Financial report and statements

Report of the members

The members present their report and the audited financial statements for the year ended 31 December 2012.

Introduction and business review

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

Channel 4 is a unique organisation: a public service broadcaster with a distinctive creative remit, funded within the marketplace, existing to provide a range of distinctive, challenging and provocative content. In order to fulfil our public service remit – to innovate and experiment in television and appeal to the tastes and interests of a culturally diverse society – we optimise returns from our commercial activities.

Channel 4 is a public service broadcaster funded solely from commercial revenues. Channel 4 receives free spectrum in return for fulfilling public service 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 licence issued by Ofcom, which came into effect on 28 December 2004.

Following the Digital Economy Act 2010, which reflects our ability to deliver public value across our portfolio of television channels and digital media, revised Arrangements under Schedule 9 of the Communications Act 2003 came into force on 24 January 2012. The primary functions of the group now extend beyond the main Channel 4 service to include content delivery across our digital channels, digital media and exploitation of content rights.

Following this change, Channel 4 carried out an internal business transfer to move the business and assets of those public value functions within 4 Ventures Ltd (4 Ventures), a 100% owned subsidiary of Channel Four Television Corporation, into the Corporation. The assets were transferred at their book value and included:

- the Ofcom licences in respect of our digital channels, controlled by 4 Ventures through its wholly owned subsidiary, Life One Broadcasting Limited
- 4 Ventures' share in the 50:50 joint venture company Box Television Limited (Box), which owns and operates the DTT 4Music channel and six other pay music channels, and
- the operation of the digital channels (E4, More4 and Film4, their associated '+1' and high definition (HD) channels, and Channel 4 +1 and Channel 4 HD), the operation of video on demand services (4oD) and the activities of 4Rights.

The main Channel 4 service is available in both SD and HD on the main broadcast platforms: Freeview, Freesat, Sky and Virgin Media. E4, Film4, More4 and 4seven are also available on all main broadcast platforms; E4 HD is available on Sky and Virgin; Film4 HD on Virgin; and (as of February 2013) More4 HD on Sky. Our content including archive programming is made available on the 4oD service. As well as being accessed via channel4.com, we have extended the reach of 4oD to other devices, including integration with the new YouView platform, and the launch of applications for, amongst others, PS3, XBOX 360, Apple iOS, Android and Windows 8. 4oD is also syndicated to Sky (as of March 2013), Virgin Media, BT Vision, YouTube, Netflix and Lovefilm. Selected TV content is available to purchase from iTunes, while some Film4 content is available on iTunes as well as Film4oD, a transactional film partnership with Film Flex. Channel 4, E4, More4 and Film4 are also available in the Republic of Ireland via the Sky, UPC and other cable platforms.

In 2012 Channel 4 continued to participate in the YouView project, the internet connected set top box, with the first set top box launched on 4 July 2012. YouView enables users to watch, pause and rewind live television and access content from the past seven days.

The Chairman and Chief Executive present their statements on pages 6–7 and 8–9 respectively. A review of the group, outlining its development and performance during the financial year together with its position at 31 December 2012, is provided in the business review on the following pages. This also outlines the principal risks and uncertainties facing Channel 4. The group's financial statements are set out on pages 124 to 167.

Report of the members continued

Principal activities

Our business comprises three operating segments:

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. It also encompasses our delayed transmission service C4+1 and high definition service, C4 HD and 4seven. 4seven is a new channel providing another opportunity to watch Channel 4 programmes from the past week that have generated public, media and social media attention. 4seven was launched on 4 July 2012
- E4 – focusing on comedy, drama and entertainment including original commissions and US acquisitions. E4 is the leading digital channel for 16–34s and the third most popular digital channel in the UK. E4 also includes a delayed transmission service E4+1 and high definition service E4 HD
- More4 – offering life enhancing content to help viewers to get the most out of their everyday lives, More4 focuses on popular factual and features including homes, property, food, health and fashion. More4 also includes a delayed transmission service More4+1 and high definition service More4 HD
- Film4 – the UK's leading dedicated film channel and the fifth most popular digital channel, which offers a mix of the best British, European, US and international cinema. Film4 is also available in high definition on the Virgin platform.

In addition, 4Broadcast includes interactive platforms which have helped to extend the depth and impact of programming output for more than a decade. 4Broadcast continues to use the internet and new technologies to develop new commercial opportunities and reinforce its public service contribution and drive a deeper relationship with audiences. Channel4.com and E4.com host a variety of microsites complementing television content as well as free, advertising-funded catch-up video on demand for the majority of key shows and more archive content than any other UK broadcaster.

4Rights
4Rights includes our UK secondary rights business generating income through the distribution of programmes, sale of DVDs, syndicated video on demand through third-party digital platforms and other associated products.

Other
Other includes the provision of creative design and production services.

Key performance indicators

The primary purpose of the main Channel 4 service, the Corporation's only channel licensed by Ofcom as a public service channel, is the fulfilment of its public service remit as defined in the Communications Act 2003. The Act states that 'the public service remit for Channel 4 is the provision of a broad range of high quality and diverse programming which, in particular:

- demonstrates innovation, experiment and creativity in the form and content of programmes
- appeals to the tastes and interests of a culturally diverse society
- makes a significant contribution to meeting the need for the licensed public service channel to include programmes of an educational nature and other programmes of educative value, and
- exhibits a distinctive character'.

The main Channel 4 service remains subject to the Communications Act 2003 and is the only channel to which specific public service obligations apply as a condition of our public service broadcasting licence. Under the Digital Economy Act 2010, Channel 4 as a whole, across all our activities, must:

- 'support the development of people with creative talent, in particular

  (i) people at the beginning of their careers in relevant media content or films, and

  (ii) people involved in the making of innovative content and films

Report of the members continued

- support and stimulate well-informed debate on a wide range of issues, including by providing access to information and views from around the world and by challenging established views
- promote alternative voices and new perspectives, and
- provide access to material that is intended to inspire people to make changes in their lives'.

Channel 4 must further participate in the making of relevant media content that appeals to the tastes and interests of older children and young adults, the broadcasting or distribution of feature films that reflect cultural activity in the United Kingdom (including third party films), and the broadcasting or distribution of relevant media content by means of a range of different types of electronic communications networks.

From 2008, the Channel 4 Annual Report has presented a framework to measure the public value that Channel 4 provides, reflecting Channel 4's ambitions to operate as a public service network, covering the main Channel 4 service, the digital channels and online services. In 2012 these public value measures have been published for a fifth year. The measures include data on the volume and value of programming by genre, a range of audience research results, and other indicators of on- and off-screen performance.

In 2012 the presentation of the measures builds on the work done in the previous four years. It is structured around the key genres and for a third year incorporates our enhanced regulatory obligations to Ofcom under the Digital Economy Act 2010 to publish a Statement of Media Content Policy demonstrating fulfilment of our remit across all of our activities and setting out our future strategy.

The key performance indicators used to monitor the commercial performance of our business are set out below. We use a combination of financial and non-financial measures to assess how successful we have been in achieving our objectives. These measures are:

1. Portfolio audience share
In 2012, portfolio audience share declined by 0.1 percentage point to 11.5% (2011: 11.6%), reflecting the underlying impact of digital migration.

A key measure of how we are delivering on our remit is the impact of the main Channel 4 service's programming, which we measure in terms of our share of audience. In 2012, the main service channel's share of audience was 6.6% (2011: 6.8%).

Audience share is also a key driver of the commercial impacts the group is able to sell to advertisers and an indicator of future market share.

With the growth of multi-channel television, our portfolio of digital channels allows us to deliver 4-branded content to a wider audience. In 2012 our digital channels grew their share of viewing by 0.1 percentage point to 4.9% (2011: 4.8%).

2. Ofcom requirements
As a public service broadcaster, the main Channel 4 service is set various licence obligations by Ofcom, the delivery of which is central to our public service role. Targets are set for a range of production and transmission measures. These targets are set out on page 190. In 2012 and 2011 we met or exceeded all of our licence requirements.

During 2012 the main channel achieved 63% of overall hours of originated programmes (target: 56%) and 79% in peak hours (target: 70%). We also exceeded our target of 35% of programme production spend outside London with 41% (£152 million) of Channel 4's originated programming, excluding *Channel 4 News*, being supplied by production companies located outside the M25.

3. Total advertising and sponsorship revenue
Channel 4 is funded solely from commercial activities without direct public subsidy. The revenue the group derives from advertising and sponsorship drives overall financial performance and enables the delivery of our remit. Our commercial performance is dependent on delivering valuable airtime to advertisers, which in 2012 accounted for 91% (2011: 90%) of total revenue.

4. Operating result
This is used as a measure of financial performance and our ability to continue fulfilling our remit into the future. It does not take into account interest, share of profits or losses from joint ventures, or taxation. The principal factors behind our operating loss of £29 million (2011: profit of £41 million) are explained below.

Report of the members continued

Financial review and outlook

Despite challenging TV advertising market and economic conditions, and the pressures of digital migration, the significant cash reserves accumulated over the past few years have enabled investment in a number of strategic initiatives. As a not-for-profit public service broadcaster, we believe it is right that cash reserves should be invested back into content and digital innovation rather than building up beyond levels necessary to keep the Corporation self-reliant. These initiatives are designed to meet the opportunities and challenges of the next phase of digital migration and evolve our commercial business model to maintain the relevance and reach of our remit, including creative renewal of our schedule, further investment in original content, and innovations through data and viewer relationship management.

Our investment in these initiatives has led to a planned temporary reduction in our pre-tax result, from a surplus of £28 million in 2011 (before exceptional one-off items relating to our pension obligation and the revaluation of our Horseferry Road property) to a deficit of £27 million in 2012. We expect to continue investing in 2013 to support these initiatives, with operating results breaking even in 2014, provided TV advertising market conditions remain close to flat.

The group generated revenues of £925 million (2011: £941 million) and a deficit before tax of £27 million (2011: adjusted surplus of £28 million), which led to a decrease in cash and funds on deposit of £29 million in the year (2011: an increase of £29 million) to £261 million (2011: £290 million).

After our planned investments, we continue with a robust financial position, reflected by a strong balance sheet and significant cash reserves, providing funds for our strategic investment plans, as well as contingency against future advertising market volatility.

Our key corporate and financial priority in 2012 was to increase investment to ensure the long term sustainability of Channel 4's unique business model. This included increased investment in content, the launch of 4seven, supporting the Paralympics, ongoing support of YouView in the year of its launch, continued innovation in data and viewer relationships and maximising the reach of 4oD through digital platforms.

In August and September Channel 4 broadcast the London 2012 Paralympic Games, dedicating 252 hours across Channel 4, 4seven and More 4, as well as the 4oD video on demand platform. The coverage was the most comprehensive ever of a Paralympic Games, and included 193 hours of Games coverage, as well as 59 hours of analysis and documentary programming showcasing key disability sport.

On 4 July 2012 Channel 4 launched a new type of TV channel across all major TV platforms. 4seven schedules the most popular and talked about Channel 4 shows from the past seven days, providing viewers an opportunity to watch Channel 4 programmes from the past week that have generated public, media and social media attention, increasing the impact of our investment in original content.

As part of our creative renewal process, and to support the UK independent production industry, we have invested our highest amount ever into originated content in 2012 (£434 million), including high profile and ground-breaking shows such as *Plane Crash*, *The Undateables* and *The Snowman and The Snowdog*. Investment in video on demand platforms has extended the reach of 4oD resulting in increased registrations, views and revenue growth. By December 2012 6.3 million viewers had registered with 4oD, a key milestone in achieving more direct engagement with viewers.

The sales portfolio includes television and online advertising and sponsorship revenues for Channel 4, UKTV and Box. Our advertising sales team exceeded their sales target of £1 billion for a second year in spite of a challenging market and a number of one-off televised events on competitor channels.

During 2012, we completed the programme of refurbishment at our Horseferry Road property. The refurbishment included the conversion of the lower ground floor to office accommodation and a refresh across the upper floors.

Average headcount for the year rose in 2012 to 795 (2011: 763), mainly to support the launch of 4seven, continue to strengthen our audience data capability, support our advertising sales initiatives and extend our 4Talent intern programme.

In 2013, our plans are to continue to invest in the initiatives begun in 2012. As part of this strategy we will further reinvest our cash reserves in compelling content and viewer relationship management.

Report of the members continued

As noted on page 115, our principal risk remains the volatility of the television advertising market. As in previous years, commitments are phased and monitored by the Board and Executive team and contingency plans prepared in the event of an advertising downturn. If there is revenue improvement in 2013, we will seek to reinvest into the content budget and our strategic initiatives.

Financial performance

Despite advertising sales market volatility, the Board decided to increase investment in content and other strategic priorities including the launch of 4seven by drawing down reserves built up in previous years. As a result we report an operating loss of £29 million funded from cash reserves.

2012	**Advertising & Sponsorship revenue £m**	**Other revenue £m**	**Total revenue £m**	**Operating profit/ (loss) £m**
4Broadcast	833	17	850	(52)
4Rights	11	67	78	23
Other	–	1	1	–
Eliminations	–	(4)	(4)	–
	844	**81**	**925**	**(29)**

2011	Advertising & Sponsorship revenue £m	Other revenue £m	Total revenue £m	Operating profit/ (loss)* £m
4Broadcast	843	15	858	2
4Rights	2	82	84	22
Other	–	–	–	–
Eliminations	–	(1)	(1)	–
	845	**96**	**941**	**24**

* Operating profit/(loss) is presented before £17 million of exceptional one-off items recorded in 2011 relating to our pension obligation and the revaluation of our Horseferry Road property

4Broadcast
Significant cash reserves enabled us to invest despite the decline in the TV advertising market. Additional funds were made available for the Paralympics and other programming content as part of our creative renewal. Investment increased in strategic initiatives including data innovation and viewer relationship management, advertising sales innovation, the launch of 4seven, the extension of our video on demand offering and the launch of YouView. Revenues declined by £8 million in 2012 driven mostly by decline in the TV ad market.

4Rights
4Rights generated operating profits of £23 million in 2012 (2011: £22 million) reflecting the growth of syndicated online platforms partly offset by the impact of *The Inbetweeners Movie* in 2011.

Revenues declined by £6 million from £84 million in 2011 to £78 million in 2012 due to the success of DVD sales of *The Inbetweeners Movie* in 2011.

Other
Other revenues include creative design and production services.

Net finance income

Net finance income in 2012 was £1 million (2011: £2 million). The decline in net finance income reflects a reduction in interest receivable on short term deposits due to a lower level of cash reserves and lower interest rates, as well as a decrease in the expected return on pension plan assets.

Financial position

The balance sheet on page 126 of the financial statements shows that the net assets of the group decreased in the year by £36 million to £464 million (2011: £500 million). This is a result of the 2012 draw down on reserves of £27 million and an increase in the defined benefit pension plan obligation recorded in Other Comprehensive Income, partly offset by the increase in the revaluation reserve due to the revaluation of the Horseferry Road freehold property.

Cashflow

As shown in the group cashflow statement on page 127, the investment strategy adopted in 2012 resulted in a £24 million net operating cash outflow (2011: net operating cash inflow of £39 million). Net cash outflows from financing activities were £44 million as money was placed on deposit (2011: net cash inflows of £65 million) to maximise the return on surplus cash. Group cash and cash equivalents were £173 million at 31 December 2012 (2011: £246 million) with a further £40 million held on deposit for three months or longer (2011: £34 million) and £48 million held as variable net asset value funds (2011: £10 million).

Report of the members continued

Pension

The assets and liabilities of the Channel Four Television Staff Pension Plan have been valued at 31 December 2012 in accordance with IAS 19 'Employee Benefits' and the net accounting deficit of £40 million has been recorded in the year end balance sheet (2011: £21 million) (note 21). The deficit has increased in 2012 primarily as a result of changes in actuarial assumptions, including a lower discount rate applied to the pension obligation due to declining bond rates. This has been partly offset by additional employer contributions and better than expected returns on plan assets. The most recent independent triennial valuation was carried out as at 1 January 2009 and updated subsequently at 1 January 2010. The subsequent valuation and recovery plan were approved by the Board in March 2010 (note 21). A new triennial valuation will be performed in 2013. The Channel Four Television Staff Pension Plan was closed to new joiners with effect from 1 September 2007 and a new Defined Contribution Scheme opened from the same date.

Accounting policies

A summary of significant accounting policies is provided in pages 128–134 of this report.

Risks

Outlined below are the key risks that the group faces, and the key steps taken to mitigate them. Further details of our governance structure are provided in the Corporate Governance section on pages 168–178.

1. Dependence on advertising and sponsorship revenues
Ninety one per cent of Channel 4's revenue (2011: 90%) was derived from advertising and sponsorship in 2012. This dependency upon one form of revenue means that the group is susceptible to cyclical fluctuations as well as structural changes in the advertising market. Advertising and sponsorship income is extremely variable and has the potential to change significantly during the course of the year as a result of changes in audience share or broader market or economic conditions. Many of our costs are fixed within a year, which limits our ability to respond to short term downturns in the advertising market.

In order to mitigate this risk Channel 4 monitors the advertising market and its share of the market very closely to identify trends and to allow time to respond. As far as possible, the group phases commitments and seeks a flexible cost base. Channel 4 also maintains cash reserves to protect against the impact of a decline in the television advertising market. The Treasury Risk Committee regularly reviews the group's cashflow forecast and requirements for cash.

2. Ofcom licence obligations
A significant risk to Channel 4 would be any failure to fulfil the statutory responsibilities governing delivery of our remit. In December 2004, Channel 4 was issued with a detailed Digital Replacement Licence ('DRL') which sets out all of its formal obligations, including detailed programming obligations. Our licence quotas are published on pages 189 and 190 of this report.

The Channel 4 Board is the main body for ensuring that Channel 4 meets all of its public service responsibilities. Current programming output and the delivery of the Channel's programming obligations are reviewed regularly by the Board. Under the enhanced accountability arrangements introduced by the Digital Economy Act 2010, Channel 4 is required to publish an annual Statement of Media Content Policy containing a retrospective review of performance of the previous year and our strategy for the next year. This Statement is compiled in accordance with Ofcom guidelines and in consultation with Ofcom, and is published in the front section of this Annual Report. The Statement of Media Content Policy incorporates the Statement of Programme Policy also required by current legislation.

3. Legal and regulatory obligations
There are three significant risks in relation to the publication of content by Channel 4:

- Breach of regulatory codes, including in particular the Ofcom Broadcasting Code, resulting in the imposition of a statutory sanction
- Breach of the civil law (to which we have no defence in law), and
- Breach of the criminal law (to which we have no defence in law).

Report of the members continued

There are a number of detailed legal and compliance procedures and protocols designed to ensure that these risks are identified and appropriately managed. These procedures are mandatory for all relevant staff. At the heart of these procedures is Channel 4's Editorial Referral-Up Process, which is set out in the Independent Producer Handbook. The referral-up process involves senior editorial staff and ultimately the Chief Creative Officer and the Chief Executive as Editor-in-Chief. This process also requires that independent producers working with Channel 4 ensure that they have their own internal procedures so that legal and compliance issues are referred to senior executives and Channel 4 as appropriate. Such procedures exist to ensure that difficult and fine-cut decisions on legal and compliance matters are properly considered by the most experienced editorial staff, content lawyers and senior executives within Channel 4.

The Board performs an annual review of the compliance process.

Members

The members of the Board have full responsibility and discretion for deciding and operating the group's policies and for the conduct of the group's affairs.

The current members of Channel 4 are listed on pages 179–182. Since 1 January 2012, the following members have been appointed or have retired:

On 1 January 2012 MT Rainey, Paul Potts and Josie Rourke joined the Board as non-executives.

On 31 January 2012 Lord Puttnam and Martha Lane Fox retired from the Board.

On 1 February 2012, Director of Marketing and Communications Dan Brooke was appointed to the Board.

On 25 November 2012 Lord Hall resigned from the Board.

Details of members' remuneration are contained within the report on members' remuneration on pages 183–187.

Subsequent to the year end, on 26 February 2013 Anne Bulford resigned from the Board.

Members' interests

Channel 4 fully embraces the principles of good corporate governance and, to this end, makes full disclosure of all members' interests. During 2012, members, in addition to their salaries, benefits and/or fees as disclosed on pages 183–187, were interested in the following contracts negotiated at arm's length on normal commercial terms with the group:

David Abraham is a non-executive director and MT Rainey Vice Chair of Skillset. Channel 4 paid £181,000 to Skillset for funding during 2012.

Lord Burns is also Chairman of Santander UK plc. Santander advertises its services on Channel 4.

Mark Price is Chair of Business in the Community. Channel 4 paid £13,000 to Business in the Community for sponsorship during 2012. Mark Price is also Managing Director of Waitrose. Waitrose is a sponsor of programming 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.

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.

Corporate responsibility

The aim of our Corporate Responsibility (CR) strategy is to fulfil our public service remit in a responsible manner through inspiring and challenging the behaviour of our people, suppliers and audience to promote social, environmental and personal change.

Report of the members continued

People

We pride ourselves on the wide range of passionate and talented people we employ. Not only does this reflect our audience more accurately, it also promotes creative thinking both on and off screen.

Staff survey results 2011/12
For the first time we are publishing the results of our staff survey. The survey is compiled by a third party and all submissions are anonymous.

- 84% response rate
- 96% proud to be part of Channel 4
- 94% enjoy working for Channel 4
- 80% engagement score.

By attracting people from different backgrounds and walks of life, we have created an environment in which everyone feels free to contribute to the way we work. Channel 4 believes diversity is being all-inclusive, regardless of culture, nationality, religious persuasion, physical and mental ability, sexual orientation, race, age and background.

- Ethnic minorities representation among permanent staff in 2012 was 16% (2011: 14%; 2010: 13%). Ethnic minorities represent 14% of the UK population (according to 2011 Census data)
- The majority of our staff are female at 58% (2011: 57%; 2010: 57%).

We received 17,761 applications for employment from 1 January 2012 to 31 December 2012. Of these, 29% were of ethnic minority origin, 58% were female and 42% were male.

Breaking down barriers to entry
We continue to break down barriers to entering the media industry by using online and social networking, face to face events and structured new entrant programmes. In 2012 we launched the Channel 4 Graduate and Scholarship Programme (in partnership with Creative Skillset and UCL) to complement our Apprenticeship, Internship and Production Training Programme.

Via these programmes we offered 32 new entrants the opportunity of paid work and on the job training in a mix of office and production-based roles at Channel 4, our music partner Box TV and at independent production companies including Shed Media Group and SB:TV.

During 2012 60% of our 2011 apprentices gained permanent or freelance employment at Channel 4 on completion of their apprenticeship.

Social mobility
In 2012 Channel 4 signed the Deputy Prime Minister's Business Compact to improve social mobility by making access to our organisation fair and open so that every individual is free to achieve and succeed.

We ran six open days in areas with high youth unemployment figures: Derry, Barnsley, Penzance, Cardiff, London and Dundee.

Of the open day participants surveyed, 53% said their parents or guardians did not complete a university degree course or equivalent and 17% surveyed said their household had received income support during their school years.

We plan to continue our work in this area during 2013, specifically continuing our work to establish measures and track data on the impact of our social mobility work.

Work experience and open days
We received 956 applications to attend open days and work experience placements. Of overall applicants:

- 62% were successful and attended work experience and / or open days between 1 January 2012 and 31 December 2012
- 28% were aged 21–30 years of age
- 32% were of ethnic minority origin, 9% preferred not to say
- 68% were female, 32% were male
- 3% declared themselves as having a disability.

Report of the members continued

Diversity
Diversity is part of the DNA of Channel 4 and helps us to innovate, be distinctive and encourages people to think in different ways. In December 2012 a diversity strategy was created to:

1. Continue to diversify creative supply while building on the success of our innovative approach to on-screen diversity

2. Further increase the diversity of Channel 4 staff through programmes such as our Internship Programme, Production Trainee Scheme, All Inclusive 4 events and our involvement in the Creative Diversity Network (CDN)

3. Use data captured by our audience research department to continue to inform and help shape our thinking around diversity

4. Use our purchasing power to build and challenge our suppliers to share our diversity ambitions.

Creative Diversity Network
We are a founder and active member of the Creative Diversity Network. The CDN is a coalition between the biggest names in broadcasting, working together to promote diversity, both on and off screen. The CDN was previously known as the Cultural Diversity Network until its convergence with the Broadcasting and Creative Industries Network (BCIDN) in September 2011. As a result, the CDN has an even wider remit to include all aspects of diversity, including disability, gender and age.

Creative diversity
Channel 4's Creative Diversity Department introduced 'Lexi', a revolutionary new graphical system which aided the viewing experience of this summer's Paralympic Games by debunking the often confusing classifications that govern Paralympic sport. Research revealed that some viewers were confused by the disability classifications in Paralympic sports but would be more engaged with the Paralympics Games if they had a better understanding of why athletes with different disabilities compete against each other.

Staff development
We understand that the success of our organisation depends upon recruiting, retaining and developing people to be the best that they can be. During 2012, 1,123 individual staff bookings were placed to attend Channel 4 workshops and training courses. Of these, 80% were for bespoke training sessions tailored around specific business needs, 11% attended courses offered through an outsourced training provider and 9% attended specific training on Information Systems.

Channel 4 Leadership Programme
In 2012 Channel 4 launched its first ever leadership programme, bringing together people from across the business. Thirty four Heads of Department, Senior Managers and future talent attended the bespoke programme.

London 2012 Paralympic Games training and development
Channel 4 pledged to bring Paralympic sport to a mainstream audience and to add authenticity, knowledge and experience to its programming. More than £0.6 million was invested in identifying, training and developing 10 new disabled presenters and reporters who have played major roles in the coverage of the games.

Health and wellbeing
We are committed to providing a working environment and practices that promote staff wellbeing. We give our employees information to help them adopt and maintain a healthy lifestyle within and outside work. Occupational Health and Wellbeing advice is available on-site, which provides help to staff and managers through confidential and impartial support and advice. On-site facilities such as a studio offering fitness classes and therapy rooms are also made available. An Employee Assistance Programme offering 24 hour confidential personal support, counselling and advice is also provided.

All staff receive Private Medical Insurance as part of our core benefits offering. Through our flexible benefits package staff can purchase other benefits such as health screenings, a bike-to-work scheme, discounted gym membership and critical illness insurance for themselves and their partners.

Report of the members continued

Accountability

Our Board and Executive team have committed to promoting the highest standard of responsible corporate behaviour and are ultimately accountable for this. We have a Corporate Code of Conduct and a suite of other policies and procedures providing a framework for accountability. In 2012 we were members of Business in the Community and the Media CSR Forum. Since 2004, we have reported on our approach to Corporate Responsibility and our performance in our Annual Report and Accounts.

Suppliers

We continue to promote responsible behaviour in the supply chain and are active members across a number of industry networks with the common aim of sharing and promoting best practice.

Albert Consortium
Channel 4 is a member of the Albert Consortium, a consortium of UK broadcasters and independent production companies with a primary aim of promoting and supporting environmentally sustainable practices within the TV industry in the UK.

European Broadcasting Union Green Broadcasting Group
Channel 4 is a member of the European Broadcasting Union Green Broadcasting Group. The purpose of this Group is to build a common view of the environmental impact of media across production, distribution and transmission; to identify specific activities and work areas to reduce impacts; and to act as a collective voice when liaising with industry bodies.

Community

We are committed to playing a responsible role in our communities.

Charitable giving
During 2012 the group donated £2 million to charities (2011: £2 million). This was paid to charities to provide training to improve the overall expertise of television staff in the industry.

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 match fundraising scheme which 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.

Open House
For the third year running, we supported Open-City's Architecture in Schools programme by giving Years 3 and 4 students a tour of the building along with a question and answer session. We also provided tours separately for UK and overseas graduates who wanted to understand how C4 fulfils its facilities management role and how we completed the refurbishment of our office space while remaining occupied.

In addition, we participated in Open-City's Open House for the Changing Face of London open day in September and received 1,600 visitors over a two day period.

The Disaster Emergency Committee (DEC)
Channel 4, working in partnership with the Independent Television Network (ITN), has been a broadcast partner for the DEC a number of decades. When a large-scale international crisis occurs, we broadcast a two to three minute national television appeal, without charge.

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. This policy was revised in 2011, committing us to energy, waste and water reduction targets. In 2012 we have introduced an Environmental Monitoring System to support these commitments. During 2013 we will be reviewing our in-house campaigns and creating a framework of quarterly employee engagement activities aimed at raising awareness of issues surrounding the environment and sustainability as well as focusing on specific campaigns such as volunteering and charitable giving.

Report of the members continued

Carbon footprint

In April 2011, we were awarded the Carbon Trust Standard, an independently awarded certification given to organisations that are committed to reducing their carbon footprint. Throughout 2012, we continued to implement energy reduction measures, including the introduction of energy efficient technology and raising employee awareness on environmental issues. As a result, our carbon footprint (based on a scope limited to direct emissions emitted at the point of combustion of fuels (gas only) and indirect emissions from the consumption of purchased electricity) has reduced from the previous year by 12% (2011: 29%).

Waste

We recycled 163,500 tonnes of general office waste during 2012, representing 97% of identified recyclable waste. In addition, general municipal unsorted waste reduced to 31% of total waste in 2012 (2011: 40%).

The refurbishment of Horseferry Road is now complete and 100% of waste generated during this project was recycled or recovered.

Water

During 2012 our water consumption was 9,500m^3, a 32% decrease on the 2010 estimated baseline of 14,000m^3. These efficiencies have been gained primarily from implementing new efficient water systems as part of the refurbishment of the Horseferry Road property. In order to target, monitor and reduce consumption effectively, during 2013 we will continue to monitor our smart metering solutions and water-efficient technology.

Development

The group devotes substantial resources to the development of scripts for possible commissioning. Research and development expenditure charged to the income statement in 2012 amounted to £10 million (2011: £12 million).

Group foreign currency, cash and treasury management

The group's treasury management function operates within defined treasury policies determined by the Board. Details of the group's foreign currency, cash and treasury matters are disclosed in note 19, including information on the group's exposure to market, foreign currency, interest rate, liquidity and credit risk as well as the disclosures required in respect of IFRS 7 'Financial Instruments: Disclosures'.

Through strict adherence to the policies, cash and other financial asset deposits were spread across a number of financial institutions, with a minimum long term credit rating of A.

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 auditors

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 Corporation's auditors are 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 Corporation's auditors are 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 their willingness to continue in office.

Report of the members continued

Going concern

The group's business activities, the factors likely to affect its future development and performance, the financial position of the group and its cash flows are set out in the Report of the members (pages 110–121). In addition, note 19 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.

The group has considerable 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.

Responsibility statement of the members in respect of the annual financial report

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 profit or loss of the Corporation and the undertakings included in the consolidation taken as a whole, and

- the report of the members' includes a fair review of the development and performance of the business and the position of 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.

By Order of the Board:

David Abraham
Chief Executive
27 March 2013

Independent auditor's report

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

We have audited the financial statements of the Corporation for the year ended 31 December 2012 set out on pages 124–167. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and in accordance with the provisions of the Companies Act 2006 as if that Act applied to the Corporation.

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.

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 and reporting on corporate governance, 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.

Respective responsibilities of members and auditor
As explained more fully in the Members' Responsibilities Statement set out on page 168, the members are responsible for the preparation of the 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 Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Corporation and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the members; and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
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 2012 and of the Group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Corporation financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006 as if that Act applied to the Corporation;
- the group financial statements have been prepared in accordance with the Companies Act 2006, as if that Act applied to the Corporation.

Independent auditor's report continued

Opinion on other matters prescribed under the terms of our engagement
In our opinion:

- the part of the Members' Remuneration Report which we were engaged to audit has been properly prepared in accordance with Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as if those requirements were to apply to the Corporation; and

- the information given in the Members' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

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 to be audited are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law 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 their 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 Services Authority in relation to those matters. Under the terms of our engagement we are required to review:

- the members' statement, set out on page 121, in relation to going concern; and

- the part of the Corporate Governance Statement on pages 168–176 relating to the Corporation's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Hugh Green
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
27 March 2013

Consolidated income statement for the year ended 31 December

	Note	Group 2012 £m	Group 2011 £m
Revenue	1	**925**	941
Cost of transmission and sales	2	**(924)**	(883)
Gross profit		**1**	58
Revaluation of freehold property – reversal of previous impairments	4	**–**	6
Past service pension cost credit	4	**–**	11
Other operating expenditure	3	**(30)**	(34)
Operating profit/(loss)		**(29)**	41
Financial income	6	**13**	16
Financial expense	6	**(12)**	(14)
Net finance income		**1**	2
Share of profit of investments accounted for using the equity method, net of income tax and amortisation	9	**1**	2
Profit/(loss) before tax		**(27)**	45
Income tax expense	7	**–**	(10)
Profit/(loss) for the year		**(27)**	35

Statement of comprehensive income for the year ended 31 December

	Note	Group 2012 £m	Group 2011 £m
Profit/(loss) for the year		**(27)**	35
Net actuarial gains/(losses) on pension scheme	21	**(21)**	(4)
Revaluation of freehold land and buildings	4, 11	**7**	11
Deferred tax on pension scheme recognised directly in other comprehensive income	13	**5**	–
Other comprehensive income/(cost) for the year		**(9)**	7
Total comprehensive income/(cost) for the year		**(36)**	42

Statement of changes in equity for the year ended 31 December

Group statement of changes in equity

	Retained earnings £m	Revaluation reserve £m	**Total equity £m**
At 1 January 2011	458	–	**458**
Profit for the year	35	–	**35**
Other comprehensive income	(4)	11	**7**
Total comprehensive income for the year	**31**	**11**	**42**
At 31 December 2011	**489**	**11**	**500**
At 1 January 2012	489	11	**500**
Loss for the year	(27)	–	**(27)**
Other comprehensive income	(16)	7	**(9)**
Total comprehensive income/(cost) for the year	**(43)**	**7**	**(36)**
At 31 December 2012	**446**	**18**	**464**

Channel 4 statement of changes in equity

	Retained earnings £m	Revaluation reserve £m	**Total equity £m**
At 1 January 2011	392	–	**392**
Loss for the year	(40)	–	**(40)**
Other comprehensive income	(4)	11	**7**
Total comprehensive income/(cost) for the year	**(44)**	**11**	**(33)**
At 31 December 2011	**348**	**11**	**359**
At 1 January 2012	348	11	**359**
Loss for the year	(29)	–	**(29)**
Other comprehensive income	(16)	7	**(9)**
Total comprehensive income/(cost) for the year	**(45)**	**7**	**(38)**
At 31 December 2012	**303**	**18**	**321**

Balance sheets as at 31 December

	Note	**Group 2012 £m**	Group 2011 £m	**Channel 4 2012 £m**	Channel 4 2011 £m
Assets					
Investments accounted for using the equity method	9	**25**	26	**–**	–
Equity investments	10	**2**	2	**28**	–
Freehold land and buildings	11	**62**	56	**62**	56
Fixtures, fittings and equipment	11	**19**	18	**19**	16
Intangible assets	12	**5**	4	**5**	3
Deferred tax assets	13	**11**	8	**11**	8
Total non-current assets		**124**	114	**125**	83
Programme and film rights and other inventories	14	**219**	206	**219**	178
Trade and other receivables	15	**173**	199	**173**	127
Other financial assets	16	**88**	44	**88**	44
Cash and cash equivalents	16	**173**	246	**173**	246
Total current assets		**653**	695	**653**	595
Total assets		**777**	809	**778**	678
Liabilities					
Employee benefits – pensions	21	**(40)**	(21)	**(40)**	(21)
Provisions	18	**(3)**	(4)	**(3)**	(4)
Deferred tax liabilities	13	**(1)**	(2)	**(1)**	(1)
Total non-current liabilities		**(44)**	(27)	**(44)**	(26)
Trade and other payables	17	**(267)**	(274)	**(412)**	(289)
Current tax liabilities	17	**(1)**	(4)	**–**	–
Provisions	18	**(1)**	(4)	**(1)**	(4)
Total current liabilities		**(269)**	(282)	**(413)**	(293)
Total liabilities		**(313)**	(309)	**(457)**	(319)
Net assets		**464**	500	**321**	359
Revaluation reserve		**18**	11	**18**	11
Retained earnings		**446**	489	**303**	348
Total equity		**464**	500	**321**	359

The financial statements on pages 124–167 were approved by the Board of members on 27 March 2013 and were signed on its behalf by:

Lord Burns
Chairman
David Abraham
Chief Executive

The notes on pages 135–167 form part of these financial statements.

Cashflow statements for the year ended 31 December

	Note	Group 2012 £m	Group 2011 £m	Channel 4 2012 £m	Channel 4 2011 £m
Cashflow from operating activities					
Profit/(loss) for the year		**(27)**	35	**(29)**	(40)
Adjustments for:					
Income tax expense/(credit)		**–**	10	**–**	(2)
Depreciation	11	**6**	4	**6**	4
Amortisation of intangibles	12	**2**	2	**2**	1
Net financial (income)/expense	6	**(1)**	(2)	**(1)**	–
Share of profit from investments accounted for using the equity method, net of income tax and amortisation	9	**(1)**	(2)	**(1)**	–
Current service pension cost	21	**3**	5	**3**	5
Past service pension cost credit	4	**–**	(11)	**–**	(11)
Revaluation of freehold property – reversal of previous impairments and depreciation	4, 11	**–**	(6)	**–**	(6)
Operating cashflow before changes in working capital and provisions		**(18)**	35	**(20)**	(49)
Changes in working capital and provisions:					
(Increase)/decrease in programme and film rights and other inventories	14	**(13)**	(1)	**(41)**	9
(Increase)/decrease in trade and other receivables	15	**26**	(43)	**(46)**	(11)
Increase/(decrease) in trade and other payables	17	**(7)**	69	**95**	105
Increase/(decrease) in provisions, excluding unwinding of discounts	18	**(4)**	–	**(4)**	–
Cash generated from operations		**(16)**	60	**(16)**	54
Pension contributions	21	**(6)**	(13)	**(6)**	(13)
Tax (paid)/repaid		**(2)**	(8)	**(2)**	–
Net cashflow from operating activities		**(24)**	39	**(24)**	41
Cashflow from investing activities					
Proceeds from disposal of investment		**–**	1	**–**	–
Purchase of property, plant and equipment	11	**(6)**	(14)	**(6)**	(13)
Internally developed software	12	**(3)**	(1)	**(3)**	(1)
Interest received		**2**	2	**2**	2
Dividends received	9	**2**	2	**2**	–
Net cashflow from investing activities		**(5)**	(10)	**(5)**	(12)
Cashflow from financing activities					
(Increase)/decrease in other financial assets*	16	**(44)**	65	**(44)**	65
Net cashflow from financing activities		**(44)**	65	**(44)**	65
Net increase/(decrease) in cash and cash equivalents		**(73)**	94	**(73)**	94
Cash and cash equivalents at 1 January		**246**	152	**246**	152
Cash and cash equivalents at 31 December		**173**	246	**173**	246

*Amounts invested in term deposits of three months or longer and other funds with time restricted access.

FINANCIAL REPORT AND STATEMENTS

Significant accounting policies

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 2012 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 own 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 27 March 2013. The registered office of Channel 4 is 124 Horseferry Road, London, SW1P 2TX.

Statement of compliance

The group and Channel 4 financial statements have been prepared and approved by the members in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs). On publishing the Channel 4 financial statements here together with the group financial statements, Channel 4 is taking advantage of the exemption in section 408 of the Companies Act 2006 as if those provisions were to apply not to present its individual income statement and related notes that form a part of these approved financial statements.

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 in a form directed by the Secretary of State for Culture, Media and Sport with the approval of HM Treasury and meet the disclosure and measurement requirements, in so far as they are applicable, of the Companies Act 2006 and Adopted IFRSs.

The preparation of financial statements in conformity with Adopted IFRSs 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 Adopted IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below.

Programme and film rights
Programme and film rights are included in the balance sheet at the lower of cost and net realisable value. In estimating net realisable value, consideration is given to when the programmes and films are scheduled for transmission and the contracted sales price and projected costs to complete for programmes in production. Programmes which, taking into account viewing expectations, in management's judgement are unlikely to be transmitted in their originally intended slot or sold are expensed to the income statement (note 14).

Employee post-retirement benefit obligations
The group operates a defined benefit pension plan. The obligations under the plan are recognised in the balance sheet and represent the present value of the obligation calculated by independent actuaries, with input from the members. The estimation of this obligation is dependent upon numerous assumptions, including discount rates, return on assets, salary progression and mortality rates. These assumptions vary from time to time according to prevailing economic and social conditions. Details of assumptions used are provided in note 21.

Going concern
The group's business activities, the factors likely to affect its future development and performance, the financial position of the group and its cash flows are set out in the Report of the members (pages 110–121). In addition, note 19 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.

Significant accounting policies continued

The group has considerable 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.

Accounting policies

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

The following new amendment, effective for the first time from 1 January 2012 has not had a material effect on the financial statements:

- Amendments to IAS 12 – Income Taxes

A number of new standards, amendments to standards and interpretations have been issued and are not yet effective. These have not been applied in preparing the consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the group.

Basis of consolidation

Subsidiaries are entities controlled by the group. Control exists when the group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. 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 accounted for using the equity method comprise associates and joint ventures.

Associates are those entities over which the group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases or until the associate is classified as held for sale in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.

When the group's share of losses exceeds its interest in an associate, 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.

Jointly controlled entities are those entities over whose activities the group has joint control, established by contractual agreement. The financial statements include the group's share of total recognised gains and losses using the equity method of accounting from the date that joint control commences to the date it ceases or until the jointly controlled entity is classified as held for sale in accordance with IFRS 5.

As explained in note 9, certain of the group's joint ventures are not-for-profit organisations. Cost contributions to those organisations are charged to the income statement in the period to which they relate.

Intragroup balances and any unrealised gains and losses or income and expense arising from intragroup transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities 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.

Revenue recognition

All revenues are stated net of advertising agency commissions where these are borne and paid by advertisers, and value added tax. Revenues are recognised when services have been performed, persuasive evidence of an arrangement exists and when collectability is reasonably assured.

Television advertising revenue is 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.

Online advertising revenue is recognised over the period of display of the advertisement.

Significant accounting policies continued

Commission earned from advertising representation for parties outside the group is recognised on transmission of the related advertisements in line with contractual arrangements. Where the group acts as an agent and does not have exposure to the significant risks and rewards of the sale, sales are not recognised in revenue.

Revenue from the sale of film and television rights is recognised on the later of signature of the contract, and the start of the licence period, provided that the film or programme rights have been made available for delivery.

DVD revenues are recognised when stock is delivered to retailers, net of a provision for anticipated returns, and for 4-branded events, when the event takes place.

Revenues recouped from theatrical box office releases are recognised when revenues can be reliably measured. In practice this does not occur until the group is provided with a statement from a distributor.

Subscription fee and similar revenues are recognised over the period of the subscription.

Revenues are recognised from barter transactions involving advertising when the services exchanged are dissimilar, and are measured with reference to the fair value of the advertising provided.

Segment reporting

Segments are reported in accordance with IFRS 8 'Operating Segments', where the Chief Operating Decision-maker has been identified as the Channel 4 Board, and reportable segments follow management reporting to the Board in order to make decisions on the allocation of resources within the group. Segments are aggregated only where the nature of the products and services provided are similar and where the segments have similar economic characteristics.

Income statement presentation

The group has presented the impact on profit in 2011 of the revaluation of freehold land and buildings and the statutory change in pension plan inflation measure separately in the income statement. These items have been presented because, in the opinion of the Members, separate disclosure is helpful in understanding the underlying performance of the business.

Broadcasting spectrum

As noted on page 110, Channel 4 receives free spectrum in return for fulfilling public service obligations. As such, there are no imputed costs in the financial statements in respect of the use of this broadcasting spectrum.

Taxation

Tax on the profit or loss 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 jointly controlled entities 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.

Significant accounting policies continued

Investments in subsidiaries

Investments in subsidiaries are carried at historical cost and consolidated in the group balance sheet from the date that control commences to the date it ceases.

Investments in associates and interests in jointly controlled entities

Investments in associates and interests in joint ventures are carried at historical cost in the balance sheet of their immediate parent company.

These investments are recognised in the consolidated balance sheet initially at cost. The carrying amount is subsequently increased or decreased to recognise the share of total recognised gains or losses, or share of profit or loss if these are the same, after the date of acquisition or investment.

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.

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 open market value approximates to 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. Freehold land is not depreciated. 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	20%–25%

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.

Where applicable, property, plant and equipment held under finance leases are depreciated over the period of the lease.

Intangible assets and goodwill

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.

Significant accounting policies continued

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 in respect of associates and jointly controlled entities is included in the carrying value of the associate or jointly controlled entity within which benefits are expected to accrue as a result of the acquisition.

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 cash flows 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 the income statement or revaluation reserve.

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 rights and other inventories

Inventories are valued at the lower of cost and net realisable value. Programme and film rights are stated at direct cost incurred up to the balance sheet date after making provision for programmes and films which are unlikely to be transmitted or sold. Direct cost is defined as payments made or due to programme suppliers.

Development expenditure is included in broadcast programme and film rights after charging any expenditure that is not expected to lead to a commissioned programme directly to the income statement.

The cost of broadcast programme and film rights is 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 expected revenue or other benefits.

Developed film rights are stated at direct cost incurred up to the balance sheet date. Provision is made for any excess in the value of the film held in inventories over the revenues the film is anticipated to earn. The main assumptions employed to estimate future revenues are minimum guaranteed contracted revenues and sales forecasts by territory.

Film rights are amortised in the income statement in the proportion that the revenue in the year bears to the estimated ultimate revenue, after provision for any anticipated shortfall.

Other inventories principally comprise DVDs held within the 4Rights segment, and are stated at the lower of cost and net realisable value.

Trade and other receivables

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

Significant accounting policies continued

Other financial assets

Other financial assets comprise deposits of more than three months' duration and other funds with time restricted access 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. 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 any of the periods 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 its present value 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.

Actuarial 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, interest cost and return on plan assets are recognised in the income statement in the current period.

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

Significant accounting policies continued

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 material, 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.

Transfer of assets

As a result of changes in legislation (page 110), on 1 January 2012 Channel 4 carried out an internal business transfer to move some activities from 4 Ventures Ltd (4 Ventures), a 100% owned subsidiary of Channel Four Television Corporation, into the Corporation. The assets were transferred at their carrying value and included:

- the Ofcom licences in respect of our digital channels held in 4 Ventures and two of its wholly owned subsidiaries
- 4 Ventures' share in the joint venture company Box Television Ltd
- the operation of the digital channels (E4, More4 and Film4, and their associated '+1' and the 'HD' channels), the operation of video on demand services and 4Rights.

Notes to the 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.

Following the implementation of the Digital Economy Act 2010 and the internal transfer of activities (page 110), the underlying activities of the group have been rearranged. The segmental information presented in these financial statements reflects the new arrangement of activities and the financial information presented to the Board. The 2011 comparative segmental information has been re-presented to reflect the new operating segments as required by IFRS 8.

Summaries of the principal activities, products and services and financial performance for each segment are provided within the Report of the members on pages 110 to 114.

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 which are reviewed under arrangements required under Schedule 9 of the Communications Act (page 176). All costs and revenues are fully allocated across the segments.

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

Revenues from transactions with three individual external customers comprised more than 10% of the group's revenues in 2012 were £123 million, £105 million and £103 million (2011: one external customer amounting to £117 million). The group's major customers are all media buying agencies and these revenues are attributable to the 4Broadcast and 4Rights segments. Approximately 3% of the group's revenues (2011: 2%) are attributable to external customers outside the UK and these are therefore not separately presented.

Notes to the financial statements continued

1. Segment reporting continued

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

Year ended 31 December 2012	4Broadcast £m	4Rights £m	Other £m	Eliminations £m	Group £m
Programme and other content (note 2)	(619)	(1)	–	3	(617)
Funded by:					
External sales	849	75	1	–	925
Inter-segment sales	1	3	–	(4)	–
Total revenue	**850**	**78**	**1**	**(4)**	**925**
Operating profit/(loss)	**(52)**	**23**	**–**	**–**	**(29)**
Net finance income					1
Share of profit of investments accounted for using the equity method, net of income tax and amortisation					1
Loss before tax					**(27)**

Programme and content spend is funded by television advertising and other commercial operations. The £29 million 2012 group operating loss includes investment in content and other strategic initiatives and is financed from reserves accumulated in prior years. A summary of cash reserves is shown below.

Cashflow information	£m
Cash and cash equivalents at 1 January (note 16)	246
Other financial assets at 1 January (note 16)	44
Total cash and cash equivalents and other financial assets at 1 January 2012	**290**
Net cashflow from operating activities	(24)
Net cashflow from investing activities	(5)
Total cashflow	**(29)**
Cash and cash equivalents at 31 December (note 16)	173
Other financial assets at 31 December (note 16)	88
Total cash and cash equivalents and other financial assets at 31 December 2012	**261**

As at 31 December 2012	4Broadcast £m	4Rights £m	Other £m	Eliminations £m	Group £m
Balance sheet					
Segment assets	801	115	35	(174)	777
Segment liabilities	(375)	(29)	(83)	174	(313)
Net assets/(liabilities)	**426**	**86**	**(48)**	**–**	**464**

Notes to the financial statements continued

1. Segment reporting continued

The 2011 comparative segmental information, as presented in our 2011 Annual Report, has been re-presented to reflect the new segments as required by IFRS 8.

Year ended 31 December 2011	4Broadcast £m	4Rights £m	Other £m	Eliminations £m	Group £m
Programme and other content (note 2)	**(590)**	**–**	**–**	**–**	**(590)**
Funded by:					
External sales	858	83	–	–	941
Inter-segment sales	–	1	–	(1)	–
Total revenue	**858**	**84**	**–**	**(1)**	**941**
Operating profit	**19**	**22**	**–**	**–**	**41**
Net finance income					2
Share of profit of investments accounted for using the equity method, net of income tax and amortisation					2
Profit before tax					**45**

Cashflow information	£m
Cash and cash equivalents at 1 January (note 16)	152
Other financial assets at 1 January (note 16)	109
Total cash and cash equivalents and other financial assets at 1 January 2011	**261**
Net cashflow from operating activities	39
Net cashflow from investing activities	(10)
Total cashflow	**29**
Cash and cash equivalents at 31 December (note 16)	246
Other financial assets at 31 December (note 16)	44
Total cash and cash equivalents and other financial assets at 31 December 2011	**290**

As at 31 December 2011	4Broadcast £m	4Rights £m	Other £m	Eliminations £m	Group £m
Balance sheet					
Segment assets	804	115	29	(139)	809
Segment liabilities	(319)	(52)	(77)	139	(309)
Net assets/(liabilities)	**485**	**63**	**(48)**	**–**	**500**

Notes to the financial statements continued

2. Cost of transmission and sales

	Programme and other content	Indirect programme costs	Transmitter and regulatory costs		Cost of sales	Cost of marketing	Total
			Analogue	Digital			
	£m	£m	£m	£m	£m	£m	£m
2012							
4Broadcast	619	44	4	102	59	47	875
4Rights	1	5	–	3	40	4	53
Other	–	–	–	–	–	–	–
Eliminations	(3)	–	–	–	–	(1)	(4)
Group continuing operations	**617**	**49**	**4**	**105**	**99**	**50**	**924**

The 2011 comparative cost of transmission and sales, as presented in our 2011 Annual Report, has been re-presented to reflect our new segments as required by IFRS 8.

	Programme and other content	Indirect programme costs	Transmitter and regulatory costs		Cost of sales	Cost of marketing	Total
			Analogue	Digital			
	£m	£m	£m	£m	£m	£m	£m
2011							
4Broadcast	590	40	9	93	47	43	822
4Rights	–	6	–	2	48	4	60
Other	–	–	–	–	1	–	1
Eliminations	–	–	–	–	–	–	–
Group continuing operations	**590**	**46**	**9**	**95**	**96**	**47**	**883**

Notes to the financial statements continued

3. Other operating expenditure

Other operating expenditure includes:

	2012 £m	2011 £m
Depreciation of property, plant and equipment (note 11)	**6**	4
Amortisation of intangible assets (note 12)	**2**	2
Restructuring costs	**1**	5
Research and development (page 120)	**10**	12
Members' remuneration (page 185)	**3**	2
Operating lease rentals (note 20)	**1**	1
Charge for doubtful debts	**–**	1
Other administrative expenses	**7**	7
Other operating expenditure	**30**	34

FINANCIAL REPORT AND STATEMENTS

Consistent with the exemption provided by section 408 of the Companies Act 2006 Channel 4 has not presented its own income statement. Within the loss for the year of £27 million (2011: profit of £35 million) recorded in the consolidated income statement, a loss of £29 million (2011: £40 million) results from Channel 4.

Auditors' remuneration

Fees in respect of services provided by the auditors were:

	2012 £000	2011 £000
Audit of these financial statements	**74**	72
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**63**	72
Other audit related and assurance	**75**	74
Total audit and assurance	**212**	218
Taxation compliance services	**122**	80
All other services	**32**	55
Total other services	**154**	135
Auditors' remuneration	**366**	353

In addition to the above services £21,500 (2011: £21,300) is payable to the group's auditors who acted as auditors to the Channel Four Television Staff Pension Plan.

The appointment of auditors 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.

Notes to the financial statements continued

4. Other items

The following items were presented separately in the income statement in 2011.

Revaluation of freehold property – reversal of previous impairments
Freehold land and buildings were revalued as at 31 December 2011 resulting in an increase in fair value of £17 million to £56 million. Of the increase, £6 million was recorded in the income statement to the extent that it reversed previous impairments recorded in the income statement. The remaining £11 million was recognised as a gain on revaluation in the Statement of Other Comprehensive Income.

Freehold land and buildings were revalued as at 31 December 2012 to £62 million, resulting in an increase of £7 million recognised as a gain on revaluation in the Statement of Other Comprehensive Income.

Past service pension cost credit
In July 2010 the Government announced that the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) should be used for the statutory revaluation of deferred pensions. As at 31 December 2010 a constructive obligation was considered to exist between the Corporation and the members of the pension plan to provide benefits based on RPI until the change was formally communicated. The change in valuation method was communicated to the members of the scheme in June 2011. The valuation of the scheme liabilities as at 31 December 2011 included CPI as the inflation measure for the deferred members for the first time, resulting in a cost credit of £11 million. There were no similar items in 2012.

Notes to the financial statements continued

5. Employee expenses and information

A detailed analysis of members' remuneration, including salaries and variable pay, is provided in the report on members' remuneration on pages 183–187.

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

	Group 2012 £m	Group 2011 £m	**Channel 4 2012 £m**	Channel 4 2011 £m
Aggregate gross salaries	**55**	52	**55**	37
Employer's national insurance contributions	**6**	6	**6**	4
Employer's defined benefit pension contributions (note 21)	**3**	4	**3**	4
Employer's defined contribution pension contributions	**1**	1	**1**	1
Total direct costs of employment	**65**	63	**65**	46

In addition to the above, in 2012 £1 million was expensed to the income statement in respect of restructuring initiatives to increase operational efficiency within the group (2011: £5 million). All employee costs are borne by Channel 4 in 2012 as a result of the internal transfer of activities from 4 Ventures Ltd to Channel 4 (page 110).

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

	2012 £000	2011 £000
Total remuneration of highest paid employee (page 185)	**744**	701
Total remuneration of median employee	**51**	55
Multiple of highest paid to median employee	**14.6**	12.7

Total remuneration is defined as base salary, variable pay, employer pension contribution and other benefits. All figures are full-time equivalents and are annualised at the reporting date.

FINANCIAL REPORT AND STATEMENTS

Notes to the financial statements continued

5. Employee expenses and information continued

The average number of employees, including executive members, were as follows:

	2012 Number	2011 Number
4Broadcast		
Programme commissioning	**225**	221
Advertising and sponsorship sales and research	**190**	188
Marketing and creative services	**100**	99
Corporate affairs and press office	**34**	34
Information systems	**46**	45
Corporate and strategy	**21**	21
Transmission and engineering	**27**	15
Finance, human resources and facilities management	**68**	69
4Talent	**16**	5
	727	697
4Rights	**68**	66
Group employees	**795**	763
Permanent employees	**716**	688
Contract staff	**79**	75
	795	763
Male	**334**	331
Female	**461**	432
	795	763

Travel, subsistence and hospitality expenditure was as follows:

	2012 £000	2011 £000
Members	**59**	47
Channel 4	**2,150**	2,018
	2,209	2,065

Staff loans outstanding at 31 December were as follows:

	2012 £000	2011 £000
Season ticket loans	**217**	270

There were no loans to members.

Notes to the financial statements continued

6. Net finance income/(expense)

Net finance income recognised in the year comprised:

	2012 £m	2011 £m
Interest receivable on short-term deposits	**2**	3
Expected return on plan assets (note 21)	**11**	13
Financial income	**13**	16
Interest on pension scheme liabilities (note 21)	**(12)**	(13)
Other financing costs	**–**	(1)
Financial expense	**(12)**	(14)

7. Income tax expense

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

	2012 £m	2011 £m
Current tax:		
Current year	**–**	6
Adjustment for prior years	**(1)**	–
	(1)	6
Deferred tax: origination and reversal of temporary differences		
Current year	**1**	4
Prior year	**–**	–
Income tax expense	**–**	10
Share of income tax of investments accounted for using the equity method	**1**	1
Total income tax expense	**1**	11

Corporation tax is charged at the standard UK rate of 24.5% for the year (2011: 26.5%).

Notes to the financial statements continued

7. Income tax expense continued

	2012 %	2012 £m	2011 %	2011 £m
Profit /(loss) after tax		**(27)**		35
Total income tax expense		**–**		10
		(27)		45
Income tax of investments accounted for using equity method		**1**		1
Profit excluding income tax		**(26)**		46
Income tax using the domestic corporation tax rate	**24.5%**	**(6)**	26.5	12
Effects of:				
Non-deductible expenses		**1**		1
Non-taxable gains		**(1)**		(2)
Deferred tax not recognised		**6**		
Other tax adjustments		**–**		–
Income tax adjustments	**–**	**–**	23.3	11

Current tax assets and liabilities

The current tax liability of £1 million (2011: £4 millon) represents the amount of income tax payable in respect of current and prior periods (note 17).

Deferred tax recognised directly in other comprehensive income

The following movement in deferred tax has been recognised directly in other comprehensive income and is shown in the Statement of Comprehensive Income:

	2012 £m	2011 £m
Relating to employee benefits	**(5)**	–
Deferred tax recognised in other comprehensive income	**(5)**	–

Notes to the financial statements continued

8. Investments in subsidiaries

Subsidiaries
The cost of investments at 31 December was:

	Channel 4 2012 £000	Channel 4 2011 £000
4 Ventures Ltd	**1**	1

4 Ventures Ltd is a 100% owned subsidiary of Channel 4. On 1 January 2012 a number of activities were transferred to Channel 4 (page 110).

At the balance sheet date 4 Ventures Ltd owned more than 50% of the issued share capital of the following companies either directly or indirectly*, each of which was incorporated in Great Britain:

	Activity	Issued ordinary £1 shares	Ownership %
FilmFour Ltd	Film distribution	1,000	100
Life One Broadcasting Ltd	Non-trading	1,000	100
Life Two Broadcasting Ltd*	Non-trading	1,000	100
Life Showcase Ltd*	Non-trading	1,000	100
Channel 4 Radio Ltd	Non-trading	1	100
Channel 4 Radio Services Ltd*	Non-trading	1	100

FilmFour Ltd sells rights from its film library to Protagonist Pictures Ltd (note 10).

It is the members' intention to wind up Life One Broadcasting Ltd, Life Two Broadcasting Ltd and Life Showcase Ltd following the transfer of their broadcast licences to Channel 4 on 1 January 2012 (page 110).

As Channel 4 Radio Ltd and Channel 4 Radio Services Ltd are not trading, it is the members' intention to wind up these entities.

Notes to the financial statements continued

9. Investments accounted for using the equity method

Box Television Ltd

Box Television Ltd (Box) broadcasts a number of music television channels on free to air and pay platforms. The investment reflects 500 ordinary shares of £1, representing 50% of the share capital of Box.

Impairment tests on the investment in Box are carried out annually or if indications arise of a possible impairment.

The recoverable amounts of the goodwill and intangible assets in Box are determined based on their value in use.

An impairment review was carried out by estimating the future expected cashflows for Box until 2017 using a pre-tax discount rate of 11% (2011: 10%), reflecting the group's estimated cost of capital for its commercial television segments and comprising a risk-free rate of 2.1% (2011: 2.0%), an equity risk premium of 6.9% (2011: 7.0%), and a sector premium of 2.0% (2011: nil). Cashflows were based on management's best estimate of future performance to 2016 and flat growth into perpetuity, reflecting management's cautious view of the long term potential in music viewing 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.

The broadcast licence acquired as part of the investment in Box is amortised over the duration of the licence period (eight years). This amount is included within the carrying value of the investment.

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.

The carrying value of the group's investment in Box was as follows:

	2012 £m	2011 £m
Carrying value at 1 January	**26**	26
Share of post acquisition profits, net of income tax	**2**	3
Amortisation	**(1)**	(1)
Share of dividends received	**(2)**	(2)
Total carrying value at 31 December	**25**	26

	Current assets £m	**Long term assets £m**	**Current liabilities £m**	**Long term liabilities £m**	**Revenue £m**	**Expenses £m**
2012						
Box Television Ltd	**13**	**–**	**(6)**	**–**	**37**	**(33)**
2011						
Box Television Ltd	18	–	(10)	–	37	(28)

Notes to the financial statements continued

9. Investments accounted for using the equity method continued

The following of the group's joint ventures are not-for-profit, cost-sharing organisations, each of which is incorporated in Great Britain. The group recognises its share of the funding contributions of these organisations in the appropriate line in the income statement in the period to which they relate.

Broadcasters' Audience Research Board Ltd (BARB)
BARB is a company limited by guarantee. Channel 4 is a joint member along with the BBC, ITV Network Ltd, Channel 5 Broadcasting Ltd, BSkyB plc and the IPA.

Clearcast Ltd
Channel 4 holds one ordinary £1 share in Clearcast Ltd, representing 16.7% of the share capital. ITV Network Ltd, BSkyB plc, Channel 5 Broadcasting Ltd, GMTV Ltd and Turner Entertainment Networks International Ltd own the remaining 83.3%. Clearcast Ltd is responsible for the pre-transmission examination and clearance of television advertisements.

Digital 3 and 4 Ltd
Channel 4 holds 1,000 A class ordinary £1 shares in Digital 3 and 4 Ltd, representing 50% of the share capital. ITV Network Ltd owns the other 50%. Digital 3 and 4 Ltd has been granted a licence by Ofcom to operate the Channel 3 and Channel 4 digital terrestrial multiplex. At 31 December 2012, Channel 4's share of the net assets of Digital 3 and 4 Ltd amounted to £1,000. The company acts as an agent for its shareholders.

DTT Multiplex Operators Ltd (DMOL)
DMOL is a company limited by guarantee. The group is a member via its share in Digital 3 & 4 Ltd. The other members are the BBC, National Grid Wireless plc and SDN Ltd.

DTV Services Ltd
Channel 4 holds 6,000 ordinary £1 shares in DTV Services Ltd, representing 20% of the share capital. The BBC, National Grid Wireless, BSkyB plc and ITV Network Ltd own the remaining 80%. DTV Services Ltd is the company responsible for marketing the Freeview digital terrestrial TV network.

Parliamentary Broadcasting Unit Ltd
Channel 4 holds one share in the Parliamentary Broadcasting Unit Ltd, representing 11.1% of the share capital. The BBC owns four shares and ITV Network Ltd, BSkyB plc, Channel 5 Broadcasting Ltd and Park Square (Leeds) Nominees Ltd each own one share.

Thinkbox Ltd
Channel 4 holds 3,000 ordinary £1 shares representing 14% of the share capital. Channel 5 Broadcasting Ltd, GMTV Ltd, ITV plc, BSkyB plc, Turner Broadcasting and Viacom Brand Solutions Ltd hold the remainder of the shares. Thinkbox Ltd is the television marketing body for the main UK commercial broadcasters.

In addition, the group contributed towards the operating cost of the following joint venture. Service fees payable to this joint venture under the terms of the shareholder agreement are recognised in the Income Statement in the period to which they relate.

YouView TV Ltd
Channel 4 holds 600 shares, representing 14.3% of the share capital. The BBC, ITV Broadcasting Ltd, Channel 5 Broadcasting Ltd, BT plc, Talk Talk Telecom Group plc and Arqiva Ltd own the remaining 85.7%. YouView is responsible for developing, supporting and promoting a set of software standards and enabling technologies, based on a convergence of DTT and IPTV technologies, which allow for the development of competing TV platforms.

Notes to the financial statements continued

10. Equity investments

Channel 4

On 1 January 2012 the investment in Box Television Ltd was transferred to Channel Four Television Corporation from 4 Ventures Ltd, a wholly owned subsidiary, at its carrying value of £28 million (page 110).

The investment in Box Television Ltd is recorded on Channel Four Television Corporation's balance sheet at historical cost. The balance as at 31 December 2012 was £28 million.

Group

Equity investments held for the group comprise:

	2012 £m	2011 £m
At 1 January	**2**	2
At 31 December	**2**	2

Espresso Broadband Ltd

£1.5 million of the equity investments held by the group at 31 December 2012 relate to a 10% equity holding in Espresso Broadband Ltd, a producer and distributor of digital education programming, held since March 2007.

Protagonist Pictures Ltd

£0.1 million of the equity investments held by the group reflect a 15% equity holding in Protagonist Pictures Ltd.

Other

The group further holds investments in School of Everything Ltd, AudioBoo Ltd, ScraperWiki Ltd and MyBuilder Ltd. These are recorded at nil value as at 31 December 2012.

Notes to the financial statements continued

11. Property, plant and equipment

	Channel 4	Channel 4	Other	Group
	Freehold land and building £m	Fixtures, fittings and equipment £m	Fixtures, fittings and equipment £m	Total £m
Cost or valuation				
At 1 January 2011	40	95	10	145
Additions	–	13	1	14
Revaluation	16	–	–	16
At 31 December 2011	**56**	**108**	**11**	**175**
At 1 January 2012	56	108	11	175
Additions	–	6	–	6
Transfer of assets	–	11	(11)	–
Revaluation	6	–	–	6
At 31 December 2012	**62**	**125**	**–**	**187**
Depreciation				
At 1 January 2011	–	89	9	98
Charge for the year	1	3	–	4
Revaluation	(1)	–	–	(1)
At 31 December 2011	**–**	**92**	**9**	**101**
At 1 January 2012	–	92	9	101
Charge for the year	1	5	–	6
Transfer of assets	–	9	(9)	–
Revaluation	(1)	–	–	(1)
At 31 December 2012	**–**	**106**	**–**	**106**
Net book value				
At 1 January 2011	40	6	1	47
At 31 December 2011	**56**	**16**	**2**	**74**
At 1 January 2012	56	16	2	74
At 31 December 2012	**62**	**19**	**–**	**81**

Commitments to purchase property, plant and equipment are detailed in note 20. There were no material assets held under finance leases at the balance sheet date. No assets have been pledged for security (2011: none).

Notes to the financial statements continued

11. Property, plant and equipment continued

Valuation of freehold property

The freehold property at 124 Horseferry Road, London, SW1P 2TX, was valued at 31 December 2012 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 £62 million (2011: £56 million). After depreciation charged on the open market value at 31 December 2012 (£1 million), a gain on revaluation of £7 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:

	2012 £m	2011 £m
Cost	**62**	62
Accumulated depreciation	**(17)**	(16)
Impairment	**(6)**	(6)
Net book value based on cost	**39**	40

Notes to the financial statements continued

12. Intangible assets

	Channel 4 Developed software £m	Channel 4 Broadcasting licence £m	Other Broadcasting licence £m	Group Total £m
Cost				
At 1 January 2011	19	–	5	24
Internally developed	1	–	–	1
At 31 December 2011	**20**	**–**	**5**	**25**
At 1 January 2012	20	–	5	25
Transfer of assets	–	5	(5)	–
Internally developed	3	–	–	3
At 31 December 2012	**23**	**5**	**–**	**28**
Amortisation				
At 1 January 2011	16	–	3	19
Amortisation for the year	1	–	1	2
At 31 December 2011	**17**	**–**	**4**	**21**
At 1 January 2012	17	–	4	21
Transfer of assets	–	4	(4)	–
Amortisation for the year	1	1	–	2
At 31 December 2012	**18**	**5**	**–**	**23**
Carrying amount				
At 1 January 2011	3	–	2	5
At 31 December 2011	**3**	**–**	**1**	**4**
At 1 January 2012	3	–	1	4
At 31 December 2012	**5**	**–**	**–**	**5**

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 under IAS 38 'Intangible Assets'. Assets are amortised on a straight line basis over two to five years from the date the asset becomes available for use. The amortisation charge for developed software is recognised in the income statement (note 3).

The Broadcasting licences acquired as part of the acquisition of Life One Broadcasting Ltd on 30 April 2007 (note 8) were considered to have a useful economic life of six years. On 1 January 2012 the licence was transferred to Channel Four Television Corporation at its carrying value (page 110). These licences have been amortised on a straight line basis over this period and were fully amortised at the balance sheet date.

Notes to the financial statements continued

13. Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised at 23% (2011: 25%), reflecting the corporation tax rate substantially enacted as at 31 December 2012. The UK Government has announced a phased reduction in the main corporation tax rate to 21%.

	Assets 2012 £m	Assets 2011 £m	**Liabilities 2012 £m**	Liabilities 2011 £m	**Net 2012 £m**	Net 2011 £m
Property, plant and equipment	**2**	2	**–**	–	**2**	2
Intangible assets – internally developed software	**–**	–	**(1)**	(1)	**(1)**	(1)
Employee benefits	**9**	5	**–**	–	**9**	5
Other short term timing differences	**–**	1	**–**	–	**–**	1
Channel 4 deferred tax assets/(liabilities)	**11**	8	**(1)**	(1)	**10**	7
Other short term timing differences	**–**	–	**–**	(1)	**–**	(1)
Group deferred tax assets/(liabilities)	**11**	8	**(1)**	(2)	**10**	6

Unrecognised deferred tax assets and liabilities

Deferred tax assets have not been recognised in respect of:

	2012 £m	2011 £m
Revaluation of freehold land and buildings	**–**	2
Carried forward capital losses	**1**	1
Carried forward trading losses	**7**	1
Tax assets	**8**	4

Unrecognised deferred tax assets include trading and capital 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 in the near future against which the deductible temporary difference can be utilised.

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 31 Dec 11 £m	**Recognised in income £m**	**Recognised in other comprehensive income £m**	**Recognised in joint venture £m**	**Balance at 31 Dec 12 £m**
Property, plant and equipment	2	–	–	–	2
Intangible assets – internally developed software	(1)	–	–	–	(1)
Employee benefits	5	(1)	5	–	9
Other short term timing differences	1	–	–	(1)	–
Channel 4 deferred tax assets/(liabilities)	**7**	**(1)**	**5**	**(1)**	**10**
Other short term timing differences	(1)	**–**	–	1	–
Group deferred tax assets/(liabilities)	**6**	**(1)**	**5**	**–**	**10**

The movement recognised in other comprehensive income includes a reduction in the deferred tax asset of £nil as a result of the change in the deferred tax rate.

Notes to the financial statements continued

13. Deferred tax assets and liabilities continued

	Balance at 31 Dec 10 £m	Recognised in income £m	Recognised in other comprehensive income £m	Recognised in joint venture £m	Balance at 31 Dec 11 £m
Property, plant and equipment	2	–	–	–	2
Intangible assets – internally developed software	(1)	–	–	–	(1)
Employee benefits	9	(4)	–	–	5
Other short term timing differences	1	–	–	–	1
Channel 4 deferred tax assets/(liabilities)	**11**	**(4)**	**–**	**–**	**7**
Other short term timing differences	(1)	–	–	–	(1)
Group deferred tax assets/(liabilities)	**10**	**(4)**	**–**	**–**	**6**

14. Programme and film rights and other inventories

	Group 2012 £m	Group 2011 £m	**Channel 4 2012 £m**	Channel 4 2011 £m
Programmes and films completed but not transmitted	**91**	83	**91**	75
Acquired programme and film rights	**50**	49	**50**	37
Programmes and films in the course of production	**75**	72	**75**	66
Other inventories	**3**	2	**3**	–
Programme and film rights and other inventories	**219**	206	**219**	178

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

Programme rights and other inventories to the value of £596 million were recognised as expenses in the year (2011: £570 million). Of this amount, obsolete programmes and developments written off totalled £26 million for the group (2011: £29 million) and £26 million for Channel 4 (2011: £25 million).

Other inventories represent amounts held within the 4Rights segment for DVDs.

The increase in Channel 4 programme and film rights and other inventories includes the internal transfer of activities from 4 Ventures Ltd to Channel 4 (page 110).

Notes to the financial statements continued

15. Trade and other receivables

	Group 2012 £m	Group 2011 £m	**Channel 4 2012 £m**	Channel 4 2011 £m
Trade receivables	**142**	174	**142**	114
Prepayments and accrued income	**27**	23	**27**	13
Distribution and producer advances	**4**	2	**4**	–
Trade and other receivables	**173**	199	**173**	127

Trade receivables are shown net of impairment charges amounting to £0.3 million (2011: £0.5 million) 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 £4 million (2011: £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.

The increase in Channel 4 trade and other receivables includes the internal transfer of activities from 4 Ventures Ltd to Channel 4 (page 110).

16. Cash and cash equivalents

	Group 2012 £m	Group 2011 £m	**Channel 4 2012 £m**	Channel 4 2011 £m
Bank balances	**23**	23	**23**	23
Money market funds*	**114**	167	**114**	167
Money market deposits maturing in less than three months	**36**	56	**36**	56
Cash and cash equivalents	**173**	246	**173**	246
Money market deposits maturing after three months	**40**	34	**40**	34
Investment funds	**48**	10	**48**	10
Other financial assets	**88**	44	**88**	44

*Amounts held in money market funds are repayable within seven days.

Notes to the financial statements continued

17. Trade and other payables and current tax liabilities

	Group 2012 £m	Group 2011 £m	**Channel 4 2012 £m**	Channel 4 2011 £m
Trade payables	**16**	13	**16**	13
National insurance	**1**	1	**1**	1
Other creditors	**37**	35	**37**	35
Amounts due to subsidiaries	**–**	–	**146**	96
Accruals	**197**	201	**196**	130
VAT	**16**	24	**16**	14
Trade and other payables	**267**	274	**412**	289
Corporation tax	**1**	4	**–**	–
Current tax liabilities	**1**	4	**–**	–

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 Director of Finance, who will ensure that they are investigated and responded to appropriately.

The number of days taken to pay suppliers of services in 2012, as calculated using average payable balances, was 6 for both the group and Channel 4 (2011: 7). 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.

The increase in Channel 4 trade and other payables includes the internal transfer of activities from 4 Ventures Ltd to Channel 4 (page 110).

Notes to the financial statements continued

18. Provisions

	Group and Channel 4		
	Onerous contracts £m	Restructuring costs £m	Total £m
At 1 January 2011	7	–	7
Utilised in the year	(4)	–	(4)
Charged to the income statement	–	5	5
At 31 December 2011	**3**	**5**	**8**
At 1 January 2012	3	5	8
Utilised in the year	(1)	(5)	(6)
Charged to the income statement	1	1	2
At 31 December 2012	**3**	**1**	**4**

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

	2012 Group and Channel 4 £m	2011 Group and Channel 4 £m
Current	**1**	4
Non-current	**3**	4
	4	8

Onerous contracts
The provision relates to the rental deficit on a building which is surplus to requirements but for which we have contracted commitments at the balance sheet date. The property rental agreement is set to expire in 2020. The provision represents the discounted net cash flows of the property rental agreement until its expiry in 2020. An amount of £0.4 million (2011: £0.4 million) has been recognised as an interest cost relating to the passage of time of the discounted provision.

Restructuring costs
The restructuring provision as at 31 December 2012 relates to costs associated with the restructuring initiatives undertaken to improve the operational efficiency of the group. The provision held at the balance sheet date is expected to be fully utilised in 2013.

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 financial statements continued

19. Derivatives and other financial instruments

In accordance with IFRS 7 'Financial Instruments: Disclosures', Channel 4 is required to provide disclosures about the nature and extent of risks arising from financial instruments.

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

The Board is responsible for approving the treasury policy for the group. The group's treasury and funding activities are undertaken by a treasury function which reports to the Director of Finance. 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. 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 these risks. The group's policy is not to engage in speculative financial transactions. The group does not seek to apply hedge accounting. Group treasury operates within clearly defined objectives and controls and is subject to periodic review by the business assurance function (page 173).

Foreign currency risk
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 6). 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 below within the analysis of the group's and Channel 4's cash and deposits.

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 profit before tax would have been £0.1 million lower/higher (2011: £0.2 million).

Interest rate risk and exposure
The group invests surplus cash in fixed rate money market deposits, high interest bank accounts and variable net asset value money market funds. Funds are invested only with an agreed list of organisations 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 0.1% lower/higher throughout the year, with all other variables held constant the group's profit before tax would have been £0.2 million lower/higher (2011: £0.3 million).

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

Notes to the financial statements continued

19. Derivatives and other financial instruments continued

The interest rate profile of the group's and Channel 4's cash and deposits at 31 December 2012 and 31 December 2011 is set out below:

Interest rate risk

2012	Group and Channel 4 Effective interest rate %	Group and Channel 4 Total £m
Cash and cash equivalents		
Interest bearing deposits maturing in less than three months held in Sterling	0.5	172
Interest bearing deposits maturing in less than three months held in foreign currencies	0.1	1
	0.3	**173**

2011	Group and Channel 4 Effective interest rate %	Group and Channel 4 Total £m
Cash and cash equivalents		
Interest bearing deposits maturing in less than three months held in Sterling	0.7	245
Interest bearing deposits maturing in less than three months held in foreign currencies	0.2	1
	0.6	**246**

2012	Group and Channel 4 Effective interest rate %	Group and Channel 4 Total £m
Other financial assets		
Money market deposits maturing after three months held in Sterling	0.6	40

2011	Group and Channel 4 Effective interest rate %	Group and Channel 4 Total £m
Other financial assets		
Money market deposits maturing after three months held in Sterling	1.2	34

Notes to the financial statements continued

19. Derivatives and other financial instruments continued

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 adequate to support the group's medium-term funding requirements.

Trade and other payables are shown in note 17. The value of trade and other payables at 31 December 2012 was £267 million for the group (2011: £274 million) and £412 million for Channel 4 (2011: £289 million). The fair value of these financial liabilities equals their book values. The contractual cash flows are equal to the carrying amount and are classified as payable within six months or less at 31 December 2012 and 2011.

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 Director of Finance. 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 exposure on page 157.

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 £142 million for the group (2011: £174 million) and £142 million for Channel 4 (2011: £114 million), with £88 million of other financial assets for both the group and Channel 4 (2011: £44 million) and cash and cash equivalents for both the group and Channel 4 of £173 million (2011: £246 million).

The maximum exposure to credit risk for trade receivables at the balance sheet date by geographical region for the UK was £142 million for the group (2011: £173 million) and £142 million for Channel 4 (2011: £114 million). The maximum exposure to credit risk for trade receivables for other regions for the group and Channel 4 was £nil (2011: £1 million).

Notes to the financial statements continued

19. Derivatives and other financial instruments continued

Trade receivables of £142 million for the group (2011: £174 million) and £142 million for Channel 4 (2011: £114 million) were aged under six months. Included in receivables due under six months are receivables of £142 million for the group (2011: £166 million) and £142 million for Channel 4 which were not yet due under standard credit terms at the balance sheet date (2011: £114 million). £112 million of the receivables of the group and Channel 4 were insured at the balance sheet date (2011: £113 million) and £132 million has been subsequently collected by the group and Channel 4 since the balance sheet date.

The allowance for impairment of trade receivables was £0.3 million at the balance sheet date (2011: £0.5 million).

Capital structure and management
Channel 4 is a statutory corporation without shareholders. Whilst returns to shareholders are therefore not relevant, the group maintains cash reserves to help protect against short term fluctuations in revenue and meet its business objectives in a timely and efficient manner. The group is committed to efficient utilisation of the cash resources at its disposal to generate an appropriate return taking into account the liquidity needs of the business and the scope of treasury policy.

Derivative financial instruments
At 31 December 2012, the total value of forward contracts used as economic hedges of monetary liabilities was £14 million (2011: £12 million). This represents 14 Euro and 1 US Dollar forward purchase contracts. All of these contracts had a fixed maturity date with settlement within 12 months from the balance sheet date. At the 2012 year end, these have been revalued with reference to forward exchange rates based on maturity. The change in fair value of £0.4 million has been recognised in the income statement and the associated liability recorded on the balance sheet as at 31 December 2012.

Fair values
The table below sets out a comparison of book values and corresponding fair values of all the group's financial instruments by class:

	2012 Book value £m	**2012 Fair value £m**	2011 Book value £m	2011 Fair value £m
Financial assets				
Cash and cash equivalents (note 16)	**173**	**173**	246	246
Other financial assets (note 16)	**88**	**88**	44	44
Trade and other receivables (note 15)	**173**	**173**	199	199
Investments accounted for using equity method (note 9)	**25**	**25**	26	26
Equity investments (note 10)	**2**	**2**	2	2
	461	**461**	517	517
Financial liabilities				
Trade and other payables (note 17)	**267**	**267**	274	274

Notes to the financial statements continued

19. Derivatives and other financial instruments continued

The investment in Box Television Ltd is recorded at historical cost on the balance sheet of Channel Four Television Corporation. The book and fair value as at 31 December 2012 is £28 million.

As there is no publicly traded market for the equity investments held, the members believe that valuation at cost is a reasonable approximation of fair value.

The major methods and assumptions used in estimating the fair values of the group's financial instruments are summarised below.

Forward exchange contracts
The fair value of forward exchange contracts is based on their quoted market price.

Trade and other receivables/payables
For trade and other receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are estimated as the present value of future cash flows discounted at the market rate of interest at the reporting date.

Interest rates used for determining fair value
The group's cost of capital at the reporting date is used to discount future cash flows to determine the fair value of financial assets and liabilities.

Except where otherwise stated, the disclosures in respect of derivatives and other financial instruments for Channel 4 are the same as for the group.

Notes to the financial statements continued

20. Commitments

a) Programme and film commitments

At 31 December, committed future expenditure for programmes and films due for payment were as follows:

	Group 2012 £m	Group 2011 £m	**Channel 4 2012 £m**	Channel 4 2011 £m
Within one year	**296**	279	**245**	245
After one year	**297**	203	**234**	166
	593	482	**479**	411

b) Digital 3 and 4 Ltd commitments

Under the terms of the shareholder agreement for Digital 3 and 4 Ltd, Channel 4 is committed to meeting its share of contracted costs entered into by that company. Digital 3 and 4 Ltd's exact annual monetary commitment is dependent upon the timing of the roll-out of the digital transmission network.

Channel 4's share of Digital 3 and 4 Ltd's committed payments was £23 million in 2012 and is forecast to be £30 million in 2013. Digital 3 and 4 Ltd has entered into long term distribution contracts that expire in 2022 and 2034 and Channel 4 is committed to funding its contractual share.

c) Operating lease commitments

At 31 December, the group had total commitments under non-cancellable operating leases, all of which were for land and buildings, as set out below:

	2012 £m	2011 £m
Operating leases which expire:		
Within one year	**–**	–
Within two to five years	**1**	1
After five years	**11**	20
	12	21

The group leases office space in a number of properties in the UK under operating leases expiring between 2015 and 2020. Annual rentals of £1 million were charged to the income statement in respect of this property in 2012, partly offset by the utilisation of onerous contract provisions. The total future rental commitment amounts to £12 million. Where possible vacant office space has been sublet by the group, with the minimum future payments receivable amounting to £7 million on sub-leases expiring between 2019 and 2020.

Notes to the financial statements continued

20. Commitments continued

d) Capital commitments

At 31 December, the group had contracted commitments, as set out below:

	2012 £m	2011 £m
Property, plant and equipment		
Contracted but not provided in the financial statements	**1**	2

e) Other commitments

Under the terms of the shareholder agreement for YouView TV Ltd (note 9), Channel 4 is committed to meeting its share of contracted costs entered into by that company.

Notes to the financial statements continued

21. Employee benefits – pensions

The group operates a defined benefit pension scheme – the Channel 4 Television Staff Pension Plan (the Plan), providing benefits based on final salary for employees.

The amounts recognised in the group and Channel 4 balance sheets are as follows:

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of funded obligations	**(284)**	(249)	(238)	(221)	(170)
Fair value of plan assets	**244**	228	202	176	149
Recognised liability for defined benefit obligations	**(40)**	(21)	(36)	(45)	(21)

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

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of scheme assets at 1 January	**228**	202	176	149	167
Expected return on plan assets	**11**	13	11	9	12
Benefits paid	**(4)**	(4)	(9)	(3)	(3)
Employer contributions net of charges*	**6**	13	10	6	4
Employee contributions net of charges	**1**	1	1	1	2
Actuarial gain on plan assets	**2**	3	13	14	(33)
Fair value of scheme assets at 31 December	**244**	228	202	176	149

*The employer contribution includes an additional contribution of £5 million paid in December 2011 and £3 million paid in December 2010.

The fair value of the plan assets and the return on those assets were as follows:

	2012 Actual return £m	2011 Actual return £m	2010 Actual return £m	2009 Actual return £m	2008 Actual return £m	**2012 Actual return %**	2011 Actual return %	2010 Actual return %	2009 Actual return %	2008 Actual return %	**2012 Actual value £m**	2011 Actual value £m	2010 Actual value £m	2009 Actual value £m	2008 Actual value £m
Equities	**7**	(9)	17	20	(28)	**9.5**	(8.2)	19.5	28.5	(26.3)	**64**	74	102	98	77
Bonds	**6**	25	8	3	7	**5.2**	21.3	9.0	2.5	11.2	**179**	144	94	74	69
Other	**–**	–	–	–	–	**–**	–	–	–	–	**1**	10	6	4	3
	13	16	25	23	(21)						**244**	228	202	176	149

Notes to the financial statements continued

21. Employee benefits – pensions continued

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

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of scheme liabilities at 1 January	**249**	238	221	170	176
Current service cost	**3**	5	5	4	6
Past service cost	**–**	(11)	–	–	–
Gain on curtailments	**–**	–	(1)	–	(1)
Employee contributions net of charges	**1**	1	1	2	1
Interest on pension scheme liabilities	**12**	13	13	10	10
Benefits paid	**(4)**	(4)	(9)	(3)	(3)
Actuarial (gain)/loss on plan liabilities	**23**	7	8	38	(19)
Present value of scheme liabilities at 31 December	**284**	249	238	221	170

Expense recognised in the income statement:

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Current service cost	**3**	5	5	4	6
Past service cost credit	**–**	(11)	–	–	–
Gain on curtailments	**–**	–	(1)	–	(1)
Interest on pension scheme liabilities	**12**	13	13	10	10
Expected return on plan assets	**(11)**	(13)	(11)	(9)	(12)
Net (credit)/charge to income statement	**4**	(6)	6	5	3

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

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Cost of transmission and sales	**2**	(5)	4	3	3
Other operating expenditure	**1**	(1)	1	1	1
Net financial (income)/cost	**1**	–	1	1	(1)
Net charge to income statement	**4**	(6)	6	5	3

Notes to the financial statements continued

21. Employee benefits – pensions continued

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Experience (loss)/gain on plan liabilities	**(23)**	(7)	(8)	(38)	19
Experience gain/(loss) on plan assets	**2**	3	13	14	(33)
Actuarial gain/(loss)	**(21)**	(4)	5	(24)	(14)

The cumulative amount of net actuarial losses recognised in the Statement of Comprehensive Income since transition to IFRS is £61 million.

Principal actuarial assumptions at the balance sheet date

	2012 %	2011 %	2010 %	2009 %	2008 %
Discount rate	**4.45**	4.81	5.42	5.75	6.00
Rate of increase in salaries	**2.50**	2.90	4.00	4.50	3.65
Rate of increase in pensions	**3.00**	3.10	3.50	3.60	2.75
Inflation	**3.00**	3.10	3.50	3.60	2.75
Expected return on plan assets – equities	**7.00**	7.00	8.20	8.40	7.00
Expected return on plan assets – bonds	**3.55**	3.90	4.80	5.00	5.00
Expected return on plan assets – cash	**2.00**	2.00	1.00	1.00	3.00

	2012 years	2011 years	2010 years	2009 years	2008 years
Life expectancy from 60 (now aged 40) – male	**28.5**	28.4	28.4	28.3	28.3
Life expectancy from 60 (now aged 40) – female	**29.3**	29.2	29.2	29.2	29.1
Life expectancy from 60 (now aged 60) – male	**26.9**	26.8	26.8	26.7	26.6
Life expectancy from 60 (now aged 60) – female	**28.2**	28.2	28.1	28.1	28.0

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. It is estimated that if the discount rate was increased/decreased by 0.1% points at the balance sheet date the net liability for defined benefit obligations would have been £7 million lower/higher.

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 1 January 2009 and this valuation was subsequently updated at 1 January 2010. The results of the valuation at 1 January 2010 showed that the scheme's assets represented 85% of the benefits that had accrued to members, reflecting a deficit of £30 million. The next triennial valuation will be performed as of 1 January 2013.

Following the valuation and discussions with the Actuary to the Plan, the Trustees and the Board agreed to continue to pay additional monthly contributions of £0.3 million during 2012 to reduce the Plan's funding deficit.

The estimated employer contributions in 2013 are £7 million.

Notes to the financial statements continued

22. Related party transactions

Details of transactions in which members have an interest are disclosed on page 116. Details of members' remuneration are shown in the remuneration report on pages 183–187.

Subsidiary undertakings
On 1 January 2012 Channel 4 acquired the activities of 4 Ventures Limited (page 110). At 31 December 2012 Channel 4 owed subsidiary undertakings £146 million (2011: £96 million).

Joint ventures
During 2012, Channel 4 received a dividend of £2 million (2011: £2 million) from Box Television Ltd (Box). Channel 4 also sold £8 million (2011: £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 2012 (2011: £2 million) in respect of these services. Channel 4 paid £1 million (2011: £1 million) to Box in 2012 and owed Box £0.1 million at 31 December 2012 (2011: £0.1 million).

Channel 4 paid £1 million of funding to Clearcast Ltd (2011: £1 million), £20 million to Digital 3 and 4 Ltd for digital terrestrial transmission services (2011: £17 million), £2 million to BARB for research services (2011: £2 million), £1 million to Thinkbox TV Ltd for marketing services (2011: £1 million) and £2 million to DTV Services Ltd for marketing services (2011: £1 million). Channel 4 also received £1 million from Digital 3 and 4 Ltd and £0.1 million from Digital UK Ltd in service fees. No amounts were due to or from these companies at 31 December 2012 (2011: £nil).

Channel 4 also recognised equal revenue and expense of £5 million with DTV Services Ltd (2011: £5 million), £1 million with Thinkbox TV Ltd (2011: £1 million) and £2 million with YouView Ltd (2011: £nil), reflecting the group's contribution of promotional airtime in respect of marketing services with these companies. No amounts were due from or owed to these companies at 31 December 2012 (2011: £nil).

Channel 4 paid £7 million in respect of fees (2011: £5 million) and received £0.3 million in respect of management services and brand royalty fees (2011: £1 million) to other joint ventures. No amounts were due from these entities as at 31 December 2012 (2011: £nil).

Equity investments
During 2012, Channel 4 received £0.2 million brand fee income from Espresso Education Ltd (2011: £0.4 million). No amounts were owed to Channel 4 at 31 December 2012 (2011: £0.1 million).

Channel 4 also paid £0.2 million to Protagonist Pictures Ltd for agency sales and film acquisition services (2011: £0.2 million). No amounts were due at 31 December 2012 (2011: £nil).

Corporate governance

The Board is committed to high standards of corporate governance. The members have decided to prepare voluntarily 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 2010, and the disclosure and transparency provisions of the Listing Rules of the Financial Services 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 on page 170.

Statement of members' responsibilities in respect of the Annual Report and the Financial Statements of Channel Four Television Corporation (the 'Corporation')

The members are responsible for preparing the Annual Report and the group and 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 and the Corporation in accordance with IFRSs as adopted by the EU and the requirements of Chapter 4 of Part 15 of the Companies Act 2006 as if the Corporation were a company incorporated under that Act.

The members accept responsibility for approving the financial statements only after they are satisfied that they give a true and fair view of the state of affairs of the group and Corporation and of their profit or loss for that period. In preparing each of the group and 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 IFRSs 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 Corporation's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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 decided to prepare voluntarily a Members' 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 Corporation.

The members are responsible for ensuring compliance with the requirements of Schedule 9 of the Communications Act 2003, as set out on page 176. 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.

Corporate governance continued

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 (as amended by the Digital Economy Act 2010) 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 re-appointment of the Chief Executive
- confirmation of the appointment and re-appointment of the other executive members nominated by the Chief Executive and the Chairman acting jointly
- banking arrangements and loan facilities
- any significant proposal outside the ordinary course of Channel 4's business
- the appointment and re-appointment of the statutory auditors
- 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.

The roles of the Chairman and Chief Executive

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

The Chairman has the responsibility of leading the Board in setting the values and standards of Channel 4 and of maintaining a relationship of trust with and between the executive and non-executive members. The Chairman is responsible for, among other things:

- 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.

Corporate governance continued

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 2012, Lord (Terry) Burns continued as Chairman and David Abraham continued as Chief Executive.

Senior independent member

Lord Hall was appointed Deputy Chairman and senior independent member on 1 February 2012 replacing Lord Puttnam after the expiry of his term on 31 January 2012. Lord Hall resigned his position on the Board on 25 November 2012.

Members and members' independence

The names of the 2012 Board members, together with their brief biographies, are set out on pages 179–182.

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 Chairman's professional commitments are included in his biography. These do not adversely affect his role with Channel 4.

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
- receives remuneration other than their member's fee (although attention is drawn to the related party transactions on page 116)
- 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
- has (with the exception of Lord Hall, who was appointed on 1 April 2005 and resigned on 25 November 2012) served on the Board for more than six years from the date of their first election.

Board members and executive nominations

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 Chairman 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 Chairman acting jointly
- the Board Secretary is appointed jointly by the Chairman and Chief Executive.

Corporate governance continued

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 Chairman on all governance matters.

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

Corporate governance continued

Board meetings

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

		Number of meetings attended		
	Appointed/resigned/retired	Board	Audit committee	Remuneration committee
Executives				
David Abraham		9 (9)	3 (3)	4 (4)
Anne Bulford	resigned 26 February 2013	8 (9)	3 (3)	3 (4)
Jay Hunt		9 (9)	–	–
Jonathan Allan		9 (9)	–	2 (2)
Dan Brooke	appointed 1 February 2012	8 (8)	–	–
Non-executives				
Lord Burns		9 (9)	3 (3)	4 (4)
Lord Puttnam	retired 31 January 2012	–	–	–
Lord Hall	resigned 25 November 2012	8 (8)	–	4 (4)
Monica Burch		8 (9)	3 (3)	–
Alicja Lesniak		8 (9)	3 (3)	–
Mark Price		7 (9)	–	3 (4)
Richard Rivers		8 (9)	–	4 (4)
Paul Potts	appointed 1 January 2012	9 (9)	2 (2)	–
MT Rainey	appointed 1 January 2012	9 (9)	2 (2)	–
Josie Rourke	appointed 1 January 2012	7 (8)	–	–
Martha Lane Fox	retired 31 January 2012	–	–	–

Figures in brackets indicate the maximum number of meetings in the period in which the individual was a Board/ committee member.

Corporate governance continued

Internal control

In accordance with good corporate governance practice the Board:

- is responsible for the company's system of internal control
- sets appropriate policies on internal control
- 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.

Control environment
Clear management responsibilities are established for the executive members. The Corporation has a Code of Conduct and a suite of policies and procedures which encompass ethical behaviour, conduct and internal controls.

Risk management
In addition to its requirements under Schedule 9 of the Communications Act 2003 set out on page 176, the Board and management have a clear responsibility for the identification of risks facing the Corporation and for putting in place procedures to monitor and mitigate such risks. The Board and Executive 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 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 business review of the members on pages 113 and 114.

Editorial and compliance
Channel 4 has a long established compliance culture which is fully integrated to 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 Producer's Handbook which encompasses the Ofcom Broadcasting Code, other relevant regulations, media law and best practice guidelines. This is supported by extensive training to both staff and independent producers. At the heart of Channel 4's creative risk-taking and compliance is the editorial 'reference-up' procedure, 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.

Management systems
Detailed annual budgets and business plans are prepared for each area of the business, and are approved by the Board. Monthly management reports are produced, comparing actual income and expenditure with budget and prior year. Full year forecasts are prepared throughout the year. These reports are monitored by the members, and explanations are provided for all significant variances.

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 through assurance reviews provided to the audit committee.

Internal audit
During 2012, 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.

Corporate governance continued

The audit committee reviews the output and performance of business assurance and reports these to the Board.

Remuneration committee

During 2012 the remuneration committee comprised Richard Rivers (Chair), Mark Price and Lord Hall (appointed 1 February 2012, resigned 25 November 2012). The remuneration committee met four times during the year.

All the members of the committee are independent non-executive members. The Chairman of the Board, the Chief Executive and the Chief Operating Officer amongst others attend meetings as appropriate. No executive member attends meetings of the remuneration committee at times when any aspect of his or her remuneration or terms of employment is being discussed.

The committee's principal responsibilities are:

- to recommend to the Board the level of any annual salary increases, variable pay awards payable where applicable and the structure of remuneration for executive members and senior management
- to review any other significant change in Channel 4's remuneration package
- to monitor Channel 4's pension fund arrangements and related employee benefits. In particular, the remuneration committee considers the pension consequences and associated costs to Channel 4 of basic salary increases and any other changes in pensionable remuneration, especially for members close to retirement.

Further details concerning members' remuneration are shown in the report on members' remuneration on pages 183–187.

Audit committee

During 2012 the audit committee comprised Alicja Lesniak (Chair), Martha Lane Fox (retired 31 January 2012), Monica Burch, Paul Potts (appointed 1 June 2012) and MT Rainey (appointed 1 June 2012). The audit committee met three times during the year.

All the members of the committee are independent non-executive members. At the committee Chairman's invitation, the Chairman of the Board, the Chief Executive, the Chief Operating Officer, Director of Finance, the Head of Business Assurance and the KPMG LLP external audit partner (amongst others) attended meetings of the committee.

The external audit partner and Head of Business Assurance have direct access to the Chairman of the audit committee as required. In 2012 the committee had at least one member possessing recent and relevant experience. Alicja Lesniak FCA is a chartered accountant and was, until 2009, Chief Financial Officer of Aegis plc.

Other members of the committee bring to it a wide range of experience from positions at the highest level.

The committee's key responsibilities are:

- 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
- to review Channel 4's internal financial controls and Channel 4's internal control and risk management systems
- to make recommendations to the Board in relation to the appointment, reappointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors
- to review and monitor the external auditors' 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 auditors 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
- to regularly update the Board about the audit committee's activities and make appropriate recommendations

Corporate governance continued

- to ensure the Board is aware of matters that may significantly impact on the financial condition or affairs of the business
- to monitor and review the effectiveness of Channel 4's business assurance function and activities.

If necessary, the audit committee can instigate special investigations and, if appropriate, engage special counsel or experts to assist. The committee meets with the executive members and management and the Chairman of the audit committee meets privately with the external auditors and Head of Business Assurance.

In 2012 the committee discharged its responsibilities by:

- reviewing the group's draft financial statements for the year ended 31 December 2011 prior to Board review and approval and reviewing the external auditors' detailed reports thereon
- reviewing the appropriateness of the group's accounting policies
- reviewing regularly the potential impact in the group's financial statements of certain matters such as asset impairments
- reviewing and approving the audit fee and reviewing non-audit fees payable to the group's external auditors
- reviewing the external auditors' plan for the audit of the group's accounts, key risks on the accounts, confirmations of auditors' independence and the proposed audit fee
- reviewing and approving the annual business assurance plan and findings of business assurance reviews
- reviewing the effectiveness of Channel 4's risk management framework and internal controls framework
- reviewing the findings of the independent reporting accountants concerning compliance with the arrangements under Schedule 9 of the Communications Act 2003.

Channel 4 will not use its external auditors to provide other services unless it is efficient and effective to do so. A summary of the fees earned by KPMG LLP in respect of services provided in 2012 is shown in note 3 to the financial statements. KPMG also makes an annual statement to the audit committee to confirm its independence within the meaning of regulatory and professional requirements.

The audit committee also monitors the group'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. Mechanisms are in place to allow employees to report perceived wrongdoing.

Pension plan

There are six trustees of the Channel Four Television Staff Pension Plan who meet several times each year, and with the Plan's investment managers, Legal & General Assurance (Pensions Management) Ltd, Henderson Global Investors Ltd, Veritas Funds plc and F&C Fund Management Ltd at least once a year.

During the year the trustees were Alicja Lesniak; two of Channel 4's executives, Anne Bulford (Chief Operating Officer) and Diane Herbert (Director of Human Resources); two member-nominated trustees, Julie Kortens (Head of Corporate Services) and Neil Pepin (Deputy Head of Legal and Compliance); Independent Trustee Services were appointed on 18 July 2012 as the independent trustee to the plan, replacing Louise Botting who resigned on 23 February 2012.

Anne Bulford resigned as a Trustee on 19 March 2013. Glyn Isherwood, Director of Finance, will be formally nominated as Channel 4's representative at the next meeting of theTrustees.

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.

PricewaterhouseCoopers were appointed to be the independent party to review the Channel's procedures. Reviews were conducted of all processes and procedures in relation to *The British Comedy Awards 2012* and *Stand Up To Cancer*. The members are satisfied that Channel 4 has in place suitable procedures to fulfil the requirements of paragraph 3b of the Licence.

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 has appointed Deloitte LLP to review compliance with the Arrangements and their report is shown on page 177. Copies of the Arrangements are available from the Board Secretary and at channel4.com.

Corporate governance continued

Independent reporting accountants' 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 2012 with the arrangements approved by Ofcom in January 2012 under section 2 of Schedule 9 of the Communications Act 2003.

This report is made solely to Channel Four Television Corporation and Ofcom in accordance with our letter of engagement dated 20th December 2012 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 21st February 2013), 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 2012 and report to you our independent conclusion as to whether they have done so.

Basis of opinion
We carried out our work in accordance with International Standard on Assurance Engagements 3000 Assurance Engagements. 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 primary functions and which fall under 4Ventures Limited.

Corporate governance continued

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 2012. 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 2012.

Deloitte LLP
Chartered Accountants
London
27 March 2013

Members

Non-executive members

Current

Chairman
Lord Burns GCB
Appointed as Chairman on 28 January 2010, his initial appointment ran until January 2013 and has been extended to January 2016.

Lord Burns is Chairman of Santander UK plc and is a non-executive director of Banco Santander SA. He is a non-executive member of the Office for Budget Responsibility and Chairman of the Governing Board of the Royal Academy of Music.

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 Advisor 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 advisor to the Secretary of State for Culture, Media and Sport on the previous BBC Charter Review. He has also been Chairman of Marks and Spencer plc, Glas Cymru Ltd (Welsh Water) and the National Lottery Commission, and a non-executive director of Pearson Group, The British Land Company plc and Legal & General plc.

Monica Burch
Monica Burch joined the Board on 1 October 2010. Monica is Senior Partner of law firm Addleshaw Goddard LLP, and chairs the firm's Board. Monica also chairs the firm's Charitable Trust and is a board member of charitable organisation PRIME, which promotes fair and equal access to quality work experience in the legal profession.

Monica is a partner in Addleshaw Goddard's litigation practice where she heads contentious IP. Prior to her appointment as Senior Partner in 2011, Monica was a Board member for six years. She also sat on the Management Board of predecessor firm Theodore Goddard.

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.

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 is a Fellow of the Institute of Chartered Accountants in England and Wales. She joined the Board on 1 October 2010. Alicja is also Senior Independent Director and Chair of the Audit and Remuneration Committees of Next 15, an AIM listed worldwide digital communications group, and a non-executive Director of SThree plc, a specialist permanent and contract staffing business.

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.

Mark Price
Mark was appointed to the Board on 1 October 2010. Mark joined John Lewis Partnership in 1982 as a graduate trainee. He held numerous posts before becoming Managing Director of Waitrose in April 2007. Prior to this, in 2005 Mark was appointed as the Partnership Development Director (responsible for Strategy amongst other things) when he became a member of the Partnership Board. In January 2011 Mark became Chairman of Business in the Community, a post he will hold for three years. He is also Chairman of the Prince's Countryside Fund.

Richard Rivers
Joined the Board on 1 October 2010. Richard Rivers is a former Chief of Staff and Head of Corporate Development at Unilever. As well as his role as a non-executive Board 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.

Members continued

Paul Potts
Joined the Board on 1 January 2012. 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 (CBE) 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 Chairman of the Board of Governors at St Anselm's School.

MT Rainey
Joined the Board on 1 January 2012. MT (Mary Teresa) Rainey was founder and CEO of top UK advertising agency Rainey Kelly Campbell Roalfe/Y&R. She resigned from her role as Chair of the company in 2005 to start a digital social enterprise, horsemouth.co.uk. Horsemouth.co.uk is an online social network for informal mentoring and now has 45,000 active members.

MT is also an investor in and Chairman of the fast growing digital agency Th_nk. In a voluntary capacity, MT is Vice Chair of Skillset, the Sector Skills Council for the Creative Industries, sits on the National Skills Commission and on The Advisory Board of NCVO. She is a former Chairman of Marketing Group of Great Britain and is a regular speaker on communications, media and digital industry issues.

Josie Rourke
Joined the Board on 1 January 2012. Josie was born and educated in Salford, read English at Cambridge and trained at the Donmar Warehouse, where she returned as Artistic Director in 2012. Between 2007 and 2011 she was Artistic Director of the Bush Theatre, which was recognised as Theatre of the Year in 2011.

Her other work as a director includes productions at the Young Vic, the Royal Court, Sheffield Theatre (where she was Associate Director), the Royal Shakespeare Company, the Chicago Shakespeare Theatre, the National Theatre and in the West End. Productions as Artistic Director of the Donmar include: *The Recruiting Officer*, *The Physicists* and *Berenice*.

Retired
Lord Puttnam
Joined the Board in February 2006. His term ended on 31 January 2012.

David Puttnam spent thirty years as an independent producer of award-winning films including *The Mission, The Killing Fields, Local Hero, Chariots of Fire, Midnight Express, Bugsy Malone* and *Memphis Belle*, but retired from film production in 1998 to focus on his work in public policy as it relates to education, the environment and 'creative and communications' industries. He founded the national Teaching Awards in 1998, and served as first Chair of the General Teaching Council 2000–2002. He was President of UNICEF UK 2002–2009.

He is chairman of Atticus Education, an online education company he founded to deliver interactive seminars on film and a variety of other subjects to educational institutions around the world. He is Chair of TSL Advisory Board, Chancellor of the Open University, President of the Film Distributors' Association, Deputy Chairman of Profero and a trustee of the Eden Project. He was recently appointed Prime Minister's Trade Envoy to Vietnam, Laos and Cambodia.

He was created a Life Peer in 1997, and has received more than 40 honorary degrees from universities in the UK and overseas.

Martha Lane Fox
Joined the Board in February 2006. Her term ended on 31 January 2012.

Martha is currently the UK Digital Champion. She chairs the charity Go On UK and the Government Digital Service Advisory Board. Martha was the co-founder of lastminute.com, Europe's largest travel and leisure site, which was sold to Sabre Holdings in 2005. Martha founded Lucky Voice in 2004, which is transforming the world of karaoke both online and offline, and her own grant-giving foundation, Antigone, in 2005. Martha is a non-executive director at Marks and Spencer, MyDeco.com and the Cabinet Office's Efficiency and Reform board. Martha is also a Patron of Reprieve, Just for Kids Law, Camfed and AbilityNet.

Members continued

Executive members

Current

David Abraham

David Abraham became Channel 4's sixth Chief Executive when he took up his post in May 2010.

David joined Channel 4 from UKTV, where he was appointed Chief Executive in April 2007. During his first year at UKTV he masterminded the launch of Dave, which laid the foundation for rebranding the entire UKTV network.

Prior to this, David worked at Discovery Networks USA, where, as President and General Manager for TLC from 2005, he was responsible for overseeing all content investment and strategy for the leading US cable network. Before heading to the US David was General Manager of Discovery Networks UK for four years from 2001.

David began his career in 1984 as a graduate trainee in advertising after taking a degree in Modern History from Oxford University. In the 1990s he was a founding partner and Chief Operating Officer at leading independent advertising agency St Luke's.

David is a Board member of Skillset.

Jay Hunt

Jay Hunt became Chief Creative Officer (CCO) of Channel 4 in January 2011 from her position as Controller BBC One. Jay's commissions during this time include critically acclaimed shows such as: *Sherlock*, *Luther*, *Mrs Brown's Boys*, *The Day the Immigrants Left* and *Bang Goes the Theory*.

From joining the BBC as a researcher on *Breakfast News* in 1989, she worked on *Newsnight* and *Panorama*, and then went on to be the Editor of both the *One O'Clock News* and *Six O'Clock News*. In 2005 Jay become Controller of BBC Daytime, where she strengthened the factual output with RTS Award-winning shows such as *Through Hell and High Water* and *The Estate We're In*. She also launched a huge range of new programmes including *Great British Menu*, *Heir Hunters*, *Real Rescues*, *Animal 24:7* and *Put Your Money Where Your Mouth Is*, which continue to perform well with audiences.

As Director of Programmes at Channel 5 in 2008, she commissioned a number of successful returning features shows including *Cowboy Builders* and *Extreme Fishing with Robson Green*.

Jonathan Allan

Appointed as Director of Sales on 13 September 2011. Jonathan graduated from Newcastle University in Economics and immediately joined a full service agency, Cravens Advertising, in the city. He joined the TV department at the major London media agency, OMD UK, in 1995 and was appointed to the board as TV Director in January 2000. He then moved into planning for a number of years and was appointed Deputy Managing Director in February 2005 and in January 2007 he became Managing Director, reporting into CEO, Steve Williams.

Jonathan Allan is also on the board of Thinkbox, the television marketing body.

Dan Brooke

Dan Brooke is Chief Marketing and Communications Officer, having re-joined Channel 4 in November 2010. He was appointed to the Board on 1 February 2012.

Dan left independent production company Rare Day, where he was Managing Director. Prior to this, he was Managing Director of Discovery Networks UK, leading it through a period of change and innovation with the launch of seven new channels, including its first Freeview channel and its first entertainment channel, as well as mobile and on-demand services.

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

Dan is also on the board of the NFTS and a Trustee of Britdoc, the Camden Arts Centre and the Mass Extinction Monitoring Observatory.

Members continued

Resigned
Anne Bulford
Anne Bulford joined Channel 4 as Group Finance Director in 2005 and was appointed Chief Operating Officer in 2010.

Previously, Anne had senior Finance roles at the Royal Opera House, Carlton Productions and the BBC. She qualified as a Chartered Accountant with KPMG and is a fellow of the Institute of Chartered Accountants.

Anne became an officer of the Order of the British Empire (OBE) in 2011.

Anne graduated from University College London where she was a lay member of Council and Honorary Treasurer until September 2012. She is a Trustee of the Motor Neurone Disease Association and of the Teacher Awards Trust. She was a non-executive member of the Ministry of Justice Corporate Management Board and Chair of the Corporate Audit Committee from 2008 to 2011, and Chair of Ofcom's Audit Committee from 2003 to 2005.

Board Secretary
Paula Carter joined Channel 4 as the first Viewers' Editor, before becoming Board Secretary in 2011. Her background includes experience in advertising, marketing, public and commercial broadcasting and digital media. She worked for the BBC for 10 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 Communicatons Bill and the Cabinet Office.

Paula is a magistrate on the Central Kent Bench and Chairman of Governors at St. Michael's Prep School in Otford, Kent.

Report on members' remuneration

Remuneration policy for executive members of the Board

The remuneration of executive Board members is determined by the remuneration committee, the membership and terms of reference of which are detailed on page 169. In framing its remuneration policy, the committee has given full consideration to the best practice provisions of the UK Corporate Governance Code.

The remuneration policy allows Channel 4 to attract, motivate and retain high calibre staff and executive team members by rewarding them with both fixed and variable pay. In setting the policy, the remuneration committee takes into account the packages offered at comparable levels in the television and wider media industry, where share option schemes are offered by Channel 4's commercial competitors.

The remuneration committee seeks to balance the fixed and variable elements of pay in such a way as to reward commercial success while being sensitive to the position that Channel 4 occupies as a publicly owned organisation.

The remuneration committee met at the end of 2011 to set targets for staff and executives for the 2012 financial year, which were designed to promote the long term success of the group, and which were consistent with investment plans for the year. The committee met again at the end of 2012 and early in 2013 once results were available to decide on variable pay. Most staff and members of the executive team participate in the Corporate Performance Scheme, the key quantitative targets for which are set out below.

The maximum amounts payable range from 10% for staff up to 30% for executive team members.

Objective	Target Range	Final result
Licence requirements	Meet	All met or exceeded
Financial performance	As budget	Exceeded
Main channel share	6.8% – 7.1%	6.6%
Portfolio share	11.6% – 11.9%	11.5%
Core registered viewers	2.4m – 3.2m	6.3m
Share of net advertising revenue – sales house (including UKTV and Box)	27.0% – 27.8%	27.4%

Achievement of at least the budgeted financial result for the year is a gateway to the scheme for all staff, and achievement of licence obligations is an additional gateway for executive team members and other senior managers. As both gates were passed in 2012, the remuneration committee met twice to consider what level of payments to make in the light of the results shown in the table above.

As well as the quantitative measures shown above, the remuneration committee used their discretion and judgement to allocate an amount to recognise the more qualitative elements of programme quality. The remuneration committee also wished to recognise that the Paralympics had been an exceptional success in 2012 involving huge effort across the Corporation and used their discretion to award an additional, one-off, across the board bonus of 2.5% or a minimum of £1,000 as a reward for both the effort that had been applied and successful outcomes. After detailed consideration of all the elements of the scheme, staff were awarded an amount equivalent to 7.5% of salary (75% of the maximum under the scheme) and to senior staff and executives an amount equivalent to between 14% and 19.5% of salary (69% and 65% of the maximum under the scheme), inclusive of the additional Paralympics Bonus, with final payments dependent on performance against agreed personal objectives. The award recognised the considerable achievements that had been made in the year, while taking account of the challenges ahead. In deciding on the final level of award, the remuneration committee were mindful of the restraint necessary for a publicly owned body at a time of considerable economic uncertainty.

Report on members' remuneration continued

Staff working within advertising sales, including Jonathan Allan, Director of Sales, have a dedicated Sales scheme, linked to advertising revenue and paid quarterly throughout the year based on performance. The maximum payable under the scheme in 2012 was 75% of salary and the average payout was £15,000.

In 2012, the remuneration committee determined that pay awards from 1 April 2012, made on the basis of personal performance, should not exceed 2.5% on average for the group. In 2013, the remuneration committee determined that the pay awards from 6 April 2013 should be in line with the 2012 average award and not exceed 2.5% of total salaries for the group.

The remuneration committee has determined that long-term incentive schemes should no longer form part of the package offered to the executive team or any other members of staff.

Service contracts

The service contracts of all the executive members are subject to notice periods of one year or less. 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.

Taxable benefits

Executive members are eligible for a range of taxable benefits, which include a pension allowance, car allowance and membership of a private medical insurance scheme (which is open to all staff). These benefits are not pensionable. In line with the group's expenses policy, no expenses claimed by executive members were chargeable to UK income tax.

Remuneration policy for non-executive members of the Board

Ofcom appoints non-executive Board members for fixed terms and determines their fees. They are entitled to reimbursement of travel and accommodation expenses incurred in connection with attending Board meetings. Service contracts are subject to a maximum of three years or less.

Report on members' remuneration continued

Members' remuneration

	Salary and fees £000	Variable pay £000	Benefits £000	**2012 Total £000**	2011 Total £000
Executive members					
David Abraham	515	100	129	**744**	701
Anne Bulford (resigned 26 February 2013)	375	73	41	**489**	456
Jay Hunt	390	116	36	**542**	487
Jonathan Allan	320	138	24	**482**	113
Dan Brooke (appointed 1 February 2012)	270	53	25	**348**	–
Andy Barnes (resigned 31 March 2011)	–	–	–	**–**	211
Jon Gisby (resigned 30 April 2010)	–	–	–	**–**	41
Non-executive members					
Lord Burns	100	–	–	**100**	100
Lord Puttnam (retired 31 January 2012)	2	–	–	**2**	30
Lord Hall (resigned 25 November 2012)	29	–	–	**29**	22
Monica Burch	22	–	–	**22**	22
Alicja Lesniak	22	–	–	**22**	22
Mark Price	22	–	–	**22**	22
Richard Rivers	22	–	–	**22**	22
Paul Potts (appointed 1 January 2012)	22	–	–	**22**	–
MT Rainey (appointed 1 January 2012)	22	–	–	**22**	–
Josie Rourke (appointed 1 January 2012)	22	–	–	**22**	–
Martha Lane Fox (retired 31 January 2012)	2	–	–	**2**	22
Stephen Hill (resigned 31 December 2011)	–	–	–	–	22
Total	2,157	480	255	**2,892**	2,293

The remuneration committee awarded David Abraham a 5% increase in salary effective from 1 January 2013. In 2011 he elected to reduce his maximum variable pay-out from 50% to 30% bringing him in line with other executive team members. David Abraham received an allowance of £128,625 in 2012 as part of his benefits package as a contribution to his personal pension plan (2011: £122,500).

Jay Hunt received £35,100 in 2012 as part of her benefits package as a contribution to her personal pension plan (2011: £34,000). Jay Hunt also received a separate bonus of £40,000 in 2012 which is included in her £116,000 variable pay figure. This was to recognise her outstanding contribution during 2012.

Jonathan Allan was appointed in September 2011 so has a full year of remuneration in 2012.

Mark Price does not retain his fees for his non-executive directorship. Mark has requested that his fee be paid over to Waitrose in accordance with Waitrose policy.

Report on members' remuneration continued

Pension

Until the closure of the scheme to new entrants, executive members were eligible for membership of the Channel Four Television Staff Pension Plan on the same basis as all other members of staff. The plan is contributory, at 7.5% of pensionable salary, and provides members with a pension based on 1/50th of final pensionable pay for each year of service up to a maximum of two-thirds of final pensionable earnings.

Non-executive members are not eligible for membership of the Channel Four Television Staff Pension Plan. During the year Anne Bulford left the Channel Four Television Staff Pension Plan.

The executive members of the plan during 2012 were as follows:

	Increase in accrued pension entitlement during 2011 £000	Total accrued pension entitlement at 31 December 2012 £000	Transfer value of increase in accrued pension entitlement less members' contributions £000	Transfer value at 1 January 2012 £000	Increase in transfer value less members' contributions £000	Members contributions during 2012 £000	Transfer value at 31 December 2012 £000
Anne Bulford	1	28	7	511	22	4	537

- the total accrued pension entitlement shown is that which would be paid annually on retirement from the age of 60 for benefits accrued up to 5 April 2010 and from the age of 65 for benefits accrued from 6 April 2010 to the date of leaving
- the accrued benefits for all members have been restricted as a result of the impact of HMRC's earnings cap
- all transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11
- the transfer values do not represent sums payable to individual members.

From 1 September 2007 the scheme was closed to new members. The benefits provided to the members of the Channel Four Television Staff Pension Plan (the Plan) are as follows:

- normal retirement age is 65
- there is a spouse's pension of one-half of a scheme member's pension in the event of death in retirement and of one-half of a scheme member's present expected pension in the event of death in service. There is an additional benefit equal to one-half of the benefit payable to the spouse in respect of each child up to the age of 18, or 23 if in full-time education, subject to a maximum of two children
- pensions in the course of payment, in excess of the Guaranteed Minimum Pension, increase at 5% per annum compound, or the increase in the retail prices index if lower
- scheme members who leave after being in the Plan for two years receive a benefit from normal retirement date preserved within the scheme, calculated as above, but relating to pensionable service and pensionable earnings up to the date of leaving
- an early retirement option exists from the age of 55. Any scheme member taking an early retirement option receives a pension at a discounted rate
- there are provisions for a member to exchange part of the retirement pension for cash.

Report on members' remuneration continued

Auditable information

The information in the remuneration and pension tables have been audited by Channel 4's auditors, KPMG LLP, in accordance with Schedule 8 of the Companies Act 2006 as if those requirements were to apply to Channel 4.

By Order of the Board

Lord Burns
Chairman
27 March 2013

Programmes and the licence

Sources of programmes

Channel 4

Channel 4 commissions programmes from qualifying independent producers and other companies and purchases programmes in the international markets. The source and cost of the programmes transmitted on the main Channel 4 service in 2012 are shown in the table below:

	2012 Hours	2011 Hours	**2012 £m**	2011 £m
Originated				
Qualifying independents	**4,046**	4,223	**315**	304
Other	**1,525**	1,153	**73**	69
	5,571	5,376	**388**	373
Acquired	**3,213**	3,384	**104**	122
Programmes total	**8,784**	8,760	**492**	495
Other direct programme costs			**7**	7
Total programme and other costs	**8,784**	8,760	**499**	502
All hours	**Hours**	Hours	**%**	%
Originated	**5,571**	5,376	**63**	61
Acquired	**3,213**	3,384	**37**	39
	8,784	8,760	**100**	100
Peak hours	**Hours**	Hours	**%**	%
Originated	**1,295**	1,295	**79**	79
Acquired	**352**	348	**21**	21
	1,647	1,643	**100**	100

Independent production companies are the most important source of originated programmes. A total of 257 qualifying independent (2011: 239) and 17 other companies (2011: 14) provided programmes transmitted on Channel 4 in 2012.

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 originated programming supplied by production companies outside the M25 in 2012 amounted to £152 million (2011: £143 million).

Programmes and the licence continued

Programme transmissions*

Channel 4

The main Channel 4 service broadcast 8,784 hours in 2012 (2011: 8,760) – 24 hours each day. The hours and costs of the channel's wide range of programme transmissions were as follows:

	2012 Hours	2011 Hours	**2012 £m**	2011 £m
Drama	**760**	1,020	**90**	98
Entertainment	**2,040**	1,734	**138**	127
Education	**2,364**	2,274	**96**	100
Feature films	**1,221**	1,214	**48**	65
Other factual	**183**	206	**24**	12
News	**234**	233	**23**	22
Current affairs	**217**	218	**20**	18
Documentaries	**153**	194	**14**	20
Arts and music	**336**	473	**9**	11
Sport	**884**	774	**21**	14
Quiz and gameshows	**359**	381	**7**	5
Religion	**33**	39	**2**	3
	8,784	8,760	**492**	495

*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.

E4, More4 and Film4

The E4 channel broadcasts for a total of 8,784 hours in 2012 (2011: 8,760 hours) with 100% of these hours being subtitled (2011: 100%) and 48% including audio description (2011: 35%).

The More4 channel broadcasts for 6,859 hours (2011: 6,918 hours) with 100% of these hours being subtitled (2011: 100%), and 24% including audio description (2011: 25%).

The Film4 channel broadcasts for 6,089 hours (2011: 6,064 hours) with 100% of these hours being subtitled (2011: 100%), and 27% including audio description (2011: 25%).

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 four breaches of its Code on standards in programmes by the main Channel 4 service in 2012 (2011: one). None was judged serious enough to merit a statutory sanction (2011: none). In 2012 two complaints about fairness/privacy in Channel 4's programmes was upheld (2011: one) and two complaints were upheld in part (2011: three).

E4, More4 and Film4

One recorded breach of the Code on standards in programmes was noted against More4 (2011: one) and one recorded breach of the Code on standards in programmes was noted against E4 in 2012 (2011: one). There were no recorded breaches of the Code on standards against Film4 in 2012 (2011: none). In 2012 no complaints about fairness/privacy were upheld against E4, More 4 or Film4 (2011: one upheld against More4).

Programmes and the licence continued

ASA

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 three breaches of the CAP code in 2012 (2011: none) relating to one billboard campaign. The breaches related to only two of four posters in this campaign. The ASA directed that neither of the two posters must appear again.

The licence

The wide range and diversity of programmes broadcast in 2012 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.

	Compliance minimum	**2012**	2011
Average hours per week			
News			
– in peak-time (6pm to 10.30pm)	4	**4**	4
Current affairs			
– overall	4	**4**	4
– in peak-time (6pm to 10.30pm)	2	**3**	2
Hours per year			
Schools	1	**24**	3
Percentage			
Original production			
– Overall	56	**63**	61
– in peak-time (6pm to 10.30pm)	70	**79**	79
Independent production*	25	**78**	83
European independent production*	10	**47**	52
European origin	50	**68**	69
Subtitling for the deaf and hard-of-hearing	90	**100**	100
Audio description	10	**26**	24
Signing	5	**5**	5
Regional production	35	**41**	42
Regional hours	35	**48**	48
Production in the nations	3	**5**	4
Nations hours	3	**7**	5

The 2012 Ofcom licence disclosure reflects Channel 4's Digital Replacement Licence (DRL) which came into force on 28 December 2004. This encompasses the requirements set out in the Communications Act 2004.

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

Several of the measures reflected in this section of the report are discussed in more detail on pages 111–112 of this report.

Historical record

	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	**2012 £m**
Consolidated results:										
Revenue	770	841	894	937	945	906	830	935	941	**925**
Operating profit/(loss)	56	60	57	14	(9)	(1)	4	49	41	**(29)**
Net financial income/(expense)	–	4	10	7	10	14	(2)	2	2	**1**
Share of profit/(loss) in joint venture	(11)	–	–	–	1	(3)	–	3	2	**1**
Profit/(loss) before taxation	45	64	67	21	2	10	2	54	45	**(27)**
Taxation	(11)	(19)	(18)	(7)	(1)	(8)	(2)	(15)	(10)	**–**
Profit/(loss) for the year	34	45	49	14	1	2	–	39	35	**(27)**

Figures for 2003 are shown under UK GAAP in force at the time. Figures for 2004 onwards are shown under Adopted IFRS.

Advertising sales

	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	**2012 £m**
Channel 4 sales house	662	720	769	777	825	790	707	819	939	**916**
Other	2,520	2,695	2,718	2,523	2,608	2,487	2,179	2,490	2,442	**2,430**
Total broadcast	3,182	3,415	3,487	3,300	3,433	3,277	2,886	3,309	3,381	**3,346**
	%	%	%	%	%	%	%	%	%	**%**
Channel 4 sales house share	20.8	21.1	22.1	23.5	24.0	24.1	24.5	24.8	27.8	**27.4**
Other share	79.2	78.9	77.9	76.5	76.0	75.9	75.5	75.2	72.2	**72.6**
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	**100.0**

Audience share (portfolio)

	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	**2012 %**
BBC (nine channels)	38.3	36.6	35.2	34.5	34.0	33.5	32.6	32.9	32.9	**33.6**
ITV (five channels)	24.6	24.1	24.0	22.9	23.1	23.2	23.1	22.9	23.1	**22.4**
Channel 4 excl S4C (six channels)	10.1	10.3	10.8	11.9	11.7	11.8	11.5	11.4	11.6	**11.5**
Channel Five (three channels)	6.5	6.6	6.4	5.9	6.0	6.1	6.1	5.9	5.9	**6.0**
Other (> 350 channels)	20.5	22.4	23.6	24.8	25.2	25.4	26.7	26.9	26.5	**26.5**
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 2012.
Source: BARB all individuals

Audience share

	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	**2012 %**
BBC1	25.6	24.7	23.3	22.8	22.0	21.8	20.9	20.8	20.7	**21.3**
BBC2	11.0	10.0	9.4	8.8	8.6	7.8	7.5	6.9	6.6	**6.1**
ITV and GMTV	23.7	22.8	21.5	19.6	19.2	18.4	17.9	17.0	16.6	**15.7**
Channel 4 excl S4C	9.4	9.6	9.6	9.6	8.6	8.1	7.4	7.0	6.8	**6.6**
Channel Five	6.5	6.6	6.4	5.7	5.2	5.0	4.9	4.5	4.4	**4.5**
Other	23.8	26.3	29.8	33.5	36.4	38.9	41.4	43.8	44.9	**45.8**
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

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Channel 4
Television Corporation
124 Horseferry Road
London SW1P 2TX

Telephone +44 (0) 20 7396 4444
channel4.com