

Audit report

To the general meeting of the shareholders of Modern Times Group MTG AB (publ.), corp. id 556309-9158

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Modern Times Group MTG AB (publ.) for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 12-84 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act.

A corporate governance report has been prepared. The statutory administration report and the corporate governance report are consistent with the other parts of the annual accounts and consolidated accounts, and the corporate governance report is in accordance with the Annual Accounts Act.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the statement of comprehensive income and statement of financial position for the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. If not otherwise stated the matters is related to the consolidated accounts.

Recoverability of goodwill and intangible assets

See note 2 and 10 in the annual account and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

The carrying value of goodwill and other intangible assets such as trademarks and customer relations as at 31 December 2016 amount to SEK 7.4 billion, which is approximately 42 % of total assets.

Goodwill and intangible assets with indefinite lives are required to be tested annually for impairment. Other intangible assets are tested where there is an impairment trigger.

The impairment tests are complex and include significant judgements. The recoverable value of these assets is based on forecasting and discounting future cash flows using assumptions, such as discount rates, revenue forecasts and long-term growth, which are inherently judgemental and which could be influenced by management bias.

Response in the audit

We obtained and considered the groups impairment tests to assure compliance with the methodology prescribed by IFRS. A goodwill impairment of SEK 95 million has been recorded related to Zoomin in the reporting segment MTGx.

We have further evaluated the future cash flow forecasts and their underlying assumptions including long-time growth rates as well as the discount rates used. We have had reviews with management including specific focus on the assumptions used in the impairment test for Zoomin. We have also evaluated historical accuracy of forecasts.

As part of our work we have involved our valuation specialists to assist in our assessment of the impairment models.

We considered management's sensitivity analysis showing the impact of a reasonable change in assumptions to determine whether impairment charged was required.

We have further ensured that the financial statement disclosures meet the requirements in the accounting standards.

Valuation of put and call liabilities and contingent considerations

See note 2 and 21 in the annual account and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

In connection with certain business combinations options have been issued where the seller of the company has the right to sell further shares to the group and the group has the right to purchase further shares. The acquired company is fully consolidated without non-controlling interest. Instead a liability is recorded measured at present value of the exercise price of the options which is dependent on the future performance of the acquired business.

Certain other business combinations include contingent considerations, which are measured at fair value.

At 31 December 2016 the carrying value of these put liabilities and contingent considerations are SEK 1.4 billion in the balance sheet.

The value is calculated based on the terms in agreements including estimates of future revenue growth and operating margin discounted to present value. The calculation of the value therefore include significant judgements which could be influenced by management bias.

Response in the audit

We obtained and considered the group's valuation of the put and call liabilities and contingent considerations and evaluated the forecasts for revenue growth and operating margin as well as the discount rates used. One major change in value is recorded related to the acquisition of Zoomin, where the carrying value has decreased substantially.

As part of our work we have involved our valuation specialists to assist in our assessment of the calculated values.

We have further ensured that the financial statement disclosures fulfill met requirements in the accounting standards.

Revenue recognition

See note 3 in the annual account and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

The Group's revenue as described in note 3 are mainly derived from advertising, subscription fees, content production sales and other services.

The risk for misstatement due to valuation and allocation of revenue is different for each revenue stream depending on the nature of trade and the respective revenue recognition policies. Inappropriate allocation could lead to non-compliance with accounting standards and incorrect acceleration or deferral of revenue.

Response in the audit

We evaluated the group's revenue recognition policy against relevant accounting standards and guidance and confirmed the consistent application of the policy across the group.

We have among others performed sample testing of transactions and evaluated and tested implementation of selected controls over key revenue streams with different characteristics and challenges such as completeness and cut-off of advertising revenue, provision for discounts and advertises not yet aired, accurate allocation of subscription revenue, gross or net presentation and valuation of ongoing fixed price projects.

For contracts in the businesses accounted for in accordance with the percentage of completion method we have reviewed underlying contracts to assess whether revenue was correctly recognized in line with the contract and the stage of completion including management's judgement of the cost to complete.

Program rights amortisation

See note 2 and 3 in the annual account and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

Payments for program rights are reported either as inventory or as prepaid expenses mainly depending on the start of the license period. Program rights inventory, where the license period has started, amount to SEK 2.0 billion as per 31 December 2016. Determining the timing and amount of program right expense recognized in the period requires judgement in selection the appropriate recognition profile and ensuring that this profile achieves the objective of recognizing inventory expense in line with the way that it is consumed by the group.

There is a risk that the recognition profile selected by management does not correctly recognize the expense in line with consumption.

Response in the audit

We examined the method for expensing program rights inventory, taking into account the differing genres of programs, any significant changes in viewing patterns during the year and other assessments made by the group.

We assessed whether the carrying value of the balances are considered recoverable by analyzing the assets on a portfolio basis and comparing the carrying value at 31 December 2016 against current year revenue and forecasts to determine if any indicators of impairment exist.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-11 and 90-93. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability

to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes

disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Modern Times Group MTG AB (publ.) for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

Stockholm 3 April 2017

KPMG AB

Joakim Thilstedt

Authorized Public Accountant