

Independent auditor's report

to the Members of Channel Four Television Corporation (the "Corporation")

Report on the audit of the financial statements

Opinion

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 2018 and of the Group's surplus for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (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 (as if it were to apply to the Corporation) and, as regards the group financial statements, Article 4 of the IAS Regulation as if that Act and Article applied to the Corporation.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and Corporation balance sheets;
- the consolidated and Corporation statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 20.

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".

Basis for opinion

We conducted our audit in accordance with 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 Financial Reporting Council's (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.

Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none">- recognition of non-cash revenue- accounting for the acquisition of The Box Plus Network Limited ("Box") <p>Within this report, any new key audit matters are identified with ▲ and any key audit matters which are the same as the prior year identified with ►.</p> <p>In 2018 we have included a new key audit matter as a result of the acquisition in the year of The Box Plus Network Limited. We have not included a key audit matter in respect of the amortisation of programming content which was included in 2017 since key judgements were taken in previous years.</p>
Materiality	<p>The materiality that we used for the group financial statements was £9.6 million which was determined on the basis of revenue.</p>
Scoping	<p>We audited the Group as a single component, covering 100% of net assets, revenue and profit before tax.</p>

Independent auditor's report (continued)

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the members' statement on page 172 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 twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

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 165 to 166 that describe the principal risks and explain how they are being managed or mitigated;
- the members' confirmation on page 167 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 directors' explanation on page 167 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 confirm that we have nothing material to report, add or draw attention to in respect of these matters.

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.

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.

Acquisition of Box ▲

Key audit matter description

On 31 December 2018, the Corporation acquired the 50% of shares in Box that were previously owned by a third party. As a result, the assets and liabilities of Box will be included in the Group's consolidated financial statements. Further, the transaction should follow the acquisition accounting required by IFRS 3 Business Combinations.



Management is required to treat the acquisition as if the originally held investment were fully disposed of, with the implied proceeds contributing to the consideration for the acquisition. Judgement is required to determine the appropriateness of the discounted cash flows used in determining the fair value of the investment previously held.

Significant judgement is also required in identifying and fair valuing any acquired intangible assets and the resulting determination of the amount of goodwill to be recognised.

As a result of these judgements there is a risk, including due to fraud, that the accounting is not in accordance with IFRS 3 and that the fair values used are inappropriate.

The transaction resulted in a loss on disposal of the Corporation's previous shareholding of £9m and a gain on bargain purchase following the acquisition of £5m. The Corporation's policy in relation to this is included in the group accounting policies on pages 202 to 206 and the transaction is described in detail in note 20 to the financial statements. The matter is included as a significant matter for the Audit Committee at page 180.

Independent auditor's report (continued)

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



We evaluated the design and implementation of controls over the acquisition accounting and fair valuation exercise for acquired intangible assets and gained an understanding of management's proposed accounting treatment.

We assessed the competence of management's independent valuation specialists and assessed the scope of their work and report. We discussed the valuation methodologies used by them and engaged our own valuation specialists to assess the appropriateness of these and to challenge the assumptions used in the calculations.

We obtained management's cash flow forecasts that were used in the calculations, agreed these to board-approved budgets, and challenged assumptions used in these forecasts, including through assessing management's historical forecasting accuracy. We carried out procedures to determine the calculations' sensitivities to these assumptions.

We tested the mathematical accuracy of the calculations used in this accounting and reviewed the proposed disclosures in the financial statements to determine compliance with accounting standards.

We considered whether management had followed the requirements in IFRS 3 Business Combinations to reassess whether they had correctly identified all of the assets acquired and liabilities assumed before recognising a gain on bargain purchase.

Key observations



We consider the transaction has been accounted for in line with IFRS 3 Business Combinations and that the valuation techniques and assumptions used are reasonable.

Recognition of non-cash revenue ▶

Key audit matter description



The Corporation earns a significant portion 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 determining the valuation of non-cash items. We therefore identified a key audit matter relating to the risk of inaccurate revenue recognition for these contracts, whether due to error or fraud.

The amount of revenue which is not settled in cash was £47 million (2017: £50 million). The Corporation's policy in relation to this is included in the group accounting policies on page 203. Refer to page 180 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 obtained 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 contractual 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 in return for advertising, 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 cash flow forecasts.

Key observations



We consider the accounting policies applied to be in accordance with IFRS 15 Revenue from Contracts with Customers. We are satisfied the valuation of non-cash consideration was appropriate and in line with fair value.

Independent auditor's report (continued)

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:

	Group and corporation only financial statements
Materiality	£9.6 million (2017: £7 million)
Basis for determining materiality	We determined materiality using a benchmark of 1.0% of revenue (2017: 0.7% to be in line with previous years in our first year as auditor).
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 breakeven position.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £480,000 (2017: £300,000), 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.

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 management deconsolidated the Group financial information in order for us 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.

We have nothing to report in respect of these matters.

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 which they have chosen to make as if the Corporation was required to under the Listing Rules relating to the Corporation's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Responsibilities of directors

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.

Independent auditor's report (continued)

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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the audit committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax, valuations, pensions and IT regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the acquisition of Box and the recognition of non-cash revenue key audit matters as described above; and
- obtaining an understanding of the legal and regulatory framework that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the Companies Act 2006 (as if it were to apply to the Corporation), Broadcasting Act 1990, Communications Act 2003, pensions legislation, tax legislation, and media law. In addition, compliance with the Ofcom Broadcasting Code, Ofcom on-demand rules, Advertising Standards Agency guidelines were fundamental to the Group's ability to continue as a going concern.

Audit response to risks identified

As a result of performing the above, we identified the acquisition of Box and recognition of non-cash revenue as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Independent auditor's report (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In addition to our audit of the financial statements, the members have engaged us to audit the information in the Members' Remuneration Report that is described as having been audited, which the members have chosen to prepare as if the Corporation were required by the Companies Act 2006.

In our opinion the parts of the Members' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 2006, as if that were to apply to the Corporation.

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

- the information given in the strategic report and the members' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the members' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the Corporation and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the members' report.

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 financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

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 Digital, Culture, Media and Sport on 10 August 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is two years, covering the years ending 31 December 2017 to 31 December 2018.

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).

Use of our report

This report is made solely to the Corporation's members, as a body, in accordance with the Broadcasting Act 1990 and the terms of our engagement. 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.

Kate J Houldsworth FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, UK

3 April 2019