trading purposes.

Channel 4 has not sought to apply hedge accounting treatment for any of its foreign exchange hedging activity in either of the years presented. As a result, changes in the fair value of hedging instruments have been recognised in the income statement as they have arisen.

Where Channel 4 has identified forward foreign exchange derivative instruments within certain contracts (embedded derivatives), these have been included in the balance sheet at fair value. Fair value of these derivatives is determined by reference to quoted market rates. The value of the derivatives is reviewed on an annual basis or when the relevant contract matures.

Leases

Assets held under finance leases (those in which the Group assumes substantially all the risks and rewards of ownership) are treated as property, plant and equipment and depreciation is charged accordingly. The capital elements of future obligations are recorded as liabilities. Interest is charged to the income statement over the period of the lease in proportion to the capital outstanding.

All other leases are treated as operating leases. The rental costs arising from operating leases are charged to the income statement in the year in which they are incurred.

Employee benefits – pensions

Defined benefit scheme

The Group maintains a defined benefit pension scheme. The net obligation under the scheme is calculated by estimating the future benefits that employees have earned in return for their service in the current and prior periods, discounting to determine a value at today's prices, and deducting the fair value of scheme assets at bid price. The assumed discount rate for the liabilities is the current rate of return of high-quality corporate bonds with similar maturity dates.

The calculation is performed by a qualified actuary using the projected unit credit method.

Remeasurement gains and losses that arise in calculating the Group's obligation in respect of the plan are recognised directly in other comprehensive income within the statement of comprehensive income in the period in which they arise. The current service cost and net interest are recognised in the income statement.

Defined contribution scheme

Obligations under the Group's defined contribution scheme are recognised as an expense in the income statement as incurred.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is significant, provisions are determined by discounting the expected future cashflows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Before provisions are established in relation to onerous contracts, impairment reviews are carried out and impairment charges recognised on assets dedicated to the contract.

Business combinations

Business combinations are accounted for using the acquisition method. Under the acquisition method, the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree are recognised at their fair values at the acquisition date, which is the date on which control is transferred to the Company.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders' proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Notes to the consolidated financial statements

1. Segment reporting

The reportable segments are shown in accordance with IFRS 8 'Operating Segments'. The segments are measured in a manner consistent with the management reports reviewed by the Board, which is considered to be the chief operating decision-maker. Summaries of the principal activities, products and services and financial performance for each segment are provided within the Strategic Report on pages 112 to 113.

Segment results, assets and liabilities include items directly attributable to a segment, along with certain costs which are allocated on an equitable basis in accordance with the Group's cost allocation policies. All costs and revenues are fully allocated across the segments.

Inter-segment pricing is determined on an arm's length basis.

Gross revenues from transactions with one individual external customer comprised more than 10% of the Group's revenues in 2015 amounting to £159 million (2014: one external customer amounting to £145 million). The Group's major customers are all media buying agencies and these revenues are attributable to the 4Broadcast segment. Approximately 3% of the Group's revenues (2014: 3%) are attributable to external customers outside the UK and these are therefore not separately presented.

The following is an analysis of the Group's investment in content and revenue by reportable segment:

Year ended 31 December 2015	4Broadcast £m	4Rights £m	Other £m	Eliminations £m	Total £m
Programme and other content	(640)	(1)	–	–	(641)
Funded by:					
External sales	906	72	1	–	979
Inter-segment sales	–	–	–	–	–
Total revenue	906	72	1	–	979
Operating surplus/(deficit)	(4)	28	–	–	24
Net finance expense					(1)
Share of profit of investments accounted for using the equity method, net of income tax and amortisation					3
Surplus before tax					26

Programme and other content is comprised of investment into content across all services (the main channel, digital TV channels and digital media services) of £629 million (2014: £602 million), access services (subtitling, audio description and signing) and amounts due to collection societies. Programme and content spend is typically funded by television advertising and other commercial operations but can also be funded by the content reserve in years when a deficit arises following creative investment.

Balance sheet as at 31 December 2015	4Broadcast £m	4Rights £m	Other £m	Eliminations £m	Total £m
Segment assets	915	181	29	(203)	846
Segment liabilities	(531)	(23)	(76)	203	(351)
Net assets/(liabilities)	384	158	(47)	–	495

Notes to the consolidated financial statements *continued*

1. Segment reporting *continued*

Year ended 31 December 2014	4Broadcast £m	4Rights £m	Other £m	Eliminations £m	Total £m
Programme and other content	(612)	–	–	–	(612)
Funded by:					
External sales	859	78	1	–	938
Inter-segment sales	1	–	–	(1)	–
Total revenue	**860**	**78**	**1**	**(1)**	**938**
Operating surplus/(deficit)	**(20)**	**24**	**–**	**–**	**4**
Net finance expense					(1)
Share of profit of investments accounted for using the equity method, net of income tax and amortisation					1
Surplus before tax					**4**

Balance sheet as at 31 December 2014	4Broadcast £m	4Rights £m	Other £m	Eliminations £m	Total £m
Segment assets	828	163	36	(218)	809
Segment liabilities	(468)	(33)	(83)	218	(366)
Net assets/(liabilities)	**360**	**130**	**(47)**	**–**	**443**

2. Cost of transmission and sales

2015	Programme and other content £m	Indirect programme costs £m	Transmitter and regulatory costs £m	Cost of sales £m	Cost of marketing £m	Total £m
4Broadcast	**640**	**42**	**90**	**65**	**43**	**880**
4Rights	**1**	**15**	**4**	**21**	**1**	**42**
Other	**–**	**–**	**–**	**1**	**–**	**1**
Eliminations	**–**	**–**	**–**	**–**	**–**	**–**
Continuing operations	**641**	**57**	**94**	**87**	**44**	**923**

2014	Programme and other content £m	Indirect programme costs £m	Transmitter and regulatory costs £m	Cost of sales £m	Cost of marketing £m	Total £m
4Broadcast	612	40	108	51	37	848
4Rights	–	9	4	39	3	55
Other	–	–	–	1	–	1
Eliminations	–	–	–	–	(1)	(1)
Continuing operations	**612**	**49**	**112**	**91**	**39**	**903**

Notes to the consolidated financial statements *continued*

3. Other operating expenditure

Other operating expenditure includes:

	2015 £m	2014 £m
Depreciation of property, plant and equipment (note 9)	**6**	6
Amortisation of intangible assets (note 10)	**1**	1
Restructuring costs	**2**	1
Operating lease rentals	**2**	1
Other administrative expenses	**21**	22
Other operating expenditure	**32**	**31**

Auditor's remuneration

Fees in respect of services provided by the auditor were:

	2015 £000	2014 £000
Audit of these financial statements	**147**	145
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**23**	23
Other audit related and assurance	**41**	58
Total audit and assurance	**211**	**226**
Taxation compliance services	**31**	42
All other services	**71**	128
Total other services	**102**	**170**
Auditor's remuneration	**313**	**396**

In addition to the above services, £nil (2014: £19,245) is payable to the Group's auditor who acted as auditor to the Channel Four Television Staff Pension Plan.

The appointment of auditor to the Channel Four Television Staff Pension Plan and the fees paid in respect of those audits are agreed by the Trustees of the Plan, who act independently from the management of the Group.

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:

	2015 £m	2014 £m
Aggregate gross salaries	**65**	61
Employer's National Insurance contributions	**6**	6
Employer's defined benefit pension current service cost (note 18)	**4**	3
Employer's defined contribution pension contributions	**2**	2
Total direct costs of employment	**77**	**72**

In addition to the above, in 2015 £2 million of costs were expensed to the income statement in respect of restructuring initiatives to increase operational efficiency within the Group (2014: £1 million).

As disclosed in the Members' Remuneration Report on page 133, the total remuneration of the Executive and Non-Executive Members for the year ending 31 December 2015 is £2,784,000 (2014: £2,640,000).

Notes to the consolidated financial statements *continued*

4. Employee expenses and information *continued*

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

	2015 £000	2014 £000
Total remuneration of highest paid employee (page 133)	**881**	855
Total remuneration of median employee	**57**	54
Multiple of highest paid to median employee	**15.5**	**15.8**

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

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

	2015 Number	2014 Number
4Broadcast		
Programme commissioning	**216**	214
Advertising and sponsorship sales and research	**197**	192
Marketing and creative services	**115**	110
Finance, human resources and facilities management	**74**	69
Information systems	**64**	40
Transmission and engineering	**42**	51
Corporate affairs and press office	**38**	36
Corporate and strategy	**20**	17
4Talent	**13**	13
4Rights	**40**	66
Group total	**819**	**808**
Permanent employees	**773**	766
Contract staff	**46**	42
Group total	**819**	**808**

Notes to the consolidated financial statements *continued*

5. Net finance expense

Net finance income/(expense) recognised in the year comprised:

	2015 £m	2014 £m
Interest receivable on short-term deposits	1	1
Net interest expense on pension scheme (note 18)	(2)	(2)
Net finance expense	**(1)**	**(1)**

6. Income tax expense

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

	2015 £m	2014 £m
Current tax:		
Current year	1	–
Deferred tax: origination and reversal of temporary differences		
Current year	(2)	1
Prior year	1	–
Total income tax expense	**–**	**1**

Corporation tax is charged at the standard UK rate of 20.25% for the year (2014: 21.5%).

Reconciliation of income tax:

	2015 Rate	2015 £m	2014 Rate	2014 £m
Surplus before income tax		**26**		**4**
Income tax using the domestic corporation tax rate	20.25%	5	21.5%	1
Effects of:				
Non-deductible expenses		1		1
Non-taxable gains		(1)		(1)
Utilisation of unrecognised trading losses brought forward		(5)		–
Recognition of deferred tax on trading losses carried forward		(2)		–
Deferred tax not recognised		1		–
Other tax adjustments		1		–
Total income tax expense		**–**		**1**

The income tax expense excludes the Group's share of income tax of investments accounted for using the equity method of £1 million (2014: £1 million) which has been included in the Group's share of post acquisition profits, net of income tax (note 7).

Notes to the consolidated financial statements *continued*

7. Investments accounted for using the equity method

The carrying value of the Group's investments accounted for using the equity method is as follows:

	Box £m	Indie Growth Fund £m	Total £m
Carrying value at 1 January 2014	23	–	23
Acquisitions	–	4	4
Share of post acquisition profits, net of income tax	2	–	2
Amortisation	(1)	–	(1)
Share of dividends received	(2)	–	(2)
Total carrying value at 31 December 2014	**22**	**4**	**26**

	Box £m	**Indie Growth Fund £m**	**Total £m**
Carrying value at 1 January 2015	**22**	**4**	**26**
Acquisitions	**–**	**3**	**3**
Share of post acquisition profits, net of income tax	**3**	**–**	**3**
Share of dividends received	**(3)**	**–**	**(3)**
Total carrying value at 31 December 2015	**22**	**7**	**29**

The Box Plus Network Limited

The Box Plus Network Limited ('Box'), incorporated and operating in the United Kingdom, broadcasts a number of music television channels on free-to-air and pay platforms. Box is accounted for as a joint venture and the investment reflects 500 ordinary shares of £1, representing 50% of the share capital of Box.

Annual impairment tests on Box's goodwill and intangible assets are based on their recoverable amounts determined from their value in use.

An impairment review was carried out by estimating the future expected cashflows for Box using a pre-tax discount rate of 11% (2014: 9%), reflecting the Group's estimated cost of capital for its commercial television segments and comprising a risk-free rate and an equity risk premium. Cashflows were based on management's best estimate of future performance to 2020, reflecting management's cautious view of the long-term potential in music viewing in commercial television. The present value of the cashflows accruing to the Group was compared with the carrying value of the investment held on the balance sheet. No impairment was required as a result.

Management has approved the forecast on which the cashflow analysis has been based and believes that there are currently no likely changes in revenues or discount rate which would reduce the value in use for Box down to a level where an impairment would arise.

There are no contingent liabilities and no capital commitments in respect of Box or other joint ventures to be included within the Group's financial statements. During 2015, Channel 4 received a dividend of £2.75 million (2014: £2.5 million) from Box. Channel 4 also sold £8 million (2014: £8 million) of services to Box including commissions earned on advertising sales and made payments on Box's behalf for other services including transmission, programme costs, brand royalties, marketing, facilities management, information systems, finance and other administrative support and pensions. Box owed Channel 4 £1 million at 31 December 2015 (2014: £1 million) in respect of these services. Channel 4 had no balances outstanding to Box at 31 December 2015 (2014: £nil) as no services were rendered by Box to Channel 4 in 2015 (2014: £nil).

Summary annual financial information of investment in Box

	Current assets £m	Non-current assets £m	Current liabilities £m	Long-term liabilities £m	Revenue £m	Profit from continuing operations £m
2015	**12**	**1**	**(7)**	**–**	**38**	**7**
2014	**12**	**1**	**(6)**	**–**	**35**	**6**

Notes to the consolidated financial statements *continued*

7. Investments accounted for using the equity method *continued*

The Indie Growth Fund
During 2014, Channel 4 launched the Indie Growth Fund, a fund with the aim of nurturing the independent sector. The fund seeks to invest up to £20 million in a broad portfolio of television and digital companies. In 2015, Channel 4 invested £3 million (2014: £4 million) in the Indie Growth Fund and acquired minority shareholdings in four companies (2014: five). A further £2 million is committed for subsequent equity subscriptions in these companies at 31 December 2015.

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.

Management has reviewed the carrying value of the Indie Growth Fund as at 31 December 2015 and concluded that there were no indicators of impairment at the balance sheet date.

Of the £621 million total of programme rights recognised as expenses in 2015 (note 12), Channel 4 commissioned £6 million (2014: £10 million) of content from Indie Growth Fund companies which includes commissions sanctioned both pre- and post-acquisition. Channel 4 and the Indie Growth Fund companies have no balances outstanding to each other in respect of these transactions at 31 December 2015 (2014: £nil).

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

	Proportion of equity owned at 31 December[1]	
Company	**2015**	2014
Arrow International Media Limited	**15.0%**	12.0%
Eleven Film Limited	**16.8%**	13.5%
Lightbox Media Limited	**17.0%**	12.0%
Popkorn Media Limited	**25.0%**	16.1%
Renowned Films Limited	**16.0%**	–
Spelthorne Community Television Limited	**16.7%**	–
True North Productions Limited	**23.0%**	21.0%
Voltage TV Productions Limited	**10.0%**	–
Whisper Films Limited	**12.5%**	–

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

Summary annual financial information of Indie Growth Fund investments

	Current assets £m	Non-current assets £m	Current liabilities £m	Long-term liabilities £m	Revenue £m	Profit from continuing operations £m
2015	**9**	**1**	**(6)**	**–**	**29**	**–**
2014	**6**	**1**	**(4)**	**(2)**	**26**	**1**

Notes to the consolidated financial statements *continued*

8. Other investments

The Group 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 2015 £m	Services received 2014 £m	Funding and services provided 2015 £m	Funding and services provided 2014 £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**	1	**24**	25
DTV Services Limited	Marketing	Ordinary	20.0%	**7**	5	**6**	5
Digital Production Partnership Limited	Standards	*	–	**–**	–	**–**	–
Digital UK	Marketing	*	–	**–**	–	**2**	2
Thinkbox Limited	Marketing	Ordinary	20.0%	**1**	1	**2**	1
YouView Limited	Platform	Voting, non-voting	14.3%	**–**	1	**1**	2

At 31 December 2015, Channel 4 owed £4 million to Digital 3 and 4 Limited (2014: £nil).

At 31 December 2015, Channel 4 owed £nil to DTV Services Limited (2014: £0.5 million).

There are no trade receivable or trade payable balances with any of the other related parties listed above at 31 December 2014 and 2015. No dividends were received in 2015 (2014: £nil) from any of the related parties listed above.

The investments listed have not been accounted for as joint ventures or associates as they are not-for-profit, cost-sharing organisations which will not generate returns for the Group. The Group recognises its share of funding contributions of these organisations in the appropriate line in the income statement in the period to which they relate. They are held at £nil (2014: £nil) carrying amount in the consolidated financial statements of the Group and therefore the accounting treatment applied is not deemed material.

Notes to the consolidated financial statements *continued*

9. Property, plant and equipment

	Freehold land and building £m	Fixtures, fittings and equipment £m	Total £m
Cost or valuation			
At 1 January 2014	73	128	201
Additions	–	6	6
Revaluation	12	–	12
At 31 December 2014	**85**	**134**	**219**
At 1 January 2015	**85**	**134**	**219**
Additions	**–**	**3**	**3**
Disposals	**–**	**(29)**	**(29)**
Revaluation	**11**	**–**	**11**
At 31 December 2015	**96**	**108**	**204**
Depreciation			
At 1 January 2014	–	111	111
Charge for the year	1	5	6
Revaluation	(1)	–	(1)
At 31 December 2014	**–**	**116**	**116**
At 1 January 2015	**–**	**116**	**116**
Charge for the year	**1**	**5**	**6**
Disposals	**–**	**(29)**	**(29)**
Revaluation	**(1)**	**–**	**(1)**
At 31 December 2015	**–**	**92**	**92**
Net book value			
At 1 January 2015	**85**	**18**	**103**
At 31 December 2015	**96**	**16**	**112**
At 1 January 2014	73	17	90
At 31 December 2014	**85**	**18**	**103**

The fixtures, fittings and equipment disposals of £29 million (2014: £nil) are fully depreciated assets no longer used by the Group.

There is a £1 million commitment to purchase property, plant and equipment at the balance sheet date (2014: none). There are no material assets held under finance leases at the balance sheet date (2014: none). No assets have been pledged for security (2014: none).

Notes to the consolidated financial statements *continued*

9. Property, plant and equipment *continued*

Valuation of freehold property

The freehold property at 124 Horseferry Road, London SW1P 2TX, was valued at 31 December 2015 by external valuers BNP Paribas Real Estate, in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors. The property was valued on the basis of open market value, which the Members believe approximates to current value. In reaching their conclusions, the valuers have paid attention to comparable transactions which have taken place in recent months within the Victoria area of London.

The open market value for this property was £96 million (2014: £85 million). After depreciation charged on the open market value at 31 December 2015 (£1 million), a gain on revaluation of £12 million has been recognised in the Statement of Other Comprehensive Income.

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

	2015 £m	2014 £m
Cost	62	62
Accumulated depreciation	(20)	(19)
Impairment	(6)	(6)
Net book value based on cost	**36**	**37**

10. Intangible assets

	Goodwill (note 20) £m	Developed software £m	Broadcasting licence £m	Total £m
Cost				
At 1 January 2014 and 31 December 2014	**–**	**23**	**5**	**28**
At 1 January 2015	–	23	5	28
Additions	2	2	–	4
At 31 December 2015	**2**	**25**	**5**	**32**
Amortisation				
At 1 January 2014	–	20	5	25
Amortisation for the year	–	1	–	1
At 31 December 2014	**–**	**21**	**5**	**26**
At 1 January 2015	–	21	5	26
Amortisation for the year	–	1	–	1
At 31 December 2015	**–**	**22**	**5**	**27**
Carrying amount				
At 1 January 2015	–	2	–	2
At 31 December 2015	**2**	**3**	**–**	**5**
At 1 January 2014	–	3	–	3
At 31 December 2014	**–**	**2**	**–**	**2**

Developed software represents amounts capitalised on internally developed computer software, principally in relation to the management of advertising and sponsorship revenues, and programme scheduling applications meeting the recognition criteria for internally generated intangible assets.

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

Notes to the consolidated financial statements *continued*

11. Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised at 18% (2014: 20%) reflecting the corporation tax rate substantially enacted as at 31 December 2015.

	Assets 2015 £m	Assets 2014 £m	**Liabilities 2015 £m**	Liabilities 2014 £m	**Net 2015 £m**	Net 2014 £m
Property, plant and equipment	**2**	2	**–**	–	**2**	2
Employee benefits	**10**	14	**–**	–	**10**	14
Trading losses	**3**	2	**–**	–	**3**	2
Revaluation of freehold land and buildings	**–**	–	**–**	(4)	**–**	(4)
Other short-term timing differences	**1**	–	**–**	(1)	**1**	(1)
Group deferred tax assets/(liabilities)	**16**	**18**	**–**	**(5)**	**16**	**13**

Unrecognised deferred tax assets and liabilities

Deferred tax assets have not been recognised in respect of:

	2015 £m	2014 £m
Carried forward capital losses	**1**	1
Carried forward trading losses	**–**	7
Tax assets	**1**	**8**

Unrecognised deferred tax assets include losses carried forward that the Group is not yet able to utilise. A deferred tax asset is only recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised (either now or in later accounting periods).

Movements in temporary differences during the year

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

	Balance at 1 Jan 2014 £m	Recognised in income £m	Recognised in other comprehensive income £m	Balance at 31 Dec 2014 £m
Property, plant and equipment	2	–	–	2
Employee benefits	7	(1)	8	14
Trading losses	2	–	–	2
Revaluation of freehold land and buildings	(2)	–	(2)	(4)
Other short-term timing differences	(1)	–	–	(1)
Group deferred tax assets/(liabilities)	**8**	**(1)**	**6**	**13**

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

Notes to the consolidated financial statements *continued*

12. Programme and film rights

	2015 £m	2014 £m
Programmes and films completed but not transmitted	**87**	91
Acquired programme and film rights	**65**	51
Programmes and films in the course of production	**102**	100
Total programme and film rights	**254**	**242**

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

Programme and film rights to the value of £621 million were recognised as expenses in the year across the main and digital television channels (2014: £594 million). Of this amount, obsolete programmes and developments written off totalled £31 million (2014: £45 million). Programme and film rights include £22 million (2014: £28 million) in respect of developed film rights.

13. Trade and other receivables

	2015 £m	2014 £m
Trade receivables	**140**	157
Prepayments and accrued income	**38**	38
Distribution and producer advances	**–**	1
Total trade and other receivables	**178**	**196**

Trade receivables are shown net of impairment charges amounting to £nil (2014: £nil) recognised in the current year in relation to outstanding balances from customers, the receipt of which management view as unlikely.

Distribution and producer advances are shown net of impairment charges amounting to £nil (2014: £2 million) recognised in the current year in relation to advances paid on DVD development deals, which management consider are unlikely to be recouped through future sales.

Credit risk

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

(i) Trade receivables

Credit risk with respect to trade receivables is principally related to amounts due from advertising agencies and retailers. A risk strategy exists to protect against exposure to these receivables working to approved terms of reference including insurance for most customers. Exposure is monitored and reviewed on a weekly basis, and any issues are formally reported to an executive committee chaired by the Group Finance Director. Based on credit evaluation and discussions with both the committee and insurers, customers may be required to provide security in order to trade with the Group.

The Group establishes an allowance for impairment that represents our estimate of likely losses in respect of trade and other receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures. Losses with regard to these receivables are historically low as advertising agencies must settle their debts before advertising transmissions are broadcast.

(ii) Counterparty

See interest rate risk and exposure in note 14.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum credit exposure at the balance sheet date in relation to trade receivables, net of allowance for impairment, was £140 million for the Group (2014: £157 million), with £87 million of other financial assets (2014: £70 million), and cash and cash equivalents of £165 million (2014: £152 million). The exposure to credit risk all arises in the UK.

Trade receivables of £140 million for the Group (2014: £157 million) were aged under six months and which were not yet due under standard credit terms at the balance sheet date. £127 million of the receivables were insured at the balance sheet date (2014: £122 million) and £135 million (2014: £146 million) has been subsequently collected by the Group since the balance sheet date.

Notes to the consolidated financial statements *continued*

14. Treasury

	2015 £m	2014 £m
Bank balances	**20**	38
Money market funds[1]	**105**	84
Money market deposits maturing in less than three months	**40**	30
Cash and cash equivalents	**165**	**152**
Money market deposits maturing after three months	**–**	10
Investment funds	**87**	60
Other financial assets	**87**	**70**

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

	2015 £m	2014 £m
Cash and cash equivalents at 1 January	**152**	131
Other financial assets at 1 January	**70**	107
Total cash and cash equivalents and other financial assets at 1 January	**222**	**238**
Net cashflow from operating activities	**36**	(9)
Net cashflow from investing activities	**(6)**	(7)
Total cashflow	**30**	**(16)**
Cash and cash equivalents at 31 December	**165**	152
Other financial assets at 31 December	**87**	70
Total cash and cash equivalents and other financial assets at 31 December	**252**	**222**

Notes to the consolidated financial statements *continued*

14. Treasury *continued*

Interest rate risk and exposure

The Group invests surplus cash in fixed rate money market deposits, high interest bank accounts and variable and constant net asset value money market funds. Funds are invested only with an agreed list of counterparties that carry a minimum of an A- credit rating or equivalent from Standard and Poor's, and Moody's credit rating services with government support, or with money market funds that have an AAA credit rating from either of these credit rating services.

It is estimated that if interest rates had been 0.5% lower/higher throughout the year, with all other variables held constant the Group's deficit before tax would have been £1.1 million lower/higher (2014: £0.9 million).

The Group does not have any debt and as such is not exposed to fluctuations in interest rates in this regard.

The interest rate profile of the Group's cash and deposits at 31 December 2015 and 31 December 2014 is set out below:

	Effective interest rate 2015 %	Effective interest rate 2014 %	**Total 2015 £m**	Total 2014 £m
Interest bearing deposits maturing in less than three months held in Sterling	**0.5**	0.5	**163**	150
Interest bearing deposits maturing in less than three months held in foreign currencies	**0.2**	0.1	**2**	2
Total cash and cash equivalents	**0.5**	**0.5**	**165**	**152**
Money market deposits maturing after three months held in Sterling	**–**	0.7	**–**	10
Investment funds	**0.6**	0.8	**87**	60
Other financial assets	**0.6**	**0.8**	**87**	**70**

Foreign currency risk and derivative financial instruments

The Group is exposed to currency risk on sales and purchases that are denominated in currencies other than Sterling. The currencies that give rise to this risk are US Dollars and Euros. The Group uses forward exchange contracts and currency cash receipts to hedge its currency risk. Changes in the fair value of exchange contracts that economically hedge monetary assets and liabilities in foreign currencies, and for which no hedge accounting is applied are recognised in the income statement. Both the change in the fair value of the forward contracts and the foreign exchange gains and losses relating to monetary items are recognised as part of net financial income (note 5).

The Group does not have any foreign subsidiaries and as a result is not exposed to foreign currency risk in this regard. The Group is exposed to currency movements on foreign cash holdings. Amounts held by currency are detailed above within the analysis of the Group's and Channel 4's cash and deposits.

At 31 December 2015, the total value of forward contracts used as economic hedges of monetary liabilities was £4 million (2014: £11 million). This represented six (2014: eighteen) Euro forward purchase contracts with fixed maturity dates with settlement within 12 months from the balance sheet date, and one (2014: three) US Dollar forward purchase contract with a fixed maturity date with settlement within 12 months from the balance sheet date. At 31 December 2015, these contracts were revalued with reference to forward exchange rates based on maturity. The change in fair value of £0.3 million (2014: £0.1 million) has been recognised in the income statement and the associated liability recorded on the balance sheet as at 31 December 2015. The forward contracts have been assessed as level 2 in the fair value hierarchy under IFRS 13.

It is estimated that if Sterling had strengthened/weakened by 10% at the balance sheet date against other currencies with all other variables held constant, the Group's surplus before tax would have been £0.6 million lower/higher (2014: £1.5 million).

Market risk

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

The Audit Committee is responsible for approving the treasury policy for the Group. The Group's policy is to ensure that adequate liquidity and financial resource is available to support the Group's continuing activities and growth while managing the risks described above. The Group's policy is not to engage in speculative financial transactions. The Group does not seek to apply hedge accounting. The Group's treasury and funding activities are undertaken by a treasury function, which reports to the Group Finance Director. Its primary activities are to manage the Group's liquidity, funding requirements and financial risk, principally arising from movements in interest and foreign currency exchange rates within the parameters of the approved treasury policy.

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

Notes to the consolidated financial statements *continued*

15. Trade and other payables

	2015 £m	2014 £m
Trade payables	**10**	15
National Insurance	**1**	1
Other creditors	**61**	48
Accruals and deferred income	**211**	200
VAT	**10**	22
Total trade and other payables	**293**	**286**

There is no difference between the fair value and book value of trade and other payables. The contractual cashflows are equal to the carrying amount and are classified as payable within six months or less at 31 December 2015 and 2014.

The Group endeavours to pay all invoices in accordance with contract terms and, unless agreed payment terms specify otherwise, within 30 days of the date of the invoice. Any complaints about failure to pay on time should be addressed to the Group Finance Director, who will ensure that they are investigated and responded to appropriately.

The number of days taken to pay suppliers of services in 2015, as calculated using average payable balances, was six (2014: seven). This is significantly lower than the Group's standard payment terms of 30 days due to the payment arrangements required for programme and transmission costs.

Liquidity risk

Liquidity risk is the risk that the Group fails to meet its financial obligations as they fall due. The management of operational liquidity risk aims primarily to ensure that the Group always has a liquidity buffer that is able, in the short term, to absorb the net effects of transactions made and expected changes in liquidity both under normal and stressed conditions without incurring unacceptable losses or risking damage to the Group's reputation. The cash balances held by the Group are considered to be sufficient to support the Group's medium-term funding requirements.

16. Provisions

	Onerous lease/ Dilapidations £m	Restructuring costs £m	Total £m
At 1 January 2014	3	–	3
Released in the year	(1)	–	(1)
Charged to the income statement	–	–	–
At 31 December 2014	**2**	**–**	**2**
At 1 January 2015	**2**	**–**	**2**
Released in the year	**(1)**	**–**	**(1)**
Charged to the income statement	**–**	**1**	**1**
At 31 December 2015	**1**	**1**	**2**

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

	2015 £m	2014 £m
Current	**1**	1
Non-current	**1**	1
Total	**2**	**2**

Onerous lease and dilapidations provision

Prior to 2015, the provision was an onerous contract related to a rental deficit on a building that was surplus to requirements but for which the Group had contracted commitments at the balance sheet date. In 2015, the property rental agreement was reviewed and revised resulting in a contract that was no longer onerous. The provision as at year end represents the discounted dilapidations cost when the property rental agreement expires in 2020. An amount of £0.1 million (2014: £0.1 million) has been recognised as an interest cost relating to the passage of time of the discounted provision.

Contingent liabilities

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

Notes to the consolidated financial statements *continued*

17. Commitments

2015	Due within 1 year £m	Due within 2–5 years £m	Due after 5 years £m	Total £m
Programme commitments	**324**	**292**	**7**	**623**
Operating leases	**2**	**6**	**–**	**8**
Property, plant and equipment	**1**	**–**	**–**	**1**
Total	**327**	**298**	**7**	**632**

2014	Due within 1 year £m	Due within 2–5 years £m	Due after 5 years £m	Total £m
Programme commitments	309	288	3	600
Operating leases	2	7	–	9
Total	**311**	**295**	**3**	**609**

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 £24 million in 2015 (2014: £25 million) and is forecast to be £23 million in 2016. Digital 3 and 4 Limited has entered into long-term distribution contracts that expire in 2022 and 2034 and the Group is committed to funding its contractual share.

The Group is committed to paying capacity costs for transmission on the digital terrestrial and satellite network. Committed payments for digital terrestrial transmission capacity costs amounted to £26 million in 2015 (2014: £37 million) and are forecast to be £24 million in 2016. Committed payments for satellite transmission capacity costs were £14 million in 2015 (2014: £16 million) and are forecast to be £14 million in 2016. The digital terrestrial transmission contracts expire between 2026 and 2031 and the satellite transmission contracts expire between 2018 and 2022.

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

18. Employee benefits – pensions

During the year, 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.

Nature of benefits, regulatory framework and governance of the Plan

The Plan is a registered defined benefit final salary scheme subject to the UK regulatory framework for pensions, including the Scheme Specific Funding requirements. The Trustees of the Plan are responsible for operating the Plan and have a statutory responsibility to act in accordance with the Plan's Trust Deed and Rules, in the best interest 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 165 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.

The scheme closed to future accrual with effect from 31 December 2015 without material impact to the Group's defined benefit obligation.

Notes to the consolidated financial statements *continued*

18. Employee benefits – pensions *continued*

Amounts recognised in the consolidated balance sheet

	2015 £m	2014 £m
Present value of funded obligations	**(388)**	(396)
Fair value of plan assets	**332**	323
Recognised liability for defined benefit obligations	**(56)**	**(73)**

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

	2015 £m	2014 £m
Fair value of scheme assets at 1 January	**323**	270
Interest income on plan assets	**12**	12
Return on plan assets (excluding amounts in interest income)	**(7)**	37
Employer contributions net of charges	**11**	8
Employee contributions net of charges	**1**	1
Benefits paid	**(8)**	(5)
Fair value of scheme assets at 31 December	**332**	**323**

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

	2015 £m	2014 £m
UK equity	**7**	7
Overseas and emerging markets equity	**79**	75
Total equity securities	**86**	**82**
Corporate bonds	**65**	61
Index linked gilts	**–**	101
Total debt securities	**65**	**162**
Multi-asset absolute return	**79**	–
Liability driven investments	**84**	–
Equity-linked inflation	**–**	78
Total investment funds	**163**	**78**
Cash and cash equivalents	**18**	1
Fair value of scheme assets at 31 December	**332**	**323**

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

Notes to the consolidated financial statements *continued*

18. Employee benefits – pensions *continued*

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

	2015 £m	2014 £m
Present value of scheme liabilities at 1 January	396	309
Current service cost	4	3
Interest expense on pension scheme liabilities	14	14
Remeasurement deficit on plan liabilities arising from changes in demographic assumptions	–	31
Remeasurement (gain)/deficit on plan liabilities arising from changes in financial assumptions	(14)	43
Experience remeasurement	(5)	–
Employee contributions net of charges	1	1
Benefits paid	(8)	(5)
Present value of scheme liabilities at 31 December	**388**	**396**

Expenses recognised in the income statement arose as follows:

	2015 £m	2014 £m
Current service cost	4	3
Net interest expense	2	2
Net charge to income statement	**6**	**5**

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

	2015 £m	2014 £m
Cost of transmission and sales	3	2
Other operating expenditure	1	1
Net financial expense	2	2
Net charge to income statement	**6**	**5**

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

	2015 £m	2014 £m
Remeasurement gain/(deficit) on plan liabilities	19	(74)
Remeasurement (deficit)/gain on plan assets (excluding amounts in interest income)	(7)	37
Net remeasurement gain/(deficit) on pension scheme	**12**	**(37)**

The cumulative amount of net remeasurement deficits/gains recognised in the Statement of Changes in Equity since transition to IFRS is £87 million (2014: £99 million).

Notes to the consolidated financial statements *continued*

18. Employee benefits – pensions *continued*

Principal actuarial assumptions at the balance sheet date

	2015 %	2014 %
Discount rate	**3.65**	3.50
Rate of increase in salaries	**2.60**	2.65
Rate of increase in pensions	**3.05**	3.05
Inflation	**3.10**	3.15

	2015 years	2014 years
Life expectancy from 65 (now aged 45) – male	**23.3**	23.2
Life expectancy from 65 (now aged 45) – female	**26.6**	26.5
Life expectancy from 65 (now aged 65) – male	**23.0**	22.9
Life expectancy from 65 (now aged 65) – female	**26.1**	26.0

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 2015:

	Revised present value of scheme liabilities £m
0.5% decrease in discount rate	**431**
1 year increase in life expectancy	**400**
0.5% increase in inflation (and inflation-linked) assumptions	**422**

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

Funding arrangements

Contribution rates 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 2012. The results of the valuation at 31 December 2012 showed that the scheme's assets represented 71% of the benefits that had accrued to Members, reflecting a deficit of £101 million. The next triennial valuation will be carried out as at 31 December 2015.

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 £588,000 per month with effect from 1 August 2014 to 31 December 2014 and increasing to £708,000 per month with effect from 1 January 2015 to 31 December 2025.

The estimated total employer contributions in 2016 are £8.5 million representing the deficit funding payments described above.

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.

The Plan is closed to future accrual with effect from 31 December 2015.

Notes to the consolidated financial statements *continued*

19. Related party transactions

Members

Details of transactions in which Members have an interest are disclosed in the Report of the Members (page 119).

Details of Members' remuneration are shown in the Members' Remuneration Report (page 133).

Joint ventures and associates

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

Equity investments

The Group holds a 15% equity holding in Protagonist Pictures Limited. During 2015, Channel 4 paid £0.1 million to Protagonist Pictures Limited for agency sales and film acquisition services (2014: £0.1 million). No amounts were due at 31 December 2015 (2014: £nil).

Other

The Group contributes to the funding of several not-for-profit, cost-sharing organisations. Details of transactions between the Group and these organisations are disclosed in note 8.

20. Business combinations during the year

On 30 July 2015, the Group purchased 80% of the shares and voting interests in Global Series Network Limited ('GSN'). The acquisition of GSN secured access to foreign drama content rights for distribution on the Group's portfolio of channels and platforms.

The total consideration paid was £2 million satisfied in cash. The fair value of identifiable net liabilities acquired was £66,000. The non-controlling interest of GSN is considered to be immaterial. No intangible assets were separately identified. Goodwill of £2 million has been recognised at acquisition. The goodwill is not deductible for tax purposes.

From the acquisition date to 31 December 2015, GSN has contributed £nil revenue and £0.3 million net loss to the Group results. There are no commitments and contingencies in respect of GSN to be included within the Group's consolidated financial statements.

Channel 4 balance sheet as at 31 December

	Group note	Channel 4 note	2015 £m	2014 £m
Assets				
Property, plant and equipment	9		**112**	103
Intangible assets		2	**3**	2
Investments in subsidiaries and joint ventures		3	**28**	28
Deferred tax assets	11		**16**	18
Total non-current assets			**159**	**151**
Programme and film rights		4	**252**	242
Trade and other receivables	13		**178**	196
Other financial assets	14		**87**	70
Cash and cash equivalents	14		**165**	152
Total current assets			**682**	**660**
Total assets			**841**	**811**
Liabilities				
Employee benefits – pensions	18		**(56)**	(73)
Provisions	16		**(1)**	(1)
Deferred tax liabilities	11		**–**	(5)
Total non-current liabilities			**(57)**	**(79)**
Trade and other payables		5	**(431)**	(431)
Provisions	16		**(1)**	(1)
Total current liabilities			**(432)**	**(432)**
Total liabilities			**(489)**	**(511)**
Net assets			**352**	**300**
Revaluation reserve			**55**	39
Retained earnings:				
Content reserve			**50**	30
Other retained earnings			**247**	231
Total equity			**352**	**300**

The financial statements on pages 167 to 171 were approved by the Members of the Board on 7 April 2016 and were signed on its behalf by:

Charles Gurassa
Chair

David Abraham
Chief Executive

The notes on pages 169 to 171 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 2014	287	–	28	315
Surplus for the year	3	–	–	3
Reserve transfer	(30)	30	–	–
Other comprehensive (cost)/income	(29)	–	11	(18)
Total comprehensive (cost)/income for the year	**(56)**	**30**	**11**	**(15)**
At 31 December 2014	**231**	**30**	**39**	**300**
At 1 January 2015	**231**	**30**	**39**	**300**
Surplus for the year	**26**	**–**	**–**	**26**
Reserve transfer	**(20)**	**20**	**–**	**–**
Other comprehensive income	**10**	**–**	**16**	**26**
Total comprehensive income for the year	**16**	**20**	**16**	**52**
At 31 December 2015	**247**	**50**	**55**	**352**

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 138 to 166. As permitted by the 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 surplus of £26 million (2014: £3 million) 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 142 to 146, except as stated below.

Investments in subsidiaries

Investments in subsidiaries are carried at historical cost less provision for impairment.

Investments in associates and joint ventures

Investments in associates and joint ventures are carried at historical cost less provision for impairment.

Equity investments

Equity investments represent equity holdings without significant influence. Equity investments are normally carried at fair value. Where an active market value is not available, the Members believe that valuation at cost less provision for impairment is a reasonable approximation of fair value.

Trade and other receivables

Trade receivables are reflected net of an estimated impairment for doubtful accounts if applicable.

Notes to the Channel 4 financial statements

1. Operating expenditure

Auditor's remuneration

Fees in relation to the audit of the Corporation financial statements and additional fees paid to the auditor for the year ended 31 December 2015 are presented in note 3 to the consolidated financial statements on page 149.

Staff costs

All staff costs are borne by Channel 4 and are presented in note 4 to the consolidated financial statements on pages 149 to 150.

2. Intangible assets

	Developed software £m
Cost	
At 1 January 2014 and 31 December 2014	**23**
At 1 January 2015	23
Additions	2
At 31 December 2015	**25**
Amortisation	
At 1 January 2014	20
Amortisation for the year	1
At 31 December 2014	**21**
At 1 January 2015	21
Amortisation for the year	1
At 31 December 2015	**22**
Carrying amount	
At 1 January 2015	2
At 31 December 2015	**3**
At 1 January 2014	3
At 31 December 2014	**2**

Notes to the Channel 4 financial statements

3. Investments

Joint ventures

The investment in The Box Plus Network Limited is recorded on the Corporation's balance sheet at historical cost. The balance as at 31 December 2015 is £28 million (2014: £28 million).

Subsidiary undertakings

The cost of investments at 31 December is:

	2015 £000	2014 £000
4 Ventures Limited	**1**	1

The subsidiary undertakings incorporated in the United Kingdom at 31 December 2015 are as follows:

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

1 Indirect shareholding through 4 Ventures Ltd.
2 Issued 'A' Ordinary shares of £1,000 each.

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

Associated undertakings

For the Corporation's indirect shareholdings in the Indie Growth Fund through Channel Four Investments Limited, refer to Group note 7. For the Corporation's direct shareholdings in not-for-profit, cost-sharing organisations, refer to Group note 8.

4. Programme and film rights

	2015 £m	2014 £m
Programmes and films completed but not transmitted	**87**	91
Acquired programme and film rights	**63**	51
Programmes and films in the course of production	**102**	100
Total programme and film rights	**252**	**242**

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

5. Trade and other payables

	2015 £m	2014 £m
Trade payables	**10**	15
National Insurance	**1**	1
Other creditors	**60**	48
Amounts due to subsidiaries	**139**	145
Accruals and deferred income	**211**	200
VAT	**10**	22
Total trade and other payables	**431**	**431**

Programmes and the licence

Sources of programmes

Channel 4

Channel 4 commissions programmes from both independent and non-independent producers and purchases programmes from the international markets. The source and cost of the programmes transmitted on the main Channel 4 service in 2015 are shown in the table below:

	2015 Hours	2014 Hours	2015 £m	2014 £m
Originated				
Independents	**2,800**	3,460	**264**	283
Other	**2,855**	2,035	**144**	99
Total originated programmes	**5,655**	**5,495**	**408**	**382**
Acquired	**3,105**	3,265	**99**	110
Total originated and acquired programmes	**8,760**	**8,760**	**507**	**492**
Other direct programme costs			**7**	7
Total	**8,760**	**8,760**	**514**	**499**

All hours	Hours	Hours	%	%
Originated	**5,655**	5,495	**65**	63
Acquired	**3,105**	3,265	**35**	37
Total	**8,760**	**8,760**	**100**	**100**

Peak-time hours	Hours	Hours	%	%
Originated	**1,326**	1,266	**81**	77
Acquired	**317**	377	**19**	23
Total	**1,643**	**1,643**	**100**	**100**

Independent production companies are the most important source of originated programmes. Programmes transmitted on Channel 4 in 2015 were provided by 155 independent companies (2014: 194).

Other direct programme costs reflect access services such as subtitling and sign-language services and amounts payable to music royalty collection societies.

Production outside London

Channel 4 is keen to encourage film and television production throughout the Nations and Regions of the United Kingdom and has a number of schemes to achieve that objective. The total cost of those programmes in 2015 amounted to £145 million (2014: £149 million).

Programmes and the licence *continued*

Programme transmissions

Channel 4

The main Channel 4 service broadcast 8,760 hours in 2015 (2014: 8,760) – 24 hours each day. The hours and costs of the channel's wide range of programme transmissions were as follows[1]:

	2015 Hours	2014 Hours	2015 £m	2014 £m
Drama	**423**	579	**100**	100
Entertainment	**2,394**	2,349	**112**	117
Education[2]	**2,757**	2,622	**84**	98
Feature films	**821**	978	**45**	42
Other factual	**260**	165	**41**	25
News	**246**	242	**26**	25
Current affairs	**283**	238	**26**	20
Documentaries	**389**	274	**39**	25
Arts and music	**85**	92	**5**	8
Sport	**563**	814	**19**	22
Quiz and gameshows	**526**	396	**8**	9
Religion	**13**	11	**2**	1
Total programme transmissions	**8,760**	**8,760**	**507**	**492**

1 The data in the table above is consistent with prior years and based on Channel 4's internal reporting genres. Data presented in the Statement of Media Content Policy ('SMCP') is structured around the key genres reflecting Channel 4's internal commissioning structure.
2 'Education' refers to all programmes broadcast across the main channel (originated and acquired) that are educational in nature.

E4, More4 and Film4 channels

The digital channels broadcast for the following hours:

	2015 Hours	2014 Hours	2015 % Hours subtitled	2014 % Hours subtitled
E4	**8,760**	8,760	**100**	100
More4	**6,825**	6,832	**100**	100
Film4	**6,041**	6,062	**100**	100
4seven	**7,159**	7,187	**100**	100

Ofcom

Ofcom monitors compliance with broadcasters' licence obligations (including compliance with its Broadcasting Code) and deals with complaints concerning standards in programmes and complaints of unfair treatment and/or infringement of privacy.

Channel 4

Ofcom recorded five breaches of its Code on standards in programmes by the main Channel 4 service in 2015 (2014: three). None were judged serious enough to merit a statutory sanction (2014: none). In 2015, no complaints about fairness/privacy in Channel 4's programmes were upheld (2014: one) and no complaints were upheld in part (2014: two).

E4, More4 and Film4

No recorded breach of the Code on standards in programmes was noted against More4 (2014: none) and one recorded breach of the Code on standards in programmes was noted against E4 in 2015 (2014: none). There were two recorded breaches of the Code on standards against Film4 in 2015 (2014: none). In 2015, no complaints about fairness/privacy were upheld against E4, More4 or Film4 (2014: none).

Advertising Standards Authority

The Advertising Standards Authority ('ASA') regulates all broadcast and non-broadcast UK advertising. All non-broadcast advertising should comply with the Code of Non-broadcast Advertising, Sales Promotion and Direct Marketing (the 'CAP Code'). All broadcast advertisements and programme sponsorship credits on television services licensed by Ofcom should comply with the UK Code of Broadcast Advertising (the 'BCAP Code'). Ofcom retains direct responsibility under the BCAP Code for sponsorship, product placement and participation TV advertising. The ASA recorded no breaches of the BCAP Code in 2015 (2014: two breaches of the BCAP Code).

Programmes and the licence *continued*

The licence

The wide range and diversity of programmes shows that the remit is central to Channel 4's programming policy. Our licence from Ofcom, in addition to stipulating the need to meet the remit, places certain specific programme obligations on Channel 4. A description of each programme obligation can be found in the methodology document that accompanies the Annual Report at annualreport.channel4.com.

	Compliance minimum	**2015**	2014
Average hours per week			
News			
– in peak-time (6–10.30pm)	4	**4**	4
Current affairs			
– overall	4	**5**	5
– in peak-time (6–10.30pm)	2	**3**	3
Hours per year			
Schools	1	**27**	4
Percentage			
Original production			
– overall	56	**65**	63
– in peak-time (6–10.30pm)	70	**81**	77
Independent production[1]	25	**64**	73
European independent production[1]	10	**34**	40
European origin	50	**69**	66
Subtitling for the deaf and hard-of-hearing	90	**100**	100
Audio description	10	**26**	28
Signing	5	**5**	5
Regional production	35	**39**	43
Regional hours	35	**53**	52
Production in the Nations	3	**7**	6
Nations hours	3	**9**	6

1 There are material differences in the definitions contained in the European and UK legislation for qualifying independent production.

The Ofcom licence disclosure reflects Channel 4's Digital Replacement Licence ('DRL'), which was renewed in 2014 and came into effect in January 2015. This encompasses the requirements set out in the Communications Act 2003.

Several of the measures reflected in this section of the report are discussed in detail in the Statement of Media Content Policy (pages 19 and 21 to 23) and in the Strategic Report (pages 110 to 111).

Historical metrics 2011–2015

	Page ref	2011	2012	2013	2014	2015
Creativity						
Commissioning success						
Number of major television and film awards won	*94 to 101*	44	46	40	64	**45**
Originated content spend (£m)	*19, 110*	419	434	429	430	**455**
Engaging audiences						
Portfolio high peak-time viewing share (8–11pm)		12.7%	12.6%	12.4%	12.5%	**12.9%**
Portfolio viewing share ABC1s		11.5%	11.4%	11.3%	10.9%	**11.0%**
Portfolio viewing share 16–34-year-olds	*36*	17.0%	16.9%	16.7%	17.0%	**16.5%**
Channel 4 viewing share	*35*	6.8%	6.6%	6.1%	5.9%	**5.9%**
Portfolio viewing share	*35, 111*	11.6%	11.5%	11.0%	10.9%	**10.6%**
Portfolio 15 minute reach	*34*	88.7%	88.1%	86.8%	85.2%	**83.8%**
Digital and innovation measures						
Digital revenues (£m)	*108*	50	51	61	63	**82**
Registered viewers (m)[1]	*43*	3.2	6.3	10.2	11.3	**13.1**

1 Registered viewers are net of duplicate and active users within the last two years.

	Page ref	2011	2012	2013	2014	2015
Sustainability						
Financial metrics						
Corporation revenue (£m)	*108, 138*	941	925	908	938	**979**
Content and marketing spend (£m)	*148*	635	667	649	651	**685**
Year end cash (£m)	*140*	290	261	238	222	**252**
Non-advertising and sponsorship revenue (£m)		96	81	62	69	**54**
Content and marketing spend and surplus/(deficit) as a percentage of revenue		72%	69%	70%	69%	**73%**
Other operating costs as a percentage of total costs		29%	30%	30%	30%	**28%**
Pre-tax surplus/(deficit) (£m)	*138*	45	(27)	(16)	4	**26**
Ad sales measures						
Sales House SONAR	*177*	27.8%	27.4%	26.3%	25.9%	**26.4%**
Advertising and sponsorship revenue (£m)	*110*	845	844	846	869	**925**
SOCI portfolio high peak-time (8–11pm)		19.7%	19.9%	18.7%	19.1%	**19.7%**
SOCI portfolio ABC1s		19.7%	19.9%	19.0%	18.2%	**18.5%**
SOCI portfolio 16–34-year-olds		24.7%	24.8%	23.3%	23.3%	**22.5%**
SOCI portfolio		18.4%	18.5%	17.1%	16.6%	**16.2%**

Historical metrics 2011–2015 *continued*

	2011	2012	2013	2014	**2015**
Performance versus competitors					
Portfolio viewing share					
Channel 4	11.6%	11.5%	11.0%	10.9%	**10.6%**
BBC	32.9%	33.6%	32.4%	33.1%	**32.8%**
ITV	23.1%	22.4%	23.1%	22.0%	**21.2%**
Channel 5	5.9%	6.0%	6.0%	5.9%	**6.0%**

Source: BARB all individuals

Portfolio high peak-time viewing share 8–11pm					
Channel 4	12.7%	12.6%	12.4%	12.5%	**12.9%**
BBC	33.0%	34.1%	32.8%	33.3%	**33.0%**
ITV	25.4%	24.3%	24.9%	24.0%	**22.9%**
Channel 5	7.3%	7.2%	7.2%	7.0%	**7.1%**

Source: BARB all individuals

SOCI portfolio					
Channel 4	18.4%	18.5%	17.1%	16.6%	**16.2%**
ITV	39.5%	38.3%	38.3%	36.2%	**34.9%**
Channel 5	10.1%	10.1%	9.7%	9.5%	**9.3%**
Sky	21.4%	21.7%	21.7%	25.6%	**24.7%**

Source: Donovan Data Systems

SOCI portfolio ABC1s					
Channel 4	19.7%	19.9%	19.0%	18.2%	**18.5%**
ITV	37.2%	36.7%	36.4%	34.6%	**33.7%**
Channel 5	8.6%	8.9%	8.9%	8.7%	**8.5%**
Sky	23.3%	23.0%	22.6%	25.8%	**24.0%**

Source: Donovan Data Systems (DDS)

SOCI portfolio 16–34-year-olds					
Channel 4	24.7%	24.8%	23.3%	23.3%	**22.5%**
ITV	29.4%	27.5%	27.3%	26.3%	**26.2%**
Channel 5	8.5%	8.5%	8.0%	7.7%	**7.6%**
Sky	26.3%	27.6%	27.7%	30.1%	**26.4%**

Source: Donovan Data Systems

Historical record

	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	**2015 £m**
Consolidated results										
Revenue	937	945	906	830	935	941	925	908	938	**979**
Operating surplus/(deficit)	14	(9)	(1)	4	49	41	(29)	(15)	4	**24**
Net financial income/(expense)	7	10	14	(2)	2	2	1	(1)	(1)	**(1)**
Share of profit/(loss) in joint venture	–	1	(3)	–	3	2	1	–	1	**3**
Surplus/(deficit) before taxation	21	2	10	2	54	45	(27)	(16)	4	**26**
Taxation	(7)	(1)	(8)	(2)	(15)	(10)	–	1	(1)	**–**
Surplus/(deficit) for the year	**14**	**1**	**2**	**–**	**39**	**35**	**(27)**	**(15)**	**3**	**26**

All figures are shown in accordance with IFRS.

Advertising sales

	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	**2015 £m**
Channel 4 Sales House	777	825	790	707	819	939	916	935	967	**1,047**
Other	2,523	2,608	2,487	2,179	2,490	2,442	2,430	2,616	2,770	**2,922**
Total broadcast	**3,300**	**3,433**	**3,277**	**2,886**	**3,309**	**3,381**	**3,346**	**3,551**	**3,737**	**3,969**
	%	%	%	%	%	%	%	%	%	**%**
Channel 4 Sales House share	23.5	24.0	24.1	24.5	24.8	27.8	27.4	26.3	25.9	**26.4**
Other share	76.5	76.0	75.9	75.5	75.2	72.2	72.6	73.7	74.1	**73.6**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Audience share (portfolio)

	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	**2015 %**
BBC (ten channels)	34.5	34.0	33.5	32.6	32.9	32.9	33.6	32.4	33.1	**32.8**
ITV (seven channels)	22.9	23.1	23.2	23.1	22.9	23.1	22.4	23.1	22.0	**21.2**
Channel 4 excluding S4C (six channels)	11.9	11.7	11.8	11.5	11.4	11.6	11.5	11.0	10.9	**10.6**
Channel 5 (five channels)	5.9	6.0	6.1	6.1	5.9	5.9	6.0	6.0	5.9	**6.0**
Other (approximately 200 channels)	24.8	25.2	25.4	26.7	26.9	26.5	26.5	27.5	28.1	**29.4**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

The number of channels in brackets indicates the number of channels in that portfolio as at 31 December 2015.

Source: BARB all individuals

Audience share

	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	**2015 %**
BBC One	22.8	22.0	21.8	20.9	20.8	20.7	21.3	21.0	21.6	**21.9**
BBC Two	8.8	8.6	7.8	7.5	6.9	6.6	6.1	5.8	6.1	**5.7**
ITV and GMTV	19.6	19.2	18.4	17.9	17.0	16.6	15.7	16.2	15.6	**15.0**
Channel 4 excluding S4C	9.6	8.6	8.1	7.4	7.0	6.8	6.6	6.1	5.9	**5.9**
Channel 5	5.7	5.2	5.0	4.9	4.5	4.4	4.5	4.4	4.4	**4.3**
Other	33.5	36.4	38.9	41.4	43.8	44.9	45.8	46.5	46.4	**47.2**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: BARB all individuals