

10 October 2017

Ten Network Holdings Limited ACN 081 327 068 (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) (TEN)

Explanatory Statement to shareholders, and Independent Expert's Report

We refer to previous announcements regarding the Deed of Company Arrangement (**DOCA**) entered into by Ten Network Holdings Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) (**TEN**) and CBS International Television Australia Pty Limited (**CBS Australia**), among others, following approval of the DOCA at the second meetings of creditors for TEN and the other Ten Group companies (listed in the attached schedule).

It is a condition to completion and effectuation of the DOCA that the Deed Administrators (as Deed Administrators of TEN) obtain a Court order pursuant to section 444GA of the Corporations Act granting leave to the Deed Administrators to transfer all of the shares in TEN to CBS Australia or its nominee for nil consideration. The Deed Administrators have now applied for this order in the Supreme Court of New South Wales.

Attached to this announcement is a copy of a letter which will be sent to all shareholders of TEN. For the benefit of shareholders of TEN and to provide further information on the section 444GA application, also attached to this announcement is an Explanatory Statement that describes the process and provides details on how a shareholder who wishes to make an objection to the share transfer should do so. The Explanatory Statement includes an Independent Expert's Report prepared by KPMG Corporate Finance (**IER**) which values the equity in TEN.

The IER concludes that the equity in TEN has nil value.

Further information:

Shareholders with questions regarding the Explanatory Statement, the IER or the process generally can call the Information Line on 1300 494 861 or email tengroup@linkmarketservices.com.au.

Schedule

Listing of the Ten Group Companies

1. Ten Network Holdings Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) ACN 081 327 068
2. The Ten Group Pty Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) ACN 057 564 708
3. Network Ten Pty Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) ACN 052 515 250
4. Network Ten (Sydney) Pty Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) ACN 008 664 962
5. Network Ten (Brisbane) Pty Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) ACN 050 148 537
6. Network Ten (Melbourne) Pty Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) ACN 008 664 953
7. Network Ten (Perth) Pty Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) ACN 009 108 614
8. Network Ten (Adelaide) Pty Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) ACN 007 577 666
9. Caprice Pty Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) ACN 008 655 847
10. Chartreuse Pty Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) ACN 008 655 874
11. Television & Telecasters (Properties) Pty Limited (Subject to Deed of Company Arrangement) ACN 050 690 161
12. Ten Online Pty Limited (Subject to Deed of Company Arrangement) ACN 089 829 667
13. Ten Ventures Pty Limited (Subject to Deed of Company Arrangement) ACN 089 830 759
14. Ten Employee Share Plans Pty Limited (Subject to Deed of Company Arrangement) ACN 082 736 150

Attachment 1: Letter to shareholders of TEN

Circular to Shareholders

10 October 2017

Dear shareholder

Ten Network Holdings Limited ACN 081 327 068 (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) (TEN)

Explanatory Statement to shareholders, and Independent Expert's Report

I am, together with Jennifer Nettleton and Jarrod Villani, a Deed Administrator of Ten Network Holdings Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) (**TEN**) and the other Ten Group Companies listed in the attached schedule.

As you may have seen from recent media reports and ASX announcements, TEN and the other Ten Group Companies (listed in the attached schedule) have entered into a Deed of Company Arrangement (**DOCA**) with CBS International Television Australia Pty Limited (**CBS Australia**) and the Deed Administrators, following approval of the DOCA at the second meetings of creditors of each of the Ten Group Companies held on 19 September 2017.

It is a condition to completion of the transaction described in the DOCA that the Deed Administrators (as Deed Administrators of TEN) obtain a Court order pursuant to section 444GA of the *Corporations Act 2001* (Cth) granting leave to the Deed Administrators to transfer all of the shares in TEN to CBS Australia or its nominee for nil consideration. The Deed Administrators have now applied to the Supreme Court of New South Wales for this order.

The Court has tentatively listed the application for a final hearing at Queens Square, Sydney, New South Wales commencing on 31 October 2017 at 10:00am for up to three days. Any shareholder or other interested person who wishes to appear at the hearing is to file and serve on the Deed Administrators and the Australian Securities and Investments Commission a Notice of Appearance in the prescribed form and indicating the grounds of opposition by 4:00pm on 13 October 2017.

A further directions hearing will be held on 16 October 2017 at 9:15am at the Supreme Court of New South Wales, Queens Square, Sydney, New South Wales where further directions for the hearing of the application will be made including confirmation of the final hearing date.

For the benefit of shareholders of TEN and to provide further information on the section 444GA application, the Deed Administrators have made available an Explanatory Statement describing the process and providing details on how a shareholder who wishes to make an objection to the transaction should do so. The Explanatory Statement includes an Independent Expert's Report prepared by KPMG Corporate Finance (**IER**) which values the equity in TEN.

The IER concludes that the equity in TEN has nil value.

A full copy of the Explanatory Statement and IER have been released to the ASX. You can access them on the following websites:

- ASX website: www.asx.com.au (by looking up the code "TEN")
- The Deed Administrators' website: <http://www.kordamentha.com/Creditors/Ten-Group/Shareholders>
- The Ten Group Companies' website: <https://tenplay.com.au/corporate/announcements>

A copy of the Explanatory Statement and IER will also be emailed to you, free of charge, upon request. You can request copies by calling 1300 494 861 or by emailing tengroup@linkmarketservices.com.au.

Shareholders with questions regarding these documents or the process generally can call the Information Line on 1300 494 861.

Yours faithfully



Mark Korda
Deed Administrator

Schedule

Listing of the Ten Group Companies

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3. Network Ten Pty Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) ACN 052 515 250
4. Network Ten (Sydney) Pty Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) ACN 008 664 962
5. Network Ten (Brisbane) Pty Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) ACN 050 148 537
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10. Chartreuse Pty Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) ACN 008 655 874
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13. Ten Ventures Pty Limited (Subject to Deed of Company Arrangement) ACN 089 830 759
14. Ten Employee Share Plans Pty Limited (Subject to Deed of Company Arrangement) ACN 082 736 150

Attachment 2: Explanatory Statement (including IER)

Ten Network Holdings Limited ACN 081 327 068 (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed)

Explanatory Statement

This Explanatory Statement provides information to shareholders on the deed of company arrangement proposed by CBS International Television Australia Pty Ltd ("**CBS Australia**") and entered into by Ten Network Holdings Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) ("**TEN**"), each other company in the TEN Group, the Deed Administrators and CBS Australia on 19 September 2017 ("**DOCA**").

If the DOCA is implemented, all of the shares in TEN will be transferred to CBS Australia or its nominee for nil consideration. Leave will be sought from the Court by the Deed Administrators under section 444GA of the *Corporations Act 2001* to enable the transfer to occur ("**Section 444GA Application**").

The Court hearing for the Section 444GA Application has been tentatively listed for a final hearing at the Supreme Court of New South Wales, Queens Square, Sydney commencing at 10:00am on Tuesday 31 October 2017 for up to three days.

If you wish to appear at the Court hearing to make submissions and/or oppose the Section 444GA Application, you may do so by filing with the Court, and serving on the Deed Administrators and ASIC, a notice of appearance in the prescribed Court form indicating the grounds of opposition by 4:00pm on Friday 13 October 2017.

The Section 444GA Application has been listed for a directions hearing at 9:15am on Monday 16 October 2017 before Justice Black of the Supreme Court of New South Wales when further directions relating to the hearing of the Section 444GA Application will be made including for the filing of any further evidence and confirmation of the final hearing date.

Shareholders (and their advisors and any other interested parties) should read this Explanatory Statement and accompanying Independent Expert's Report in their entirety before making a decision regarding whether or not to take any action in respect of the Section 444GA Application. If you have any questions on the information in this document, you should consult your legal or other professional advisor.

Key information for shareholders

Capitalised terms used in this Explanatory Statement have the meanings defined in the Glossary in section 10, unless the context otherwise requires or a term has been defined in the text of the Explanatory Statement.

Purpose of this Explanatory Statement

This document is an Explanatory Statement issued by TEN in connection with the DOCA. If the Section 444GA Order is made and the DOCA is implemented, all of your shares in TEN will be transferred to CBS Australia (or its nominee) for nil consideration in accordance with the terms of the DOCA and you will cease to own your shares.

This Explanatory Statement provides information about:

- (a) the Section 444GA Application to the Court for approval to transfer all of your shares in TEN to CBS Australia (or its nominee), as part of the DOCA approved at the second meetings of creditors of each of the TEN Group companies held on 19 September 2017
- (b) the steps which you need to take if you wish to appear at the Court hearing on the Section 444GA Application, which has been tentatively listed for a three day hearing commencing on Tuesday 31 October 2017
- (c) the further information which is available to assist you in deciding whether to take action in respect of the Section 444GA Application.

An Independent Expert's Report prepared by KPMG Corporate Finance, which contains a valuation of TEN shares, is attached to this document.

1. Administration and receivership of TEN Group entities

On 14 June 2017, the board of directors of each entity in the TEN Group resolved to appoint Mark Korda, Jennifer Nettleton and Jarrod Villani ("**Deed Administrators**") as voluntary administrators. Subsequently, on 30 June 2017, the then secured creditor of certain companies in the TEN Group, CBA Corporate Services (NSW) Pty Ltd (acting on behalf of Commonwealth Bank of Australia ("**CBA**") and the Shareholder Guarantors), appointed Chris Hill, Phil Carter and David McEvoy ("**Receivers**") as receivers and managers of 10 of the companies in the TEN Group.

In their report to creditors pursuant to section 439A of the Corporations Act dated 4 September 2017, the Deed Administrators stated that they believe that the TEN Group was insolvent from 13 June 2017, and that the directors had advised that the failure of the TEN Group could be attributed mainly to the cessation of support from the Shareholder Guarantors and the failure to renegotiate costs relating to content agreements with US Studios.

CBA Facility

When TEN entered into voluntary administration, it had a \$200 million finance facility with CBA which was due to expire in December 2017 ("**CBA Facility**"). The CBA Facility was drawn to \$90 million, and accrued interest and other fees of \$6.8 million were also payable.

The CBA Facility was secured over the assets of certain companies in the TEN Group and was also guaranteed by the Shareholder Guarantors. As consideration for providing the

guarantees, fees were payable to the Shareholder Guarantors and as at 14 June 2017 a total of \$32.6 million in fees were owing by TEN to the Shareholder Guarantors.

By 12 June 2017, each of the Shareholder Guarantors had advised the directors of TEN that they would not extend their guarantees in respect of the CBA Facility beyond December 2017.

Claims by US Studios

Network Ten has long-term content agreements with CBS and Fox to acquire content produced by those studios. The TEN Group attempted to renegotiate these content agreements with a view to reducing the associated costs but did not finalise those negotiations before entering into voluntary administration.

CBS and Fox lodged substantial proofs of debt for voting purposes with the Deed Administrators of Network Ten making the following claims:

- CBS claimed \$843.7 million in total in respect of the content agreements between Network Ten and CBS
- Fox claimed \$366.1 million in respect of the content agreement between Network Ten and Fox.

Outcome of sale process

The TEN Group was subject to a sale/recapitalisation process conducted by the Receivers with the assistance of Moelis which resulted, on 27 August 2017, in a transaction with CBS Australia (the "**CBS Transaction**") providing, among other things, for the transfer of 100% of the shares in TEN as part of a deed of company arrangement.

As part of the CBS Transaction, on 1 September 2017 CBS Australia provided a new secured loan, including a working capital facility, from which the CBA Facility and the fees of the Shareholder Guarantors have been repaid. CBS Studios, as security trustee, reappointed the Receivers on 1 September 2017.

2. What is the DOCA?

The DOCA is a statutory compromise of certain claims of creditors of the companies in the TEN Group that arose on or before 14 June 2017, which forms part of the CBS Transaction.

On 19 September 2017, creditors of each of the TEN Group companies resolved that the respective TEN Group companies execute the DOCA. The DOCA was executed by all parties on 19 September 2017.

Under the DOCA, on implementation, all shares in TEN will be transferred by the Deed Administrators to CBS Australia (or its nominee) and CBS Australia will be required to pay \$40.58 million ("**Trust Fund**") to the Trustees of the Creditors' Trust to be available to pay the claims of certain creditors of the TEN Group in accordance with the terms of the Creditors' Trust.

The implementation of the DOCA (including the transfer of TEN shares under the DOCA) is subject to the satisfaction of certain conditions, including:

- (a) the Court making the Section 444GA Order;
- (b) ASIC granting TEN and CBS Australia an exemption from the takeover provisions of the Corporations Act; and

- (c) CBS Australia obtaining all necessary approvals under the *Foreign Acquisitions and Takeovers Act 1975* (Cth) ("**FIRB Approval**").

Following implementation, the DOCA will be effectuated. Upon effectuation of the DOCA, claims of certain creditors of the TEN Group will be extinguished and released and replaced by a right to prove under the Creditors' Trust Deed for the purpose of receiving a dividend from the Trust Fund in accordance with the terms of the Creditors' Trust Deed.

On effectuation of the DOCA, any claims you have against TEN in your capacity as a shareholder will be released and extinguished. The only exception is if the claim is an "Insured Claim" for the purposes of the DOCA, in which case, subject to the terms of the DOCA, it will not be released and extinguished by the DOCA to the extent of any insurance payment. In either case, you will not be entitled to receive a dividend from the Trust Fund in respect of any claims you may have against TEN in your capacity as shareholder. This treatment will not affect any claims you may have against third parties.

3. What will happen if the Section 444GA Order is not made?

If the Section 444GA Order has not been made or if it is unlikely to be made by the Sunset Date, CBS Australia may give written notice to the Deed Administrators that it waives that condition precedent and wishes instead to enter into a transaction for the sale of some or all of the assets of the TEN Group companies ("**Alternate CBS Transaction**") that provides for the payment of the same amount to the Trust Fund and is otherwise on the same terms as set out in the DOCA and Creditors' Trust Deed.

If that occurs, completion of the Alternate CBS Transaction and effectuation of the DOCA will also be conditional on any conditions precedent in the relevant asset sale agreement to give effect to the Alternate CBS Transaction being satisfied or waived.

In the event that the conditions precedent to implementation of the DOCA are not satisfied or waived by the Sunset Date or the asset sale agreement to give effect to the Alternate CBS Transaction has not been entered into, the Deed Administrators will convene a meeting of creditors of each of the TEN Group companies to consider the future of the TEN Group companies.

4. Will I receive any consideration for the transfer of my shares?

No, you will not receive any consideration for the transfer of your TEN shares. If the Section 444GA Order is made, ASIC grants the necessary relief and the necessary FIRB Approval is obtained, the Deed Administrators will transfer your shares to CBS Australia (or its nominee) on implementation for nil consideration and you will cease to hold any shares in TEN.

5. What must the Court be satisfied of in making an order under section 444GA?

The Court may only give leave for the transfer of all of the shares in TEN to CBS Australia (or its nominee) if it is satisfied that the transfer would not unfairly prejudice shareholders.

6. What is the Independent Expert's conclusion?

The Deed Administrators engaged the Independent Expert to provide a valuation of TEN shares to assist the Court in determining whether the proposed transfer of shares to CBS Australia (or its nominee) will unfairly prejudice shareholders for the purpose of the Section 444GA Application. The Independent Expert's Report was also prepared for the purpose of applying to ASIC for technical relief from the takeover provisions of the Corporations Act.

A full copy of the Independent Expert's Report is attached. The Independent Expert has concluded that TEN's equity has nil value.

7. What is the timetable for the Section 444GA Application?

Key dates for TEN shareholders

Event	Date
The Deed Administrators' evidence to be filed with the Court and served on ASIC	Tuesday 10 October 2017 at 4:00pm
Notice of appearance of any shareholder seeking to appear at the hearing of the Section 444GA Application to be filed with the Court setting out the grounds of opposition and served on the Deed Administrators and ASIC	Friday 13 October 2017 at 4:00pm
Directions hearing - further directions for the hearing of the Section 444GA Application to be made	Monday 16 October 2017 at 9:15am
Tentative final hearing date for the Section 444GA Application	Tuesday 31 October 2017 at 10:00am

The final hearing date is tentative only and will be confirmed at the directions hearing on 16 October 2017.

The Section 444GA Application has been filed in the Supreme Court of New South Wales and the Court has set a tentative final hearing date and time of Tuesday 31 October 2017, commencing at 10:00am with an estimated hearing of three days.

The final hearing date is expected to be confirmed at the directions hearing to be held on Monday 16 October 2017.

The Deed Administrators will release an ASX announcement setting out the orders made by the Court at the directions hearing to be held on Monday 16 October 2017 including the timetable for preparation of the application for hearing and confirming the date for the final hearing.

8. How can you participate in the Court hearing?

You may appear at the Court hearing to make submissions and/or oppose the Section 444GA Application by filing with the Court, and serving on the Deed Administrators (at the address given below) and ASIC, a notice of appearance setting out your grounds of opposition by 4:00pm on Friday 13 October 2017.

A directions hearing will be held at the Supreme Court of New South Wales on Monday, 16 October 2017 at 9:15am at which time it is expected that:

- a further timetable will be made for the filing and service of evidence (including by any shareholder who has filed a notice of appearance seeking to oppose the order); and
- the Court will confirm the final hearing date and time.

The Deed Administrators will accept service of an appearance and supporting affidavit C/- Baker McKenzie, Level 27, AMP Centre, 50 Bridge Street, Sydney NSW 2000 (Attention: Maria O'Brien and Heather Sandell) or maria.obrien@bakermckenzie.com and heather.sandell@bakermckenzie.com.

You should seek independent legal, financial and taxation advice before making a decision on whether to take any action in relation to the Section 444GA Application.

9. What information is available to assist you?

To assist you in deciding whether to appear at the Court hearing, and in addition to this Explanatory Statement and the attached Independent Expert's Report:

- a copy of the Originating Process filed by the Deed Administrators in relation to the 444GA Application is available on the TEN website (<https://tenplay.com.au/corporate/announcements>) and also on the Deed Administrators' website (<http://www.kordamentha.com/Creditors/Ten-Group/Shareholders>); and
- the Deed Administrators' Report to Creditors provided under section 439A of the Corporations Act dated 4 September 2017 and the Supplemental Report dated 11 September 2017 are available on the ASX platform (<http://www.asx.com.au>), TEN website (<https://tenplay.com.au/corporate/announcements>) and also the Deed Administrators' website (<http://www.kordamentha.com/Creditors/Ten-Group/Creditors>).

Alternatively, you may request copies of those documents from us and they can be emailed to you free of charge. Please contact Link at tengroup@linkmarketservices.com.au or 1300 494 861.

10. Glossary

The following is a glossary of certain terms used in this Explanatory Statement.

Alternate CBS Transaction	a transaction for the sale of some or all of the assets of the TEN Group companies to CBS Australia that provides for the payment of the same amount to the Trust Fund and is otherwise on the same terms as set out in the DOCA and Creditors' Trust Deed, which CBS Australia may give written notice to the Deed Administrators that it wishes to enter into if by the Sunset Date in the DOCA the Section 444GA Order has not been made, or if it is unlikely that the Section 444GA Order will be made by the Sunset Date, and CBS Australia waives that condition precedent.
ASIC	Australian Securities and Investments Commission.
Birketu	Birketu Pty Limited.

CBA	Commonwealth Bank of Australia.
CBA Facility	the \$200 million finance facility with CBA which was due to expire in December 2017.
CBS	collectively, CBS Australia, CBS Broadcasting Inc. and Showtime Distribution B.V.
CBS Australia	CBS International Television Australia Pty Ltd.
CBS Studios	CBS Studios, Inc.
CBS Transaction	the transaction between the TEN Group and CBS Australia which provides for, among other things, the transfer of 100% of the shares in TEN as part of the DOCA.
Corporations Act	<i>Corporations Act 2001</i> (Cth).
Court	Supreme Court of New South Wales.
Creditors' Trust	the trust to be established by the Creditors' Trust Deed.
Creditors' Trust Deed	the trust deed to be entered into between the companies in the TEN Group and the Deed Administrators substantially in the form contained in schedule 3 to the DOCA.
Deed Administrators	Mark Korda, Jennifer Nettleton and Jarrod Villani in their capacity from 14 June 2017 until 19 September 2017 as voluntary administrators and from 19 September 2017 as deed administrators of TEN and each other company in the TEN Group.
DOCA	the deed of company arrangement entered into between TEN, each other company in the TEN Group, the Deed Administrators and CBS Australia on 19 September 2017.
FIRB Approval	the necessary approvals under the <i>Foreign Acquisitions and Takeovers Act 1975</i> (Cth).
Fox	Twentieth Century Fox Film Corporation (Australia) Pty Limited.
Illyria	Illyria Nominees Television Pty Limited as trustee for Illyria Investment Trust No. 4.
Independent Expert	KPMG Corporate Finance.
Independent Expert's Report	the report of KPMG Corporate Finance, as attached to this Explanatory Statement.
Moelis	Moelis Australia Advisory Pty Limited.
Network Ten	Network Ten Pty Ltd (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed).
Receivers	Chris Hill, Phil Carter and David McEvoy as receivers and managers of 10 of the entities in the TEN Group.
Section 444GA Application	an application to the Court under section 444GA of the Corporations Act for leave to be granted to the Deed Administrators to transfer all of the shares in TEN to CBS Australia or its nominee.
Section 444GA Order	an order of the Court granting the leave sought in the Section 444GA Application.
Shareholder Guarantors	Birketu, Illyria and Consolidated Press Holdings Limited.

Sunset Date	15 December 2017 or such other date as agreed by TEN, Network Ten, the Receivers, the Deed Administrators, CBS Australia and CBS Studios
TEN	Ten Network Holdings Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed).
TEN Group	TEN and its relevant subsidiaries, being The Ten Group Pty Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed), Network Ten Pty Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed), Network Ten (Sydney) Pty Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed), Network Ten (Brisbane) Pty Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed), Network Ten (Melbourne) Pty Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed), Network Ten (Perth) Pty Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed), Network Ten (Adelaide) Pty Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed), Caprice Pty Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed), Chartreuse Pty Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed), Television & Telecasters (Properties) Pty Limited (Subject to Deed of Company Arrangement), Ten Online Pty Limited (Subject to Deed of Company Arrangement), Ten Ventures Pty Limited (Subject to Deed of Company Arrangement), and Ten Employee Share Plans Pty Limited (Subject to Deed of Company Arrangement).
Trust Fund	the \$40.58 million which CBS Australia will be required to pay on implementation under the DOCA to the Trustees of the Creditors' Trust to be available to pay the claims of certain creditors of the TEN Group in accordance with the terms of the Creditors' Trust.
Trustees	Mark Korda, Jennifer Nettleton and Jarrod Villani in their capacity as trustees of the Creditors' Trust.
US Studios	CBS and Fox.



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The Deed Administrators and Receivers and Managers
Ten Network Holdings Limited (Subject to Deed of Company Arrangement)
(Receivers and Managers Appointed)
Level 14
1 Saunders Street
Pyrmont NSW 2009

10 October 2017

Dear Deed Administrators and Receivers

Independent Expert's Report and Financial Services Guide

PART ONE – INDEPENDENT EXPERT'S REPORT

1 Introduction

On 14 June 2017, the Directors of Ten Network Holdings Limited (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) (Ten Network) appointed Mr Mark Korda, Ms Jennifer Nettleton and Mr Jarrod Villani of KordaMentha Pty Ltd (KordaMentha) as voluntary administrators (Administrators) of Ten Network (including certain of its subsidiaries (Subsidiaries)¹) pursuant to Section 436A of the Corporations Act 2001 (Cth) (Corporations Act).

Subsequently, Mr Christopher Hill, Mr Philip Carter and Mr David McEvoy of PPB Pty Limited (PPB Advisory) were appointed receivers and managers (Receivers and Managers) of Ten Network (including certain of its subsidiaries) after close of business on 30 June 2017.

On 28 August 2017, the Deed Administrators and Receivers and Managers announced that wholly owned entities of CBS Corporation had entered into a binding agreement (Transaction Deed) to acquire the shares of Ten Network (the Proposed Transaction). The Proposed Transaction is to be effected by way of a refinance of existing secured debt arrangements

¹ Includes The Ten Group Pty Limited, Network Ten Pty Limited, Network Ten (Sydney) Pty Limited, Network Ten (Brisbane) Pty Limited, Network Ten (Melbourne) Pty Limited, Network Ten (Perth) Pty Limited, Network Ten (Adelaide) Pty Limited, Caprice Pty Limited, Chartreuse Pty Limited, Television & Telecasters (Properties) Pty Limited, Ten Online Pty Limited, Ten Ventures Pty Limited and Ten Employee Share Plans Pty Limited.

(including shareholder guarantor fees) which was completed on 1 September 2017 as detailed below and a Deed of Company Arrangement (DOCA) that was approved by creditors on 19 September 2017.

On 1 September 2017, the refinance component of the Transaction Deed was completed, with a wholly owned entity of CBS Corporation funding approximately \$142.7 million by way of loan, to refinance the secured debt of the Ten Network, including the shareholder guarantor fees. A working capital facility of \$30 million has also been made available as part of the refinance (\$3.6 million of which was used to refinance the existing secured debt). The security provided by Ten Network for these facilities is broadly similar to that provided to the previous secured lender, Commonwealth Bank of Australia (CBA). The Receivers and Managers were reappointed pursuant to the CBS facility.

On 18 September 2017, the DOCA and Trust Deed proposed by CBS Corporation were amended. The key change to the DOCA was an increase in the funds available for creditors via the Creditors' Trust, from \$32.00 million to \$40.58 million.

Under the DOCA, all shares in Ten Network will be transferred to CBS International Television Australia Pty Ltd (CBS Australia)² in exchange for CBS Australia paying certain transaction costs, and paying \$40.58 million (Trust Fund) into a Creditors' Trust Account to be available to pay the claims of creditors of Ten Network and its Subsidiaries (other than CBS Corporation and its wholly owned entities). Ten Network's shareholders will receive nil consideration.

The obligations of CBS Australia under the Transaction Deed are guaranteed by CBS Studios, Inc. (CBS Studios), a subsidiary of CBS Corporation.

The Proposed Transaction is conditional on:

- the Court making an order under Section 444GA(1) of the Corporations Act granting the Deed Administrators of the DOCA leave to transfer all of the shares in Ten Network to CBS Australia³
- the Australian Securities and Investment Commission (ASIC) granting such exemptions and modifications from the takeover provisions of the Corporations Act pursuant to Section 655A of the Corporations Act as are necessary to permit the transfer of all the shares in Ten Network to CBS Australia³, and
- Foreign Investment Review Board (FIRB) approval.

² Or its nominee which must be owned by CBS Australia or a Related Body Corporate (as defined in the Corporations Act) (CBS Australia Nominee)

³ Or a CBS Australia Nominee

The Deed Administrators and Receivers and Managers have engaged KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division) (KPMG Corporate Finance) to provide an independent expert's report (IER) in relation to the valuation of the equity in Ten Network for the purpose of assisting the Court and ASIC in their determinations.

Accordingly, this report sets out the opinion of KPMG Corporate Finance as to the value of Ten Network's equity.

Further information regarding KPMG Corporate Finance, as it pertains to the preparation of this report, is set out in Appendix 1.

KPMG Corporate Finance's Financial Services Guide is contained in Part Two of this report.

Ten Network is the third largest commercial television broadcaster in Australia, with assets across free-to-air television, online and digital platforms. It is listed on the Australian Securities Exchange (ASX) (ASX:TEN). As at 9 June 2017, the last trading day prior to the announcement that the Administrators had been appointed, Ten Network had a market capitalisation of \$58.0 million.⁴

CBS Corporation is a key content provider to the Ten Network group and operates businesses which span the media and entertainment industries, including the CBS Television Network, cable networks, content production and distribution, television stations, internet-based businesses and consumer publishing. CBS Corporation is listed on the New York Stock Exchange and has a market capitalisation of around US\$23.4 billion.⁵

The Proposed Transaction is the result of a competitive sales process undertaken by the Receivers and Managers and their sale advisor, Moelis Australia Advisory Pty Ltd (Moelis) to identify a suitable party to purchase or recapitalise the business and assets of Ten Network which commenced on 5 July 2017.

2 Scope of Report

The Deed Administrators and Receivers and Managers have engaged KPMG Corporate Finance to provide an IER in relation to the valuation of the equity in Ten Network. We understand that this report will be used:

- for the purpose of assisting the Court in determining whether the proposed transfer of shares to CBS Australia³ will unfairly prejudice shareholders for the purpose of the Section 444GA(1) application, and

⁴ Based on a closing price of \$0.16 on 9 June 2017 and 362,813,678 Ten Network shares outstanding (including quoted loan fund shares but excluding unquoted loan fund shares)

⁵ Based on a closing price of \$58.23 for 364,054,978 Class B common shares outstanding and \$58.56 for 37,598,604 Class A common shares outstanding on 15 September 2017.

- for the purpose of applying to ASIC for technical relief from the takeover provisions of the Corporations Act.

Furthermore, this report will be included in the Explanatory Statement to be sent to Ten Network shareholders prior to the Court hearing tentatively listed on 31 October 2017 for three days so as to provide them with the valuation of Ten Network's equity.

Further details of the relevant technical requirements and the basis of assessment in forming our opinion are set out in Section 5 of this report.

3 Summary of opinion

KPMG Corporate Finance has assessed the value of Ten Network's equity on the basis of a:

- going concern valuation, which assumes that Ten Network will continue its operations for the foreseeable future and will be able to realise its assets and discharge its post administration liabilities in the normal course of business, and
- distressed valuation, which reflects the situation faced by Ten Network whereby it does not have sufficient funding to pursue its operations for the foreseeable future.

Under both approaches we consider that Ten Network's equity has a nil value.

It is important to recognise that the going concern valuation assumes Ten Network's current financial difficulties do not exist and sufficient funding is available to pursue its operations. In our opinion, these assumptions are inappropriate and as such, a valuation on this basis overstates the realisable value of Ten Network's business and/or assets in the absence of the DOCA. The going concern valuation has been prepared on this basis in accordance with the requirements of ASIC, as discussed in Section 5.1 of this report. The more relevant assessment of value for the purpose of assisting the Court in determining whether the proposed transfer of shares to CBS Australia³ will unfairly prejudice shareholders is our distressed valuation.

Going concern value

KPMG Corporate Finance has assessed Ten Network's equity on a going concern basis to have nil value.

The value of Ten Network's equity has been determined by assessing the value of 100% of Ten Network's business operations on a 'going concern',⁶ control basis, then deducting secured borrowings and shareholder guarantee fees (net of cash) as at 31 August 2017, the Deed Administrators' assessment of mitigated claims lodged by three subsidiaries of CBS Corporation and Twentieth Century Fox Film Corporation (Australia) Pty Ltd (Fox), a subsidiary of Twenty-First Century Fox, Inc. (Twenty-First Century Fox) (for the purpose of determining their voting interests at the second creditors' meeting) of \$348.0 million and \$195.0

⁶ Refer to section 5.2 of this report for a definition of 'going concern'.

million, trade and other creditors of \$30 million to \$35 million⁷ and expected transaction costs, and adding other assets (net).

When assessing the value of 100% of Ten Network's business operations, we have considered those synergies and benefits that would generally be available to a pool of potential purchasers. We have not included any 'special value', or the value of synergies specific to a particular acquirer (refer to Section 8.2.3 of the report).

KPMG Corporate Finance has applied a discounted cash flow (DCF) analysis as the primary methodology in the valuation of Ten Network's business operations. Three scenarios have been developed: a Base Case, Low Case and High Case (refer to Section 8.3 of this report). The adjusted net present value (NPV)⁸ of Ten Network's business operations under these scenarios is set out below.

Table 1: Adjusted NPV⁸ of Ten Network's business operations under scenarios

\$ millions	Discount rate		
	10.00%	9.75%	9.50%
Base Case	(93.8)	(94.5)	(95.2)
Low Case	(402.7)	(405.3)	(408.0)
High Case	114.7	116.1	117.7

Source: KPMG Corporate Finance analysis.

Our analysis indicates that only under the High Case scenario do Ten Network's business operations have a positive NPV. As a result, in our opinion, there is no equity value in Ten Network under the Base and Low Case scenarios.

Even under the High Case scenario, the value of Ten Network's equity is nil. Under the High Case, the NPV of Ten Network's business operations is in the range of \$114.7 million to \$117.7 million (before synergies available to a broad pool of purchasers). After deducting mitigated claims, trade and other creditors and transaction costs and adding other assets (net), the implied value of equity is negative ((\$543.7) million to (\$529.2) million) as set out in the following table.

⁷ No other potential claims (e.g. in relation to sporting rights and employees) have been included as either the expenses relating to those claims are captured in the cash flows and as at the date of this report, no other claims have been made or the contracts had not been terminated.

⁸ Adjusted NPV assumes that where Ten Network's cash flows are negative from 31 August 2022, Ten Network either operates at a 'break-even' level (i.e. cash flows are nil) from 31 August 2022 or that at this time the business is sold to a third party for zero value given that it is loss making. Refer to Section 8.3.1 of this report.

Table 2: Ten Network summary of value (High Case scenario)

\$ million unless otherwise stated	Section reference	Valuation range	
		Low	High
NPV of Ten Network's business operations (High Case scenario)	8.3	114.7	117.7
Capitalised public company costs	8.2.3	12.0	13.5
Enterprise value		126.7	131.2
Secured borrowings	7.6	(142.7)	(142.7)
Cash	7.6	40.2	40.2
Net borrowings		(102.5)	(102.5)
Subtotal		24.2	28.7
Subtract: CBS Corporation and Fox mitigated claims	7.6	(543.0)	(543.0)
Subtract: Trade creditors and other claims	7.6	(35.0)	(30.0)
Subtract: Transaction costs	7.6	(6.9)	(6.9)
Add: Other assets/(liabilities) (net)	8.4	17.0	22.0
Implied value of 100% of equity of Ten Network (High Case Scenario)		(543.7)	(529.2)
Assessed value of 100% of equity of Ten Network		nil	nil

Source: KPMG Corporate Finance analysis.

We have deducted the Deed Administrators' assessment of mitigated claims lodged by US content providers, which were determined for the purposes of the second creditors' meeting, as these represent the best guide as to Ten Network's liabilities in respect of these claims as a consequence of the administration. To the extent that actual claims are determined to be either higher or lower than the mitigated claims, then the implied value of equity would be either higher or lower.

Taking into account the mitigated claims, Ten Network's business operations would need to have a NPV of at least \$646.9 million⁹ in order for equity to have a positive value.

It is important to recognise that the High Case of our DCF analysis is optimistic. It assumes that the earnings initiatives identified by Ten Network (the Transformation Program, renegotiation of US content agreements and licence fee relief)¹⁰ are predominantly achieved and that the decline in the free-to-air television industry is not as steep as that anticipated by independent forecasters or recent history. Specifically, it assumes:

- a majority (80%) of 'bankable' initiatives under the Transformation Program are implemented and result in the anticipated savings, on schedule
- US content agreements are revised based on the terms sought by Ten Network prior to the appointment of the Administrators (i.e. Ten Network's cost of acquiring content is reduced by approximately 40%), and

⁹ Calculated as CBS Corporation and Fox mitigated claims (\$543.0 million) less other assets (net) (\$22 million) plus transaction costs (\$6.9 million) plus trade creditors and other claims (\$30 million) less cash (\$40.2 million) plus secured borrowings (\$142.7 million) less capitalised public company costs (\$13.5 million).

¹⁰ Refer to Section 7.10 of this report for further details. The third source of earnings improvement identified, licence fee relief, is considered likely as the Broadcasting Legislation Amendment (Media Reform Bill) 2016 was passed by Parliament on 14 September 2017.

- the free-to-air television advertising market declines by an average of 2.5% per year (which is more favourable than independent medium term forecasts¹¹ as well as recent industry performance¹²).

The combination of these outcomes is, in our view, unlikely and it is also unlikely that an acquirer would be willing to pay a price that reflects the combination of each of these outcomes without an element of 'special value' (refer to Section 8.2.3 of the report).

The implied value of Ten Network's equity would be even lower under the Low Case and Base Case NPV of Ten Network's business operations.

It is important to recognise that in a declining market, without constant initiatives to reduce costs and/or increase market share, a business with a high fixed cost base or fixed increases in costs (as is the case with Ten Network currently) will experience a contraction in earnings margins. Over the last five and one half years, shareholders have invested \$584 million in Ten Network.¹³ Although the content strategy introduced in November 2013 has resulted in improvements in revenue share, revenue and costs have increased at a similar rate, such that EBITDA remains negative. Furthermore, Ten Network's revenue share remains significantly lower than those of its peers which provides a weaker negotiating position in terms of advertising revenues and lower economies of scale.

The High Case assumes that a majority of 'bankable' initiatives under the Transformation Program are achieved, with FY19 being the first full year of impact. However, from FY20, EBITDA margins decline as there are no further revenue benefits or cost savings to offset the decline in free-to-air television industry advertising expenditure. Whilst a number of other initiatives have been identified or validated, they have not yet been approved or fully developed ('pre-bankable' initiatives). These have not been included in our analysis as they are considered hypothetical in nature (refer to Section 5.3 of the report) and in any event, it is unlikely that an acquirer would be willing to pay for them.

Distressed value

KPMG Corporate Finance has also considered the value of Ten Network's equity on a distressed basis to reflect a liquidation scenario, which takes into account the situation faced by Ten Network whereby it does not have sufficient funding to pursue its operations for the foreseeable future.

In our view, the more realistic liquidation scenario is a distressed sale (which assumes that secured creditors would fund ongoing trading to the extent necessary to effect the sale of the assets on a going concern basis) rather than a 'break up' sale.

¹¹ As discussed in Section 6.3.7 of the report, PwC forecasts average annual industry decline from 2016 to 2021 of 4.7% and IBISWorld forecasts average annual industry decline of 3.6% for the five years to 30 June 2022

¹² A decline of 3.2% in FY16 and 4.0% in FY17. Source: SMI. Refer to Section 6.2.6 of the report

¹³ Includes gross equity proceeds of \$200 million in June/July 2012, \$230 million in December 2012/January 2013 and \$154 million in October-December 2015

This approach assumes that the business will be sold as a going concern rather than having regard to the value of assets that comprise the business noting, however, that the seller would likely be considered in such a situation to be an 'anxious' seller within the context of the definition of fair value (refer to Section 5.2 of this report). In relation to Ten Network's assets we note that Ten Network does not have significant tangible assets capable of realising any material value (refer to Section 7.6 of this report).

We have considered three adjustments to the NPV outcomes under the High Case 'going concern' scenario to reflect financial distress, being:

1. an increase in the discount rate to take into account the existing distressed situation whereby a potential acquirer would seek a higher rate of return to reflect the increased risk
2. the potential impact of financial distress on existing content agreements whereby providers of content can potentially terminate their agreements, and
3. CBS Corporation and Fox content agreements are not formally amended (refer to Section 8.6 of this report) as this is the position Ten Network was in when it entered into Administration.

The impact of each of these outcomes would be to reduce the adjusted NPV⁸ of Ten Network's business operations. We have set out the impact below under the High Case only as under our Base and Low cases, Ten Network's business operations have no value, noting that the High Case 'going concern' valuation is optimistic as discussed above.¹⁴

Table 3: Adjusted NPV⁸ of Ten Network's business operations (High Case) under financial distress

\$ millions	Low	High
NPV of Ten Network's business operations (High Case)	114.7	117.7
Financial distress:		
1. High Case with 14.5% to 20% discount rate	82.2	95.7
2. High Case with termination rights in content agreements	n/a ¹	n/a ¹
3. High Case with no renegotiation of US content agreements (and 9.5% to 10% discount rate)	(152.4)	(154.1)

Source: KPMG Corporate Finance analysis

Note 1: Value depends on extent to which termination rights in the event of insolvency under content agreements exist and are exercised and any consequential impact on revenue.

Under each of these scenarios, the adjusted NPV of Ten Network's business operations is below that under the High Case 'going concern' valuation and the implied value of equity is negative. Accordingly, on a distressed basis, the assessed value of Ten Network's equity is nil.

¹⁴ As discussed, the High Case is optimistic as it assumes a majority (80%) of 'bankable' initiatives under the transformation program are implemented and result in anticipated savings, on schedule, US content agreements are revised on terms sought by Ten Network prior to the appointment of the Administrators (i.e. Ten Network's cost of acquiring content is reduced by approximately 40%) and the free-to-air television market declines by an average of 2.5% per year (which is more favourable than independent medium term forecasts and recent historical experience).

Furthermore, it should be noted that in the event of a winding up of Ten Network and its Subsidiaries, it would be necessary to pay the claims of priority creditors (employees) which the Deed Administrators have estimated as being in the range of \$14.1 million (including annual leave and long service leave) to \$56.2 million (including redundancy costs).¹⁵

Other matters

Our report has been prepared in accordance with the relevant provisions of the Corporations Act and other applicable Australian regulatory requirements. This report has been prepared solely for the purpose of assisting the Court regarding the application under Section 444GA(1) of the Corporations Act proposed by the Deed Administrators of Ten Network on whether or not the proposed share transfer will unfairly prejudice Ten Network shareholders and for the purpose of applying to ASIC for technical relief from the takeover provisions of the Corporations Act. We do not assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose.

All currency amounts in this report are denominated in Australian dollars unless otherwise stated. References to an Australian financial year (i.e. the 12 months to 31 August) have been abbreviated to FY.

Neither the whole nor any part of this report or its attachments or any reference thereto may be included in or attached to any document, other than the Explanatory Statement to be sent to Ten Network shareholders in relation to the DOCA proposed by CBS Australia and entered into by Ten Network and its Subsidiaries, without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears. KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it appears in the Explanatory Statement.

Our opinion is based solely on information available as at the date of this report as set out in Appendix 2. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion. We refer readers to the limitations and reliance on information section as set out in Section 5.3 of our report.

¹⁵ "Ten Group, Report to Creditors pursuant to Section 439A of the Corporations Act 2001", dated 4 September 2017, page 21

The above opinion should be considered in conjunction with and not independently of the information set out in the remainder of this report, including the appendices.



Ian Jedlin
Authorised Representative



Sean Collins
Authorised Representative

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4 The Proposed Transaction

4.1 Background to the Proposed Transaction

The Proposed Transaction is the result of a competitive sales process undertaken by the Receivers and Managers and their sale advisors, Moelis, to identify a suitable party to purchase or recapitalise the business and assets of Ten Network.

In October 2013, Ten Network entered into a \$200 million secured revolving cash advance loan facility agreement with CBA. The proceeds were to be used to fund an increased investment in content in order to improve ratings and performance. A condition of the facility was that guarantees were put in place to secure Ten Network's obligations. Three substantial shareholders of Ten Network agreed severally to act as guarantors, being Illyria, CPH and Birketu.

Under the facility, interest and commitment fees payable to CBA on drawn debt were capitalised and payable on maturity. The facility was drawn at \$81.6 million (including capitalised interest and commitment fees) at 27 May 2017 and shareholder guarantor fees of \$32.2 million were outstanding. The facility was due to expire on 23 December 2017.

Despite the success of initiatives to improve ratings, structural changes in the free-to-air broadcasting industry, limited revenue growth and the high cost of programming meant that earnings margins remained low or negative. The financial performance of Ten Network is set out in Section 7.3 to 7.6 of this report.

In order to repay the existing facility and fund cash flow losses, Ten Network¹⁶ sought to secure an amended or new borrowing facility with extended maturity and expanded size (approximately \$250 million). Renegotiation of a new facility with CBA remained reliant on the provision of credit support satisfactory to CBA. In order to secure this new facility, Ten Network Directors identified the following sources of earnings improvement:

- delivery of the cost and revenue initiatives identified in the transformation process currently underway (Transformation Program)
- renegotiation of material programming contracts, and
- reduction in Federal Government imposed licence fees.

These initiatives are described in Section 7.10 of this report. There was material uncertainty associated with each of these opportunities.

On 13 June 2017, Ten Network requested that the company be placed in a trading halt following advice from financial advisers to Illyria and Birketu that they did not intend to extend or increase their support for Ten Network's credit facilities beyond the term of the current facility.

¹⁶ Source: Directors Report on release of the financial results for first half of FY17

On 14 June 2017, the Directors of Ten Network appointed Mr Mark Korda, Ms Jennifer Nettleton and Mr Jarrod Villani of KordaMentha as Administrators of Ten Network (including certain of its subsidiaries) pursuant to Section 436A of the Corporations Act. Subsequently, Mr Christopher Hill, Mr Philip Carter and Mr David McEvoy of PPB Advisory were appointed Receivers and Managers of Ten Network (including certain of its subsidiaries) after close of business on 30 June 2017.

On 23 June 2017 and 15 September 2017, CBS Australia, CBS Broadcasting, Inc, and Showtime Distribution B.V., subsidiaries of CBS Corporation, and Fox, a subsidiary of Twenty-First Century Fox, each of whom have content agreements in place with Ten Network, lodged with the Administrators proofs of debt for voting purposes that make claims of \$843.7 million and \$366.1 million, respectively.

On 3 July 2017, the Receivers and Managers announced that they had negotiated an amendment and restatement of Ten Network's existing loan facility agreement, with continuing support from Illyria, CPH and Birketu, in order to secure a \$30 million funding package, which was available until 31 August 2017.

On 5 July 2017, the Receivers and Managers appointed Moelis to assist in a competitive sales process to identify a suitable party to purchase or recapitalise the business and assets of Ten Network.

Moelis identified and contacted in excess of 60 parties globally including private equity firms, special situation funds, international media companies, domestic media companies and individuals. Of these, 53 parties were sent a teaser and 50 parties were sent a non-disclosure agreement (NDA), which was signed by 22 parties. Given the short time period until the expiry of the interim funding (31 August 2017), the process involved a single stage, but dual phased approach:

- **Phase 1:** parties who signed the NDA were provided with a confidential information memorandum, financial model and process letter (outlining the requirement for bidders to submit a confirmation letter outlining their ability, amongst other things, to take off risk and refinance the CBA secured debt by 31 August 2017), and
- **Phase 2:** the eight parties eligible to proceed to the next stage of due diligence were granted access to additional materials via a data room including a range of confidential company information, financial and legal due diligence, and had an opportunity to participate in management presentations.

Potential bidders were required to submit binding proposals by 18 August 2017.

4.2 Proposed Transaction

On 28 August 2017, the Administrators and Receivers and Managers announced that wholly owned entities of CBS Corporation had entered into the Transaction Deed in respect of the Proposed Transaction. The Proposed Transaction is to be effected by way of a refinance of existing secured debt arrangements (including shareholder guarantor fees) and a DOCA that was approved by creditors of Ten Network and its Subsidiaries on 19 September 2017.

On 18 September 2017, the proposed DOCA and Trust Deed were amended. The key change to the DOCA was an increase in the funds available for creditors via the Creditors' Trust, from \$32.00 million to \$40.58 million.

Under the DOCA, all shares in Ten Network will be transferred to CBS Australia¹⁷ in exchange for refinancing and repaying Ten Network's secured creditor, CBA and the guarantor fees of Illyria, CPH and Birketu, paying certain transaction costs, and paying the Trust Fund into a Creditors' Trust Account to be available to pay the claims of creditors of Ten Network and its Subsidiaries. Ten Network's shareholders will receive nil consideration.

The obligations of CBS Australia under the Transaction Deed are guaranteed by CBS Studios.

The Proposed Transaction is conditional on the following conditions being fulfilled prior to 5 pm on 15 December 2017 (Sunset Date):

- the Court making an order under Section 444GA(1) of the Corporations Act granting the Deed Administrators of the DOCA leave to transfer all of the shares in Ten Network to CBS Australia¹⁷
- ASIC granting such exemptions and modifications from the takeover provisions of the Corporations Act pursuant to Section 655A of the Corporations Act as are necessary to permit the transfer of all the shares in Ten Network to CBS Australia¹⁷, and
- FIRB approval.

If the Deed Administrators have not obtained the order under Section 444GA(1) or, if in the opinion of CBS Australia, is unlikely to be satisfied or waived at any time prior to 15 December 2017 (Sunset Date), CBS Australia may provide written notice that it waives this condition precedent and wishes to enter into an Alternative Sale Transaction.

If by the Sunset Date each of the conditions precedent is not satisfied or waived by all parties CBS Australia will cease to be bound by the Deed and the Deed Administrators will convene a meeting of creditors to determine the future of Ten Network and its Subsidiaries.

The Proposed Transaction also contains certain exclusivity provisions that apply until the Completion Date including that the Deed Administrators and Receivers and Managers will not solicit an alternative proposal, although this does not limit or affect their legal obligation in the event they receive an unsolicited alternative proposal involving a deed of company arrangement.

On 1 September 2017, the refinance component of the Proposed Transaction was completed, with CBS Australia funding approximately \$142.7 million by way of a loan, to refinance Ten Network's secured debt. A working capital facility of \$30 million was also made available as part of the refinance (\$3.6 million of which was used to refinance the existing secured debt).

¹⁷ Or a CBS Australia Nominee

5 Scope of the report

5.1 Purpose

The Deed Administrators and Receivers and Managers have engaged KPMG Corporate Finance to prepare an IER in relation to the valuation of the equity in Ten Network. We understand that this report will be used:

- for the purpose of assisting the Court in determining whether the proposed transfer of shares to CBS Australia or a CBS Australia Nominee will unfairly prejudice shareholders for the purpose of the 444GA(1) application, and
- for the purpose of applying to ASIC for technical relief from the takeover provisions of the Corporations Act.

Furthermore, this report will be included in the Explanatory Statement to be sent to Ten Network shareholders prior to the Court hearing tentatively listed on 31 October 2017 for three days so as to provide them with our independent opinion on whether or not the proposed share transfer will unfairly prejudice Ten Network shareholders for use in the Court application under Section 444GA(1) of the Corporations Act.

Pursuant to Section 444GA(3) of the Corporations Act, the Court will only approve such a transfer if it is satisfied that the proposed share transfer will not “unfairly prejudice the interests of members of the company”. The proposed share transfer will not unfairly prejudice Ten Network shareholders if the Ten Network shares have no value.

We are aware that the Deed Administrators will tender this report to the Court as part of the evidence in support of their section 444GA application. As a consequence, we have read the Expert Witness Code of Conduct (the Code) contained in Schedule 7 of the Uniform Civil Procedure Rules, which is the applicable Code for proceedings in the Supreme Court of New South Wales and have prepared this report on the basis that we are bound by the Code. We have made all inquiries which we believe are desirable and appropriate (save for any matters identified explicitly in this report) and no matters of significance which we regard as relevant have, to our knowledge, been withheld from the Court.

5.2 Basis of assessment

Regulatory Guide (RG) 111 “Content of expert reports”, issued by the Australian Securities and Investments Commission (ASIC) provides guidance on the content of an expert report and how an expert can help security holders make informed decisions about transactions.

RG 111.8 states that there are a range of legal mechanisms that result in a control transaction and RG 111.9 states that in such cases, the expert should focus on the substance of the control transaction rather than the legal mechanism to effect it. Where a transaction is a control transaction, it should be analysed on a basis consistent with a takeover bid. In addition, RG 111.11(a) notes that the expert should not reflect ‘special value’ that might accrue to the acquirer:

“Note: Any special value of the ‘target’ to a particular ‘bidder’ (e.g. synergies that are not available to other bidders) should not be taken into account under this comparison, but see RG 111.13(e).”

Furthermore, RG 111.50 notes that the weight of judicial authority is that an expert should not reflect ‘special value’ that might accrue to the acquirer.

The Proposed Transaction can be characterised as a control transaction as CBS Australia or a CBS Australia Nominee will acquire 100% of the shares of Ten Network. Consequently, our valuation has been assessed on a control basis.

RG 111.15 states that “the fair value of the target securities should be determined on the basis of a knowledgeable and willing, but not anxious, seller that is able to consider alternative options to the bid (e.g. an orderly realisation of the target’s assets)”. That is, an assessment of fair value should not include consideration of a company’s financial distress.

Furthermore, for the purposes of determining the application for relief from the operation of Section 606 of the Corporations Act, ASIC has specifically requested that the IER assess the valuation of Ten Network shares on a ‘going concern’ basis.

‘Going concern’ is commonly applied to the preparation of financial statements and is defined as the assumption that the entity “will continue its operations for the foreseeable future....When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.”¹⁸

In seeking to determine the fair value of the Ten Network on a ‘going concern’ basis it is necessary to recognise that Ten Network was unable to discharge its liabilities in the normal course of business. In this respect we have valued the business operations on a ‘going concern’ basis and then deducted the secured borrowings (net of cash) and shareholder guarantee fees that existed as at 31 August 2017¹⁹, the Deed Administrators’ assessment of mitigated claims lodged by CBS Corporation and Fox, trade and other creditors and expected transaction costs, and added other assets (net).

Our report has also considered the value of the Ten Network shares on a distressed basis (that is, taking into account Ten Network’s financial distress) in order to assess its possible liquidation value, as liquidation of the Ten Network is a potential situation faced by shareholders. In taking into account financial distress, we have considered that the concept of fair value no longer exists, as the seller cannot be considered to be ‘not anxious’. As Ten Network does not have significant tangible assets for which material value could be realised, we have assumed the business operations would be sold as a going concern, however, a potential acquirer would seek a higher level of return to reflect the increased risk.

¹⁸ Source: para 2, “Auditing Standard ASA 570: Going Concern”, December 2015

¹⁹ The date adopted for valuation purposes.

We have also considered distress in the context of the impact of the Administration on existing content agreements and their terms at that time.

5.3 Limitations and reliance on information

In preparing this report and arriving at our opinion, we have considered the information detailed in Appendix 2 of this report. In forming our opinion, we have relied upon the truth, accuracy and completeness of any information provided or made available to us without independently verifying it. Nothing in this report should be taken to imply that KPMG Corporate Finance has in any way carried out an audit of the books of account or other records of Ten Network for the purposes of this report.

Further, we note that an important part of the information base used in forming our opinion is comprised of the opinions and judgements of management. In this regard, we held discussions with Ten Network's management in relation to the nature of Ten Network's business operations, its specific risks and opportunities, its historical results and its prospects for the foreseeable future. This type of information has been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Ten Network has been responsible for ensuring that information provided by it or its representatives is not false, misleading or incomplete. Complete information is deemed to be information which at the time of completing this report should have been made available to KPMG Corporate Finance and would have reasonably been expected to have been made available to KPMG Corporate Finance to enable us to form our opinion.

We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

The information provided to KPMG Corporate Finance included the following forward-looking financial information:

- FY17 forecast for Ten Network (FY17 Forecast), and
- a cash flow model for Ten Network for the period from 1 September 2017 to 31 August 2022 (Cash Flow Model).

KPMG Corporate Finance has relied upon this forward-looking financial information in preparing this report and Ten Network management remains responsible for all aspects of this forward-looking financial information. The forecasts and projections as supplied to us are based upon assumptions about events and circumstances which have not yet transpired. We have not tested individual assumptions or attempted to substantiate the veracity or integrity of such assumptions in relation to any forward-looking financial information, or tested the mathematical integrity of the models, however, we have made sufficient enquires and where considered necessary, have made adjustments to reflect our judgement.

Notwithstanding the above, KPMG Corporate Finance cannot provide any assurance that the forward-looking financial information will be representative of the results that will actually be achieved during the forecast period. Any variations in the forward-looking financial information may affect our valuation and opinion.

The opinion of KPMG Corporate Finance is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion.

KPMG Corporate Finance has undertaken various enquiries in relation to the Cash Flow Model, including holding discussions with management of Ten Network in regard to the commercial assumptions underlying the Cash Flow Model. We have reviewed the key commercial assumptions in the context of current economic, financial and other conditions (e.g. industry, regulatory, contractual). KPMG Corporate Finance is of the view that the forward-looking information has been prepared on a reasonable basis and, therefore, is suitable as a basis for our valuations. In making this assessment, we have taken into account the following:

- the Cash Flow Model was prepared by Ten Network management commencing in October 2016 following a review of the outlook for the free-to-air television market, which led to the initiation of the Transformation Program in November 2016. The assumptions have been refined a number of times based on changes in Ten Network's financial performance, the updated Transformation Program as at June 2017 and the outlook for the market
- earlier iterations were provided to shareholder guarantors and their advisors for the purpose of seeking guarantees for refinancing of the existing loan facility, to Moelis, for the purpose of securing an amendment to the existing loan facility and to potential bidders
- the Cash Flow Model includes the FY17 Forecast (which was updated for actual results to 31 May 2017), and
- Ten Network's FY17 and FY18 financial performance was subject to financial due diligence procedures undertaken by an independent financial advisory firm in their preparation of a vendor due diligence report that was provided to potential bidders. These procedures included providing views on the status of the Transformation Program initiatives, including run rate impact of benefits achieved to date, expected future benefits and the one off costs to achieve these benefits.

A portion of revenue and expenses (e.g. datacasting revenue, affiliate percentage fees, commissions, programming costs) are contracted under long-term arrangements and, therefore, are relatively stable and predictable. However, certain key assumptions (namely, growth in free-to-air television industry revenues) are out of the control of management and are subject to considerable uncertainty. Where possible, KPMG Corporate Finance has sought support for key assumptions (growth assumptions for the free-to-air television industry revenue) through external benchmarks.

Although outside the control of management, we consider the potential for licence fee relief for 2017/18 and beyond to be likely given the Media Reform Bill was passed by Parliament on 14 September 2017.

Other assumptions subject to considerable uncertainty include the revenue benefits and cost savings under the Transformation Program and likely outcome of renegotiation of US content agreements. We have held discussions with Ten Network management regarding the key initiatives under the Transformation Program, risks of achievement and progress to date, as well as in relation to the status of renegotiations of the US content agreements (prior to the appointment of the Administrators). Potential outcomes have been taken into consideration through scenario analysis.

Further potential savings under the Transformation Program (in addition to those which qualify as 'bankable') are considered hypothetical in nature (a 'projection') and, therefore, have not been included in our analysis. In this regard, we note that ASIC's RG 170, Prospective financial information, states at 170.18:

"We consider that prospective financial information based on hypothetical assumptions (rather than reasonable grounds) is likely to be misleading and provide little information value to investors. In our view, prospective financial information without reasonable grounds is not material to investors, nor would an investor reasonably require it or reasonably expect to find it in a disclosure document or PDS."

5.4 Disclosure of information

In preparing this report, KPMG Corporate Finance has had access to all financial information considered necessary in order to provide the required opinion. Ten Network has requested KPMG Corporate Finance limit the disclosure of some commercially sensitive information relating to Ten Network. This request has been made on the basis of the commercially sensitive and confidential nature of the operational and financial information. As such the information in this report has been limited to the type of information that is regularly placed into the public domain by Ten Network.

6 Industry

6.1 Overview

The television industry in Australia comprises free-to-air television broadcasters and subscription television broadcasters. The free-to-air television broadcasting industry can be further segmented into metropolitan and regional commercial broadcasters, as well as government funded and community broadcasters. Ten Network operates in the metropolitan free-to-air television segment in Australia.

Similar to other traditional media forms, free-to-air television faces significant challenges. These challenges have meant that advertising revenues have failed to keep pace with increasing costs, particularly in relation to the acquisition of content. Advertising revenues have been impacted by a cyclical downturn in the advertising market in FY11 to FY13, and structural changes in the way audiences consume content. Growth in online advertising, mobile device ownership and video-on-demand services have contributed to a reduction in the share of advertising revenue earned by free-to-air television. Increases in unregulated competition have resulted in the Federal Government proposing changes to media legislation (specifically, eliminating licence fees, relaxing ownership rules and changing content requirements), which may enable free-to-air broadcasters to better compete with new entrants. The Media Reform Bill was passed by Parliament on 14 September 2017.

Nevertheless, Australia remains one of the most attractive free-to-air television markets in the developed world as a result of protection afforded by anti-siphoning legislation (which keeps broadcasting rights to key sporting events on free-to-air television), the relatively low levels of subscription television penetration (around 34%²⁰) and the benefit of only having three commercial television licences in each major metropolitan market.

6.2 Free-to-air television industry

6.2.1 Overview

Broadcasters in the free-to-air television industry primarily generate revenues from the sale of television advertising, as content is offered to viewers free of charge. The remainder is sourced from fees received from broadcasting content through regional affiliates, datacasting (tertiary licences) and digital advertising. There are three commercial broadcasters with licences in metropolitan areas: Ten Network, Seven West Media (SWM) and Nine Entertainment Co (Nine Entertainment); and two Government owned and funded stations: Australian Broadcasting Corporation (ABC) and the Special Broadcasting Service (SBS).

²⁰ Universe Estimates, OzTAM, Q1 2017

The metropolitan licence areas of Sydney, Melbourne, Brisbane, Perth and Adelaide represent approximately 67% of the Australian population and account for approximately 78% of free-to-air television advertising expenditure, which totalled \$3.6 billion in 2016.²¹

Market shares for each metropolitan free-to-air television broadcaster (based on audience) and between the commercial metropolitan broadcasters (based on advertising revenue) are shown in the graphs below:

Figure 1: Australian metropolitan free-to-air television broadcasters' market share (based on audience)¹

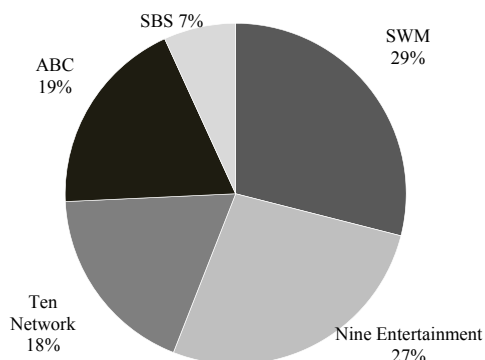
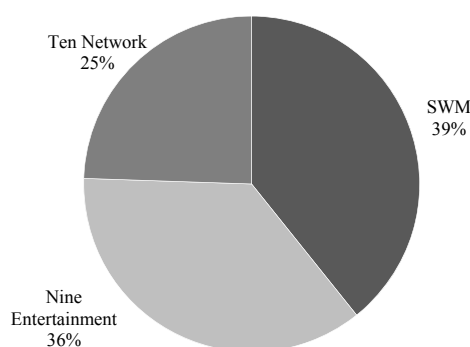


Figure 2: Australian commercial metropolitan broadcasters market share (based on advertising revenue)¹



Source: OzTAM Pty Ltd (OzTAM); SMI.

Note 1: Based on twelve months to July 2017.

Despite recent initiatives to grow market share, Ten Network's revenue share is substantially lower than its peers in the commercial broadcasting market (as illustrated in Figure 2).

6.2.2 Commercial free-to-air licences

As at 31 January 2017, 69 commercial television broadcasting licences have been issued by the Australian Communications and Media Authority (ACMA)²². The majority of these are operated by the larger metropolitan or regional television networks. Currently, only three commercial free-to-air television licences are permitted in each of the larger metropolitan licence areas.

As a result of regulatory restrictions preventing television networks from controlling broadcast licences covering areas containing more than 75% of the population, metropolitan commercial broadcasters have entered into agreements with regional affiliates: Ten Network's primary regional affiliate is WIN Corporation (WIN), SWM's main affiliate is Prime Media Group (Prime) and Nine Entertainment's main affiliate is Southern Cross Austereo (Southern Cross).

²¹ FreeTV Australia

²² Commercial TV Broadcast Licence report, ACMA, 2017

These agreements enable the regional affiliates to licence content from the commercial broadcasters in exchange for a share of advertising revenue. Changes to media ownership laws allow for consolidation between metropolitan and regional broadcasters.

The key licence characteristics for the three commercial broadcasters are outlined in the table below:

Table 4: Licence characteristics of commercial broadcasters

Commercial broadcaster	Ten Network	SWM	Nine Entertainment
Major metropolitan licences	All five capital cities	All five capital cities	All five capital cities
Major regional licences	None	Regional QLD	Northern NSW, Darwin
Primary affiliate	WIN	Prime	Southern Cross

Source: ACMA.

6.2.3 Channels

At the end of 2013, the Australian Government completed the 'digital switchover', a process of phasing out existing analogue transmission signals and transferring to digital-only television. Each commercial free-to-air television licence holder is permitted to transmit three separate digital channels. There are no restrictions on the number of high definition and standard definition channels that each broadcaster may transmit, however, broadcasters are limited by the amount of broadcasting spectrum that they hold.

The channels operated by commercial broadcasters are divided into primary channels, multicast channels and datacast channels. Primary channels are used for feature content and draw the majority of viewers. Multicast channels are used for supplementary content and often have a different demographic focus. The tailored offerings of digital multi channels provide advertisers with the ability to focus marketing at more targeted audience demographics. Datacast channels are a tertiary licence available for information-only programs, educational programs and content in the form of text or visual images. In practice, they are sold to infomercial advertisers.

The primary, multicast and datacast channels held by each of the commercial free-to-air broadcasters are set out below.

Table 5: Commercial television channels in Australia

Commercial broadcaster	Ten Network	SWM	Nine Entertainment
Primary channel	Ten, Ten HD	Seven, 7HD	Nine, 9HD
Multicast channels	One, Eleven	7TWO, 7mate, 7flix	9Go!, 9Gem, 9Life
Datacast channels	TVSN, Spree TV	Racing.com	Extra

Source: Company websites.

6.2.4 Audience and demographics

Commercial broadcasters compete for audience share through the delivery of content that is considered attractive to their target demographic. Competition is greatest in the 'prime time' period (the 6pm – 10.30pm timeslot)²³ which is highly sought after by advertisers as audience numbers are greatest during this period. Audience numbers and demographics contribute to the value of advertising slots and translate into advertising revenue.

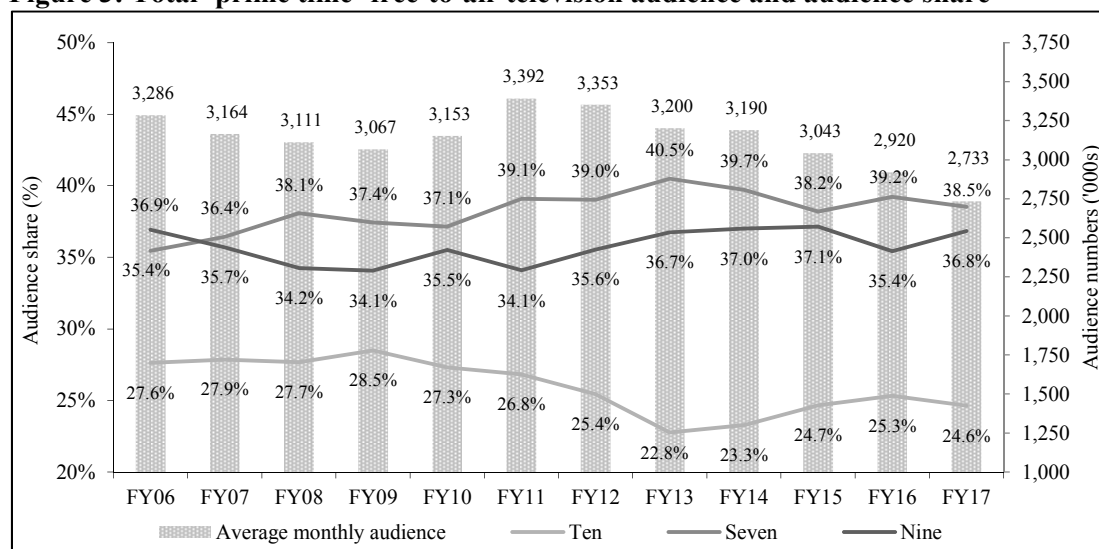
Advertising slots are regulated and permit commercial broadcasters to broadcast an average maximum of 13 minutes per hour of non-program matter between 6pm and 12am and 15 minutes per hour at all other times²⁴.

Advertising slots are typically sold by commercial broadcasters to media buying agencies, which act on behalf of their clients (who are seeking to advertise their products and services). Advertising revenue typically lags audience numbers by 6 to 12 months, as rate cards with advertising agencies are set on an annual basis. Rate cards set the charge applicable for various advertisement placement options.

6.2.5 Audience share

The average monthly 'prime time' audience and audience share for each of the free-to-air metropolitan commercial broadcasters over time is illustrated below.

Figure 3: Total 'prime time' free-to-air television audience and audience share



Source: OzTAM.

Note: Audience number data between 1800 – 2230 hours, 12 months to 31 August.

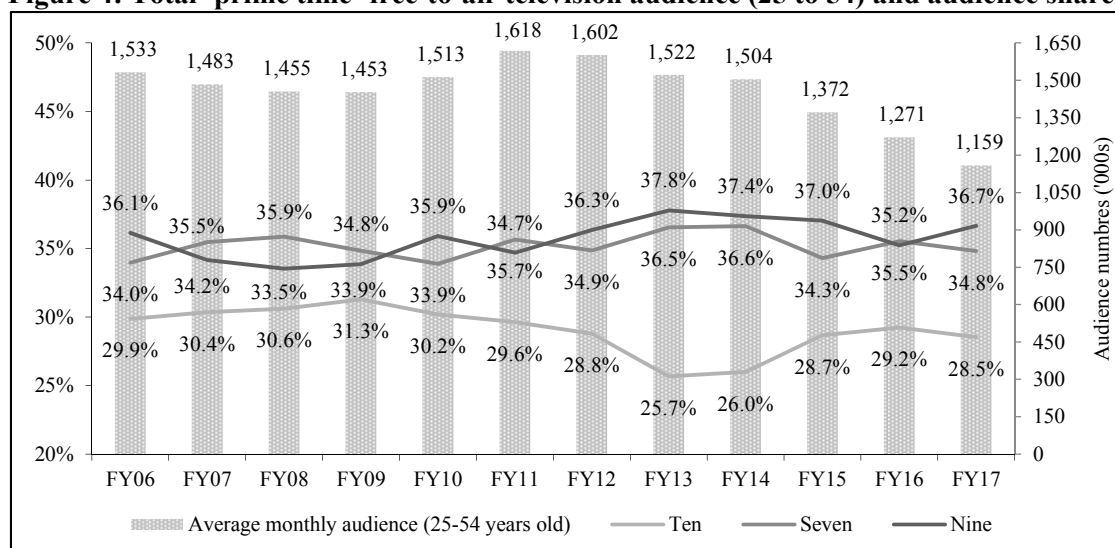
²³ OzTAM

²⁴ Commercial Television Industry Code of Practice, ACMA, 2015

Average monthly 'prime time' audiences in the commercial metropolitan free-to-air industry increased from FY09 to FY11, as new digital multi-channels were introduced, which delivered a greater variety of content to viewers. Audience numbers have exhibited a declining trend in all other periods as viewers have become increasingly fragmented across multiple viewing platforms and devices. This decline has accelerated since FY14 (an average decline of 5.0% per annum) corresponding to the introduction of subscription video-on-demand and internet television.

Ten Network focuses on the 25 to 54 year old age group, which is the most frequently bought demographic by advertisers in free-to-air television. It is the largest and most lucrative age group, and represents 62% of personal income and 70% of television advertising revenue²⁵. The average monthly 'prime time' audience for the 25 to 54 year old age group and audience share for each of the free-to-air metropolitan commercial broadcasters over time is illustrated below.

Figure 4: Total 'prime time' free-to-air television audience (25 to 54) and audience share



Source: OzTAM.

Note: Audience number data between 1800 – 2230 hours, 12 months to 31 August.

Although Ten Network's share of the 25 to 54 year old demographic lags its peers, a greater proportion of its overall audience is in this age demographic relative to its peers.

The accelerated decline in audience numbers since FY14 (as discussed above) has been greater in Ten Network's key 25 to 54 year old age group, declining by an average of 8.3% per annum from FY14 to FY17.

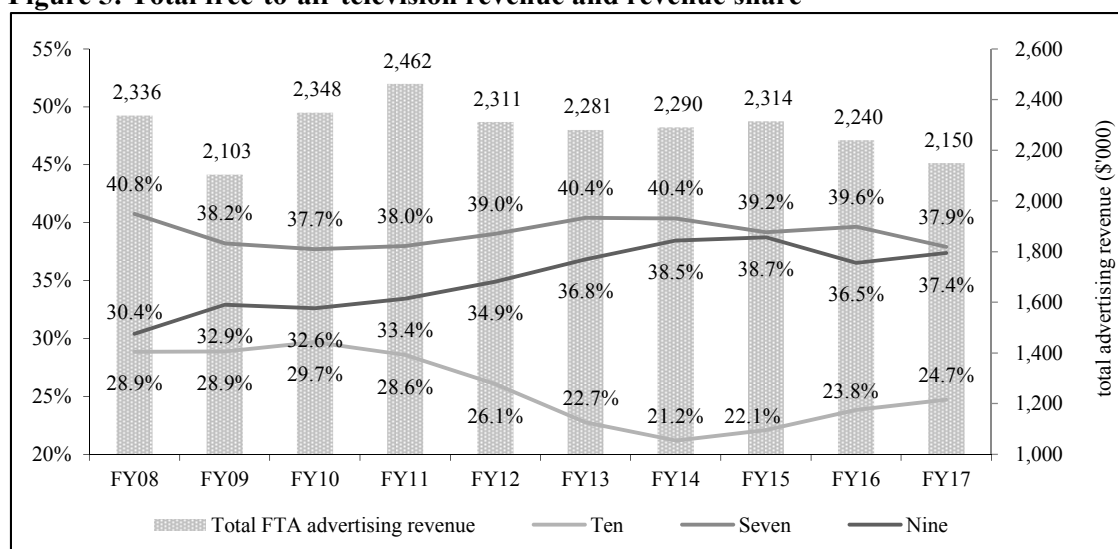
²⁵ Consumer and Media View Metro Survey 10, Nielsen, 2016

6.2.6 Revenue share

Commercial broadcasters with a greater share of audience or target demographic are able to sell their advertising slots at a premium. The share of advertising revenue a commercial broadcaster generates relative to its audience share is known as the power ratio. This represents the broadcaster's ability to monetise its audience share. A power ratio greater than one implies that a commercial network has received more revenue per audience member than its competitors. This typically reflects premium pricing and desirable advertising slots, influenced by both the quality of content and audience demographics.

Annual advertising revenue, as well as the revenue share for each of the three metropolitan commercial broadcasters over time, is illustrated below.

Figure 5: Total free-to-air television revenue and revenue share



Source: SMI database as at 15 September 2017 (including restated data from FY13).

Note: SMI data comprises only major agencies (representing approximately 80% of the market).

Free-to-air television advertising revenue is impacted by both cyclical factors and structural factors. Revenue declined sharply in FY09 following the global financial crisis, which eroded business and consumer confidence. Growth in audience numbers as a result of the introduction of digital channels in FY10 and FY11 resulted in growth in advertising revenue in those years. Revenue declined in FY12 and FY13 (along with the overall advertising industry revenue), reflecting weaker business confidence and consumer sentiment as a result of the European debt crisis and global economic weakness.

Since FY15, free-to-air television advertising revenue has exhibited a declining trend (a decline of 3.2% in FY16 and 4.0% in FY17²⁶) and television's share of overall advertising expenditure

²⁶ Source: SMI database as at 15 September 2017

has reduced from 55% in FY15 to 52% in FY16 and 51% in FY17 (year-to-date)²⁷, as declines in audiences from FY15 impacted revenues from FY16 (approximately 12 month delay)²⁸.

6.3 Structural changes

6.3.1 Shift in preferences towards domestic content

In recent years, there has been a shift in viewer preferences away from US content and towards domestic content. Since 2005, US drama and comedy series audiences have declined by 54%, US prime time movie audiences declined by 55% compared to audiences for total television having declined by 36%. US programs represented 8% of the top 50 programs in 2016 (compared to 28% in 2006).

6.3.2 Television is being used for other purposes

It is estimated that 28% of television viewing time is now used for purposes other than watching live television or playing back broadcast content within 28 days ('time-shifted viewing')²⁹. Television sets are increasingly being used for gaming, viewing television 'catch-up' services, watching DVDs, streaming music and watching videos on platforms such as YouTube, Facebook or Vimeo.

6.3.3 Growth in number of devices

Audiences' viewing behaviours continue to change as more devices (such as mobile phones and tablets) for watching video content become available. Australian homes have an average of 6.4 screens each, up from 6.1 a year earlier, with the majority now internet capable²⁹. More devices create more opportunities to view 'catch-up' television or live stream video.

Despite growth in other devices, the television set is still the most popular screen for watching television/video content, with 86% reach²⁹ and live free-to-air content still represents the majority of television/video content consumed weekly. These viewing behaviours provide advertisers with mass reach.

6.3.4 Growth in number of platforms

In recent years, a number of subscription video-on-demand services and on-demand subscription television providers have entered the Australia market.

²⁷ FY17 YTD based on 1 September 2016 to 31 July 2017, SMI

²⁸ Source: SMI database as at 15 September 2017

²⁹ Australian Multi-Screen report, Quarter 04, 2016

The subscription television providers operating in Australia are set out below.

Table 6: Subscription television providers³⁰

Provider	Number of subscribers '000	Launch date
<i>Premium subscription television (box delivered)</i>		
Foxtel cable/satellite	2,800 (including Play)	1995
<i>Internet protocol television</i>		
Telstra TV	622	October 2015
Apple TV	Unknown	January 2007
<i>Subscription video-on-demand (delivered by a browser or app)</i>		
Netflix	2,800	March 2015
Stan (50% Nine Entertainment/50% Fairfax)	800	January 2015
Fetch TV	500	May 2010
Amazon Prime	New entrant	November 2016
YouTubeRed	New entrant	May 2016
<i>Subscription video-on-demand (delivered by an aggregator)</i>		
Foxtel Now ¹	Unknown	August 2013

Source: Company websites; PwC 'Outlook Australian Entertainment and Media 2017-21 – Subscription television' report.

Note 1: Replaces Foxtel Play.

According to Nielsen, approximately 7.1 million Australians used subscription video-on-demand services in 2016. That includes approximately 2.8 million Netflix subscribers³¹ (including paid, free or trial subscribers). This represents a household penetration rate in Australia of approximately 30%. By comparison, Netflix in the US has 49.4 million paid subscriptions³², representing a 42% household penetration rate. Some market commentators expect video-on-demand services, such as Netflix, to have greater penetration in Australia versus overseas markets due to the relatively low penetration (~34%³³) and high cost of premium subscription television.

Other online content platforms, such as Facebook and YouTube, continue to draw audiences and gain a greater share of advertising expenditure. These platforms also allow more precise targeting of advertising expenditure to better defined demographic markets and better data analytics to allow advertisers to measure return on advertising investment. Subscription video-on-demand services are currently unregulated.

³⁰ Other providers (e.g. Presto and Quickflix) have exited the market

³¹ Consumer and Media View National Survey 10, Nielsen, 2016

³² Netflix 8k report, 17 April 2017

³³ Universe Estimates, OzTAM, Q1 2017

6.3.5 *Investment in 'catch-up' viewing*

In response to the above trends, commercial broadcasters have invested in multi-screen viewing and video-on-demand ('catch-up') television services, resulting in the launch of Plus7, Tenplay and 9Now. Catch-up services allow broadcasters to provide video-on-demand alternatives to online rivals, such as Netflix, via mobile and online platforms, while also collecting data on audience demographics, which is increasingly valuable to advertisers. Although advertising slots on catch-up services sell at a discount to prime time slots, this represents an incremental revenue stream for commercial broadcasters.

6.3.6 *Investment in content*

In 2015, commercial broadcasters invested \$1.5 billion³⁴ in the production of local content and \$0.5 billion³⁵ in acquiring all other content, such as that produced in the US.

Commercial broadcasters typically do not own the content but instead hold rights (usually exclusive) from third party production houses to broadcast this content over their network. Broadcasters frequently purchase both broadcasting and digital rights for certain content (e.g. to allow for 'catch-up' viewing). Some commercial broadcast networks have in-house production capabilities (e.g. for news) where they own the content that is produced, however, this typically comprises a smaller component of their overall content offering.

Overseas content has traditionally been acquired through multi-year content supply agreements with overseas studios (typically in the US) or obtained on a discretionary basis from overseas production studios and distributors. Supply agreements with US studios require networks to purchase a fixed amount of content from the studios and have historically been one of the most significant costs for commercial broadcasters. The recent shift in viewer preferences away from US content has led commercial broadcasters to renegotiate (or not renew) supply contracts with US studios.

Changes to viewing habits and content delivery have meant commercial broadcasters have been placing greater focus on their reality-style television content ('event TV') and securing rights to major sporting events ('live sport') as well as 'fast-tracking' shows from the US. Event TV and live sport incurs the lowest incidence of time-shifted viewing³⁶ (viewing of recorded episode where advertisements can be skipped) and as a result, advertisers are willing to pay a premium for access to live audiences. In addition, large audiences associated with this type of television content provide a platform for cross-promotion and a launch pad for new programs. This trend has led to significant competition for and increases in prices paid for sporting rights, as well as significant investments into successful event TV franchises, such as MasterChef. It is estimated

³⁴ FreeTV Australia

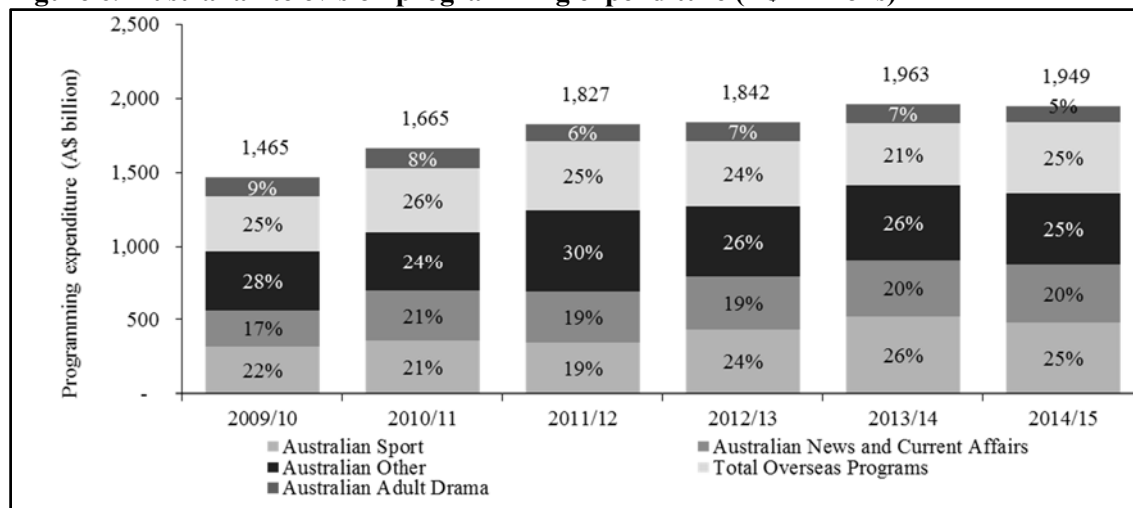
³⁵ Broadcast Financial Results report, ACMA, November 2015

³⁶ Australian Multi-Screen report, OzTAM, Q4 2016

that sport and reality-style TV content represent 30% and 50% of the 50 most watched programs, respectively³⁷.

Australian television programming expenditure by major categories of content is set out below.

Figure 6: Australian television programming expenditure (A\$ millions)



Source: ACMA.

From 2009/10 to 2014/15, the cost of Australian television programming has increased by an average of 5.9% per annum. As illustrated above, this is primarily due to programming expenditure attributable to sporting rights, as well as the production of news and current affairs programs.

The most valuable sporting rights in Australia are AFL and NRL. In recent renegotiations, SWM and Foxtel paid \$2.5 billion for the AFL broadcasting rights over six years (2017 to 2022, inclusive), which represented a 67% increase relative to the prior deal³⁸. The NRL broadcast rights attracted \$1.8 billion over five years (2018 to 2022, inclusive), a 76% increase over the previous deal³⁹. Critically, Ten Network does not have rights to a major winter sport, which effectively limits its audience share, however, it holds rights to a number of other premium sports.

To manage increasing content costs, funding partnerships are becoming more common. Telstra has worked with both SWM and Nine Entertainment to share AFL and NRL sports broadcast rights, while Ten Network and Foxtel share broadcast rights of MotoGP, Formula 1 and V8 Supercars.

³⁷ Outlook Australian Entertainment and Media 2017-21 – Free-to-air television report, PwC, 2017

³⁸ Prior AFL deal was \$1.25 billion over five years (2012 to 2016)

³⁹ Prior NRL deal was \$1.025 billion over five years (2013 to 2017)

The key sporting rights in Australia and their cost are summarised below.

Table 7: Sports broadcasting rights holders in Australia¹

Sport	Licensee	Term	Total cost (\$ million)	Annual cost (\$ million)
AFL	SWM and Foxtel	6 years (2017 to 2022)	\$2,500	\$417
NRL	Nine Entertainment and Foxtel	5 years (2018 to 2022)	\$1,800	\$360
Cricket Australia (internationals)	Nine Entertainment	5 years (2013/14 to 2017/18)	\$500	\$100
A-League	Ten Network and Foxtel	6 years (2014 to 2019)	\$346	\$58
Rugby Union	Ten Network and Foxtel	5 years (2016 to 2020)	\$285	\$57
Australian Open	SWM	5 years (2015 to 2019)	\$200	\$30-40
MotoGP	Ten Network and Foxtel	2 years (2017 to 2018)	n/a ²	n/a ²
Formula One	Ten Network and Foxtel	5 years (2015 to 2019)	n/a ²	n/a ²
Olympics	SWM	5 years (2016 to 2020)	\$150-170	n/a
V8 Supercars	Ten Network and Foxtel	6 years (2015 to 2020)	\$241	\$40
Big Bash League cricket	Ten Network	5 years (2013/14 to 2017/18)	\$100	\$20

Source: Company announcements.

Notes:

1. All sporting rights listed above are subject to anti-siphoning legislation.
2. Cost of broadcast rights not publically available.

Analysts⁴⁰ have suggested that the high cost of certain sporting rights has resulted in losses being generated for broadcasters, while others⁴¹ have suggested that the value of sporting rights globally has peaked.

All cricket broadcast rights are due to be renewed in March 2018. Nine Entertainment has stated that it wishes to licence all cricket rights (including international tests and the Big Bash League)⁴². The likely outcome of these negotiations is unclear, given the substantial increase in AFL and NRL broadcast rights, recent indications that high cost sporting rights are loss making for broadcasters and a sentiment that audience numbers for international cricket is in decline.

⁴⁰ For example, media analyst Steve Allen of Fusion Strategy believes the NRL is “marginally loss-making” for Nine Entertainment, while the AFL is “marginally profitable” for SWM. Source: N. Tabakoff, “Sporting bubble bursts as broadcasters lose money on rights”, The Australian, 29 April 2017

Also, “The existing cricket deal costs NEC (circa) \$100m per annum... We estimate the existing deal likely only generates gross revenues of \$60-\$70m; but on a net basis (i.e. incremental revenues) we think the contract is only likely to generate revenues of only \$30m-\$40m.” Source: UBS, 21 April 2017, “Nine Entertainment Company, Will the real valuation please Stan’d up?”

⁴¹ A. Prosenko, “TV rights for major sports at ‘tipping point’ after Seven Network loss”, The Sydney Morning Herald, 16 August 2017

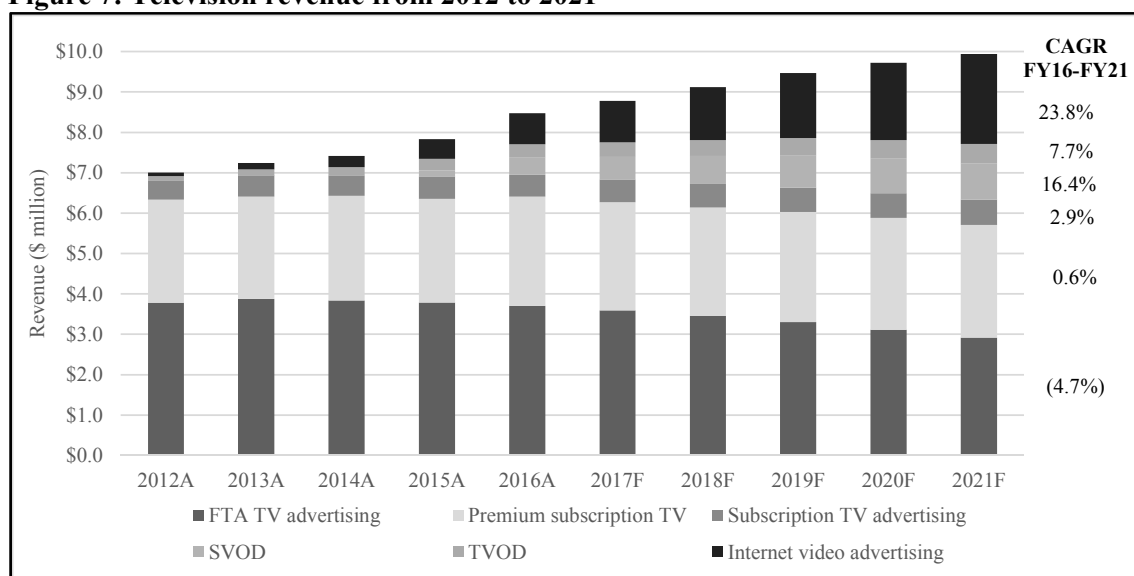
⁴² Source: “‘We want everything’: Channel Nine buys into Australian team renewal ahead of broadcast talks”, The Sydney Morning Herald, 24 November 2016

Other broadcast rights available over the next two years include the AFL (Foxtel has an option to sub-licence Saturday afternoon games to free-to-air), MotoGP (which expires in December 2018) and English Premier League (Optus has recently acquired all of the rights until 2019, and there may be an opportunity to broadcast some games on free-to-air).

6.3.7 Outlook

Television revenue (including subscription and free-to-air) from 2012 to 2021 is illustrated below.

Figure 7: Television revenue from 2012 to 2021



Source: PwC 'Outlook Australian Entertainment and Media 2017-21 – Subscription television'; PwC 'Outlook Australian Entertainment and Media 2017-21 – Free-to-air television'

There are limited sources of medium term forecasts for the free-to-air television industry. PwC⁴³ forecasts that free-to-air television advertising revenue will decline by an average 4.7% per annum from 2016 to 2021 while subscription video-on-demand will increase by an average of 16.4%, transactional video on demand will increase by an average of 7.7% and internet video advertising will increase by 23.8%. Premium subscription television revenue is expected to remain relatively flat. IBISWorld⁴⁴ has forecast an average decline in free-to-air television industry revenue of 3.6% over the five years to 30 June 2022.

The roll out of the national broadband network (nbn), which is expected to provide internet connectivity (via a fibre to the home network) to approximately 93% of the Australian

⁴³ Outlook Australian Entertainment and Media 2017-21 – Free-to-air television, PwC, 2017

⁴⁴ IBISWorld, *Free-to-air Television Broadcasting in Australia*, December 2016

population⁴⁵ is expected to accelerate the transition of viewers to video-on-demand and streaming services. The rate of substitution will also be influenced by:

- growing investment in content by current streaming services (e.g. Netflix Inc., \$7 billion; Amazon.com Inc, \$4.5 billion) and investment from new providers (e.g. Apple is investing \$1 billion in original content and plans to produce and procure as many as 10 new shows in 2018⁴⁶), and
- traditional content providers offering video-on-demand and streaming services directly to consumers (e.g. Disney has announced its intention to launch an ESPN branded direct to consumer service in 2018 and a Disney branded streaming service at the end of 2019⁴⁷).

However, there remains uncertainty as to whether the video-on-demand and streaming services industry will continue to operate in an unregulated environment in Australia.

Total advertising expenditure is expected to reach \$17.3 billion in 2021, representing an average growth of 1.9% over the next five years⁴⁸. This is lower than forecasts of nominal GDP growth of 4.6% for that period⁴⁹. As a result of the decline in free-to-air television advertising expenditure over the next five years, its share of total advertising revenue is expected to decline from 23.5% in 2016 to approximately 17% in 2021⁵⁰.

In comparison, total advertising spend in the US market is expected to grow at an average rate of 2.9% to 2021⁵¹. The outlook for television advertising is expected to follow a similar growth trajectory as the Australian market, with the various television broadcasters (national and local) in the US forecast to achieve average annual declines of between 0.2% and 3.7% (declining from 37.2% of advertising expenditure in 2016 to 28.4% in 2021).

6.4 Regulation

The industry is regulated under the Broadcasting Services Act 1992 (the Act) by ACMA and has historically been subject to heavy regulation. The Media Reform Bill, which incorporates substantial changes to regulations, was passed by the Senate on 14 September 2017 and will return to the House of Representatives for approval when Parliament resumes on 16 October 2017 (which is expected to be a formality).

⁴⁵ nbn Co Ltd

⁴⁶ Source: "Apple Plans to Invest \$1 billion in Original TV Shows and Films", *Bloomberg Technology*, 17 August 2017

⁴⁷ Source: "Disney to launch direct-to-consumer streaming service in 2019 – quick facts", *RTTNNews*, 8 August 2017

⁴⁸ Outlook Australian Entertainment and Media 2017-21 – Free-to-air television, PwC, 2017. We note that free-to-air advertising revenue in 2016 reported by PwC is in-line with figures release by SMI (refer to Section 6.2.6) however, the market size differs as SMI comprises only major agencies (representing approximately 80% of the market).

⁴⁹ Oxford Economics

⁵⁰ Outlook Australian Entertainment and Media 2017-21 – Free-to-air television, PwC, 2017

⁵¹ Global Advertising Forecasts, Magna Global, 2016

Current regulatory requirements and associated reforms proposed are summarised in the table below:

Table 8: Current free-to-air television regulations and proposed reforms

Regulation	Description	Status under Media Reform bill
3.375% licence fee	Commercial broadcaster licence holders must pay annual fee of 3.375% of gross advertising revenues	2016/17 licence fee removed. 2017/18 onwards expected to be replaced by aggregate \$40m spectrum fee across all broadcasts
Anti-siphoning	Free-to-air commercial broadcasters have first right to purchase rights to key sporting and cultural events named in the anti-siphoning list	Removal of several events from the list with free-to-air first-rights to expire 26 weeks prior to event (currently 12 weeks)
2 out of 3 rule	A person cannot "control" more than two of the regulated media platforms (commercial television, commercial radio and associated newspaper in any commercial radio licence area)	Expected to be repealed
75% reach rule	A person must not be in a position to exercise control of commercial television broadcasting licences where licences reach >75% of the Australian population	Expected to be repealed
Australian content quota	55% Australian content quota plus points based sub-quotas for drama, documentary and children's programming	Joint review to be conducted by Communications Department, ACMA and Screen Australia. Conclusion expected by end of 2017.
5/4 rule (minimum voices)	At least 5 (metropolitan) / 4 (regional) independent media groups ('voices') must be present in their respective radio licence areas	Likely to be retained
One/two to a market rule	A person cannot control more than 1 commercial broadcasting licence or 2 commercial radio licences in the same licence area	Likely to be retained
Restrictions during sporting events	Proposal to restrict gambling during live sport broadcasts	Under consideration for implementation

Source: ACMA.

7 Profile of Ten Network

7.1 Background

Ten Network Holdings Limited was founded in 1965 as the owner and operator of Ten Network, one of three commercial broadcast networks to hold a free-to-air television licence in metropolitan Australia. It was listed on the ASX in 1998.

Over the next decade, Ten Network acquired partial broadcast rights for the AFL (from 2001),⁵² entered into long-term content agreements with CBS Corporation (in November 2006) and Fox (in July 2007), expanded into out-of-home advertising through the acquisition of a 60% interest in Eye Corp for \$188 million in December 2000 (with the remaining 40% acquired for \$10 million in December 2002), acquired interests in several online businesses⁵³ and launched digital channels, One (April 2009) and Eleven (January 2011).

At the end of 2011, Ten Network lost the AFL broadcast rights to SWM under a pre-emptive bid, leaving it with no major live sport for the winter schedule. Together with the shift in viewer preferences away from US content towards domestic content, Ten Network's high fixed cost US contracts and the cyclical downturn in advertising expenditure from 2011 to 2013 resulted in Ten Network's earnings and cash flows deteriorating substantially. As a result, it undertook the following initiatives:

- cost reductions in certain areas (news, operations) in FY11, FY12 and FY13
- heavily discounted equity raisings in June/July 2012 and December 2012/January 2013⁵⁴, with the proceeds primarily used to repay debt
- asset sales, including the sale of Eye Corp Pty Limited⁵⁵ in November 2012 for \$113 million, with the proceeds used to reduce debt, and

⁵² In 2001, Ten Network acquired partial broadcast rights (in consortium with Nine Entertainment and Foxtel) for the AFL, replacing SWM which had held the rights since televised football began in 1957. In partnership with SWM, Ten Network successfully renewed the broadcast rights for the AFL for a further five years (2007 to 2011) at a cost of \$780 million

⁵³ Ten Network accumulated a 40% interest in Oasis Active, an online dating site, in 2008 and 2009 and acquired an interest in OurDeal Pty Ltd, an online shopping platform, in June 2010. In July 2014, Ten Network sold its shares in Oasis Pty Limited to RSVP Australia Pty Limited (RSVP) in exchange for cash and a 14.7% interest in RSVP. Ten Network sold its interest in OurDeal Pty Ltd in May 2015

⁵⁴ Including an entitlement offer at an offer price of \$0.51 per new share (a 10.3% discount to the closing price on 5 June 2012 of \$0.64) and an entitlement offer at an offer price of \$0.20 per new share (a 38.5% discount to the closing share price on 4 December 2012 of \$0.325)

⁵⁵ As part of the sale of Eye Corp to Outdoor Media Operation in 2011, Ten Network retained economic exposure to the outcome of the sale processes for the UK and US operations. The UK operations were subsequently sold in February 2013 and the US operations were sold in December 2015

- renegotiation of the content agreements with CBS Corporation and Fox in late 2012.

Ten Network expanded into datacasting through a partnership with TV Shopping Network (TVSN), announced in September 2012, and launched a second datacasting channel, Spree TV, in September 2013.

7.1.1 Content strategy

In November 2013, Ten Network announced a strategy to reposition content in order to improve ratings and boost advertising sales. The program was aimed at widening its target demographic and investing more heavily in local content and live sport. The key elements of the strategy were:

- focusing on the 25 to 54 year old demographic
- investing in event television, such as Masterchef and The Bachelor
- focusing on premium live sport
- implementing consistency to Ten Network's program schedules
- investing in the development of new formats, and
- continuing the expansion of digital platforms and revenue.

In order to fund investment in the new content required for the strategy, Ten Network entered into a \$200 million 'covenant-lite' secured revolving cash advance loan facility with the CBA in December 2013 (refer to Section 7.6).

Implementation of the strategy involved:

- rebuilding the 7:30pm prime time schedule with a focus on key prime time franchises (on a survey year round basis)
- domestic drama underpinning the Wednesday 8:30pm timeslot
- acquisition of the rights for some smaller but reasonably high rating sports, including the 2014 Sochi Winter Olympics, Big Bash League cricket, Rugby Union and V8 Supercars, and
- the launch of Tenplay, a catch-up and streaming service, in September 2013.

The strategy was fully implemented in May 2014. The success of Ten Network's strategy to enhance content is reflected in growth in Ten Network's audience and revenue share to around 25% in the six months to 28 February 2017.

7.1.2 Multi-channel Network Pty Ltd agreement

In June 2015, Ten Network entered into a strategic arrangement with Foxtel, whereby Multi Channel Network Pty Ltd (MCN), the advertising channel joint venture between Foxtel and Fox Sports, undertook advertising sales representation for Ten Network. As part of the strategic arrangements, Ten Network acquired a 24.99% interest in MCN and Foxtel acquired a 13.84%

interest in Ten Network for \$77.0 million. Ten Network also conducted an entitlement offer (completed in November 2015) which, together with Foxtel's investment, raised gross proceeds of \$154 million, which was used to reduce debt and invest in content to maintain audience ratings and advertising revenue momentum.

7.1.3 Sources of earnings improvement

Despite growth in revenue share, structural changes in the free-to-air broadcasting industry constrained revenue growth and the high cost of programming meant that earnings margins remained low or negative. The financial performance of Ten Network is set out in Section 7.3 to 7.6 of this report. Ten Network Directors identified the following sources of earnings improvement:

- delivery of the cost and revenue initiatives identified in the transformation process currently underway (Transformation Program)
- renegotiation of material programming contracts, and
- reduction in Federal Government imposed licence fees.

These initiatives are described in Section 7.10 of this report.

7.1.4 Appointment of administrators and receivers

On 13 June 2017, Ten Network requested that the company be placed in a trading halt following advice from financial advisers to Illyria and Birketu that they did not intend to extend or increase their support for the credit facilities beyond the term of the existing facility (which was due to expire on 23 December 2017). Administrators were appointed on 14 June 2017 and Receivers and Managers were appointed after close of business on 30 June 2017.

7.2 Operations

7.2.1 Broadcast operations

Ten Network holds free-to-air television licences in major Australian metropolitan areas and holds affiliate agreements with regional television broadcasters. It also holds and operates datacasting licences in each of its broadcast licence areas.

The main affiliate agreement is with WIN, which broadcasts to audiences in 29 regional areas in New South Wales, the ACT, Queensland, Victoria, South Australia, Western Australia and Tasmania. The affiliate agreements were renewed for a five year period, effective 1 July 2016. In addition, Southern Cross broadcasts Ten Network's content to audiences in Darwin, the Spencer Gulf and Broken Hill, as well as surrounding areas, and Central Digital Television broadcasts its content in remote central and eastern Australia.

Ten Network broadcasts its content terrestrially over the air in each major Australian metropolitan area utilising transmission infrastructure owned and managed by TX Australia Pty Limited (TX Australia). Ten Network (and each of the other metropolitan broadcasters) holds a

33.3% interest in TX Australia. It also has a cable and satellite digital retransmission agreement with Foxtel, whereby Ten Network's digital signal is available to Foxtel's customers.

7.2.2 Channels and digital platforms

Ten Network delivers content across four free-to-air channels. Its main channel, Channel Ten is focused on the key 25 to 54 year old demographic, in which it currently has a 28.5% audience share⁵⁶. Channel Ten is broadcast in Standard and High Definition digital. Ten HD was introduced in March 2016.

Ten Network also operates two Standard Definition digital multi-channels: Eleven, which showcases a mix of Australian and international content for people 16 to 39 years; and One, a premium entertainment channel that is targeted at males over 25 years old and includes a mix of premium scripted and reality programming, as well as local and international sports.

In addition, Ten Network operates two datacasting channels: Channel 14 (which broadcasts TVSN's content); and Spree TV, which predominantly features programs created by advertisers.

In September 2013, Ten Network launched Tenplay, a catch-up and streaming service and is planning to launch Ten Daily, which will offer short form video content, in February 2018. Tenplay is one of the most popular online and mobile entertainment platforms in Australia. It provides users with access to Ten, Eleven and One shows on-demand, immediately after they have appeared on free-to-air television, as well as live-streaming of several key programs, including The Project and Studio 10. Catch-up and live streaming are a key part of augmenting the traditional broadcast audience.

Ten Network's free-to-air television channels and digital platforms are summarised below:

Table 9: Television channels and digital platforms

	Metro free-to-air television channels			Digital Platforms	
	Ten	Eleven	One	Tenplay	Ten Daily
Description	Main channel	Digital channel	Digital channel	Digital platform	Digital platform
Launch date	April 1965	January 2011	March 2009	September 2013	February 2018
Strategy	25-54s	16-39s	Male 25+	'TV Everywhere' experience	Short form video content
Comments	73% of Ten Network audience	13% of Ten Network audience	14% of Ten Network audience	244 million video segment views in last 12 months	Monetising online video advertising

Source: Ten Network management; KPMG Corporate Finance analysis.

It also has a social media presence that allows it to broadcast beyond the free-to-air television market, building off-network audiences and delivering revenue diversification and growth.

⁵⁶ Based on FY17 data, OzTAM

7.2.3 Content

Ten Network accesses Australian and international programming content from a number of sources. Content is organised into four categories: news and current affairs, local productions (including franchises) and drama, sport and international. Some contracts for the production of Australian commissioned content contain insolvency termination rights, and a substantial majority of contracts for the acquisition of produced content as well as sports rights agreements contain termination rights.

News and current affairs

Ten Network predominantly uses in-house capabilities to produce its news and current affairs content such as Ten Eyewitness News First at Five and Studio 10, a news and entertainment program. In addition, The Project, a current affairs program, is co-produced with Roving Enterprises and leverages off Ten Network's news gathering capabilities. Compared to other networks, Ten Network's news operations are more centralised, operating a model with an increased number of shared stories in multiple states.

Local productions

Ten Network has agreements with production companies, such as Endemol Shine, ITV, Warner Bros and Fremantle Media for the production of a number of locally produced international franchises (including Masterchef, Australian Survivor, I'm a Celebrity...Get Me Out of Here!, The Bachelor and The Bachelorette) and drama series (including Offspring, The Wrong Girl, Sisters, Wake in Fright and Neighbours).

Sport

Ten Network has exclusive free-to-air television broadcasting rights for a number of sporting codes and events. The sport broadcast offering is underpinned by Big Bash League cricket, which has delivered revenue growth each year since its commencement in 2013/14. Broadcasting rights to the Big Bash League cricket expire in March 2018. Ten Network also holds the broadcast rights to other sports with Foxtel, including Rugby Union, A-League and all major motorsports (such as MotoGP, Formula 1 and V8 Supercars).

Ten Network's sporting rights are summarised as follows.

Table 10: Sporting rights

Sport	Licensee	Expiration	Total cost (\$ million)	Annual cost (\$ million)
Big Bash League cricket	Ten Network	March 2018	\$100	\$20
A-League ¹	Ten Network and Foxtel	May 2019	\$346	\$58
Rugby Union	Ten Network and Foxtel	December 2020	\$285	\$57
MotoGP ¹	Ten Network and Foxtel	December 2018	n/a ²	n/a ²
Formula 1 ¹	Ten Network and Foxtel	December 2019	n/a ²	n/a ²
V8 Supercars	Ten Network and Foxtel	December 2020	\$241	\$40

Source: Ten Network management.

Notes:

1. Subject to anti-siphoning legislation.
2. Cost of broadcast rights not publically available.

International

Ten Network purchases most US programming via long-term studio output deals with CBS Corporation and Fox, which provide it with first run access to exclusive new content and the rights to an extensive back catalogue. Ten Network also has relationships with other suppliers, such as NBC, which supplies Law & Order.

The Fox agreement extends until June 2019, with annual price escalations and a requirement for Ten Network to licence new series on a life of series basis. The CBS Corporation agreement extends until December 2022, with an annual escalation factor and a requirement for Ten Network to licence shows also on a continuing life of series commitment basis.

7.2.4 Sales function

Ten Network has long-term relationships with all of the major consortium advertising agencies (GroupM, Aegis Media, OmnicomMediaGroup, IPG Mediabrands and IKON) and several independents. Together, the major agencies contributed approximately 77.0% of Ten Network's gross advertising revenue in FY16. Since June 2015, these relationships have been managed jointly between Ten Network and MCN. In calendar 2016, Ten Network captured approximately 24.7% of total agency advertising revenue⁵⁷.

Forward advertising bookings are generally subject to significant variations, driven by calendar, major sporting events (such as the Olympic Games) and market events (such as Federal elections). In addition, the overall market has shifted towards reduced lead times between broadcast or publishing dates and bookings being made. This contributes to revenue variability.

Under the strategic arrangement with Foxtel and MCN, Ten Network has transitioned its sales team to MCN. As part of the agreement, Ten Network effectively outsources several sales functions, including advertising sales, sponsorship, negotiation and management agreements with media buying agencies, direct sales, and all digital and programmatic advertising sales to MCN on an exclusive basis. Under the arrangement, Ten Network retained responsibility and control of all strategic functions, including pricing, selling strategies and integration whilst MCN is responsible for all selling activities, including employing sales and support staff. The partnership enables Ten Network to gain efficiency and scale, improve data capability and broaden integration opportunities for advertising clients.

MCN is entitled to a base annual fee plus a variable fee based on a percentage of gross advertising revenue. The contract expires on 31 August 2022, with an option to extend.

7.2.5 Other investments

Ten Network holds a 15.17% interest in RSVP.com.au Pty Ltd, which owns and operates one of Australia's largest online dating platforms. The remaining 84.73% interest is held by Fairfax

⁵⁷ SMI database as at 15 September 2017

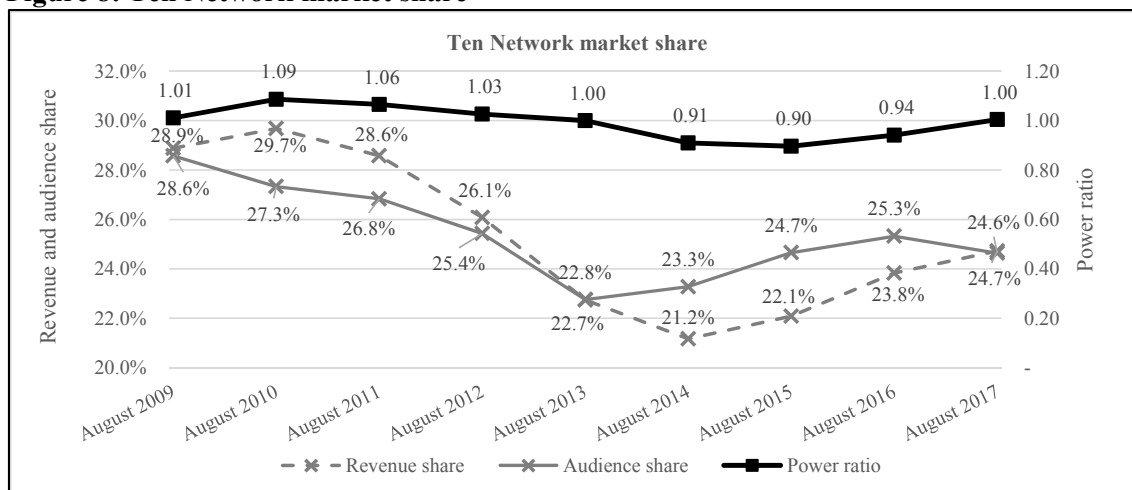
Media Limited (57.5%) and other investors (27.33%). The site attracts approximately 1,200 new subscribers on a daily basis⁵⁸.

Ten Network also holds 33.33% interests in TX Australia (refer to Section 7.2.1 of the report) and OzTAM Pty Ltd (OzTAM) (a television audience rating company) and a 24.99% interest in MCN (refer to Section 7.1.2 of the report).

7.2.6 Audience share, power ratio and revenue share

Ten Network's audience share, revenue share and power ratio since FY09 are illustrated below.

Figure 8: Ten Network market share



Source: OzTAM; SMI as at 15 September 2017 (including restated data from FY13).

Note 1: Audience share as reported by OzTAM (total people, consolidated, zone 1, 1800 – 2230 hours). SMI data comprises only major agencies (representing approximately 80% of the market).

The mixed success of Ten Network's launch of digital channels in April 2009 and January 2011 is evident in the decline in audience and revenue share from around 29% each in FY09 to 26.8% and 28.6%⁵⁹, respectively, in FY11. This decline accelerated following the loss of the AFL broadcasting rights at the end of 2011, with audience share reaching a low of 22.8% in FY13 and revenue share a low of 21.2%⁵⁹ in FY14 (a delay of approximately 12 months), despite broadcasting the 2014 Sochi Winter Olympics in that year.

The success of Ten Network's strategy to enhance content (which commenced in November 2013 and was fully implemented in May 2014) is reflected in the increased audience share and revenue share to 25.3% and 23.8%⁵⁹, respectively in FY16. In FY17, revenue share continued to increase (to 24.7%⁵⁹), while audience share declined to 24.6%. This translated into an increase

⁵⁸ RSVP.com.au

⁵⁹ SMI database as at 15 September 2017

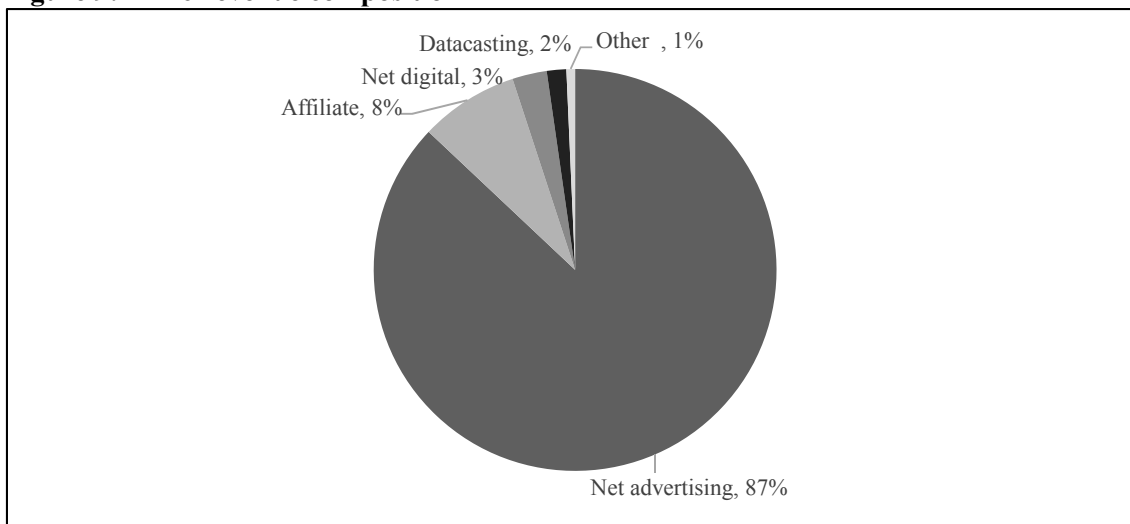
in the power ratio to 1.00 times. This represents the first year since FY12 that Ten Network has been able to generate a revenue share equal to or in excess of its audience share.

Successful advertising strategies employed by MCN (which commenced in September 2015) and increases in agency fee arrangements (fee to achieve revenue share targets over and above the commission rate of 10%), prior to outsourcing the function to MCN, have also contributed to the growth in the power ratio.

7.2.7 Revenue composition

A majority of Ten Network's revenue is derived from television advertising sales (87% in FY16), with the remainder sourced from fees received from regional affiliates, digital advertising revenue and datacasting.

Figure 9: FY16 revenue composition



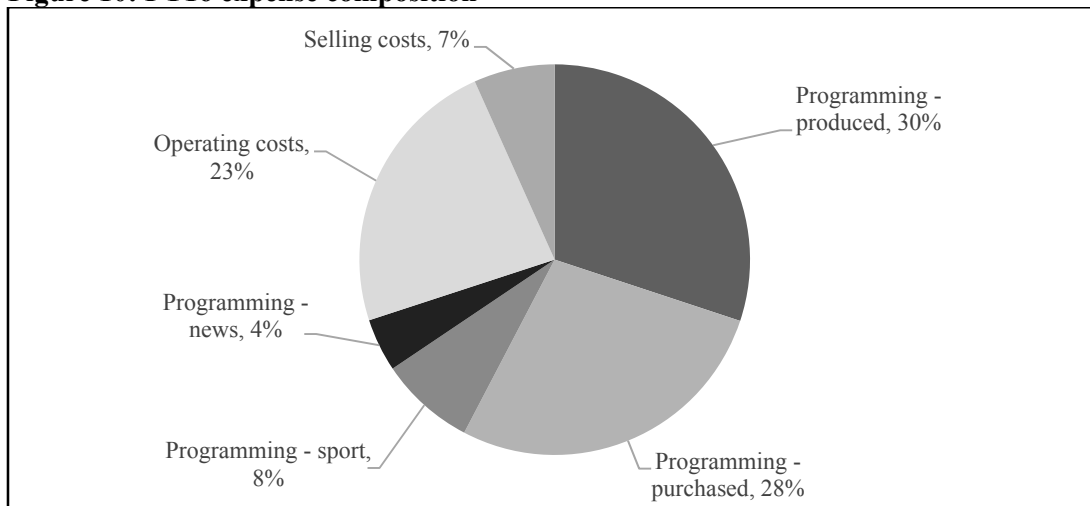
Source: Management accounts for FY16.

Television and digital advertising revenue are presented net of agency commissions. Television advertising revenue is also after credits provided when advertisements are not shown. The primary drivers of net advertising revenue are market size, market share (both revenue and audience) and the relevant agency commission rate. Affiliate revenue primarily reflects the share of an affiliate's revenue from the sale of advertising. Datacasting revenue is fees derived from broadcasting third party content on Ten Network's datacasting channels.

7.2.8 Expense composition

Programming costs account for the largest proportion of operating expenses (70% in FY16) and include programming that is produced by Ten Network, purchased programming, sport and news. Operating costs include operations and engineering, administration, marketing and media advertising, sales and other. Selling costs include licence fees paid to ACMA (which have subsequently been waived for the 12 months to 30 June 2017), the variable component of fees to MCN and other.

Figure 10: FY16 expense composition



Source: Management accounts for FY16.

Programming costs are fixed in nature (or increase at a fixed rate). The program lifecycle requires substantial upfront investment in advance of any broadcasting (the program lifecycle is discussed further in Section 7.4). Furthermore, there is typically a further 6 to 12 month delay between changes in audience share and revenue share as discussed in Section 6.2.4. This means that initiatives to grow revenue are often not realised until the subsequent year. A further complicating factor is the fixed increases in programming costs under the US content agreements.

This creates upside opportunities and downside risks for the business, as any changes in revenue will have a direct impact on EBITDA. It is estimated that a 1% movement in revenue share translates into approximately a \$23 million change in EBITDA.

7.3 Financial performance

The financial performance of Ten Network for the four financial years ended 31 August 2016, six months ended 28 February 2017 and 12 months ended 28 February 2017 is summarised below.

Table 11: Financial performance of Ten Network

Period	12 months to			6 months to		
\$ million unless otherwise stated	31-Aug-13	31-Aug-14	31-Aug-15	31-Aug-16	28-Feb-17	12 months to 28-Feb-17
Free-to-air television advertising revenue (SMI only) ¹	2,280.7	2,290.3	2,314.0	2,239.6	1,056.1	2,471.3
Growth	(1.3%)	0.4%	1.0%	(3.2%)	(5.6%)	7.9%
Ten Network advertising revenue	518.7	485.0	511.0	533.7	267.5	539.1
Growth	(13.9%)	(6.5%)	5.4%	4.4%	2.0%	2.4%
Ten Network revenue share	22.7%	21.2%	22.1%	23.8%	25.3%	21.8%
Television revenue	628.2	599.7	627.6	674.1	339.7	680.3
Television expenses	(581.8)	(680.9)	(641.3)	(671.7)	(343.8)	(691.7)
Television EBITDA	46.4	(81.2)	(13.7)	2.4	(4.1)	(11.4)
Out-of-home EBITDA ²	(4.3)	-	-	-	-	-
EBITDA³	42.1	(81.2)	(13.7)	2.4	(4.1)	(11.4)
Depreciation	(17.4)	(15.6)	(14.3)	(11.8)	(5.6)	(10.6)
Amortisation	(0.3)	-	-	-	-	-
EBIT⁴	24.4	(97.0)	(28.0)	(9.6)	(9.7)	(22.2)
Net interest expense	(13.7)	(15.2)	(15.4)	(18.8)	(9.1)	(18.6)
Share of net profit of equity accounted investments	(1.5)	1.0	0.7	1.1	0.9	2.3
Other income/(expenses) and non-recurring items	(337.9)	(55.5)	(262.3)	(124.4)	(213.9)	(362.2)
(Loss)/profit before tax	(328.7)	(166.6)	(305.1)	(151.7)	(231.7)	(400.7)
Income tax benefit/(expense)	54.6	3.1	(3.4)	(2.7)	(0.1)	(0.8)
(Loss)/profit after tax from continuing operations	(274.0)	(163.5)	(308.5)	(154.4)	(231.9)	(401.4)
(Loss)/Profit after tax from discontinued operations ⁵	(4.1)	-	-	-	-	-
Non-controlling interest ⁶	(6.9)	(4.8)	(3.8)	(2.4)	(0.3)	(0.9)
(Loss) after tax attributable to Ten Network shareholders	(285.0)	(168.3)	(312.2)	(156.8)	(232.2)	(402.4)
Statistics						
Revenue growth	N/A	(4.5%)	4.6%	7.4%	1.9%	4.3%
Expense growth	N/A	17.0%	(5.8%)	4.7%	6.2%	4.5%
EBITDA growth	N/A	(274.9%)	(83.1%)	(117.2%)	(141.8%)	18.7%
EBIT growth	N/A	(498.2%)	(71.1%)	(65.7%)	(439.9%)	(4.8%)
EBITDA margin	7.4%	(13.5%)	(2.2%)	0.4%	(1.2%)	(1.7%)
Basic earnings per share (cents)	(12.9)	(6.5)	(120.7)	(46.5)	(64.3)	(115.0)
Underlying basic earnings per share (cents)	(0.2)	(4.5)	(19.1)	(9.4)	(4.9)	(10.9)
Dividend per share (cents)	-	-	-	-	-	-

Source: Ten Network Annual Reports for FY13 to FY16 and half yearly reports for the 6 months to 29 February 2016 and 6 months to 28 February 2017; KPMG Corporate Finance analysis.

Notes:

1. SMI market used as a proxy for market as Ten Network's financial year does not align to FreeTV Australia reported periods. SMI data comprises only major agencies (representing approximately 80% of the market).
2. Out-of-home EBITDA in FY13 relates to Eye Corp in the US. EBITDA for FY14 to FY16 is nil as Eye Corp US operations are provided for as onerous contracts and provisions for onerous contracts are netted off against losses each year. Eye Corp US was sold on 31 December 2015.
3. EBITDA is earnings before net interest, tax, depreciation and amortisation, non-operating income (including dividends), share of net profit of equity accounted investments and significant and non-recurring items.
4. EBIT is earnings before net interest, tax, non-operating income (including dividends), share of net profit of equity accounted investments and significant and non-recurring items.
5. Discontinued operations is the out-of-home business in Australia, New Zealand and Indonesia, which were sold on 1 November 2012, and the business in the United Kingdom, which was sold on 22 February 2013.
6. Outside equity interests is CBS Studios 33.3% interest in ElevenCo Pty Limited.

In FY14, Ten Network's EBITDA declined sharply as a result of:

- a 4.5% decline in revenue, as losses in revenue share resulted in a substantial decline in advertising revenue. The decline was partially offset by strong growth in digital advertising revenue, growth in affiliate revenue as a result of new commercial terms which commenced in July 2013 and growth in datacasting revenue following the launch of Spree TV in September 2013
- an increase in television costs (excluding selling costs and one-time items) of 7.0%⁶⁰ as a result of the investment in domestic content and sport, and fixed cost increases under the US content agreements, and
- \$55.0 million one-off costs associated with the Sochi Winter Olympics and Glasgow Commonwealth Games.

Strategic initiatives to reposition and promote prime time content were fully implemented from May 2014, and resulted in an improvement in audience growth and revenue across all platforms. Ten Network achieved moderate growth in revenue of 4.6% in FY15, 7.4% in FY16 and 1.9% in the first half of FY17, reflecting:

- growth in advertising revenue as a result of increased revenue share (despite an overall decline in free-to-air television industry advertising revenue). This growth was mostly due to the repositioning of content aimed at the 25 to 54 year old demographic, particularly during the prime time segment, and was partially offset by an increase in advertising commissions
- strong growth in net digital revenue in all periods
- a decline in affiliate revenue in FY15, followed by strong growth in FY16 as a result of higher fees applicable under the new affiliate agreements with WIN and Southern Cross, which took effect on 1 July 2016, and
- relatively flat datacasting and other revenue in all periods.

However, growth in revenue was largely offset by further increases in costs associated with investment in locally produced content and contracted increases in the cost of US content. This has been partially offset by a reduction in operating expenses through cost control. As a result, television costs (excluding selling and one-time items) increased 2.3% in FY15, 5.1% in FY16 and 5.7% in the first half of FY17.⁶¹

Selling costs remained relatively stable from FY15 as the reduction in licence fees paid to ACMA in FY16 and the waiver of licence fees in first half of FY17 were largely offset by payment of variable fees to MCN. Overall, EBITDA margin has remained mostly unchanged.

⁶⁰ Source: Ten Network FY14 Full Year Results Presentation

⁶¹ Source: Ten Network FY15 and FY16 Full Year Results Presentations and First Half FY17 Results Presentation

Net interest expense increased from FY13 to FY15 as total borrowings increased while the margin on the debt facility and shareholders guarantors' fee remained fixed. From 31 August 2015, the margin for the facility and shareholder guarantors' fee reverted to a variable fee based on Ten Network's debt to EBITDA ratio, which led to further increases in net interest expense during FY16. This was partially offset by the repayment of debt through capital raisings and the Foxtel share placement from October to December 2015.

Corporate and administrative expenses include staff costs (finance, legal, executive and human resources), fees to external service providers (audit, tax) and approximately \$1.7 million in public company costs, such as Directors' fees and listing and registry expenses in FY16.

Ten Network has identified the following significant and non-recurring items and other income/(expenses).

Table 12: Significant non-recurring items and other income/(expenses)

Period	12 months to			6 months to 12 months to		
\$ million unless otherwise stated	31-Aug-13	31-Aug-14	31-Aug-15	31-Aug-16	28-Feb-17	28-Feb-17
Significant and non-recurring items (net)						
Impairment of television licences	(292.1)	(52.8)	(251.2)	(135.2)	(214.5)	(349.7)
Impairment of fixed assets	(9.4)	-	-	-	-	-
Write-down of other assets	-	(5.2)	-	-	-	-
Restructuring costs	(14.4)	(8.7)	(6.3)	(2.2)	(1.3)	(2.0)
Provision for onerous contracts	(20.3)	(8.8)	(6.8)	-	-	-
Net gain on sale of investments	-	21.4	1.3	23.1	-	(1.7)
Legal settlement receipt	-	-	-	-	1.3	1.3
Writedown of investment in RSVP	-	-	-	(11.0)	-	(11.0)
Total significant and non-recurring items (net)	(336.2)	(54.2)	(262.9)	(125.3)	(214.6)	(363.1)
Other income/(expense)						
Foreign exchange gain	0.2	-	0.2	-	-	-
Dividends received	1.0	1.0	1.0	1.2	0.7	1.2
Net profit on sale of non-current assets	-	-	0.0	-	-	-
Unwinding of discount on onerous contracts	(2.9)	(2.3)	(0.7)	(0.3)	-	(0.3)
Total other income/(expense)	(1.6)	(1.3)	0.6	0.9	0.7	0.9
Total	(337.9)	(55.5)	(262.3)	(124.4)	(213.9)	(362.2)

Source: Ten Network Annual Reports for FY13 to FY16 and half yearly reports for the 6 months to 29 February 2016 and 6 months to 28 February 2017; KPMG Corporate Finance analysis.

Since FY13, Ten Network has recorded impairment charges of approximately \$946 million against television licences. This is mainly the result of recent advertising market declines, as well as a reassessment of long-term market growth forecasts.

From FY13 to FY15, Ten Network provided for \$35.9 million of onerous contracts, including for contracts associated with sports broadcasting rights, Road and Maritime Service (RMS) (out-of-home advertising) and the Eye Corp's US business (which has been divested).

There have been several sales in recent years, as Ten Network has divested non-core businesses and assets. This included the gain on sale of Oasis Pty Limited of \$14.3 million in FY14, the disposal of Our Deal Pty Limited for \$1.3 million in FY15 and the US based business of Eye Corp for a non-cash gain of \$23.1 million in FY16.

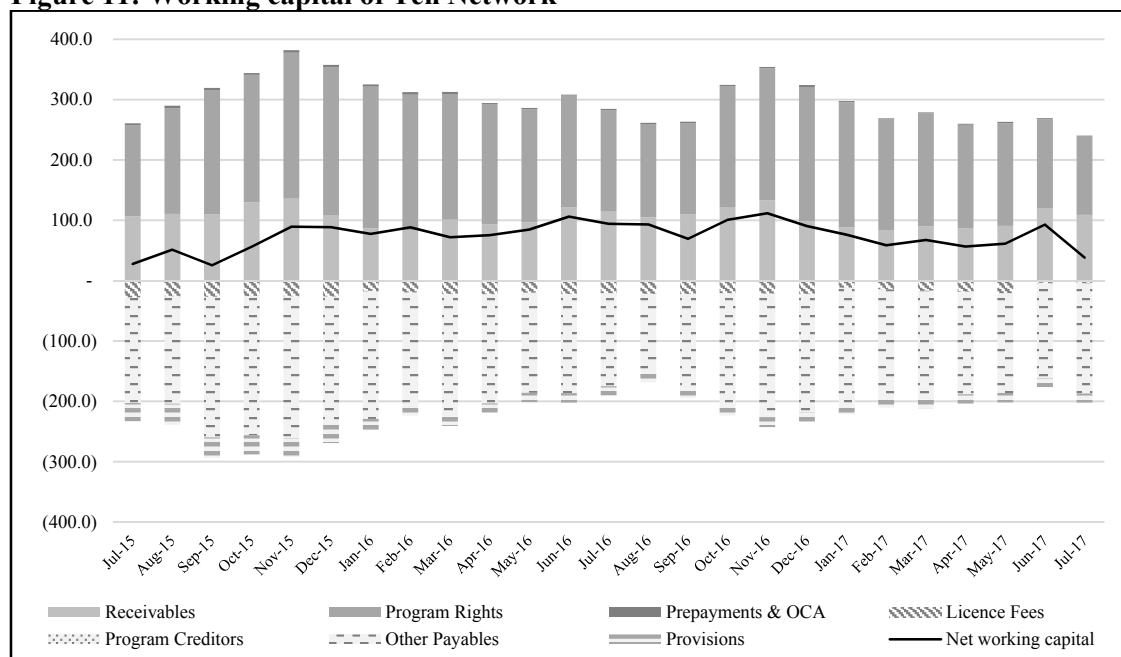
The Ten Group Pty Limited and its wholly owned Australian controlled entities form a tax consolidated group. The group records deferred tax assets arising from tax losses to the extent that they will be utilised by the reversal of taxable temporary differences. At 31 August 2016, Ten Network reported deferred tax assets of \$143.8 million and unrecognised Australian carried forward income tax losses of approximately \$196.4 million (representing a tax benefit of \$58.9 million at 30%).

Ten Network has not paid dividends since FY12.

7.4 Working Capital

Ten Network has significant working capital requirements, mainly due to the level of investment required to secure acquired and locally produced content. Television program inventory (known as program rights) represents the content available to Ten Network for broadcast. There is substantial variability from month-to-month. As illustrated in the chart below, over the 24 months to 31 July 2017, net working capital has mostly varied between \$50 million and \$110 million, representing a range of approximately \$60 million. The average requirement over the last twelve months is \$76.4 million.

Figure 11: Working capital of Ten Network



Source: Monthly management accounts; KPMG Corporate Finance analysis.

Net working capital typically increases during the first quarter of the financial year, peaking around November. At this time:

- program rights are at their highest, as contracts for acquired content are entered into for the upcoming calendar year, and

- receivables are at their highest as October and November are high revenue months and revenues are received two months in arrears.

Program rights associated with acquired content are initially recognised at the contracted purchase price. For locally produced content, program rights are recognised as instalment payments are made during production. The timing of these payments varies depending on milestones in the production schedule.

Payments for acquired content are typically made in advance of content being delivered, resulting in a net program rights asset. Similarly, there is a timing difference between the payment for locally produced content and the broadcast of the program, resulting in an increase in working capital. The program rights assets subsequently decline as the program is aired or the availability period of the content received under each respective contract expires.

Net working capital is typically lowest around the end of the financial year. The net realisable value of program rights are also reviewed at this point. Any program rights associated with content not expected to be aired within its license period are written-off.

7.5 Cash Flow

The cash flow statements for Ten Network for the four financial years ended 31 August 2016, six months ended 28 February 2017 and 12 months ended 28 February 2017 are set out below.

Table 13: Ten Network cash flow

Period	12 months to			6 months to 12 months to		
\$ million unless otherwise stated	31-Aug-13	31-Aug-14	31-Aug-15	31-Aug-16	28-Feb-17	28-Feb-17
EBITDA	46.4	(81.2)	(13.7)	2.4	(4.1)	(11.4)
Capital expenditure (net)	(11.4)	(5.4)	(8.2)	(9.2)	(6.1)	(13.4)
Utilisation of provision for onerous contracts	(28.4)	(34.0)	(27.8)	(5.4)	-	(0.2)
Working capital and other	(59.1)	88.6	(5.9)	(45.3)	34.4	21.3
Cash flow from operations	(52.5)	(32.0)	(55.7)	(57.5)	24.3	(3.7)
Interest paid (net)	(9.1)	(5.7)	(1.7)	(1.1)	(0.5)	(1.0)
Treasury costs paid	(2.6)	(0.8)	-	-	-	-
Income tax paid (net)	1.6	(5.6)	(5.8)	(2.0)	1.3	(1.3)
Proceeds from government grant	-	2.6	5.6	-	-	-
Deferred consideration received for sale of Eye Cor	-	-	15.0	-	-	-
Dividends received	1.0	1.0	1.0	1.2	0.7	1.2
Repayments from/(payments for) other investments	(2.0)	(0.8)	0.2	(1.0)	(0.1)	(0.1)
Proceeds from sale of investments	92.0	2.3	1.2	0.6	-	1.0
Proceeds from disposal of Out-of-Home business	-	-	-	0.7	-	0.7
Net proceeds from issue of shares	222.8	-	-	146.2	-	(0.1)
Dividends paid to CBS on its ElevenCo investment	(12.2)	(6.5)	(4.7)	(2.5)	-	(1.8)
Refinancing costs	(0.6)	(3.4)	(0.0)	-	-	-
Increase/(decrease) in cash (net)	238.5	(49.0)	(44.9)	84.7	25.6	(5.0)
Opening net debt ¹	(263.1)	(27.6)	(80.5)	(131.4)	(53.5)	(20.2)
Non cash/FX/capitalised interest ¹	-	(3.9)	(6.0)	(4.8)	(2.3)	(5.0)
Cash held by business on disposal	(3.0)	-	-	(2.0)	-	-
Total	(266.1)	(31.5)	(86.5)	(138.2)	(55.8)	(25.2)
Closing net debt¹	(27.6)	(80.5)	(131.4)	(53.5)	(30.2)	(30.2)

Source: Ten Network Annual Reports for FY13 to FY16 and half yearly reports and management accounts for the 6 months to 29 February 2016 and 6 months to 28 February 2017; KPMG Corporate Finance analysis.

Note 1: Includes effect of exchange rates on cash and cash equivalents and restricted cash.

Despite the implementation of strategic initiatives focused on repositioning content and growing advertising revenue, operating cash flow has been negative in each of the last four financial years, as a result of low or negative EBITDA, cash outlays associated with onerous contracts and increases in working capital (in FY13, FY15 and FY16).

Ten Network generated positive cash flows from operations in the first half of FY17 and in the 12 months ended 28 February 2017, as all onerous contracts had ceased and working capital decreased as payables increased, which reflects seasonality, as discussed in Section 7.4.

Working capital has varied widely between periods, largely as a result of the timing and level of investment in program rights, net of payables for program rights. Working capital increased in FY13, following the investment in event TV programming, such as the Big Bash League cricket competition and the Sochi Winter Olympics. Further increases were recorded in FY15 and FY16, which coincided with the strategic initiatives that focused on repositioning content, particularly in the prime time segment.

Investment in content has been funded by dilutive equity raisings and sales of non-core businesses and assets. In FY13, proceeds from a \$230 million equity raising (completed in January 2013), sale of Eye Corp Pty Limited in Australia, New Zealand and Indonesia (November 2012) and in the United Kingdom (February 2013) were used to repay debt and invest in content.

Interest paid has decreased since FY13 as interest was capitalised under the Revolving Cash Advance Facility that was put in place in December 2013. Borrowings increased in FY14 and FY15 to fund cash shortfalls and in FY16, Ten Network raised gross proceeds of \$154 million through the issue of new ordinary shares to Foxtel (December 2015) and completion of an entitlement offer (October/November 2015). The proceeds were used to repay debt, fund cash shortfalls and invest in content.

Dividends were paid to CBS Studios on its investment in ElevenCo, however, no dividends were paid to Ten Network shareholders in the periods noted above.

7.6 Financial Position

The financial position of Ten Network as at 31 August 2016 and 28 February 2017 is summarised below.

Table 14: Consolidated financial position of Ten Network

Period		
\$ million unless otherwise stated	31-Aug-16	28-Feb-17
Receivables, current tax assets, prepayments	110.4	86.2
Current program rights	154.0	184.0
Creditors and current provisions ¹	(167.6)	(210.2)
Net working capital	96.8	60.0
Non current program rights	2.7	3.1
Property, plant and equipment (net)	42.2	42.6
Television licence intangibles	346.5	132.0
Equity accounted investments	10.0	11.0
Derivative financial instruments (net)	(2.3)	(1.5)
Non current trade creditors	(19.5)	(19.6)
Deferred tax liabilities (net)	(1.3)	(1.3)
Provision for restructuring	(0.3)	-
Provision for litigation and defamation	(0.7)	(0.1)
Non current provisions	(16.0)	(15.1)
Total funds employed	458.2	211.1
Cash and cash equivalents	14.8	15.3
Bank loan	(90.2)	(73.8)
Net borrowings	(75.4)	(58.5)
Net assets	382.8	152.6
Non-controlling interests ²	(0.6)	(0.9)
Equity attributable to Ten Network shareholders	382.2	151.6
Statistics		
Shares on issue at period end ('000)	370,785	369,165
Net assets per share	\$1.03	\$0.41
NTA per share ³	\$0.10	\$0.05
Net debt/EBITDA ⁴	28.9	(4.0)
Gearing (net borrowings/(net assets plus net borrowings))	16.5%	27.7%
Gearing (net borrowings/(net tangible assets plus net borrowings))	(242.7%)	(93.0%)

Source: Ten Network FY16 Annual Report and half yearly report for the 6 months to 28 February 2017; KPMG Corporate Finance analysis.

Notes:

1. Excludes provisions for restructuring and litigation and defamation.
2. Non-controlling interest relates to CBS Studios 33.3% equity interest in ElevenCo Pty Ltd.
3. NTA is net tangible assets, which is calculated as net assets less television licence intangibles less non-controlling interests.
4. Leverage Ratio is defined as debt principal (i.e. including drawn debt and drawn capitalised interest but not capitalised guarantor fees) divided by EBITDA for the preceding 12 month period.

Assets on the balance sheet primarily relate to program rights, which represent the program inventory available for broadcast. Program rights are purchased in advance of broadcasting and expensed either over the duration of the series (for locally produced content and overseas series) or on a diminishing basis over the duration of the content agreement (for US features). Program rights at balance date for which the telecast licence period has commenced or will commence in the coming twelve month period is classified as a current asset. Similar to the accounting

treatment of inventory, the program rights are recorded at the lower of cost or net realisable value. As discussed in Section 7.4, the net working capital at balance date is typically at its lowest point at the end of financial year.

In regards to the other balance sheet items, we note:

- Ten Network's balance of television licence intangibles as at 28 February 2017 is \$132.0 million, a significant reduction from the balance at 31 August 2016 of \$346.5 million as a result of impairment charges
- equity accounted investments relate to a 33.33% interest in TX Australia, a 24.99% interest in MCN and a 15.17% interest in RSVP.com.au Pty Limited
- Ten Network used interest rate swaps to hedge a portion of its exposure to variable interest rates. All derivatives and swaps have been closed out since voluntary administration commenced
- trade creditors classified as non-current mostly relate to amounts payable for licence fees and content agreements due beyond the coming twelve month period, and
- provisions as at 28 February 2017 include:
 - a \$0.1 million provision for litigation and defamation, and
 - a \$3.5 million 'make good' provision for costs of restoration or removal of property, plant and equipment and site leases.

At 31 August 2016, Ten Network had total capital expenditure commitments of approximately \$7.9 million due within one year related to planned investments in equipment as a result of a change in the television spectrum and program expenditure commitments of \$1,208.5 million (including \$304.6 million due within one year, \$690.0 million due between one and five years and \$213.8 million due after five years) primarily related to contracts with CBS Corporation and Fox. In addition, Ten Network had \$83.3 million of non-cancellable operating lease commitments (including \$21.0 million due within one year).

Ten Network has disclosed a contingent liability as at 28 February 2017 in relation to parent guarantees on the sale of Eye Corp US and UK in 2013 and 2015, respectively.

Net borrowings

Ten Network had a four year \$200 million Revolving Cash Advance Facility with CBA which was due to expire on 23 December 2017 and was fully secured against the assets of Ten Network. Funds under the facility were used for general working capital purposes.

Ten Network entered into a reimbursement agreement with the guarantors whereby it would pay the guarantors a guarantee fee either in cash or as shares and reimburse the guarantors for any payment made to CBA in the event of a claim. The loan did not involve any financial covenants to CBA or the guarantors, however, it established certain undertakings, including limitations on acquisitions, disposals, incurrence of additional debt and granting of security interests.

The facility was guaranteed by three major shareholders, Illyria, CPH and Birketu. Shareholder guarantors were entitled to receive a fee at the end of the guarantee period and had an option of the fee being convertible into shares at their election at that time. The margin for the facility, including the shareholder guarantors' fee, was fixed until 31 August 2015, then reverted to a variable fee based on the debt to EBITDA ratio of Ten Network until maturity. The variable interest was calculated every six month period as follows:

- if the Leverage Ratio was 4.00x, the guarantee fee rate was 3.00% per annum,
- for every 0.50x movement in the Leverage Ratio from 4.00x, there was a corresponding increase or decrease in the guarantee fee rate by 0.30% from 3.00% per annum, and
- the maximum guarantee fee rate was 5.40% per annum.

Under the facility, interest was capitalised and added to the principal amount of the loan and compounded every six months. Capitalised interest was payable to the extent that such capitalisation caused the drawn debt to exceed the available facilities, or on the date of maturity of the agreement. Shareholder guarantee fees were also capitalised at a contracted rate based on the debt to EBITDA ratio for the company.

On 3 July 2017, the Receivers and Managers announced that the Ten Network facility had been amended, with continuing support from Illyria, CPH and Birketu, in order to secure \$30 million of additional funding, available until 31 August 2017.

On 1 September 2017, the refinance component of the Transaction Deed was completed, with wholly owned entities of CBS Corporation funding approximately \$142.7 million by way of loan, to refinance the secured debt of the Ten Network, including the shareholder guarantor fees. A working capital facility of \$30 million has also been made available as part of the refinance (\$3.6 million of which was used to refinance the existing secured debt). The security provided by Ten Network for these facilities is broadly similar to that provided to the previous secured lender, CBA.

Ten Network's borrowings are presented below.

Table 15: Ten Network borrowings

Period \$ million unless otherwise stated	28-Feb-17 (latest audited)	27-May-17 (latest reported)	31-Aug-17 (actual)
Existing bank loan – drawn	40.0	75.0	90.0
Amended bank loan – drawn	-	-	5.1
Bank loan – capitalised interest and commitment fees	5.5	6.6	8.2
Shareholder guarantee fees and costs	29.0	32.2	39.4
Gross borrowings	74.5	113.8	142.7
Capitalised transaction costs	(0.7)	(0.5)	- ¹
Gross borrowings per statement of financial position	73.8	113.3	142.7

Source: Ten Network management; Ten Network half yearly report to 28 February 2017;

Note 1: Expected to be written down to nil by 31 August 2017.

Ten Network's cash balance as at 31 August 2017 was \$40.2 million (not including \$5.1 million of restricted cash).

Unpaid and estimated transaction costs associated with the administration, receivership or sale (including advisers) through to completion (including GST and excluding transaction costs to be paid by CBS Corporation) are \$6.9 million.

Three subsidiaries of CBS Corporation and Fox have lodged proofs of debt for voting purposes that make claims of \$843.7 million and \$366.1 million, respectively. The Deed Administrators have assessed these claims on a mitigated basis at \$348.0 and \$195.0 million, respectively. Trade and other creditors have been assessed at \$30 million to \$35 million.

7.7 *Capital structure*

As at 9 June 2017, Ten Network had 369,165,396 shares on issue and 17,675 registered shareholders. Total shares on issue includes 1,452,206 quoted and 6,351,718 unquoted loan funded shares. These shares formed part of the long-term incentive scheme of Ten Network and enabled management to acquire shares in Ten Network via a limited recourse loan from the company.

Ten Network's investor base is predominantly Australian-based, with approximately 98% of shares on issue as at 9 June 2017 held by domestic investors. As at 9 June 2017, retail investors (defined as holdings of up to 10,000 shares) accounted for 5.3% of shares on issue. The top 10 registered shareholders accounted for approximately 61.0% of shares on issue and primarily included private investors and corporations, as set out below.

Table 16: 10 Largest registered shareholders as at 9 June 2017

Shareholder	Controlled by	Number of shares	Interest
Foxtel Management Pty Ltd	50% News Corporation/ 50% Telstra Corporation Limited	51,333,334	13.91%
Birketu Pty Ltd	Mr. Bruce Gordon	40,435,674	10.95%
Hanrine Investments Pty Ltd	Mrs. Gina Rinehart	30,490,444	8.26%
Illyria Nominees Television Pty Limited	Mr. Lachlan Murdoch	27,496,502	7.45%
Aidem Holdings Pty Limited	Mr. James Packer	25,301,335	6.85%
HSBC Custody Nominees (Australia) Limited	n/a	22,939,086	6.21%
Citicorp Nominees Pty Limited	n/a	9,278,642	2.51%
Birketu Pty Ltd	Mr. Bruce Gordon	5,945,946	1.61%
Birketu Investments Pty Ltd	Mr. Bruce Gordon	5,886,487	1.59%
JP Morgan Nominees Australia Limited	n/a	5,461,469	1.48%
10 Largest shareholders		224,568,919	60.83%
Balance of register		144,596,477	39.17%
Total		369,165,396	100.00%

Source: Shareholder register of Ten Network.

As at 9 June 2017, Ten Network had received notices from the following substantial shareholders.

Table 17: Substantial shareholder notices as at 9 June 2017

Substantial shareholder	Date of notice	Number of shares ¹	Interest ²
Birketu Pty Ltd ³	9-Jun-17	82,968,937	22.47%
Mr L. Murdoch and Illyria Nominees Television Pty Ltd as trustee of Illyria Investment Trust No. 4 ³	9-Jun-17	82,968,937	22.47%
Foxtel Management Pty Ltd ⁴	16-Dec-15	513,333,333	13.84%
Telstra Corporation Limited ⁴	16-Dec-15	513,333,333	13.84%
Sky Cable Pty Limited and News Corporation ⁴	16-Dec-15	513,333,333	13.84%
Mrs G. Rinehart and Hancock Prospecting Pty Ltd (HPPL) and subsidiaries	26-Nov-15	304,904,435	8.52%
Aidem Holdings Pty Limited (Mr. J. Packer)	25-Nov-15	274,965,013	7.68%

Source: ASX announcements.

Notes:

1. Unadjusted for 10 for 1 share consolidation.
2. As at date of last notification.
3. Birketu and Illyria may be associates and, therefore, their interests are combined.
4. Telstra and News Corporation have a deemed relevant interest in Ten Network.

As at the date of notice, Illyria held 27,496,502 shares, Birketu held 49,585,948 and Birketu Investments Pty Ltd held 5,886,489. Birketu and Illyria may be considered associates of one another by virtue of their letter agreement dated 9 June 2017, which stipulates that they will work together exclusively to facilitate the potential formation, negotiation and implementation of a restructure proposal in relation to Ten Network. Consequently, their interests in Ten Network are aggregated for the purposes of the substantial shareholder notices.

Foxtel Management Pty Ltd directly held 513,333,333 shares in Ten Network (prior to the share consolidation). Telstra Corporation Limited and News Corporation and their related entities have a deemed relevant interest in Ten Network as a result of their 50% shareholdings in Foxtel.

Key management personnel at Ten Network are granted performance rights, which entitle the participant to receive, following satisfaction of any vesting conditions and/or performance hurdles, one ordinary share or cash. If applicable vesting conditions and/or performance hurdles are not met, the rights will lapse. The rights do not automatically vest in the event of a takeover or Ten Network entering administration. Vesting is subject to the discretion of the Ten Network Board and Remuneration Committee. At 31 August 2016, there were 1,605,016 rights on issue.

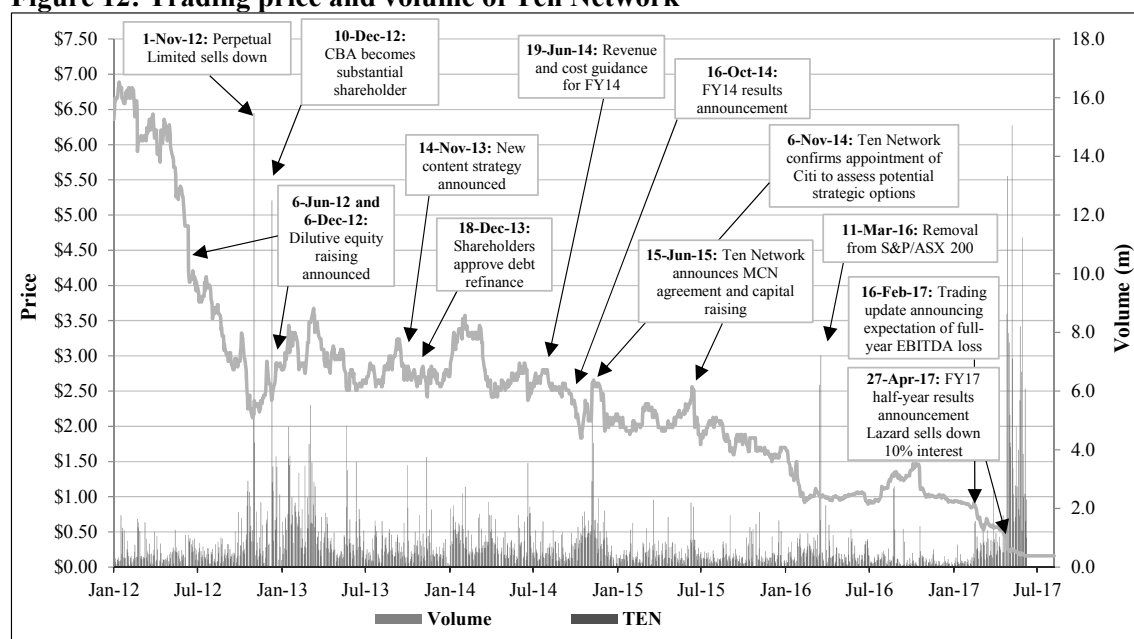
7.8 Share price performance

7.8.1 Recent market trading

After reaching a high of \$14.22⁶² in March 2010, the Ten Network share price has exhibited a declining trend, with a low of \$2.27 reached on 10 December 2012. This decline reflects industry related factors (including the cyclical downturn in the broader advertising market in 2011 to 2013, concern as to the shift in advertising expenditure towards streaming video/IPTV and time-shifted television viewing and a shift in viewer preferences away from US content towards more expensive domestic content) as well as factors specific to Ten Network (including a decline in audience and revenue share, fixed cost increases in contracts with US content providers and dilutive equity raisings⁶³).

The trading price and volume of Ten Network shares from 1 January 2012 to 9 June 2017 (the last trading day prior to the appointment of the Administrators) is illustrated below.

Figure 12: Trading price and volume of Ten Network



Source: S&P Capital IQ; KPMG Corporate Finance analysis.

Note: Ten Network's share prices are adjusted for changes in number of shares outstanding as a result of 1-for-10 share consolidation and capital raisings.

⁶² Adjusted for changes in number of shares held as a result of 1 for 10 share consolidation and capital raisings

⁶³ Including an entitlement offer at an offer price of \$0.51 per new share (a 10.3% discount the closing price on 5 June 2012 of \$0.64) and an entitlement offer at an offer price of \$0.20 per new share (a 38.5% discount to the closing share price on 4 December 2012 of \$0.325)

From December 2012 until June 2014, the Ten Network share price traded broadly in the range of \$2.50 to \$3.50. During this time, free-to-air advertising market retained its share of overall advertising expenditure, which helped to support the share price. The share price increased to \$3.62 in late January, following the announcement of a new content strategy in November 2013 and shareholder approval in December 2013 of the debt refinancing to fund the strategy. Ten Network experienced a loss of audience share over this period, with a decline from 24.6% at December 2012 to a low of 22.9% in December 2013 before recovering slightly to 23.4% the following year.

The Ten Network share price declined by 12.1% in June 2014, after a profit downgrade was announced to the market. The downgrade highlighted an expected decline in revenue of around 3.5 to 4.5%, cost growth of around 8% and one-off costs of \$55 million related to the broadcast of the Sochi Winter Olympics and Glasgow Commonwealth Games. The share price reached a low of \$1.74 immediately after the announcement, before stabilising to trade in the range of \$2.00 to \$2.50.

Following this period, the Ten Network share price declined again following the announcement on 15 June 2015 of the strategic agreement with MCN and a capital raising at a 43% discount to the prior day's closing price. The share price reached a low of \$1.74 on 1 July 2015 then traded in the range of \$1.70 to \$2.10 before closing at \$1.60 on 19 November 2015, following the completion of the entitlement offer.

The Ten Network share price experienced further weakening in support, as the structural shift away from free-to-air television became more apparent. This was exhibited in the 6.1% decline in prime time free-to-air television industry audience in 2015, with greater declines in the younger audience (16 to 39 year olds) and main channel audience. This resulted in several analysts reforecasting FY16 and FY17 free-to-air advertising revenue forecasts and Ten Network's share price declined to a low of \$0.905 on 12 February 2016. This followed a 1-for-10 share consolidation undertaken on 13 January 2016.

Ten Network was removed from the S&P/ASX 200 Index on 18 March 2016 (announced 11 March 2016), resulting in a spike in volumes as index-based portfolios were adjusted.

The Ten Network share price recovered slightly in August and September 2016, as audience and revenue share recovered, however, decreased by around 24% on the announcement on 20 October 2016 of the FY16 results, which indicated that growth in revenue had been offset by growth in costs and EBITDA was only slightly positive.

The Ten Network share price continued to decline following a series of negative earnings announcements:

- 16 February 2017 trading update, which indicated that EBITDA for the first half of FY17 was expected to be in the range of nil to a loss of \$5 million, and an EBITDA loss in the range of \$20 million to \$30 million was expected for FY17, and
- 27 April 2017 release of first half FY17 results, which indicated an EBITDA loss of \$2.4 million for the first half of FY17 and a television licence impairment of \$215 million. Management revised the expected EBITDA loss for FY17 to \$25 million to \$30 million.

Following the announcement of the first half FY17 results, Lazard Asset Management Pacific Co (Lazard) sold down its 10% interest over a two week period, contributing to heavy trading volumes.

The Ten Network share price closed at \$0.16 on 9 June 2017, the last trading day before the announcement that the Administrators had been appointed.

7.8.2 Liquidity

An analysis of the volume of trading in Ten Network shares, including the VWAP for the period up to 9 June 2017 (the last trading day before the appointment of the Administrators) is set out below.

Table 18: Volume of trading in Ten Network shares

Period	Price			Cumulative value	Cumulative volume	% of issued capital
	Low	High	VWAP			
	\$	\$	\$			
Period ended 9 June 2017 ¹						
1 day	0.16	0.17	0.16	0.2	1.0	0.3%
1 week	0.16	0.18	0.16	2.2	13.5	3.7%
1 month	0.16	0.26	0.19	15.9	82.2	22.3%
3 months	0.16	0.71	0.28	50.2	180.4	48.9%
6 months	0.16	1.01	0.33	67.0	202.2	54.8%
12 months	0.16	1.48	0.47	114.1	243.3	65.9%

Source: IRESS; KPMG Corporate Finance analysis.

Note 1: 9 June 2017 represents the last trading day prior to the appointment of the Administrators.

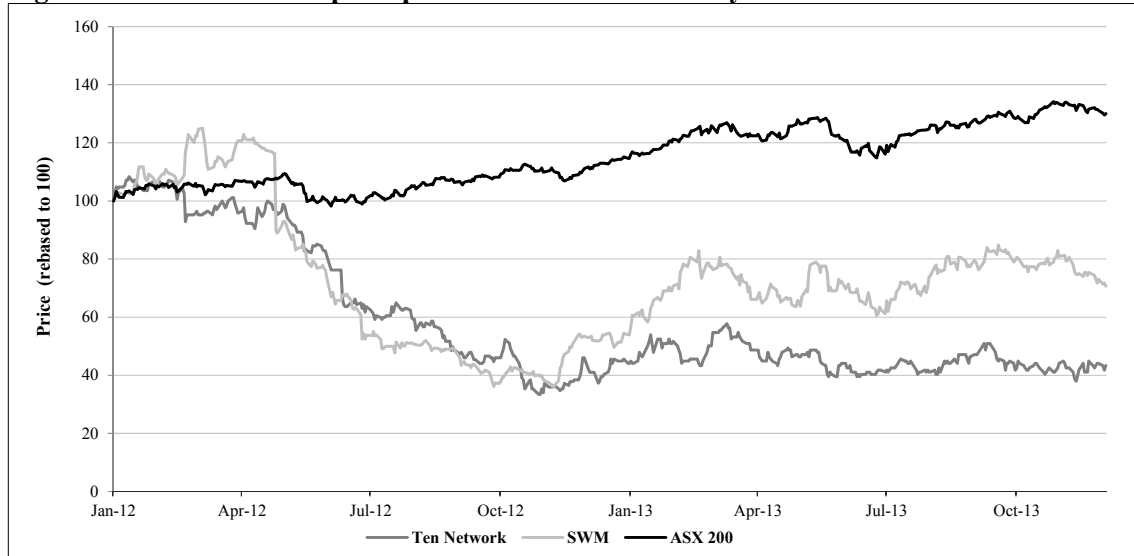
During the 12 month period to 9 June 2017, 65.9% of issued shares were traded. This level of liquidity indicates that there was an active market for Ten Network shares, despite Ten Network's limited free float (around 43%⁶⁴). Trading volumes included Lazard's sell down of its 10% interest over the two weeks from 27 April 2017.

7.8.3 Relative share price performance

Nine Entertainment was privately held until 5 December 2013. The performance of Ten Network and SWM shares from 1 January 2012 until 5 December 2013, relative to the S&P/ASX 200 Index (ASX Index) (rebased to 100) is illustrated as follows.

⁶⁴ Free float is calculated as 100% less interests held by corporate shareholders (Foxtel and SWM), private stakeholders with greater than 5% interest (Birketu, Hanrine and Aidem) and directors, employees and related parties (including 7.4% held by Ilyria)

Figure 13: Relative share price performance from January 2012 to December 2013



Source: IRESS; KPMG Corporate Finance analysis.

Note: Share prices are adjusted for changes in number of shares outstanding and rebased to 100.

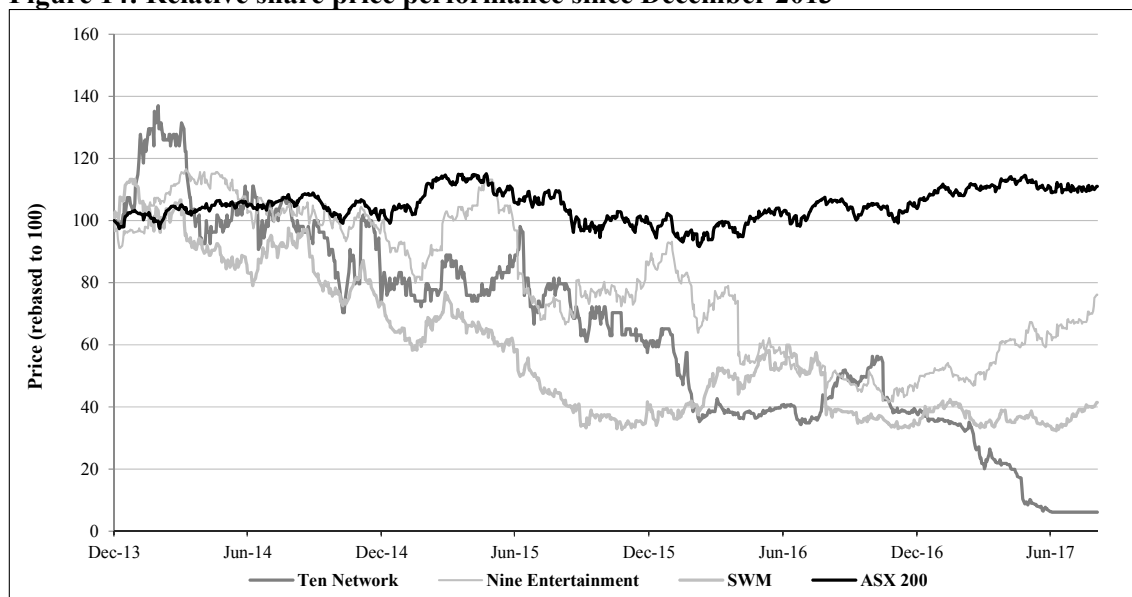
Ten Network and SWM underperformed the broader sharemarket index from January 2012 until late 2012, likely reflecting the cyclical downturn in the broader advertising market in 2011 to 2013, concern as to the structural shift in advertising expenditure away from free-to-air television, as well as the shift in viewer preferences towards more expensive domestic content.

Ten Network underperformed SWM in the first half of 2013, when Ten Network's ratings declined sharply to their lowest level (rolling 12 month average of 22.5% in July 2013) and SWM's ratings increased marginally (rolling 12 month average of 40.5% in June and August 2013).

However, SWM's share price was likely also influenced by the structural decline in print media advertising expenditure, which has declined more rapidly than free-to-air television advertising expenditure. Print media represented 35% of SWM's FY12 EBITDA and declined by an average of 22.2% per annum to reach 17% of FY17 EBITDA. In contrast, SWM's EBITDA from television broadcasting declined by an average of 3.9% over the period, substantially outperforming Ten Network, likely as it is not locked into long-term programming contracts to the extent of Ten Network.

The Ten Network, SWM and Nine Entertainment share prices since December 2013 (when Nine Entertainment was publicly listed) relative to the index (rebased to 100) are presented as follows.

Figure 14: Relative share price performance since December 2013



Source: IRESS; KPMG Corporate Finance analysis.

Note: Share prices are adjusted for changes in number of shares outstanding and rebased to 100.

Similar to Ten Network, Nine Entertainment has focused solely on television and digital following the sale of the Live business in FY13. From December 2013, Ten Network, SWM and Nine Entertainment underperformed the broader sharemarket index, such that their market capitalisation in late 2016 was approximately 40% of the level recorded in December 2013. This largely reflects the introduction of Netflix to Australia in March 2015 and the subsequent increase in popularity in video streaming services.

Nine Entertainment recorded strong performance relative to the broader market in August 2015, after it was announced that it had been awarded the NRL broadcasting rights until 2022.

Nine Entertainment's outperformance since late 2016 (while SWM's share price remained relatively flat) reflects the announcement made on 8 May 2017 that the government had proposed to abolish broadcasting licence fees and relax media ownership rules and on 28 June 2017 that the 2016/17 licence fee would be abolished. The continual decline in the share price of Ten Network over this period, likely reflects the mounting financial difficulties.

7.9 FY17 outlook

Ten Network management most recently provided earnings guidance for FY17 at the release of its results for the first half of FY17 on 27 April 2017. Management advised:

- television advertising market remains very challenging and difficult to predict
- signs of improvement in first quarter of calendar 2017
- television costs (excluding selling costs) increase by mid-single digits, and

- absent any relief in television licence fees, an underlying EBITDA loss of between \$25 million and \$30 million was expected.

On 28 June 2017, the Federal Government announced that it would abolish the 2016/17 licence fee. Ten Network management advised that this was expected to result in a reduction in FY17 licence costs for Ten Network in the order of \$22 million. On this basis, management's expected FY17 underlying EBITDA would still be negative ((\$8 million) to (\$3 million)).

In addition, KPMG Corporate Finance has considered brokers' forecasts for Ten Network prior to the announcement that the Administrators had been appointed (see Appendix 3). The median forecasts are summarised as follows:

Table 19: Broker consensus forecast

Period	Year ending			
	Actual	Broker Consensus (Median)		
\$ million unless otherwise stated	31-Aug-16	31-Aug-17	31-Aug-18	31-Aug-19
Revenue	676.4	672.0	675.0	660.0
EBITDA	2.4	(27.5)	(6.5)	(4.0)
Depreciation and amortisation	(11.8)	(11.2)	(10.6)	(11.6)
EBIT	(9.4)	(40.0)	(17.5)	(16.0)
Net profit/(loss) after tax attributable to Ten Network Shareholders	(156.8)	(257.0)	(18.5)	(18.0)
EPS	\$(9.35)	\$(0.13)	\$(0.05)	\$(0.05)
DPS	-	-	-	-

Source: Broker reports for Ten Network; Ten Network FY16 Annual Report.

Brokers at the time on a consensus basis were forecasting flat or declining revenue from FY16 to FY19, with EBITDA and EBIT expected to be negative. At the time the reports were published, Ten Network had announced potential sources of earnings improvement for FY18 and beyond (described in Section 7.10 below) but had not yet provided any details. Consequently it is not clear to what extent these savings were factored into the broker forecasts for Ten Network (if at all).

7.10 Sources of earnings improvement

Management has identified three main sources of earnings improvement for FY18 and beyond, including:

- delivery of the cost and revenue initiatives identified in the transformation process currently underway (initially announced in October 2016)
- renegotiation of several content output arrangements with US studios, and
- reduction in Federal Government imposed broadcasting licence fees.

7.10.1 Transformation Program

In November 2016, Ten Network engaged an external consultant specialising in turnarounds to develop a whole of business transformation aimed at improving profitability and cash flows. This was followed by a six week independent review of Ten Network by the external consultant.

From February to May 2017, Ten Network management developed a Bankable Plan⁶⁵. The Bankable Plan consisted of over 150 individual initiatives developed and owned by over 100 initiative owners. In addition, a number of other initiatives had been identified or validated but had not yet been approved ('pre-bankable' initiatives).

Implementation of the 'bankable' initiatives commenced in May 2017 (with the majority of benefits commencing in September 2017) and is expected to be completed by August 2018, such that FY19 is the first full year of benefits.

The key 'bankable' initiatives are:

- revenue benefits, largely in relation to higher advertising revenue from optimised volume/pricing and increased digital revenue through initiatives such as Ten Daily, a new short form video streaming platform
- programming cost savings, driven by replacing poor performing shows and other initiatives, and
- operating cost savings, which relate to a wide range of measures across the business, partially offset by additional digital media costs relating to Ten Daily.

The above savings are partially offset by higher selling costs arising from higher sales (e.g. MCN variable fees and digital cost of sales). Certain of the initiatives require the assistance of MCN management.

On the announcement that the Administrators had been appointed (14 June 2017), management indicated that the Transformation Program was expected to increase earnings by around \$50 million in FY18 and potentially more than \$80 million in FY19.

As of 31 August 2017, certain operational milestones were achieved such that management has a high expectation that initiatives with an estimated annual benefit of \$29.2 million will be delivered (including a majority of benefits in FY18). This was \$4 million above the target for this date.

7.10.2 Renegotiation of US programming contracts

As a result of the migration of viewing patterns away from US content and towards local content (refer to Section 6.3.1), Ten Network engaged in extensive discussions with both US studios in order to renegotiate contracts in the months leading up to the appointment of

⁶⁵ In order to be considered 'Bankable', each initiative required a set of milestones, KPIs and business cases individually signed off by senior management, initiative sponsors, finance business partners, the Chief Financial Officer and the Chief Transformation Officer

Administrators on 14 June 2017. The key changes in the proposed terms included a reduction in term, reduction in pricing, reduction in the number of shows required to be licenced each year and change in content by setting maximum commitments rather than minimum commitments. Negotiations were targeted to be finalised for the US Broadcast Season commencing in September 2017. As a result, savings would commence at the start of FY18.

Whilst the final terms had not yet been formally agreed by the studios, the proposed draft form of the renegotiated contracts were expected to reduce Ten Network's cost of acquiring content by approximately 40%.

7.10.3 Licence fee relief

As discussed in Section 6.4, media reform is expected to result in licence fee relief for broadcasters.

On the announcement of entering voluntary administration, management indicated that the net impact of the anticipated legislative changes was expected to be approximately \$12 million in FY18.

On 28 June 2017, the Federal Government announced that it would abolish the 2016/17 fee. Legislation to permanently abolish licence fees and introduce the new spectrum fee was introduced in Parliament on 15 June 2017 and passed by the Senate on 14 September 2017. It will return to the House of Representatives for approval when Parliament resumes on 16 October 2017 (which is expected to be a formality).

8 Valuation of Ten Network

8.1 Summary of value

Background

Under the DOCA and pursuant to the proposed orders being sought under Section 444GA of the Corporations Act, all Ten Network shares are to be transferred to CBS Australia⁶⁶ in exchange for refinancing and repaying Ten Network's secured creditor, CBA, and the guarantor fees of Illyria, CPH and Birketu, paying certain transaction costs, and paying the Trust Fund into a Creditors' Trust Account to be available to pay the claims of creditors of Ten Network and its Subsidiaries. Ten Network's shareholders will receive nil consideration.

As such, in order to assist the Court in determining whether shareholders are unfairly prejudiced, and ASIC in its decision as to the granting of technical relief from the takeover provisions under the Corporations Act, KPMG Corporate Finance has been requested to provide a valuation of Ten Network's equity.

KPMG Corporate Finance has assessed the value of Ten Network's equity on the basis of a:

- going concern valuation, which assumes that Ten Network will continue its operations for the foreseeable future and will be able to realise its assets and discharge its post administration liabilities in the normal course of business, and
- distressed valuation, which reflects the situation faced by Ten Network whereby it does not have sufficient funding to pursue its operations for the foreseeable future.

Going concern value

KPMG Corporate Finance has assessed Ten Network's equity on a going concern basis to have nil value.

The value of Ten Network's equity has been determined by assessing the value of 100% of Ten Network's business operations on a 'going concern',⁶⁷ control basis, then deducting secured borrowings and shareholder guarantee fees (net of cash) as at 31 August 2017⁶⁸, the Deed Administrators' assessment of mitigated claims lodged by US content providers of \$348.0

⁶⁶ Or a CBS Australia Nominee

⁶⁷ Refer to section 5.2 of this report for a definition of 'going concern'.

⁶⁸ The date adopted for valuation purposes.

million and \$195.0 million⁶⁹, trade and other creditors of \$30 million to \$35 million⁷⁰ and expected transaction costs, and adding other assets (net).

When assessing the value of 100% of Ten Network's business operations, we have considered those synergies and benefits that would generally be available to a pool of potential purchasers. We have not included any 'special value', or the value of synergies specific to a particular acquirer (refer to Section 8.2.3 of the report).

KPMG Corporate Finance has applied a discounted cash flow (DCF) analysis as the primary methodology in the valuation of Ten Network's business operations. Three scenarios have been developed: a Base Case, Low Case and High Case (refer to Section 8.3 of this report). The adjusted NPV⁷¹ of Ten Network's business operations under these scenarios is set out below.

Table 20: Adjusted NPV⁷¹ of Ten Network's business operations under scenarios

\$ millions	Discount rate		
	10.00%	9.75%	9.50%
Base Case	(93.8)	(94.5)	(95.2)
Low Case	(402.7)	(405.3)	(408.0)
High Case	114.7	116.1	117.7

Source: KPMG Corporate Finance analysis.

Our analysis indicates that only under the High Case scenario do Ten Network's business operations have a positive NPV. As a result, in our opinion, there is no equity value in Ten Network under the Base and Low Case scenarios.

Even under the High Case scenario, the value of Ten Network's equity is nil. Under the High Case, the NPV of Ten Network's business operations is in the range of \$114.7 million to \$117.7 million (before synergies available to a broad pool of purchasers). After deducting mitigated claims, trade and other creditors and transaction costs and adding other assets (net), the implied value of equity is negative ((\$543.7) million to (\$529.2) million) as follows.

⁶⁹ Source: "Ten Group, Report to Creditors pursuant to Section 439A of the Corporations Act 2001", dated 4 September 2017, page 21.

⁷⁰ No other potential claims (e.g. in relation to sporting rights and employees) have been included as either the expenses relating to those claims are captured in the cash flows and as at the date of this report, no other claims have been made or the contracts had not been terminated.

⁷¹ Adjusted NPV assumes that where Ten Network's cash flows are negative from 31 August 2022, Ten Network either operates at a 'break-even' level (i.e. cash flows are nil) from 31 August 2022 or that at this time the business is sold to a third party for zero value given that it is loss making. Refer to Section 8.3.1 of this report.

Table 21: Ten Network summary of value (High Case scenario)

\$ million unless otherwise stated	Section reference	Valuation range	
		Low	High
NPV of Ten Network's business operations (High Case scenario)	8.3	114.7	117.7
Capitalised public company costs	8.2.3	12.0	13.5
Enterprise value		126.7	131.2
Secured borrowings	7.6	(142.7)	(142.7)
Cash	7.6	40.2	40.2
Net borrowings		(102.5)	(102.5)
Subtotal		24.2	28.7
Subtract: CBS Corporation and Fox mitigated claims	7.6	(543.0)	(543.0)
Subtract: Trade creditors and other claims	7.6	(35.0)	(30.0)
Subtract: Transaction costs	7.6	(6.9)	(6.9)
Add: Other assets/(liabilities) (net)	8.4	17.0	22.0
Implied value of 100% of equity of Ten Network (High Case Scenario)		(543.7)	(529.2)
Assessed value of 100% of equity of Ten Network		nil	nil

Source: KPMG Corporate Finance analysis.

We have deducted the Deed Administrators' assessment of mitigated claims lodged by US content providers, which were determined for the purposes of the second creditors' meeting, as these represent the best guide as to Ten Network's liabilities in respect of these claims as a consequence of the administration. To the extent that actual claims are determined to be either higher or lower than the mitigated claims, then the implied value of equity would be either higher or lower.

Taking into account the mitigated claims, Ten Network's business operations would need to have a NPV of at least \$646.9 million⁷² in order for equity to have a positive value.

It is important to recognise that the High Case scenario of our DCF analysis is optimistic. It assumes that the earnings initiatives identified by Ten Network (the Transformation Program, renegotiation of US content agreements and licence fee relief)⁷³ are predominantly achieved and that the decline in the free-to-air television industry is not as steep as that anticipated by various independent forecasters or recent history. The combination of these outcomes is, in our view, unlikely and it is also unlikely that an acquirer would be willing to pay a price that reflects the combination of each of these outcomes without an element of 'special value' (refer to Section 8.2.3 of the report).

The implied value of Ten Network's equity would be even lower under the Low Case and Base Case value of Ten Network's business operations.

⁷² Calculated as CBS Corporation and Fox mitigated claims (\$543.0 million) less other assets (net) (\$22 million) plus transaction costs (\$6.90 million) plus trade creditors and other claims (\$30 million) less cash (\$40.2 million) plus secured borrowings (\$142.7 million) less capitalised public company costs (\$13.5 million)

⁷³ Refer to Section 7.10 of the report for further details. The third source of earnings improvement identified, licence fee relief, is considered likely as the Broadcasting Legislation Amendment (Media Reform Bill) 2016 was passed by Parliament on 14 September 2017.

Distressed value

KPMG Corporate Finance has also considered the value of the equity in Ten Network on a distressed basis to reflect a liquidation scenario, which takes into account the situation faced by Ten Network whereby it does not have sufficient funding to pursue its operations for the foreseeable future. This approach assumes that the business will be sold as a going concern rather than having regard to the value of assets that comprise the business noting, however, that the seller would likely be considered in such a situation to be an 'anxious' seller within the context of the definition of fair value (refer to Section 5.2 of this report). In relation to Ten Network's assets we note that Ten Network does not have significant tangible assets capable of realising any material value (refer to Section 7.6 of this report). For that reason, we have assumed that the more realistic liquidation scenario is a distressed sale (which assumes that secured creditors would fund ongoing trading to the extent necessary to effect the sale on a going concern basis) rather than a 'break up' sale.

We have considered three adjustments to the NPV outcomes under the High Case 'going concern' scenario to reflect financial distress. Under each of these scenarios, the NPV of Ten Network's business operations is below that under the High Case 'going concern' valuation and the value of equity is negative. Accordingly, on a distressed basis, the assessed value of Ten Network's equity is nil (refer to Section 8.6 of this report).

8.2 Valuation Methodology

8.2.1 Overview

Our going concern valuation of Ten Network has been prepared on the basis of 'fair value'. The generally accepted definition of fair value (and that applied by us in forming our opinion) is the value agreed in a hypothetical transaction between a knowledgeable, willing, but not anxious buyer and a knowledgeable, willing, but not anxious seller, acting at arm's length.

Fair value excludes 'special value', which is the value over and above value that a particular buyer, who can achieve synergistic or other benefits from the acquisition, may be prepared to pay.

In addition, our 'going concern' valuation assumes that Ten Network is able to consider alternative options and will continue its operations in the foreseeable future. RG 111.15 states that "the fair value of the target securities should be determined on the basis of a knowledgeable and willing, but not anxious, seller that is able to consider alternative options to the bid (e.g. an orderly realisation of the target's assets)". That is, an assessment of fair value should not include consideration of a company's financial distress.

In seeking to determine the fair value of the Ten Network on a 'going concern' basis it is necessary to recognise that Ten Network was unable to discharge its liabilities in the normal course of business. In this respect we have valued the business operations on a 'going concern' basis and then deducted the secured borrowings, shareholder guarantee fees and various other liabilities that existed as at 31 August 2017, the Deed Administrators' assessment of mitigated

claims lodged by CBS Corporation and Fox, trade and other creditors and expected transaction costs, and added other assets (net) .

Our report has also considered the value of the Ten Network shares on a distressed basis (that is, taking into account Ten Network's financial distress) in order to assess its possible liquidation value, as liquidation of Ten Network is a potential situation faced by shareholders. In taking into account financial distress, we have considered that the concept of fair value no longer exists, as the seller cannot be considered to be 'not anxious'. As Ten Network does not have significant tangible assets for which material value could be realised, we have assumed the business operations would be sold as a going concern, however, a potential acquirer would seek a higher level of return to reflect the increased risk.

We have also considered distress in the context of the impact of the Administration on existing content agreements and their terms at that time.

Our valuation has had regard to the additional value resulting from estimated public company cost savings that would generally be available to the majority purchasers, both financial and trade buyers. It does not include any other operational or financing synergies that may be only available to a very limited number of potential buyers (refer to Section 8.2.3 below).

Fair value is commonly derived by applying one or more of the following valuation methodologies:

- the capitalisation of maintainable earnings (Capitalised Earnings)
- discounted cash flows (DCF)
- estimated net proceeds from an orderly realisation of assets (Net Assets), and
- current trading prices on the relevant securities exchange.

These methodologies are discussed in further detail in Appendix 4. Ultimately, the methodology adopted is dependent on the nature of the underlying business and the availability of suitably robust information. A secondary methodology is often adopted as a cross-check to ensure reasonableness of outcome, with the valuation conclusion ultimately being a judgement derived through an iterative process.

For profitable businesses, methodologies such as Capitalised Earnings and DCF are commonly used as they reflect 'going concern' values, which typically incorporate some element of goodwill over and above the value of the underlying assets. For businesses that are either non-profitable, non-tradeable or asset rich, Net Assets is typically adopted as there tends to be minimal goodwill, if any. For listed companies, the trading price typically provides an indication of the fair value of a minority interest where trading is liquid and no takeover speculation is evident.

8.2.2 *Selection of methodology*

The rationale for the selection of the valuation methodologies is set out below.

DCF methodology

A DCF approach was adopted as our primary methodology for Ten Network's business operations. This approach allows for analysis of key assumptions (e.g. free-to-air television industry growth, Ten Network's revenue share) and for a range of scenarios to be modelled (e.g. inclusion of revenue benefits and cost savings under the Transformation Program and renegotiation of the US content agreements). The DCF analysis was based on a long-term financial model developed by KPMG Corporate Finance on the basis of a Cash Flow Model provided by Ten Network.

KPMG Corporate Finance has undertaken various enquiries in relation to the Cash Flow Model, including holding discussions with management of Ten Network in regard to the commercial assumptions underlying the Cash Flow Model. We have reviewed the key commercial assumptions in the context of current economic, financial and other conditions (e.g. industry, regulatory, contractual). KPMG Corporate Finance is of the view that the forward-looking information has been prepared on a reasonable basis and, therefore, is suitable as a basis for our valuation. In making this assessment, we have taken into account the following:

- the Cash Flow Model was prepared by Ten Network management commencing in October 2016 following a review of the outlook for the free-to-air television market, which led to the initiation of the Transformation Program in November 2016. The assumptions have been refined a number of times based on changes in Ten Network's financial performance, the updated Transformation Program as at June 2017 and the outlook for the market
- earlier iterations were provided to shareholder guarantors and their advisors for the purpose of seeking guarantees for refinancing of the existing loan facility, to Moelis, for the purpose of securing an amendment to the existing loan facility and to potential bidders
- the Cash Flow Model includes the FY17 Forecast (which was updated for actual results to 31 May 2017), and
- Ten Network's FY17 and FY18 financial performance was subject to financial due diligence procedures undertaken by an independent financial advisory firm in their preparation of a vendor due diligence report that was provided to potential bidders. These procedures included providing views on the status of the Transformation Program initiatives, including run rate impact of benefits achieved to date, expected future benefits and the one off costs to achieve these benefits.

A portion of revenue and expenses (e.g. datacasting revenue, affiliate percentage fees, commissions, programming costs) are contracted under long-term arrangements and, therefore, are relatively stable and predictable. However, certain key assumptions (namely, growth in free-to-air television industry revenues) are out of the control of management and are subject to considerably uncertainty. Where possible, KPMG Corporate Finance has sought support for key

assumptions (growth assumptions for the free-to-air television industry revenue) through external benchmarks.

Other assumptions subject to considerable uncertainty include the revenue benefits and cost savings under the Transformation Program and the likely outcome of renegotiation of US content agreements. We have held discussions with Ten Network management regarding the key initiatives under the Transformation Program, risks of achievement and progress to date, as well as in relation to the status of renegotiations of the US content agreements (prior to the appointment of the Administrators). Potential outcomes have been taken into consideration through scenario analysis.

Although outside the control of management, we consider the potential for licence fee relief for 2017/18 and beyond to be likely given the Media Reform Bill was passed by Parliament on 14 September 2017.

Further potential savings under the Transformation Program (in addition to those which qualify as 'bankable') are considered hypothetical in nature (a 'projection') and, therefore, in accordance with the ASIC's guidance set out in RG 170, have not been included in our analysis (refer to Section 5.3 of the report).

We have not tested individual assumptions or attempted to substantiate the veracity or integrity of such assumptions in relation to any forward-looking financial information, or tested the mathematical integrity of the model.

Capitalised Earnings methodology

A Capitalised Earnings methodology was adopted as a cross-check methodology. This method is appropriate for businesses with a long operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. Although there is sufficient trading evidence available from which to calculate meaningful multiples, transaction evidence in Australia is limited. Furthermore, structural and cyclical trends in the industry as well as regulatory changes and factors specific to Ten Network (the impact of the Transformation Program and potential renegotiation of content agreements) means that it is difficult to apply this methodology as a primary methodology to value Ten Network.

A Capitalised Earnings approach can be applied to a number of different earnings or cash flow measures, including, but not limited to, EBITDA, EBIT and net profit after tax. The choice between parameters is usually not critical and should give a similar result. However, we note that EBITDA is commonly used where differences in depreciation or amortisation policies adopted by market participants can make comparisons between companies difficult. In this instance, amortisation charges are substantially larger for the US companies. Therefore, multiples of EBITDA have been used as a cross-check in valuing Ten Network's consolidated business operations. EBITDA multiples have also been used as the primary approach in valuing Ten Network's equity accounted investments.

Ten Network has provided EBITDA guidance for FY17. Furthermore, KPMG Corporate Finance has considered broker consensus forecasts for Ten Network. Although FY17 broker consensus forecasts for Ten Network are consistent with Ten Network management's guidance,

it is not clear the extent to which brokers have incorporated earnings improvements identified by management in forecasts for FY18 and FY19.

Net Assets

A net asset or cost based methodology is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies). Such an approach does not capture growth potential or internally generated intangible value associated with the business. Intangible assets are likely to be substantial in the case of media companies.

8.2.3 Control premium

Consistent with the requirements of RG 111, we have assumed 100% ownership in valuing Ten Network and, therefore, our valuation is inclusive of a premium for control. There are a number of potential bidders who could potentially achieve synergies by acquiring Ten Network, however, the type of synergies (i.e. content, production) differs between parties and is not available to a broader pool of purchasers. Furthermore, quantification of such synergies is inherently difficult at this point in time.

More specifically:

- the DCF approach incorporates a control premium as it is based on 100% of the cash flows generated by the business
- we have specifically considered a premium for control when assessing our Capitalised Earnings based cross-check. Multiples applied in a Capitalised Earnings methodology are generally based on data from listed companies and recent transactions in a comparable sector, with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued

The multiples derived for listed comparable companies are generally based on share prices reflective of the trades of small parcels of shares. As such, they generally reflect prices at which portfolio interests change hands. That is, there is no premium for control incorporated in such pricing. They may also be impacted by the level of liquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (i.e. 100%) it is appropriate to also reference the multiples achieved in recent transactions, where a control premium and breadth of purchaser interest are more fully reflected

- when assessing the value of 100% of Ten Network, we have considered those synergies and benefits which would generally be available to a pool of potential purchasers. We have not included any 'special value', or the value of synergies specific to a particular acquirer (refer to Section 5.2 of the report)
- the acquisition of Ten Network provides an international content provider (such as CBS Corporation) with a broader audience reach. CBS Corporation has announced its intention to launch a digital video on-demand service, CBS All Access. Other than CBS Corporation and Twenty-First Century Fox, it is unclear whether there are any other potential

international acquirers of Ten Network that could achieve a similar level of synergies. We note that Ten Network was locked into long-term content agreements prior to the appointment of the Administrators

- providers of news and sport content in Australia could also likely save programming costs. However, there is a limited range of buyers that could achieve these synergies. Despite changes to media ownership laws, potential bidders within the industry would still be subject to approval of the Australian Competition and Consumer Commission (ACCC). Other industry bidders (such as other regional broadcasters) would be limited to the extent that they have affiliate agreements in place with other metropolitan broadcasters
- even for an acquirer with operations in Australia, the extent to which they could achieve further cost savings and/or growth in revenue not already considered within our valuation may be limited, particularly given the extent to which program costs and sporting rights represent major ongoing obligations and as a result of our inclusion of the benefits associated with the Transformation Program, and
- a number of potential strategic and financial buyers of 100% of Ten Network would be able to save all of Ten Network's public company costs and, therefore, these costs (approximately \$1.5 million per annum) have been capitalised based on an EBITDA multiple of 8 to 9 times and the value of the savings included for the purposes of our valuation assessment.

8.3 Valuation of Ten Network business operations on a going concern basis

8.3.1 Discounted cash flow analysis

The DCF analysis was based on a long-term financial model developed by KPMG Corporate Finance on the basis of a Cash Flow Model provided by Ten Network. The DCF analysis projects nominal, after tax cash flows to 31 August 2022, a period of five years. A terminal value is calculated by capitalising net after tax cash flows based on a perpetual growth assumption. Ungeared, after tax cash flows are discounted by a weighted average cost of capital (WACC) in the range of 9.5% to 10.0% (refer to Appendix 5). A corporate tax rate of 30% has been utilised, however, the DCF analysis takes into account the benefit of using material existing carried forward tax losses as well as tax losses generated in the forecast period.

The model starts with a 'business as usual' case, then allows for incorporation of initiatives under the Transformation Program and renegotiation of US content agreements. The key assumptions underlying the 'business as usual' case are:

- free-to-air television industry advertising revenue declines by 4.0% in FY18 then 3.5% per annum thereafter. This decline is consistent with management's expectations, historical

experience (a decline of 3.2% in FY16 and 4.0% in FY17⁷⁴) and independent medium term forecasts (average annual declines of 3.6%⁷⁵ and 4.7%⁷⁶ over the next five years)

- Ten Network's audience share increases marginally (from 25.5% in FY18 to 25.7% in FY22), the power ratio increases marginally (from 0.98 times in FY18 to 1.00 times in FY20, then declines to 0.98 times in FY22) and the resulting revenue share remains relatively flat (between 25.1% and 25.3% from FY18 to FY22)
- total revenue increases by 1.2% in FY18, then declines by between 2.0% and 4.0% thereafter
- total expenses (excluding selling costs) increase by 3.3% in each of FY18 and FY19, then remain flat, and
- selling costs increase in FY18 as a result of the new spectrum fee (licence fees were waived for FY17 and are also waived for FY18 and beyond). The net impact in FY18 is \$12 million savings.

A summary of the key assumptions underlying the 'business as usual' case is set out in Appendix 6.

The model allows for incorporation of revenue benefits and cost savings associated with 'bankable' initiatives under the Transformation Program (approximately \$50 million in FY18 and \$80 million in FY19 and beyond) and incorporation of the US content agreements based on terms sought by Ten Network (but not formalised) prior to the appointment of the Administrators whereby Ten Network's cost of acquiring content is reduced by approximately 40%. These cases are also described in Appendix 6.

KPMG Corporate Finance has analysed the model to assess the sensitivity of the NPV outcomes under the High Case scenario⁷⁷ to changes in the following variables in isolation of any consequential changes that would possibly be necessary to achieve these outcomes:

- free-to-air television advertising market growth: +/- 1% per annum (i.e. (1.5%) and (3.5%) in all years)
- Ten Network revenue share: +/- 1% (in all years)
- digital revenue growth: +/- 1% (in all years)
- domestic production costs: -/+ 1% (in all years)
- sports content costs: -/+ 1% (in all years).

⁷⁴ Source: SMI. Refer to Section 6.2.6 of the report

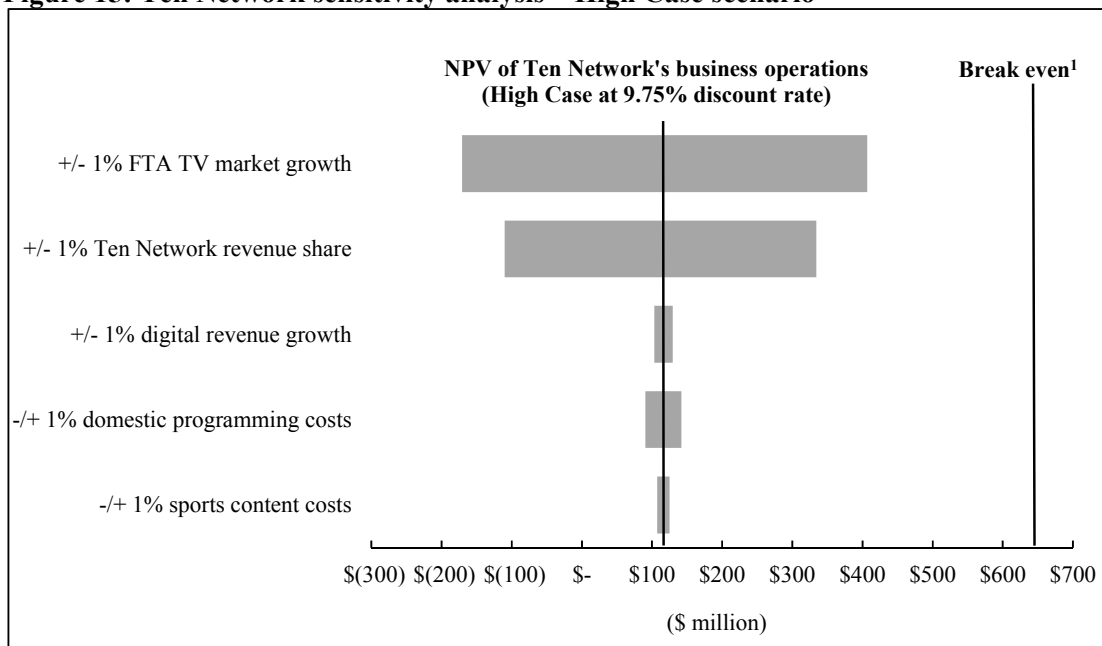
⁷⁵ IBISWorld, *Free-to-air Television Broadcasting in Australia*, December 2016

⁷⁶ PwC, *Outlook Australian Entertainment and Media 2017-21 – Free-to-air television*

⁷⁷ Refer to table 23. Values under Low Case and Base Case scenarios are negative and consequently, sensitivity analysis has been conducted on High Case.

The output of this sensitivity analysis is summarised below:

Figure 15: Ten Network sensitivity analysis – High Case scenario



Source: KPMG Corporate Finance analysis.

Note 1: Calculated as CBS Corporation and Fox mitigated claims (\$543.0 million) less other assets (net) (\$22 million) plus transaction costs (\$6.9 million) plus trade creditors and other claims (\$30 million) less cash (\$40.2 million) plus secured borrowings (\$142.7 million) less capitalised public company costs (\$13.5 million).

The chart highlights the sensitivity of NPV outcomes to selected movements in a range of commercial assumptions. The analysis indicates that:

- NPV outcomes are highly sensitive to changes in Ten Network's free-to-air advertising revenue as almost all of Ten Network's costs are fixed (or subject to fixed price increases). A 1% change in the growth rate of free-to-air television industry revenue each year results in a \$31.0 million change in Ten Network's FY22 EBITDA and a \$290 million change in NPV. Similarly, a 1% change in Ten Network's market share results in a \$22.0 million change in EBITDA in FY18, declining to \$19.4 million in FY22 and a \$222 million change in NPV
- even allowing for a 1% reduction in the rate of decline of industry revenue (to a decline of 1.5% per annum) or 1% increase in market share (in all years), the value of Ten Network's business operations is well below that required to achieve positive equity value (\$646.9 million⁷²)
- NPV outcomes are less sensitive to changes in digital revenue growth, domestic programming costs or the cost of sporting rights since these represent a smaller share of earnings, and
- the scenario analysis has limitations including:

- it assumes that an increase in revenue share can be achieved without a corresponding increase in programming costs, which is not realistic. Even if programming costs were also increased, the model would not take into account the delay between increases in programming costs and growth in revenue share, and
- it does not take into account the extent to which management is able to react to changes in external factors (e.g. a reduction in industry revenue growth). However, Ten Network management's ability to react to market changes is limited as expenses are largely fixed (US content agreements).

There are a number of critical assumptions that impact Ten Network's business operations which are subject to considerable uncertainty. As such, to better understand their impact KPMG Corporate Finance has developed a range of scenarios for Ten Network (Base Case, Low Case, High Case), based on potential changes in key variables, as set out below.

Free-to-air television industry advertising revenue growth

As discussed in Section 6.2.6 of this report, free-to-air television industry advertising revenue is influenced by both cyclical and structural factors. In recent years, it is clear that structural factors have had a greater impact on industry revenues than cyclical factors as alternative platforms (subscription video-on-demand and internet video advertising) have substituted free-to-air television.

Over the next five years, free-to-air television advertising expenditure is expected to be impacted by slower growth in total media advertising expenditure (an average of 1.9% over the next five years⁷⁸) and continued substitution which will be impacted by the continued rollout of the nbn, growing investment in content by current streaming services and new providers and traditional content providers providing their own streaming and video-on-demand services (refer to Section 6.3.7).

There is a limited number of sources for medium-term forecasts for free-to-air television advertising revenue growth in Australia. The two sources identified indicate average annual declines of 3.6%⁷⁹ and 4.7%⁸⁰ over the next five years. These declines are consistent with recent experience (a decline of 3.2% in FY16 and 4.0% in FY17⁸¹) and indicate that free-to-air television's share of total advertising revenue will decline from 23.5% in 2016 to around 17% by 2021.

KPMG Corporate Finance has considered a range of average declines in free-to-air television advertising expenditure:

- **Base Case:** 3.6% (management and IBISWorld forecast)

⁷⁸ PwC, *Outlook Australian Entertainment and Media 2017-21 – Free-to-air television*

⁷⁹ IBISWorld, *Free-to-air Television Broadcasting in Australia*, December 2016

⁸⁰ PwC, *Outlook Australian Entertainment and Media 2017-21 – Free-to-air television*

⁸¹ Source: SMI. Refer to Section 6.2.6 of the report

- **Low Case:** 4.7% (PwC forecast)
- **High Case:** 2.5%.

Terminal growth rate

KPMG Corporate Finance has assumed the following terminal growth rates under each scenario:

- **Base Case:** 0%
- **Low Case:** (1.0%)
- **High Case:** 1.0%.

A terminal growth rate of 1.0% is at or above terminal growth rates assumed in impairment testing for SWM and Nine Entertainment's television segments at 30 June 2017 (0.5% and 1.0%, respectively⁸²) and effectively assumes that the industry declines have stabilised.

Transformation Program

There is considerable uncertainty as to whether Ten Network will be able to achieve all 'bankable' savings under the Transformation Program (described in Section 7.10.1 of the report). As at 31 August 2017, certain operational milestones were achieved such that management has a high expectation that initiatives with an estimated annualised benefit of \$29.2 million will be delivered (including a majority of benefits in FY18). This was \$4 million above the target for this date. However, approximately two thirds of the Transformation Program (by value) is yet to be implemented and three quarters of the implementation period is remaining⁸³. This creates a risk that revenue benefits and cost savings will be 'leaked', initiatives are cancelled and/or there is a delay in the execution of initiatives.

A McKinsey & Company study⁸⁴ of transformation programs undertaken by organisations found:

- value leakage of approximately 2% following approval of the business case
- 33% of initiatives were cancelled after they were approved, and
- a number of initiatives were delayed.

For Ten Network, these risks are heightened as a large proportion (approximately 50%) of the benefits are revenue related. Revenue benefits are inherently less certain than cost savings as they are dependent on the behaviour of customers to achieve the desired level of benefits

⁸² Source: SWM and Nine Entertainment FY17 annual reports.

⁸³ Total anticipated savings is \$80 million. Implementation period is May 2017 to August 2018

⁸⁴ M. Bucy, T. Fagan and C. Piaia, "Tree Tips for Keeping Transformations on Track", *McKinsey Quarterly*, 2017 Number 2. Study considered 18 performance transformations in 13 organisations across a range of industries in the Asia-Pacific

whereas cost savings are typically within the control of management. Furthermore, most revenue benefits and a large share of cost savings under the Transformation Program are dependent on MCN's assistance to either develop and/or implement.

As a result, it is unlikely than an acquirer of Ten Network would pay in full for initiatives for which considerable uncertainty remains and that the acquirer would, for the most part, need to implement itself.

Consequently, KPMG Corporate Finance has considered the following scenarios which assume various levels of savings are achieved:

- **Base Case:** includes only cost saving initiatives (i.e. approximately 50% of 'bankable' initiatives). Revenue benefits are not included
- **Low Case:** includes only those initiatives for which certain operational milestones were achieved (\$29.2 million) as at 31 August 2017, and
- **High Case:** includes 80% of 'bankable' initiatives.

Renegotiation of US programming contracts

As described in Section 7.10.2 of this report, Ten Network management engaged in extensive discussions with both CBS Corporation and Fox in order to renegotiate content agreements in the months leading up to the appointment of the Administrators. Negotiations were targeted to be finalised for the US Broadcast Season commencing in September 2017. As at the date on which the Administrators were appointed (14 June 2017), management expected the renegotiated contracts to reduce Ten Network's cost of acquiring content by approximately 40%, however, the terms had not yet been formally agreed by the studios.

In the absence of the voluntary administration, it is uncertain whether those agreements would have been formalised in their current form, or in some other form, if at all, by September 2017. Given the size of the reduction it is unlikely that a more favourable outcome could be negotiated. As such, we have taken this reduction as our High Case and adopted lesser reductions in our Base Case and Low Case.

Consequently, a range of scenarios has been developed around the assumed net savings under the US content agreements.

- **Base Case:** 20% reduction in costs
- **Low Case:** 0% reduction in costs
- **High Case:** 40% reduction in costs.

Licence fee relief

As discussed in Section 7.10.3 of the report, media reform is expected to result in licence fees being replaced with lower, new spectrum fees from 2017/18 (expected to result in a net reduction in fees for Ten Network of \$12 million from FY18). The Media Reform Package was passed by Parliament on 14 September 2017. As a result, each of the scenarios presented assumes that licence fee relief occurs.

These scenarios are summarised below:

Table 22: Ten Network scenarios

Scenario	Average free-to-air television market decline	Terminal growth rate	Savings through Transformation Program	Net cost savings through renegotiation of US content agreements
Base case	3.6%	(1%)	Cost savings only	20% of US content costs
Low case	4.7%	0%	\$29.2 million	0% of US content costs
High case	2.5%	1.0%	80% of 'bankable' initiatives	40% of US content costs

Source: KPMG Corporate Finance analysis.

The output of the DCF analysis for a range of discount rates is summarised below.

Table 23: NPV of Ten Network's business operations

\$ millions	Discount rate		
	10.00%	9.75%	9.50%
Base Case	(457.8)	(471.6)	(486.3)
Low Case	(1,361.7)	(1,396.8)	(1,433.5)
High Case	114.7	116.1	117.7

Source: KPMG Corporate Finance analysis.

The Low Case and Base Case scenarios demonstrate the impact on the NPV of Ten Network's business operations assuming that it continues to operate indefinitely (even while loss making), which is not realistic. Given that this position is not sustainable we have assumed that Ten Network either operates at a 'break-even' level (i.e. cash flows are nil) from 31 August 2022 or that at this time the business is sold to a third party for zero value given that it is loss making. This assumption substantially reduces the negative NPVs as follows.

Table 24: Adjusted NPV⁸⁵ of Ten Network's business operations

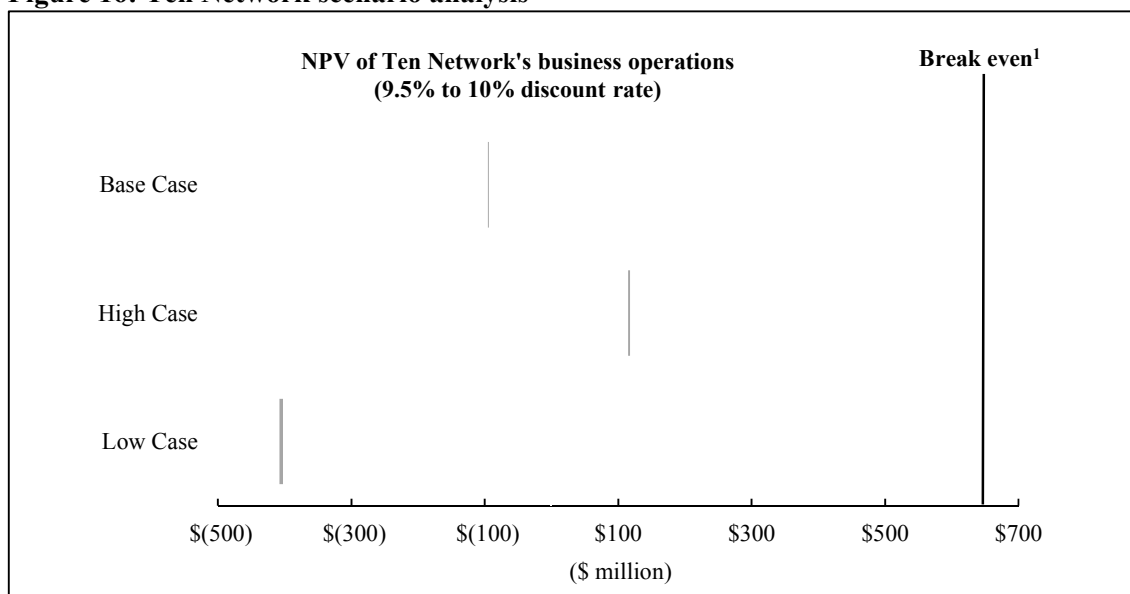
\$ millions	Discount rate		
	10.00%	9.75%	9.50%
Base Case	(93.8)	(94.5)	(95.2)
Low Case	(402.7)	(405.3)	(408.0)
High Case	114.7	116.1	117.7

Source: KPMG Corporate Finance analysis.

⁸⁵ Adjusted NPV assumes that where Ten Network's cash flows are negative from 31 August 2022, Ten Network either operates at a 'break-even' level (i.e. cash flows are nil) from 31 August 2022 or that at this time the business is sold to a third party for zero value given that it is loss making. Refer to Section 8.3.1 of this report.

The range of implied values for each scenario (based on a discount rate of 9.5% to 10.0%) is illustrated in the chart below.

Figure 16: Ten Network scenario analysis



Source: KPMG Corporate Finance analysis.

Note 1: Refer to footnotes to figure 15.

The selection of three scenarios (the Base Case, High Case and Low Case) is simplistic as there is a range of other potential outcomes. However, given we consider that the High Case is optimistic and the NPV of Ten Network's business operations under the High Case results in a negative implied equity value, there is little benefit to providing additional scenarios.

As indicated in the chart above, even the NPV of business operations under the High Case is below that which would be required to produce positive equity value. The NPV of Ten Network's business operations would need to be \$646.9 million⁷² in order for equity to have a positive value (including mitigated claims).

The High Case is optimistic. It assumes a majority (80%) of 'bankable' initiatives under the Transformation Program are implemented and result in the anticipated savings, on schedule, US content agreements are revised based on the terms sought by Ten Network prior to the appointment of the Administrators (i.e. Ten Network's cost of acquiring content is reduced by approximately 40%) and the free-to-air television advertising market declines by an average of 2.5% per year (which is more favourable than the two medium term forecasts identified as well as recent industry performance). The combination of these outcomes is, in our view, unlikely and it is also unlikely that an acquirer would be willing to pay a price that reflects the combination of each of these outcomes without an element of 'special value' (refer to section 8.2.3 of the report).

It is important to recognise that in a declining market, without constant initiatives to reduce costs and/or increase market share, a business with a high fixed cost base or fixed increases in

costs (as is the case with Ten Network currently) will experience a contraction in earnings margins. The Low Case and Base Case scenarios demonstrate the impact on value assuming that Ten Network continues to operate indefinitely (even while loss making) which is not realistic.

The High Case assumes that a majority of 'bankable' initiatives under the Transformation Program are achieved, with FY19 being the first full year of impact. However, from FY20, EBITDA margins decline as there are no further revenue benefits or cost savings to offset the decline in free-to-air television industry advertising revenue. Whilst a number of other initiatives have been identified or validated, they have not yet been approved or fully developed ('pre-bankable' initiatives). These have not been included in our analysis as they are considered hypothetical in nature (refer to Section 5.3 of the report) and in any event, it is unlikely that an acquirer would be willing to pay for them.

8.3.2 Cross-check

The selected value ranges for the enterprise value of Ten Network have been cross-checked to the EBITDA trading multiples for comparable listed entities and transactions involving free-to-air television broadcasters in Australia and internationally. These multiples are summarised below and set out in detail in Appendix 7 of this report.

Transaction evidence

The following table sets out multiples of EBITDA implied by recent transactions involving free-to-air television broadcasters.

Table 25: Transaction evidence

Announced	Target	Consideration (million) ¹	EBITDA multiple	
			Historical	Forecast
Australian broadcasters				
May-17	SCA's Northern NSW television assets (Southern Cross)	n/a	n/a	5.5x
Dec-13	Nine Entertainment ²	\$A1,928.6	8.6x	8.4x
Feb-11	Seven Media Group Pty Ltd	\$A1,981.0	11.3x	9.4x
International broadcasters				
Sep-15	Media General, Inc.	US\$2,171.3	11.4x	9.0x
Mar-14	LIN Media LLC	US\$1,546.7	12.5x	9.5x
Jun-13	Belo Corp.	US\$1,461.9	8.4x	10.5x
Apr-13	Fisher Communications, Inc.	US\$369.0	9.0x	15.6x
May-12	New Vision Television, LLC	US\$330.4	16.8x	n/a
Oct-11	McGraw-Hill Broadcasting Company, Inc.	US\$216.4	11.1x	n/a

Source: S&P Capital IQ; Company announcements; Company financial statements; KPMG Corporate Finance analysis.

Notes:

1. Consideration is the equity value of the target on a 100% basis.
2. Nine Entertainment transaction represents the IPO transaction in which there is no implied control premium.

In relation to the above table, we note the following:

- there is a limited number of transactions involving Australian television broadcasting companies

- the point in time at which transactions occurred is likely to be an important determinant of implied multiples, since multiples are likely to be influenced by the stage of the economic cycle and degree of substitution at that time. In this regard, the relatively high multiples implied by the acquisition of Seven Media Group and the IPO of Nine Entertainment likely reflect that the transactions occurred prior to any large scale substitution (free-to-air television revenue had maintained its share of total advertising revenue). The multiple for the IPO of Nine Entertainment does not include a premium for control
- the multiple implied by the acquisition of Southern Cross' television assets is low, likely reflecting its limited scale and geographical reach. Furthermore, it operates in regional markets whereas Ten Network operates in metropolitan markets, and
- multiples paid for US companies are generally higher than for Australian transactions. The US market is significantly larger (although arguably more competitive than the Australian market). Larger companies in the sector have been able to pursue growth through the acquisition of smaller broadcasters, whereas media ownership laws in place in Australia have limited acquisition opportunities. Additionally, the US market is heavily impacted by seasonal events (e.g. Olympics and election cycle) and has benefited from the growth of retransmission consent revenues (discussed in more detail in Appendix 7 of this report). It is not clear whether changes to media ownership laws will have any impact on transaction multiples.

Sharemarket evidence

The following table sets out the EBITDA trading multiples of listed television broadcasting and media companies in Australia and internationally.

Table 26: Sharemarket evidence

Company	Market capitalisation (million)	Enterprise value (million) ¹	EBITDA multiple		
			LTM	FY+1	FY+2
<i>Australian free-to-air television</i>					
Nine Entertainment	A\$1,188	A\$1,408	6.9x	7.7x	8.7x
SWM ²	A\$1,048	A\$1,885	6.1x	6.8x	7.2x
Southern Cross	A\$992	A\$1,310	7.6x	7.9x	7.8x
Prime	A\$158	A\$193	3.0x	3.6x	3.9x
Mean			5.9x	6.5x	6.9x
Median			6.5x	7.3x	7.5x
<i>International television and media broadcasting</i>					
News Corporation	US\$7,908	US\$5,234	5.9x	5.7x	5.4x
ProSiebenSat.1 Media SE	€6,361	€8,706	8.6x	8.4x	7.9x
ITV plc	£6,285	£7,335	8.0x	8.4x	8.2x
Mediaset España Comunicación, S.A.	€3,182	€2,944	12.4x	11.6x	10.3x
Sinclair Broadcast Group, Inc.	US\$3,117	US\$6,187	7.0x	8.0x	6.2x
Gray Television, Inc.	US\$1,031	US\$2,827	9.3x	9.6x	7.6x
Mean			8.5x	8.6x	7.6x
Median			8.3x	8.4x	7.8x

Source: S&P Capital IQ; Company announcements; Company financial statements; KPMG Corporate Finance analysis. LTM = last annual results; Forecasts are based on broker reports and S&P Capital IQ broker consensus estimates.

Notes:

1. Enterprise values have been calculated as market capitalisation plus net debt plus outside equity interests less equity accounted investments at the latest annual report date.
2. SWM's multiples exclude impact of onerous contract provisions.

In relation to the above table, we note the following:

- multiples are based on sharemarket prices and, therefore, do not typically include a control premium
- for all Australian companies, forecast multiples are higher than historical multiples which reflects an anticipated decline in earnings
- the most comparable companies are Nine Entertainment and SWM, each of which operates in the metropolitan free-to-air television industry in Australia. Nine Entertainment and SWM are trading at 6.9 and 6.1 times historical EBITDA and 7.7 and 6.8 times first forecast year EBITDA. SWM's multiple is lower than that of Nine Entertainment, likely reflecting SWM's exposure to print media, which is experiencing more rapid declines than free-to-air television

- relative to Ten Network, SWM and Nine Entertainment have a much greater share of free-to-air advertising revenue (37.9% and 37.4%, respectively in FY17⁸⁶), compared with Ten Network (24.7%⁸⁶), which provides a stronger negotiating position (in terms of advertising revenues) and greater economies of scale. This suggests a higher multiple is appropriate for SWM and Nine Entertainment, relative to Ten Network
- multiples for Southern Cross are relatively high, likely reflecting the diversification across radio and television, its leading position in the radio industry and its dominance in regional areas, which are considered defensive in nature
- Prime's multiples are relatively low, likely as a result of limited diversification, geographical reach and scale, and
- international companies have historical EBITDA multiples ranging from 5.9 to 12.4 times EBITDA and first forecast year multiples of 5.7 to 11.6 times EBITDA. As a result of the specific nature of the Australian market, such as the limited number of market participants, we consider the international companies to be less comparable than the Australian peers.

Summary

The transaction evidence is not particularly helpful as most transactions occurred prior to any large scale substitution of free-to-air television advertising by alternative media and platforms. The acquisition of Southern Cross' television assets are not comparable as they involved regional television licences whereas Ten Network operates in metropolitan areas. The US transaction multiples are generally higher, however, the market is not directly comparable.

Sharemarket evidence indicates minority multiples for Australian metropolitan free-to-air television companies broadly in the range of 6 to 7 times historical EBITDA and 7 to 8 times forecast EBITDA (although a lower multiple is appropriate in the case of Ten Network, taking into account its weaker market position).

⁸⁶ Source: SMI data as at 15 September 2017

Implied multiples

The value attributed under the High Case scenario to the enterprise value of Ten Network of \$126.7 million to \$131.2 million (including synergies available to a broad pool of purchasers) implies the following multiples of EBITDA:

Table 27: Ten Network implied multiples – High Case

	EBITDA	Low	High
Enterprise value (High Case scenario)		126.7	131.2
Implied EBITDA multiples in: ¹			
FY18	46.8	2.7	2.8
FY19	48.8	2.6	2.7
FY20	26.7	4.7	4.9
FY21	18.0	7.0	7.3
FY22	3.9	32.5	33.6

Source: KPMG Corporate Finance analysis.

Note 1: Forecast EBITDA for FY18 to FY22 is sourced from High Case scenario of the Cash Flow Model. The FY17 EBITDA multiple is not meaningful as even after allowing for the waiver of licence fees in FY17, management's expected underlying FY17 EBITDA is negative (refer to Section 7.9 of the report).

The multiples in the table above have been calculated based on EBITDA in the High Case scenario of the Cash Flow Model since enterprise value under other scenarios is negative.

In comparison to the market evidence, the multiples of EBITDA implied by KPMG Corporate Finance's valuation of Ten Network for FY18 to FY20 are low, the FY21 multiple is reasonably consistent and the FY22 multiple is high. This is reasonable because earnings are expected to decline from FY20 as there are no further revenue benefits or cost savings to offset the expected decline in free-to-air television industry advertising expenditure. As discussed previously, in a declining market, without constant initiatives to reduce costs and/or increase market share, a business with a high fixed cost base (or fixed increases in costs) will experience a contraction in earnings margins.

The High Case assumes that a majority of 'bankable' initiatives under the Transformation Program are achieved such that FY19 is the first full year of impact. Whilst a number of other initiatives have been identified or validated, they have not yet been approved or fully developed ('pre-bankable' initiatives). These have not been included in our analysis as they are considered hypothetical in nature (refer to Section 5.3 of the report) and in any event, it is unlikely that an acquirer would be willing to pay for them.

Based on the High Case, EBITDA margins are assumed to increase to around 7% in FY18 and FY19. This is substantially below broker forecast margins for SWM's television segment (19.5% in FY18 and 22.6% in FY19) and broker forecasts for Nine Entertainment (16.4% in FY18 and 16.0% in FY19).⁸⁷ This is likely due to:

⁸⁷ Refer to Appendix 3 – Broker Consensus Forecasts.

- Ten Network having a much lower revenue share than SWM and Nine Entertainment, which provides a weaker negotiating position (in terms of advertising revenues) and lower economies of scale
- Ten Network's limited digital news presence relative to SWM and Nine Entertainment, and
- even after allowing for a significant reduction in US content commitments (and assuming the Fox content agreement is not renewed after expiration in June 2019), Ten Network having a greater commitment to price escalating contracts with US content providers relative to SWM and Nine Entertainment (however, the higher costs associated with SWM and Nine Entertainment's latest AFL and NRL sporting rights are not yet fully reflected in their financial performance which would suggest that they will have reduced margins in the future).

8.4 Other assets and liabilities (net)

Ten Network's other assets and liabilities (net) have been valued in the range of \$17 million to \$22 million and include:

- Ten Network's investments in TX Australia (33.33%), RSVP (15.27%) and MCN (24.99%). TX Australia is valued based on an EBITDA multiple of 9 to 10 times (minority basis) which is appropriate for a transmission tower business, RSVP has been valued based on an EBITDA multiple of 9 to 10 times (minority basis) which is appropriate for digital media. Net borrowings have been deducted and a marketability discounts in the range of 30% to 40% have been applied to Ten Network's share of equity value. MCN has been valued at nil as it operates on a break even basis. The value for Ten Network's equity accounted investments exceeds the book value of these investments at 30 June 2017 of \$10.7 million
- the present value of approximately \$1.0 million of dividends received from OzTam (tax effected and discounted at a cost of equity of 13%), and
- present value of restructuring provisions related to 'bankable' initiatives (tax effected, and risk adjusted by 80% consistent with the High Case and discounted at 9.5% to 10.0% (refer to Appendix 5).

This value excludes:

- the mark-to-market value of derivatives, which have been closed out following the voluntary administration
- a contingent liability associated with parent guarantees in relation to certain concessions that arose on the sale of Eye Corp US and UK in 2013 and 2015, respectively, and
- value attributed to carried forward tax losses as this has been reflected in the cash flows.

8.5 Comparison to Ten Network's market capitalisation

The value of equity implied by the High Case scenario is below Ten Network's market capitalisation on the last trading day prior to the announcement that the Administrators had been appointed (\$58.0 million⁸⁸). This discount is reasonable, since it is likely that the price at which Ten Network was trading on the ASX reflects some option value, based on either the possibility of a recovery in the free-to-air television industry (and achievement of earnings improvements identified) and/or the ability of the company to achieve further cost reductions/revenue initiatives in the future, the particulars of which are not certain at this point in time.

8.6 Distressed value

KPMG Corporate Finance has also considered the value of the equity in Ten Network on a distressed basis to reflect a liquidation scenario, which takes into account the situation faced by Ten Network whereby it does not have sufficient funding to pursue its operations for the foreseeable future. This approach assumes that the business will be sold as a going concern rather than having regard to the value of assets that comprise the business noting, however, that the seller would likely be considered in such a situation to be an 'anxious' seller within the context of the definition of fair value (refer to Section 5.2 of this report). In relation to Ten Network's assets we note that Ten Network does not have significant tangible assets capable of realising any material value (refer to Section 7.6 of this report).

We have considered three adjustments to the NPV outcomes under the High Case 'going concern' scenario to reflect financial distress, being:

1. an increase in the discount rate to take into account the existing distressed situation whereby a potential acquirer would seek a higher rate of return to reflect the increased risk
2. the potential impact of distress on existing content agreements whereby providers of content can potentially terminate their agreements, and
3. the CBS Corporation and Fox content agreements are not formally amended as this is the position Ten Network was in when it entered into Administration.

In a distressed situation, it is likely that debt and equity holders would require a higher cost of capital (at least 5% to 10% higher) than would be required on the basis of a going concern. KPMG Corporate Finance has discounted the cash flows based on the High Case scenario utilising a WACC in the range of 14.5% to 20.0% (refer to the table below).

As discussed in Section 7.2.3 of this report, some contracts for the production of Australian commissioned content contain insolvency termination rights, and a substantial majority of contracts for the acquisition of produced content as well as sports rights agreements contain termination rights. The ability to broadcast content is a fundamental aspect of Ten Network's business model. In the event that content agreements are terminated, it is likely that Ten

⁸⁸ Based on a closing price of \$0.16 on 9 June 2017 and 362,813,678 Ten Network shares outstanding (including quoted loan fund shares but excluding unquoted loan fund shares)

Network could not continue to attract audiences and advertising revenues. Consequently, the implied value would be substantially lower than the High Case. As it is not possible to assess the extent to which third parties would exercise these rights we have not determined an implied value on this basis.

At this point in time, no changes have been formally agreed with respect to the CBS Corporation and Fox US content agreements. In the absence of any such agreement, the adjusted NPV⁷¹ of Ten Network's business operations under the High Case (assuming a 9.5% to 10.0% discount rate) is as follows.

Table 28: Adjusted NPV⁷¹ of Ten Network's business operations (High Case) under financial distress

\$ millions	Low	High
NPV of Ten Network's business operations (High Case)	114.7	117.7
Financial distress:		
1. High Case with 14.5% to 20% discount rate	82.2	95.7
2. High Case with termination rights in content agreements	n/a ¹	n/a ¹
3. High Case with no renegotiation of US content agreements (and 9.5% to 10% discount rate)	(152.4)	(154.1)

Source: KPMG Corporate Finance analysis.

Note 1: Value depends on extent to which termination rights in the event of insolvency under content agreements exist and are exercised and any consequential impact on revenue.

Under each of these scenarios, the adjusted NPV of Ten Network's business operations is below that under the High Case 'going concern' valuation and the implied value of equity is negative. Accordingly, on a distressed basis, the value of Ten Network's equity is nil.

Furthermore, it should be noted that in the event of a winding up of Ten Network, Ten Network and its Subsidiaries would be required to pay priority creditors (employees) claims which the Deed Administrators have estimated as being in the range of \$14.1 million (including annual leave and long service leave) to \$56.2 million (including redundancy costs).⁸⁹

⁸⁹ "Ten Group, Report to Creditors pursuant to Section 439A of the Corporations Act 2001", dated 4 September 2017, page 21

Appendix 1 – KPMG Corporate Finance Disclosures

Qualifications

The individuals responsible for preparing this report on behalf of KPMG Corporate Finance are Ian Jedlin and Sean Collins. Ian is a member of Chartered Accountants Australia and New Zealand, a Senior Fellow of the Financial Securities Institute of Australia and holds a Master of Commerce from the University of New South Wales. He is also a member of the Standards Review Board of the International Valuations Standards Council. Sean is a Fellow of Chartered Accountants Australia and New Zealand, a Fellow of the Chartered Institute of Securities and Investments in the United Kingdom and holds a Bachelor of Commerce from the University of Queensland. Each has a significant number of years of experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of IERs.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than KPMG Corporate Finance's opinion as to the value of the equity in Ten Network for the purpose of assisting the Court and ASIC in their determinations regarding the DOCA proposed by CBS Australia and providing Ten Network shareholders with the necessary information to determine whether to object. KPMG Corporate Finance expressly disclaims any liability to any Ten Network shareholder who relies or purports to rely on the report for any other purpose and to any other party (other than the Court and ASIC) who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, neither KPMG Corporate Finance nor the KPMG Partnership has been involved in the preparation of the Explanatory Statement or any other document prepared in respect of the Proposed Transaction. Accordingly, we take no responsibility for the content of the Explanatory Statement as a whole or other documents prepared in respect of the Proposed Transaction.

We note that the forward-looking financial information prepared by the Company does not include estimates as to the potential impact of any future changes in taxation legislation. Future taxation changes are unable to be reliably determined at this time.

Independence

In addition to the disclosures in our Financial Services Guide, it is relevant to a consideration of our independence that, during the course of this engagement, KPMG Corporate Finance provided draft copies of this report to management of Ten Network and to the Deed Administrators and Receivers and Managers for comment as to factual accuracy, as opposed to opinions which are the responsibility of KPMG Corporate Finance alone. Changes made to this report as a result of those reviews have not altered the opinions of KPMG Corporate Finance as stated in this report.

KPMG Corporate Finance commenced analysis for the purposes of this report on 25 July 2017, prior to the announcement of the Proposed Transaction. This work did not involve KPMG

Corporate Finance participating in setting the terms of, or any negotiations leading to, the Proposed Transaction.

Consent

KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it is included with the Explanatory Statement to be issued to the shareholders of Ten Network. Neither the whole nor the any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears.

APES 225

Our report has been prepared in accordance with professional standard APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board (APESB). KPMG Corporate Finance and the individuals responsible for preparing this report have acted independently.

Appendix 2 – Sources of Information

In preparing this report we have been provided with and considered the following sources of information:

Publicly available information:

- the Explanatory Statement (including earlier drafts)
- Ten Group Report to Creditors pursuant to Section 439A of the Corporations Act 2001, 4 September 2017, and Supplemental Report, 11 September 2017
- Audited Annual Reports for Ten Network for the financial years ending 31 August 2013 to 31 August 2016
- Reviewed Financial Statements for Ten Network for the six months ended 28 February 2016 and 28 February 2017
- various ASX company announcements, press and media articles and broker and analyst reports
- various industry reports and publications prepared by ACMA, Nielsen, OzTAM, SMI, FreeTV Australia, ThinkTV and PwC
- financial information from Bloomberg, Thompson Financial Securities, MergerMarket, Capital IQ and Connect 4
- non-financial information from the Australian Bureau of Statistics

Non-public information

- transaction documentation (including Transaction Deed, CBS Syndicated Facilities Agreement, Security Trust Deed, General Security Deed)
- Monthly Management Accounts for the financial years ending 31 August 2013 to 31 July 2017
- information provided to potential bidders of Ten Network including confidential information memorandum, long-term financial model, management presentation and legal and financial due diligence, and
- other confidential information (including agreements for the supply of content) provided in the data room.

In addition, we have held discussions with the management of Ten Network and the Administrators and Receivers and Managers and their advisers.

Appendix 3 – Broker Consensus Forecasts

In order to provide an indication of the expected future financial performance of Ten Network, KPMG has considered brokers' forecasts. Four brokers have published reports on Ten Network following the release of the financial results for the first half of FY17 (27 April 2017) but before the announcement that the Administrators had been appointed (14 June 2017). Two additional brokers have previously reported on Ten Network, however, had not published reports since the release of the results for the first half of FY17. KPMG Corporate Finance is not aware of any other brokers that follow Ten Network.

We note that on the release of the financial results for the first half of FY17, Ten Network announced potential sources of earnings improvement (Transformation Program, renegotiation of US content agreements and licence fee waiver), however, had not provided any details. Consequently, it is not clear whether brokers had factored any of these earnings improvements into their forecasts. A summary of these broker forecasts for Ten Network is summarised below:

Table 31: Ten Network broker consensus forecasts of revenue, EBITDA and EBITDA margin

AS\$m	Report date	Revenue				EBITDA				EBITDA margin			
		FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20
Broker 1	15/05/17	650.0	684.0	n/a	n/a	(30.0)	6.0	n/a	n/a	(4.6)%	0.9%	n/a	n/a
Broker 2	28/04/17	692.7	710.9	710.9	710.9	(25.8)	10.0	29.6	49.0	(3.7)%	1.4%	4.2%	6.9%
Broker 3	27/04/17	677.0	666.0	660.0	n/a	(28.0)	(19.0)	(4.0)	n/a	(4.1)%	(2.9)%	(0.6)%	n/a
Broker 4	27/04/17	667.0	651.0	643.0	n/a	(27.0)	(19.0)	(31.0)	n/a	(4.0)%	(2.9)%	(4.8)%	n/a
Statistics													
Minimum		650.0	651.0	643.0	710.9	(30.0)	(19.0)	(31.0)	49.0	(4.6)%	(2.9)%	(4.8)%	6.9%
Maximum		692.7	710.9	710.9	710.9	(25.8)	10.0	29.6	49.0	(3.7)%	1.4%	4.2%	6.9%
Median		672.0	675.0	660.0	710.9	(27.5)	(6.5)	(4.0)	49.0	(4.1)%	(1.0)%	(0.6)%	6.9%
Average		671.7	678.0	671.3	710.9	(27.7)	(5.5)	(1.8)	49.0	(4.1)%	(0.9)%	0.4%	6.9%
Average growth (%)		n/a	0.9%	(1.0)%	5.9%	n/a	80.1%	67.3%	2822.2%	n/a	n/a	n/a	n/a

Sources: Brokers' reports, KPMG Corporate Finance analysis.

Notes: FY20 data from one broker source only.

Table 32: Ten Network broker consensus forecasts of depreciation and amortisation and EBIT

AS\$m	Report date	Depreciation and amortisation				EBIT			
		FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20
Broker 1	15/05/17	(9.0)	(10.0)	n/a	n/a	(40.0)	(4.0)	n/a	n/a
Broker 2	28/04/17	(11.2)	(10.6)	(10.1)	(9.6)	(37.0)	(0.7)	19.4	39.4
Broker 3	27/04/17	n/a	n/a	n/a	n/a	(40.0)	(31.0)	(16.0)	n/a
Broker 4	27/04/17	(13.0)	(13.0)	(13.0)	n/a	(40.0)	(32.0)	(44.0)	n/a
Statistics									
Minimum		650.0	(13.0)	(13.0)	(13.0)	(40.0)	(32.0)	(44.0)	39.4
Maximum		692.7	(9.0)	(10.0)	(10.1)	(37.0)	(0.7)	19.4	39.4
Median		672.0	(11.2)	(10.6)	(11.6)	(40.0)	(17.5)	(16.0)	39.4
Average		671.7	(11.1)	(11.2)	(11.6)	(39.3)	(16.9)	(13.5)	39.4

Sources: Brokers' reports, KPMG Corporate Finance analysis.

Notes: FY20 data from one broker source only.

Table 33: Ten Network broker consensus forecasts of NPAT and EPS

AS\$m	Report date	NPAT				EPS (\$A)			
		FY17	FY18	FY19	FY20	FY17	FY18	FY19	FY20 ³
Broker 1	15/05/17	(262.0)	(9.0)	n/a	n/a	(0.13)	(0.02)	n/a	n/a
Broker 2	28/04/17	(261.0)	(1.5)	11.0	23.4	(0.71)	(0.00)	0.03	0.06
Broker 3	27/04/17	(253.0)	(28.0)	(18.0)	n/a	(0.10)	(0.07)	(0.05)	n/a
Broker 4	27/04/17	(50.0)	(43.0)	(57.0)	n/a	(0.13)	(0.11)	(0.15)	n/a
Statistics									
Minimum		650.0	(262.0)	(43.0)	(57.0)	23.4	(0.71)	(0.11)	(0.15)
Maximum		692.7	(50.0)	(1.5)	11.0	23.4	(0.10)	(0.00)	0.03
Median		672.0	(257.0)	(18.5)	(18.0)	23.4	(0.13)	(0.05)	(0.05)
Average		671.7	(206.5)	(20.4)	(21.3)	23.4	(0.27)	(0.05)	(0.06)

Sources: Brokers' reports; KPMG Corporate Finance analysis.

Notes: FY20 data from one broker source only.

In regard to the above, we note:

- Ten Network has not released actual results for FY17 and, therefore, FY17 is a forecast. The FY17 EBITDA forecast is consistent with the earnings guidance provided on 27 April 2017 (an EBITDA loss of \$25 to \$30 million)
- only one broker provided forecasts for FY20
- all brokers reported NPAT inclusive of minority interests and one reported NPAT as before non-recurring items in its FY17 forecast.

The broker consensus forecasts for Nine Entertainment and SWM's television segment are presented below.

Table 34: Broker consensus forecasts for Nine Entertainment and SWM

AS\$m	Revenue			EBITDA			EBITDA margin			EBITDA growth		
	FY17a ¹	FY18e ²	FY19e	FY17a	FY18e	FY19e	FY17a	FY18e	FY19e	FY17a	FY18e	FY19e
Nine Entertainment												
Consensus ³	1,235.1	1,257.0	1,262.5	217.3	204.3	200.8	17.6%	16.4%	16.0%	n/a	(6.0)%	(1.7)%
SWM												
Consensus ⁴	1281.0	1257.8	1,233.8	271.2	245.2	278.6	21.2%	19.5%	22.6%	n/a	(9.6)%	13.6%

Sources: Brokers' reports; KPMG Corporate Finance analysis.

Notes:

1. "a" denotes actuals.
2. "e" denotes estimates.
3. Consensus represents the median of four broker forecasts. The forecasts incorporate the television and digital segments.
4. Consensus represents the median of one broker forecast. The forecasts incorporate the television segment only.

In regard to the table above, we note:

- Nine Entertainment has two operating segments (television and digital). The forecasts above include both operating segments, and
- SWM has a number of operating segments (television, newspapers, magazines and Yahoo!7), the above table shows the television segment forecasts only. Only one broker has provided segment forecasts for SWM subsequent to the release of its results for the 12 months ended 30 June 2017.

Appendix 4 – Overview of Valuation Methodologies

Discounted cash flow

Under a DCF approach, forecast cash flows are discounted back to the Valuation Date, generating a net present value for the cash flow stream of the business. A terminal value at the end of the explicit forecast period is then determined and that value is also discounted back to the Valuation Date to give an overall value for the business.

In a DCF analysis, the forecast period should be of such a length to enable the business to achieve a stabilised level of earnings, or to be reflective of an entire operation cycle for more cyclical industries. Typically a forecast period of at least five years is required, although this can vary by industry and by sector within a given industry.

The rate at which the future cash flows are discounted (the Discount Rate) should reflect not only the time value of money, but also the risk associated with the business' future operations. This means that in order for a DCF to produce a sensible valuation figure, the importance of the quality of the underlying cash flow forecasts is fundamental.

The Discount Rate most generally employed is the WACC, reflecting an optimal (as opposed to actual) financing structure, which is applied to unleveraged cash flows and results in an Enterprise Value for the business. Alternatively, for some sectors it is more appropriate to apply an equity approach instead, applying a cost of equity to leveraged cash flows to determine equity value.

In calculating the terminal value, regard must be had to the business' potential for further growth beyond the explicit forecast period. This can be calculated using either a capitalisation of earnings methodology or the 'constant growth model', which applies an expected constant level of growth to the cash flow forecast in the last year of the forecast period and assumes such growth is achieved in perpetuity.

Capitalisation of earnings

An earnings based approach estimates a sustainable level of future earnings for a business (maintainable earnings) and applies an appropriate multiple to those earnings, capitalising them into a value for the business. The earnings bases to which a multiple is commonly applied include Revenue, EBITDA, EBIT and NPAT.

In considering the maintainable earnings of the business being valued, factors to be taken into account include whether the historical performance of the business reflects the expected level of future operating performance, particularly in cases of development, or when significant changes occur in the operating environment (such as a structural decline in the industry), or the underlying business is cyclical. This methodology is difficult (if not impossible) to apply for businesses that are generating losses.

With regard to the multiples applied in an earnings based valuation, they are generally based on data from listed companies and recent transactions in a comparable sector, but with appropriate adjustment after consideration has been given to the specific characteristics of the business

being valued. The multiples derived for comparable quoted companies are generally based on security prices reflective of the trades of small parcels of securities. As such, multiples are generally reflective of the prices at which portfolio interests change hands. That is there is no premium for control incorporated within such pricing. They may also be impacted by illiquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (100%) we would also reference the multiples achieved in recent mergers and acquisitions, where a control premium and breadth of purchaser interest are reflected.

An earnings approach is typically used to provide a market cross-check to the conclusions reached under a theoretical DCF approach or where the entity subject to valuation operates a mature business in a mature industry or where there is insufficient forecast data to utilise the DCF methodology.

Control premiums

It is generally acknowledged that, in order to acquire a 100% controlling interest in a company, the acquirer should pay a premium over and above the traded price of a minority or portfolio interest. Observations from transaction evidence indicate that takeover premiums generally range from 20% to 35%⁹⁰ for completed takeovers depending on the individual circumstances. In transactions where it was estimated that the combined entity would be able to achieve significant synergies, the takeover premium was frequently estimated to be towards the high end of this range or greater.

In considering the evidence provided by actual transactions, it is important to recognise however that the observed premium for control is an outcome of the valuation process, not a determinant of value and that each transaction will reflect to varying degrees the outcome of a unique combination of factors, including:

- pure control premium in respect of the acquirer's ability to utilise full control over the strategy and cash flows of the target entity
- the level of synergies available to all acquirers, such as the removal of costs associated with the target being a listed entity and/or costs related to duplicated head office functions
- the expected costs to integrate and the uncertainties associated with timing of realising the targeted synergies
- synergistic or special value that may be unique to a specific acquirer
- the nature of the bidder i.e. financial investor vs trade participant
- the stake acquired in the transaction and the bidder's pre-existing securityholding in the target

⁹⁰ KPMG Corporate Finance analysis based on Mergerstat data for Australian transactions completed between 2001 and 2016, comparing the closing price of the target company one day prior to the takeover announcement to the final offer price

- the stage of the market cycle and the prevailing conditions of the economy and capital markets at the time of the transaction
- desire (or anxiety) for the acquirer to complete the transaction
- whether the acquisition is competitive, and
- the extent the target company's security price already reflects a degree of takeover speculation.

It is inappropriate however to apply an average premium without having regard to the circumstances of each case. In some situations there is no premium. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by institutional investors through an initial public offering. Accordingly, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

Net assets or cost based

Under a net assets or cost based approach, total value is based on the sum of the net asset value or the costs incurred in developing a business to date, plus, if appropriate, a premium to reflect the value of intangible assets not recorded on the balance sheet. Net asset value is determined by marking every asset and liability on (and off) the entity's balance sheet to current market values.

A premium is added, if appropriate, to the marked-to-market net asset value, reflecting the profitability, market position and the overall attractiveness of the business. The net asset value, including any premium, can be matched to the 'book' net asset value, to give a price to net assets, which can then be compared to that of similar transactions or quoted companies.

A net asset or cost based methodology is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies). A net asset approach is also useful as a cross-check to assess the relative riskiness of the business (e.g. through measures such as levels of tangible asset backing).

Enterprise or equity value

Depending on the valuation approach selected and the treatment of the business' existing debt position, the valuation range calculated will result in either an enterprise value or an equity value being determined.

An enterprise value reflects the value of the whole of the business (i.e. the total assets of the business including fixed assets, working capital and goodwill/intangibles) that accrues to the providers of both debt and equity. An enterprise value will be calculated if a multiple is applied to unleveraged earnings (i.e. revenue, EBITDA, EBITA or EBIT) or unleveraged free cash flow.

An equity value reflects the value that accrues to the equity holders. To compare an enterprise value to an equity value, the level of net debt must be deducted from the enterprise value. An equity value will be calculated if a multiple is applied to leveraged earnings (i.e. NPAT) or free cash flow, post debt servicing.

Appendix 5 – Discount Rate

Where cash flow forecasts consist of free cash flows to all providers of funding, the weighted average cost of capital (WACC) is commonly employed as the basis for determining an appropriate discount rate. For the purposes of our DCF analysis, we have adopted a discount rate range of 9.5% to 10.0% (9.75% mid-point) for valuing the forecast cash flows of Ten Network.

We consider that this range appropriately reflects the expected return of a hypothetical prudent purchaser, based upon the perceived risks associated with Ten Network's operations and the television broadcasting industry in which it operates.

The selection of the appropriate discount rate to apply to the forecast cash flows of any asset or business operation is fundamentally a matter of judgement rather than a precise calculated outcome. Whilst there is commonly adopted theory that provides a framework for the derivation of an appropriate discount rate, it is important to recognise that given the level of subjectivity involved, the calculated discount rate should be treated as guidance rather than objective truth. Furthermore, discount rate assessments need to consider both current market conditions and future expectations, to the extent that there are any changes in conditions and expectations over time, an adjustment to the discount rate at a future point in time may be warranted.

In selecting an appropriate discount rate to apply to Ten Network's operations, we have determined a nominal WACC to align with the forecast nominal ungeared cash flows being used to derive the resultant DCF value. A WACC represents an estimate of the weighted average required return from both debt holders and equity investors. The WACC is derived using the following formula:

$$\text{WACC} = W_d * K_d * (1 - t) + W_e * K_e$$

Table 35: WACC parameters

Parameter	Description
Kd	Pre-tax cost of debt
Wd	Percentage of debt in capital structure
Ke	Post-tax cost of equity
We	Percentage of equity in capital structure
t	Company tax rate

Source: KPMG Corporate Finance analysis.

The WACC calculation is typically based on assumptions that may not hold in practice, including constant optimal capital structure.

Cost of equity

The cost of equity can be derived using a modified Capital Asset Pricing Model (CAPM). The CAPM provides a theoretical basis for determining a discount rate that reflects the risk of a particular investment or business operation. In simple terms, the CAPM represents the return expected by an equity investor, when taking into account the risk of the underlying equity investment. The CAPM formula to determine the cost of equity is expressed as:

$$K_e = R_f + \beta * (R_m - R_f) + \alpha$$

Table 36: Cost of equity parameters

Parameter	Description
R _f	Risk free rate, representing the return on risk free assets
R _m	Market rate of return, representing the expected average return on a market portfolio
(R _m - R _f)	Market risk premium, representing the excess return that a market portfolio is expected to generate over the risk free rate
β	Beta factor, being a measure of the systematic risk of a particular asset relative to the risk of a market portfolio
α	Specific risk factor, which may be included to compensate for risks which are not adequately captured in either the other discount rate parameters or the cash flows being discounted

Source: KPMG Corporate Finance analysis.

WACC – Ten Network's television broadcasting operations

KPMG Corporate Finance's rationale for the selection of each of the variables used in developing a WACC for Ten Network's operations is discussed below.

Risk free rate

The risk free rate of return is the return on a risk free security, typically for a long-term period. In practice, long dated Government bonds are accepted as a benchmark for a risk free security. In Australia, the 10 year Commonwealth Government bond yield is commonly referenced, of which the current spot yield was 2.7% as at 31 August 2017.

However, since the global financial crisis in 2008, Government bond yields have remained low compared to long-term averages. Combined with market evidence which indicates that bond yields and the market risk premium are inversely correlated, it is important that any assessment of the risk free rate should be made with respect to the position adopted in deriving the market risk premium. As we adopt a long-term view on the market risk premium (rather than spot observation), it is also important to do the same with the risk free rate to ensure the combination of the risk free rate and market risk premium represents an appropriate return in the current investment environment.

Consequently, the risk free rate has been selected by reference to both the current spot yield and long-term forecast yields on 10 year Australian Government bonds. We have adopted 3.6% as an appropriate risk free rate, which represents a blend of the spot rate and a forecast long-term bond yield of 4.0% (based on the average of two long-term bond yield estimates from BIS Oxford Economics of 4.1% and 3.9% as at 31 August 2017, respectively).

Market Risk Premium

Consistent with our approach to the risk free rate, we have applied a long-term view in setting the market risk premium. A market risk premium of 6.0% is regarded as appropriate by KPMG Corporate Finance for the current long-term investment climate in Australia. Further, it is

widely adopted by valuation practitioners in Australia, as observed in a recent survey undertaken by KPMG Corporate Finance in 2017⁹¹.

Beta

In selecting an appropriate beta to apply, KPMG Corporate Finance has considered Ten Network's unlevered beta, as well as unlevered betas for selected Australian media and broadcasting companies. We have also considered the betas of international media and broadcasting businesses, although we have not specifically referenced them, given the particular local context in which Ten Network operates.

Table 37: Betas and gearing for selected media and broadcasting companies

	Market Cap ¹ (local)	2-year weekly beta		2-year average debt-to-		5-year monthly beta		5-year average debt-to-	
Company name		Levered	Unlevered	Equity ²	Value ³	Levered	Unlevered	Equity ²	Value ³
Australian media & broadcasting									
Ten Network	58	1.21	1.06	20%	17%	1.06	0.92	21%	17%
Nine Entertainment	1,188	1.13	0.95	26%	21%	n/a	n/a	n/a	n/a
SWM	1,048	0.95	0.66	64%	39%	1.22	0.84	65%	40%
Southern Cross	992	0.89	0.68	43%	30%	0.98	0.71	55%	35%
Prime	158	0.80	0.64	36%	27%	0.69	0.55	36%	26%
Mean (excl. outliers)		1.00	0.80	38%	27%	1.10	0.78	44%	30%
Median (excl. outliers)		0.95	0.68	36%	27%	1.10	0.78	46%	31%
International media & broadcasting									
News Corporation	US\$7,908	1.31	1.31	0%	0%	n/a	n/a	n/a	n/a
ProSiebenSat.1 Media SE	€6,361	0.84	0.70	26%	21%	0.90	0.76	26%	21%
ITV plc	£6,285	0.78	0.72	10%	9%	1.02	0.97	7%	6%
Mediaset España Comunicación, S.A.	€3,182	0.91	0.91	0%	0%	0.93	0.93	0%	0%
Sinclair Broadcast Group, Inc.	US\$3,117	1.57	0.86	136%	58%	1.54	0.89	121%	55%
Gray Television, Inc.	US\$1,031	1.61	0.80	167%	62%	2.54	1.18	192%	66%
Mean		1.17	0.88	57%	25%	1.39	0.95	69%	30%
Median		1.11	0.83	18%	15%	1.02	0.93	26%	21%
Total									
Total Mean (excl. outliers)		1.09	0.85	48%	26%	1.30	0.90	58%	30%
Total Median (excl. outliers)		0.95	0.80	26%	21%	1.02	0.89	36%	26%

Source: S&P Capital IQ; KPMG Corporate Finance analysis.

Notes:

Shaded cells represent outliers which have a low level of statistical confidence.

1. Data for Ten Network Holdings is as at 9 June 2017 (the last trading day before the appointment of the Administrators). Data for all other companies is as at 1 September 2017.
2. Debt-to-equity is net debt divided by market capitalisation.
3. Debt-to-value is net debt divided by the sum of net debt and market capitalisation.

In assessing an appropriate unlevered beta for Ten Network's business, we have considered the following:

⁹¹ KPMG Valuation Practice Survey, July 2017

- our analysis has focused on the betas calculated over a two year period as the structural shift away from free-to-air television has accelerated over this period
- intuitively, a beta of greater than 1.0 is appropriate as:
 - free-to-air television advertising revenue is influenced by cyclical factors
 - free-to-air television broadcasters have reasonably high operating leverage (due to the significant investment in producing and purchasing content), which creates greater earnings volatility
- Ten Network's unlevered beta calculated over a two year period is 1.06. Its beta calculated over a five year period is not statistically significant⁹²
- Nine Entertainment is highly comparable to Ten Network, as more than 95% of its revenues are generated from advertising across its television and digital platforms.⁹³ Its unlevered two-year weekly beta is 0.95

On the other hand, Ten Network has higher operating leverage than Nine Entertainment (as a result of its US content agreements) and a lower market share, which limits its ability to achieve economics of scale and reduces its negotiating position (in terms of advertising revenues). These factors suggest a higher beta is appropriate for Ten Network

- SWM's betas are relatively low (two year weekly unlevered beta is 0.66), potentially as it is more diversified (approximately 16% of EBITDA for the 12 months ended 30 June 2017 was sourced from magazine and newspaper publishing). Furthermore, its print businesses have experienced an even steeper earnings decline than its free-to-air television business, potentially reducing the correlation of its share price to the broader market (which has general increased over the last two years)
- Southern Cross and Prime's unlevered betas are below those of the metropolitan television broadcasting companies (their two year weekly betas are 0.68 and 0.64, respectively). These companies are less comparable as they operate in regional television markets and Southern Cross also has radio broadcasting operations:
 - Southern Cross generated 61% of its revenues from regional television and radio broadcasting in the 12 months to 30 June 2017⁹⁴, the remainder was generated from metropolitan radio broadcasting. Radio, especially regional radio, is considered an effective means for advertising to motorists and has defensive qualities. Its relatively low beta may also reflect its greater diversification, and
 - Prime operates exclusively in the regional free-to-air television broadcasting market. Regional broadcasters typically produce local news content (in addition to broadcasting affiliate content) and this tends to draw loyal audiences. Additionally, their advertisers

⁹² The beta has a negative 'T-test' at a 95% confidence level and a low R squared (0.06)

⁹³ 2016 Annual Report, Nine Entertainment

⁹⁴ 2017 Annual Report, Southern Cross, 24 August 2017

tend to be small to medium sized local businesses rather than national agencies. Notwithstanding these defensive attributes, the regional free-to-air broadcasting industry in which Prime operates in is also facing structural decline, and

- two-year unlevered betas for international media and broadcasting companies are low (in the range of 0.70 to 0.91, excluding News Corporation). This likely reflects a more diversified earnings base and different industry structure (e.g. US broadcasters have significantly grown retransmission consent revenues). As a result of the differences in the free-to-air television markets between regions, our analysis has focused on the Australian peers.

Taking into account the factors detailed above, KPMG Corporate Finance has selected an unlevered asset beta range of 1.0 to 1.1 for Ten Network. Based on KPMG Corporate Finance's selected gearing range of 10% to 15% (debt to value), this results in a levered beta in the range of 1.12 to 1.19.

Gearing

In selecting an appropriate gearing ratio for Ten Network's operations, we have considered the gearing of comparable companies set out in the table above. Ten Network and Nine Entertainment (the most comparable company) have two year average debt-to-value ratios of 17% (at 9 June 2017) and 21% (at 31 August 2017), respectively. The gearing ratio of free-to-air television broadcasters is limited by their relatively high operating leverage, cyclicality of the advertising expenditure and limited fixed asset base. Gearing for other Australian peers is higher, however, these companies are considered less comparable (given their greater level of diversification and/or exposure to defensive markets).

Gearing for international peers is also relatively low (average and median gearing over a two year period are 26% and 21%, respectively), however, as noted above, these companies are arguably less comparable.

Based on these considerations, KPMG Corporate Finance has selected a gearing range of 10% to 15% (debt-to-value), which equates to a debt-to-equity range of 11.1% to 17.6%.

Tax rate

We have adopted a corporate tax rate of 30%, based on the current Australian statutory corporate tax rate.

Company specific risk premium

The company specific risks of Ten Network's operations have been captured through scenario analysis, with the resultant valuation based on a weighting towards the scenarios that best account for the company specific risks. Accordingly, no allowance for company specific risk has been included in the determination of the discount rate.

Pre-tax cost of debt

We have adopted a long-term, pre-tax cost of debt in the range of 4.8% to 5.3%. The long-term cost of debt has been approximated by adding the credit risk spread between 5 year BBB (including BBB- and BBB+) rated Australian corporate bonds and 5 year Australian

Government bonds (1.5% at 31 August 2017) to our long-term risk free rate (3.6%) and deducting the yield differential between 5 and 10 year bonds (negative 0.3% based on recent observations). The high end of the range (5.3%) includes an additional premium of 0.5% to account for refinancing costs and credit rating sustainability risk. We have referred to BBB rated corporate debt pricing on the basis that a rational investor would seek to maximise gearing in the business to a level at which it can maintain an investment grade rating.

WACC conclusion

The selected parameters result in a WACC for Ten Network in the range of 9.3% to 10.0%, as set out below. KPMG Corporate Finance has selected a WACC in the range of 9.5% to 10.0%.

Table 38: Selected WACC parameters for Ten Network

	Parameter	Low	High
Cost of Equity			
Risk free rate	Rf	3.6%	3.6%
Equity market risk premium	EMRP	6.0%	6.0%
Unlevered beta		1.0	1.1
Tax rate		30.0%	30.0%
Gearing (debt/equity)		17.6%	11.1%
Levered beta	β	1.12	1.19
Company specific risk premium (alpha)	α	0.0%	0.0%
Cost of equity (post-tax)	Ke	10.3%	10.7%
Cost of Debt			
Base rate		3.6%	3.6%
Corporate debt margin	DM	1.2%	1.7%
All in rate (pre-tax)		4.8%	5.3%
Tax rate	T	30.0%	30.0%
Cost of debt (post-tax)		3.4%	3.7%
Capital Structure			
Estimated market value of equity as % of value	We	85%	90%
Estimated market value of debt as % of value	Wd	15%	10%
Post-tax WACC			
Calculated range		9.3%	10.0%
Selected range		9.5%	10.0%
Mid-point		9.75%	

Source: S&P Capital IQ; KPMG Corporate Finance analysis.

The selected WACC for Ten Network is consistent with:

- discount rates utilised in impairment testing as at 30 June 2017 for SWM (9.3% post tax) and Nine Entertainment's television segment (13.6% pre-tax, which is broadly equivalent to a 9.5% post tax rate) as reported in their annual reports
- the discount rate utilised in impairment testing for Ten Network as at 31 August 2016 of 10.2% (post tax), noting that KPMG Corporate Finance's assessed risk free rate is 0.2% lower currently than at 31 August 2016, and
- discount rates used by brokers for Ten Network (mean, 9.4%; median, 9.0%), SWM (mean, 9.8%; median, 9.6%) and Nine Entertainment (mean, 9.3%; median, 9.4%).

Appendix 6 – Cash Flow Assumptions

'Business as usual' case

The key assumptions underlying the 'business as usual' case are:

- Federal Government abolishes licence fee and introduces new spectrum fee
- no savings under the Transformation Program, and
- US content agreements are not renegotiated.

The specific assumptions underlying the cash flows are:

Revenues

- net advertising revenue:
 - free-to-air television industry advertising revenue declines by 4.0% in FY18 then 3.5% per annum thereafter (an average decline of 3.6% from FY18 to FY22) reflecting the ongoing fragmentation of audiences (in particular, the impact of subscription video-on-demand). This decline is consistent with, or less pessimistic than, independent industry forecasts⁹⁵
 - Ten Network's audience share increases marginally (from 25.5% in FY18 to 25.7% in FY22), power ratio increases marginally (from 0.98 times in FY18 to 1.00 times in FY20, then declines to 0.98 times in FY22) and the resulting revenue share remains relatively flat (between 25.1% and 25.3% from FY18 to FY22)
 - commission rates (primarily to MCN) are calculated in accordance with contractual terms (MCN agreement extends until August 2022)
- digital revenue: increases by 8.6% in FY18 and 8.0% per annum thereafter, reflecting organic growth in the existing Tenplay platform
- affiliate revenue: assumes the free-to-air television industry advertising revenue in regional areas declines of 4.0% per annum (which is slightly steeper than the decline in metropolitan areas), affiliates' revenue share is flat and Ten Network's fee percentage increases in accordance with contracted rate
- datacasting fees: reflect contracted arrangements with the existing two channels
- total revenue increases by 1.2% in FY18, then declines by between 2.0% and 4.0% thereafter

⁹⁵ The decline is consistent with the average decline in the five years to 30 June 2022 forecast by IBIS World (3.6%), but is not as steep as the average decline in growth for 2016 to 2021 forecast by PwC of (4.7%) (refer to Section 6.3.7 of the report).

Costs

- programming costs:
 - CBS Corporation and Fox agreements continue in accordance with contractual terms. Fox agreement is not renewed on expiration (June 2019)
 - drama production costs support points requirement for ACMA licence
 - light entertainment costs increases due to additional episodes of certain programs
 - Big Bash League is renewed in FY19 and other sporting rights are renewed, and
 - news cost increases reflect a 'business as usual' case
- operating expenses: increase by an average of 1.6% per annum
- selling costs: includes new spectrum fee and MCN variable fee. MCN variable fee is calculated in accordance with contractual terms and declines with gross television and digital advertising revenue
- total expenses (excluding selling costs) increase by 3.3% in each of FY18 and FY19, then remain flat

Other assumptions

- capital expenditure: is \$9.3 million in FY18, then \$8.0 million thereafter
- working capital: increases slightly in FY18 (mainly as a result of a reduction in payables), then declines thereafter as revenues decline, and
- tax: estimated tax losses \$370 million at 30 June 2017 based on \$352.3 million tax losses at 30 June 2016 (refer to Section 7.3 of the report) and further losses generated in the 12 months to 30 June 2017. Tax losses generated in the forecast period are carried forward and offset against future profits. Tax is calculated at 30%.

Transformation Program

The model allows for incorporation of revenue benefits and cost savings associated with 'bankable' initiatives under the Transformation Program. Assuming that all 'bankable' initiatives under the Transformation Program are implemented (and result in the anticipated savings, on schedule) results in an increase in earnings of around \$50 million in FY18 and approximately \$80 million in FY19 and beyond.

Revenue

- net advertising revenue: free-to-air television advertising industry revenue is the same as under the 'business as usual' case, however, 'bankable' initiatives add 0.6% to revenue share in FY18 and 1.1% to revenue share thereafter such that revenue share increases from 25.8% in FY18 to 26.4% in FY22. This occurs as the power ratio is higher by 0.03 times in FY18 and 0.04 times from FY19 to FY22 (the power ratio increases from 1.01 times in FY18 to 1.03 times in FY22) while audience share is unaffected

- digital revenue increases by 35.7% in FY18 and 32.6% in FY19, as a result of the launch of Ten Daily in FY18 and reaching near full run rate by FY19. Growth declines to 12.8% in FY20 and 8.0% in FY21 and FY22
- affiliate revenue and datacasting fees are unchanged
- total revenue increases by 4.9% in FY18, remains flat in FY19, then declines by between 1.7% and 3.6% thereafter as there are no further savings initiatives and free-to-air television advertising industry revenue declines

Costs

- programming costs: incorporates programming cost savings, driven by replacing poor performing shows and other initiatives
- operating costs: operating cost savings, which relate to a wide range of measures across the business, partially offset by additional digital media costs related to Ten Daily
- selling costs: higher selling costs arising from higher sales (e.g. MCN variable fees and digital cost of sales)
- total expenses (excluding selling costs) remain flat (on average), and

Other assumptions

- capital expenditure: is \$12.6 million in FY18, then \$6.2 million (on average) thereafter.

Renegotiation of US content agreements

The model allows for incorporation of US content agreements based on the terms sought by Ten Network (but not formalised) prior to the appointment of the Administrators. This results in a reduction in the cost of acquiring content by approximately 40%.

Appendix 7 – Market Evidence

Sharemarket evidence

The following table sets out the market metrics for the comparable companies, as at 1 September 2017.

Table 39: Sharemarket evidence

Company	Market capitalisation (million)	Enterprise value (million) ^{1,2}	EBITDA ² multiple			EBIT ³ Multiple		
			LTM	FY+1	FY+2	LTM	FY+1	FY+2
Australian free-to-air television								
Nine Entertainment	A\$1,188	A\$1,408	6.9x	7.7x	8.7x	8.3x	9.2x	9.7x
SWM ⁴	A\$1,048	A\$1,885	6.1x	6.8x	7.2x	7.2x	8.0x	8.4x
Southern Cross	A\$992	A\$1,310	7.6x	7.9x	7.8x	9.2x	9.6x	9.4x
Prime	A\$158	A\$193	3.0x	3.6x	3.9x	3.6x	4.6x	4.8x
Mean			5.9x	6.5x	6.9x	7.1x	7.8x	8.1x
Median			6.5x	7.3x	7.5x	7.8x	8.6x	8.9x
International television and media broadcasting								
News Corporation	US\$7,908	US\$5,234	5.9x	5.7x	5.4x	12.0x	11.5x	10.3x
ProSiebenSat.1 Media SE	€6,361	€8,706	8.6x	8.4x	7.9x	10.4x	10.4x	9.7x
ITV plc	£6,285	£7,335	8.0x	8.4x	8.2x	9.2x	9.0x	8.8x
Mediaset España Comunicación, S.A.	€3,182	€2,944	12.4x	11.6x	10.3x	13.3x	12.3x	11.2x
Sinclair Broadcast Group, Inc.	US\$3,117	US\$6,187	7.0x	8.0x	6.2x	10.3x	12.1x	8.7x
Gray Television, Inc.	US\$1,031	US\$2,827	9.3x	9.6x	7.6x	11.7x	9.7x	9.6x
Mean			8.5x	8.6x	7.6x	11.2x	10.8x	9.7x
Median			8.3x	8.4x	7.8x	11.0x	10.9x	9.7x

Source: S&P Capital IQ; Company announcements; Company financial statements; KPMG Corporate Finance analysis. LTM = last annual results filing, NTM = forecast results for next financial year (based on broker and S&P Capital IQ estimates), FY+2 = forecast results for financial year after NTM (based on broker and S&P Capital IQ estimates).

Notes:

1. Enterprise values have been calculated as market capitalisation plus net debt plus outside equity interests less equity accounted investments at the latest annual report date.
2. EBITDA is earnings before net interest, tax, depreciation and amortisation, non-operating income (including dividends) and significant and non-recurring items.
3. EBIT is earnings before net interest, tax, non-operating income (including dividends) and significant and non-recurring items.
4. SWM's FY17 annual results have been impacted by the recognition of an onerous contract provision in relation to a number of specific non-cancellable purchase contracts for television programs and sporting broadcast rights. LTM EBITDA and EBIT are calculated before a provision of \$139 million. The total onerous contract provision of \$158.9m has been added to enterprise value for the purpose of calculating SWM's multiples.

All Australian free-to-air television companies listed above have a 30 June year-end. The listed international television and media broadcasting companies have a 31 December year-end, with the exception of News Corporation (30 June).

The NTM multiples for all listed Australian companies are higher than the LTM multiples, as brokers are expecting a decline in earnings, mainly due to the structural changes facing the industry. This is also applicable to the international companies.

Multiples are generally higher for international companies than the Australian companies except for News Corporation and Sinclair.

Seven West Media Limited

SWM is a leading Australian multi-platform media company with a market capitalisation of \$1,048 million. It has a presence in broadcast television (84% of EBITDA for the 12 months ended 30 June 2017), magazine and newspaper publishing (17% of EBITDA), online news and other ventures (no EBITDA contribution). Its key operations include:

- ownership of the Seven Network, including the free-to-air metropolitan broadcast licence, in addition to associated multi-channels 7TWO, 7mate and 7flix
- ownership of publishing businesses, including Pacific Magazines and The West Australian newspaper, and
- interests in the online news site, Yahoo!7, as well as equity investments in other online ventures.

It has the largest share of the metropolitan free-to-air television advertising market (38.5% of revenue in the FY17). It distributes television content in all five Australian capital cities and holds regional licences in Queensland. It also has an affiliate agreement with Prime to distribute content in other regional areas.

The magazine and newspaper publishing segments have declined from a combined EBITDA of \$153.6 million in the 12 months ended 30 June 2013 to \$52.9 million in the 12 month ended 30 June 2017. The anticipated continued decline in these segments likely accounts for its relatively low multiple.

In the 12 months ended 30 June 2017, SWM raised a provision for onerous contracts of \$139.5 million in relation to its legacy output deals, US content and one-off sporting events rights. Total onerous contracts following the provision total \$158.8 million, this has been added in the calculation of enterprise value.

Nine Entertainment Co. Holdings Limited

Nine Entertainment operates as a media and entertainment company in Australia, with assets and operations in television broadcasting (87% of EBITDA for the 12 months ended 30 June 2017) and digital (13% of EBITDA). It delivers its content through free-to-air television broadcasting, subscription video-on-demand (Stan), digital channels, and online. The company's operations include:

- the Nine Network, including the primary channel Nine and associated multi-channels 9HD, 9Go!, 9GEM and 9Life
- a joint venture with Fairfax Media in Stan, a subscription video-on-demand service, and
- other digital assets and news interests including nine.com.au and the 9News website.

Nine Entertainment has the second largest share of the metropolitan free-to-air television advertising market (36.8% of revenue in FY17). It distributes television content in all five

Australian capital cities and holds regional licences in Northern NSW and Darwin. It also has an affiliate agreement with Southern Cross to distribute content in other regional areas.

Its multiples are relatively high, likely reflecting its strong market position in the free-to-air metropolitan television market.

Nine Entertainment had onerous contract provisions of \$7.8 million on its balance sheet at 30 June 2017, these have been included in our calculation of enterprise value in the table above.

Southern Cross Media Group Limited

Southern Cross engages in the production and broadcasting of content on free-to-air commercial radio, regional free-to-air television and online media platforms in Australia. The business has two reporting segments, regional radio and regional television (71% of FY17 EBITDA) and metropolitan radio (29% of FY17 EBITDA).

The company operates FM and digital radio networks under the Triple M Localworks and Hit Network brands. It owns 140 radio stations across 68 markets; and owns 19 regional free-to-air television licenses that cover 30 regional areas. It broadcasts local content and also content primarily from Nine Entertainment under an affiliate agreement.

Its multiples are relatively high, likely reflecting the diversification across radio and television, its leading position in the radio industry and its dominance in regional areas, which are considered defensive in nature.

Prime Media Group Limited

Prime is a regional free-to-air television broadcasting company with coverage in northern and southern New South Wales, the Australian Capital Territory, Victoria, the Gold Coast area of south-eastern Queensland. Its primary metropolitan affiliate is SWM.

Prime also owns (in a joint venture arrangement with WIN) free-to-air commercial television licences in Mildura and regional Western Australia, where it broadcasts Nine Entertainment programming content.

Prime's multiples are relatively low, likely as a result of limited diversification, geographical reach and scale.

News Corporation Limited

News Corporation is a global diversified media and information services company that creates and distributes content for business and consumers worldwide. The company operates through news and information services (39.1% of FY17 EBITDA), book publishing (18.8% of FY17 EBITDA), digital real estate services (30.6% of FY17 EBITDA) and cable network programming (11.6% of FY17 EBITDA). Its ownership interests include:

- news and information services, including the ownership of newspaper and information publishers globally, such as The Australian, Herald Sun, Harper Collins Publishers, New

York Post and Dow Jones (a global provider of views and business information under various brands such as the Wall Street Journal)

- video content providers and services, including ownership of Fox Sports and a 50% interest in Foxtel, and
- digital, including ownership of Move, Inc. and the Realtor.com brand as well, as significant investments in realestate.com.au, CareerOne and Carsguide.

The company operates across North America, Europe and Australia, with each geographical segment contributing 47.7%, 20.5% and 31.8% of revenues in FY17, respectively.

The EBITDA multiples are relatively low due to the company's exposure to the declining print media sector. We note that the enterprise value reported above also eliminates equity accounted investments, which also results in a low EBITDA multiple (holding all else constant).

ProSiebenSat.1 Media SE

ProSiebenSat.1 Media SE, together with its subsidiaries, operates as a media company in Europe. The company operates through broadcasting (German-speaking), digital entertainment, digital ventures, and content production. The broadcasting segment operates nine free-to-air television channels, and 13 advertising or program windows in Germany, Austria, and Switzerland. It also operates three pay television channels. The digital entertainment segment operates maxdome, a pay-video-on-demand portal; Studio71, a multi-channel network; and glomex, a marketplace for video content. The company's digital ventures segment operates in a variety of online segments in the travel industry, as well as online car hire, price comparison websites and other digital portals. In FY16, the broadcasting segment contributed approximately 75.0% of EBITDA, whilst digital ventures contributed 16.9%. The digital entertainment and content production segments contributed around 3.7% and 4.4%, respectively.

Mediaset España Comunicación, S.A.

Mediaset España Comunicación, S.A., together with its subsidiaries, engages in the indirect management of a public television service in Spain. The company operates seven TV channels, including Telecinco, Factoría de Ficción, Boing, Cuatro, Divinity, Energy, and BeMad. It also invests in audio-visual broadcasting rights, as well as film production activities; and operates various TV portals, such as Telecinco.es, Cuatro.com, Divinity.es, and Mitele.es. Free-to-air TV is the company's only identified operating segment.

We note that approximately 50% of the issued share of the company are considered free floating, with Mediaset S.p.A (an Italian listed media company) holding around 50% of the shares. The company also recently completed a €100 million share buy-back.

ITV plc

ITV plc is an integrated producer and broadcaster that creates, owns and distributes content on television and other platforms in the United Kingdom. The broadcast & online segment provides television advertising services and content on free-to-air and pay channels. It also delivers content through other platforms, including itv.com, as well as through direct content deals with

services such as Amazon, Apple iTunes, and Netflix. The company's ITV Studios segment produces programming across a range of genres, including drama, entertainment, and factual entertainment for its own channels and other broadcasters, such as the BBC and Sky.

In FY16, the broadcast & online segment contributed approximately 72.5% of EBITDA, whilst ITV studios contributed 27.5%.

Sinclair Broadcast Group, Inc.

Sinclair Broadcast Group, Inc. operates as a television broadcasting company in the United States. It owns or provides various programming, operating, or sales services to television stations. The company broadcasts free-to-air programming such as locally-produced news, local sporting events, syndicated entertainment programs, and internally originated programming. It currently owns, operates, and/or provides services to 173 television stations in 81 markets, which broadcast on approximately 505 channels. The company also offers digital agency services and technical services to the broadcast industry. Over the last five years Sinclair has been active in acquiring other television stations within the United States. Broadcast is the company's only identified operating segment.

The variance between the EBITDA and EBIT multiples reported above is due to the amortisation of program contract costs (including net realisable value adjustments) and the amortisation of definite-lived intangibles assets. Total amortisation in FY16 was approximately US\$311.7 million.

Gray Television, Inc

Gray Television, Inc., a television broadcast company, owns and operates television stations and digital assets in the United States. It currently owns and operates television stations in 54 television markets, broadcasting approximately 200 program streams comprising of 37 channels affiliated with the CBS Network, 29 channels affiliated with the NBC Network, 20 channels affiliated with the ABC, and 15 channels affiliated with the FOX Network. Television broadcasting is the company's only identified operating segment.

The multiples illustrated above likely reflect the increasing competition for advertising spend in the markets in which the company operates. The internet and other online platforms are considered the biggest competitor for advertising revenue.

Transaction evidence

The following table sets out a summary of transactions that have taken place in Australia and internationally. Given the structural change that has occurred in the television in recent history, we have limited our transactions to 2011.

Table 40: Transaction evidence

Announced	Target	Acquirer	Consideration (millions) ¹	EBITDA multiple		EBIT multiple	
				Historical ²	Forecast ³	Historical ²	Forecast
Australian broadcasters							
19-May-17	SCA's Northern NSW television assets (Southern Cross) ⁴	WIN	n/a	n/a	5.5x	n/a	n/a
06-Dec-13	Nine Entertainment ^{5,6}	n/a	1,928.6	8.6x	8.4x	10.3x	10.2x
21-Feb-11	Seven Media Group ⁷	West Australian Newspapers Holdings Limited	1,981.0	11.3x	9.4x	12.4x	10.5x
United States broadcasters							
28-Sep-15	Media General, Inc. ⁸	Nexstar Broadcasting Group, Inc	2,171.3	11.4x	9.0x	26.3x	n/a
03-Mar-14	LIN Media LLC ⁹	Media General, Inc.	1,546.7	12.5x	9.5x	25.1x	n/a
13-Jun-13	Belo Corp.	Gannett Co., Inc.	1,461.9	8.4x	10.5x	9.5x	12.3x
11-Apr-13	Fisher Communications, Inc.	Sinclair Broadcast Group, Inc.	369.0	9.0x	15.6x	15.6x	n/a
07-May-12	New Vision Television, LLC	LIN Television Corporation	330.4	16.8x	n/a	80.9x	n/a
03-Oct-11	McGraw-Hill Broadcasting Company, Inc.	Scripps Media, Inc.	216.4	11.1x	n/a	165.3x	n/a

Source: S&P Capital IQ, Company Announcements, company financial statements, KPMG Corporate Finance analysis.

Notes:

1. Consideration is the equity value of the target on a 100% basis and presented in the target country currency.
2. Historical multiples are calculated based on last financial year annual results.
3. Forecast multiples are based on a broker or S&P Capital IQ consensus unless stated otherwise.
4. SCA's forward multiple is based on the announced sale price of the assets for \$55 million and expected FY18 EBITDA impact following sale of \$10 million.
5. Nine Entertainment transaction represents the IPO transaction in which there is no implied control premium.
6. Nine Entertainment multiples are based on Pro-forma figures contained within the prospectus excluding share of associates NPAT and based on final listing price of A\$2.05.
7. Seven Media Group's forecast EBIT and EBITDA are based on figures contained within the independent expert report. The consideration figure is based on a WAN share price of \$5.99 as outlined in the Independent expert report and transaction announcements.
8. Equity value of Nexstar broadcasting based on implied consideration outlined in Form S4 of \$16.69 without inclusion of potential Contingent Value Rights.
9. LIN Media LLC equity value is based on assumed consideration of \$27.82 outlined in Form S4.

There is a limited number of comparable transactions with publicly available information occur within Australia. As such, we have included a number of overseas transactions (all US based) in the table above. In relation to the overseas transactions, the multiples have varied with the size of the transaction though generally exhibit a declining trend. It is important to note that several differences exist between the overseas transactions, in the context of CBS Corporation's bid for Ten Network. The advertising cycles of the two countries do not necessarily align and the US networks are highly reliant on both advertising from the automotive industry (which can represent up to 20 percent of broadcasters revenues), and experience increased cyclicity associated with Olympic and election years, impacting the range between historical and forecast

multiples. Additionally, a number of changes have occurred over the analysed period in the US market, specifically in relation to retransmission consent revenues.

Broadcasters in US are able to negotiate with pay-tv operator's a reasonable compensation in return for the permission to carry their signals to local households. These negotiations result in a retransmission consent agreement and compensate the broadcasters for the advertising revenue and viewers drawn to their content. Historically, this compensation was in the form of in-kind services, in 2005 this changed and cash compensation became standard. This change was due to rising competition for content as a result of the entry of new pay-tv providers such as satellite distributors and telecommunication companies. Retransmission revenue growth has been highly favourable for the industry, growing from ~\$300 million in 2007 to approximately \$3.3 billion in 2013, providing the broadcasters with a revenue stream uncorrelated with advertising spend. A large number of acquisitions were rationalised on the ability for a larger network to acquire and immediately benefit from using the "after-acquired" clause. The "after-acquired" clause allowed for the renegotiation of retransmission consent agreement following a change of control, and larger broadcasters had improved bargaining power with the pay-tv companies. For this reason, while the multiples implied by international comparable transactions are worth noting, we have not relied on them in the context of our valuation of Ten Network.

Australian transactions:

Southern Cross' sale of its Northern NSW television assets to WIN

On 19 May 2017, Southern Cross announced the sale of its Northern NSW television assets and operations for \$55 million, payable in two instalments. Southern Cross announced that it estimated the FY18 EBITDA impact due to the asset disposal would be \$10 million.

Initial public offering of Nine Entertainment

On 6 December 2013, Nine Entertainment listed on the ASX following the completion of its IPO. Given the nature of the transaction, there is no implied control premium reflected in the listing multiple. At the time of listing, Nine Entertainment owned television broadcasting assets including the Nine Network and associated multi-casting channels. Additionally, at the time of IPO, Nine Entertainment operated Nine Events and Nine Digital and Ventures. Nine Events operated Ticketek, Allphones Arena and Nine Live while Nine Digital Ventures operated Mi9 (online news) and managed other smaller investments. These other investments reduces its comparability as a pure-play broadcaster.

West Australian Newspaper Holdings Limited acquisition of Seven Media Group

On 21 February 2011, West Australian Newspaper Holdings Limited (WAN) announced an agreement to acquire Seven Media Group from Seven Group Holdings Limited for \$4.1 billion. Seven Media Group's core operations included the ownership of Seven Network, a leading Australian free-to-air television network, Pacific Magazines and Yahoo!7, a 50% joint venture with Yahoo! Inc. Seven Network contributed 82% of Seven Media Group's EBIT, Pacific Magazines and Yahoo!7 contributed 13% and 4%, respectively. Other investments accounted for the remainder. Seven Media Group's forecast EBITDA was expected to benefit significantly from continued strength in the television advertising market and a reduction in operating

expenses (including an assumed licence fee rebate). For WAN the acquisition would create a more diversified media business and transition it from its reliance on the declining newspaper industry (which represented 99 percent of revenues at the time).

International transactions:

Nexstar Broadcasting Group, Inc. acquisition of Media General, Inc.

On 28 September 2015, Nexstar Broadcasting Group (Nexstar) made a proposal to acquire Media General, Inc. (Media General) for a total transaction value of approximately US\$4.1 billion, a formal merger agreement was signed by Media General on 27 January 2016. Following the deal, Nexstar became one of the largest broadcasters in the country, with a population reach of 39% of the population (the maximum permitted by the FCC, necessitating divestitures) after a number of other acquisitions over the years. Prior to the transaction, Media General was in discussions with another competitor, Meredith Broadcasting, therefore creating a competitive bidding situation and likely increasing the resultant multiple. The acquisition creates a stronger bargaining position for Nexstar in negotiations around retransmission fees from cable operators. Additionally, 2016 being an election year and Olympic year means the combined group was expected to benefit from increased political and general advertising expenditure.

Media General, Inc.'s acquisition of LIN Media LLC

On 20 August 2014, Media General, Inc. entered into an amended agreement to acquire LIN Media LLC (LIN Media) following its initial bid in February 2014. LIN Media is multimedia company that operates or services 43 television stations and seven digital channels in 23 US markets, and a portfolio of websites, apps and mobile products that allow access to its content on multiple screens. LIN Media's television stations deliver local news, sports and entertainment programming to around 10.5% of US television homes. Upon completion of the deal, it is expected that the group would improve its scale and increase reach to about 23% of US households. It was expected that the deal would generate US\$70 million of synergies over three years, given the size of the deal and the retransmission agreements already in place for LIN Media, the step-up from renewing retransmission consent agreements was expected to have less of an impact than previous deals seen in the industry.

Gannett Co., Inc.'s acquisition of Belo Corporation

On 13 June 2013, Belo Corp. (Belo) announced that it had entered into a definitive merger agreement under which Gannett Co., Inc. (Gannett) would acquire all outstanding shares for US\$1.5 billion cash and assume debt of US\$715 million. Belo is a large pure-play television company in the US, owning 20 television stations (9 in the top 25 markets) and reaching 14% of US households. Belo's principle source of revenue is from the sale of local, regional and national advertising. Results achieved in 2012 were positively impacted by an increase in political revenue and the Olympics, this accounts for some of the difference between forward and historical multiples. The acquisition gives Gannett access to the large, above-average

growth markets Belo operates in and allow Gannett to use the "after-acquired" clause to provide an immediate step up-in retransmission revenues.

Sinclair Broadcast Group, Inc.'s acquisition of Fisher Communications

On 11 April 2013, Fisher Communications, Inc (Fisher) entered into a definitive merger agreement, whereby it would be acquired by Sinclair Broadcast Group, Inc (Sinclair) for US\$369 million. Fisher is an integrated media company that has been operating in the television broadcasting industry since 1926. At the time of acquisition, Fisher had television and radio broadcasting interests, as well as digital media assets and hyperlocal websites. In 2012, television and radio made up 85% and 12% of its consolidated revenues, respectively. In 2012, revenues benefited significantly from increased political advertising and increased retransmission revenues following the renewal of its retransmission consent contracts. Fisher owns 20 television stations in eight markets (principally Seattle and Portland) and reaches 3.9% of US households. It also owns three radio stations in Seattle.

LIN Television Corporation's acquisition of New Vision Television, LLC

On 7 May 2012, LIN Television Corporation (LIN) announced it would acquire certain broadcast and other related assets from New Vision LLC (New Vision) for US\$330 million and the assumption of US\$12 million of debt. The acquisition includes 13 network affiliates (10 that are affiliated with ABC, CBC, FOX or NBC) in eight US markets. The acquisition will increase LIN's reach from 7.3% of US television households to 10.6% in a total of 23 markets. New Vision generated approximately 86% of revenues in 2011 from broadcasting advertising revenues and 7% from retransmission income. The acquisition was undertaken on a FY11 EBITDA multiple of 16.8 times according to our calculations, however broker commentary surrounding the deal noted that Management communicated the deal would represent a lower forward multiple following synergies.

Scripps Media, Inc.'s acquisition of McGraw-Hill Broadcasting Company, Inc. from The McGraw-Hill Companies, Inc.

On 3 October 2011, E.W. Scripps Company (Scripps) announced it had acquired McGraw-Hill Broadcasting Company, Inc (McGraw-Hill) for US\$212 million in cash, plus a working capital adjustment estimated at US\$4.4 million. Included in the transaction were four stations affiliated with the ABC television network and five other low-power stations affiliated with the Spanish-language network Azteca America. The nine McGraw-Hill stations reach approximately 3 percent of US households and generated US\$97 million in revenue in 2010. The acquisition at a FY10 EBITDA multiple of 11.1 times was estimated to be slightly dilutive. However, given Scripps' existing exposure to the declining newspaper business, analysts commented that the deal provided greater long-term growth potential. Additionally, the purchase also provided Scripps substantial benefits in relation to asset purchase tax treatment.

PART TWO – FINANCIAL SERVICES GUIDE

Dated 10 October 2017

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215, Australian Financial Services Licence Number 246901 (of which KPMG Corporate Finance is a division) (**KPMG Corporate Finance**) and Mr. Ian Jedlin as an authorised representative of KPMG Corporate Finance, authorised representative number 404177 and Sean Collins as an authorised representative of KPMG Corporate Finance, authorised representative number 404189 (**Authorised Representative**).

This FSG includes information about:

- KPMG Corporate Finance and its Authorised Representative and how they can be contacted
- the services KPMG Corporate Finance and its Authorised Representative are authorised to provide
- how KPMG Corporate Finance and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Corporate Finance and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and the compensation arrangements that KPMG Corporate Finance has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Corporate Finance.

This FSG forms part of an Independent Expert's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that KPMG Corporate Finance and the Authorised Representative are authorised to provide

KPMG Corporate Finance holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investment schemes including investor directed portfolio services;
- securities;
- superannuation;
- carbon units;
- Australian carbon credit units; and
- eligible international emissions units,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representative is authorised by KPMG Corporate Finance to provide financial product advice on KPMG Corporate Finance's behalf.

KPMG Corporate Finance and the Authorised Representative's responsibility to you

KPMG Corporate Finance has been engaged by Ten Network Group (Client) to provide general financial product advice in the form of a Report to be included in Explanatory Statement (Document) prepared by Ten Network Group in relation to the Proposed Transaction.

You have not engaged KPMG Corporate Finance or the Authorised Representative directly but have received a copy of

the Report because you have been provided with a copy of the Document. Neither KPMG Corporate Finance nor the Authorised Representative are acting for any person other than the Client.

KPMG Corporate Finance and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Corporate Finance has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

Fees KPMG Corporate Finance may receive and remuneration or other benefits received by our representatives

KPMG Corporate Finance charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Corporate Finance \$370,000 for preparing the Report. KPMG Corporate Finance and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report. KPMG Corporate Finance officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional

advisory and accounting practice (the KPMG Partnership). KPMG Corporate Finance's representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

Referrals

Neither KPMG Corporate Finance nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures KPMG Corporate Finance is controlled by and operates as part of the KPMG Partnership. KPMG Corporate Finance's directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Corporate Finance and the Authorised Representative and not by the KPMG Partnership.

From time to time KPMG Corporate Finance, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

Over the past two years, the KPMG Partnership has received nil professional fees from Ten Network Holdings Limited, Illyria Nominees Television Pty Limited and Illyria Investment Trust (No. 4) and nominal fees from Birketu Pty Ltd. None of those services have related to the transaction or alternatives to the transaction.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction. Furthermore, neither KPMG Corporate Finance, KPMG Financial Advisory Services (Australia) Pty Ltd, the KPMG partnership, KPMG International Cooperative, a Swiss Entity nor any affiliated entity is presently a substantial creditor of Ten Network.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Corporate Finance or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Corporate Finance or the Authorised Representative cannot resolve your complaint to your satisfaction within 45

days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Address: Financial Ombudsman Service Limited, GPO
Box 3, Melbourne Victoria 3001

Telephone: 1800 367 287

Facsimile: (03) 9613 6399 Email: info@fos.org.au

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Corporate Finance has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

You may contact KPMG Corporate Finance or the Authorised Representative using the contact details:

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