Financial report & statements

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

Consolidated income statement for the year ended 31 December

	Note	Group 2013 £m	Group 2012 £m
Revenue	1	908	925
Cost of transmission and sales	2	(892)	(924)
Gross surplus		16	1
Other operating expenditure	3	(32)	(30)
Profit on sale of investments	8	1	–
Operating deficit		(15)	(29)
Financial income	5	12	13
Financial expense	5	(13)	(12)
Net finance (expense)/income		(1)	1
Share of profit of investments accounted for using the equity method, net of income tax and amortisation	7	–	1
Deficit before tax		(16)	(27)
Income tax credit	6	1	–
Deficit for the year		**(15)**	**(27)**

Statement of comprehensive income for the year ended 31 December

	Note	Group 2013 £m	Group 2012 £m
Deficit for the year		(15)	(27)
Net actuarial deficit on pension scheme	18	(1)	(21)
Revaluation of freehold land and buildings	9	12	7
Deferred tax on pension scheme recognised directly in other comprehensive income	11	–	5
Deferred tax on revaluation of freehold land and buildings recognised directly in other comprehensive income	11	(2)	–
Other comprehensive income/(cost) for the year		**9**	**(9)**
Total comprehensive cost for the year		**(6)**	**(36)**

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

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

	Retained earnings £m	Revaluation reserve £m	Total equity £m
At 1 January 2012	489	11	**500**
Deficit for the year	(27)	–	**(27)**
Other comprehensive (cost) / income	(16)	7	**(9)**
Total comprehensive (cost) / income for the year	**(43)**	**7**	**(36)**
At 31 December 2012	**446**	**18**	**464**
At 1 January 2013	446	18	**464**
Deficit for the year	(15)	–	**(15)**
Other comprehensive (cost) / income	(1)	10	**9**
Total comprehensive (cost) / income for the year	**(16)**	**10**	**(6)**
At 31 December 2013	**430**	**28**	**458**

Consolidated balance sheet as at 31 December

	Note	2013 £m	2012 £m
Assets			
Investments accounted for using the equity method	7	23	25
Equity investments	8	–	2
Freehold land and buildings	9	73	62
Fixtures, fittings and equipment	9	17	19
Intangible assets	10	3	5
Deferred tax assets	11	11	11
Total non-current assets		**127**	**124**
Programme and film rights and other inventories	12	224	219
Trade and other receivables	13	182	173
Corporation tax		1	–
Other financial assets	14	107	88
Cash and cash equivalents	14	131	173
Total current assets		**645**	**653**
Total assets		**772**	**777**
Liabilities			
Employee benefits – pensions	18	(39)	(40)
Provisions	16	(2)	(3)
Deferred tax liabilities	11	(3)	(1)
Total non-current liabilities		**(44)**	**(44)**
Trade and other payables	15	(269)	(267)
Corporation tax		–	(1)
Provisions	16	(1)	(1)
Total current liabilities		**(270)**	**(269)**
Total liabilities		**(314)**	**(313)**
Net assets		**458**	**464**
Revaluation reserve		28	18
Retained earnings		430	446
Total equity		**458**	**464**

The financial statements on pages 171–206 were approved by the Board of members on 26 March 2014 and were signed on its behalf by:

Lord Burns
Chairman

David Abraham
Chief Executive

The notes on pages 175–206 form part of these financial statements.

Consolidated cashflow statement for the year ended 31 December

	Note	Group 2013 £m	Group 2012 £m
Cashflow from operating activities			
Deficit for the year		(15)	(27)
Adjustments for:			
Income tax credit	6	(1)	–
Depreciation	9	6	6
Amortisation of intangibles	10	2	2
Net financial expense/(income)	5	1	(1)
Share of profit from investments accounted for using the equity method, net of income tax	7	–	(1)
Current service pension cost	18	3	3
Operating cashflow before changes in working capital and provisions		**(4)**	**(18)**
Changes in working capital and provisions:			
Increase in programme and film rights and other inventories	12	(5)	(13)
(Increase)/decrease in trade and other receivables	13	(10)	26
Increase/(decrease) in trade and other payables	15	2	(7)
Decrease in provisions, excluding unwinding of discounts	16	(1)	(4)
Cash expended on operations		**(18)**	**(16)**
Pension contributions	18	(6)	**(6)**
Tax paid		(1)	(2)
Net cashflow from operating activities		**(25)**	**(24)**
Cashflow from investing activities			
Proceeds from disposal of investment	8	2	–
Purchase of property, plant and equipment	9	(3)	(6)
Internally developed software	10	–	(3)
Interest received	5	1	2
Dividends received	7	2	2
Increase in other financial assets*	14	(19)	(44)
Net cashflow from investing activities		**(17)**	**(49)**
Net decrease in cash and cash equivalents		(42)	(73)
Cash and cash equivalents at 1 January		173	246
Cash and cash equivalents at 31 December		**131**	**173**

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

Group 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 2013 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 26 March 2014. The registered office of Channel 4 is 124 Horseferry Road, London, SW1P 2TX.

Basis of preparation

The financial statements of the Group have been prepared and approved by the members in accordance with International Financial Reporting Standards as adopted by the European Union (Adopted IFRSs). The Corporation's individual financial statements have been prepared in accordance with UK Accounting Standards, including the FRS 101 *Reduced Disclosure Framework*.

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

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

The preparation of financial statements in 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 summarised below:

Revenue recognition

Revenues are stated net of value added tax and are recognised when persuasive evidence of a sale exists, a service has been performed, and when collectability is reasonably assured. The key area of judgement on recognising revenue is the timing of recognition, which reflects the point or period when the Group has transferred the main risks and rewards of ownership to third parties. Channel 4's full revenue recognition policy is detailed on page 177.

Programme and film rights held for broadcast

Programme and film rights are stated at the lower of the direct cost incurred up to the balance sheet date and value to the Group. The cost of broadcast programmes and acquired films are wholly written off on first transmission, except for certain feature films, sports rights and certain acquired series, the costs of which are written off over more than one transmission in line with the expected value to the Group. The key area of judgement is estimating value to the Group, which is assessed both qualitatively and quantitatively, with reference to the quality of programme that has ultimately been delivered and its expected viewing performance. Channel 4's full programme and film rights policy is detailed on page 179.

Judgement is also required when estimating future revenues from distribution, when evaluating the carrying value of film rights held for exploitation.

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 cashflows are set out in the Strategic Report of the members (pages 132–143). As discussed on page 133, on 11 March 2014 Ofcom announced the renewal of Channel 4's licence. The new ten-year licence comes into effect in January 2015.

In addition, note 14 to the financial statements includes the Group's approach to financial risk management, including its financial instruments and hedging activities and its exposures to liquidity and credit risks.

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

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 7, 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.

Intra-Group balances and any unrealised gains and losses or income and expense arising from intra-Group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and 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.

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 standards became effective for the first time from 1 January 2013:

– IAS1 – Presentation of financial statements

– IFRS 13 – Fair value measurement

– IAS 19 (revised) – Employee benefits

A number of new standards, amendments to standards and interpretations have been issued and become effective on 1 January 2014, including

– IFRS 10 – Consolidated financial statements

– IFRS 11 – Joint arrangements

– IFRS 12 – Disclosure of interests in other entities

– IAS 27 – Separate financial statements

– IAS 28 – Investments in associates and joint ventures

None of the new standards above becoming effective on 1 January 2014 have been applied in relation to the 2013 financial statements. These standards are expected to have an impact on the consolidated financial statements of the Group. The extent of the impact will be assessed in detail in 2014 and will, among other things, include consideration of the accounting treatment of the equity investment held in Box Television Limited.

Group accounting policies continued

Revenue recognition

Revenues are stated net of value added tax and are recognised when persuasive evidence of a sale exists, a service has been performed, and when collectability is reasonably assured. The key area of judgement on recognising revenue is the timing of recognition, which reflects the point or period when the Group has transferred the main risks and rewards of ownership to third parties. For each of the Group's significant revenue streams, revenues are recognised as described below:

Advertising and sponsorship revenues

Revenues are stated net of advertising agency commissions.

Television advertising revenue 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 revenues are recognised on a straight line basis over the period of display of the advertisement, or if lower, as impressions are delivered.

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

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

Other revenues

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

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

DVD revenues are principally recognised when stock is delivered to retailers, net of a provision for anticipated returns based on historical trends and an assessment of market conditions at the balance sheet date. Consignment sales, when made, are recognised when the sales made to the ultimate customers can be reliably measured.

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

Segment reporting

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

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

Taxation

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

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

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

The following temporary timing differences are not provided for: the initial recognition of goodwill; the initial recognition of assets and liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries and 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.

Investments in associates and interests in jointly controlled entities

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 other comprehensive income 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 & 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. 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%

Freehold land is not depreciated.

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

Intangible assets 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.

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

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

Programme and acquired film rights

Direct cost

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

Value to the Group

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

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

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

Amortisation

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

Developed film rights

Direct cost

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

Value to the Group

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

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

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

Amortisation

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

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

Other inventories

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.

Other financial assets

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

Cash and cash equivalents

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

Foreign currency

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

Derivative financial instruments

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

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

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

Leases

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

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

Employee benefits – pensions

Defined benefit scheme

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

Actuarial gains and deficit 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.

We have recalculated the comparative figures for the year ending 31 December 2012 as required under IAS 19(R). There are no material restatements required in respect of this for either the income statement, other comprehensive income or the balance sheet.

Defined contribution scheme

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

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is 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.

1. Segment reporting

The reportable segments are shown in accordance with IFRS 8 'Operating Segments'. The segments are measured in a manner consistent with the management reports reviewed by the Board, which is considered to be the chief operating decision-maker. Summaries of the principal activities, products and services and financial performance for each segment are provided within the Strategic Report on pages 132–135.

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 154). 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 one individual external customer comprised more than 10% of the Group's revenues in 2013 amounting to £131 million (2012: three external customers amounting to £331 million). The Group's major customers are all media buying agencies and these revenues are attributable to the 4Broadcast segment. Approximately 3% of the Group's revenues (2012: 3%) are attributable to external customers outside the UK and these are therefore not separately presented.

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 2013	4Broadcast £m	4Rights £m	Other £m	Eliminations £m	Total £m
Programme and other content	(608)	(1)	–	–	(609)
Funded by:					
External sales	841	66	1	–	908
Inter-segment sales	1	–	–	(1)	–
Total revenue	**842**	**66**	**1**	**(1)**	**908**
Operating surplus/(deficit)	**(36)**	**20**	**1**	**–**	**(15)**
Net finance expense					(1)
Deficit before tax					**(16)**

Programme and content spend is funded by television advertising and other commercial operations. Programme and other content is comprised of investment into content across all services (the main channel, digital TV channels and digital media services) of £597 million, access services (subtitling, audio description and signing) and amounts due to collection societies.

The £15 million 2013 Group operating deficit includes investment in content and other strategic initiatives and is financed from reserves accumulated in prior years. A summary of the balance sheet and cash reserves is shown below.

Balance sheet as at 31 December 2013	4Broadcast £m	4Rights £m	Other £m	Eliminations £m	Total £m
Segment assets	798	133	36	(195)	772
Segment liabilities	(399)	(27)	(83)	195	(314)
Net assets/(liabilities)	**399**	**106**	**(47)**	**–**	**458**

Cashflow information	£m
Cash and cash equivalents at 1 January (note 14)	173
Other financial assets at 1 January (note 14)	88
Total cash and cash equivalents and other financial assets at 1 January 2013	**261**
Net cashflow from operating activities	(25)
Net cashflow from investing activities	2
Total cashflow	**(23)**
Cash and cash equivalents at 31 December (note 14)	131
Other financial assets at 31 December (note 14)	107
Total cash and cash equivalents and other financial assets at 31 December 2013	**238**

1. Segment reporting continued

Year ended 31 December 2012	4Broadcast £m	4Rights £m	Other £m	Eliminations £m	Total £m
Programme and other content	(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 surplus/(deficit)	**(52)**	**23**	**–**	**–**	**(29)**
Net finance income					1
Share of profit of investments accounted for using the equity method, net of income tax					1
Deficit before tax					**(27)**

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

Cashflow information	£m
Cash and cash equivalents at 1 January (note 14)	246
Other financial assets at 1 January (note 14)	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 14)	173
Other financial assets at 31 December (note 14)	88
Total cash and cash equivalents and other financial assets at 31 December 2012	**261**

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
2013							
4Broadcast	608	41	–	106	55	38	848
4Rights	1	6	–	4	31	2	44
Other	–	–	–	–	–	–	–
Eliminations	–	–	–	–	–	–	–
Group continuing operations	**609**	**47**	**–**	**110**	**86**	**40**	**892**

	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**

3. Other operating expenditure

Other operating expenditure includes:

	2013 £m	2012 £m
Depreciation of property, plant and equipment (note 9)	6	6
Amortisation of intangible assets (note 10)	2	2
Restructuring costs	2	1
Members' remuneration (page 165)	2	3
Operating lease rentals (note 17)	1	1
Other administrative expenses	19	17
Other operating expenditure	**32**	**30**

Auditor's remuneration

Fees in respect of services provided by the auditors were:

	2013 £000	2012 £000
Audit of these financial statements	125	74
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	15	63
Other audit-related and assurance	65	75
Total audit and assurance	**205**	**212**
Taxation compliance services	79	122
All other services	70	32
Total other services	**149**	**154**
Auditor's remuneration	**354**	**366**

In addition to the above services £21,500 (2012: £21,500) 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.

The fees in relation to the audit of the financial statements of the two trading subsidiaries of the Group, 4Ventures Ltd and FilmFour Ltd (page 210), were reduced in 2013. In 2012, reflecting the revised Arrangements under Schedule 9 of the Communications Act 2003, a significant proportion of the business and assets of 4 Ventures Ltd performing primary functions under the Act were transferred into the Corporation. As a result, a proportion of the audit work has been transferred into the audit of the Group.

4. 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 163–170.

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

	2013 £m	2012 £m
Aggregate gross salaries	55	55
Employer's national insurance contributions	6	6
Employer's defined benefit pension current service cost (note 18)	3	3
Employer's defined contribution pension contributions	2	1
Total direct costs of employment	**66**	**65**

In addition to the above, in 2013 £2 million was expensed to the income statement in respect of restructuring initiatives to increase operational efficiency within the Group (2012: £1 million).

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

	2013 £000	2012 £000
Total remuneration of highest paid employee (page 165)	739	744
Total remuneration of median employee	51	51
Multiple of highest paid to median employee	**14.5**	**14.6**

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

4. Employee expenses and information continued

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

	2013 Number	2012 Number
4Broadcast		
Programme commissioning	210	209
Advertising and sponsorship sales and research	191	190
Marketing, research and creative services	110	100
Corporate affairs and press office	36	34
Information systems	45	46
Corporate and strategy	17	21
Transmission and engineering	46	43
Finance, human resources and facilities management	68	68
4Talent	12	16
	735	727
4Rights	63	68
Group employees	**798**	**795**
Permanent employees	746	716
Contract staff	52	79
Group employees	**798**	**795**

We have restated the 2012 totals for programme commissioning and transmission and engineering for comparative purposes following a reallocation of employees between those departments in 2013.

5. Net finance income/(expense)

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

	2013 £m	2012 £m
Interest receivable on short-term deposits	1	2
Interest income on plan assets (note 18)	11	11
Financial income	**12**	**13**
Interest on pension scheme liabilities (note 18)	(13)	(12)
Financial expense	**(13)**	**(12)**

6. Income tax expense

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

	2013 £m	2012 £m
Current tax:		
Current year	–	–
Adjustment for prior years	(1)	(1)
	(1)	(1)
Deferred tax: origination and reversal of temporary differences		
Current year	(2)	1
Prior year	2	–
Income tax credit	(1)	–
Share of income tax of investments accounted for using the equity method	–	1
Total income tax (credit)/expense	**(1)**	**1**

Corporation tax is charged at the standard UK rate of 23.25% for the year (2012: 24.5%).

6. Income tax expense continued

Reconciliation of income tax:

	2013 %	2013 £m	2012 %	2012 £m
Deficit after tax		(15)		(27)
Total income tax credit		(1)		–
		(16)		(27)
Income tax of investments accounted for using equity method		–		1
Deficit excluding income tax		**(16)**		**(26)**
Income tax using the domestic corporation tax rate	23.25%	(4)	24.5%	(6)
Effects of:				
Non-deductible expenses		1		1
Non-taxable gains		–		(1)
Deferred tax not recognised		1		6
Other tax adjustments		1		–
Total income tax credit		**(1)**		**–**

Current tax assets and liabilities

The current tax asset of £1 million (2012: liability of £1 million) represents the amount of income tax recoverable in respect of current and prior periods.

7. 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 2018 using a pre-tax discount rate of 10% (2012: 11%), reflecting the Group's estimated cost of capital for its commercial television segments and comprising a risk-free rate of 3.0% (2012: 2.1%), an equity risk premium of 7.0% (2012: 6.9%), and a sector premium of nil (2012: 2.0%). Cashflows were based on management's best estimate of future performance to 2018 and flat growth into perpetuity, reflecting management's cautious view of the long term potential in music viewing in commercial television. The present value of the cashflows accruing to the Group was compared with the carrying value of the investment held on the balance sheet. No impairment was required as a result.

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

The broadcast licence acquired as part of the investment in Box is amortised over the duration of the licence period (8 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. During 2013, Channel 4 received a dividend of £2 million (2012: £2 million) from Box. Channel 4 also sold £8 million (2012: £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 2013 (2012: £1 million) in respect of these services. Channel 4 paid £nil (2012: £1 million) to Box in 2013 and owed Box £nil at 31 December 2013 (2012: £0.1 million).

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

	2013 £m	2012 £m
Carrying value at 1 January	**25**	26
Share of post acquisition profits, net of income tax	**1**	2
Amortisation	**(1)**	(1)
Share of dividends received	**(2)**	(2)
Total carrying value at 31 December	**23**	**25**

Summary annual financial information of investment in Box

	Current assets £m	Long term assets £m	Current liabilities £m	Long term liabilities £m	Revenue £m	Expenses £m
2013						
Box Television Ltd	**13**	**–**	**(6)**	**–**	**35**	**(31)**
2012						
Box Television Ltd	13	–	(6)	–	37	(33)

8. Equity investments

	2013 £m	2012 £m
At 1 January	2	2
Disposals	(2)	–
At 31 December	**–**	**2**

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

On 12 September 2013 the Corporation sold its investment in Espresso Broadband Ltd and received a consideration of £2.2 million. A profit on the sale of the investment was recognised of £0.7 million.

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 2013 (2012: £nil).

There is no difference between the fair value and book value of equity investments.

8. Equity investments continued

Other investments

Channel Four Television Corporation contributes to the funding of the following not-for-profit, cost-sharing organisations, each of which is incorporated in Great Britain. The group recognises its share of funding contributions of these organisations in the appropriate line in the income statement in the period to which they relate. The table below presents Channel 4's ownership of the entities, or legal guarantee (indicated with*), and transactions with them during the year.

2013	Ownership	Activity	Service fees received year ended 31 December £m	Funding & services provided year ended 31 December £m
Broadcasters' Audience Research Board Ltd	*	Research	–	2
Clearcast Ltd	16.70%	Regulator	–	1
Digital 3 and 4 Ltd	50.00%	Operator	1	30
DTT Multiplex Operators Ltd (DMOL)*	*	Platform	–	–
DTV Services Ltd	20.00%	Marketing	3	5
Digital UK*	*	Marketing	–	1
Thinkbox Ltd	20.00%	Marketing	1	2
YouView Ltd	14.30%	Platform	4	6

2012	Ownership	Activity	Service fees received year ended 31 December £m	Funding & services provided year ended 31 December £m
Broadcasters' Audience Research Board Ltd	*	Research	–	2
Clearcast Ltd	16.70%	Regulator	–	1
Digital 3 and 4 Ltd	50.00%	Operator	1	20
DTT Multiplex Operators Ltd (DMOL)*	*	Platform	–	–
DTV Services Ltd	20.00%	Marketing	5	7
Digital UK*	*	Marketing	–	–
Thinkbox Ltd	20.00%	Marketing	1	2
YouView Ltd	14.30%	Platform	2	7

There were no trade receivable or trade payable balances with any of the related parties listed above at 31 December 2013 or 31 December 2012. No dividends were received in 2013 (2012: £nil) from any of the related parties listed above.

9. Property, plant and equipment

	Freehold land and building £m	Fixtures, fittings and equipment £m	Total £m
Cost or valuation			
At 1 January 2012	56	119	175
Additions	–	6	6
Revaluation	6	–	6
At 31 December 2012	**62**	**125**	**187**
At 1 January 2013	62	125	187
Additions	–	3	3
Revaluation	11	–	11
At 31 December 2013	**73**	**128**	**201**
Depreciation			
At 1 January 2012	–	101	101
Charge for the year	1	5	6
Revaluation	(1)	–	(1)
At 31 December 2012	**–**	**106**	**106**
At 1 January 2013	–	106	106
Charge for the year	1	5	6
Revaluation	(1)	–	(1)
At 31 December 2013	**–**	**111**	**111**
Net book value			
At 1 January 2012	56	18	74
At 31 December 2012	**62**	**19**	**81**
At 1 January 2013	62	19	81
At 31 December 2013	**73**	**17**	**90**

Commitments to purchase property, plant and equipment are detailed in note 17. There were no material assets held under finance leases at the balance sheet date. No assets have been pledged for security (2012: none).

9. Property, plant and equipment continued

Valuation of freehold property

The freehold property at 124 Horseferry Road, London SW1P 2TX, was valued at 31 December 2013 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 that have taken place in recent months within the Victoria area of London.

The open market value for this property was £73 million (2012: £62 million). After depreciation charged on the open market value at 31 December 2013 (£1 million), a gain on revaluation of £12 million has been recognised in the statement of other comprehensive income.

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

	2013 £m	2012 £m
Cost	62	62
Accumulated depreciation	(18)	(17)
Impairment	(6)	(6)
Net book value based on cost	**38**	**39**

10. Intangible assets

	Developed software £m	Broadcasting licence £m	Total £m
Cost			
At 1 January 2012	20	5	25
Internally developed	3	–	3
At 31 December 2012	**23**	**5**	**28**
At 1 January 2013	23	5	28
Internally developed	–	–	–
At 31 December 2013	**23**	**5**	**28**
Amortisation			
At 1 January 2012	17	4	21
Amortisation for the year	1	1	2
At 31 December 2012	**18**	**5**	**23**
At 1 January 2013	18	5	23
Amortisation for the year	2	–	2
At 31 December 2013	**20**	**5**	**25**
Carrying amount			
At 1 January 2012	3	1	4
At 31 December 2012	**5**	**–**	**5**
At 1 January 2013	5	–	5
At 31 December 2013	**3**	**–**	**3**

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 broadcast licence represents the broadcasting licence acquired as part of the acquisition of Life One Broadcasting Ltd in 2007 and transferred to Channel 4 on 1 January 2012 at its carrying value and was fully amortised as of 31 December 2012.

11. Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised at 20% (2012: 23%) reflecting the corporation tax rate substantially enacted as at 31 December 2013. The UK government has announced a phased reduction in the main corporation tax rate to 20%.

	Assets 2013 £m	Assets 2012 £m	Liabilities 2013 £m	Liabilities 2012 £m	Net 2013 £m	Net 2012 £m
Property, plant and equipment	2	2	–	–	2	2
Intangible assets – internally developed software	–	–	–	(1)	–	(1)
Employee benefits	7	9	–	–	7	9
Carried forward trading losses	2	–	–	–	2	–
Revaluation of freehold land and buildings	–	–	(2)	–	(2)	–
Other short term timing differences	–	–	(1)	–	(1)	–
Group deferred tax assets / (liabilities)	**11**	**11**	**(3)**	**(1)**	**8**	**10**

Unrecognised deferred tax assets and liabilities

Deferred tax assets have not been recognised in respect of:

	2013 £m	2012 £m
Carried forward capital losses	1	1
Carried forward trading losses	7	7
Tax assets	**8**	**8**

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 12 £m	Recognised in income £m	Recognised in other comprehensive income £m	Balance at 31 Dec 13 £m
Property, plant and equipment	2	–	–	2
Intangible assets – internally developed software	(1)	1	–	–
Employee benefits	9	(2)	–	7
Carried forward trading losses	–	2	–	2
Revaluation of freehold land and buildings	–	–	(2)	(2)
Other short term timing differences	–	(1)	–	(1)
Group deferred tax assets / (liabilities)	**10**	**–**	**(2)**	**8**

The movement recognised in other comprehensive income includes a reduction in the deferred tax asset of £1 million as a result of the change in the deferred tax rate.

11. Deferred tax assets and liabilities continued

	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)	–
Group deferred tax assets/(liabilities)	**7**	**(1)**	**5**	**(1)**	**10**

12. Programme and film rights and other inventories

	2013 £m	2012 £m
Programmes and films completed but not transmitted	**74**	91
Acquired programme and film rights	**50**	50
Programmes and films in the course of production	**97**	75
Other inventories	**3**	3
	224	**219**

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

Programme rights and other inventories to the value of £589 million were recognised as expenses in the year across the main and digital television channels (2012: £596 million). Of this amount, obsolete programmes and developments written off totalled £39 million (2012: £26 million). Programme rights and other inventories include £30 million (2012: £30 million) in respect of developed film rights.

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

13. Trade and other receivables

	Group 2013 £m	Group 2012 £m
Trade receivables	136	142
Prepayments and accrued income	43	27
Distribution and producer advances	3	4
Total trade and other receivables	**182**	**173**

There is no difference between the fair value and book value of trade and other receivables. For trade and other receivables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables are estimated as the present value of future cash flows discounted at the market rate of interest at the reporting date.

Trade receivables are shown net of impairment charges amounting to £nil (2012: £0.3 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 (2012: £4 million) recognised in the current year in relation to advances paid on DVD development deals, which management consider are unlikely to be recouped through future sales.

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

(i) Trade receivables

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

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

(ii) Counterparty

See Interest rate risk exposure on page 199.

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 £136 million for the Group (2012: £142 million), with £107 million of other financial assets (2012: £88 million) and cash and cash equivalents of £131 million (2012: £173 million). The exposure to credit risk all arises in the UK.

Trade receivables of £136 million for the Group (2012: £142 million) were aged under six months. Included in receivables due under six months are receivables of £136 million (2012: £142 million) which were not yet due under standard credit terms at the balance sheet date. £114 million of the receivables were insured at the balance sheet date (2012: £112 million) and £134 million has been subsequently collected by the Group since the balance sheet date.

The allowance for impairment of trade receivables was £nil at the balance sheet date (2012: £0.3 million).

14. Treasury

	2013 £m	2012 £m
Bank balances	37	23
Money market funds*	64	114
Money market deposits maturing in less than three months	30	36
Cash and cash equivalents	**131**	**173**
Money market deposits maturing after three months	50	40
Investment funds	57	48
Other financial assets	**107**	**88**

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

There is no difference between the fair value and book value of cash and cash equivalents and other financial assets.

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.

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 counterparties that carry a minimum of an A credit rating or equivalent from Standard and Poor's and Moody's credit rating services with government support, or with money market funds that have an AAA credit rating from either of these credit rating services.

It is estimated that if interest rates had been 0.1% lower/higher throughout the year, with all other variables held constant the Group's deficit before tax would have been £0.1 million lower/higher (2012: £0.2 million).

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

The interest rate profile of the Group's cash and deposits at 31 December 2013 and 31 December 2012 is set out below:

	Effective interest rate 2013 %	Effective interest rate 2012 %	Total 2013 £m	Total 2012 £m
Interest bearing deposits maturing in less than three months held in Sterling	0.5	0.5	130	172
Interest bearing deposits maturing in less than three months held in foreign currencies	0.1	0.1	1	1
Total cash and cash equivalents	**0.5**	**0.5**	**131**	**173**
Money market deposits maturing after three months held in Sterling	0.6	0.6	50	40
Other financial assets	**0.6**	**0.6**	**50**	**40**

14. Treasury continued

Foreign currency risk and derivative financial instruments

The Group is exposed to currency risk on sales and purchases that are denominated in currencies other than Sterling. The currencies that give rise to this risk are US Dollars and Euros. The Group uses forward exchange contracts and currency cash receipts to hedge its currency risk. Changes in the fair value of exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the income statement. Both the change in the fair value of the forward contracts and the foreign exchange gains and losses relating to monetary items are recognised as part of net financial income (note 5). The Group does not have any foreign subsidiaries and as a result is not exposed to foreign currency risk in this regard. The Group is exposed to currency movements on foreign cash holdings. Amounts held by currency are detailed above within the analysis of the Group's and Channel 4's cash and deposits.

At 31 December 2013, the total value of forward contracts used as economic hedges of monetary liabilities was £11 million (2012: £14 million). This represents ten Euro and two 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 2013 year end, these have been revalued with reference to forward exchange rates based on maturity. The change in fair value of £0.3 million (2012: £0.4 million) has been recognised in the income statement and the associated liability recorded on the balance sheet as at 31 December 2013. The forward contracts have been assessed as level 2 in the fair value hierarchy under IAS 13.

It is estimated that if Sterling had strengthened/weakened by 10% at the balance sheet date against other currencies with all other variables held constant, the Group's deficit before tax would have been £0.2 million lower/higher (2012: £0.1 million).

Market risk

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

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

Group treasury operates within clearly defined objectives and controls and is subject to periodic review by the business assurance function (page 153).

15. Trade and other payables

	2013 £m	2012 £m
Trade payables	**13**	16
National insurance	**1**	1
Other creditors	**43**	37
Accruals	**195**	197
VAT	**17**	16
Trade and other payables	**269**	**267**

There is no difference between the fair value and book value of trade and other payables. The contractual cash flows are equal to the carrying amount and are classified as payable within six months or less at 31 December 2013 and 2012.

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

Included within trade and other payables is £nil to be settled in more than 12 months.

15. Trade and other payables

The number of days taken to pay suppliers of services in 2013, as calculated using average payable balances, was 6 (2012: 6). This is significantly lower than the Group's standard payment terms of 30 days due to the payment arrangements required for programme and transmission costs.

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

16. Provisions

	Onerous contracts £m	Restructuring costs £m	Total £m
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**
At 1 January 2013	3	1	4
Utilised in the year	(1)	(1)	(2)
Charged to the income statement	1	–	1
At 31 December 2013	**3**	**–**	**3**

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

	2013 £m	2012 £m
Current	1	1
Non-current	2	3
	3	**4**

Onerous contracts
The provision relates to the rental deficit on a building that 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 cashflows of the property rental agreement until its expiry. An amount of £0.1 million (2012: £0.4 million) has been recognised as an interest cost relating to the passage of time of the discounted provision.

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

17. Commitments

2013	Due within 1 year £m	Due within 2–5 years £m	Due after 5 years £m	Total £m
Programme commitments	324	281	–	605
Operating leases	–	1	10	11
Property, plant and equipment	–	–	–	–
Total	**324**	**282**	**10**	**616**

2012	Due within 1 year £m	Due within 2–5 years £m	Due after 5 years £m	Total £m
Programme commitments	296	297	–	593
Operating leases	–	1	11	12
Property, plant and equipment	1	–	–	1
Total	**297**	**298**	**11**	**606**

In addition to the above, the Corporation is party to the shareholder agreement for Digital 3 and 4 Ltd. The Corporation is committed to meeting its share of contracted costs entered into by that company.

The Corporation's share of Digital 3 and 4 Ltd's committed payments was £29 million in 2013 and is forecast to be £24 million in 2014. Digital 3 and 4 Ltd has entered into long term distribution contracts that expire in 2022 and 2034 and the Corporation is committed to funding its contractual share.

The Corporation is committed to paying capacity costs for transmission on the digital terrestrial and satellite network. Committed payments for digital terrestrial transmission capacity costs amounted to £36 million in 2013 and are forecast to be £37 million in 2014. Committed payments for satellite transmission capacity costs were £16 million in 2013 and are forecast to be £16 million in 2014. The digital terrestrial transmission contracts expire between 2026 and 2031 and the satellite transmission contracts expire between 2018 and 2022.

18. 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.

Nature of benefits, regulatory framework and governance of the Plan
The Plan is a registered defined benefit final salary scheme subject to the UK regulatory framework for pensions, including the Scheme Specific Funding requirements. The Plan is operated under trust and as such the Trustees of the Plan are responsible for operating the Plan and have a statutory responsibility to act in accordance with the Plan's Trust Deed and Rules, in the best interest of the beneficiaries of the Plan, and UK legislation (including Trust law). The employer has the power to set the contributions that are paid to the Plan, following advice from the scheme actuary. However, these must be agreed by the Trustees to the extent required by Part 3 of the Pensions Act 2004 (scheme funding).

Risks to which the Plan exposes the employer
The nature of the Plan exposes the employer to the risk of paying unanticipated additional contributions to the Plan in times of adverse experience. The most financially significant risks are likely to be:

– members living for longer than expected;

– higher than expected actual inflation and salary increase experience;

– lower than expected investment returns; and

– the risk that movements in the value of the Plan's liabilities are not met by corresponding movements in the value of the Plan's assets.

The sensitivity analysis disclosed below is intended to provide an indication of the impact on the value of the Plan's liabilities of the risks highlighted.

Plan amendments, curtailments and settlements
There have not been any material curtailments or settlements during the year.

IAS 19 revised
We have recalculated the comparative figures for the year ending 31 December 2012 as required under IAS 19(R). There are no material restatements required in respect of this for either the income statement, other comprehensive income or the balance sheet.

Amounts recognised in the consolidated balance sheet

	2013 £m	2012 £m
Present value of funded obligations	(309)	(284)
Fair value of Plan assets	270	244
Recognised liability for defined benefit obligations	**(39)**	**(40)**

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

	2013 £m	2012 £m
Fair value of scheme assets at 1 January	244	228
Interest income on Plan assets	11	11
Return on Plan assets (excluding amounts in interest income)	12	2
Employer contributions net of charges	6	6
Employee contributions net of charges	1	1
Benefits paid	(4)	(4)
Fair value of scheme assets at 31 December	**270**	**244**

18. Employee benefits – pensions continued

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

	2013 £m	2012 £m
UK equity	7	5
Overseas equity	59	50
Emerging markets equity	9	9
Total equity securities	**75**	**64**
Corporate bonds	37	30
Fixed interest gilts	6	6
Index linked gilts	86	80
Total debt securities	**129**	**116**
UK equity linked inflation	50	51
Overseas equity linked inflation	16	12
Total investment funds	**66**	**63**
Cash and cash equivalents	–	1
Fair value of scheme assets at 31 December	**270**	**244**

The Plan assets do not include any directly or indirectly owned financial instruments issued by Channel Four Television Corporation.

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

	2013 £m	2012 £m
Present value of scheme liabilities at 1 January	284	249
Current service cost	3	3
Interest expense on pension scheme liabilities	13	12
Actuarial (gain)/loss on Plan liabilities arising from changes in demographic assumptions	(2)	–
Actuarial (gain)/loss on Plan liabilities arising from changes in financial assumptions	22	23
Experience remeasurement	(7)	–
Employee contributions net of charges	1	1
Benefits paid	(5)	(4)
Present value of scheme liabilities at 31 December	**309**	**284**

Expenses recognised in the income statement arose as follows:

	2013 £m	2012 £m
Current service cost	3	3
Interest expense on pension scheme liabilities	13	12
Interest income on Plan assets	(11)	(11)
Net charge to income statement	**5**	**4**

18. Employee benefits – pensions continued

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

	2013 £m	2012 £m
Cost of transmission and sales	2	2
Other operating expenditure	1	1
Net financial expense	2	1
Net charge to income statement	**5**	**4**

	2013 £m	2012 £m
Actuarial loss on Plan liabilities	(13)	(23)
Return on Plan assets (excluding amounts in interest income)	12	2
Actuarial loss	**(1)**	**(21)**

The cumulative amount of net actuarial losses / gains recognised in the statement of recognised income and expense since transition to IFRS is £62 million.

Principal actuarial assumptions at the balane sheet date

	2013 %	2012 %
Discount rate	4.50	4.45
Rate of increase in salaries	3.20	2.50
Rate of increase in pensions	3.40	3.00
Inflation	3.50	3.00

	2013 years	2012 years
Life expectancy from 60 (now aged 40) – male	26.8	28.5
Life expectancy from 60 (now aged 40) – female	30.4	29.3
Life expectancy from 60 (now aged 60) – male	27.3	26.9
Life expectancy from 60 (now aged 60) – female	30.9	28.2

These assumptions were adopted in consultation with the independent actuary to the Channel Four Television Staff Pension Plan. If experience is different from these assumptions, or if the assumptions need to be amended in future, there will be a corresponding impact on the net pension scheme liability recorded on the Group balance sheet. The expected returns on Plan assets are set by reference to historical returns, current market indicators and the expected long term asset allocation of the Plan.

Sensitivity analysis
The below table sets out the sensitivity of the scheme's pension liabilities to changes in actuarial assumptions at 31 December 2013:

	Revised present value of scheme liabilities £m
0.5% decrease in discount rate	344
1 year increase in life expectancy	321
0.5% increase in inflation (and inflation-linked) assumptions	343

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

18. Employee benefits – pensions continued

Funding arrangements

Contribution rates to the scheme are determined by a qualified independent actuary (the Actuary to the Plan) on the basis of triennial valuation using the projected unit method. The most recent triennial valuation was carried out as at 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.

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 to reduce the Plan's funding deficit.

The estimated employer contributions in 2014 are £6 million. A new triennial valuation was carried out on 1 January 2013. The results are currently being discussed with the Trustees and may alter the contributions payable during 2014.

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

19. Related party transactions

Members

Details of transactions in which members have an interest are disclosed on page 144.

Details of members' remuneration are shown in the remuneration report on pages 163–170.

Joint Ventures

Details of transactions between the group and its joint ventures are disclosed in note 7 on page 190.

Equity investments

During 2013, Channel 4 received £0.3 million brand fee income from Espresso Broadband Ltd (2012: £0.2 million). £0.1 million was owed to Channel 4 at 31 December 2013 (2012: £nil).

Channel 4 sold its investment in Espresso Broadband Ltd during the year (note 8).

Channel 4 also paid £0.3 million to Protagonist Pictures Ltd for agency sales and film acquisition services (2012: £0.2 million).
No amounts were due at 31 December 2013 (2012: £nil).

Channel 4 balance sheet as at 31 December

	Group note	Channel 4 note	2013 £m	2012 £m
Assets				
Investments in subsidiaries and jointly controlled entities		2	28	28
Freehold land and buildings	9		73	62
Fixtures, fittings and equipment	9		17	19
Intangible assets	10		3	5
Deferred tax assets	11		11	11
Total non-current assets			**132**	**125**
Programme and film rights and other inventories	12		224	219
Trade and other receivables		3	182	173
Corporation tax			1	–
Other financial assets	14		107	88
Cash and cash equivalents	14		131	173
Total current assets			**645**	**653**
Total assets			**777**	**778**
Liabilities				
Employee benefits – pensions	18		(39)	(40)
Provisions	16		(2)	(3)
Deferred tax liabilities	11		(3)	(1)
Total non-current liabilities			**(44)**	**(44)**
Trade and other payables		4	(417)	(412)
Provisions	16		(1)	(1)
Total current liabilities			**(418)**	**(413)**
Total liabilities			**(462)**	**(457)**
Net assets			**315**	**321**
Revaluation reserve			28	18
Retained earnings			287	303
Total equity			**315**	**321**

The financial statements on pages 207–211 were approved by the Board of members on 26 March 2014 and were signed on its behalf by:

Lord Burns
Chairman

David Abraham
Chief Executive

The notes on pages 209–211 form part of these financial statements.

Channel 4 statement of changes in equity for the year ended 31 December

	Retained earnings £m	Revaluation reserve £m	Total equity £m
At 1 January 2012	348	11	359
(Deficit) / surplus for the year	(29)	–	(29)
Other comprehensive income	(16)	7	(9)
Total comprehensive (cost) / income for the year	**(45)**	**7**	**(38)**
At 31 December 2012	**303**	**18**	**321**
At 1 January 2013	303	18	321
(Deficit) / surplus for the year	(15)	–	(15)
Other comprehensive income	(1)	10	9
Total comprehensive (cost) / income for the year	**(16)**	**10**	**(6)**
At 31 December 2013	**287**	**28**	**315**

Channel 4 accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention, except that freehold properties, derivatives and certain financial instruments are stated at fair value, and are presented in pounds Sterling, rounded to the nearest million.

The financial statements have been prepared under the Financial Reporting Standard 101 Reduced Disclosure Framework. The Corporation's financial result and balance sheet are included in the consolidated financial statements presented on pages 171–206. As permitted by the Financial Reporting Standard 101, the Corporation has not presented its own cashflow statement and has not provided the disclosures required by IFRS 7 Financial Instruments: Disclosures.

As permitted by section 408 of the Companies Act 2006, Channel Four Television Corporation has not presented its own income statement. A deficit of £15 million (2012: £29 million) was recorded in relation to the Corporation. Accounting policies applied in the preparation of the Corporation's financial statements are consistent with the Group policies presented on pages 175–180, except as stated below.

Investments in subsidiaries

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

Investments in associates and interests in jointly controlled entities

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

Equity investments

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

Trade and other receivables

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

Notes to the Channel 4 financial statements

1. Operating expenditure

Auditor's remuneration
Fees in relation to the audit of the Corporation financial statements and additional fees paid to the auditors for the year ended 31 December 2013 are presented in note 3 to the consolidated financial statements on page 185.

Staff costs
All staff costs are borne by Channel 4 and are presented in note 4 to the consolidated financial statements on page 187.

2. Investments in subsidiaries and jointly controlled entities

Equity investments
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 190).

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 2013 was £28 million.

Subsidiaries
The cost of investments at 31 December was:

	2013 £000	2012 £000
4 Ventures Ltd	**1**	1

4 Ventures Ltd is a 100% owned subsidiary of Channel 4.

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 (Group note 8).

The members have filed to wind up Life One Broadcasting Ltd, Life Two Broadcasting Ltd, Channel 4 Radio Ltd, Channel 4 Radio Services Ltd and Life Showcase Ltd as these companies are dormant.

3. Trade and other receivables

	2013 £m	2012 £m
Trade receivables	138	142
Prepayments and accrued income	41	27
Distribution and producer advances	3	4
Total trade and other receivables	**182**	**173**

Trade receivables are shown net of impairment charges amounting to £nil (2012: £0.3 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 (2012: £4 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.

4. Trade and other payables

	2013 £m	2012 £m
Trade payables	13	16
National insurance	1	1
Other creditors	43	37
Amounts due to subsidiaries	148	146
Accruals	195	196
VAT	17	16
Total trade and other payables	**417**	**412**

The number of days taken to pay suppliers of services in 2013, as calculated using average payable balances, was 6 (2012: 6). 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.

Included within trade and other payables is £nil to be settled in more than 12 months.