

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CHANNEL FOUR TELEVISION CORPORATION (THE 'CORPORATION') ONLY

Opinions and conclusions arising from our audit

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 2017 and of the Group's deficit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the Corporation financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, with regard to the Group financial statements, as if that Act applied to the Corporation.

We have audited the financial statements of Channel Four Television Corporation (the 'Corporation') and its subsidiaries (the 'Group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and Channel 4 balance sheets;
- the consolidated and Channel 4 statements of changes in equity;
- the consolidated cashflow statement; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Corporation financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Corporation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. While the Corporation is not a public interest entity subject to European Regulation 537/2014, the Members have decided that the Corporation should follow the same requirements as if that Regulation applied to the Corporation.

Summary of our audit approach

Key audit matters – The key audit matters that we identified in the current year were:

- recognition of non-cash revenue
- amortisation of programming content

Materiality – the materiality that we used for the Group financial statements was £7 million, which was determined on the basis of 0.7% of revenue.

Scoping – we audited the Group as a single component, covering 100% net assets, revenue and profit before tax.

Conclusions relating to going concern, principal risks and viability statement

GOING CONCERN

We have reviewed the Members' statement on page 118 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and their identification of any material uncertainties to the Group's and Corporation's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement which the Members have made as if the Corporation was required to apply Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

PRINCIPAL RISKS AND VIABILITY STATEMENT

Based solely on reading the Members' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Members' assessment of the Group's and the Corporation's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 110 to 111 that describe the principal risks and explain how they are being managed or mitigated;
- the Members' confirmation on page 112 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Members' explanation on page 112 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Members' statement relating to the prospects of the Group which they have chosen to make as if the Corporation was required to by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

AMORTISATION OF PROGRAMMING CONTENT

Key audit matter description

The Corporation commissions and purchases the rights to programming content and films which are held as inventory on the balance sheet. The majority of programming inventory relates to general programming content and is written off fully at the time of the first transmission. Acquired film rights and acquired series have

Independent auditor's report continued

different profiles and are therefore written off over more than one transmission based on the number of runs, whilst developed film rights are written off over a profile based on revenue generation.

There is judgement required in estimating the profile over which the economic benefits from the programming assets are used by the Corporation.

A number of quantitative and qualitative factors impact upon the appropriateness of these policies, including the number of views that a programme is expected to achieve for each broadcast and qualitative factors reflecting other benefits delivered to the Corporation from content.

There is a risk, including due to fraud, that the policies are inappropriate and therefore that programme and other content expense does not accurately reflect the profile of the consumption of the inventory.

The total amount expended through the income statement in relation to the amortisation of programming content in 2017, as disclosed in note 12 to the financial statements, was £663 million (2016: £684 million). The carrying value of programme and film rights disclosed in note 12 to the financial statements is £255 million (2016: £279 million).

Refer to page 126, where this is included as a significant matter in the Audit Committee Report, and pages 145 to 146 in the notes to the financial statements where management describe their accounting policy.

How the scope of our audit responded to the key audit matter

We assessed the design and implementation of relevant key controls relating to the determination of appropriate amortisation profiles.

For general programming content, acquired series and acquired film rights we reviewed and critically assessed management's determination of the appropriateness of their accounting policies and performed procedures to test whether the expense was incurred in line with the relevant policy. Further, we assessed the expense and amortisation profiles against industry benchmarks and identified relevant quantitative factors, including viewing trends.

For developed film rights we examined evidence to support the fact that there is historical uncertainty over film performance and no consistent revenue generation profile, in order to assess the appropriateness of management's accounting policy to amortise based on future revenue generation.

We also considered linear versus non-linear viewing profiles and relative values of linear and non-linear rights to show content to determine whether these would require separate amortisation policies.

We further assessed the relative significance of qualitative factors such as brand value in the determination of the consumption of economic benefit for each of the amortisation profiles.

Key observations

We consider the accounting policies reasonable in light of the qualitative and quantitative factors but note that the assumptions taken determining the policy are towards the conservative end of a reasonable range, since the policy results in earlier recognition of cost than suggested by other consumption profiles.

RECOGNITION OF NON-CASH REVENUE

Key audit matter description

The Corporation earns the significant majority of its revenues from TV advertising, for which most contracts are standard and the recognition of such revenue is system-driven. There is a sub-set of contracts which have complex terms, including those which include barter arrangements in relation to the transfer of non-cash consideration in exchange for the advertising airtime provided. This typically includes consideration such as programming or equity investments.

As a result of the nature of these contracts, there is significant judgement involved in valuation of non-cash items. We therefore identified a key audit matter relating to the risk of inappropriate revenue recognition for these contracts, whether due to error or fraud.

The amount of revenue which is not settled in cash was £50 million (2016: £52 million). The Corporation's policy in relation to this is included on page 144 in the notes to the financial statements. Refer to page 126, where this is included as a significant matter in the Audit Committee Report.

How the scope of our audit responded to the key audit matter

We met with management to obtain an understanding of the process by which revenue is recognised, including straightforward system-driven revenue, and the non-cash revenue to which our key audit matter relates. As part of this process we evaluated the design and implementation of relevant key controls.

We reviewed a statistical sample of contracts to identify any unusual contract terms to determine whether these were accounted for appropriately.

We selected a sample of non-standard revenue contracts, focusing on those which in our judgement had a higher probability of error, and assessed whether accounting treatment for these contracts was in line with their terms and relevant accounting standards.

For non-cash driven revenue, we obtained and critically assessed evidence to support the fair value of the non-cash consideration received. For programming received in these barter contracts, we agreed consideration received to contracts. For equity investments received in barter deals we agreed consideration received to latest funding round information, observable market evidence such as share price, or future cashflow forecasts.

Key observations

We consider the accounting policies applied to be appropriate in relation to IAS 18. We are satisfied the valuation of non-cash consideration was appropriate and in line with fair value.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality – £7 million (2016: materiality determined by the previous auditor of £7 million)

Basis for determining materiality – we determined materiality using a benchmark of 0.7% of revenue (2016: materiality determined by the previous auditor using a benchmark of 0.7%).

Rationale for the benchmark applied – we consider the use of a benchmark of revenue, rather than profit, to be appropriate since the Corporation's aim is to achieve a long-term break-even position.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £300,000 (2016: £300,000 was agreed by the previous auditors) for the Group and the Corporation, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent auditor's report continued

An overview of the scope of our audit

The Group maintains a single aggregated set of accounting records for all of its operations and we therefore audited the entire Group as a single component. For the audit of the Corporation we deconsolidated the Group financial information in order to identify the relevant Corporation-only balances and transactions.

Other information

The Members are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the Members that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Members' statement of compliance with the UK Corporate Governance Code** – the parts of the Members' statement relating to the Corporation's compliance with the UK Corporate Governance Code containing provisions specified for review do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of Members

As explained more fully in the Members' responsibilities statement, the Members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Members are responsible for assessing the Group's and the Corporation's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Members either intend to liquidate the Group or the Corporation or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Corporation's members, as a body, in accordance with section 23 of the Broadcasting Act 1990 and the terms of our engagement. Our audit work has been undertaken so that we might state to the Corporation's members those matters we are required to state to them in an auditor'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 the Corporation's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed under the terms of our engagement

In our opinion the part of the Members' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the Corporation a quoted company.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Members for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Members have been prepared in accordance with applicable legal requirements that would have applied were the Corporation subject to the Companies Act 2006.

In the light of the knowledge and understanding of the Group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Report of the Members.

Matters on which we are required to report by exception

ADEQUACY OF EXPLANATIONS RECEIVED AND ACCOUNTING RECORDS

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

- we have not received all the information and explanations we require for our audit; or
- adequate 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 financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Independent auditor's report continued

MEMBERS' REMUNERATION

Under the terms of our engagement we are also required to report if, in our opinion, certain disclosures of Members' remuneration have not been made or the part of the Members' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

OTHER MATTERS

Auditor tenure

We were appointed with the approval of the Secretary of State for Culture, Media and Sport on 10 August 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods. This is the first year of our engagement.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

**KATE J HOULDSWORTH FCA (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF DELOITTE LLP**

Statutory Auditor
London, UK
28 March 2018