Sky Deutschland AG
Annual Report
Short Financial Year 2014

Key Figures 6M 2014 versus 6M 2013

	6M 2014	6M 2013 not audited	Change (absolut)	Change (in %)	2013
Subscribers					
Direct subscribers[1] at beginning	3,667	3,363	304	9.0%	3,363
Gross additions[2]	299	269	30	11.2%	698
Churn[3]	–153	–179	26	–14.3%	–394
Net growth	146	90	56	61.9%	304
Direct subscribers at end (in '000)	3,813	3,453	360	10.4%	3,667
Sky Welt HD subscribers (in '000)	2,974	2,477	497	20.1%	2,713
Premium HD subscribers[4] (in '000)	1,900	1,697	203	12.0%	1,799
Premium HD penetration rate[5] (in %)	49.8%	49.1%	0.7%	–	49.1%
Premium HD subscribers including HD free-visions at end of period[6]	2,236	1,760	475	27.0%	2,025
Premium HD penetration rate including HD free-visions[7] (in %)	58.6%	51.0%	7.7%	–	55.2%
Sky+ subscribers[8] (in '000)	1,681	1,171	511	43.6%	1,480
Sky+ penetration[9] (in %)	44.1%	33.9%	10.2%	–	40.4%
Second smartcard subscribers[10] (in '000)	451	393	58	14.9%	429
Second smartcard penetration[11] (in %)	11.8%	11.4%	0.5%	–	11.7%
Subscription ARPU[12] (in €, monthly)	34.54	33.43	1.11	3.3%	33.51
Churn rate[13] (in %, annualized)	8.2%	10.5%	–2.3%	–	11.2%
Churn rate[13] (in %, 12 months rolling)	10.1%	12.0%	–1.9%	–	11.2%
Wholesale subscribers (in '000)	213	124	88	71.3%	268
Financials (in € million)					
Revenues	848.3	739.4	108.9	14.7%	1,546.4
Operating expenses	811.6	696.8	114.8	16.5%	1,511.7
EBITDA	36.7	42.6	–5.9	–13.8%	34.7
Depreciation and amortization	51.7	41.7	10.0	23.9%	86.9
Amortization of subscriber base	0.7	0.7	0.0	0.0%	1.4
EBIT	–15.7	0.1	–15.8	>–100	–53.5
Financial result	–36.2	–35.9	–0.3	–0.8%	–73.6
Income taxes	–4.0	–2.7	–1.3	–46.6%	–6.0
Net income	–55.9	–38.5	–17.4	–45.1%	–133.1

	30 Jun 2014	30 Jun 2013	Change (absolut)	Change (in %)	31 Dec 2013
Consolidated balance sheet (in € million)					
Total assets	1,318.1	1,343.9	–25.8	–1.9%	1,386.9
Shareholders' equity	272.3	427.0	–154.6	–36.2%	331.2
Net debt	425.4	303.1	122.3	40.4%	354.7
Employees					
Full-time employees	2,182	2,008	174	8.7%	2,084

Explanatory notes on the key figures.
The financial statements of Sky Deutschland group are drawn up on the basis of International Financial Reporting Standards (IFRS), with due regard to the interpretations of the International Financial Reporting Interpretations Commitee (IFRIC). Due to the totalling of individual items, the table may contain rounding differences.

Key Figures Q2 2014 versus Q2 2013

	Q2 2014	Q2 2013	Change (absolut)	Change (in %)
Subscribers				
Direct subscribers[1] at beginning	3,731	3,405	326	9.6%
Gross additions[2]	154	131	23	17.2%
Churn[3]	–72	–84	11	–13.6%
Net growth	82	48	34	70.7%
Direct subscribers at end (in '000)	3,813	3,453	360	10.4%
Sky Welt HD subscribers (in '000)	2,974	2,477	497	20.0%
Premium HD subscribers[4] (in '000)	1,900	1,697	203	12.0%
Premium HD penetration rate[5] (in %)	49.8%	49.1%	0.7%	–
Premium HD subscribers including HD free-visions at end of period[6]	2,236	1,760	475	27.0%
Premium HD penetration rate including HD free-visions[7] (in %)	58.6%	51.0%	7.7%	–
Sky+ subscribers[8] (in '000)	1,681	1,171	511	43.6%
Sky+ penetration[9] (in %)	44.1%	33.9%	10.2%	–
Second smartcard subscribers[10] (in '000)	451	393	58	14.9%
Second smartcard penetration[11] (in %)	11.8%	11.4%	0.5%	–
Subscription ARPU[12] (in €, monthly)	34.59	33.74	0.85	2.5%
Churn rate[13] (in %, annualized)	7.7%	9.7%	–2.0%	–
Churn rate[13] (in %, 12 months rolling)	10.1%	12.0%	–1.9%	–
Wholesale subscribers (in '000)	213	124	88	71.3%
Financials (in € million)				
Revenues	427.5	375.4	52.2	13.9%
Operating expenses	382.3	338.6	43.7	12.9%
EBITDA	45.3	36.8	8.5	23.2%
Depreciation and amortization	26.7	21.6	5.1	23.5%
Amortization of subscriber base	0.3	0.3	0.0	0.0%
EBIT	18.3	14.8	3.4	23.2%
Financial result	–18.5	–14.2	–4.3	30.1%
Income taxes	–2.3	–1.6	–0.7	44.6%
Net income	–2.5	–0.9	–1.5	>100.0%

1) Direct subscribers include monthly contract subscribers (residential customers and commercial subscriptions (e.g., bars, hotel rooms – including hotel rooms served by distribution partners – and other public venues)) to at least one of Sky's channel packages and/or subscribers who purchased pay-per-view. Direct subscribers also include subscribers through cooperative arrangements (e.g. triple-play offers). Transitional periods are reflected in connection with the activation of new contracts and the termination of existing contracts.
2) Gross additions consist of all new direct subscribers with an activated smartcard in a given period. New direct subscribers who had an active subscription within the last twelve months and were disconnected are not included; these subscribers are classified as reconnections from former subscribers. Q1 2014 gross additions include the 5k subscribers due to a one time migration as part of a marketing cooperative arrangement.
3) Churn for a given period is defined as the number of direct subscribers who terminated their subscriptions, or who have not paid their bill and had their subscriptions terminated following the Company's dunning process, or who have left their contract for other reasons (e.g. deceased), less the number of reconnections from former subscribers (as described in footnote 2).
4) Premium HD subscribers are subscribers who have subscribed to Sky's premium HD channels. The respective revenue contribution of premium HD subscribers is included in ARPU.
5) HD penetration is defined as the relation of premium HD subscribers to the total number of direct subscribers at the end of the respective period.
6) Premium HD subscribers including HD free-visions comprise subscribers who have either subscribed or have free access to Sky's Premium HD channels. The respective revenue contribution of Premium HD subscribers is included in ARPU.
7) Premium HD penetration including HD free-visions is defined as the relation of subscribers who have either subscribed or have free access to Sky's Premium HD channels to the total number of direct subscribers at the end of the respective period.
8) Sky+ subscribers receive Sky's programming and Sky's video-on demand service with an HD-capable hard disk receiver.
9) Sky+ penetration is defined as the relation of Sky+ subscribers to the total number of direct subscribers at the end of that period.
10) Second smartcard subscribers comprise subscribers who have subscribed to a second smartcard. The respective revenue contribution of second smartcard subscribers is included in ARPU.
11) Second smartcard penetration is defined as the relation of second smartcard subscribers to the total number of direct subscribers at the end of that period.
12) ARPU is defined as monthly average subscription revenues (including pay-per-view) for a given period divided by the average number of direct subscribers in that period. Sky uses ARPU among other indicators as a measure of its operating performance. Sky believes that ARPU is a useful measure of the extent to which Sky's direct subscribers opt for the full range of its programming. However, ARPU is not recognized as a measure under IFRS and should not be considered a substitute for any income statement data as determined in accordance with IFRS or viewed as a measure of profitability. Because not all companies calculate ARPU in the same way, Sky's presentation of ARPU is not necessarily comparable to similarly titled indicators used by other companies.
13) The churn rate for a given period is defined as the number of direct subscribers who churned their subscriptions during the course of a given period, divided by the average number of direct subscribers in that period (calculated by dividing the sum of the number of direct subscribers on the first day of that period and on the last day of that period by two) and multiplied by four when referring to a quarterly period, by two when referring to a half-year period and by one when referring to a full-year period.

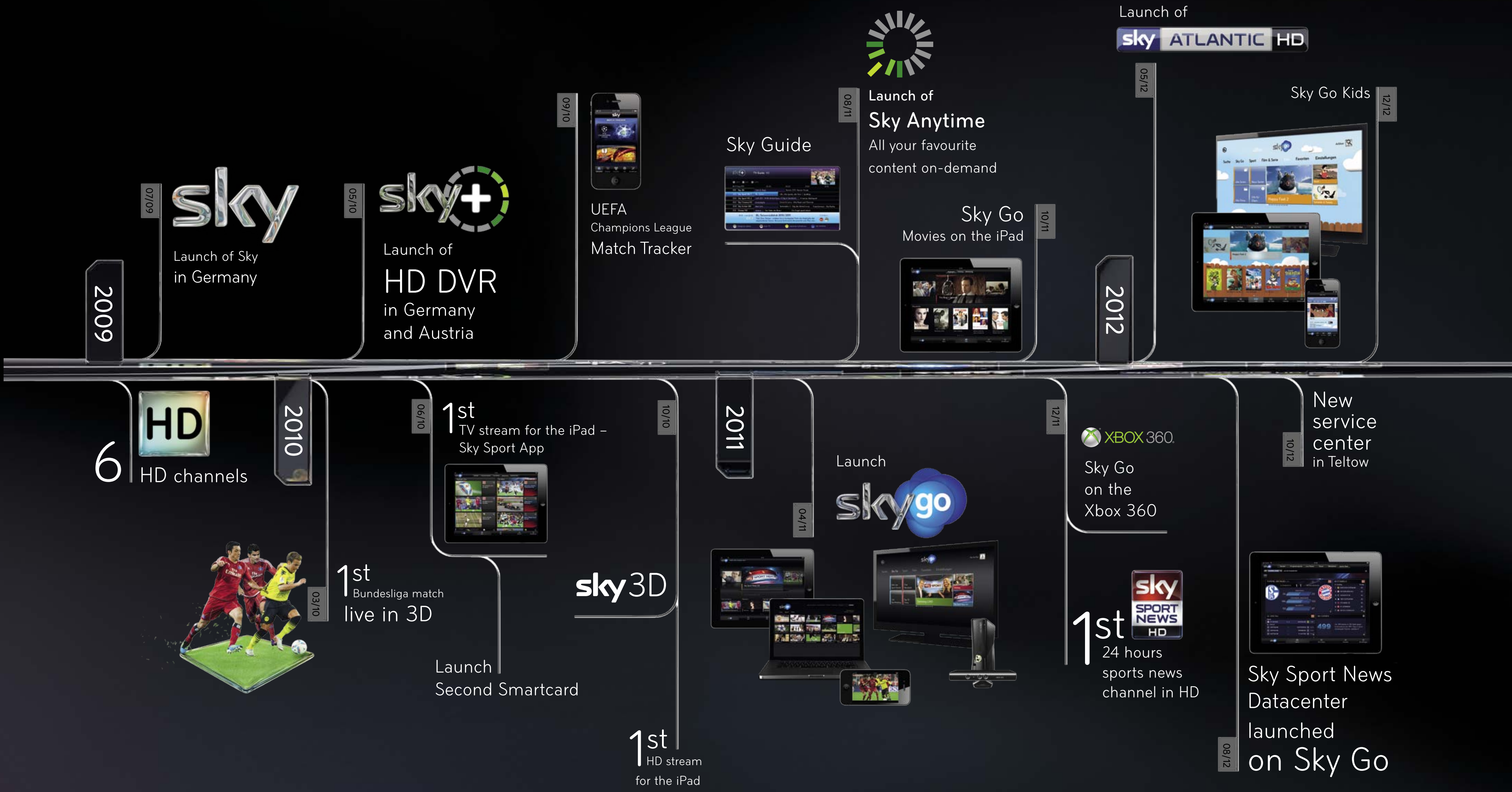
Change of financial year

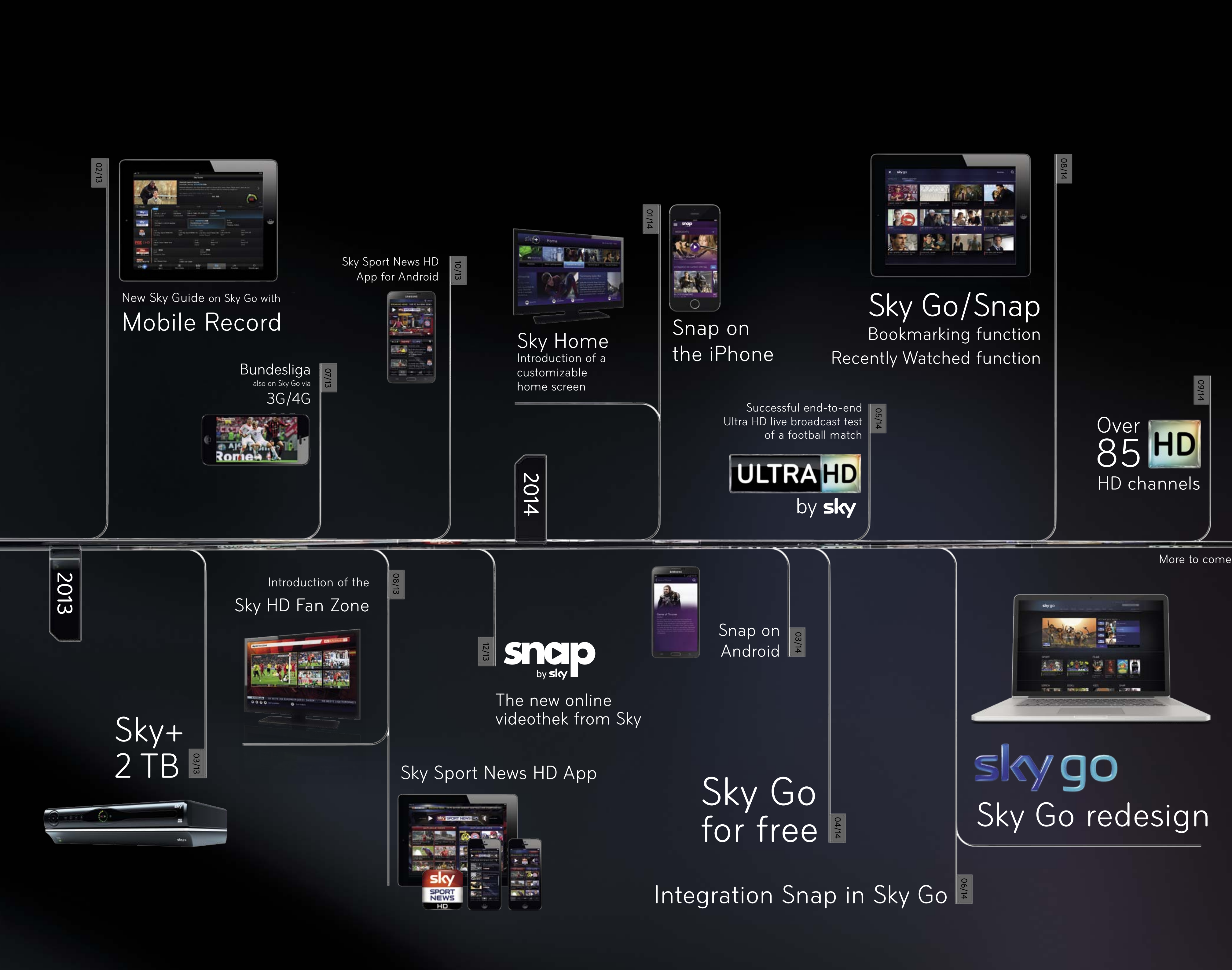
As resolved at the Annual General Meeting on 10 April 2014, Sky Deutschland AG and all subsidiaries changed the financial year and closed the short financial year 2014 with the reporting period from 1 January 2014 until 30 June 2014, which this Annual Report refers to. The new reporting period is 1 July until 30 June.

Five years of Sky means five years of change

During this time, Sky has geared its business to exclusive high-quality programming, groundbreaking innovations and state-of-the-art customer service – and did so with significant success: With 20 consecutive quarters of continuous growth and customer loyalty at record levels, Sky has underlined its role as the market leader in the German and Austrian pay-TV markets.

The Sky Story: Exclusive programming, groundbreaking innovations and excellent customer service





2013
03/13
Sky+
2 TB
02/13
New Sky Guide on Sky Go with
Mobile Record
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Bundesliga
also on Sky Go via
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Introduction of the
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Sky Sport News HD App
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The new online
videothek from Sky
2014
Sky Home
Introduction of a
customizable
home screen
01/14
Snap on
the iPhone
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Snap on
Android
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Sky Go
for free
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Successful end-to-end
Ultra HD live broadcast test
of a football match
ULTRA HD
by sky
06/14
Integration Snap in Sky Go
sky go
Sky Go redesign
08/14
Sky Go/Snap
Bookmarking function
Recently Watched function
09/14
Over
85 HD
HD channels
More to come

Content


10 dedicated movie channels and
Sky Atlantic HD in the Film package
Over 80 movies every day, about
20 first runs every month,
at least 12 months before free-to-air
Long-term contracts with
major studios and independents secured
All HBO productions exclusive and in HD
More than 120 series premieres in 2014
Over 1,400 individual episodes,
many first and exclusive to Sky
On all platforms and all technologies
Dual language option
Linear and on-demand

Be the first to see the biggest blockbusters.

Sky shows international blockbusters up to 12 months before all other German and Austrian television broadcasters – without commercial breaks and with the option of viewing in the original language. The lineup includes all the great movies in brilliant HD and some in 3D as well. Subscribers have a huge and ever-changing selection of top films on demand at no extra cost through Sky Anytime on the Sky+ HD hard disc receiver or through Sky Go on the internet, iPad or iPhone and on the Xbox 360. And on Sky Select, the most recent movies are often available on demand at the same time as their DVD release.

Gravity

The Secret Life of Walter Mitty

Saving Mr. Banks

There's no end to the diverse range of series.

Sky stands for the best entertainment in series television. A comprehensive selection of the best series are available around the clock across a total of 11 series channels, including Sky Krimi, AXN HD, Fox HD and Sky Atlantic HD. Together, these channels offer the latest productions and award-winning cult series from acclaimed U.S. premium channel HBO as well as documentaries and unique programming from major U.S. studios. Over 120 series premieres and 1,400 series episodes were presented in 2014 alone, including popular classics and German series. The collection of the finest productions as TV premieres with the option of viewing in the original English, and many in brilliant HD quality, is available exclusively on Sky.


sky ATLANTIC HD
24
LIVE ANOTHER DAY


sky ATLANTIC HD
DOWNTON ABBEY
SERIES ONE-FOUR


sky ATLANTIC HD
HOUSE of CARDS


FOX | HD
MADMEN


sky ATLANTIC HD
GAME OF THRONES


sky select HD
Rio 2


Disney Junior
Mickey Mouse


Disney Cinemagic HD
Frozen


Disney Cinemagic HD
Tarzan


sky CINEMA HD
Le Petit Nicolas

Only the best for kids.

On Sky, there are numerous channels for children of all ages. Preschool and youth channels like Disney Junior or Boomerang show classic cartoons and modern animated series. With Disney Cinemagic HD, select family programming can also be viewed in HD quality. And of course, children's programming on Sky is free of violence and family-friendly. A minor protection lock ensures that kids only see what is intended for them.

A special "Kids" section on Sky Go and Snap makes it possible for children and teens to also access their favorite series and select movies on demand at home or on the move. On the iPad and iPhone, a special parental control function limits access for children to the "Kids" area of Sky Go.


CAHILL
24
CHAMPIONS LEAGUE
sky


BUNDESLIGA
sky
OFFIZIELLER PARTNER


sky
EVONIK


sky


BUNDESLIGA
sky
OFFIZIELLER PARTNER


BARCLAYS
PREMIER LEAGUE

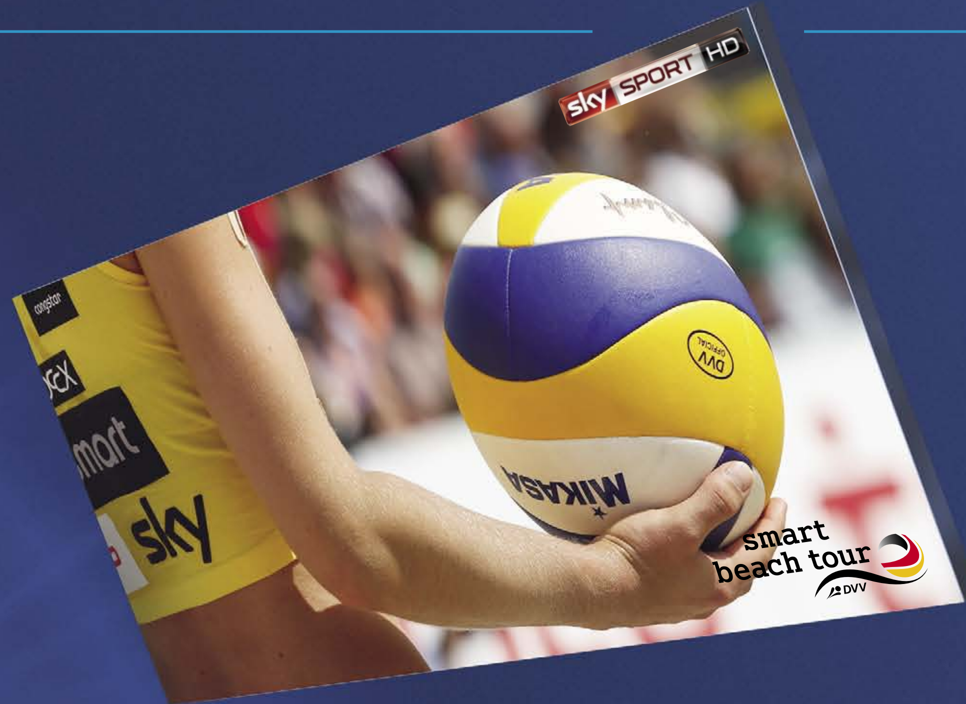
Football live.

Football on Sky is a season ticket for the best matches in the biggest venues around the world. Only Sky offers football fans the chance to follow every match of their favorite team live. All matches of the Bundesliga, second division Bundesliga and UEFA Champions League are available exclusively on Sky – on up to ten channels simultaneously. That means every match and every goal, all live and in HD. Also part of the programming: all matches of the DFB-Pokal, as well as the top matches of the UEFA Europa League and Premier League.

Thanks to the Sky HD Fan Zone, subscribers can watch up to nine live matches of the Bundesliga, second Bundesliga or UEFA Champions League simultaneously on one screen. Fans can also keep up with every crucial match live when they're on the go with Sky Go.

The best of sport.

With Germany's largest live sports offering, Sky offers a unique range of top international competitions. Every race weekend, motorsport fans can enjoy all the best Formula One action on Sky – from the first free practice to the award ceremony – live and in HD, without commercial breaks and with the option of choosing from a variety of camera perspectives and in the Sky HD Fan Zone. Also live on Sky: high-quality golf broadcasts of the four Golf Majors, the U.S. PGA Tour and the European Tour as well as tennis, featuring all four Grand Slam tournaments and the top tournaments of the ATP Tour. Rounding off this industry-leading lineup are beach volleyball, international cycling, winter sports and top games from the NFL, NBA, NHL and MLB. Exclusive live enjoyment of the most popular sporting events in the world is guaranteed on the channels Sky Sport HD 1 and 2, Sky Sport Austria, Eurosport HD, Eurosport HD 2, Eurosport 360, Motorvision TV, Sportdigital, Sport1+ HD and Sport1 US HD. In addition, Sky provides optional channels for live sports events that are broadcast simultaneously. Viewers can also keep up with live sport news 24 hours a day on Sky Sport News HD.



Don’t miss a beat with the Sky sports calendar

Kinopolis

Sky90 – die Kia Fußballdebatte (Sky90 – The Kia Football Debate)

Mein Stadion (My Stadium)

Exclusive shows, talk and magazine formats.

In the time slots before, during and after every Bundesliga match day, programming for football fans – “Mein Stadion” (“My Stadium”), “Sky90 - die Kia Fußballdebatte” (“Sky90 – The Kia Football Debate”), and “EinsEins – Das Standpunktgespräch” (“OneOne – The position talk”) – deliver expert opinions, analyses and background reports from Sky’s prize-winning sport team. Viewers can also follow the most important sports developments 24/7 on Germany’s first live sports news channel, Sky Sport News HD. And for subscribers who are on the go, the Sky Sport News HD app provides 24-hour live streaming, as well as clips, news and headlines from the world of sports. With “Sky Magazin”, “Kinopolis” and “Making of...”, film and entertainment fans definitely get their money’s worth. The interview series “Im Leben von...” (“In the Life of...”) offers a very personal glimpse into the lives of popular actors. The weekly cult show “Zapping” presents the biggest bloopers from German television.

The world in all its facets.

Music, theater, ballet, people, travel, landscaping, cooking – variety makes life more interesting. And channels like Classica, RTL Living and A&E present the world in all its facets. Sky programming is colorful and multi-faceted, just like real life. Add to this notable documentary channels on Sky, including Discovery Channel HD, NatGeo Wild HD and – exclusive to Sky – Spiegel Geschichte HD. These channels offer pure fascination with breathtaking images and thrilling stories. It's a viewing paradise for those who enjoy spectacular insights into nature, the environment, history, science and technology, with no commercial breaks and mostly in brilliant HD quality.

CIA declassified

Shark Fight

Renée Fleming and Christian Thielemann in Salzburg

sky select HD
Maleficent
sky CINEMA HD
Epic

HD

Brilliance to the last detail.

Sky offers a wide range of HD programming, providing a magical television experience with unbelievably sharp video quality. The most recent blockbusters, fascinating documentaries, thrilling live sport, as well as all matches from the Bundesliga and UEFA Champions League, all in brilliant HD. And 3D programming includes exciting movies, stirring documentaries and a top Bundesliga match live per month.

Individual and independent.

With the Sky+ HD hard disk receiver, subscribers can enjoy their programming without having to worry about predetermined broadcast times. This makes it possible for viewers to shape their television experience around their lives – not the other way around. Favorite shows can be recorded and a program in progress can be paused, rewound and resumed at any time. Through the mobile Sky Guide, shows can be recorded to the Sky+ receiver directly from your iPad, iPhone or online when you're on the move.

Sky Anytime offers the best content from Sky's programming on demand and at no extra cost. Based on their packages, subscribers can build their own private video library of the most recent blockbusters, series, documentaries, children's programming and sports highlights whenever they want without an internet connection or wait times. Sky Home, the individually adjustable start screen, provides the viewers with editorial recommendations as well as the best programs of the day/week at a glance.


sky anytime
Top Highlights
Dokus
Shows
Neustarts
Top Highlights
Film
Serie
Sport
Wir sind die Millers
sky CINEMA HD
VATERFREUDE
MAD MEN
WIR SIND DIE MILLERS
THE VIRUS ISN'T THE ONLY ENEMY
THE LAST SHIP
GAME OF THRONES
sky select
Zum TV
OK Film ab!
INFO Inhalt
Trailer
sky anytime
OK
GUIDE
REC
sky
HD TV
2TB
sky+

Enjoy Sky on the go.

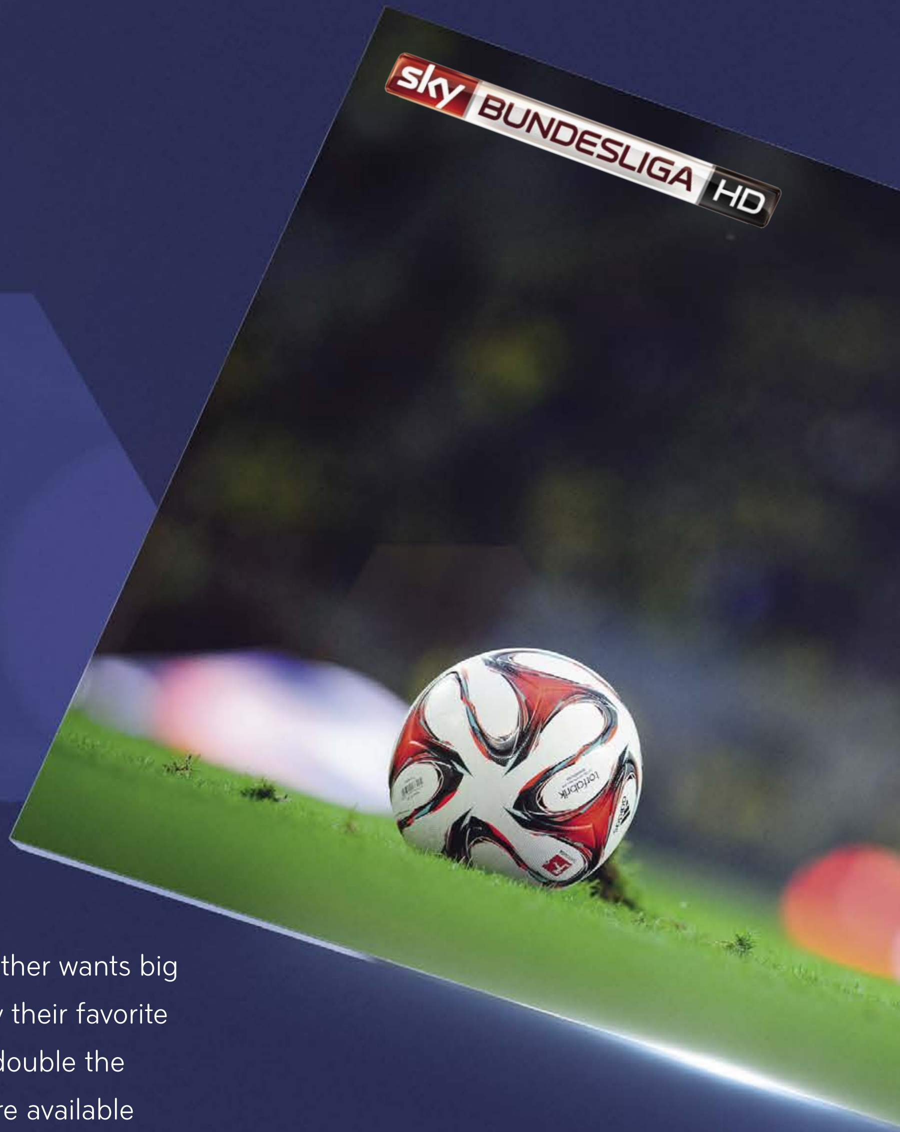
Sky Go offers top TV entertainment anywhere: hundreds of blockbusters, the best U.S. series, exclusive live sports and children's programming available not just at home, but also on the internet, iPad, iPhone, iPod touch and Xbox 360. Regardless of when or where. The service was completely overhauled in June 2014, offering customers a new design, additional functions and more content, including fascinating documentaries, more partner channel content and integration of the entire Snap programming catalog.


sky go
XBOX 360
sky go
JETZT AUF SKY & SKY GO
Video starten
SPORT
FILME
SERIEN
DOKU
KIDS
SNAP
RIPD

The online video service from Sky.

More flexibility than ever: the new online video service Snap by Sky offers thousands of titles from the Sky collection in both German and the original language. For only €3.99 a month, Snap provides even more entertainment with outstanding movies, entire box sets of prize-winning series and the biggest hits from HBO as well as a comprehensive selection of children's programming with highlights from Disney. Those who register for Snap can use the service with complete flexibility on up to four devices (the internet, iPad, iPhone, iPod touch, as well as select Samsung Galaxy devices and on Samsung Smart TVs) with only a month-to-month commitment. The service is the perfect access to the world of Sky for fans of films and series and the perfect extension for existing Sky customers.


snap
by sky
HOME
FILME
SERIEN
KIDS
MERKLISTE
EINSTELLUNGEN
FILME
Die Chroniken von Narnia
Arielle, die Meerjungfrau
Russendisko
SERIEN
Sex and the City | Staffel 1-6
Boardwalk Empire | Staffel 2
Suche
zurück
PINOCCHIO
Samsung Curved UHDTV



Double the enjoyment.

One member of the family wants world class football live while another wants big cinema moments: With the Second Smartcard, everyone can enjoy their favorite programs simultaneously and in different rooms of the home. It's double the subscription at a small price. All the channels and programs that are available with the first Smartcard can also be received using the Second Smartcard, making it possible to watch different programs simultaneously under one roof.

Upside Down


Bundesliga at Sky: all games, all goals, all live.

Front row seats for true fans.

The Sky HD Fan Zone makes the football season even more exciting because it allows true fans to experience up to nine Bundesliga or eight UEFA Champions League matches simultaneously on one screen. Tennis and Formula One fans are also well served with the Sky HD Fan Zone, which allows viewing of parallel Wimbledon matches at the same time on one screen and different camera perspectives during a Formula One race. As a very special feature, a live ticker from Sky Sport News HD offers breaking sports news directly in the Fan Zone.


sky HD FAN ZONE
DORTMUND 1:0 HOFFENHEIM
HAMBURG 0:0 LEVERKUSEN
GLADBACH 3:2 FC BAYERN
FRANKFURT 0:1 WOLFSBURG
NÜRNBERG 0:1 BREMEN
#MichaelW Was ich über Bremen sagen kann: ihre offensive Spielweise finde ich ansprechend. #fcn
BUNDESLIGA · · DIE BESTE LIGA EUROPAS IN DER 51. SAISON · · · DIE BESTE LIGA EUROPAS I
Spiel auswählen
OK Zum Vollbild
Samsung Curved UHD TV

Exceptional service.

Sky offers complete satisfaction – and not just on screen. With Sky, customers don't just enjoy their favorite programming in top quality, but also outstanding customer service. This includes a comfortable on-site service where experts connect the Sky receivers, activate subscriptions, and give an introduction to the Sky services in customers' homes, as well as the support staff that is available around the clock via email and phone and that provides individual support. The online customer center makes data management for customers as simple as the touch of a button. It doesn't get more comfortable than that.


sky
HD TV
sky
sky+

The entire channel variety of Sky at a glance:

Sky Welt Package – A diverse range of around 50 channels

- **Discovery Channel**: Exciting documentaries on adventure, technology, nature and science.
- **National Geographic Channel**: Television for explorers with exciting documentaries.
- **Nat Geo Wild**: Fascinating and compelling documentaries about nature and wildlife.
- **Spiegel Geschichte**: Documentaries about German and international history.
- **Motorvision.TV**: Entertaining coverage on cars and motor sports.
- **Sky Krimi**: Non-stop hunt for criminals with Germany's most popular police investigators.
- **RTL Crime**: German and international crime series and documentaries.
- **13th Street**: High-tension excitement with international crime series and thrillers.
- **Syfy**: Series and films for fans of adventure, mystery, fantasy and science fiction.
- **Fox**: TV premieres of international series and popular classics for series fans.
- **TNT Serie**: Top international series, including many German TV premieres for series fans.
- **Passion**: Pure emotions. Series and films about love and passion.
- Television with entertainment for the entire family: popular German "Heimatfilme" and series.
- **Disney XD**: The channel for cool kids with plenty of excitement, action and fun.
- **Disney Junior**: Age-appropriate channel for preschoolers.
- **Junior**: Entertainment for the entire family with children's classics.
- **GoldStar TV**: The channel for oldies fans with the biggest hits, concerts and interviews.
- **Classica**: Concerts, opera and ballet at world-class level.
- **beate-uhse.tv**: Sexy TV with tantalizing eroticism.
- **Sky Sport News**: 24 hour sport news from around the world.

Sky Starter Package – A wide range of programming at a low price with 20 channels from the Sky Welt Package

Including 18 HD channels

- **Discovery HD**: Exciting documentaries on adventure, technology, nature and science in HD.[1)]
- **National Geographic Channel HD**: Television for explorers with exciting documentaries in HD.[1)]
- **Nat Geo Wild HD**: Fascinating and compelling documentaries about nature and wildlife in HD.[1)]
- **History HD**: Documentaries on historical events from throughout the ages in HD.[1)]
- **Syfy HD**: Series and films for fans of adventure, mystery, fantasy and science fiction in HD.[1)]
- **13th Street HD**: High-tension excitement with international crime series and thrillers in HD.[1)]
- **TNT Serie HD**: Top international series, including many German TV premieres for series fans in HD.[1)]
- **Fox HD**: TV premieres of international series and popular classics for series fans in HD.[1)]
- **Sky Sport News HD**: 24 hour sport news from around the world live and in HD.[1)]
- **Eurosport HD**: Top international sports live: winter sports, tennis, cycling and track and field in HD.[1)]
- **AXN HD**: HD movies and series that are packed with action and excitement.[1)]
- **ProSieben Fun HD**: The HD channel for young audiences, featuring crooked TV series and action sports.[2)]
- **E! HD**: The most popular stars up close and personal – E! Entertainment is reporting in HD 24/7 from the world of showbiz.[1)]
- **Universal Channel HD**: 100% character. Extraordinary entertainment featuring exclusive series and fascinating characters in HD.[1)]
- **Disney Junior HD**: Age-appropriate entertainment for preschool children in brilliant HD quality.[1)]
- **Spiegel Geschichte HD**: Documentaries on German and international history in brilliant HD quality.[1)]
- **TNT Glitz HD**: International hit series, films, lifestyle formats, documentaries and in-house productions for young women.[1)]

3D event channel

sky 3D

Experience live sporting events, select Bundesliga matches, exciting movie highlights and fascinating documentaries in 3D.[4)]

HD+ channels available for 12 months at no cost[5] with satellite reception

HD+ program package

Additional channels available via satellite:

- **AXN**: Movies and series that are packed with action and excitement.[2)]
- **emotions**: Television with emotion – popular German soaps and TV events.[2)]
- **TNT Film**: A cinema experience with hit Hollywood movies from recent decades.[2)]
- **Classics**: The largest selection of classic movies from the 40s to the 2000s.[2)]
- **Kinowelt TV**: European arthouse cinema for true film fans.[2)]
- **Romance TV**: Time to let your feelings run free with TV movies and series.[2)]
- **Nicktoons**: The best entertainment for kids of all ages.[2)]
- **Boomerang**: The greatest cartoon stars of all time and outstanding family cinema.[2)]
- **Cartoon Network**: Children's entertainment packed with adventure and action.[2)]
- **A&E**: Be original – innovative real-life docutainment around the clock.[2)]
- **RTL Living**: Inspiration for home and garden, cooking and lifestyle, travel and relaxation.[2)]
- **Animax**: Entertainment with the world's most popular anime productions.[2)]

Film Package

- **sky CINEMA** – Your private cinema with some 20 German TV premieres every month.
- **sky CINEMA+1** – Too late? A thing of the past. Watch everything from Sky Cinema an hour later.
- **sky CINEMA+24** – Watch everything from Sky Cinema again the next day.
- **sky ATLANTIC** – Outstanding HBO series as exclusive TV premieres.
- **sky ACTION** – Brace yourself for extreme excitement: with action, horror and sci-fi.
- **sky COMEDY** – Not to be taken seriously: Sky Comedy shows the best and funniest comedies.
- **sky EMOTION** – Great emotions from the cinema, day after day.
- **sky NOSTALGIE** – Movie classics from the 30s to the 70s.
- **sky HITS** – The best movies of recent decades.
- **Disney Cinemagic** – Family film channel with beloved classics and new hits from Disney.
- **MGM** – Movie classics from Hollywood, where dreams are made.

Premium Film HD Channels[5)]

- **sky CINEMA HD** – Your private cinema in HD quality with some 20 German TV premieres every month.[1)]
- **sky ATLANTIC HD** – Outstanding HBO series in HD as exclusive TV premieres.[1)]
- **sky ACTION HD** – Brace yourself for extreme excitement: with action, horror and sci-fi in HD.[1)]
- **sky HITS HD** – The best movies of recent decades in HD.[1)]
- **Disney Cinemagic HD** – Family film channel with beloved classics and new hits from Disney in HD.[1)]
- **MGM HD CHANNEL** – Movie classics in HD from Hollywood, where dreams are made.[1)]

Sport Package

- **sky SPORT 1** – Top national and international football.
- **sky SPORT 2** – Top sports, including golf, tennis and much more.
- **sky SPORT AUSTRIA** – Live sports from Austria.[1)]

Premium Sport HD Channels[5)]

- **sky SPORT HD 1** – Top football in the best HD quality.[1)]
- **sky SPORT HD 2** – Even more live sports, including tennis and golf, in brilliant HD quality.[1)]
- **EUROSPORT 2 HD** – Top international sports live and in HD.[1)]
- **sport1 US HD** – US sport highlights like NFL, NBA, college and motor sports in HD.[1)]
- **sport1+ HD** – The ATP World Tour, top international football, motor sports, handball and the ice-hockey world championships live and in HD.[1)]

Event-Based Sport Channels

- **sky SPORT** – Sky Sport 3–11: Additional optional channels for parallel live sporting events.

Event-Based Sport Channels

- **sky SPORT HD** – Sky Sport HD 3–11: Additional optional channels in HD for parallel live sporting events.[6)]
- **sky HD FAN ZONE** – Sky HD Fan Zone: Up to eight UEFA Champions League matches on one screen.[6)]
- **EUROSPORT 360 HD** – Eurosport360HD 1–7: More live sports on up to 7 optional channels in HD.[6)]
- **sport1 US HD** – Sport1 US HD1: Additional optional channel in HD for parallel American live sporting events.[6)]

Fußball Bundesliga Package

- **sky BUNDESLIGA 1** – The classic for football fans: all matches from the Bundesliga and the second Bundesliga.

Premium Bundesliga HD Channels[5)]

- **sky BUNDESLIGA HD 1** – The classic for football fans: all matches from the Bundesliga and the second Bundesliga in HD.[1)]
- **EUROSPORT 2 HD** – Top international sports live and in HD.[1)]
- **sport1 US HD** – US sport highlights like NFL, NBA, college and motor sports in HD.[1)]
- **sport1+ HD** – The ATP World Tour, top international football, motor sports, handball and the ice-hockey world championships live and in HD.[1)]

Event-Based Sport Channels

- **sky BUNDESLIGA** – Sky Sport 3–11: Additional optional channels for parallel live sporting events.

Event-Based Sport Channels

- **sky BUNDESLIGA HD** – Sky Bundesliga HD 2–10: Additional optional channels in HD for parallel live Bundesliga matches.[6)]
- **sky HD FAN ZONE** – Sky HD Fan Zone: Up to nine Bundesliga matches on one screen.[6)]
- **EUROSPORT 360 HD** – Eurosport360HD 1–7: More live sports on up to 7 optional channels in HD.[6)]
- **sport1 US HD** – Sport1 US HD1: Additional optional channel in HD for parallel American live sporting events.[6)]

1) Available via satellite and in the cable/IPTV network depending on respective provider. More information can be found at sky.de/senderempfang
2) Only available via satellite
3) The HD+ channels will be activated for new HD+ customers for twelve months free of charge. New HD+ customers are solely subscribers without a registered cost-free activation of HD+ channels in their households or under their bank account number for themselves or third parties or where such cost free activation did not exist up to three months prior to entering a new subscription. Afterwards, the HD channels can be booked additionally against payment of a service fee and with a term of at least 12 months. The HD PLUS GmbH is the contract partner for HD+.
4) Sky 3D can be activated for an additional one-time fee. In order to receive 3D, you will need a “suitable for Sky” HD receiver, a 3D-capable television and special 3D glasses. Sky 3D is only available via satellite and some cable networks.
5) The HD channels that can be booked with a subscription depend on the booked packages and the type of reception.
6) More information about technical reception of optional channels can be found at sky.de/senderempfang

Last revised: September 2014


congstar
congstar
sky
sky

8 dedicated live sports channels in HD

Exclusive multi-platform sports rights

Over 5,000 hours of live sports on Sky

Over 10,000 hours of live sports on the partner channels

Formula 1 rights – live, in HD and on Sky Go

US PGA Tour including all Golf Majors

Tennis from all major Grand Slam tennis tournaments, including Wimbledon

US sports: NFL, NHL, MLB, NBA

Sky Sport News HD: First ever 24/7 live sport news channel in Germany and Austria

Members of the Management Board (from left to right)

Steven Tomsic
Chief Financial Officer
- born 1969
- entered the Company in December 2010 as Deputy Chief Financial Officer
- comprehensive media industry and corporate finance experience gained across multiple international markets
- Chief Financial Officer since February 2011

Brian Sullivan
Chief Executive Officer (CEO)
- born 1962
- entered the Company as Deputy CEO in January 2010
- more than 20 years of pay-TV experience in the US and Europe
- Chief Executive Officer since April 2010

Dr. Holger Enßlin
Chief Officer Legal, Regulatory & Distribution
- born 1967
- entered the Company in October 2003
- longterm experience as a lawyer and as General Counsel of the Company
- Member of the Management Board since 1 December 2008

Carsten Schmidt
Chief Officer Sports, Advertising Sales & Internet
- born 1963
- entered the Company in July 1999
- more than 20 years experience in sports television, digital media and media sales
- Member of the Management Board since March 2006

Dear shareholders,

Having recently marked the 5th anniversary of Sky Deutschland, in what was not too long ago a dormant pay-TV market, we have now seen 20 consecutive quarters of continuous growth, and the potential is just starting to be tapped.

Our performance over the six months short financial year 2014 again showed clear evidence of the increasing appeal of our great service. Net subscriber growth increased strongly, and customer loyalty hit new record levels with churn rates that are the best in our Company's history. Our customer base expanded to a total of over 3.8 million subscribers.

Beyond our outstanding offering in football and sport, Sky, with the launch of Snap, has extended its position as the true home for film fans - delivering over 5,000 movies in the last year alone, including more premieres than any other service in Germany and Austria. And only on Sky, series lovers are able to enjoy more than 120 premieres over the course of calendar year 2014 including more than 1,400 individual episodes, every one of them long before free TV and other online video services.

Since making Sky Go available free to all Sky customers in April, more people than ever have chosen Sky to watch content both in and out of home. Just during the second quarter 2014, the number of Sky Go customer sessions grew by 72 percent to 29 million, with the number of series watched doubling from the first to the second quarter.

With the new upgrade to Sky Go, we've made the best online pay-TV service even better and launched a complete redesign. Customers can now enjoy a greater ease of use and quicker access to the amazing breadth and depth of the offering. But it wasn't just the look – we're introducing over 3,000 additional hours to the already extensive range of first-run, high quality, and exclusive programs. And, we've integrated the entire catalog of Snap, our standalone online TV service, within Sky Go. Together, over the next 12 months, the new Sky Go and Snap by Sky will offer more than 25,000 hours of content – many first and exclusive to Sky customers.

With the return of action in the Bundesliga and UEFA Champions League following on from the incredible performance of the German National Team in the World Cup, we couldn't be more excited about the year ahead.

At the end of July our majority shareholder, 21st Century Fox, announced its intention to combine their Sky holdings across Europe. As part of this proposed transaction, BSkyB, the leading pay-TV operator in the UK, agreed to acquire the 21st Century Fox stake in Sky Deutschland and published a voluntary public takeover offer for all Sky Deutschland shares on 3 September 2014. On 17 September 2014, the Management Board, together with the Supervisory Board, published a joint statement in relation to this offer. This joint statement can be download from our website: ir.sky.de.

On behalf of the Board at Sky, I would like to thank our customers and viewers for their strong loyalty, our shareholders for their ongoing support, and the entire Sky team for their hard work and enthusiasm.

Yours sincerely,

Brian Sullivan

Share information

Development of share capital

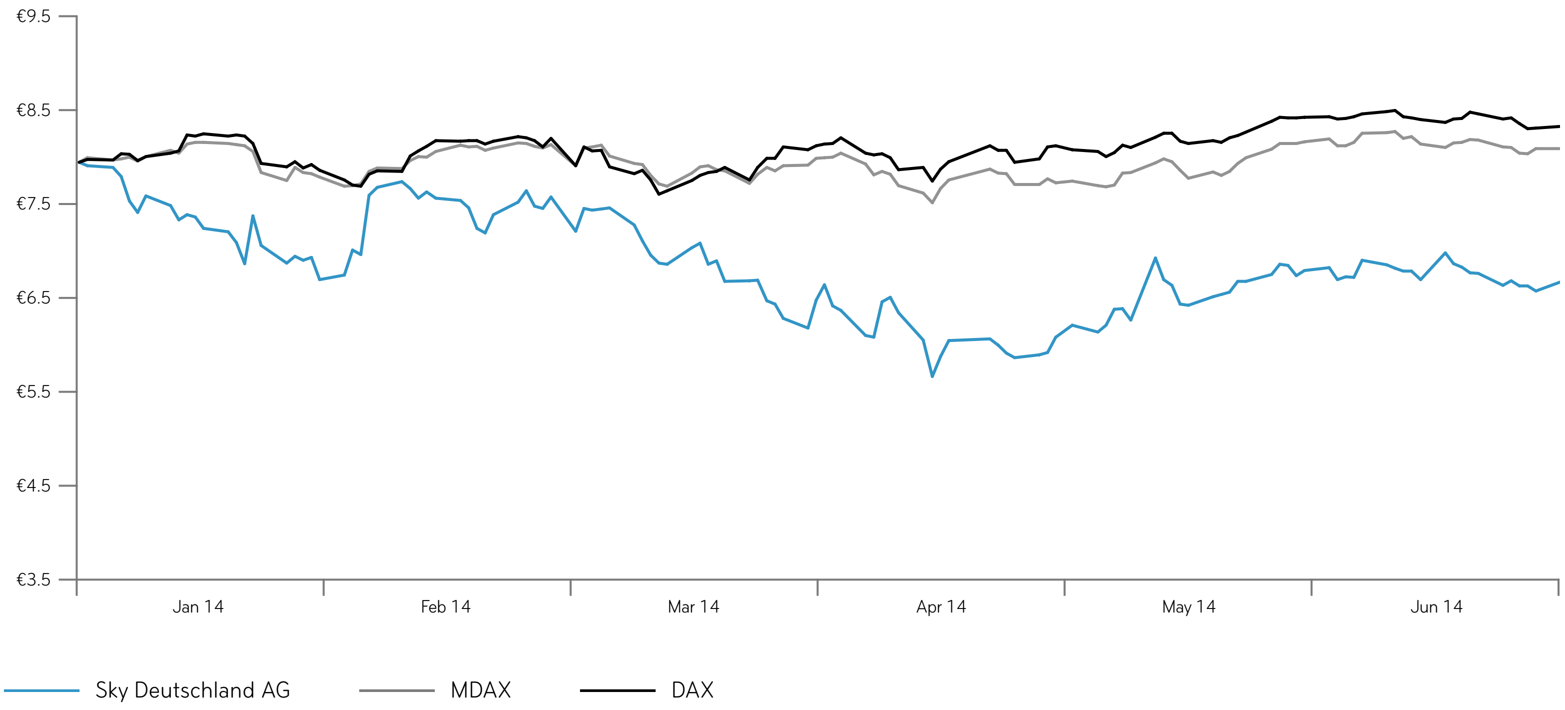
As of 31 December 2012, Sky Deutschland AG's share capital amounted to €778,909,762 with 778,909,762 issued shares. Sky Deutschland AG announced on 26 January 2011 that the Company had placed a convertible bond to 21st Century Fox Adelaide Holdings B.V. (formerly News Adelaide Holdings B.V.). This bond can be converted into 53,914,182 ordinary registered shares stemming from contingent capital. The convertible bond has a four year maturity and the conversion price has been set at €3.053.

On 14 January 2013, Sky Deutschland, its new bank syndicate 21st Century Fox Adelaide Holdings B.V (formerly News Adelaide Holdings B.V.) and Twenty-First Century Fox, Inc (formerly News Corporation) agreed on a new comprehensive longterm financing structure for Sky Deutschland. It comprises five-year bank credit facilities of €300 million guaranteed by Twenty-First Century Fox, Inc and its subsidiary News America Incorporated, a Bundesliga guarantee provided by Twenty-First Century Fox, Inc., the extension of the existing shareholder loans, as well as the issuance of new equity of €438 million (gross proceeds) via the combination of a private placement and a rights issue. The convertible bond remains unchanged. As of 7 February 2013, Sky Deutschland AG's share capital amounted to €877,200,755 with 877,200,755 issued shares.

Sky share information (as of 30 June 2014)	
ISIN	DE000SKYD000
Stock category	Ordinary registered shares
Stock segment	Frankfurt Official Market
Market segment	Prime Standard

Key Figures for the Sky share	6M 2014	12M 2013
Year-end closing price (in €)	6.73	8.00
High (in €)	7.94	8.17
Low (in €)	5.77	3.89
Number of shares at 31 year-end	877,200,755	877,200,755
Market capitalization at year-end (in € million)	8,570	7,017
Earnings per share (in €)	–0.06	–0.15

Share price development 1 January 2014 to 30 June 2014



Sky's share price[1] started at €7.94 on 2 January and closed at €6.73 at the end of June as shown in the chart above.

This development represents a decrease of 15.2 percent over the course of the short financial year of 2014. In the same period, the DAX increased by 4.6 percent and the MDAX by 1.8 percent.

Based on the closing price, Sky Deutschland AG's market capitalization on 30 June 2014 was €5,902 million with a free float market capitalization of €2,668 million.

The average daily trading volume in the short financial year of 2014 was 2,082,689 shares.

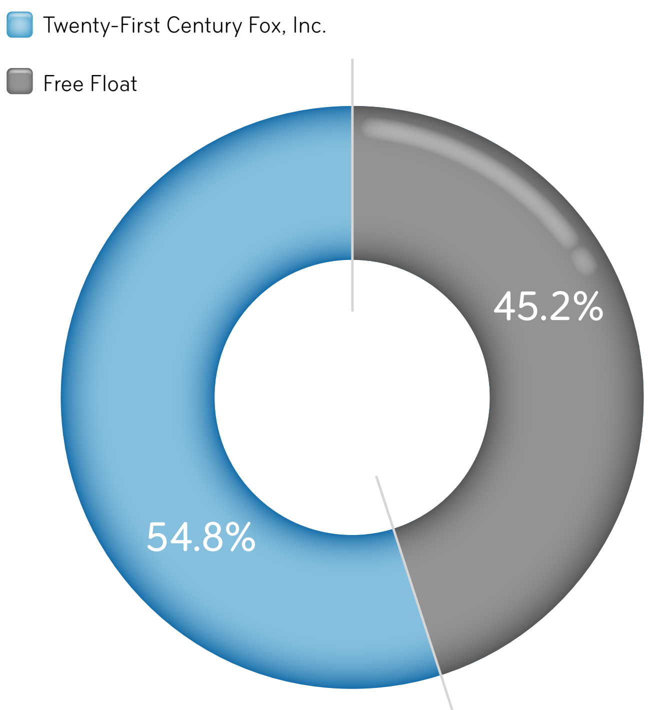
Inclusion in indices

The Sky stock is part of the MDAX and was ranked 4th in terms of trading volume and 17th in terms of market capitalization on 30 June 2014. In addition to being represented in other indices of the DAX family such as DAXsector Media, Sky shares are also included in the MSCI Global Investable Market, such as, for example the MSCI Europe and the Dow Jones STOXX indices. Furthermore, the Sky share was added to the FTSE Europe Mid Cap Index in March 2014.

1) The stated share prices are based on the daily XETRA closing prices of the German Stock Exchange

Shareholder structure

Sky Deutschland AG's share capital currently amounts to €877,200,755 with 877,200,755 issued shares.



Shares held by Twenty-First Century Fox, Inc. (formerly News Corporation)
21st Century Fox Adelaide Holdings B.V., a fully-owned indirect subsidiary of Twenty-First Century Fox, Inc., currently holds 480,988,260 shares in Sky Deutschland AG. This equates to 54.83 percent (ad hoc release as of 5 February 2013).

All shares other than those held by Twenty-First Century Fox, Inc. are included in the free float as defined by the standards of the German Stock Exchange.

Shares held by institutional investors
Institutional investors who exceed notifiable thresholds of voting rights in Sky Deutschland AG as of 30 June 2014 are:

Odey Asset Management LLP (notification of 14 January 2014, stake of 8.94 percent). The voting rights of Odey Investment Funds plc (notification of 11 June 2013, stake 3.04 percent) are to be attributed to Odey Asset Management LLP[2].

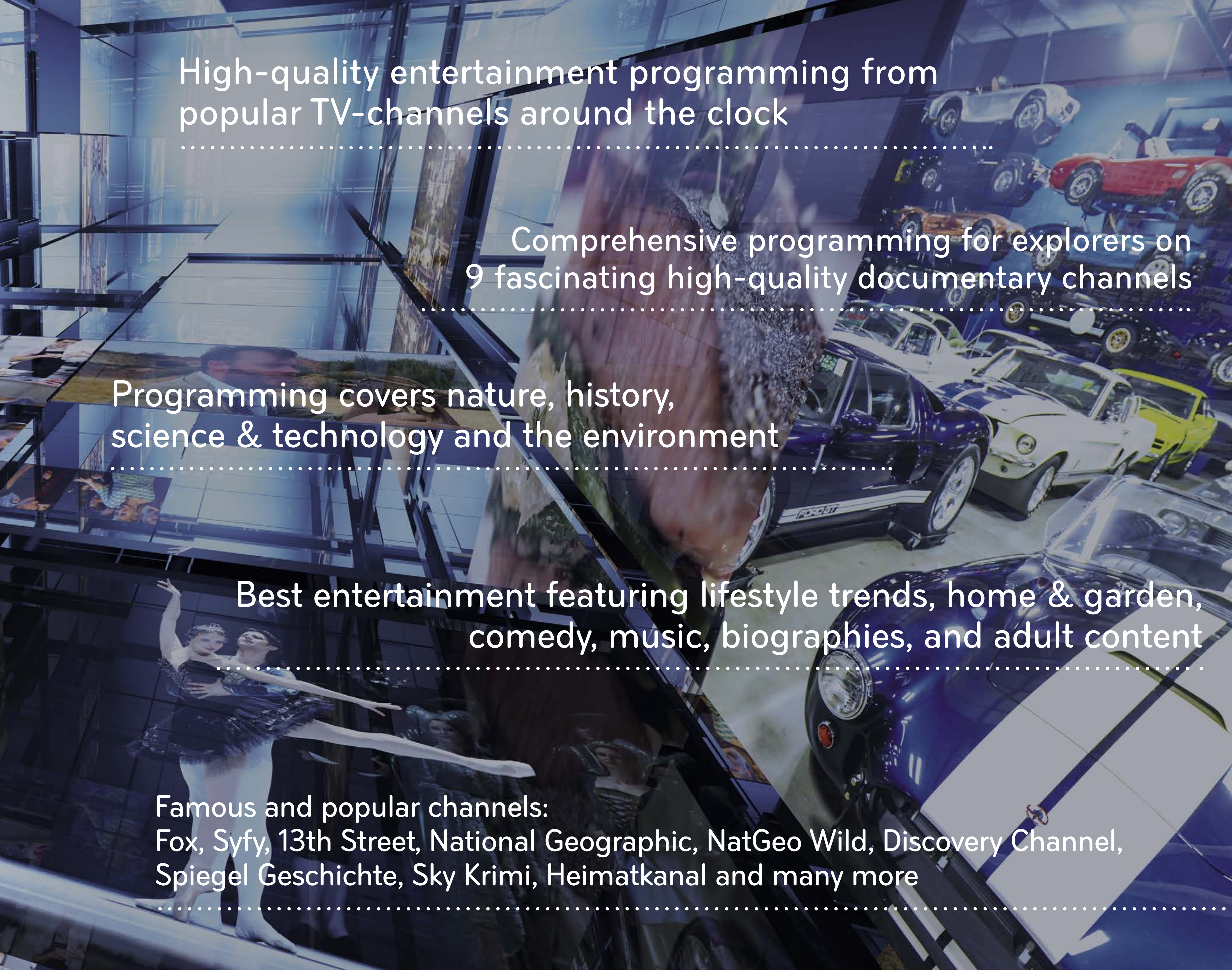
Shares held by Management
Brian Sullivan, CEO, held 30,000 shares of Sky Deutschland AG on 30 June 2014.

Shares held by members of the Supervisory Board
Dr. Stefan Jentzsch, member of the Supervisory Board of Sky Deutschland AG, held 120,000 Sky shares of Sky Deutschland AG on 30 June 2014.

Harald Rösch, member of the Supervisory Board of Sky Deutschland AG, held 29,750 Sky shares of Sky Deutschland AG on 30 June 2014.

2) Odey Investment Funds plc decreased below the threshold of 3 percent on 1 July 2014 and now holds 2.97 percent. T. Rowe Price Group, Inc. increased above the threshold of 3 percent on 2 July 2014 and now holds 3.01 percent.


InStyle
Das TT-Magazin



High-quality entertainment programming from popular TV-channels around the clock

Comprehensive programming for explorers on 9 fascinating high-quality documentary channels

Programming covers nature, history, science & technology and the environment

Best entertainment featuring lifestyle trends, home & garden, comedy, music, biographies, and adult content

Famous and popular channels:
Fox, Syfy, 13th Street, National Geographic, NatGeo Wild, Discovery Channel, Spiegel Geschichte, Sky Krimi, Heimatkanal and many more

Combined Management Report

This report combines the management report of the Sky Group and the management report of Sky Deutschland AG. Unless indicated otherwise, the following information applies to both the Sky Group and Sky Deutschland AG.

Fundamental information about the Group

Financial year change

As resolved at the Annual General Meeting on 10 April 2014, Sky Deutschland AG and all subsidiaries changed the financial year and closed the short financial year 2014 with the reporting period from 1 January 2014 until 30 June 2014. The new reporting period is 1 July until 30 June.

To present developments during the short financial year 2014, statements referring to the reporting date of 30 June 2014 are compared with the previous year's figures as of 31 December 2013. For statements referring to the reporting period, the short financial year 2014 is compared with the corresponding previous year's period (1 January 2013 to 30 June 2013). The comparative figures as of 30 June 2013 were only reviewed by our auditor but not audited. The prior-year periods are referred to as "6M 2013" (six-month period) and "12M 2013" (twelve-month period).

Business model

Sky is the leading pay-TV service in Germany and Austria with over 3.8 million subscribers. Since the launch of the Sky brand in 2009, the Company has significantly expanded the depth and breadth of its program offering while launching numerous innovations and significantly enhancing customer service. The results can be seen in continuous operational and financial progress, higher viewer ratings and value-for-money scores, as well as strong customer satisfaction and improved customer loyalty.

With exclusive live broadcasting rights for the Bundesliga and other major football and sport events, plus an exclusive selection of top blockbuster movies and high quality television series, Sky customers enjoy access to an unparalleled programming portfolio. The growing demand for mobile and on-demand viewing combined with high-quality programming supports Sky's pay-TV business model.

Sky is available on all platforms: satellite, cable, IPTV, the internet and mobile networks. Technically, Sky reaches almost every household in Germany and over 95 percent[1] of all households in Austria. Viewers in Switzerland can also receive Sky via Teleclub. Compared to the rest of Europe, the pay-TV markets in Germany and Austria are still underpenetrated.

Great value – the Sky offering

Sky starts at €12.90 per month with the Sky Starter package, which features 20 channels from the Sky Welt package, and offers a wide variety of programming at a favorable price. Customers can then upgrade to the Sky Welt package to add the Sky Welt HD channels and access one or more of the three premium packages: the Film package, the Fußball Bundesliga package and the Sport package. For each of the premium packages, Sky also offers an HD option, Sky premium HD, at an additional fee. Up to 85 HD channels[2] are available, including one 3D channel. All Sky customers with the Sky Welt or Sky Starter package can access Sky Go, the leading online-TV service in Germany and Austria, at no extra charge.

Sky Welt

Sky Welt provides viewers with a diverse selection of more than 50 channels from all categories, with up to 19 HD channels3. The program offering includes TV series, comedy, documentaries, music, programs for children and classic movies. Many programs are German language TV premieres, which are often available exclusively on Sky. The package also includes Sky Sport News HD, Germany and Austria's only 24/7 sports news channel.

Film package

The Film package brings the cinema right to the viewer's living room. Each month, movie fans have access to around 20 TV premieres airing on more than ten movie channels, up to one year before their debut on free-to-air TV. The Film package presents 80 movies a day – from recent blockbusters to

1) SES Satellite Monitor, 2013
2) Including pay-TV, free-to-air and HD+ channels (as of 1 September 2014)
3) As of 31 July 2014

movie classics. All movies are shown without commercial breaks and many can be watched in the original language. Features such as HD, 3D, 16:9 format, and Dolby Digital Sound ensure brilliant image and sound quality. As a highlight for TV series fans, Sky Atlantic (available in SD and HD) is also included in the Film package. This channel offers critically acclaimed productions from HBO, the most successful premium channel in the US.

Fußball Bundesliga package

Only with the Fußball Bundesliga package can football fans enjoy all Bundesliga and second Bundesliga matches – on up to ten channels, and on the new Sky HD Fan Zone at the same time, all live and in HD. Sky shows all 612 matches per season live and combines them with the award-winning coverage from Sky's Sports Editorial department. Extensive pre and post-match analyses as well as interviews and background reports get the fans even more involved with every match.

Sport package

Sky is also the home of live sports with an extensive portfolio of exclusive programming for fans with diverse interests, including all matches of the UEFA Champions League and all DFB-Pokal matches, live and in HD, as well as selected English Premier League matches and all UEFA Europa League matches involving German and Austrian teams. The Sport package also offers all major golf tournaments and tennis from Wimbledon. Additionally, subscribers can watch Formula 1 racing and beach volleyball. The Sky Sport Austria channel is also part of this package, offering live and HD broadcasts of all Austrian football league matches. The premium HD option for the Sport package includes partner channels, such as Sport1+ HD, Sport1 US HD and Eurosport 2 HD.

Comprehensive HD offering

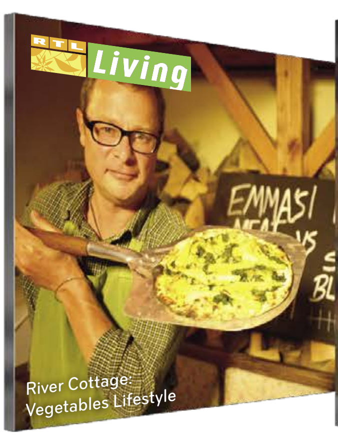
TV entertainment on Sky is an immersive and exciting experience with crisp picture quality and brilliant colors on up to 85 HD channels. To access the HD offering, viewers simply need an HD-capable television set. Sky provides the rest: a 3D-ready HD receiver and unique HD programming. 88 percent of Sky's subscribers[4] own HD television sets, seven percentage points more than the country-wide average in Germany.

Sky Go – the leading online-TV service

Sky Go is the leading online-TV service in Germany and Austria and is another success story for Sky. Sky customers can access Sky's exclusive high-quality entertainment on a variety of devices – such as the web, the iPad, iPhone, iPod touch and Xbox 360. Sky Go customers can watch a constantly updated selection of top blockbuster movies, high-quality series from Sky Atlantic HD, Sky Sport News HD, Fußball Bundesliga, UEFA Champions League, UEFA Europa League, DFB-Pokal and other live sports as well as great programs for kids. Since April 2014, Sky Go is available to all Sky customers with the Sky Welt or Sky Starter package at no extra charge.

Snap by Sky – the perfect extension for Sky customers

Snap is an online video service providing an extension for Sky customers. It is also available to customers without a fixed-term Sky subscription. It offers users thousands of titles, including complete box sets of prize-winning series, hits from HBO, movies from past decades and a broad assortment of children's programming including exclusive program highlights from the world of Disney. Close cooperation with Hollywood studios and numerous independent producers ensure a range of content that is completely unique



4) Copyright IHS, www.ihs.com, 3 January 2014

in the German-speaking market. Customers can also choose to enjoy the titles in either German or the original language. The service costs €3.99 per month for everybody and is available on the internet, iPad, iPhone, iPod touch, selected Samsung Galaxy devices as well as Samsung Smart TVs. With the new Snap Extra option users will have the ability to download movies and series to the iPad and iPhone and access Snap on two devices simultaneously, all for a total price of €6.99 per month.

Total control of your TV time: Sky+

Sky puts its customers in the driver's seat with Sky+, an all-in-one HD and 3D receiver and hard disk recorder that enables viewers to create the exact TV experience they want. Sky+ is easy and convenient to use: viewers can stop and rewind live TV and record their favorite TV events at the push of a button. They can record programs remotely via the Sky Guide on Sky Go. With the "Series link" function, Sky+ makes it easy for fans of TV series to automatically record entire seasons of their favorite shows on Sky. Sky Anytime, the exclusive video-on-demand service on Sky+, presents the best movies and a large selection of entertainment and sports programming, as well as hit series, documentaries and children's programming, at no extra cost. Sky+ is also available with a two-terabyte hard disk option, offering enough storage space for up to 600 hours of programming in SD or 200 hours in HD, covering over 400 programs on Sky Anytime.

Twice as much fun with the second smartcard: Sky Zweitkarte

Many customers want to be able to watch different programs simultaneously on multiple TV sets in their home, and the Sky Zweitkarte (second smartcard) service allows them to do just that.

Favorite programming on demand: Sky Select

Sky Select offers customers the latest movies, live football, and concerts on a pay-per-view basis, independent of their subscribed packages. Sky Select is also available via the on-demand service Sky Anytime. With the convenience of one-touch ordering, access to programming is as easy as pressing a button.

The Sky Sport News HD app

The Sky Sport News HD app offers breaking news and stories from all across the world of sport, including extensive background information, a selection of "video clips of the day", and live statistics from the innovative Sky Sport News HD data center. And for those who want to truly stay tuned-in to the world of sport 24/7, a live video stream of Sky Sport News HD is available and enhanced by an extensive archive of video clips with continuous updates. The app is available for iOS, as well as on select Samsung Galaxy Android smartphones. The premium features (Sky Sport News HD video and audio livestream as well as access to an extensive selection of sports clips) are available for €4.49 per month and can be cancelled on a monthly basis.

Objectives and strategies

"Customers deserve better" was the basic principle set down when the Company was relaunched and rebranded as Sky in July 2009. This statement is driven by the conviction that customers throughout Germany and Austria deserve better television entertainment, better technology and innovation, and better service. To accomplish this, Sky's strategic focus is placed on high-quality exclusive programming, cutting-edge innovation and outstanding customer service.

High-quality exclusive programming

Sky provides a wide selection of high-quality and exclusive programs, including live sports, movies, series, documentaries, children's programs, and much more. Sky also offers a large selection of HD channels as well as an exclusive 3D channel. To ensure a continuous supply of high-quality entertainment, Sky invests in selected program highlights and the constant expansion of its HD channel portfolio.

Cutting-edge innovation

Over the past few years, Sky's innovative products and services have changed the way people watch TV while contributing to the sustained growth of the business. Sky intends to continue investing in cutting-edge services and products in order to give customers more innovative ways to enjoy Sky, and to deliver an experience that is truly smart, seamless and social.

Outstanding customer service

At Sky, customer satisfaction is a top priority, with staff constantly working to improve the quality of service. This includes fast shipping and high-quality hardware, as well as increased availability and well-trained customer service agents. The measures Sky has taken so far have already earned the Company numerous awards and are a key contributor to the high level of customer satisfaction. Sky will keep investing in people, technology and processes to ensure customers continue to receive the high-quality service they expect.

Internal management system

Sky is controlled according to the principles of value-oriented management. The strategy described above focuses on growth and achieving sustainable profitability with the longterm increase in company value being its main objective.

The most important key performance indicators (KPIs) in this context used for internal management purposes are EBITDA, total direct subscribers and total revenues. Management believes that earnings before interest, taxes, depreciation and amortization (EBITDA) is a good indicator of profitability of the Company irrespective of its financial structure and tax burden. A growing subscriber base is the basis for further operational and financial growth. Total revenues reflect the Company's earning power. They gained more relevance for internal management purposes as Sky broadens its operations and partnerships beyond the tradtional direct pay-TV model. This includes attracting new groups of customer via online-TV services which have different unit economics and therefore make ARPU (average revenues per subscriber) a less important KPI versus total revenues. Current figures are constantly compared with target figures so that deviations in the KPIs specified above can be identified and analyzed promptly and proactive steps can be initiated.

The variable management remuneration is also linked to the achievement of targets set with respect to the KPIs specified above. It comprises a system applicable to members of the Management Board and a system applicable to managers and employees with variable compensation components.

Management Board members have the opportunity to increase their compensation by at least half of their base salary through a performance-related component. The performance-related component is split between a predominantly longterm component (longterm incentive over two to three years) and a short term component (annual bonus). The objectives for the short term variable component are established by the Supervisory Board at the beginning of the year. At the end of the year, the Supervisory Board conducts a review of performance against objectives for each Management Board member and determines the short term variable compensation of each Management Board member. The target achievement for the short financial year 2014 was resolved by a circular resolution dated 11 September 2014.

The variable compensation for Executive Vice Presidents is based 80 percent on company goals and 20 percent on achieving individual goals. For Senior Vice Presidents/Vice Presidents, the bonus is composed of 60 percent from achieving company objectives and 40 percent from achieving department-specific or personal goals. For middle and lower management levels, the proportion of personal goals increases to 50 and 60 percent respectively, whereas all other staff with a variable bonus as part of their compensation generally have their bonus split 30 percent based on company performance and 70 percent based on personal goals.

For all managers and employees with variable compensation, qualitative as well as specific quantitative metrics are identified as individual targets, reflecting their contributions to the business development.

Sky's value-oriented management also includes a Risk Management system (see also "Risk report", Risk management system), in compliance with the German Corporate Governance Code.

Research and development

Pioneering Ultra HD in Germany

As HD technology evolves, Sky continues to invest in innovation leadership. The Company made German TV history, filming the country's first ever football match in Ultra HD. Ultra HD offers outstanding picture quality, even more realistic TV images and innovative features such as the Super-Zoom function. At the UEFA Champions League match between Schalke and Chelsea in Gelsenkirchen in October 2013, Sky integrated Ultra HD recordings into its live HD broadcast, providing brilliantly sharp and detailed close-up views. In April 2014, Sky reached another milestone. Under Sky's exclusive broadcast partnership with the Bundesliga, the Company conducted the world's first live end-to-end broadcast of a football match using what will be the full Ultra HD production chain and consumer technology. To advance Ultra HD in Germany, Sky and Samsung Electronics agreed on a strategic partnership in September 2013, which includes a comprehensive joint marketing cooperation.

Report on economic position

Macroeconomic and sector-specific environment

Economic environment

Mixed growth picture

The German economy lost momentum in the second quarter of 2014. According to the Federal Office for Statistics, the gross domestic product (GDP) declined by 0.2 percent in Q2 2014 when compared with the prior quarter. In the first quarter of this year the German economy grew by 0.7 percent. The slight decline in GDP in the second quarter of 2014 can be attributed to lower investments and exports. By contrast, consumption in both private and public budgets was somewhat higher than in the prior quarter.

Despite the lost momentum, the German economy was able to continue growing in comparison with the previous year: the price-adjusted GDP in Q2 2014 was 0.8 percent higher than Q2 2013.

Consumer electronics – smartphones and tablets show strong growth

TV sets still make up the largest share of the total market for consumer electronics. The trend in TV sets is moving towards ever larger screens. According to Bitkom, more than one in four TV sets sold in 2013 features screen sizes in excess of 46 inches. The association believes that the upcoming Ultra HD television standard will drive even more demand for larger TV sets. More than three quarters of sales in 2013 came from internet connected models, also known as smart TVs.

Sales of tablet computers remain strong. An estimated 8 million devices have been sold in Germany in 2013. By comparison, 5 million devices were sold in 2012, and only 2 million in 2011. According to Bitkom, sales exceeding 9 million devices are expected for the first time in Germany in 2014.

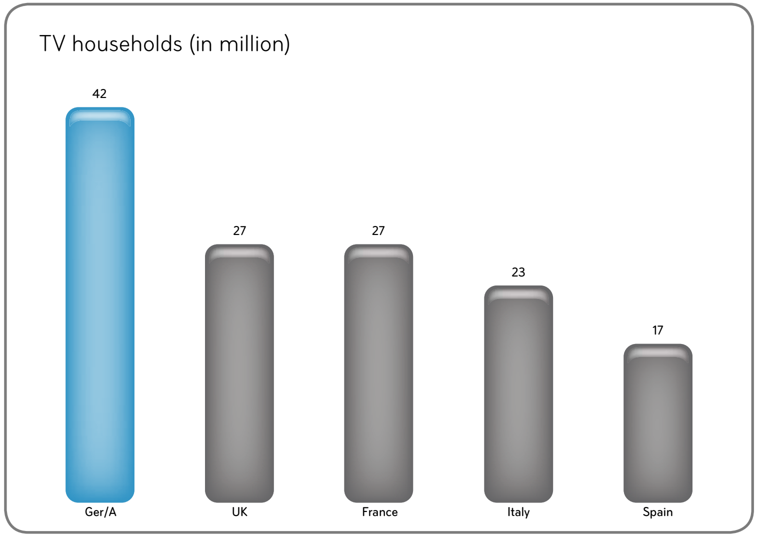
Strong industry growth

Television was again the favorite medium in Germany in 2013. 93 percent of the population watched television and 71 percent of them did so on a daily basis. Germans watched an average of 3 hours and 41 minutes of television per day last year. The analysis from the Association of Private Broadcasting and Telemedia (VPRT) also shows that television programming is increasingly accessed online and through mobile devices: Over 55 percent of all online users accessed TV and video portals in 2013.

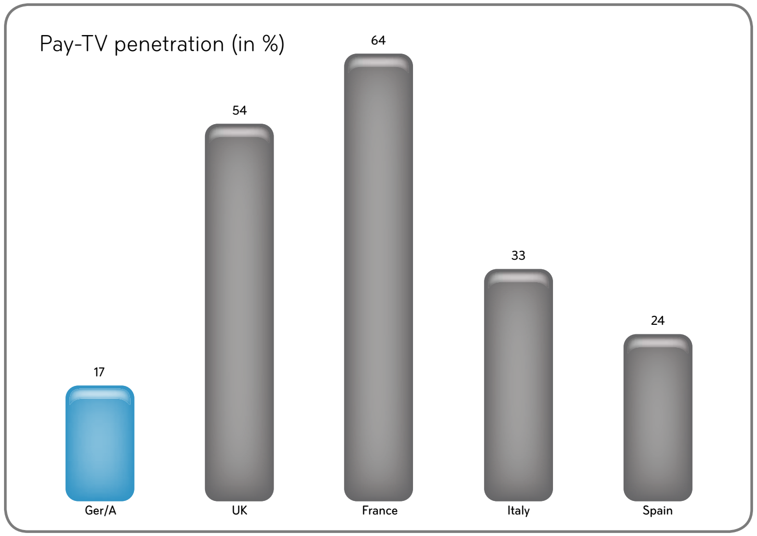
Pay-TV is currently the fastest-growing segment in the German television market, according to the VPRT. The association's most recent prognosis (October 2013) found that an ever increasing number of Germans are willing to pay for television. For 2013, German pay-TV and video-on-demand revenues grew by about 12 percent to more than €2 billion. The VPRT anticipates continued double-digit growth for 2014 as well as a constant positive market development for the upcoming years.

According to VPRT, technical advances as well as the significantly larger program offering are the main drivers of this activity. The increasing demand for video-on-demand and internet-based services is also driving growth. According to the association, Pay-TV broadcasters have significantly outpaced advertising-financed channels in 2013, with income from television spots only increasing by one percent to €4.1 billion.

With the most TV households, Germany and Austria combined is the largest market in Western Europe. However, the pay-TV penetration in Germany and Austria is at a relatively low level.



Source: SES, Satellite Monitor, Year End 2013



Source: VPRT: Pay-TV in Deutschland 2014, Ofcom: International Communications Market Report, December 2013

Competition

Sky competes with a number of media and entertainment companies to secure supply of high-quality programming for its customers. As a provider of TV entertainment, Sky faces competition from free-to-air (FTA) services, among others. In Germany and Austria, FTA channels operated by public and private broadcasters – in particular ARD, ZDF, ORF, RTL and ProSiebenSat.1 – offer competitive programming including movies, series and live sports. Furthermore, Sky competes with platform operators offering both pay-TV packages and VoD services. Sky also competes with over-the-top players who provide video-on-demand and subscription video-on-demand entertainment via the internet. Besides its core subscription business, Sky competes with other media and entertainment companies for advertising sales. To set itself apart from the competition, Sky focuses on the promise of delivering a unique entertainment experience through the combination of exclusive high-quality programming, innovation leadership and great customer service.

Political and legal environment

Sky actively monitors the ongoing political and legal debates taking place in Germany and at the European level and the potential implications for its business. At this time, the major areas of focus are the net neutrality debate, the development of a modernized copyright law, and the discussions concerning a future convergent media regulation. A further issue of importance is the EC investigation into cross-border provision of pay-TV services, where Sky is contributing to the fact-finding process.

Net neutrality – developments on national and EU level

Following a request of the European Council, the EC adopted a legislative package on 11 September 2013 entitled “Connected Continent: Building a Telecoms Single Market”. The goals of the package include building a competitive continent by establishing EU-wide rules on transparency, traffic management and net neutrality. On 3 April 2014, the European Parliament (EP) voted on sweeping changes to internet and mobile laws in the bloc of 28 Member States, targeting fairness for end-users and businesses alike by treating all internet traffic equally, regardless of its content or its provider. However, the legislative proposal also includes a clause on “specialized services”, which are not clearly defined, which will be exempt from the general rule of the open internet. Leaders from Europe’s 28 countries will need to approve the draft regulation, a process that could be drawn out through to the end of 2014. The adoption could also be slowed by the recently elected EP if it does not agree with the changes proposed by the European Council.

At national level, net neutrality will remain a major topic on the digital agenda. The coalition agreement explicitly demands a principle of non-discrimination which would prohibit unequal treatment of data packages in the open internet. More specifically, the agreement disallows favored transmission of providers’ own offerings or partner content. In August 2014, the German federal government presented the paper “Digital Agenda”. Accordingly, new business models for both, network operators as well as content providers shall be possible as long as those are not to the detriment of the best effort Internet. It remains to be seen whether net neutrality will become subject to any legislative action on either EU or German level.

Sky is closely monitoring the net neutrality debate in Germany and Europe as a whole, as audiovisual content is increasingly distributed over the open internet and, in this respect, various online distribution models are conceivable.

Media convergence in the digital age – trends to modernize the copyright and media framework

The German government also plans to establish a commission consisting of members of the federal government and representatives from the state governments to negotiate and decide on a new supervisory structure for the media and telecommunications industry. The commission will develop a joint position that has been agreed upon by the states. Sky welcomes a modernization of the current framework and is participating in the process. The coalition agreement also includes plans to realign copyright laws for the digital age with the particular intent of increasing the liability and responsibility of providers and simplifying copyright enforcement in the internet age.

There are similar intentions at the European level. Following a public consultation on copyright as part of its ongoing efforts to review and modernize EU copyright rules, a white paper on this matter is nearing completion. A final position statement is expected by autumn 2014 and will then be used by the a newly appointed Commission as the starting point for discussions on EU copyright reform. Sky endorses the efforts by policymakers to strengthen copyright enforcement. Sky also supports the European Commission's intention to modernize the rules on collective rights management and has advocated for transparency for rights users.

Regarding the case of the private movie website "kino.to", the Austrian Supreme Court referred the proceedings to the European Court of Justice (ECJ). On 27 March 2014, the ECJ determined that a legal ordinance consistent with European laws can oblige internet providers to block access to copyright-infringing websites with illegally acquired content. As a consequence, it is likely that German courts will require internet providers to block access to websites like kino.to, as is already done in other EU countries.

The new German interstate gambling treaty took effect in July 2013. A so-called advertising guideline specifies the conditions for advertising on TV and the internet in the sports betting market. Although the treaty provides that 20 sports betting licenses may be granted, the Hessian administration, which manages the process has not yet provided any sports betting licenses.

Sky contributes to the efforts to modernize the framework to reflect media convergence and to better enforce copyright laws. The protection of content as well as the regulatory framework for distribution and exploitation of audiovisual works is key for any media operator.

EC investigation on cross-border provision of pay-TV services

On 13 January 2014, the European Commission opened an investigation concerning certain cross-border provisions in the licensing agreements between major US movie studios (Twentieth Century Fox, Warner Bros., Sony Pictures, NBCUniversal and Paramount Pictures) and leading European pay-TV operators (Sky Deutschland, BSkyB, Canal+, Sky Italia and DTS Distribuidora de Television Digital SA). The focus is on contractual clauses that require the pay-TV operators to comply with so-called "absolute territorial exclusivity". According to the EU Commission, if provisions in these agreements prevent access to services outside the licensed territories, they may be in violation of EU competition law. However, the EC explicitly states that the question of the legality of granting territorial licenses within the EU is not an issue in this investigation. Sky received requests for information and is continuing to support the EC in the fact-finding process. The outcome and timing of the proceeding is not yet predictable.

Consolidation trends in the German cable market

In the second half of 2013, the Vodafone Group Plc acquired cable operator Kabel Deutschland AG. The transaction was cleared by the European Commission on 20 September 2013.

On 14 August 2013, the Higher Regional Court of Düsseldorf (OLG Düsseldorf) overturned the merger clearance decision issued by the German Federal Cartel Office (Bundeskartellamt) on 15 December 2011 for Liberty Global's acquisition of the cable operator Kabel BW. Liberty Global's appeal against the denial of leave to appeal is still pending at the Federal court of Justice. If the judgment becomes binding, the case will be remitted back to the German Federal Cartel Office for reexamination as to whether the merger should be cleared subject to stricter obligations.

Sky has commercial relationships with all aforementioned companies. The market impact of the cable merger remains to be seen.

The extent to which the issues described above could materially adversely affect the results of operations and the financial condition of Sky is described in the risk report.

Course of business

Business development

In the short financial year ending 30 June 2014, Sky Deutschland saw a strong net growth of direct subscribers, an all time low in churn rates and continued improvement of all key operational metrics. The continued subscriber growth reflects both strong underlying demand – particularly when considering that last year benefited from the exclusive games of German teams through the UEFA Champions League semi-finals – as well as the migration of Deutsche Telekom's former Liga total! IPTV customers. At the end of the period, Sky had 3,812,541 direct subscribers. As a result of the actions taken last year to improve the quality of customer growth, and the increasing level of two year contracts, churn rates were the lowest in the Company's history.

Sky Go – fully redesigned and expanded content

Sky Go, the leading online pay-TV service in Germany and Austria has been significantly expanded. Following a total redesign of the user interface in June 2014, customers now enjoy greater ease of use and quicker access to the enormous breadth and depth of programming. As part of the redesign, the entire Snap by Sky catalog is now also available for Sky customers with a Snap subscription, enabling them to watch all Sky Go and Snap content directly in one app.

New on Sky Go is a broad range of fascinating documentaries from Discovery Channel, Spiegel Geschichte, History, The Biography Channel, National Geographic Channel, and NatGeo Wild. Sky Go now also includes additional series and shows from partner channels Fox, TNT Serie, TNT Glitz, RTL Crime, 13th Street, SyFy, Universal Channel, Animax, AXN and Motorvision TV.

Sky Go: strong growth

Since April of this year, Sky Go has been available at no extra charge to all Sky customers, beginning with the Sky Welt and Sky Starter packages, and more customers than ever have chosen Sky Go to watch content both in and out of home. Over the course of Q2 2014, the number of customer sessions grew significantly by 72 percent year-on-year to 28.7 million, with the number of series watched on Sky Go doubling from Q1 to Q2. A big part of this success is the award-winning HBO series "Game of Thrones". Between April and July, the show was streamed more than 2.3 million times, which is a strong rise from a year ago, when "Game of Thrones" set a previous benchmark of over one million views.

For sport fans, the redesign offers an expanded overview with up-to-date sport news and clips, as well as recent statistics, live tweets and tickers from Sky Sport News HD, including a preview of current and upcoming live sporting events.

New features on Sky Go and Snap

In August, Sky introduced two great new features to Sky Go and Snap by Sky. "Bookmarking" ensures that if customers with an iPad, iPhone or iPod touch are interrupted while watching their favorite program, they can continue exactly at the point where they left off. The "Recently Watched" list allows customers the option to see the last 50 shows watched at a glance, which, when combined with the already existing youth protection feature, gives even more peace of mind to parents.

A growing number of HD channels

Sky pioneered the introduction of High Definition TV in Germany and Austria and continues to expand its comprehensive HD offering, now with up to 85 channels. The additions in 2014 include TNT Glitz HD, Spiegel Geschichte HD, Disney Junior HD, MTV Germany HD and ProSieben Fun HD.

Sky continuously strives to expand the choice of HD channels available to its distribution partners. As of May 2014, Vodafone IPTV customers who have subscribed to Sky Premium HD have access to 19 new HD channels and 17 new optional channels, including the Fußball Bundesliga package, the UEFA Champions League, DFB-Pokal, highlights of the UEFA Europa League, Formula One, tennis, golf, as well as even more top series, dramas, comedies, documentaries and kids programming.

All on one screen: Sky HD Fan Zone

The Sky HD Fan Zone allows viewers to watch multiple Fußball Bundesliga or UEFA Champions League matches in parallel on one screen and all live and in HD. Via their remote control, the viewers can decide which match they want to see in full-screen mode, switch from stadium to stadium and have the option to select between different audio tracks. To keep viewers informed with the latest sports news, the Sky Sport News HD live ticker and a social media feed are integrated into the Fan Zone. Since March 2014, Sky has also presented Formula One in the Sky HD Fan Zone. Viewers see the big race on a single screen with another four windows displaying the selectable channels Sky Onboard, Sky Pit Lane, Sky Timing Page and Sky Track Positions. In June, the Sky HD Fan Zone was used for the simultaneous broadcast of several Wimbledon matches.

The most modern sport studio in Austria

Since July 2014, Sky has broadcast from a new studio in Vienna that was designed and built specifically for this purpose. Cutting-edge technology allows a variety of options for live broadcasts, original shows and additional formats. The 24-hour sport news channel Sky Sport News HD also has access to the studio.

Austria: "Sky Go Erste Liga"

The Austrian Bundesliga and Sky Austria agreed to a multi-year cooperation that includes naming of the second-highest division in July 2014, which in the future will be known as the Sky Go Erste Liga.

Germany and Austria's number one golf broadcaster

Sky remains Germany and Austria's number one golf broadcaster. In March 2014, Sky Deutschland secured the multi-year, exclusive broadcasting rights for the U.S. Masters Tournament in Augusta, Georgia across all platforms. Sky also holds the exclusive rights to the U.S. Open, The Open Championship and the PGA Championship making it the television home of all four of golf's major championships. In addition, Sky is the exclusive German television broadcaster for the US PGA Tour, the European Tour and the Ryder Cup.

Wimbledon live and exclusively through 2018

In April 2014, Sky extended its exclusive rights to broadcast all matches of the world's most prestigious tennis tournament, Wimbledon. With this extension, Sky will continue to provide exclusive live coverage of the Grand Slam tournament in Germany and Austria. In addition to the TV broadcasting rights, the new agreement also includes the exclusive internet, IPTV and mobile rights. Sky customers can watch the action simultaneously on up to five different HD multifeeds, and for the first time, on one screen via the Sky HD Fan Zone as well. This is more Wimbledon than ever before on German TV.

PMG quotation ranking: Sky is the best private TV broadcaster

In the ranking of the most-quoted national and international media in Germany in 2013 published by press monitoring group PMG in January 2014, Sky was ranked highest among private TV broadcasters. With the 24-hour sports news channel Sky Sport News HD and 5,000 hours of live sports per year, Sky is the leading provider of sports programming throughout Germany and Austria. Additionally, Sky Sport News HD increased its reach by 57 percent compared to the previous year.

Extended agreement with Paramount

In February 2014, Sky entered into a multi-year extension of its licensing agreement with Paramount Pictures Germany. The agreement includes the pay-per-view and video-on-demand rights for current and future films from Paramount through the Sky Select and Sky Select on Sky Anytime services. Sky viewers will be able to enjoy movie hits such as “Jack Ryan: Shadow Recruit” with Chris Pine and Kevin Costner and “Labor Day” with Kate Winslet and Josh Brolin, as well as new titles from successful franchises such as “Transformers”, “Paranormal Activity” and “Terminator”.

New agreements with independent distributors

Following an agreement with independent film distributors Tobis, Prokino and SquareOne Entertainment, which was concluded in January 2014, Sky also secured the exclusive multi-platform broadcast rights to the 2014 Academy Award-winner for Best Picture “12 Years a Slave”, and Oscar nominee “American Hustle”.

In early August, and in addition to existing agreements with major Hollywood studios, Sky concluded new licensing deals with eight independent distributors securing exclusive multi-platform pay-TV and on-demand rights for a wide range of additional top movies. Among them are blockbusters such as “The Expendables 3”, “Sin City 2”, “Scary Movie 5”, as well as Oscar winner “The Great Beauty”.

2014 Academy Awards: all Oscar-winning films on Sky

As the home for all film fans, Sky is once again carrying all Oscar winners in their TV premiere – up to 18 months before broadcast on free-TV.

Among them:
- “Gravity”
- “The Great Gatsby”
- “Dallas Buyers Club”
- “Blue Jasmine”
- “Frozen”
- “12 Years a Slave”

Original production

As announced in February 2014, Sky is collaborating with Sky Italia and BSkyB on a TV series project. The companies are working together for the first time to develop a fictional series based on the popular Italian comic book “Diabolik”. In November 2013, Sky also announced that it would be the co-producer for the thriller series “100 Code” from Red Arrow Entertainment, for which Sky has secured all exclusive pay-TV and free-TV rights, including the SVoD rights for all platforms.

Sky Atlantic HD

Sky Atlantic HD – the home of HBO – carries the outstanding programs of HBO, the most successful premium channel in America. The exclusive hits that have already gone to air in 2014 on Sky Atlantic include the second season of “House of Cards”, the fourth season of “Game of Thrones”, the prison series “Oz”, the critically-acclaimed crime thriller “True Detective”, and the return of the successful Fox series “24: Live Another Day”. “Game of Thrones” and “House of Cards” are made available in the original language immediately after the US premiere on demand via Sky Go and Sky Anytime. To accompany the new season of “24”, Sky offered all eight prior seasons on demand over Snap by Sky. The first three seasons of “Game of Thrones” are available with the start of the fourth season via Sky Go and Sky Anytime.

More than 120 series premieres in 2014

Over the course of 2014, more than 120 series premieres are included in the Sky schedule. This underscores Sky's leadership position in high-quality exclusive content. Every one of the over 120 series premieres is broadcasted before its free TV premiere, and many of them are simultaneous with the US premiere.

Among them:

"Game of Thrones", 4th season, exclusive on Sky
"House of Cards", 2nd season, exclusive on Sky
"24: Live Another Day", 9th season, exclusive on Sky
"Dexter", final season, exclusive on Sky
"Downton Abbey", 4th season, exclusive on Sky
"The Knick", 1st season, exclusive on Sky
"The Leftovers", 1st season, exclusive on Sky
"Veep", 3rd season, exclusive on Sky
"Peaky Blinders - Gangs of Birmingham", 1st season, exclusive on Sky
"True Detective", exclusive on Sky
"Treme", 4th season, exclusive on Sky
"Masters of Sex", 2nd season, exclusive on Sky

Snap by Sky – the new Sky online media library

Snap by Sky is available on-demand via the web, iPad, iPhone, iPod touch, Apple TV and Samsung Smart TVs. An Android version became available exclusively for selected Samsung Galaxy smartphones and tablets in April 2014. For even more flexibility, many programs can be downloaded on the iPad and iPhone to watch offline with the new Sky Extra option. The films and series can also be viewed – many in German or the original language – through the Samsung Smart TV app or can be broadcasted via AirPlay from an iPad or iPhone through Apple TV directly to the customer's television. As of February 2014, Snap features a special section for kids with extensive children's programming. Currently, Snap encompasses a total of over 5,000 titles including box sets of complete seasons of award winning series.

Sky Home: innovative home screen for Sky receivers

In Q1 2014, Sky introduced Sky Home, an interactive and customizable start screen for Sky receivers that appears automatically when the Sky receiver is switched on. With this innovative service, Sky customers – including those who access Sky via cable – always have a full overview of the outstanding, high quality program line-up. It shows all the day's and week's best programs at a glance – across all linear Sky channels, as well as the Sky Anytime and Sky Select on-demand services, which are accessible via the Sky+ hard disk receiver. Programs on Sky Home can be bookmarked, recorded or started immediately, and through the combination of editorial recommendations and the customizable channel list in the category "My Favorite Channels", Sky customers are able to find what's most relevant and appealing to them even faster. In the "Kids TV" area, users can see what's currently running and what's coming up next on a range of pre-selected kid's channels.

Marketing and Sales

Sky launches "Crazy" campaign

"Get Sky or go crazy": this was the title of the new marketing campaign from Sky for the second quarter of 2014. The core of the campaign is a series of spots showing the difference between having "ordinary" free-TV and the full television experience with Sky.

Important industry awards

Snap by Sky, the new online video service from Sky, was named the "Best Connected TV Service Update or Launch" at the renowned Videonet Connected TV Awards in London in June 2014. The award honors technological innovation, outstanding achievements in the market and pioneering ideas in the field of connected TV.

In addition, Sky was named the "Best Pay-TV Provider in Germany" by readers of Auerbach Verlag in June 2014. More than three million readers of Auerbach publications were called on to vote. Following the string of successes in the category of "Best HDTV Provider" from 2011 to 2013, this is the fourth consecutive award for Sky.

At the 2014 Promotion, Marketing and Design Global Excellence Awards (PromaxBDA Awards) in New York, the Sky Creative Services department was recognized for its moving-image campaigns in a total of five categories. The awards are among the most prestigious in the industry worldwide.

Corporate functions

Group structure

Sky Deutschland AG controls all business activities of the Sky Group. Core operations are performed by Sky Deutschland Fernsehen GmbH & Co. KG and its subsidiaries. Unterföhring is Sky's primary location and is the registered office of Sky Deutschland AG and Sky Deutschland Fernsehen GmbH & Co. KG.

Investments

On 5 December 2013 Sky agreed to acquire 100 percent of the production company Plazamedia GmbH TV- und Film-Produktion, as well as a 25.1 percent non-controlling minority stake in Sport1 GmbH and Constantin Sport Marketing GmbH. On 19 May 2014, Constantin Sport Holding GmbH (the seller) sent Sky a withdrawal notice concerning this transaction. Sky believes this withdrawal notice to be invalid and is currently in the process of evaluating its options.

Extension of management contracts

By resolution dated 18 June 2014, the Company's Supervisory Board extended the employment contract of Brian Sullivan as Chief Executive Officer until 30 June 2016.

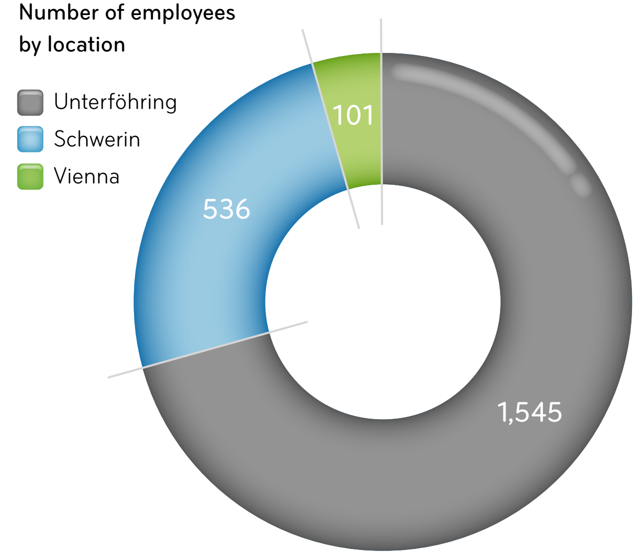
Elections of members to the Supervisory Board

During the Annual General Meeting on 10 April 2014, Dr. Stefan Jentzsch, Mark Kaner, James Murdoch, Harald Rösch, and Markus Tellenbach, whose terms of office ended with the conclusion of the General Meeting, were re-elected as Members of the Supervisory Board.

Employees

As of 30 June 2014, the Sky Group had 2,182 full-time employees. In comparison to year-end 2013, the number of employees rose by 4.7 percent (31 December 2013: 2,084 employees).

Number of employees by location



Remuneration report

Remuneration of the Management Board

The structure of the remuneration system for the Management Board is governed and regularly reviewed by the Supervisory Board. The Supervisory Board is responsible for determining the Management Board compensation, which establishes the appropriate remuneration individually.

Criteria for the appropriateness of the remuneration include the responsibilities of the individual Management Board member, his personal performance, the performance of the entire Management Board and the economic situation, the results and the future outlook of the Company within its competitive environment.

The structure of the remuneration system for the Management Board includes both a fixed base salary paid monthly and performance-based variable components. The predominant portion of the variable compensation is shaped as longterm compensation with two and three year planning periods that will be paid each year after expiration of the planning period; the remaining portion of the variable compensation will be paid as annual bonus in the respective following year. In addition, members of the Management Board receive further compensation. This additional compensation varies with the individual employment contract of each Management Board member and mainly involves reimbursement for housing costs, school fees, company car, life and health insurance and assumed pension contributions.

The annual bonus will be approved by the Supervisory Board on the basis of achievements of the determined objectives. For this purpose, the objectives of the Management Board members are allocated as follows: 20 percent based upon total revenues, 30 percent on EBITDA, 30 percent on net subscriber growth and 20 percent discretionary based on consideration of the individual contributions to the company's ongoing development. The annual bonus may generally not exceed a total of 100 percent achievement of objectives; with respect to the short financial year 2014, as an exception, a bonus based on an annual target achievement of approximately 110 percent will be paid.

All members of the Management Board receive a longterm variable compensation based on the company share price in the form of so-called Performance Share Units, which are distributed within the context of the so-called Longterm Incentive Plans. This was issued for the first time for the year 2011 (LTIP 2011) and subsequently for the financial years 2012 (LTIP 2012) and 2013 (LTIP 2013). In addition to the Management Board, the senior management levels also participate in the Longterm Incentive Plans. With respect to the change of the financial year the Longterm Incentive program starting with January 2014 is divided into 2 sections: the so called LTIP 2014 starts in January 2014 and ends in December 2016. Participants in this plan will be allocated with Performance Share Units roughly in the amount of 50 percent of their normal total entitlement. The so-called LTIP 2015 will run from July 2014 and ends in June 2017. With the circular resolution dated 2 April 2014, the terms and conditions for the longterm incentive plan for the financial year 2014 were resolved. The plan conditions and respective company key performance indicators, compared to the longterm incentive plan 2013 (LTIP 2013) remain unchanged. Brian Sullivan is not entitled to participate in the 2014 LTIP program. The LTIP 2015 is not yet resolved.

The cornerstones of all four Longterm Incentive Plans are arranged similarly. The plan participants are issued so-called Performance Share Units whose value depends both upon the company share price as well as upon key performance indicators that measure the success of the company (net subscriber growth and EBITDA less capital expenditure). After expiration of the performance term of three years the Performance Share Units will be converted into virtual shares in the company according to a conversion factor determined by the degree of achievement of objectives during the overall performance time frame. The degree of achievement of objectives may amount to between 50 percent and 200 percent, however it may not exceed 200 percent. After the conversion into virtual shares, the current company share value of these shares will be paid in cash to the plan participants, whereby the Supervisory Board has the ability to limit the payment amount per virtual share should the share value increase by 300 percent in connection with the time of the allocation of the Performance Share Units. A participant is not entitled to a payment if either the participant himself/herself terminates the employment relationship, or the company and the respective company of the group, respectively, terminates the employment relationship prior to the expiry of the performance period for reasons which lie in the responsibility of the participant (termination for cause). The CEO participates in LTIP 2013, but the performance share units granted shall vest after two years and the payment will be made at the beginning of January 2015.

The planning period of LTIP 2011 expired on 31 December 2013. Based on the assessed achievement of objectives an amount of €4,878,284 was paid to the Management Board members in April 2014 (while an amount of €4,637,383 was paid to the other plan participants).

In the context of LTIP 2014 72,735 Performance Share Units were distributed to the three members of the Management Board Steven Tomsic, Dr. Holger Enßlin and Carsten Schmidt.

Longterm Incentive Plans are also mentioned in the notes to the consolidated financial statements (see paragraph 4.8 “Earnings of The Management Board and the Supervisory Board”) as well as in the notes to the separate financial statements (see Paragraph IV. “Other Statements”).

Following the Supervisory Board meeting on 11 June 2014, with circular resolution on 18 June 2014 the Supervisory Board extended the appointment of the Chief Executive Officer, Brian Sullivan, to 30 June 2016 and amended his employment contract. The Extension and Amendment Agreement includes an early termination option at the earliest as of 30 June 2015. The new regulation includes an increased fixed monthly basic salary as well as an increase of the short-term performance-oriented salary component and an extension of other remuneration components already defined in the employment contract from 19 December 2012 (relocation cost, health insurance). In addition, a share-based compensation was granted in the form of a participation in the future LTIP 2015. As already included in the Extension and Amendment Agreement from 19 December 2012 Brian Sullivan will not participate in the LTIP 2014. The share-based compensation component granted to Brian Sullivan on 19 December 2012, which will result in a one-off payment on the basis of 500,000 shares, remains unchanged.

Effective with the resolution of the LTIP 2015 by the Supervisory Board, Brian Sullivan shall be entitled to participate in such LTIP 2015 with a value of €4 million, reflected by the respective number of Performance Share Units. For the calculation of the number of Performance Share Units to be granted, the Volume Weighted Average Share Price in June 2014 shall be determinative. The terms and conditions of the not-yet resolved LTIP 2015 shall apply subject to the following: the target achievements shall be calculated based on target values defined for the period 1 July 2014 until 30 June 2016 and the cash payment will be made by 31 July 2016. The Performance Share Units of the LTIP 2015 shall vest on 30 June 2016, if Brian Sullivan serves the company as its CEO at least until 30 June 2015; otherwise, all claims under the LTIP 2015 will forfeit. An agreed termination, as further specified in the Extension and Amendment Agreement, before the end of 30 June 2016 leads to a pro-rata payment entitlement to be calculated on a two years vesting period. Instead of the payment under the LTIP 2015 Brian Sullivan has an option to receive a compensation to be bound by a post-contractual non-competition covenant for one year against receiving a compensation of €1 million gross plus 66.67 percent of the annual bonus paid for the fiscal year 2015.

Agreements relating to one-time payments, such as termination payments in the case of non-renewal of employment contracts or a change of control, do not exist. Pension benefits are granted based on individual contracts. In the contracts already concluded, a minimum payment is guaranteed. The financing is carried out through payments to a special pension fund. The contract is secured through the pension insurance association. In the event of death, the fixed remuneration continues to be paid for the month in which death occurs and the following three months to the widow and/or the dependent children. The variable remuneration is paid proportionally through the end of the month of death. No further agreements exist regarding payments to survivors.

In the event of a termination of employment, it is set forth in the employment contracts of the Management Board members that the Company is entitled to cause leave of absence upon the revocation of the appointment as Management Board member, taking into account vacation entitlements and continuation of the fixed remuneration. The termination of the activity is generally governed explicitly on an individual basis in connection with a termination agreement. The termination agreement usually contains comprehensive non-compete obligations and is consistent with the recommendations of lit. 4.3 of the German Corporate Governance Code.

The individualized remuneration of the members of the Management Board for the 2014 short financial year, which is divided in each case into a fixed and performance-based component, as well as other statements regarding the share-based payments, are part of the notes to the consolidated financial statements (see Item 4.8 “Remuneration of the Management Board and the Supervisory Board”) and of the notes to the separate financial statements (see Item IV. “Other disclosures”). In total, the granted compensation of the Management Board in accordance with GAS (German Accounting Standard) 17 amounted to €3.9 million.

Compensation of the Supervisory Board

The compensation of the Supervisory Board is governed by section 12 of the company charter and is in accordance with legal requirements and recommendations of the German Corporate Governance Code.

It provides for a fixed compensation as well as an additional compensation for the chairman and committee membership. Members of the Supervisory Board receive a fixed annual compensation in the amount of €70,000. The chairman and acting chairman of the Supervisory Board each receive €100,000. In addition, each committee chairman receives €15,000 annually, and every other committee member receives €5,000 annually, however compensation may never exceed €100,000 inclusive of the fixed compensation mentioned above. Partial fiscal year service as a member of the Supervisory Board and respectively chairman or acting chairman of the Supervisory Board or of a committee is compensated proportionally. The compensation is payable at the end of each fiscal year.

In addition, the company reimburses members of the Supervisory Board for expenses incurred in exercising their Supervisory Board mandate as well as any payable sales and/or value added tax added to their compensation and expenses.

The company has arranged and pays the premiums for pecuniary damage liability insurance on behalf of the members of the Supervisory Board (Directors and Officers Insurance) under reasonable and usual market terms (including deductible).

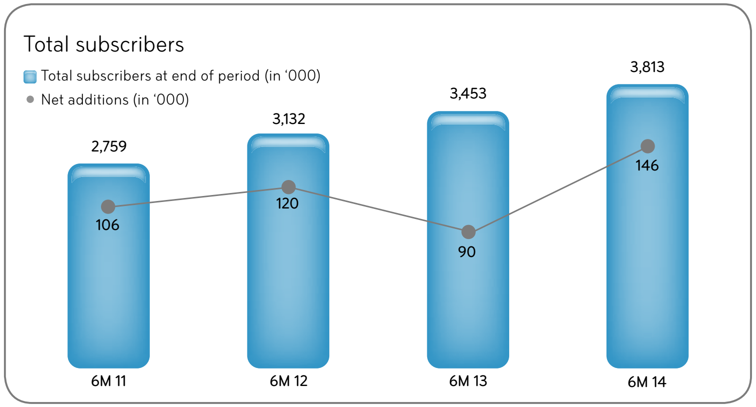
The compensation of the Supervisory Board for the short financial year 2014, in each case allocated to fixed and other compensation, is contained in the notes to the consolidated financial statements (see paragraph 4.8 “Earnings of the Management Board and the Supervisory Board”). The compensation of the Supervisory Board for the short financial year 2014 amounted to the sum of €0.6 million (12M 2013: €1.0 million).

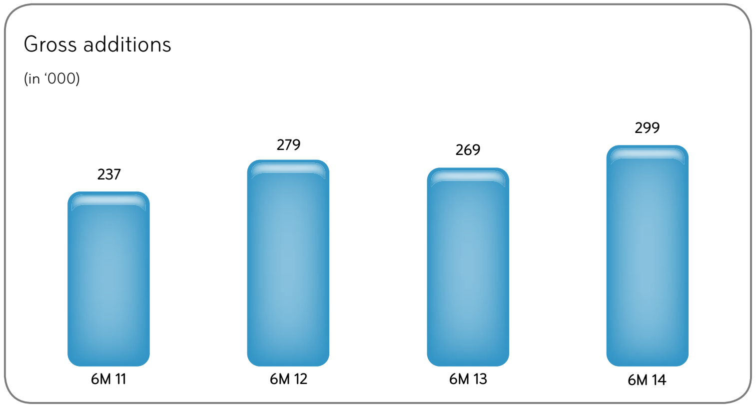
Subscriber metrics and quarterly trends

'000	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Direct subscribers[1)] at beginning	3,731	3,667	3,529	3,453	3,405
Gross additions[2)]	154	145	244	185	131
Churn[3)]	–72	–81	–106	–109	–84
Net growth	82	64	138	76	48
Direct subscribers at end	**3,813**	**3,731**	**3,667**	**3,529**	**3,453**
Sky Welt HD subscribers (in '000)	2,974	2,834	2,713	2,572	2,277
Premium HD subscribers[4)] (in '000)	1,900	1,851	1,799	1,752	1,697
Premium HD penetration rate[5)] (in %)	49.8	49.6	49.1	49.6	49.1
Premium HD subscribers including HD free-visions at end of period[6)] (in '000)	2,236	2,106	2,025	1,869	1,760
Premium HD penetration rate including HD free-visions[7)] (in %)	58.6	56.4	55.2	53.0	51.0
Sky+ subscribers[8)] (in '000)	1,681	1,576	1,480	1,296	1,171
Sky+ penetration[9)] (in %)	44.1	42.2	40.4	36.7	33.9
Second smartcard subscribers[10)] (in '000)	451	443	429	410	393
Second smartcard penetration[11)] (in %)	11.8	11.9	11.7	11.6	11.4
Subscription ARPU[12)] (in €, monthly)	34.59	34.58	34.56	34.07	33.74
Churn rate[13)] (in %, annualized)	7.7	8.8	11.8	12.5	9.7
Churn rate[13)] (in %, 12-month rolling)	10.1	10.6	11.2	11.8	12.0
Wholesale subscribers (in '000)	213	258	268	280	124

1) Direct subscribers include monthly contract subscribers (residential customers and commercial subscriptions (e.g., bars, hotel rooms – including hotel rooms served by distribution partners – and other public venues)) to at least one of Sky's channel packages and/or subscribers who purchased pay-per-view. Direct subscribers also include subscribers through cooperative arrangements (e.g. triple-play offers). Transitional periods are reflected in connection with the activation of new contracts and the termination of existing contracts.
2) Gross additions consist of all new direct subscribers with an activated smartcard in a given period. New direct subscribers who had an active subscription within the last twelve months and were disconnected are not included; these subscribers are classified as reconnections from former subscribers. Q1 2014 gross additions include the 5k subscribers due to a one time migration as part of a marketing cooperative arrangement.
3) Churn for a given period is defined as the number of direct subscribers who terminated their subscriptions, or who have not paid their bill and had their subscriptions terminated following the Company's dunning process, or who have left their contract for other reasons (e.g. deceased), less the number of reconnections from former subscribers (as described in footnote 2).
4) Premium HD subscribers are subscribers who have subscribed to Sky's premium HD channels. The respective revenue contribution of premium HD subscribers is included in ARPU.
5) HD penetration is defined as the relation of premium HD subscribers to the total number of direct subscribers at the end of the respective period.
6) Premium HD subscribers including HD free-visions comprise subscribers who have either subscribed or have free access to Sky's Premium HD channels. The respective revenue contribution of Premium HD subscribers is included in ARPU.
7) Premium HD penetration including HD free-visions is defined as the relation of subscribers who have either subscribed or have free access to Sky's Premium HD channels to the total number of direct subscribers at the end of the respective period.
8) Sky+ subscribers receive Sky's programming and Sky's video-on demand service with an HD-capable hard disk receiver.
9) Sky+ penetration is defined as the relation of Sky+ subscribers to the total number of direct subscribers at the end of that period.
10) Second smartcard subscribers comprise subscribers who have subscribed to a second smartcard. The respective revenue contribution of second smartcard subscribers is included in ARPU.
11) Second smartcard penetration is defined as the relation of second smartcard subscribers to the total number of direct subscribers at the end of that period.
12) ARPU is defined as monthly average subscription revenues (including pay-per-view) for a given period divided by the average number of direct subscribers in that period. Sky uses ARPU among other indicators as a measure of its operating performance. Sky believes that ARPU is a useful measure of the extent to which Sky's direct subscribers opt for the full range of its programming. However, ARPU is not recognized as a measure under IFRS and should not be considered a substitute for any income statement data as determined in accordance with IFRS or viewed as a measure of profitability. Because not all companies calculate ARPU in the same way, Sky's presentation of ARPU is not necessarily comparable to similarly titled indicators used by other companies.
13) The churn rate for a given period is defined as the number of direct subscribers who churned their subscriptions during the course of a given period, divided by the average number of direct subscribers in that period (calculated by dividing the sum of the number of direct subscribers on the first day of that period and on the last day of that period by two) and multiplied by four when referring to a quarterly period, by two when referring to a half-year period and by one when referring to a full-year period.

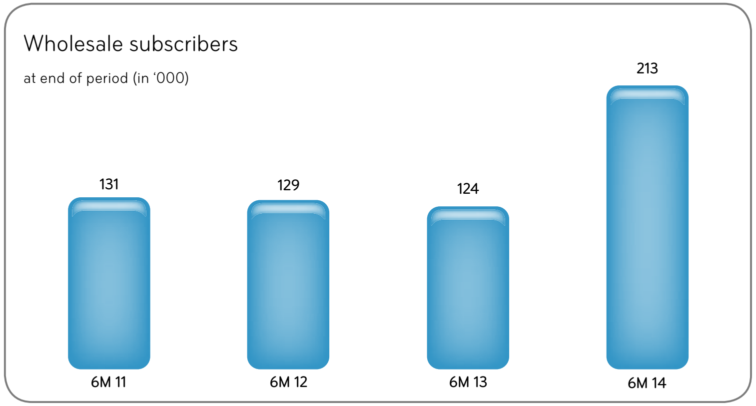
In the short financial year 2014, Sky Deutschland saw strong net growth of direct subscribers, an all time low in churn rates and continued improvement of key operational metrics. **Direct subscriber net growth** increased by 145,690 (6M 2013: 89,971) to 3,812,541 direct subscribers at the end of the period (30 June 2013: 3,453,022). **Gross additions** grew by 11 percent to 298,967 (6M 2013: 268,795). The continued subscriber growth reflects the strong underlying demand for Sky – particularly when considering that the comparable period of the previous year benefited from the excellent performance of the German teams in the UEFA Champions League – as well as the migration of Deutsche Telekom's former Liga total! customers.

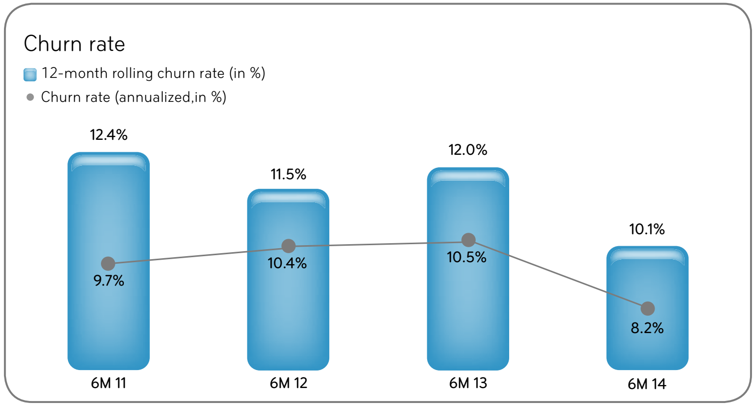




Wholesale customers include the former Liga total! IPTV and mobile customers in connection with the cooperation with Deutsche Telekom, added in Q3 2013. The ongoing migration of former Liga total! customers to direct Sky subscriptions resulted in a decrease in wholesale customers from 257,629 at the end of Q1 2014 to 212,680 at the end of Q2 2014.

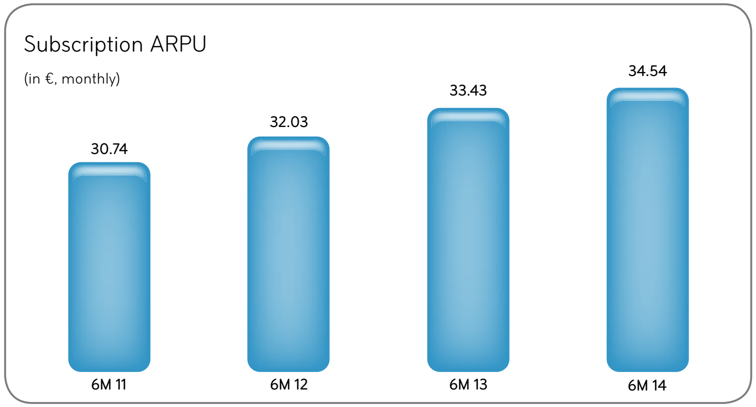
As a result of the actions taken last year to improve the quality of customer growth, and the increasing level of two-year contracts, customer loyalty has improved significantly, with the **quarterly annualized churn rate** decreasing to 8.2 percent (6M 2013: 10.5 percent) and the **12-month rolling churn rate** to 10.1 percent (2013: 12.0 percent). Both represent the lowest rates in the Company's history and are among the best in the industry.

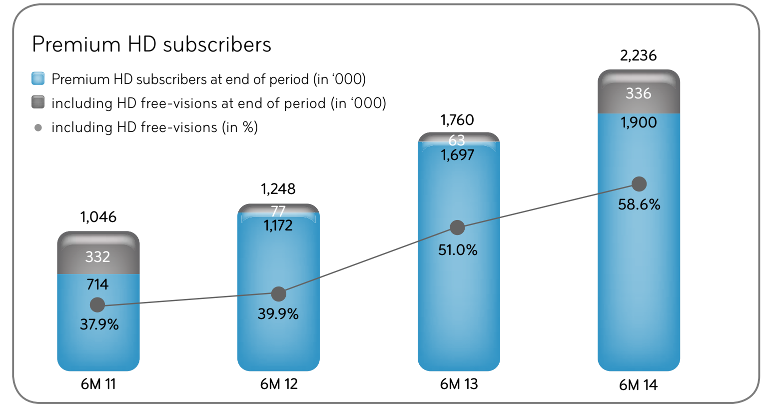




The Average Revenue Per User (**ARPU**) for the six month period 2014 increased to €34.54 (6M 2013: €33.43).

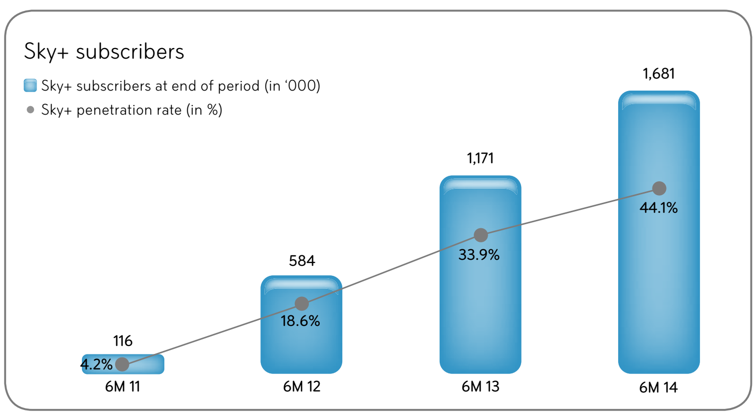
The total number of **Sky Premium HD customers** grew in the short financial year 2014 by 101,154 (6M 2013: 182,951) to 1,899,858 (30 June 2013: 1,696,987). When including customers with free access to this service, such as those with the first year free as part of a two-year contract, the short financial year of 2014 saw the number of Premium HD customers increase by 210,140 (6M 2013: 162,231) to a total of 2,235,625 customers (30 June 2013: 1,760,309) receiving Sky's Premium HD channels.

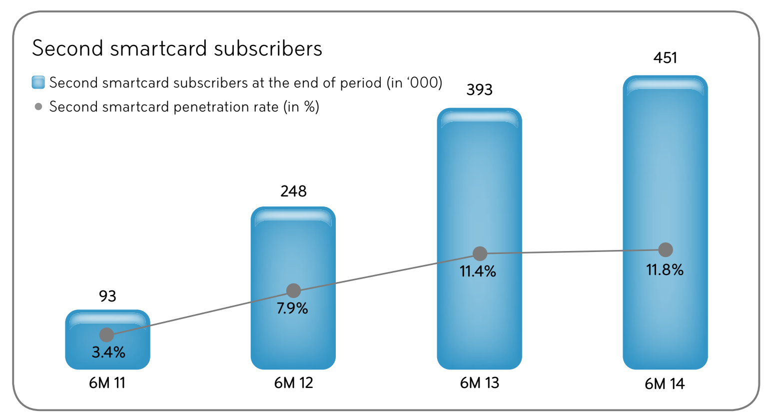




Sky+ continued its strong growth over the course of the reporting period with the number of customers increasing by 201,346 (6M 2013: 241,865) to 1,681,360 (30 June 2013: 1,170,607). 44.1 percent of Sky subscribers benefit from the convenience and flexibility of a Sky+ receiver by the end of the short financial year 2014 (30 June 2013: 33.9 percent).

A total of 451,438 customers, up from 393,027 (as of 30 June 2013) subscribed to the **Sky Zweitkarte** (second smartcard), demonstrating that the number of customers enjoying Sky's great entertainment line-up simultaneously on multiple TV sets in their home is steadily increasing.





With the number of customer sessions growing significantly by 72 percent to 28.7 million over the course of the short financial year 2014, **Sky Go** delivered a new record performance, underscoring the popularity of the leading online-TV service in Germany and Austria.

Net assets, financial position and results of operations

Results of operations

The following figures refer to the six-month period of the respective year, unless indicated otherwise.

Revenues

Total revenues increased to €848.3 million (6M 2013: €739.4 million), driven by an increase in subscription revenues of €91.5 million to €775.1 million (6M 2013: €683.6 million) due to both a larger number of fixed-term contract subscribers and an increasing ARPU. Subscription revenues also include revenues from direct subscribers who have subscribed to Sky via the IPTV platforms of Deutsche Telekom and Vodafone. Advertising revenues increased to €21.8 million (6M 2013: €17.5 million). Hardware revenues decreased to €16.7 million (6M 2013: €17.2 million), mainly due to lower income from activation fees. Wholesale revenues amounted to €13.4 million (6M 2013: €6.2 million). The increase is mainly attributed to the cooperation agreement with Deutsche Telekom which started in the second half of 2013, and partly comprises former Liga total! IPTV customers and partly Deutsche Telekom mobile customers who have ordered the Bundesliga service via the mobile TV offering of Deutsche Telekom. Other revenues increased to €21.3 million (6M 2013: €14.9 million), primarily from rights granted to Deutsche Telekom and Vodafone to distribute and market Sky services.

Costs

Cost of sales totaled €681.2 million (6M 2013: €575.4 million). Programming costs increased to €491.1 million (6M 2013: €407.9 million), mainly driven by higher Bundesliga license costs as well as higher costs for film licenses. Technology costs amounted to €94.4 million (6M 2013: €83.2 million). The increase resulted from higher fees for cable broadcasting, the leasing of additional transponder capacity and higher playout costs, mainly driven by an increased number of HD channels. Customer service and other cost of sales increased to €48.9 million (6M 2013: €43.3 million), which is largely attributable to the increase in customer contacts associated with a higher subscriber base. Hardware costs increased to €46.8 million (6M 2013: €40.9 million). The increase resulted primarily from higher depreciation for receivers recognized under non-current assets and higher logistics costs.

Selling expenses increased by €18.2 million to €121.5 million (6M 2013: €103.3 million). The increase is mainly a result of higher marketing expenses. General and administrative expenses increased to €65.6 million (6M 2013: €62.9 million), primarily as a result of higher IT costs as well as higher legal and consulting charges.

The increase in depreciation and amortization recognized as cost of sales mainly results from the higher volume of rented receivers and the corresponding depreciation of the receivers over their expected useful lives.

The other operating result amounted to €5.0 million (6M 2013: €2.9 million) and is primarily due to income from damage claims.

Operating result

	6M 2014	6M 2013	Change (absolute)	Change (%)	12M 2013
Revenues (in € million)	**848.3**	**739.4**	**108.9**	**14.7**	**1,546.4**
Operating costs (in € million)	811.6	696.8	114.8	16.5	–1,511.7
EBITDA (in € million) 1)	**36.7**	**42.6**	**5.9**	**–13.8**	**34.7**
EBITDA-margin (in %)3)	4.3	5.8	–1.4		2.2
Depreciation and amortization (in € million)	51.7	41.7	10.0	24.0	86.9
Amortization of subscriber base (in € million)	0.7	0.7	0.0	0.0	1.4
EBIT (in € million)2)	**–15.7**	**0.1**	**–15.8**	**>100**	**–53.5**
EBIT-margin (in %)3)	–1.9	0.0	–1.9		–3.5

1) Earnings before interest, taxes, depreciation and amortization
2) Earnings before interest and taxes
3) Ratio of EBITDA/EBIT to revenues

The development of the EBITDA was driven by an increase in operating costs of 16.5 percent to €811.6 million (6M 2013: €696.8 million), while revenues increased by 14.7 percent to €848.3 million (6M 2013: €739.4 million).

Financial result

The financial result was negative €36.2 million (6M 2013: negative €35.9 million). This includes interest and similar expenses in the amount of €33.8 million (6M 2013: €25.4 million) relating to the shareholder financing by 21st Century Fox Adelaide Holdings B.V. and Twenty-First Century Fox, Inc. The increase was due to higher fees for the Bundesliga guarantee which is linked to the annual Bundesliga license fee. Moreover, the granting of the shareholder financing took place in February 2013 leading to a longer interest period in 2014.

With regard to the debt financing arrangement concluded with the banking syndicate, interest expense in the amount of €1.8 million (6M 2013: €10.3 million) was incurred. The decrease was due to the lower credit volume and better terms and conditions of the current bank financing.

Consolidated net earnings

For the period ending 30 June 2014, earnings before taxes were negative €51.9 million (6M 2013: negative €35.8 million). Income taxes comprise deferred tax expenses in the amount of €4.0 million (6M 2013: €2.7 million). The consolidated net income after taxes was negative €55.9 million (6M 2013: negative €38.5 million). Total comprehensive income was negative €58.9 million (6M 2013: negative €38.2 million).

Basic/diluted earnings per share were negative €0.06 (6M 2013: negative €0.04).

Financial position

Capital development

On 5 December 2013, Sky Deutschland AG, Sky Deutschland Fernsehen GmbH & Co. KG, 21st Century Fox Adelaide Holdings B.V., Twenty-First Century Fox, Inc. and 21st Century Fox America, Inc. signed a financial support agreement regarding the purchase of company shares in Plazamedia GmbH TV- und Filmproduktion, in Sport1 GmbH and Constantin Sport Marketing GmbH. In Q2 2014 this financial support agreement was amended to cover general corporate purposes and investments in production capabilities. The credit line amounts to €78.5 million. The agreement between Sky Deutschland AG and the members of the existing bank syndicate on the extension of the existing credit facilities, guaranteed by Twenty-First Century Fox, Inc., was amended accordingly. Under this agreement, the guarantee fee will be at a rate of 6.0 percent per annum.

Liquidity

The following figures refer to the six-month period of the respective year, unless indicated otherwise.

Cash flows from operating activities amounted to €27.1 million (6M 2013: €47.8 million). Cash inflows from the positive EBITDA in the amount of €36.7 million (6M 2013: inflows €42.6 million), adjusted by non-cash expenses in the amount of €3.4 million (2013: €4.4 million) were partly offset by changes in working capital in the amount of €13.9 million (outflows) (6M 2013: outflows €0.6 million). Cash flows from operating activities also include the cash flows in connection with the acquisition of film assets and advance payments for sport and film rights.

The cash outflow from investing activities amounted to €61.0 million (6M 2013: outflow €95.5 million). This includes payments for investments in intangible assets and property, plant and equipment which primarily related to the acquisition of receivers and associated licenses as well as investments in software.

Cash outflow from financing activities amounted to €39.8 million (6M 2013: inflow €223.5 million). The outflow of funds is the result of interest payments, the repayment of finance lease liabilities as well as payments for transaction costs in connection with financing.

At the end of the short financial year 2014, Sky had at its disposal liquid funds of €123.2 million (31 December 2013: €196.9 million) and undrawn credit facilities of €72.7 million (due to their specific nature this amount does not include the extension of the existing credit facilities in the amount of €78.5 million mentioned in the section capital development above). The existing financing facilities (excluding guarantees and capitalized interest) were utilized in the amount of €495.6 million (2013: €495.6 million). Thereof, €31.3 million were classified as equity according to IAS 32.

With regard to the capital structure we refer to the statements in the notes to the consolidated financial statements under item 2.8.1 (“Borrowings”).

Net assets

The following figures refer to the reporting date 30 June 2014 and in relation to the past financial year to the reporting date 31 December 2013 (referred to as “2013”).

Trade receivables increased by €4.9 million to €81.3 million (2013: €76.4 million). The increase was mainly due to higher receivables from cooperation partners, mainly Deutsche Telekom and Vodafone, in the amount of €7.7 million which was partly offset by the reduction of outstanding receivables from subscribers in the amount of €2.3 million as a result of seasonal patterns. Other financial assets decreased slightly to €2.1 million (2013: €2.3 million). The increase in film assets and advance payments for sports and film rights to €131.2 million (2013: €112.0 million) was mainly due to an increase in film assets in the amount of €17.2 million in connection with the purchase of film licenses, as well as an increase in advance payments for sports and movie rights in the amount of €1.6 million. Inventories (mainly receivers) amounted to €15.1 million (2013: €26.3 million). Upon delivery to subscribers receivers are reclassified from current to non-current assets. The decrease in inventories is mainly due to the aforementioned reclassifications which were not offset by receiver purchases. Intangible assets amounted to €721.6 million (2013: €716.8 million). The additions from investments in software and receiver licenses were partially compensated by scheduled amortizations. Property, plant and equipment amounted to €26.1 million (2013: €26.5 million). The carrying amount of receivers, recognized under non-current assets, amounted to €188.8 million (2013: €196.3 million) and includes leasing hardware components (receivers, external hard-disks and CI+ modules) in the amount of €31.2 million. Other assets decreased to €28.6 million (2013: €33.4 million), mainly due to lower prepayments.

Shareholders' equity decreased by €58.9 million to €272.3 million (2013: €331.2 million), based on the loss for the period. At the end of the short financial year 2014, the ratio of equity to total assets was 20.7 percent (2013: 23.9 percent).

Total liabilities decreased to €1,045.8 million (2013: €1,055.7 million) and were affected by the following developments: borrowings decreased slightly to €548.6 million (2013: €551.6 million). These include finance lease liabilities, mainly in connection with abovementioned leasing of hardware components, in the amount of €41.1 million (2013: €47.5 million). Net financial liabilities (financial liabilities less cash) amounted to €425.4 million (2013: €354.7 million). Trade payables decreased slightly to €286.0 million (2013: €289.0 million). The primary reason was a decline in other liabilities mainly resulting from lower liabilities from receiver purchases which was partially offset by an increase in liabilities in connection with the purchase of film licenses. Other financial liabilities amounted to €56.2 million (2013: €68.9 million). The decrease was primarily due to lower liabilities to employees, particularly in connection with share-based compensation programs. Other provisions increased slightly to €13.9 million (2013: €13.3 million). Other liabilities amounted to €65.0 million (2013: €61.0 million) primarily due to higher VAT liabilities that arise from seasonal patterns.

Deferred tax liabilities amounted to €63.6 million (2013: €60.8 million) and relate primarily to the different amortization methods in relation to intangible assets that are applied for tax purposes.

Overall economic situation and comparison of forecasts reported in the prior period with actual business development

Due to a constant focus on high-quality exclusive content, cutting-edge innovation and outstanding customer service, Sky again delivered strong operational and financial growth in the short financial year 2014.

Despite increased cost of sales, EBITDA was positive for the short financial year 2014 and amounted to €36.7 million (6M 2013: €42.6 million). Total direct subscribers increased by 145,690 to 3,812,541 (31 December 2013: 3,666,851). Total revenues grew by 14.7 percent and amounted to €848.3 million (6M 2013: €739.4 million).

With regard to the full-year forecast for 2014 presented in the 2013 combined management report, the development of the most important KPIs in the six-month period of 2014 was in line with expected development for the period. EBITDA and total subscribers were slightly above whereas total revenues were only slightly below expectations.

The acquisition and extension of other exclusive sports and film rights – along with enhancements of Sky Go and Snap and launches of new services like Sky Home – form the foundation for further growth and achieving sustainable profitability. Thus again in 2014, Sky made significant progress in successfully implementing the strategy it pursues.

Report on post-balance sheet date events

Tender Offer to Sky Deutschland's shareholders

On 25 July, Twenty-First Century Fox, Inc. announced its intention to combine its European satellite television holdings. As part of this proposed transaction BSkyB has agreed to acquire the Twenty-First Century Fox 57.4 percent equity stake (fully diluted) in Sky Deutschland AG.

On 3 September 2014, Sky German Holdings GmbH an indirect wholly owned subsidiary of British Sky Broadcasting Group plc published, in accordance with sections 34, 14 paras. 2 and 3 of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz, WpÜG), the offer document pursuant to sec. 11 WpÜG for its voluntary public takeover offer to all shareholders of Sky Deutschland AG for the purchase of all no-par value registered shares of Sky Deutschland AG that are not already held by the Bidder against payment of a cash consideration in the amount of €6.75 per Sky Deutschland AG Share.

On 16 September 2014, the Management Board and the Supervisory Board issued the joint statement pursuant to section 27 WpÜG in relation to the takeover offer. In the joint statement the Management Board and Supervisory Board - inter alia - described possible consequences for Sky Deutschland AG in case a transaction takes place. In terms of the change of control clauses described under the risk report below and the notes to the consolidated financial statements, Sky's management has sought and obtained waivers with regards to such termination rights from the relevant counterparties to several material agreements which are of particular importance to the Company. In the remaining cases the Management Board and Supervisory Board consider the exercise of termination rights in connection with the takeover offer to be unlikely or of limited economic or commercial consequence for the company if they were to be exercised.

Apart from the above and apart from transactions disclosed under the individual sections of this management report, no other post-balance sheet date events occurred.

Report on expected developments and on opportunities and risks

Report on expected developments

In comparison to the previous corresponding year's period Sky delivered strong growth in the short financial year 2014. The continued subscriber growth reflects both strong underlying demand – particularly when considering that last year benefited from the exclusive games of German teams through to the UEFA Champions League semi-finals – as well as this year's migrations of Deutsche Telekom's former Liga total! customers. As a result of the actions taken last year to improve the quality of customer growth, and the increasing take-up level of two year contracts, customer loyalty has improved significantly.

The expected business development is based on the assumptions that Sky intends to increase the market penetration of its Sky+ receiver, expand its HD offering, deliver new services and extend the availability of its programming. The strategic focus remains on growth and achieving sustainable profitability.

For the new 2014/15 financial year, Sky expects subscriber net growth of 400k to 450k, and full year EBITDA in the range of €80m to €110m, which will be supported by a continued strong increase in total revenues.

The risks and opportunities presented below could affect the expected business developments.

Risk report

Risk management system

Objectives

Sky believes that good corporate governance and the process of identifying business opportunities and taking on their associated risks in a controlled manner results in sustainable increases in enterprise value.

In applying this principle, the Management Board has installed a risk management system. The objective of this system is to identify risks at an early stage, evaluate them quickly and, where appropriate, initiate the appropriate measures to mitigate or eliminate the relevant risks.

The development of Sky's business is primarily affected by the competitive environment in which Sky operates, the economic environment and disposable income of TV households, changes in the market prices for broadcasting rights, the legal and regulatory environment and the availability of financing. Sky maintains a continuous and comprehensive risk inventory, with all risks documented systematically and evaluated on the basis of probability of occurrence and in terms of their potential impact on the business. The effectiveness of the existing risk management system is continuously reviewed to reduce the possible exposure and, if necessary, to take appropriate countermeasures. Nevertheless even a suitable and functioning risk management system cannot guarantee the identification and management of all risks.

Risk management functions

The Management Board is responsible for Sky Group's risk management, for defining the risk management policy and deciding on the extent that risks are borne by Sky and their subsequent management.

The Management Board has installed a Risk Committee to analyze and discuss selected group-wide strategic and operational risks and to assess whether Sky's current risk profile is adequate or whether further risk mitigating measures need to be implemented. The duties of the Risk Committee also include discussing suggestions for risk reduction measures and deciding whether they should be continued and/or implemented. The Risk Committee consists of the members of the Management Board, selected Executive Vice Presidents (EVPs) and the Risk Manager.

The Risk Manager's main responsibility is to facilitate and monitor the risk management process. This includes ensuring that all relevant information regarding risks is provided in an appropriate quality from all Risk Responsibles and Risk Owners across the business. The Risk Owners are the members of the Management Board, the EVPs and all direct reports to the CEO. The Risk Responsibles are generally all managers who directly report to members of the Management Board or the EVPs. To obtain an overview of the risk profile, the Risk Manager also aggregates similar risks. The consolidated risks as well as the individual source risks are reported to the Management Board, Risk Committee and Supervisory Board. The Risk Manager organizes and participates in the Risk Committee. The Risk Manager serves as the internal and external contact person on risk management issues.

The Corporate Audit Department is engaged to audit the accuracy, reliability and efficiency of the business processes and organizational procedures within the Group on an annual basis.

Additionally, the key processes of the risk early warning system, which is a component of the risk management system, are audited by the external auditor pursuant to Sec. 317(4), German Commercial Code (HGB), as to whether these processes are able to identify risks that may threaten Sky's ability to continue as a going concern.

Structures and processes

Risks are defined as conditions or events that can negatively impact the achievement of Sky's business objectives or longterm strategic goals, cause business interruptions or threaten the existence of the Company. The risk definition includes the non-occurrence of an expected positive development as well as the occurrence of a negative development, which both might have a negative impact on Sky's results or reputation. Conditions or events have to be uncertain regarding their likelihood of occurrence or their impact on the business.

According to the abovementioned definition, the Risk Responsibles identify all possible risks on the basis of Sky's strategy and the tasks and objectives of each business division. The Risk Owners verify the completeness and approve the risk profile of their respective areas and the Risk Manager supports this process. In order to ensure that all risks have been identified, all business divisions and subsidiaries are included systematically.

After risks have been identified by the Risk Responsibles, they evaluate them within the risk management process on a quarterly basis or ad hoc, if deemed necessary. The evaluation process is generally based on a qualitative assessment, e.g. expert knowledge, historic data or forward-looking information and usually not on quantitative calculations, simulation techniques or sensitivity analyses. The goal of the risk evaluation is to obtain an adequate assessment of the importance of the risks on the basis of factors like failure to achieve business objectives, reputational damage or the ability to tie up management resources and to create a risk ranking. To visualize which risks pose the highest threat to the viability of the company, they are classified within a grid as “marginal”, “minor”, “moderate”, “significant” and “major” in terms of the likelihood of their occurrence and their potential impact on the business. Risk Owners and the Risk Committee verify the risk evaluation of company-wide risks in the context of the whole organization.

Risk evaluation is followed by risk reporting and risk monitoring. The regular reporting process is initiated on a quarterly basis after the Risk Responsibles and Risk Owners have updated their respective risks. Afterwards, the Risk Manager presents the entire risk profile of the Company to the Management Board, the finance and compliance departments as well as to Corporate Audit and the external auditors. In the risk report the qualitative classification of risks is added using quantitative benchmarks that serve as a reference only. To embed the risk management system in the overall corporate governance structure, an information exchange between Risk Management, Corporate Audit, Internal Control System (ICS) and Compliance takes place in the form of a quarterly Corporate Governance meeting where participants share their views on topics such as recent business developments, risk management process outcomes or audit findings that may be important for the other parties. Further, the risk profile is presented to the Risk Committee and to the Audit Committee of the Supervisory Board annually. Risk management also encompasses an early risk recognition system to identify risks as early as possible. Irrespective of the quarterly update of the risk profile, Risk Responsibles and Risk Owners are instructed to inform the Risk Manager immediately when significant new risks have been identified or when significant negative developments of existing risks occur. To ensure risk awareness, as well as quality and completeness of identified risks and risk mitigating measures the Risk Manager conducts meetings with the Risk Responsibles at least once a year.

Risk monitoring is an ongoing process that aims to continuously check the effectiveness of the overall risk management system and whether the risk management system corresponds to the actual processes. At Sky, the identified risks and the risk mitigating measures are derived from the corporate strategy and the business objectives. The risk management system may have to be adapted as a result of any changes to the corporate strategy and the business objectives. Monitoring also includes the ongoing review of any changes to the business to identify and constantly update Sky's risk profile to ensure the completeness and accuracy of identified risks and their corresponding risk mitigating measures and to ensure and control that the risk mitigating measures are implemented and are still adequate and effective for managing the risk. As part of the monitoring phase, the Risk Manager makes a reasonable review of the appropriateness of implemented risk mitigation measures and verifies whether the measures exist, are plausible and are performed as described. In addition, Corporate Audit reviews the effectiveness of the risk management system and the risk management process. Any identified gaps in the risk management system are communicated to the Risk Manager in order to further develop and improve the system.

The whole risk management process is supported by a risk management software program. The software is used to consolidate and archive all relevant information and to generate the risk reports. The software enables the Risk Manager to verify whether all risks within the risk management process have been updated by the Risk Responsibles and approved by the Risk Owners on time.

The risk management system focuses on risks only. It does not assess or analyze business opportunities.

Risks

Sky's business, results of operations and financial condition could be materially adversely affected by risks that are currently unknown. In the following section major risk factors are described.

Market, competition and content risks

TV companies in Germany and Austria face a significant degree of competition, both from each other and from providers of other entertainment options. Sky's principal competitors are the German and Austrian free-TV stations.

Sky also competes with the public broadcasters in Germany and Austria which offer some of their programming without commercial breaks. The public broadcasters are financed through broadcasting license fees, which limit the average household budget for other forms of entertainment.

Sky's ability to increase the revenue it generates from its existing subscribers and to attract new subscribers depends on consumers' price sensitivity as well as on the disposable incomes available for media spending. In the event of a drop in household incomes, it is possible that the demand for media and entertainment products, including pay-TV, could substantially decline.

To a certain extent, Sky also competes with cable network operators such as Unitymedia, Kabel Deutschland, Kabel BW, and Tele Columbus, as well as with operators of IPTV platforms such as Deutsche Telekom. It is possible that the cable network operators might extend their pay-TV offerings in the future, which could lead to more intense competition in the pay-TV market.

As a result, the number of companies bidding for sporting events, movies, TV series and other high profile content could increase, which would restrict Sky's access to such content or raise the license fees it must pay to gain access to the desired content.

Another competing offering is the HD+ service from HD Plus GmbH, a subsidiary of satellite operator SES ASTRA. The HD+ package offers access to a number of TV channels in HD quality. While the HD+ service does not offer any exclusive pay-TV content, it could nevertheless be regarded by some consumers as an alternative to Sky's HD offering.

In addition, Sky competes with a variety of alternative distribution channels for movies and other audiovisual content, such as DVD sales and rentals, websites, internet service providers, free and pay video on demand (transactional and subscription video on demand), and other entertainment options available to consumers. Even though some of these other entertainment options may currently still suffer from a limited market acceptance, they may become more important in the future.

As a premium pay-TV provider, Sky is dependent on being able to offer its programming in appealing formats such as high quality HD in combination with attractive mobile viewing options and technologically advanced receivers involving digital recording functions with a large storage capacity, in order to differentiate itself from competing entertainment offerings. If Sky fails to adopt trends in TV entertainment at an early stage, existing and potential subscribers may opt for competitors' offerings or reduce their spending on Sky's products.

Sky is critically dependent on exclusive access to attractive content on commercially reasonable terms. The centerpiece of Sky's offering is the live broadcast of the German Bundesliga and second Bundesliga matches. In addition, Sky holds extensive rights, many of which are exclusive, to other types of premium sporting events, as well as movies, TV series and programs that are broadcast also in HD.

All of Sky's licenses are for a limited period of time and require periodic renewals. There can be no assurance that Sky will be able to renew its licenses on commercially reasonable terms. Even if Sky is given the opportunity to bid for a license that comes up for renewal, there can be no assurance that it will have the necessary funds or be willing to match a competitor's bid.

Sky intends to finance the license fees payable to its content providers with the funds available to it under its longterm financing structure and, increasingly, with cash generated in the ordinary course of its business. If the business plan fails to result in sufficient improvements in the amount of cash generated in the ordinary course of its business over time, Sky may be unable to pay these fees, in which case its content providers may terminate Sky's licenses and claim damages.

Further, several of the contracts with Hollywood studios, the UEFA, and the DFL, as well as several partner channel agreements contain change-of-control clauses that entitle the relevant counterparties to terminate the agreements in the event a third party or a major competitor acquires the majority of shares or otherwise gains control over Sky.

In the event Sky fails to compete effectively and efficiently with other TV companies or if consumer demand moves from TV to the alternative distribution channels or other entertainment options mentioned above, Sky's net assets, financial position and results of operations could be materially adversely affected. Therefore, the impact of the risks presented, should they occur, was classified as significant.

Customer and sales-specific risks

Sky depends on discretionary consumer spending. Consumer spending is influenced by general economic conditions and the availability of discretionary income, which typically declines in times of economic instability. This may also have an effect on Sky's revenues. An economic downturn or increased economic uncertainty may affect Sky's ability to attract new subscribers and to retain its existing subscribers. It may also impact Sky's ability to maintain or increase revenues by upselling premium subscription packages and services, implementing price increases and decreasing promotions and discounts to subscribers. In the event of declining confidence in the economy and the job market, it is possible that German and Austrian consumers will choose to limit their discretionary spending on pay-TV and Sky may be forced to increase marketing expenditure to maintain revenue growth, which in turn would negatively impact profitability. Overall, the impact of this risk, should it occur, was classified as major.

Operational, technical and security risks

Because Sky's business model is based on the provision of access to electronic content for payment, Sky is critically dependent on its ability to protect its content against unauthorized access from third parties. In addition, many of Sky's licenses contain clauses that require it to secure its licensed content and provide for termination rights and the payment of damages in the event of breaches.

In 2008, Sky put new encryption systems in place that rely on two separate encryption technologies: the Nagravision System (Sky implemented a new version of this) and Videoguard, a system developed by NDS. Sky is dependent on the capabilities and skills of these two technology manufacturers to develop and deploy updates of the software and new versions of smartcards at regular intervals or if required, to reduce the likelihood of future security breaches and, when a security breach occurs, to remedy this breach before a large number of people gain unauthorized access to Sky's programming.

With regard to cable customers, cable network operators are responsible for the encryption of Sky's signals during transmission via their cable networks. If any of the operators' encryption systems were to be circumvented, Sky could suffer substantial damage but would not have the ability to take direct action in order to remedy the security breaches. Sky agreed that such breaches should be solved as soon as possible by the cable operators, but is particularly dependent on the cable operators' capabilities to agree with their technology partners to remedy such breaches as soon as possible.

In addition, Sky monitors developments with respect to piracy, such as the unauthorized streaming of Sky content via anonymous websites or the unauthorized use of Sky channels via card-sharing. Sky undertakes operational and legal measures to restrict the potential for abuse.

Sky does not have a distribution network of its own to disseminate its programming to subscribers and thus depends on transmission agreements with cable, satellite, and IPTV network operators. If Sky fails to extend its transmission agreements with cable, satellite, and IPTV network operators when they expire, or these operators terminate their agreements with Sky, it could lose access to a substantial number of its subscribers or be forced to accept commercially unreasonable terms. Further, Sky depends on its ability to secure access to other distribution channels that may emerge in the future.

Sky has entered into various contracts for the provision of services. It is not possible to guarantee that these partners will meet their contractual obligations, i.e., provide their services in a satisfactory manner. In particular, Sky is exposed to the risk of operational disruptions as a result of failures in its IT systems and websites, and to the risk of hacker attacks impacting the integrity or availability of its customer data. Since this could ultimately lead to interferences in Sky's business operations, Sky is attempting to reduce this risk by selecting service providers according to the most important criteria such as reliability, proven market experience, and quality.

These presented risks could adversely affect the Company's results and – in the case of hacker attacks which impact the integrity or availability of its customer data – its reputation. They were classified as significant.

Knowledge or staff-oriented risks

Sky staff and their qualifications are of fundamental importance for the future success of the Company. A substantial risk could occur if Sky were not able to recruit or retain suitable employees for the specific requirements of the Group. In addition, any dependence on individual employees could pose a risk. Sky limits these risks with competitive remuneration, longterm career opportunities and targeted training resulting in a moderate risk classification.

Reputational, legal and compliance risks

Broadcasting and trademark licenses

Sky holds various broadcasting licenses in Germany and one in Austria, which are set to expire in 2015, 2017, 2018, 2019 and 2022 (inter alia Austria). There is a risk of broadcast licenses not being extended or being withdrawn should Sky breach media law or other laws or regulations, including the protection of minors.

Sky employs a unique technological solution based on its own control facilities. Minors are not only protected by providing later broadcasting times, but programs unsuitable for children or minors are also blocked in advance. The advance blocking system is currently regarded as the most effective protection measure for minors in TV.

In order to protect minors, Sky stringently observes the adherence to additional measures for the full adult entertainment programming of Blue Movie. Only persons who can prove they are older than 18, either by showing a valid identity card onsite in the shop or using the PostIdent procedure in writing, can become Blue Movie customers. Once accepted, they receive a personal Blue Movie PIN directly from the shop or by registered mail, which they must have on hand when placing an order.

Based on the existing control facilities the risk was classified as moderate.

The trademark license agreement with a company of the BSkyB Group contains a change of control clause that entitles the company to terminate the agreement under certain circumstances. Such termination however requires that

(a) any legal person (other than already existing shareholders with more than 15 percent of the shares in Sky Deutschland AG) acquires direct or indirect control of Sky (which would, in particular, be the case if such legal person acquires any further interest to a direct or indirect interest in Sky of more than 49 percent); and
(b) the acquiring person is a substantial competitor of the BSkyB Group, or the association of the acquiring person with the trademark or with Sky would damage the Sky brand or the reputation of the BSkyB Group to a material extent in any territory where the Sky brand is used.

Such termination will be effective either 48 months from the date on which it is given or at the regular end of the term of the trademark license agreement, whichever is earlier. If the termination is based on damage to the Sky brand or the reputation of the BSkyB Group, the above 48-months period is reduced to 12 months.

Based on the current shareholder structure the risk was classified as moderate.

Shareholder Claims

Sky Deutschland AG is facing damage claims by shareholders with respect to public information on its subscriber numbers.

13 actions for damages have been filed against the Company in this respect. All actions were terminated on a legally binding basis, either by way of dismissal of the claim, withdrawal of the action or settlement agreements. The total settlement payments amounted to K€122.

Furthermore, out-of-court claims totaling K€60 have been served on the Company, through a mediation proceeding. The Company has rejected the claims and declined to enter into the mediation proceeding.

In the past further claims for damages had been asserted out of court, mostly by institutional investors ("the Funds") by way of mediation proceedings. The Company entered into a settlement agreement in October 2010 according to which the Funds' claims are finally and absolutely settled upon payment of €14.5 million in installments. All installments have been paid in the meantime.

The Company still believes that the total amount of the settlements as well as any associated cost – in particular legal costs – will be covered by existing insurance policies (prospectus insurance for the 2007 Prospectus and D&O insurance). However, the prospectus insurer on 13 March 2012 declined to cover. The provider of the D&O insurance, which applies in case claims are raised against former board members, is to the Company's knowledge still in the evaluating process. Extrajudicial claims that have been raised against former board members have been rejected by them. The Company therefore filed a recourse action aiming for a compensation of all damages incurred against the prospectus insurer and former board members at the District Court of Munich. On 26 August 2014, the District Court of Munich predominantly dismissed the Company's claim. The Company is currently assessing further proceedings.

There are no outstanding obligations relating to damage claims in the consolidated interim financial statements recorded as of 30 June 2014.

In connection with the public information on the subscriber numbers, to the Company's knowledge, the criminal investigations against the persons who served at that time at the Company's Management Board are continuing.

Other legal risks

With its decision on 8 September 2011, the Regional Court of Hamburg admitted the claim of a telecommunications provider to require Sky to supply Sky programming in the provider's network until at least 30 September 2011 and to determine compensating damages. Sky has filed an appeal against the decision. By the end of June the parties agreed to close the pending proceedings which eliminated the risk above.

At the end of June 2012, Sky received a claim due to the potential infringement of a trademark. The subject of the claim is the labelling of digital receivers with "Sky" and/or "Sky+" in the German territory. In the meantime, the Düsseldorf District Court has dismissed the claim and fully granted Sky's counter-claim in a ruling dated 20 March 2013. The plaintiff has appealed the decision. Due to the fact that the prospects of success are considered high for the Company, Sky does not expect a significant impact on the net assets, financial position and results of operations and therefore the risk was classified as minor.

Sky imports devices and storage media which are subject to royalty payments when imported into or distributed in Germany pursuant to German copyright law ("UrhG"). The German collecting society ZPÜ was founded to collect these royalty payments. Since 1 January 2008, ZPÜ has introduced fees for devices and storage media that are subject to royalty payments when imported into or distributed in Germany and also publishes them in the German Federal Gazette. The basis for the calculation of the respective royalty payments is the actual utilization of the affected devices and storage media for private multiplication of works that are protected by rights of ownership. Among others, ZPÜ has set-up the following fees for these particular devices and storage media:

- Fee for STBs with integrated hard disks/TV-receivers with integrated hard disks ("PVR") amounting to €34 per device.
- Fee for STBs without integrated hard disks/TV receivers without integrated hard disks but with a recording function for external hard disks amounting to €13.
- Fee for external hard disks with a storage capacity of up to 1TB amounting to €7 per device and €9 per device for devices with storage capacities above 1TB.

The trade association ZVEI (central association for the electrical engineering and electronics industries/registered association) has initiated proceedings against ZPÜ at the arbitration board of the German Patent and Trademark Office for entering into a framework agreement on the aforementioned devices. On 11 October 2010, the arbitration board issued a settlement offer for a framework agreement for the period after 1 January 2008 that includes a €12.73 fee per PVR. This fee was confirmed by the judgment of the Higher Regional Court Munich (OLG München) of 11 July 2013. This outcome was made subject to a review by the Federal Supreme Court (BGH) and a decision is expected within the financial year 2014/2015.

Sky recognized as a liability the legal requirements resulting from the rights of copyright owners on the basis of the settlement offer presented to the arbitration board of the German Patent and Trademark Office dated 11 October 2010 and the affirmative OLG Munich judgment as of 11 July 2013.

Starting in November 2013, Sky received complaints from customers who were prompted by unknown callers to participate in a sweepstake that was followed by the sale of magazine subscriptions. The callers had pretended to be Sky or purported to have sourced the contact data from Sky. Upon discovering a potential data leak, Sky immediately initiated countermeasures to clarify the incidents as quickly as possible. The competent data security authority BLM was informed and all measures are closely coordinated. Further, the issue was reported to the police with Sky fully supporting the investigations. Based on the current state of knowledge, only a limited number of customers were affected. The affected customers were informed about the issue and they also received a guideline regarding the protection of their digital identity. Investigations by the police and the authorities are still ongoing.

There is a general risk that the competent authority might impose a fine against Sky. As Sky did not infringe data security rules deliberately, informed the affected customers immediately, and has established a regular exchange with the regulatory authority, the risk of a fine was classified as marginal.

On 13 January 2014, the European Commission ("Commission") initiated formal antitrust proceedings against the major US studios (Twentieth Century Fox, Warner Bros., Sony Pictures, NBCUniversal, Paramount Pictures) and the largest European pay-TV broadcasters including but not limited to, Sky for a suspected breach of EU rules. The Commission intends to investigate whether provisions of the licensing arrangements prevent broadcasters from providing their services across borders. Beginning in March 2014, Sky received formal requests for information and supported the Commission in the fact-finding process. If the Commission identifies any of these clauses as infringing EU antitrust laws and the cases cannot be closed by commitment decisions, the Commission could issue prohibition decisions making the respective clauses null and void. Any company that has participated in an anti-competitive agreement may be subject to fines. The addressees of a Commission decision have the right to appeal. Neither the outcome nor the timing of the proceedings is yet predictable.

In December 2013, Sky sent out written warnings in connection with the infringement of copyrights regarding the broadcasting of Monday matches of the second Bundesliga. The parties affected filed a complaint against the alleged unauthorized warning with the competent investigating authority. As a result, Sky has taken immediate action to clarify the situation. Legal assessments are currently ongoing. The existing risk was classified as marginal.

Accounting risks

Goodwill

The goodwill recognized in Sky's consolidated financial statements might have to be written down in the future if the value declines. To evaluate if a need for impairment exists the goodwill was subject to an impairment test as of 31 March 2014. The recoverable amount was determined by referring to the fair value less cost to sell approach. The value in use was calculated on the basis of the cash flows defined in the business plan. The impairment test did not reveal the need for any write-downs but a write-down in the future cannot be excluded.

Investigation of the Federal Financial Supervisory Authority

In connection with an audit in accordance with Sections 37n ff. of the German Securities Trading Act (WpHG), the Federal Financial Supervisory Authority ("BaFin") determined that the financial statements and consolidated financial statements as of 31 December 2007 and the management report and group management report for 2007 of former Premiere AG (now: "Sky Deutschland AG") as well as the condensed interim financial statements as of 30 June 2008 and the interim report for the first six months of 2008 were allegedly incorrect.

Sky Deutschland AG filed an objection against the decision of BaFin. The objection was rejected by BaFin in September 2013. The Company therefore filed a complaint against this decision with the Higher Regional Court of Frankfurt on 14 October 2013. The Company does not expect a decision before the end of the second quarter of financial year 2014/2015.

The complaint is aimed at revising the decision of BaFin with respect to BaFin's finding that the financial statements and consolidated financial statements as of 31 December 2007 of Premiere AG, Unterföhring, (now: Sky Deutschland AG) and the management report and group management report for 2007 as well as the condensed interim financial statements as of 30 June 2008 are considered incorrect pursuant to Sec. 37q para 1 German Trade Securities Act (WpHG).

The decisions of BaFin at which the objection is aimed refer to (i) the amount of the consideration paid by Premiere for the Bundesliga sub-license in 2007, (ii) the description of the risks associated with the intended acquisition of the Bundesliga rights for seasons 2009/2010 until 2011/2012 in 2008, (iii) the goodwill as shown in the 2007 group financial statements which is considered too high by €248.4 million and by €251.9 million with regard to the financial statements as of 30 June 2008, as – according to BaFin – no such goodwill exists due to the lack of a business combination, (iv) the profit situation that was allegedly described too positively by at least €10 million due to improperly calculated acquisition costs for resold free-TV rights, and, (v) the omission of risk reporting relating to a potential covenant breach considered possible by the company and a potential subsequent termination of the credit facilities resulting in a higher risk for the financial situation of the group.

The objections are directed at the findings alleged under aforementioned (i) to (v). The objection therefore does not aim at the finding regarding subscriber classification in the financial statements of the Company or the rejected objection in that regard.

Should the findings of BaFin become legally binding, Sky Deutschland AG may have to issue corrections related to the balance sheet (goodwill, free-TV rights) within the ongoing reporting period of the Group with no effect on the income statement and would have to describe the findings and correct its reporting for the ongoing period for the Group and Sky Deutschland AG. In addition, fines could be imposed and claims for damages could be asserted by third parties.

Tax risks

On 30 June 2014, Sky had accrued tax loss carried forwards originated and usable in Germany (see Item 3.9 (“Income taxes”) in the notes to the consolidated financial statements). In case of share acquisitions (greater than 25 percent, greater than 50 percent by an acquirer/acquirer’s group) the German tax law determines loss use restrictions (§ 8c Corporate Income Tax Act (KStG)). The investment of Twenty-First Century Fox, Inc. in 2008 in Sky Deutschland AG and the proposed acquisition by BSkyB of the shares in Sky Deutschland AG held by 21st Century Fox Adelaide Holdings B.V. can be seen as harmful acquisitions. The loss use restrictions can be overruled in its effect by the exceptions “coverage by hidden reserves” and “turnaround clause”.

Based on a restructuring expert opinion, the tax authorities confirmed in a binding declaration in November 2009 that Sky meets the requirements for restructuring exemption under Section 8c German Corporate Income Tax Act (Körperschaftsteuergesetz). On 26 January 2011, the EU commission decided that the restructuring clause represents a government subsidy that is in conflict with European law. In defense of its own legal opinion, Sky lodged a complaint in due time on 2 December 2011 with the European Court against the EU Commission for the annulment of the abovementioned decision.

In November 2012, Sky received an advanced ruling from the Munich tax authorities granting approval on the general technical approach regarding the application of the hidden reserve clause of the German Corporate Income Tax Act to protect German tax losses and tax loss carry-forwards in the event of certain changes to the Company’s shareholder structure (such as an increase in the shareholdings of 21st Century Fox Adelaide Holdings B.V. to 54.45 percent on 15 January 2013). With letters received in August 2014 the Munich tax authorities confirmed the application of the principles to the proposed acquisition by BSkyB of the shares in Sky Deutschland AG held by 21st Century Fox Adelaide Holdings B.V. While the Munich tax authorities did only issue comments on the methodology for the determination of hidden reserves and did not comment on valuation results, management believes that pursuant to this ruling the Company should be able to retain a significant part of its current German tax losses and tax loss carry-forwards in the event of relevant changes to the Company’s shareholder structure.

Financial risks

The existing credit facilities do not provide for any financial covenants. However, the credit facilities contain a number of operational undertakings that restrict Sky’s ability to, among other things, conduct any mergers or other fundamental changes; conduct sales and other disposals of all assets, or all substantial assets; obtain other debt; and grant certain liens. Moreover, the lenders under the new credit facility agreement are entitled to terminate the credit facility agreement upon the occurrence of certain events of default caused by the guarantors Twenty-First Century Fox, Inc. and 21st Century Fox America, Inc. The lenders are also entitled to terminate the credit facilities in the event of certain types of change of control. Under the credit facilities a change of control is defined as the direct or indirect ownership, beneficially or of record, by any person or group of persons acting in concert, other than Twenty-First Century Fox, Inc. and its affiliates, of voting stock representing more than the greater of 30 percent of the aggregate outstanding voting stock of Sky and the percentage of the aggregate outstanding voting stock of Sky owned directly or indirectly, beneficially or of record, by Twenty-First Century Fox, Inc. and its affiliates.

If one or several of the main components of the business plan (e.g., revenue and subscriber growth) fail or cannot be implemented in a timely manner, and therefore not enough cash can be generated in the ordinary course of business and measures taken by the management in this regard fail, Sky will be at risk of not achieving its EBITDA and cash flow targets, in which case the net assets, financial position, and results of operations of Sky would be materially adversely affected. This risk was classified as minor.

The principles and aims of the financial risk management with regard to existing currency, interest rate, price change, liquidity, and credit risks, as well as the status of forward currency and interest swap transactions, is described in detail in the notes to the consolidated financial statements under Item 4.1 ("Financial risk management").

Assessment of the overall risk

Sky does not foresee any development in the risk area at the present time that would jeopardize the Company's continued existence.

Report on opportunities

With a continuously increasing depth and breadth of the offering, the leading premium HD selection, the best in class Sky+ PVR, and Sky Go, Germany and Austria's leading online TV platform, Sky has solid foundations on which to grow its business and reap the benefits of the under-penetrated and growing German and Austrian markets for premium pay-TV. The increasing penetration of Sky, as well as the expanding product portfolio, all illustrate the shift taking place in the market, the growing appeal of Sky's offering, and the growth potential of the business.

Large market, low penetration

Germany and Austria have great potential. Overall penetration of premium pay-TV is still very low compared to other European countries and Germany is Europe's largest market with 38.5 million households. With another 3.6 million households in Austria, Sky's target market counts a total of 42 million households. Pay-TV penetration in Germany and Austria is at 17 percent, lower than its European peer markets and well below European average.

Strong industry growth

While pay-TV in Germany and Austria has underperformed over the last 20 years, the industry has been gaining traction since 2010, with pay-TV penetration growing to 17 percent by the end of 2013. Pay-TV is the fastest-growing segment in the German television market according to the Association of Private Broadcasting and Telemedia (VPRT)[5]. For 2013, pay-TV revenues grew by about 12 percent to more than €2 billion. According to VPRT, technical advances and the significantly expanded program offering are the main drivers of this growth. The Association's most recent forecast (October 2013) sees an ever-increasing number of Germans who are willing to pay for television.

Growing TV consumption

While the number of TV households in Germany has remained stable over recent years, TV consumption and market volume have increased. Between 2000 and 2013, average TV consumption in Germany increased by 31 minutes per day to 221 minutes per day (from 190 minutes per day in 2000).

Growing importance of premium content

As more pay-TV providers emerge, the importance of exclusive premium content is likely to increase further as providers attempt to differentiate themselves from their competitors. At the same time, free-TV broadcasters are increasingly looking to offer their own content as part of premium pay-TV services so as to maximize revenues and diversify risk by reducing their exposure to the more volatile advertising revenues in the free-TV market. Similarly, some TV distribution platform operators, such as cable network operators, are focusing on up-selling basic pay-TV content to their customers and coupling this with enhanced functions, such as VoD and interactive TV, as part of their "triple-play" offerings.

Consumers demand higher-quality TV

In addition to a growing demand for premium content, consumers in Germany and Austria put more emphasis on quality TV as evidenced by higher digital TV penetration, and the demand for HD and larger screens. Digitalization grew to 81 percent in 2013[6]. The number of HD-enabled TV sets is also growing strongly. By the end of 2013, 82 percent of German and Austrian TV households owned an HD-enabled TV set compared with only 43 percent in 2009. 88 percent of Sky customers own HD-ready TV set whereas 59 percent have access to an HD package.[7] The trend in TV sets is moving towards ever larger screens. According to Bitkom, more than one in four TV sets sold in 2013 features screen sizes in excess of 46-inches. The association believes that the upcoming Ultra HD television standard will drive even more demand for larger TV sets.

5) http://www.vprt.de/sites/default/files/documents/VPRT_Pay-TV_in_Deutschland_2014.pdf. Seite 16
6) http://www.die-medienanstalten.de/presse/pressemitteilungen/die-medienanstalten/detailansicht/article/die-medienanstalten-pm–072013-medienanstalten-praesentieren-digitalisierungsbericht–2013.html
7) Sky Establishment Survey 2013 Germany

Great PVR potential

With regard to PVR penetration, Germany and Austria have strong potential as their PVR market penetration is clearly behind their European peers. Sky+, the HD hard-disk receiver, is an important business driver for Sky as Sky+ customers watch more, are more satisfied and have significantly lower churn rates.

Strong market penetration of tablet PCs and smartphones

In 2012, consumer spending on smartphones outpaced consumer spending on TV equipment for the first time[8], illustrating their growing importance. Several TV content distributors have started offering mobile TV as consumers' demand for access to TV content on-the-go has increased. With its exclusive selection of blockbuster movies and first-run top series, all of which are accessible on-demand and available to watch before appearing on other services, plus the availability of Sky's exclusive live sports offering, Sky Go is the leading online-TV service in Germany and Austria.

8) http://www.heise.de/newsticker/meldung/Umsatz-Smartphones-haben-Fernseher-ueberfluegelt-1810245.html

Internal control and risk management system used for the financial reporting process

Pursuant to Sec. 289 (5) and Sec. 315 (2) No. 5 German Commercial Code (HGB), Sky is obliged to describe the material characteristics of the internal control and risk management system used for both the separate and consolidated financial reporting processes in the management report and Group management report respectively. The following paragraph not only includes this statutory information but also the explanations pertaining to it pursuant to Sec. 175 (2) sentence 1, German Stock Corporation Act (AktG):

The accounting-related internal control and risk management system is designed to ensure that all events and transactions are correctly reflected in the accounts and are correctly recognized and measured in the financial reporting of Sky Deutschland AG and its subsidiaries in compliance with statutory and contractual requirements as well as internal guidelines. Compliance with statutory and internal rules and regulations is a prerequisite for this. The scope and focus of the implemented systems have been designed by the Management Board based on Sky's specific requirements. The systems are regularly reviewed and updated if necessary. However, despite appropriate and functional systems the identification and the management of risks cannot be completely guaranteed.

The accounting processes within the Sky Group are centralized in the Accounting department in Unterföhring, Sky's main location. This enables the utilization of standard and uniform processes and the application of standardized tools and systems in the accounting processes.

The Accounting department prepares the consolidated financial statements for the Sky Group as well as the individual financial statements for all Group companies, and reports the consolidated financial information on a monthly basis to the Management Board. The accounting impacts of complex issues are assessed with the support of external advisors. Further, the principle of double-checking each other's work is applied throughout in all accounting processes as a general rule.

The Controlling department regularly verifies the completeness and accuracy of the information considered in the financial statements as well as possible deviations from the business plan, and reports the results in a standardized format to the Management Board on a monthly basis. Further, the Controlling department reports possible deviations in the forecast revenues and expenses from the business plan in a standardized format to the Management Board on a monthly basis.

In addition, the Corporate Audit Department, which is independent of the process, audits the propriety, reliability and efficiency of the accounting-related processes and organisational procedures and also reports the results to the Management Board.

Sky has issued an appropriate system of internal guidelines that cover compliance issues, contract and purchase order authorization, invoice authorization and internal accounting guidelines. The internal accounting guidelines comprise guidelines such as a group-wide standardized table of accounts and a group-wide standardized internal reporting for consolidation purposes to ensure uniform financial reporting within the Sky Group. The main accounting processes are documented using flow charts and include a description of the controlling measures integrated into the process. These guidelines and documents are regularly updated. Because its Accounting department is centralized, Sky has only issued an elementary accounting manual.

Sky uses SAP R/3 as its ERP system. In addition, data that has been derived from other IT systems are monitored to ensure they have been correctly transferred and processed in SAP R/3. The IT systems that are employed within the financial reporting process are secured against unauthorized access and Sky's authorization policy in this regard is regularly updated and monitored.

In addition, the Supervisory Board is involved in key aspects of financial reporting and the corresponding internal control and risk management system on a regular basis.

Risk reporting relating to the use of financial instruments

With regard to the derivative financial instruments utilized by the Company, please refer to Item 1.6.1.7 ("Derivative financial instruments") in the notes to the consolidated financial statements and to Item 1.9.3 ("Derivative financial instruments") in the notes of Sky Deutschland AG.

Takeover-related disclosures

Sky Deutschland AG is a listed company. Its shares bear voting rights and are listed on an organized market within the meaning of Sec. 2 (7) German Takeover Act (WpÜG). As such, it is obliged to include in its management and Group management reports the information as further set out in Sec. 289 (4) and Sec. 315 (4), German Commercial Code (HGB). That information aims to enable a third party that is interested in taking over a listed company to assess the company, its structure and potential obstacles to takeover. The following paragraph not only includes this statutory information but also the explanations pertaining to it pursuant to Sec. 176 (1) sentence 1 German Stock Corporation Act (AktG).

Composition of the registered share capital

As of 30 June 2014, the share capital of Sky Deutschland AG amounted to €877,200,755. It is divided into 877,200,755 registered no-par value shares with a pro-rata share capital amount of €1.00 each. All shares bear the same rights and obligations, so there is only one class of share. Each share in Sky Deutschland AG has one vote at the General Shareholders' meeting and an equal share of the profits.

Restrictions with regard to the voting rights or the transfer of shares

The Management Board has no information about potential voting right restrictions or restrictions with regard to the transferability of shares.

Shareholdings in the capital that exceed 10 percent of the voting rights

According to a voting rights notification dated 24 April 2009, 21st Century Fox Adelaide Holdings B.V., Amsterdam, Netherlands (formerly News Adelaide Holdings B.V.), directly held 30.5 percent of the share capital and the voting rights of Sky Deutschland AG on 23 April 2009. Through 21st Century Fox Adelaide Holdings B.V., Star Europe Holdings B.V., Amsterdam, Netherlands (formerly News Netherlands B.V., Naarden), Twenty-First Century Fox Europe, Inc. New York, USA (formerly News Corporation Europe), 21st Century Fox America, Inc. New York, USA, and Twenty-First Century Fox, Inc. (formerly News Corporation) have indirect holdings in Sky Deutschland AG. In the course of the capital increases at Sky Deutschland AG implemented in September 2010, the shareholdings in Sky Deutschland AG of 21st Century Fox Adelaide Holdings B.V. and the aforementioned companies, which hold indirect shareholdings in Sky Deutschland AG through 21st Century Fox Adelaide Holdings B.V., increased to 49.9 percent of the share capital and the voting rights of Sky Deutschland AG as of 30 September 2010. In the course of the capital increases registered on 15 January and 7 February 2013, the shareholdings in Sky Deutschland AG of 21st Century Fox Adelaide Holdings B.V. and the aforementioned companies, which hold indirect shareholdings in Sky Deutschland AG through 21st Century Fox Adelaide Holdings B.V., increased to 54.83 percent of the share capital and the voting rights of Sky Deutschland AG as of that date.

According to a voting rights notification dated 30 July 2013, Odey Asset Management LLP, London, United Kingdom, indirectly held 10.07 percent of the share capital and the voting rights of Sky Deutschland AG as of 26 July 2013. According to a voting rights notification dated 14 January 2014, Odey Asset Management LLP, London, United Kingdom, decreased below the threshold of 10 percent of the share capital and the voting rights of Sky Deutschland AG again on 9 January 2014.

The Management Board is not aware of further shareholdings in Sky Deutschland AG that exceed 10 percent of the voting rights.

Shares with special rights that grant power of control

No shares have been issued with special rights conferring controlling powers.

Voting rights control with regard to the shareholdings of employees

There is no control over voting rights in the event that employees hold a share in the share capital of Sky Deutschland AG and do not directly exercise their control rights.

Appointment and removal of members of the Management Board; amendments to the Articles of Association

The Management Board of Sky Deutschland AG, pursuant to Sec. 6 (1) sentence 1 of the Company's Articles of Association, consists of more than one person; the exact number, pursuant to Sec. 6 (1) sentence 2 of the Articles of Association, is determined by the Supervisory Board. Pursuant to Sec. 84 AktG, Management Board members are generally appointed and removed by the Supervisory Board. On this basis, Management Board members are appointed for a maximum time period of five years and reappointments for a maximum of five years are permitted. Management Board members can be prematurely removed by the Supervisory Board for an important reason. The appointment and removal of Management Board members requires a simple majority of all votes cast by the Supervisory Board. In the event of a tie, the Chairman of the Supervisory Board has the casting vote (Sec. 11 (4) of the Company's Articles of Association). If the Management Board lacks a required Management Board member, the court must appoint a member on the request of an interested party in urgent cases (Sec. 85 (1) sentence 1 AktG).

Generally, the Annual General Meeting votes on amendments to the Articles of Association (Sec. 179 (1) sentence 1 AktG). In the case of Sky Deutschland AG, amendments to the Articles of Association requires a simple majority of the votes cast and of the capital present at the General Meeting for the resolution to be passed (Sec. 179 (2) AktG in connection with Sec. 18 (1) of the Articles of Association), unless mandatory statutory law requires a higher majority. This, for example, is the case with regard to changing the purpose of the company (Gegenstand des Unternehmens) (Sec. 179 (2) sentence 2 AktG) and the creation of authorized capital (Sec. 202 (2) sentence 2 and 3 AktG) or contingent capital (Sec. 193 (1) sentence 1 and 2 AktG). All these measures require a majority of at least three-quarters of the capital present at the time the resolution is passed. The Supervisory Board is authorized to vote on changes to the Articles of association that affect only the wording (Sec. 179 (1) sentence 2 AktG in connection with Sec. 18 (2) of the Company's Articles of Association).

Ability of the Management Board to issue or buy back shares

Based on the resolution passed by the Annual General Meeting on 18 April 2013, the Management Board is authorized, subject to the consent of the Supervisory Board and pursuant to the German Stock Corporation Act (AktG), to increase the Company's registered share capital on one or more occasions on or before 17 April 2018 by issuing new registered no-par value shares against contribution in cash by a total amount of up to €147,436,489 (Authorized Capital 2013). As a rule, the shareholders are to be granted the statutory subscription rights to the new shares. However, the Management Board is authorized, subject to the consent of the Supervisory Board and in certain cases as further set out in the Authorized Capital 2013, completely or partially to exclude the shareholders' subscription rights. The Management Board is authorized, with the consent of the Supervisory Board, to define the further contents of the share rights and the terms of the stock issuance. Use of Authorized Capital 2013 can also be made in such a way that the issuance of shares from Authorized Capital 2013 can be combined with the issuance of shares from Authorized Capital 2012 to form a single capital increase.

Based on the resolution passed by the Annual General Meeting on 3 April 2012, the Management Board is authorized, with the consent of the Supervisory Board, to increase the share capital of Sky Deutschland AG until 2 April 2017 by issuing up to 389,454,881 new registered no-par value shares on one or more occasions against cash or in-kind contributions by up to €389,454,881 (Authorized Capital 2012). The Management Board is authorized, with the consent of the Supervisory Board, to define the further contents of the share rights and the terms of the stock issuance. When new shares are issued the shareholders are normally entitled to subscription rights. However, the Management Board is authorized, with the consent of the Supervisory Board, to exclude the subscription rights completely or partially in certain cases as further set out in Authorized Capital 2012. As part of the capital increases registered on 15 January 2013 and 7 February 2013, 77,890,976 new shares and 20,400,017 new shares were issued respectively. The authorization, included in Authorized Capital 2012, to exclude subscription rights with regard to capital increases against cash contributions with an amount of not more than 10 percent of the registered share capital pursuant to Sec. 186 (3) sentence 4 of the German Stock Corporation Act (Sec. 4 (3) sentence 4 lit. (b) of the Articles of Association) was used with respect to all these shares. Therefore the authorization has become obsolete and was removed from the respective provision in the Articles of Association. Authorized Capital 2012 now amounts to €291,163,888.

In the Annual General Meeting of 23 April 2010 the Management Board was authorized, with the approval of the Supervisory Board, to issue until 22 April 2015, once or several times, bearer or registered convertible bonds and/or bonds with warrants in the total amount of up to €500,000,000 with a limited or unlimited term and to offer subscriptions to the owners, or creditors of bonds conversion or exercise rights respectively for up to 53,916,185 new registered no-par value shares (no-par shares) of Sky Deutschland AG with a proportional amount of the share capital of up to €53,916,185 in total pursuant to the respective bond or warrant conditions. As a rule, the shareholders are entitled to subscription rights to the convertible and option bonds. However, the Management Board is authorized with the consent of the Supervisory Board, to completely or partially exclude the subscription rights in certain cases as further set out in the resolution of the General Meeting. For servicing these convertible bonds and/or bonds with warrants by the Company, the General Shareholders' Meeting on 23 April 2010 established a contingent capital in the amount of €53,916,185 (Contingent Capital 2010). With the issuance of a convertible bond to 21st Century Fox Adelaide Holdings B.V. (formerly News Adelaide Holdings B.V.) on 25 January 2011, conversion rights were granted for the purchase of up to 53,914,182 new registered no-par value shares.

By resolution of the Annual General Meeting of 3 April 2012, the Management Board was further authorized, subject to the consent of the Supervisory Board, to issue bearer or registered convertible and/or option bonds with a total nominal value of up to €1,500,000,000 with a limited or unlimited term, on one or more occasions on or before 2 April 2017 and, subject to the more detailed terms and conditions of the convertible or option bonds, to grant to the holders or creditors of bonds conversion or options rights, respectively, for subscription of up to 335,538,696 new registered no-par value common shares (shares without a par value) in Sky Deutschland AG with a total pro-rata share capital amount of up to €335,538,696. The shareholders are generally entitled to subscription rights for the convertible and option bonds. However, the Management Board is authorized, with the consent of the Supervisory Board, to completely or partially exclude the subscription rights in certain cases as further set out in the resolution passed by the General Meeting. Following the capital increase registered on 15 January 2013, the authorization to completely or partially exclude the subscription rights in certain cases may no longer be used.

The Annual General Meeting on 23 April 2010 authorized Sky Deutschland AG's Management Board to buy back up to 10 percent of the share capital that existed at the time the resolution was passed until 22 April 2015. The repurchased shares together with the other treasury shares whose owners are to be treated in accordance with Sec. 71d and Sec. 71e AktG are not permitted at any time to exceed 10 percent of the share capital. The authorization can be exercised in full or in partial amounts, on one or several occasions, in the pursuit of one or several purposes, by the Company, by its Group companies or by a third party acting on its behalf. The shares can be acquired at the stock exchange or by way of a public tender offer directed at all shareholders and/or by way of a public request for submitting selling offers. Acquired treasury shares can be resold or, without additional passing of a resolution of the General Meeting, drawn. When treasury shares are resold, the Management Board is authorized, with the consent of the Supervisory Board, to completely or partially exclude the shareholders' subscription rights in certain cases as further set out in the resolution passed by the General Meeting.

Material Agreements that are contingent on a change of control following a takeover offer

With regard to the new credit facilities, Sky is subject to various obligations and conditions. Under the new credit facilities a change of control is defined as the direct or indirect ownership, beneficially or of record, by any person or group of persons acting in concert, other than Twenty-First Century Fox, Inc. and its affiliates, of voting stock representing more than the greater of (i) 30 percent of the aggregate outstanding voting stock of Sky and (ii) the percentage of the aggregate outstanding voting stock of Sky owned directly or indirectly, beneficially or of record, by Twenty-First Century Fox, Inc. and its affiliates. A change of control entitles the lenders to cancel the credit facilities.

Furthermore and with respect to the convertible bond purchase agreement dated 25 January 2011 between Sky Deutschland AG and 21st Century Fox Adelaide Holdings B.V., such agreement includes a termination right of the holders with respect to all or part of its Bonds which have not previously been converted or redeemed in case of a change of control.

Finally, with respect to the €58 million credit facility agreement dated 12 January 2011 (as amended and restated on 20 February 2013) and with respect to the €48 million credit facility agreement dated 24 February 2011 (as amended and restated on 20 February 2013) between Sky Deutschland AG as borrower and 21st Century Fox Adelaide Holdings B.V., both shareholder loans include in their respective clauses a right of the lender to accelerate the shareholder loans in case of a change of control.

Sky Deutschland AG has not entered into other agreements that are subject to alteration or termination upon a change of control. However, subsidiaries of Sky Deutschland AG have entered into agreements with major Hollywood studios, UEFA, the DFL and several third party channels that entitle the relevant counterparties to terminate the agreements under certain conditions if a change of control occurs at Sky Deutschland AG. Further, a subsidiary of Sky Deutschland AG has entered into a trademark license agreement with a company of the BSkyB Group that entitles the company to terminate the agreement under certain conditions if a change of control occurs at Sky Deutschland AG.

Compensation agreements of the Company that were entered into with Management Board members or employees in the event of a takeover bid

Sky Deutschland AG has not entered into any compensation agreements with the members of the Management Board or employees relating to the eventuality of a takeover bid.

Closing statement pursuant to Sec. 312 (3) German Stock Corporation Act (AktG)

Pursuant to Sec. 312 German Stock Corporation Act (AktG), the Management Board of Sky Deutschland AG has prepared a dependent company report on relations with all affiliated companies for the period from 1 January 2014 to 30 June 2014.

The report concludes with the following statement made by the Management Board: "Sky Deutschland AG received adequate compensation for the legal transactions listed in the report on relations with affiliated companies under the circumstances known to the Management Board at the time such legal transactions were undertaken. No measures were taken or omitted at the instance of or in the interest of the controlling company or one of its affiliated companies."

Declaration on Corporate Governance pursuant to Sec. 289a German Commercial Code (HGB)

In this declaration, the Management Board reports on corporate governance pursuant to Section 289a (1) German Commercial Code (HGB).

I. Declaration of conformity with the German Corporate Governance Code pursuant to Section 161 German Stock Corporation Act (AktG)

The Management Board and Supervisory Board of Sky Deutschland AG adopted the following declaration of conformity with the German Corporate Governance Code on 11 June 2014:

"The Management Board and the Supervisory Board herewith declare that, with respect to the time period since the last declaration of conformity dated 20 November 2013, the recommendations of the Government Commission German Corporate Governance Code in the version dated of 13 May 2013 published by the Federal Ministry of Justice in the official section of the Federal Gazette on 10 June 2013 (Code) have been complied with and will be complied with in the future, both subject to the following deviations:

The remuneration of the Management Board does not provide for a hard pre-defined cap amount with respect to the variable stock price related remuneration components and with respect to ancillary payments; therefore, it does also not provide for a cap amount for the overall remuneration of the Management Board (deviation from number 4.2.3 sentence 7 of the Code). The Company will, therefore, also not indicate maximum amounts in the model tables (deviation from number 4.2.5 sentence 5 and sentence 6 of the Code). The Supervisory Board has the view that, with respect to stock price related remuneration components, a fixed pre-defined cap amount, in compliance with statutory requirements, is not necessary. With respect to ancillary payments, a limitation of the value of fringe benefits, even though there is no fixed cap amount, is achieved by the determination of the items of fringe benefits.

In deviation from number 4.2.3 sentence 9 of the Code, the terms and conditions of the Longterm Incentive Plan 2011 and the Longterm Incentive Plan 2012 of the Company both provide for the possibility of adjusting the performance targets retroactively. This had the purpose, when these plans were introduced, to ensure flexibility to address extraordinary developments during the respective term of the plan. Implementing the afore-mentioned recommendation, already the terms and conditions of the Longterm Incentive Plan 2013 and the Longterm Incentive Plan 2014, however, do not provide for such a possibility any more; also in the future, the Company intends to comply with the recommendation of number 4.2.3 sentence 9 of the Code. The above mentioned plans are stock price related, variable remuneration instruments for members of the Management Board and selected employees of the Sky Group; the respective performance targets are tied to the development of stipulated corporate key figures during the three-year term of each plan.

A nomination committee pursuant to number 5.3.3 of the Code has not been established. As no co-determination rules apply and the Supervisory Board is exclusively constituted with shareholder representatives, and taking into account efficiency considerations, the implementation of a nomination committee seems not to be appropriate.

In deviation from the recommendation of number 5.4.1 sentence 2 of the Code, the Supervisory Board abstains from determining a specific number of independent members of the Supervisory Board as target number with regard to the composition of the Supervisory Board. The Supervisory Board does not consider such a formalized target with respect to the number of independent members of the Supervisory Board as necessary since, also absent such a target, its proposals with respect to the election or appointment of Supervisory Board members has been and will be in accordance with the interest of the Company; insofar, the Supervisory Board does not want to restrict its discretion by any concrete target numbers.

This declaration is available at info.sky.de."

Information concerning compliance with each of the individual recommendations and/or suggestions is provided on Sky Deutschland AG's website at: info.sky.de/corporategovernance. The current declaration of conformity, as well as previous declarations of conformity, are also available there.

II. Information on corporate governance practices

No special codified corporate governance practices are applied in addition to the statutory requirements or the recommendations and suggestions of the German Corporate Governance Code.

III. Operation of the Management Board and the Supervisory Board

As a German stock corporation, Sky Deutschland AG has, with its Management Board and Supervisory Board, the two-tier management and control structure typical in Germany. The Management Board is responsible for independently managing the enterprise. The Supervisory Board appoints, advises and supervises the Management Board. The Management Board and the Supervisory Board of Sky Deutschland AG cooperate closely for the benefit of the Company.

1. Management Board

The number of Management Board members is determined by the Supervisory Board. The Management Board of Sky Deutschland AG consists of four members. In the short financial year 2014, the Management Board of Sky Deutschland AG continued with the following four members: Brian Sullivan (Chief Executive Officer), Steven Tomsic (Chief Financial Officer), Dr. Holger Enßlin (Chief Officer Legal, Regulatory & Distribution) and Carsten Schmidt (Chief Officer Sports, Advertising Sales & Internet). There were no changes to the Management Board in the short financial year 2014.

The Management Board manages the Company's business pursuant to the law, the Articles of Association and its Rules of Procedure; it also takes into account the recommendations of the German Corporate Governance Code. Every member of the Management Board is fully responsible for their division at the Company as laid out in the respective organizational chart, within the framework of the Rules of Procedure for the Management Board of Sky Deutschland AG and the resolutions of the Management Board. The organizational chart is drawn up by the Management Board and requires the approval of the Supervisory Board.

The members of the Management Board bear joint responsibility for the overall management of the Company. For this purpose, the members of the Management Board must keep each other mutually informed of all essential procedures and transactions. The Chairman of the Management Board can, at any time, request information from the members of the Management Board about individual matters regarding their departments and stipulate that he must be informed in advance about certain types of transactions. A resolution of the Management Board is required to be passed for all decisions and measures of a fundamental nature or of essential financial importance for the Company. The Rules of Procedure of the Management Board list examples of individual transactions of fundamental significance or of essential financial importance.

The resolutions of the Management Board are passed in meetings by a simple majority of votes cast, unless stipulated otherwise by Articles of Association or its Rules of Procedure. Management Board meetings take place at regular intervals, weekly if possible. The Chairman of the Management Board shall chair the Management Board meetings. Minutes are prepared of the Management Board meetings. By order of the Chairman of the Management Board, resolutions can also be passed outside of meetings, particularly in writing, by fax, or by telephone.

Externally, the Company is represented by two Management Board members jointly or by one Management Board member together with an authorized representative (Prokurist).

2. Supervisory Board

Pursuant to the Company's Articles of Association, the Supervisory Board of Sky Deutschland AG consists of nine members.

As of 30 June 2014, James Murdoch (Chairman), Markus Tellenbach (Deputy Chairman), Chase Carey, Dr. Stefan Jentzsch, Mark Kaner, Jan Koeppen, Miriam Kraus, Harald Rösch and Katrin Wehr-Seiter were members of the Supervisory Board.

With a resolution passed at the Annual General Meeting ("AGM") on 10 April 2014, Dr. Stefan Jentzsch, Mark Kaner, James Murdoch, Harald Rösch, and Markus Tellenbach were again elected as members of the Supervisory Board. With a resolution passed on 17 April 2014, the Supervisory Board re-elected James Murdoch as Chairman and Markus Tellenbach as Deputy Chairman of the Supervisory Board.

The term of office for Supervisory Board members Chase Carey, Jan Koeppen, Miriam Kraus and Katrin Wehr-Seiter expires at the end of the AGM that resolves on the discharge of the respective Supervisory Board members for the short financial year 2014. The term of office for Supervisory Board members Dr. Stefan Jentzsch, Mark Kaner, James Murdoch, Harald Rösch, and Markus Tellenbach expires at the end of the AGM that votes on the resolution to discharge the respective Supervisory Board members for the financial year 2017/2018.

The Supervisory Board advises and supervises the Management Board in the management of the Company. It is involved in strategy and planning, as well as in all issues of fundamental significance for the Company.

In addition to the Articles of Association, the operation of the Supervisory Board is determined by the Rules of Procedure of the Supervisory Board that it established for itself. The Chairman of the Supervisory Board coordinates the work within the Supervisory Board, chairs its meetings and attends to the affairs of the Board externally. Invitations to the meetings are sent by the Chairman of the Supervisory Board, or in case he is unavailable by his deputy. A meeting of the Supervisory Board must be called at least twice per calendar half-year. The invitation is submitted in writing or in text format, complies with a two-week notice period, and indicates the individual items on the agenda. In urgent cases, the Chairman can also issue invitations by telephone, and the notice period for calling the meeting can be shortened. Documents for the meeting are sent to the Supervisory Board in due time prior to each meeting.

The Supervisory Board must have a quorum if at least five members are involved in the taking of a decision-making process. Unless specified otherwise in the mandatory statutory provisions, resolutions of the Supervisory Board are adopted by a simple majority of votes cast. In the event of a tie, the Chairman has the casting vote. Minutes are prepared on the meetings and resolutions of the Supervisory Board. By direction of the Chairman of the Supervisory Board, resolutions may also be passed outside of meetings in writing, by telefax, by telephone, via email or other comparable form. Declarations of intent of the Supervisory Board must be issued by the Chairman on behalf of the Supervisory Board or, in the event that he is prevented from doing so, by the Chairman's deputy.

The Supervisory Board must examine the efficiency of its activities once per year. Along with the qualitative criteria to be specified by the Supervisory Board, the examination of efficiency covers, in particular, the procedures within the Supervisory Board as well as the timely and sufficient supply of information to the Supervisory Board.

3. Cooperation between Management Board and Supervisory Board

The joint aim of the Management and Supervisory Boards is to achieve a sustained increase in corporate value. The Management Board regularly, closely and comprehensively reports to the Supervisory Board, in and outside of meetings, about the strategy, planning, business development, risk situation, risk management and compliance issues of the Company. Deviations in the course of business from prepared planning and targets are explained and justified and the Management Board and the Supervisory Board also confer on Sky Deutschland AG's strategic focus. Reports by the Management Board to the Supervisory Board are provided verbally or in text form. For further details please refer to the report of the Supervisory Board for the short financial year 2014.

The specific tasks and obligations of the Management Board in relation to the Supervisory Board are regulated in the Rules of Procedure adopted by the Supervisory Board for the Management Board. These Rules of Procedure particularly determine Management Board information and reporting obligations. They also define transactions of fundamental importance, such as larger acquisitions, divestments and financial measures that are subject to approval by the Supervisory Board. The Chairman of the Management Board is responsible for communicating with the Supervisory Board and its members.

IV. Composition and operation of Supervisory Board committees

The Supervisory Board pursuant to its Rules of Procedure, has set up the Presidential Committee and the Audit Committee as permanent committees. Since 2011, there is also a committee that deals with sports rights. Further, the Supervisory Board forms committees if and insofar as they serve to increase the efficiency of the Supervisory Board's work and the handling of complex issues.

The key rules on the committees' operation are set out in the Rules of Procedure of the Supervisory Board. The committees themselves have not established their own rules of procedure. The provisions of the Articles of Association applicable to the Supervisory Board and the Rules of Procedure of the Supervisory Board apply mutatis mutandis to the committees within the scope of statutory provisions. The Supervisory Board generally elects committee members by a simple majority of votes cast. Committee members are elected for their duration of office as a Supervisory Board member, unless a shorter term is specified at the time of election. Committees must have a quorum if at least three members are involved in the taking of a decision. Committees report to the full Board on their work at regular intervals.

1. Presidential Committee

Under the Rules of Procedure of the Supervisory Board, the Presidential Committee is composed of the Chairman of the Supervisory Board, the Deputy Chairman, and a third elected member. Accordingly, in the short financial year 2014, the Presidential Committee comprised James Murdoch (Chairman), Markus Tellenbach (Deputy Chairman), and Katrin Wehr-Seiter.

The Presidential Committee prepares the meetings of the Supervisory Board and monitors the implementation of resolutions passed by the Supervisory Board or its committees. It also prepares for resolution by the plenum of the Supervisory Board personnel matters to be dealt with by the Supervisory Board (in particular, appointment and removal of Management Board members, and their remuneration).

2. Audit Committee

In the short financial year 2014, the Audit Committee consisted of the Supervisory Board members Dr. Stefan Jentzsch (Chairman), Mark Kaner, Jan Koeppen, and Miriam Kraus.

The Chairman of the Audit Committee, Dr. Stefan Jentzsch, is an independent financial expert. As a result of working in this field, he has acquired specialist knowledge and experience with regard to the application of accounting principles and internal control systems.

As recommended by the German Corporate Governance Code and pursuant to the law, the Audit Committee, especially oversees issues of accounting, risk management, the internal control and audit system, and compliance, and deals with the required independence of the auditors, the engagement of the external auditor, setting the focuses of the audits, and agreement on the auditor's fees. Together with the external auditor, the Audit Committee reviews the Company's annual financial statements as prepared by the Management Board. Based on the external auditor's report on the annual financial statements, the Audit Committee makes proposals to the Supervisory Board on adopting the annual financial statements. The internal auditors and the Compliance Officer report to the Audit Committee with regard to the effectiveness of internal risk management, the internal control system, and the internal audit and compliance systems. The Audit Committee may determine the scope and focal points of the audits. In this regard, the risk management, internal audit and compliance systems are developed on an ongoing basis and aligned to the changing framework conditions. For further information on Sky Deutschland AG's control and risk management system, please refer to the management report.

3. Sport Rights Committee

The Sport Rights Committee in short financial year 2014 was comprised of the Supervisory Board members James Murdoch, Markus Tellenbach, and Jan Koeppen. The Sport Rights Committee consults with and monitors the Management Board with regard to tender procedures concerning distribution rights, for example, of the UEFA Champions League and the Fußball Bundesliga.

Sky Deutschland AG (supplementary information pursuant to the German Commercial Code)

Course of business

Sky Deutschland AG serves as a holding company and controls all business activities of the Sky Group. Core operations are performed by its subsidiaries. Therefore, the business development of the holding company is closely tied to the developments of the Group as presented above.

Internal management system

As Sky Deutschland AG serves as a holding company and its development is closely tied to the developments of the Group, the principles of the internal management system described above also apply to the Sky Deutschland AG.

Net assets, financial position and results of operations of Sky Deutschland AG

Preliminary remark

The annual financial statements of Sky Deutschland AG are prepared in accordance with the principles of the German Commercial Code (HGB) and the Company Law (AktG). The following statements therefore contain HGB figures. They refer to the reporting date 30 June 2014 and in relation to the past financial year to the reporting date 31 December 2013. Due to the fiscal year change the comparability of the figures is limited, especially with regard to statements referring to the reporting period.

Revenues and earnings

The following figures relate to the six-month period of 2014, whereas comparative figures refer to the twelve-month period of 2013.

Revenues amounted to €8.1 million (12M 2013: €16.4 million) and primarily relate to management services of Sky Deutschland AG delivered to its subsidiaries during the short financial year 2014. The other operating income of €4.9 million (12M 2013: €10.0 million) mainly includes intercompany charges for the use of the building.

Personnel expenses amounted to €20.4 million in the reporting period (12M 2013: €52.7 million) and primarily comprised wages and salaries in the amount of €11.9 million (12M 2013: €22.7 million) as well as expenses for variable compensation in the amount of €5.9 million (12M 2013: €24.8 million). Total depreciation and amortization amounted to €1.3 million (12M 2013: €2.0 million). Other operating expenses in the amount of €14.9 million (12M 2013: €28.7 million) primarily resulted from legal and professional fees, facility costs and anticipated losses on interest rate hedges.

The financial result in the amount of €17.5 million (12M 2013: €23.9 million) in the short financial year arose from income from loans, included in financial assets, which resulted from the granting of loans to Sky Deutschland Fernsehen GmbH & Co. KG in an amount of €42.8 million (12M 2013: €79.1 million) and interest expenses in amount of €25.4 million (12M 2013: €55.5 million), which are primarily incurred from the utilization of the existing group financing.

Taxes on income and earnings included deferred tax expense in the amount of €1.5 million (12M 2013: €2.8 million).

The profit and loss statement at the end of the short financial year showed a net loss in the amount of €7.7 million (12M 2013: net loss in the amount of €35.9 million).

Financial position

The following figures refer to the six-month period of 2014, whereas comparative figures refer to the twelve-month period of 2013.

Cash flow from operating activities amounted to negative €38.8 million (12M 2013: negative €53.0 million). Cash outflows were due to the negative EBITDA in the amount of negative €20.0 million (12M 2013: negative €53.3 million) and the changes in working capital in the amount of negative €18.8 million (12M 2013: €0.3 million).

Cash flows from investing activities amounted to €20.4 million (12M 2013: negative €252.2 million). The cash inflows resulted primarily from payments of accumulated interests in connection with the loan given to Sky Deutschland Fernsehen GmbH & Co. KG. In addition, further investments led to cash outflows of €0.4 million (12M 2013: €0.7 million).

Cash flow from financing activities amounted to negative €18.1 million (12M 2013: €373.8 million). In the current financial year, no finance measures were carried out in equity or borrowings. The outflow resulted from interest payments in connection with the existing group financing.

The balance of liquid funds at the balance sheet date amounted to €32.6 million (31 December 2013: €69.1 million).

With regard to the capital structure we refer to the statements under section "financial position" relating to the Sky Group above.

Net asset position

The following figures refer to the reporting date 30 June 2014 and in relation to the past financial year to the reporting date 31 December 2013.

Property, plant and equipment decreased to €9.6 million (2013: €10.5 million), primarily due to scheduled amortizations. Interests in affiliated companies comprised mainly the investment in Sky Deutschland Fernsehen GmbH & Co. KG and remained at €1,941.2 million. Loans to affiliated companies related to a loan that was issued to Sky Deutschland Fernsehen GmbH & Co. KG, which increased during the short fiscal year 2014 to €1,221.1 million (2013: €1,153.9 million). This resulted from an additional utilization of loans by Sky Deutschland Fernsehen GmbH & Co. KG in the amount of €67.2 million. Receivables from affiliated companies decreased to €50.4 million (2013: €88.1 million). Sky Deutschland Fernsehen GmbH & Co. KG settled in the short fiscal year, amongst other things, open receivables that resulted from interest charges. Compared to the prior year, other assets remained unchanged at €0.2 million. Cash and cash equivalents decreased to €32.6 million (2013: €69.1 million) and were primarily used to run the operating business of Sky Deutschland AG. Prepaid expenses mainly relate to the upfront fee recognized in connection with the issuance of the convertible bond in 2011 and fees which were deferred in connection with financing measures. Prepaid expenses decreased to €11.6 million (2013: €16.8 million).

Due to the net loss for the short fiscal year 2014 in the amount of €7.7 million shareholders' equity decreased to €2,570.3 million (2013: €2,577.9 million).

Provisions decreased to €33.8 million (2013: €39.3 million), in particular due to lower provisions for variable salaries. Liabilities relating to the convertible bond issued in 2011 remained at €166.2 million. Liabilities to banks remained stable at €225.0 million (2013: €225.3 million). Trade payables decreased slightly to €4.3 million (2013: €4.4 million) and consisted mainly of obligations for the rental of the business premises. Liabilities to affiliated companies increased to €128.8 million (2013: €126.4 million) and comprised the two Shareholder Loans of 21st Century Fox Adelaide Holdings B.V. including interest. Other liabilities decreased to €2.5 million (2013: €6.0 million). The reduction primarily relates to lower liabilities in connection with value added taxes in the amount of €2.0 million (2013: €5.2 million). Deferred tax liabilities amounted to €135.8 million (2013: €134.3 million) and are primarily due to the difference between the commercial law equity investment and the tax capital account for Sky Deutschland Fernsehen GmbH & Co. KG. Deferred tax assets on tax losses were deducted from the recognized deferred tax liabilities.

Overall presentation of the economic situation and report on expected developments of Sky Deutschland AG

Sky Deutschland AG controls all business activities of the Sky Group. Core operations are performed by its subsidiaries. The future business development of the holding company is therefore dependent on the development and success of its subsidiaries which affects the valuation of the investments and the financial result in particular. We refer to the statements under the chapters "overall presentation of the economic situation and comparison of forecasts reported in the prior period and actual business development" and "report on expected developments" relating to the Sky Group above.

Risk and opportunity report of Sky Deutschland AG

As the development of Sky Deutschland AG is closely tied to the developments of the Group, the principles of the risk management system together with the associated risks and opportunities presented above apply not only to the Sky Group but to Sky Deutschland AG as well.

In addition the following risk is of relevance for Sky Deutschland AG:

Investment in Sky Deutschland Fernsehen GmbH & Co. KG

The financial assets of Sky Deutschland AG comprise the interest in Sky Deutschland Fernsehen GmbH & Co. KG. The review of this interest is based on a discounted cash flow method pursuant to IDW accounting standard RS HFA 10. Regarding the short financial year 2014, calculations did not reveal a need for impairment but a write-down in the future cannot be excluded.

Unterföhring, 16 September 2014

The Management Board

Brian Sullivan

Steven Tomsic

Dr. Holger Enßlin

Carsten Schmidt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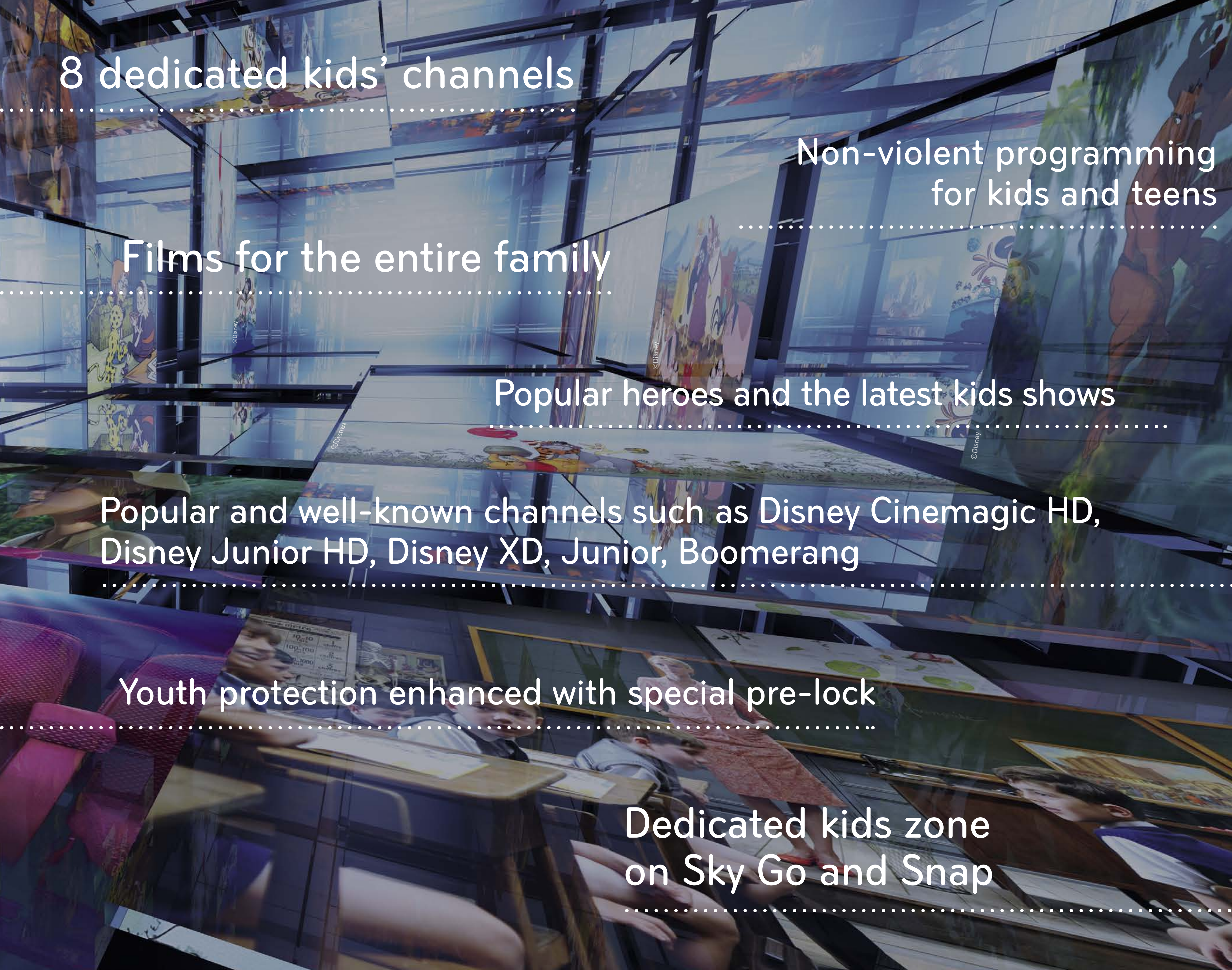
8 dedicated kids' channels
Non-violent programming for kids and teens
Films for the entire family
Popular heroes and the latest kids shows
Popular and well-known channels such as Disney Cinemagic HD, Disney Junior HD, Disney XD, Junior, Boomerang
Youth protection enhanced with special pre-lock
Dedicated kids zone on Sky Go and Snap

Consolidated financial statements

Consolidated balance sheet

(K€)	Note	30 Jun 2014	30 Jun 2013*	31 Dec 2013
Assets				
Current assets				
Cash and cash equivalents	(2.1)	123,157	180,095	196,898
Trade receivables	(2.3)	81,134	68,303	76,324
Other financial assets	(2.4)	1,372	5,525	2,260
Film assets and advanced payments for sport and film rights	(2.7.1)	102,632	81,079	87,045
Inventories	(2.2)	15,150	22,233	26,329
Other assets	(2.5)	21,828	20,206	24,461
Total current assets		**345,273**	**377,441**	**413,317**
Non-current assets				
Trade receivables	(2.3)	168	135	70
Other financial assets	(2.4)	709	506	11
Deferred taxes	(3.9)	32	49	50
Film assets and advanced payments for sport and film rights	(2.7.1)	28,533	24,188	24,939
Receivers	(2.6)	188,826	189,363	196,276
Property, plant and equipment	(2.6)	26,130	28,421	26,549
Intangible assets	(2.7.2) + (2.7.3)	721,631	710,522	716,762
Other assets	(2.5)	6,785	13,303	8,944
Total non-current assets		**972,814**	**966,488**	**973,601**
Total assets		**1,318,087**	**1,343,929**	**1,386,917**

(K€)	Note	30 Jun 2014	30 Jun 2013*	31 Dec 2013
Liabilities and equity				
Current liabilities				
Borrowings	(2.8.1)	167,730	16,713	18,707
Trade payables	(2.8.2)	275,116	228,854	277,254
Other financial liabilities	(2.8.3)	46,291	33,887	46,648
Other provisions	(2.8.5)	13,948	13,001	13,338
Other liabilities	(2.8.4)	59,220	61,493	54,439
Total current liabilities		**562,305**	**353,948**	**410,386**
Non-current liabilities				
Borrowings	(2.8.1)	380,838	466,484	532,906
Trade payables	(2.8.2)	10,889	11,834	11,721
Other financial liabilities	(2.8.3)	9,943	9,329	22,304
Deferred taxes	(3.9)	63,616	57,994	60,814
Provisions for pensions and similar obligations	(2.8.6)	12,332	11,045	11,000
Other provisions	(2.8.5)	–	4,893	–
Other liabilities	(2.8.4)	5,828	1,436	6,586
Total non-current liabilities		**483,446**	**563,015**	**645,331**
Total liabilities		**1,045,751**	**916,963**	**1,055,718**
Equity				
Subscribed capital		877,201	877,201	877,201
Additional paid-in capital		1,920,850	1,920,816	1,920,850
Reconciling item for shareholder transactions without change in control		–58,245	–58,245	–58,245
Accumulated other comprehensive income		–6,968	–2,548	–3,993
Retained deficit		–2,460,501	–2,310,257	–2,404,612
Equity attributable to stockholders		**272,336**	**426,967**	**331,200**
Total equity	(2.10)	**272,336**	**426,967**	**331,200**
Total liabilities and equity		**1,318,087**	**1,343,929**	**1,386,917**

* unaudited (refer to 1.2 Basis of preparation of the consolidated financial statements)

Consolidated statement of total comprehensive loss

(K€)	Note	1 Jan–30 Jun 2014	1 Jan–30 Jun 2013*	1 Jan–31 Dec 2013
Revenues	(3.1)	848,283	739,403	1,546,450
Cost of sales	(3.2)	–681,191	–575,367	–1,233,678
Program		–491,077	–407,912	–882,609
Technology		–94,410	–83,165	–170,128
Hardware		–46,808	–40,947	–85,591
Customer service and other cost of sales		–48,896	–43,343	–95,350
Gross profit		167,092	164,036	312,771
Selling expenses	(3.3)	–121,468	–103,280	–234,528
General and administrative expenses	(3.3)	–65,598	–62,854	–138,601
Other operating income	(3.4)	6,013	5,228	11,862
Other operating expenses	(3.5)	–1,043	–2,286	–3,645
Amortization of subscriber base	(3.6)	–694	–694	–1,388
Result from operations		–15,699	149	–53,528
Interest and similar income	(3.7)	510	556	1,076
Other financial result	(3.7)	1,033	760	–1,963
Interest and similar expenses	(3.7)	–37,764	–37,265	–72,697
Result before taxes		–51,920	–35,799	–127,112
Income taxes	(3.9)	–3,969	–2,708	–5,992
Result from continuing operations		–55,889	–38,507	–133,104
Result for the period		**–55,889**	**–38,507**	**–133,104**
Other comprehensive income		**–2,975**	**297**	**–906**
of which items that may be reclassified subsequently to profit and loss		–2,160	297	–1,023
Changes in fair value of derivatives in cash flow hedges (net of tax)		–2,160	297	–1,023
thereof items that will not be reclassified to profit and loss		–815	–	117
Remeasurements in accordance with IAS 19 (2011 revised) (net of tax)		–815	–	117
Total comprehensive loss		**–58,864**	**–38,210**	**–134,011**
Earnings attributable to:				
Stockholders		–55,889	–38,507	–133,104
Non–controlling interest		–	–	–
Total comprehensive loss attributable to:				
Stockholders		–58,864	–38,210	–134,011
Non–controlling interest		–	–	–
Result per share total (€)				
basic/diluted	(3.10)	–0.06	–0.04	–0.15

* unaudited (refer to 1.2 Basis of preparation of the consolidated financial statements)

Consolidated statement of cash flows

(K€)	Note	1 Jan – 30 Jun 2014	1 Jan – 30 Jun 2013*	1 Jan – 31 Dec 2013
Result for the period before income tax		–51,920	–35,799	–127,112
Net interest expense	(3.7)	37,254	36,708	71,621
Depreciation, amortization and impairment losses/reversal of impairment losses on property, plant and equipment, receivers, intangible assets and financial assets	(3.6)	51,686	41,730	86,878
Amortization of subscriber bases	(3.6)	694	694	1,388
Other non-cash income and expenses		3,366	4,447	8,613
Changes in other provisions	(2.8.5)	610	2,130	–2,274
Gain (–)/loss (+) on disposal of intangible assets and property, plant and equipment		–577	0	–102
Changes in inventories, trade receivables and other assets		–10,075	–3,941	–20,851
Changes in trade payables and other liabilities		–4,484	1,239	72,808
Interest received		500	547	1,056
Net cash used by (–)/provided by (+) operating activities		**27,053**	**47,755**	**92,025**
Proceeds from sale of intangible assets and property, plant and equipment		504	164	102
Payments for acquisition of entities, net of cash acquired		–	–23,592	–28,722
Payments for investments in intangible assets, property, plant and equipment and receivers		–61,470	–72,035	–113,600
Net cash used by (–)/provided by (+) investing activities		**–60,967**	**–95,463**	**–142,220**
Proceeds from increase in capital by stockholders		–	438,378	438,378
Proceeds from the granting of borrowings		–	225,000	225,000
Repayment of finance lease liabilities		–8,248	–2,864	–5,693
Repayment of borrowings		–	–391,157	–391,157
Proceeds from the granting of shareholder loans		–	–	48,000
Payments for transaction costs in connection with financing		–1,577	–33,391	–34,032
Interest paid		–30,003	–12,457	–37,697
Net cash used by (–)/provided by (+) financing activities		**–39,828**	**223,509**	**242,799**
Net decrease/increase in cash and cash equivalents	(4.3)	**–73,742**	**175,801**	**192,604**
Cash and cash equivalents at beginning of period		196,898	4,294	4,294
Cash and cash equivalents at end of period		123,157	180,095	196,898

* unaudited (refer to 1.2 Basis of preparation of the consolidated financial statements)

Consolidated statement of changes in equity

(K€)	Subscribed capital	Additional paid-in capital	Retained deficit	Reconciling item for shareholder transactions without change in control
Balance as of 1 Jan 2013 (reported)	778,910	1,595,944	–2,274,268	–58,245
Retroactive adjustment arising from the change to IAS 19R	–	–	2,821	–
Balance as of 1 Jan 2013 (adjusted)	778,910	1,595,944	–2,271,447	–58,245
Increase in capital for contribution in cash on 15 January 2013 (less transaction costs)	77,891	259,368	–	–
Increase in capital for contribution in cash on 7 February 2013 (less transaction costs)	20,400	65,504	–	–
Changes in ownership interests in the Sky Hotel Entertainment GmbH, Unterföhring on 11 April 2013	–	–	–61	–
Total transactions with stockholders	98,291	324,872	–61	–
Total comprehensive loss	–	–	–38,507	–
of which items that may be reclassfifed subsequently to profit and loss	–	–	–	–
of which items that will not be reclassified to profit and loss	–	–	–	–
Balance as of 30 Jun 2013 */**	877,201	1,920,816	–2,310,015	–58,245
Balance as of 1 Jul 2013 *	877,201	1,920,816	–2,310,015	–58,245
Increase in capital for contribution in cash on 15 January 2013 (less transaction costs)	–	0	–	–
Increase in capital for contribution in cash on 7 February 2013 (less transaction costs)	–	34	–	–
Changes in ownership interests in the Sky Hotel Entertainment GmbH, Unterföhring on 11 April 2013	–	–	–	–
Total transactions with stockholders	–	34	–	–
Total comprehensive loss	–	–	–94,597	–
of which items that may be reclassfifed subsequently to profit and loss	–	–	–	–
of which items that will not be reclassified to profit and loss	–	–	–	–
Balance as of 31 Dec 2013	877,201	1,920,850	–2,404,612	–58,245
Balance as of 1 Jan 2014	877,201	1,920,850	–2,404,612	–58,245
Total comprehensive loss	–	–	–55,889	–
of which items that may be reclassified subsequently to profit and loss	–	–	–	–
of which items that will not be reclassified to profit and loss	–	–	–	–
Balance as of 30 Jun 2014	877,201	1,920,850	–2,460,501	–58,245

Accumulated changes in fair value of derivatives in cash flow hedges (net of tax)	Remeasurements in accordance with IAS 19R (net of tax)	Accumulated other comprehensive income	Equity attributable to stockholders	Non-controlling interests	Total
−266	–	−266	42,075	−61	42,014
–	−2,821	−2,821	–	–	–
−266	−2,821	−3,087	42,075	−61	42,014
–	–	–	337,259	–	337,259
–	–	–	85,904	–	85,904
–	–	–	−61	61	–
–	–	–	423,102	61	423,163
297	–	297	−38,210	–	−38,210
297	–	297	297	–	297
–	–	–	–	–	–
31	−2,821	−2,791	426,967	–	426,967
31	−2,821	−2,791	426,967	–	426,967
–	–	–	0	–	0
–	–	–	34	–	34
–	–	–	–	–	–
–	–	–	34	–	34
−1,320	117	−1,203	−95,800	–	−95,800
−1,320	–	−1,320	−1,320	–	−1,320
–	117	117	117	–	117
−1,289	−2,704	−3,993	331,200	–	331,200
−1,289	−2,704	−3,993	331,200	–	331,200
−2,160	−815	−2,975	−58,864	–	−58,864
−2,160	–	−2,160	−2,160	–	−2,160
–	−815	−815	−815	–	−815
−3,449	−3,519	−6,968	272,336	–	272,336

* unaudited (refer to 1.2 Basis of preparation of the consolidated financial statements)
** a comparison with the Q2 2013 quarterly report is not possible due to a retroactive adjustment arising from the change to IAS 19R

Notes to the Short Financial Year 2014

1. General information and basis of preparation

1.1 General information about the Group

Sky Deutschland AG and its subsidiaries (referred to as “Sky”, “Company”, “Group” or “Sky Group”) operate a pay-TV business in Germany and Austria under the Sky trademark. The Sky Group is also engaged in the purchase, sale and distribution of rights to films, series and TV productions, the acquisition, sale and distribution of broadcasting rights for public events, the arrangement of program magazine subscriptions, and other activities associated with the operation of the pay-TV business.

Sky Deutschland AG’s registered office is at Medienallee 26, 85774 Unterföhring, Germany, and it is entered in the Commercial Register at the Munich Municipal Court under the number HRB 154549.

Sky Deutschland AG, as the Group holding company, manages all of the business activities of the Sky Group.

As of 15 January 2013, the Sky Group is included in the consolidated financial statements of Twenty-First Century Fox, Inc., New York, United States of America.

1.2 Basis of preparation of the consolidated financial statements

In accordance with Section 315a (1) HGB (German Commercial Code) in conjunction with Article 4 of Regulation No. 1606/2002 of the European Parliament and the Council dated 19 July 2002, Sky prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union taking into account the additional disclosures required by Section 315a (1) HGB.

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards and its interpretations effective as of 30 June 2014 as adopted by the European Union.

The consolidated financial statements are prepared and published in euros (€), as the functional and the reporting currency of the Group. Amounts are generally reported in the notes to the consolidated financial statements in thousands of euros (K€), unless otherwise stated.

At the Annual General Meeting on 10 April 2014, it was resolved to change the financial year-end date to the 30 June. As a result, the financial year from 1 January to 30 June 2014 is a short financial year. Sky Deutschland AG and all subsidiaries will close their short financial year 2014 as of 30 June 2014, with the reporting period from 1 January to 30 June 2014. Upon changing the financial year to the new reporting period of 1 July to 30 June, the financial year will no longer correspond to the calendar year. Therefore, a comparison of the consolidated financial statements as of 30 June 2014 (short financial year) with the previous financial year is only possible to a limited extent. This change was made in order to better align the financial planning and reporting processes and timing with the underlying seasonality of the business.

To present developments during the short financial year 2014, statements referring to the reporting date of 30 June 2014 are compared with the previous year’s figures as of 31 December 2013. For statements referring to the reporting period, the short financial year 2014 will be compared with the corresponding previous year’s period (1 January 2013 to 30 June 2013). These comparative figures have not been audited.

The prior-year periods are referred to as “6M 2013” (six-month period) and “12M 2013” (twelve-month period). The comparative figures as of 30 June 2013 for the consolidated balance sheet and for the period 1 January to 30 June 2013 in the consolidated statement of total comprehensive loss, in the consolidated statement of cash flows and in the consolidated statement of changes in equity were taken from the half-year report as of 30 June 2013. These figures were only reviewed by an auditor according to Section 37w of the German Securities Trading Act but not audited. For this review, KPMG issued an unqualified review report on 5 August 2013. The notes to the 6M 2013 financial statements are also unaudited.

The consolidated financial statements are generally prepared on the basis of the measurement of assets and liabilities at cost or amortized cost. Excepted from this are non-derivative available-for-sale financial assets and derivative financial instruments, which are respectively recognized at fair value as of the balance sheet date.

The consolidated balance sheet presents assets and liabilities classified by their maturities. Assets that are expected to be sold within twelve months or are consumed or settled in connection with normal operations are classified as current. Liabilities are classified as current if they are required to be settled in cash or other financial assets within twelve months of the balance sheet date.

The consolidated statement of operations as a component of the consolidated statement of total comprehensive loss is prepared in accordance with the cost of sales method. To provide a clearer picture, certain items have been combined in the consolidated statement of total comprehensive loss and the consolidated balance sheet, with specific explanations provided in the notes.

Rounding differences to the exact mathematical figures (monetary units, percentages, etc.) may occur due to the calculation process.

The Management Board prepared the consolidated financial statements and authorized them for issuance within the meaning of IAS 10 on 23 September 2014.

1.3 Consolidation

Subsidiaries

Sky Deutschland AG's seven domestic and two foreign subsidiaries (2013: seven and two respectively) are consolidated in these financial statements. All subsidiaries that are under the control of Sky Deutschland AG are included in the consolidated financial statements. They are fully consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date when the ability to control ceases. Control is presumed if the parent owns, either directly or indirectly through a subsidiary, more than one half of the voting power. Control also exists if the parent company has the power to govern the financial and operating policies of the entity under a statute or an agreement. The existence and impact of potential voting rights that can currently be exercised will be taken into consideration when determining whether a controlling influence exists.

The assets and liabilities of the domestic and foreign entities included in the consolidated financial statements are accounted for in accordance with the uniform accounting policies applicable for the Group.

Intra-group transactions are eliminated. Receivables and liabilities and expenses and income between consolidated entities are eliminated against one another. Intra-group gains and losses did not arise during the short financial year.

Deferred income tax effects arising from consolidation measures are taken into account if they are expected to reverse in future financial years. Deferred tax assets and deferred tax liabilities are offset if the tax debtor and the tax creditor are identical and current taxes would be offset.

Capital is consolidated by eliminating the carrying amount of the investments against the proportionate share of equity held in the subsidiary. In accordance with IFRS 3, all business combinations shall be accounted for using the acquisition method. The purchase price of the acquired subsidiary is allocated to the acquired assets, liabilities and contingent liabilities. Incidental acquisition costs will be directly expensed to profit and loss. This allocation is based on the fair values of the assets, liabilities and contingent liabilities prevailing at the time at which control over the subsidiary is obtained. Assets held for sale within the meaning of IFRS 5 are measured at fair value less costs to sell. Any remaining excess of the purchase price over the fair value of the net assets is recognized as goodwill. Subsequent measurement of the fair values is carried out according to the nature of the assets and liabilities. Sky exercises the option to account for non-controlling interests individually for each business combination.

Name	Registered office	Investment holding on 30 Jun 2014	Investment holding on 31 Dec 2013
Sky Deutschland Fernsehen GmbH & Co. KG (Sky Deutschland KG)	Unterföhring	100.0%	100.0%
Sky Deutschland Verwaltungs-GmbH (Sky Deutschland Verwaltung)	Unterföhring	100.0%	100.0%
Sky Österreich Verwaltung GmbH (Sky Österreich Verwaltung)*	Vienna, Austria	100.0%	100.0%
Sky Deutschland Service Center GmbH (Sky Deutschland Service Center Schwerin)	Schwerin	100.0%	100.0%
SCAS Satellite CA Services GmbH (SCAS)	Unterföhring	100.0%	100.0%
Premiere WIN Fernsehen GmbH (Premiere WIN Fernsehen)	Unterföhring	100.0%	100.0%
Sky Österreich Fernsehen GmbH (Sky Österreich Fernsehen)**	Vienna, Austria	100.0%	100.0%
Sky Media Network GmbH(Sky Media Network)	Unterföhring	100.0%	100.0%
Sky Hotel Entertainment GmbH (Sky Hotel Entertainment)	Unterföhring	100.0%	100.0%

* In the financial year 2013, Sky Österreich GmbH was renamed Sky Österreich Verwaltung GmbH.
** In the financial year 2013, Premiere Star Österreich GmbH was renamed Sky Österreich Fernsehen GmbH.

1.4 Acquisition of companies

In the short financial year 2014, no acquisitions of companies were carried out.

On 5 December 2013 Sky Deutschland agreed to acquire 100 percent of the production company Plazamedia GmbH TV- und Film-Produktion, as well as a 25.1 percent non-controlling minority stake in Sport1 GmbH and Constantin Sport Marketing GmbH. On 19 May 2014, Constantin Sport Holding GmbH (the seller) sent Sky Deutschland a withdrawal notice concerning this acquisition. Sky believes this withdrawal notice to be invalid and is currently in the process of evaluating its options.

1.5 Translation of foreign currencies

Foreign-currency transactions are translated at the relevant middle rate of selling and buying rate of the foreign currencies at the transaction date. On the balance sheet, financial assets and liabilities in foreign currencies are translated at the middle rate as of the balance sheet date and are revalued accordingly in subsequent periods. The resulting gains or losses are recognized in profit or loss.

The following table shows the most significant applicable exchange rates for currency translations:

		Middle rate of selling and buying rate	
Exchange rate: 1 Euro equals		30 Jun 2014	31 Dec 2013
US-Dollar	USD	1.37	1.38
Pound sterling	GBP	0.80	0.83

1.6 Accounting policies

1.6.1 Financial instruments

1.6.1.1 Summary

Purchases and sales of financial instruments are recognized on the trade date, i.e. on the date on which the Group commits to buy or sell an asset or liability.

The Company holds financial instruments in the form of cash and cash equivalents, receivables, available-for-sale financial assets, financial liabilities and loans, and derivatives in the form of foreign exchange forward contracts and interest rate swap contracts.

Financial assets are initially recognized at their fair values including directly attributable transaction costs. They are measured subsequently at fair value or at amortized cost, applying the effective interest method.

Fair value corresponds to the market or quoted prices, where available. A market or quoted price can be identified in particular for available-for-sale financial assets. If a market or quoted price is not available, fair value is determined in accordance with recognized valuation procedures.

In the case of current receivables and liabilities, amortized cost corresponds to the notional value or the settlement amount.

The Company derecognizes financial assets either if the contractual rights to the cash flows cease or these rights are transferred by the Company to a third party in such a way that the criteria for derecognition pursuant to IAS 39 are fulfilled.

Financial liabilities are derecognized when they have been redeemed, i.e. when the contractual obligations have been settled or cancelled or have expired or the criteria for derecognition in accordance with IAS 39 have been fulfilled. Financial liabilities are also derecognized if the amendment of significant conditions causes a significant change in the cash flows associated with the redemptions or interest. When the change becomes effective, a new financial liability is recognized at fair value. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the earnings of the period on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortized over the remaining term of the modified liability.

Financial assets and liabilities are offset and the net amount presented on the statement of financial position when Sky currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Transaction costs in connection with debt financing measures are treated in accordance with IAS 39. As far as the Company has already drawn amounts under the new facilities, a portion of the transaction costs is deducted from the carrying amount of the financial liability and amortized over the term of the liability using the effective interest method. For undrawn facilities, the allocated transaction costs are reported under other assets and amortized to profit and loss over the term of the facility using the effective interest method.

If, in the case of revolving credit lines, a reduction in the amount or an adjustment of the terms results in a reduction in the available credit capacity, the transaction costs related to the revolving credit line are released to profit or loss in proportion to the reduction in the credit capacity.

1.6.1.2 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash balances and term deposits with a total maturity of less than three months from the date of acquisition. They are recognized at notional value, with foreign currencies being translated at the middle rate of selling and buying as of the balance sheet date.

Restricted cash was reclassified by the Company to other assets. This primarily consists of accounts pledged to suppliers, rental guarantees and guarantees for payment obligations lodged with banks and other accounts (please refer to 2.1 Cash and cash equivalents and 2.5 Other assets).

1.6.1.3 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, such as trade receivables. After initial recognition at fair value, loans and receivables are subsequently carried at amortized cost using the effective interest method less any impairment losses.

Impairments of trade receivables are largely reflected by applying allowance accounts. The decision as to whether a credit risk is taken into account by means of an allowance account or a direct reduction of a receivable depends on how reliably the risk situation can be assessed.

An allowance is recorded if there is objective evidence that the receivable is impaired. A significant indication of impairment is that the receivable is included in dunning procedures. The allowance represents the difference between the carrying amount and the present value of the expected cash receipts.

1.6.1.4 Financial assets

Financial assets are initially recognized at their fair value, which normally corresponds to their acquisition cost. Subsequent measurement is at amortized cost, using the effective interest method. Identified specific risks are reflected by corresponding valuation allowances (specific allowances).

Reimbursement rights relating to liabilities incurred by the Sky Group are only recognized when it is virtually certain that the reimbursement will be received.

1.6.1.5 Available-for-sale financial assets

The available-for-sale financial assets category includes financial assets that cannot be allocated to any other measurement category. Mainly, securities and investments are reported here.

Unquoted equity instruments are measured at cost, since no market for these assets exists and a fair value cannot be determined by other reliable measurement methods. Interests in companies over which Sky is unable to exert control, joint control or significant influence are accounted for as equity instruments.

Changes in fair value of other available-for-sale financial assets are recognized directly in other comprehensive income. In the cases in which fair value is significant and other than temporarily below cost, the impairment is recognized in profit or loss. If fair value adjustments were previously recognized directly in equity and the written-down fair value is lower than the original cost of the asset, the portion of the impairment loss corresponding to the fair value gain previously recognized in equity is reversed through equity. Any further decrease in value is recognized in profit or loss as an expense for the period.

If the circumstances that resulted in impairment cease to exist in subsequent periods, the impairment loss on debt securities previously charged to profit or loss is reversed through profit and loss. The reversal of the impairment of equity investments is recognized in equity.

1.6.1.6 Financial liabilities

Financial liabilities are initially recognized at fair value less directly attributable transaction costs. Subsequent measurement is at amortized cost using the effective interest method.

1.6.1.7 Derivative financial instruments

The derivatives used by the Company are foreign exchange forward and interest rate swap contracts. Foreign exchange forward contracts are used to economically hedge the risks of fluctuations in the exchange rates of the US dollar and the pound sterling, since the Company has material payment obligations denominated in those currencies to be met in connection with operating activities. In July 2013 the company concluded interest rate swap agreements to fully hedge the potential interest rate risk for a loan with variable interest rates to hedge the resulting interest rate risk.

All financial derivatives used in the Group are measured at their fair values according to IFRS 13 and are recognized as assets or liabilities. The fair values of the derivatives are reported with positive market values under other financial assets and with negative market values under other financial liabilities. Their classification as current and non-current is based on the maturities of the expected cash flows or the maturities of the corresponding derivatives. Default risks were taken into account when determining the fair values.

Foreign exchange forward contracts

The Company applies hedge accounting with respect to its US dollar and pound sterling exposure. The overall objective of Sky's hedging strategy is to mitigate the risk of having to settle payment obligations denominated in US dollars and pound sterling for the purchase of sports programming and movie licenses as well as for other licenses by using forward exchange transactions.

A part of these derivatives is designated as hedging instruments in qualifying cash flow hedges in accordance with IAS 39 to hedge the exposure to variability in cash flows denominated in foreign currencies. The valuation result of these derivatives is broken down into an effective and an ineffective portion. Until realization of the underlying transaction, the effective portion of changes in the fair value of these derivatives is recognized directly in other comprehensive income, net of income tax. The ineffective portion is reported in profit and loss immediately. Upon realization of the underlying transaction, the accumulated changes in the fair values of the derivatives recognized in other comprehensive income as part of equity is then capitalized as part of the carrying amount of advanced payments for sport and film rights and will be released to profit and loss based on the contractual conditions of the underlying transactions.

If the hedge no longer meets the criteria for hedge accounting, the gain or loss on the hedging instrument that has been recognized in equity from the period when the hedge was effective shall remain separately in equity until the forecasted transaction occurs. When the forecasted transaction occurs, the cumulative gain or loss on the hedging instrument is reclassified to profit and loss.

If the hedge relationships in which the derivatives are used do not fulfill the criteria of IAS 39 for hedge accounting, changes in fair value are recognized directly in profit or loss.

Hedging instruments in qualifying cash flow hedges currently have a maximum term of 29 months.

Interest rate swap contracts

One component of the refinancing from February 2013 includes a K€225,000 term loan. The interest rate for the loan is based on the variable Euribor plus a margin. To fully hedge the potential interest rate risk from the variable component Sky concluded interest rate swap agreements in the amount of K€225,000 in July 2013. As a result of these interest rate swaps, Sky will pay fixed interest rates between 0.8035 and 0.8250 percent plus margin from May 2014 until February 2017.

These derivatives are designated as hedging instruments in qualifying cash flow hedges in accordance with IAS 39. The effective portion of changes in the fair value of these derivatives is recognized directly in other comprehensive income, net of income tax. The ineffective portion would be reported in profit and loss.

When the underlying transaction occurs, the accumulated changes in the fair value of the derivatives recognized in accumulated other comprehensive income as part of equity are reclassified to profit and loss as interest and similar expenses.

If the hedges no longer meet the criteria for hedge accounting the cumulative gain or loss on the hedging instruments that has been recognized in equity from the period when the hedges were effective shall remain separately in equity until the forecasted transaction occurs.

If the hedge relationships in which the derivatives are used do not fulfill the criteria of IAS 39 for hedge accounting, changes in fair value are recognized directly in profit and loss.

1.6.2 Inventories

Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs to sell. Rebates, bonuses and cash discounts are deducted from cost. Measurement is based on moving average prices.

1.6.3 Property, plant and equipment

Property, plant and equipment is measured at cost, less depreciation and, to the extent necessary, impairment losses. Cost comprises the purchase price, including any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operation in a manner intended by management. Rebates, bonuses and cash discounts are deducted from the purchase price.

Subsequent expenditure relating to an item of property, plant and equipment that has already been put into use is added to the carrying amount of the asset or, where appropriate, recognized as a separate asset, if it is probable that future economic benefits will flow to the entity and the purchase costs of the asset can be reliably determined. All other subsequent expenditure is recognized as an expense in the period in which it is incurred. Subsequent expenditure that would otherwise be capitalized, which exceeds the recoverable amount of the respective asset, is recognized immediately in profit or loss.

Expenditure on repairs and maintenance which does not include any replacement or spare parts is recognized immediately in profit or loss. Replacement or spare parts are capitalized at the time of operational readiness, while the replaced parts are derecognized.

In general, receivers are at first capitalized under inventories. Receivers that are leased to subscribers are transferred from inventories to property, plant and equipment upon delivery to the subscriber.

Property, plant and equipment are depreciated over their expected useful lives using the straight-line pro rata temporis method.

Depreciation is based on the following useful lives:

	Useful lives (years)
Buildings	30
Receivers	5–7
Technical equipment and machines	1.5–7
Leasehold improvements	5–10
Operational and office equipment	3–7

1.6.4 Intangible assets

1.6.4.1 Film assets and advance payments for sport and film rights

Film assets comprise broadcasting licenses and on demand licenses acquired from film studios and TV program providers, a film library that was acquired in 2006 and advance payments on sport and film rights.

The broadcasting licenses are acquired for exploitation in a term-dependent subscription. These licenses are recognized at their costs at the time they become available and with the license start. In the case of purchases of these licenses from film studios, costs include minimum guarantees and expected additional payments that depend on the number of subscribers (“overages”), which are estimated at the time of initial recognition, plus other directly attributable costs. In the case of purchases of licenses from TV program providers acquisition costs are capitalized at the fixed, contractually agreed costs. Utilisation of the broadcasting licenses is based on the actual transmissions during the short financial year in relation to the expected total number of transmissions during the license period. If it is expected that unused transmissions will be outstanding at the end of the license period, an impairment loss is recognized immediately in full for such transmissions.

On-demand licenses are acquired on the one hand for exploitation in a term depended subscription, where the subscriber pays per view (Pay-per-View/Transactional-Video-on-Demand), and on the other hand for exploitation within a flexible, monthly cancellable contract, where the customer pays a monthly charge (Subscription-Video-on-Demand). These licenses are recognized at their costs at the time they become available and with the license start. In the case of purchase of these licenses from film studios and TV program providers, costs include fixed contractual agreed license fees, additional fixed payments that depend on the number of customers and other directly attributable costs.

The on-demand licenses acquired for exploitation within a flexible, monthly cancellable contract are amortized straight-line over a useful life according to the license agreement.

The program library was capitalized at its purchase price. The licenses of the program library are amortized straight-line over a useful life of between two and fifteen years.

With respect to the live pay-TV rights including those currently held across satellite, cable and the internet, and adding IPTV and mobile for all 1st Fußball-Bundesliga and 2nd Fußball-Bundesliga matches in Germany, Austria, Switzerland, Liechtenstein and Luxembourg from the season 2013/14 to 2016/17, the utilization is based on the allocation of match days per season, taking into account the increasing license fees payable to the DFL Deutsche Fußball Liga GmbH over the four seasons. Utilization of other sport rights is also based on the allocation of events during the relevant license period.

The classification of film assets as non-current or current occurs on license start and depends on whether they are expected to be used within twelve months.

Payments on account for rights already agreed by contract are recognized as advance payments on sport and film rights in accordance with the timetable set forth in the agreements.

1.6.4.2 Goodwill

Goodwill is recognized at cost and is subject to an impairment test at least once a year. Because of the change in financial year, impairment testing of goodwill was conducted as of 31 March (prior test 30 September). Goodwill is not amortized. If indications of impairment are identified during the year, an additional impairment test is carried out. (Please also refer to 1.6.5 Impairment losses and reversals of impairment losses). As of 30 June 2014 goodwill amounts were unchanged at K€639,353.

1.6.4.3 Other intangible assets

Other intangible assets comprise purchased software, software licenses, rights to names, trademarks and subscriber bases. Software, purchased software licenses and rights to names are measured at the time of their acquisition at cost plus other directly attributable costs and subsequently at cost less accumulated amortization and impairment losses. In accordance with the requirements of IAS 38, Sky has capitalized internal development costs for the first time in the in the short financial year 2014. These entirely represent incidental acquisition costs of purchased software.

The subscriber bases were initially measured at fair value or at cost at the time of their acquisition and are being amortized over the expected average subscription period.

The following useful lives are applied for intangible assets that are subject to scheduled amortization:

	Useful lives (years)
Subscriber bases	8
Software/software licenses	3–5
Rights to names	1–5

1.6.5 Impairment losses and reversals of impairment losses

Impairment losses are recognized as of the balance sheet date on property, plant and equipment and intangible assets (including the subscriber bases) if the recoverable amount of the asset has fallen below its carrying amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use.

Goodwill is not amortized, but is in accordance with IAS 36 tested for impairment on the basis of the recoverable amount of the cash-generating unit to which the goodwill is allocated. Due to the nature of Sky's operations, goodwill is allocated to the cash-generating unit "pay-TV business" which includes all of the Group's operating activities and corresponds to the level within the Group at which goodwill is monitored for internal management purposes.

In performing the impairment testing, the Company first uses the value in use, which corresponds to the present value of the future net cash flows of the cash-generating unit "pay-TV business".

In addition, the Company assesses the fair value less expected cost to sell for the cash-generating unit, which is derived from the quoted price of the Sky share.

The recoverable amount is the higher amount of value in use or the fair value less cost to sell.

If the recoverable amount is lower than the carrying amount of the cash-generating unit, the goodwill is written down first. Any amount remaining after writing down the goodwill to zero is allocated proportionately to other non-current assets of the cash-generating unit based on the carrying amounts of each individual asset or group of assets. An examination is conducted at every balance sheet date to determine whether the reasons for impairment losses recognized in previous periods still exist. Reversal of impairment losses is mandatory if the recoverable amount of an asset or a group of assets has increased. The upper limit for reversal of an impairment loss is cost less the cumulative depreciation or amortization that would have arisen if no impairment losses had been recognized in prior periods. Reversals of impairment losses are recorded in the consolidated statement of comprehensive income/loss in the respective line items or reported separately. Impairment losses on goodwill cannot be reversed in a subsequent period.

1.6.6 Other assets

Other assets are measured at amortized cost. Identified specific risks are reflected with corresponding valuation allowances (specific allowances).

1.6.7 Leasing

1.6.7.1 Company as lessee

Provided substantially all of the risks and rewards incidental to ownership of a leased asset can be attributed to the Company as the lessee, the leased asset is capitalized as property, plant and equipment or intangible asset, and a corresponding finance lease liability is recorded at the same amount (finance lease). The asset and the corresponding liability are recognized at inception of the lease at the fair value of the leased asset or the present value of the minimum lease payments, if lower. The lease liability is amortized and rolled forward in subsequent periods in accordance with the effective interest method.

If, on the other hand, substantially all of the risks and rewards incidental to ownership of a leased asset cannot be attributed to the Company, the lease payments are recognized as expense on a straight-line basis over the period of the lease (operating lease).

In 2012, a contract for leasing hardware components (receivers, external hard disks and CI+ modules) was concluded. The contract is classified as a finance lease because the purchase price at the end of the lease is lower than the fair value of the asset at the date the option becomes exercisable. Accordingly, additions in the amount of K€34,994 were capitalized as property, plant and equipment in 2013 and receivers already delivered to subscribers are depreciated straight-line over the useful economic life of 60 months.

In 2013, a contract was concluded for automatic testing and refurbishment services of receivers. The contract comprises in addition to certain services both hardware and software components that were classified as finance leases. According to the criteria of IAS 17, ownership of the assets is transferred to Sky at the end of the term of the leasing agreement. Accordingly, the assets were capitalized as property, plant and equipment and other intangible assets amounting to K€996 in total and are depreciated straight-line over the useful economic life of 60 months.

In 2013 a contract for the supply of a test-and-development system for receivers was concluded. In addition to certain services, the contract comprises hardware as well as software components that were classified as finance lease because the purchase price at the end of lease is lower than the fair value of the asset at the date the option becomes exercisable. Accordingly, the assets were capitalized as property, plant and equipment and other intangible assets amounting to K€380 in total and are depreciated straight-line over the useful economic life of 60 months.

In 2009, the Sky Group entered into a service contract regarding the operation of a new subscriber management system ("SMS"), which Sky has been using since July 2009 for the purpose of subscriber administration and billing. Based on the economic arrangement of the contracts, the hardware and software components of the contract are allocated to the Sky Group. In this respect software licenses have been recognized as intangible assets and hardware components as equipment. Amortization and depreciation were carried out over the economic useful life of five years. A corresponding financial liability was recognized at the inception of the contract for the payments to be made by the Sky Group. In July and December 2012 the contractual relationship was amended by new agreements regarding duration and cost allocation. Therefore, these changes were considered as a "renewal" of the lease according to IAS 17.13. As a result, in 2012, the corresponding assets in the amount of K€4,859 and liabilities in the amount of K€4,174 of the original contract were derecognized and led to a negative effect of K€685 in general and administrative expenses, and a new finance lease contract was recorded on the balance sheet in the amount of K€5,672, as the leasing term broadly corresponds to the economic useful life. The components of the new finance lease contract are depreciated straight-line over the economic useful life of 12 to 39 months.

In 2012, an IT service contract for call center operations was concluded. The contract comprises both hardware and software components that were classified as finance leases because the leasing term broadly corresponds to the economic useful life. Accordingly, the assets were capitalized as property, plant and equipment and other intangible assets amounting to K€1,895 in total and are depreciated straight-line over the economic useful life of 39 months.

Furthermore, a service contract for setting up and running the business of a call center was concluded in 2012. The contract comprises property, plant and equipment components that were classified as finance leases because the leasing term broadly corresponds to the economic useful life. Accordingly, the assets were capitalized as property, plant and equipment amounting to K€207 in total and are depreciated straight-line over the economic useful life of 60 months. In light of the new guidance under IFRS 10, Sky reassessed this issue and came to the conclusion that no change in accounting is called for, which means that no special purpose entity is to be included.

In 2011, a contract for services regarding outdoor productions in connection with the Sky Sports News HD channel was concluded. The contract comprises production equipment that was classified as a finance lease because the leasing term broadly corresponds to the economic useful life. Accordingly, the production equipment in the amount of K€2,335 was capitalized in property, plant and equipment and is depreciated straight-line over the economic useful life of 60 months.

The existing lease contracts for pay-TV equipment, TVs and accessories for hotels ("pay-TV equipment") were classified as finance leases, because the present value of the minimum lease payments at inception of the lease largely corresponded in each case to the present value of the leased assets. Accordingly, the pay-TV equipment was recognized in property, plant and equipment under technical equipment and machines from finance leases. Pay-TV equipment in leases concluded from 2006 onwards (new agreements) is depreciated straight-line over the economic useful life (84 months).

Some of the finance leases grant the lessee the right to purchase the leased asset at the end of the lease term. The purchase price on exercise of this option is almost always the carrying amount applying straight-line depreciation in accordance with the depreciation tables used for tax purposes ("AfA tables") or the lower fair value at the time of sale.

Due to the strategic realignment of the hotel business within the Sky-Group, the decision was made in 2010 to forego new lease contracts for the refinancing of Hotel-pay-TV equipment and the relevant components and let existing contracts expire. In accordance with the underlying agreements, the last leasing contracts expired in 2013 with no more pay-TV equipment reported for technical equipment and receivers under finance leases in property, plant and equipment.

The Company leases office buildings, motor vehicles and other technical equipment under operating leases.

1.6.7.2 Company as lessor

The receivers recognized in property, plant and equipment are leased to subscribers under operating leases. Receivers are distinguished among the following categories: d-boxes, zapping receivers, HD-receivers, hard-disc receivers, HD hard-disc receivers, interactive receivers, external hard-discs (for upgrading HD receivers) and CI+ modules.

The term of the leases is 6, 12, 24 or 36 months. Purchase options on the part of the subscribers (lessees) do exist at Sky Österreich Fernsehen only. Apart from that, subscribers do not hold any purchase options or similar rights and Sky does not hold any put options or similar rights at the end of the lease. The receivers remain in the economic ownership of the Company for the term of the lease. With regard to the rental income from existing operating leases, please refer to the disclosures under item 2.6 Property, plant and equipment including receivers.

The pay-TV equipment is almost entirely leased to hotels under finance leases. The term of the leases is up to 84 months. These are regarded as finance leases because the Company transfers most of the risks and rewards associated with ownership of the leased asset to the lessees. Leased assets under finance leases are recognized by the lessee. The lessor recognizes a receivable that is measured at the net investment in the lease. Please refer to 2.3.3 Finance lease receivables with regard to the calculation of the net investment in the lease. Unguaranteed residual values do not exist because of the full amortization of the finance leases. Gains on disposal resulting from the leases are recognized immediately in profit or loss.

1.6.8 Provisions

1.6.8.1 Provisions for pensions and similar obligations

The actuarial measurement of the defined benefit obligations for pensions and similar obligations is based on the projected unit credit method. The projected unit credit method measures the liability by assuming that each period of service gives rise to an additional unit of benefit entitlement. Assumptions are made in measuring the liability about expected increases in salaries and pensions. The pension obligations are determined on the basis of an actuarial valuation.

The amendments to IAS 19 (2011 revised), which were endorsed in European law on 5 June 2012 and which are effective for financial years beginning on or after 1 January 2013 were adopted for the first time in the consolidated financial statements as of 31 December 2013. The amendments to IAS 19 (2011 revised) result in the recognition of actuarial gains and losses in connection with the valuation of pensions and similar obligations directly in equity in accumulated other comprehensive income. In this context, the comparative information relating to accumulated other comprehensive income and retained deficit as of 1 January 2013 was adjusted by a total of K€2,821 net of tax. Consistent with this reclassification any future effects from the valuation will not be cycled through profit and loss in subsequent periods. Both current service cost and interest cost will continue to be recognized in general administrative expenses and financial result respectively as part of profit and loss.

1.6.8.2 Other provisions

Provisions are recognized if a present legal or constructive obligation to a third party arises from past events, the settlement of which is expected to result in a probable outflow of future economic benefits and whose amount can be reliably estimated.

Provisions that will not result in an outflow of resources as soon as in the following year are recognized at their settlement amount, discounted to the balance sheet date. The discount rate is based on market interest rates. The amount required to settle the obligation also includes future cost increases.

1.6.9 Income taxes

Current taxes are recorded for the income taxes owed by Group entities at the time they arise.

Deferred taxes are generally recorded for all temporary differences between the tax bases and the carrying amounts of the assets and liabilities in the consolidated balance sheet (“liability method”). An exception arises for differences relating to the first-time recognition of non-taxable goodwill and that do not result in the recognition of deferred taxes. Deferred taxes are also recorded for tax losses and deductible temporary differences, provided sufficient taxable income will be generated in the future against which these tax losses can be utilized or will exist at the time that these differences reverse.

Deferred tax assets and deferred tax liabilities are calculated using the tax rate that is applicable to the period when the temporary differences reverse. Future changes in tax rates are only taken into account to the extent that these have been enacted or substantially enacted as of the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if the tax debtor and the tax creditor are identical and current taxes would be offset.

1.6.10 Revenue recognition

Subscription revenues are recorded in the period in which performance takes place. Advance cash receipts from subscribers are deferred as liabilities and recognized as revenue primarily on a straight-line basis over the term of the subscription.

Pay-per-view revenues, resulting from the subscriber selecting a specific program title, have been recorded in the consolidated statement of comprehensive income/loss at the time of transmission.

Hardware revenues comprise revenues from renting and selling receivers, activation fees from new subscribers, revenues generated by technical services and revenues from installation services. The majority of receivers will be made available to new subscribers as part of leasing agreements. Defective and untested receivers are sold off. If a subscription is offered as part of a multiple element arrangement, the revenues from this arrangement are allocated to the individual components based on their relative fair values (i.e. the relative fair value of each of the accounting units to the aggregated fair value of the bundled deliverables). If the fair value of the delivered elements (receiver) cannot be determined reliably, but the fair value of the undelivered elements (subscription) can be determined reliably, the residual value method is used to allocate the arrangement consideration. Revenues from the sale of receivers (primarily to large customers in individual cases) are recorded upon the legal transfer of risk concerning the receiver (e.g. loss or destruction).

Revenues from technical and installation services are recorded when the service is provided. Activation fees are recognized in profit and loss over the period of the subscription.

Agreements for the rental of pay-TV equipment to hotels that are classified as finance leases are treated in the same way as the sale of hardware, meaning that revenues are recognized in the amount of the leased receivables that are to be capitalized and cost of sales is recognized in the amount of the retirement of the pay-TV equipment at inception of the lease.

Revenues from agency business are generally recognized when performance has taken place.

Upon transfer of the subscriber lists for the teleservice “Blue Movie” in 2011, billing takes place in Sky’s own name and on its own account. The revenue is realized at the time the service is rendered.

Advertising revenues include proceeds from the marketing of advertising times and space in TV, magazines and other media platforms (e.g. online). Revenues are recognized when the advertising has been carried out.

Wholesale revenues include revenues from supplying cable providers with Sky content, telecommunications providers, and from other wholesale agreements. The revenues are recorded at the time the service is provided.

Other revenues mainly comprise revenues from transmission services, commissions for placement services and sublicensing revenues.

Depending on character, revenues from cooperation with Deutsche Telekom and Vodafone are disclosed under subscription revenues, wholesale revenues and other revenues.

In connection with the cooperation agreement with Deutsche Telekom signed in July 2013, former Liga total! IPTV customers had the option to receive Sky Fußball Bundesliga in accordance with the previously applicable Liga total! conditions until the end of the 2013/14 season or to enter into a standard Sky contract.

1.6.11 Interest expense and income

Interest expense and income are recognized when incurred using the effective interest method.

1.6.12 Expenses and income from changes in estimates

Expenses and income from changes in estimates are reported in profit or loss in the same item in which the original entry was made.

1.6.13 Share-based payments

In 2012, Sky concluded a share-based compensation component with the Chief Executive Officer, which will result in a one-time payment on the basis of 500,000 shares. This payment will be determined by the volume-weighted average market price of the Sky share for December 2014 and will become due on 2 January 2015 if the vesting conditions are met. In 2012, 2013 and 2014 the Company introduced longterm incentive plans (LTIPs) for members of the Management Board and the senior management, which are still active. Under the program, a certain number of virtual shares are assigned to the eligible persons. The virtual shares entitle these persons, under certain conditions, to receive a payment based on the volume-weighted average market price of the Sky share for December 2014, December 2015 and December 2016. Entitlement to the payment is generally dependent on these persons being actively employed with the Sky Group on 31 December on each of these three years. In addition, the amount of the payment is adjusted by a factor based on the performance of the Sky Group with respect to net subscriber growth and EBITDA less capital expenditure over the three-year period ending on 31 December of the years 2014, 2015 and 2016 respectively. The targets for both performance indicators were set by the Supervisory Board using the business plan projections of the Sky Group. For further details, please refer to the Remuneration Report in the consolidated Management Report.

These programs are classified as cash-settled share-based compensation in accordance with IFRS 2. Any changes in the fair value of the virtual shares are recognized in profit and loss over the vesting period. The fair value is determined using the Black-Scholes model.

1.6.14 Estimates and judgments

The preparation of the consolidated financial statements under IFRS requires that assumptions are made that affect the amounts recognized in the Group’s balance sheet and consolidated statement of comprehensive loss and the disclosures of contingent assets and liabilities. Actual results in later periods could differ from these estimates.

Changes in payments based on the number of subscribers in conjunction with the recognition of film licenses are recorded as changes in accounting estimates. Accordingly, the residual carrying amount is increased or reduced at the time of the change in accounting estimates. The resulting amount is amortized as profit or loss over the period of the remaining transmissions (prospective method).

For information on the impairment test on goodwill of the cash-generating unit pay-TV business, please refer to the note under 2.7.2 Goodwill.

In accordance with historical experience, an average membership period of eight years for subscribers was assumed for the amortization of the subscriber bases (see also 2.7.3 Other intangible assets).

The amount recognized for pension provisions (see also item 2.8.6 Provisions for pensions) is based on actuarial reports. Adjustments to the provisions for actuarial gains and losses according to actuarial reports are recognized in other comprehensive income as part of the consolidated statement of total comprehensive loss. Employee turnover rates used in determining the pension provisions are based on historical experience. Additional assumptions are made as to both salary and pension growth rates.

The fair value of the virtual shares granted in connection with incentive programs is dependent on certain parameters such as the volatility and the current interest rates. Additionally, estimates regarding expected subscriber growth and expected EBITDA less capital expenditure will also affect the amount expensed.

Under IFRS, revenue shall be measured in accordance with the fair value of the consideration received or receivable. The recognition criteria are generally applied separately to each transaction. However, in certain circumstances it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction correctly. The Group generally applies the relative fair value method to allocate the total contractual amount. Under this method, the total contractual amount is allocated in proportion to the fair value of the individual elements. If the fair value of the delivered elements (receiver) cannot be determined reliably, but the fair value of the undelivered elements (subscription) can be determined reliably, the residual value method is used to allocate the arrangement consideration.

Deferred tax assets on temporary differences and tax losses are recognized up to the amount for which it appears probable that future taxable income will be available.

1.6.15 Segment reporting

The business activities of the Group concentrate on the operation of a pay-TV business in Germany and Austria under the Sky brand name and related activities.

Accordingly, the internal reporting to the Management Board of the Company provides information on the combined operation of the pay-TV business in both countries. In addition, the allocation of resources follows this internal reporting structure. Hence, Sky does not have different operating segments in accordance with IFRS 8.

1.7 New accounting standards issued by the IASB

The following standards and interpretations were required to be adopted for the first time in the short financial year 2014:

- IAS 27 Separate Financial Statements (revised 2011) sets forth the accounting and disclosure requirements for "separate financial statements", which are prepared by a parent company or a shareholder having joint control or significant influence over an associate company and in which the shares are carried at acquisition cost or in accordance with IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments. The accounting for dividends is also presented in the standard and various disclosure requirements are set out. The standard was issued by the IASB on 12 May 2011 and adopted by the EU on 11 December 2012. IAS 27 (revised 2011) is effective for reporting periods beginning on or after 1 January 2014. It replaces IAS 27 Consolidated and Separate Financial Statements from this date. The requirements for separate financial statements shall remain unchanged as part of the amended IAS 27. The remaining portions of IAS 27 are replaced by IFRS 10 Consolidated Financial Statements.

- In IAS 28 Investments in Associates and Joint Ventures (revised 2011) shows, with certain limited exceptions, how the equity method is to be applied to shares in associated companies and joint ventures. In addition, the standard defines an associated company by the concept of "significant influence", which requires the opportunity to participate in financial and operational policy-making decisions of the associated company but not the control or joint control over the decision-making processes. Parts of the modifications on IAS 28 are a consequence of the introduction of IFRS 10, IFRS 11 and IFRS 12. IAS 28 was re-issued on 12 May 2011, was adopted by the EU on 11 December 2012 and shall be effective for reporting periods beginning on or after 1 January 2014.

- On 16 December 2011, the IASB issued an amendment to IAS 32 "Offsetting Financial Assets and Financial Liabilities". The changes to IAS 32 clarify that the right to offset must currently exist – meaning that this right cannot be dependent on a future event. In addition, the claim must be legally enforceable for all contracting parties in the normal course of business in the event of default, insolvency or inability to pay. The standard is effective for financial years beginning on or after 1 January 2014 and was adopted by the EU on 13 December 2012.

- In IAS 36 Recoverable Amount Disclosures for Non-Financial Assets, the IASB revised some of the disclosure requirements relating to the measurement of the recoverable amount of impaired assets as of 29 May 2013 as part of the consequential amendments to IFRS 13 Fair Value Measurement. According to this amendment, an entity must disclose the discount rate which was applied in connection with the current and prior valuations if the valuation is based on the fair value less costs to sell under application of a present value method. This is intended to harmonize the disclosure requirements.

These amendments are to be applied retrospectively for reporting periods beginning on or after 1 January 2014. Earlier application is permitted – however, only in reporting periods (including comparative information) in which IFRS 13 is also applied. The amendment was adopted by the EU on 19 December 2013.

- In order to improve the transparency and regulatory oversight of over-the-counter (OTC) derivatives, on 27 June 2013 extensive legislative changes were introduced by the IASB. As a result, in order to reduce the risk of default, companies are converting derivatives to central counterparties (CCP) (novation). According to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting, the accounting of derivatives as hedging instruments in a hedge-accounting relationship is to be terminated if the original derivative no longer remains in existence. Due to the effects on the accounting which result from novation due to the legal or regulatory requirements, the IASB has concerns. Thus, the IASB added a simplification provision to IAS 39, whereby terminating hedge accounting is not necessary if the novation of a hedging instrument with a central counterparty fulfills certain criteria. A similar simplification provision is included in IFRS 9 Financial Instruments. The standard is effective for financial years beginning on or after 1 January 2014. The amendment was adopted by the EU on 19 December 2013.

- IFRS 10 Consolidated Financial Statements was issued on 12 May 2011. This statement replaces the consolidation guidelines in the previous IAS 27 Consolidated and Separate Financial Statements and SIC–12 Consolidation – Special Purpose Entities. The main focus of IFRS 10 is the introduction of a uniform consolidation model for all entities, which is based on the control of the subsidiary by the parent company. IFRS 10 is applicable to parent/subsidiary relationships which are based on voting rights, as well as those which result from contractual agreements. In connection with the adoption of IFRS 10, amendments were made to both IAS 27 and IAS 28 Investments in associates, which in the future are only to be applied for the accounting of interests in subsidiaries, associates and joint ventures in the single-entity financial statements. The standard is effective for financial years beginning on or after 1 January 2014 and was adopted by the EU on 11 December 2012. Sky has appraised the purchase of the production company Plazamedia GmbH TV- und Film-Produktion GmbH, Ismaning under the new regulations of IFRS 10.

- On 12 May 2011, IFRS 11 Joint Arrangements was also issued. This standard replaces IAS 31 Interests in Joint Ventures and eliminates the previous possibility of applying proportional consolidation of joint ventures. It now requires the mandatory application of the equity method. The standard is effective for financial years beginning on or after 1 January 2014 and was adopted by the EU on 11 December 2012.

- With IFRS 12 Disclosures of Interests in Other Entities, a standard was issued by the IASB on 12 May 2011 which combines the revised disclosure requirements regarding IAS 27, IAS 28, IFRS 10 and IFRS 11 into a single standard. The standard is effective for financial years beginning on or after 1 January 2014 and was adopted by the EU on 11 December 2012.

- On 28 June 2012, the IASB issued IFRS 10–12 Transitional Guidance, which clarifies through the amendments the transitional guidelines in IFRS 10 and provides additional relief with respect to all three standards. This includes, in particular, the limitation of the disclosure of adjusted comparative figures on the first-time application to the immediately preceding period. The amendment applies to financial years beginning on or after 1 January 2014 and was adopted by the EU on 4 April 2013.

- On 31 October 2012, the IASB published Investment Entities as an amendment to IFRS 10, IFRS 12 and IAS 27. The amendment provides an exemption from the requirement to consolidate subsidiaries in case the parent company meets the definition of an investment entity (such as certain mutual funds). Certain subsidiaries will have to be measured at fair value through profit and loss in accordance with IFRS 9 and IAS 39 respectively. The amendment applies to financial years beginning on or after 1 January 2014 and was adopted by the EU on 20 November 2013.

- On 20 May 2013, the IASB issued IFRIC 21 Levies. IFRIC 21 provides guidance on when a liability for a levy imposed by a government is to be recognized. The interpretation applies both to levies that are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as well as to levies for which the settlement date and amount are known. IFRIC 21 shall apply for financial years beginning on or after 17 June 2014. Earlier application is permitted. The EU adopted the standard on 16 June 2014.

Application of the following standards and interpretations, which were published by the IASB or the IFRIC, is not yet mandatory, because they have not yet been adopted by the EU or because the date they are to be used for the first time is in the future. Where they have already been adopted by the EU, Sky has not applied them early.

- IAS 19 (revised 2011) Employee Contributions was supplemented by the IASB on 21 November 2013 with a clarification of the attribution of contributions from employees or contributions to third parties in connection with the respective service period and a simplification provision was created in cases where the amount of the contributions is not dependent on the number of the years of service. The standard shall be effective for reporting periods beginning on or after 1 July 2014 and has not yet been adopted by the EU.

- On 12 December 2013, the IASB published the final amendments and clarifications in connection with the Annual Improvements Project 2010–2012, which resulted from issues discussed in this cycle. These amendments essentially relate directly to IFRS 2 Share-based Payment, IFRS 3 Business Combinations, IFRS 8 Operating Segments, IFRS 13 Fair Value Measurement, IAS 16 Property, Plant and Equipment, IAS 24 Related Party Disclosures and IAS 38 Intangible Assets. The amendments are effective for reporting periods beginning on or after 1 July 2014 and are yet to be adopted by the EU.

- On 12 December 2013, the IASB published the final amendments and clarifications in connection with the Annual Improvements Project 2011–2013, which resulted from issues discussed in this cycle. These amendments essentially relate directly to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 3 Business Combinations, IFRS 13 Fair Value Measurement and IAS 40 Investment Property. The amendments are effective for reporting periods beginning on or after 1 July 2014 and are yet to be adopted by the EU.

- The IASB published amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization on 12 May 2014, in order to provide for guidelines when determining the appropriate amortization method for property, plant and equipment as well as intangible assets, in particular with regard to revenue-based amortization. The amendments shall apply to financial years beginning on or after 1 January 2016 and are yet to be adopted by the EU.

- The IASB has published amendments to IAS 16 and IAS 41 Bearer plants on 30 June 2014. It puts bearer plants, which are used solely to grow produce, into the scope of IAS 16 so that they are accounted for in the same way as property, plant and equipment. The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application being permitted. This amendment is not relevant for Sky and has thus far not been adopted by the EU.

- The IASB published an amendment to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations on 6 May 2014. The acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. The amendment shall be effective for reporting periods beginning on or after 1 July 2016 and has not yet been adopted by the EU.

- IFRS 14 Regulatory Deferral Accounts permits an entity which is a first-time adopter of IFRS to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and statement of profit and loss or other comprehensive income, and specific disclosures are required. IFRS 14 was published on 30 January 2014 and will be effective for reporting periods beginning on or after 1 January 2016. The standard has not yet been adopted by the EU.

- On 28 May 2014, the IASB issued IFRS 15. The standard specifies how and when an IFRS adopter will recognize revenue. IFRS 15 is to apply for nearly all contracts with customers. Exceptions are for example Leases and Financial Instruments. IFRS 15 will replace IAS 18 "Revenues" and IAS 11 "Construction Contracts". The application of IFRS 15 is mandatory for annual reporting periods starting from 1 January 2017 onwards. The standard has not yet been adopted by the EU.

- The most recent version of IFRS 9 Financial Instruments was issued by the IASB on 20 November 2013. It is the IASB's intention to replace IAS 39 Financial Instruments: Recognition and Measurement with IFRS 9. The core content of this IASB project is the recognition, classification and measurement of financial assets and financial liabilities, which represents a comprehensive reappraisal of the accounting rules for financial instruments. This project results, above all, in a significant decrease in the complexity and the currently perceived difficulties in the application of the existing rules. An effective date for the new standard is no longer included in the published version of IFRS 9, since the completion of the outstanding project phases is still awaited. An effective date for the application before 1 January 2018 is precluded and the amendment has not yet been adopted by the EU.

With respect to the adoption of, and/or amendment to, standards that do not as yet have to be applied, Sky is constantly in the process of evaluating potential quantitative effects on the consolidated financial statements. Sky is currently evaluating the effects of the new IFRS 15 standard. At the current time, no statements can be made regarding the potential effects of these standards.

2. Notes to the consolidated balance sheet

In the following notes to the consolidated balance sheet, the figures as of 30 June 2014 are compared to the figures as of 31 December 2013 (referred to as “2013”).

2.1 Cash and cash equivalents

The cash and cash equivalents include cash at bank with a maturity of up to three months as of the acquisition date as well as cash on hand.

(K€)	30 Jun 2014	31 Dec 2013
Bank and cash balances	103,157	96,898
Term deposits	20,000	100,000
Total	**123,157**	**196,898**

Restricted cash is shown under other assets. These primarily consist of accounts pledged to suppliers, rental guarantees and guarantees for payment obligations lodged with banks and other accounts (please refer to 2.5 Other assets). As of the balance sheet date of 30 June 2014 restricted cash amounted to K€2,410 (2013: K€2,410). For further information on the development of cash and cash equivalents we refer to the explanations in 4.3 Cash flow statement.

2.2 Inventories

Inventories are made up as follows:

(K€)	30 Jun 2014	31 Dec 2013
Receivers	12,782	24,486
Other inventories	2,368	1,842
Total	**15,150**	**26,329**

Receivers are intended to be provided to subscribers. The sale of receivers in connection with a subscription is made in the name of and on behalf of Sky by the distributor. Accordingly, they are stored both in the central warehouse in Bor (Czech Republic) and on a decentralized basis at sales partners in Germany and Austria.

In general, receivers are at first capitalized under inventories. Receivers that are leased to subscribers are transferred from inventories to property, plant and equipment upon delivery to the subscriber.

The carrying amount of the inventories recognized at net realizable value amounts to K€44 (2013: K€74). In the short financial year, inventories in the amount of K€2,138 were recognized as expense (2013: K€3,624). There were no impairment losses included in inventory for the short financial year 2014 (2013: K€171) as shown under cost of sales (hardware).

2.3 Trade receivables

2.3.1 Overview

Trade receivables developed as follows on a balance sheet comparison:

(K€)	30 Jun 2014	31 Dec 2013
Trade receivables (before allowances)	150,727	139,691
Allowances	–79,723	–72,319
Trade receivables (after allowances)	71,004	67,373
Damage claims (after allowances)	10,299	9,022
Total (after allowances)	**81,303**	**76,395**

Trade receivables are made up as follows:

(K€)	30 Jun 2014	of which non-current	31 Dec 2013	of which non-current
Receivables from subscribers	48,635	–	50,921	–
Receivables from dealers	18,659	–	10,934	–
Receivables from finance leases	127	40	212	70
Other	13,882	129	14,328	–
Total (after allowances)	**81,303**	**168**	**76,395**	**70**

The following table shows an aging analysis of trade receivables that are past due but not impaired as of the reporting date.

(K€)	30 Jun 2014	31 Dec 2013
Trade receivables (after allowances)	81,303	76,395
of which neither past due nor impaired at balance sheet date	23,462	16,504
of which not impaired at balance sheet date but past due in the following time ranges	4,524	4,492
less than 30 days	2,613	2,290
between 31 and 60 days	1,266	690
between 61 and 90 days	76	333
between 91 and 180 days	94	381
between 181 and 360 days	2	84
more than 360 days	474	713

There are no indications as of the balance sheet date with regard to the balances of trade receivables which are past due but not impaired that the debtors will not meet their payment obligations.

As of the balance sheet date, there are no receivables for which the terms have been renegotiated and which would otherwise be past due or impaired (2013: K€0). There is no significant concentration of risk in the trade receivables on account of the diversified customer structure of the Sky Group.

The allowances recorded against receivables from subscribers, dealers and other trade receivables from finance lease receivables developed as follows:

(K€)	2014	2013
Balance as of 1 Jan	72,319	52,934
Derecognition of receivables	–113	–352
Amount recognized as expense or income in the reporting period	7,517	19,736
Balance as of 30 Jun/31 Dec	79,723	72,319

The derecognizing of receivables relates entirely to receivables from prior years that have been provided in full and are irrecoverable.

2.3.2 Receivables from subscribers, dealers and other trade receivables

Receivables from subscribers, dealers and other trade receivables are reported net of allowances. Expenses for allowances recorded against these receivables in the short financial year amounted to K€7,517 (6M 2013: K€7,014, 12M 2013: K€19,757). Of this total amount, an expense in the amount of K€7,204 (6M 2013: K€7,439, 12M 2013: K€20,326) is recorded against receivables from subscribers and an expense of K€191 (6M 2013: income in the amount of K€336, 12M 2013: income in the amount of K€445) is recorded against receivables from dealers. An expense in the amount of K€122 (6M 2013: income in the amount of K€88, 12M 2013: income in the amount of K€124) is recorded against other receivables.

In the event of early termination of the contract, Sky bills subscribers with damages in the amount of the subscription fees for the remaining term of the contract discounted to the termination date, in addition to receivables that have already accumulated for subscription fees. Claims for damages are recognized at their fair value based on expected cash inflows. Receivables are only derecognized when it is finally established that they are not recoverable.

The Company uses several collection agencies to recover receivables. The receivables are generally not sold to the collection agencies. Therefore, the risk of default on the receivables remains with the Company. Allowances on receivables that have been passed on to the collection agencies for recovery are recorded on the basis of historical experience.

Other trade receivables include a large number of individual items.

2.3.3 Finance lease receivables

Finance lease receivables result from lease contracts concluded with hotels for pay-TV equipment, TVs and accessories.

Finance lease receivables of K€127 are reported in the balance sheet as of 30 June 2014 (2013: K€212), of which K€87 (2013: K€141) are current and K€40 (2013: K€71) are non-current. The decrease results from the expiry of finance lease contracts.

Income from the reversal of allowances in the short financial year 2014 amounted to K€0 (12M 2013: K€21).

The following table reconciles the gross investment in the leases to the net investment in the leases:

(K€)	30 Jun 2014	31 Dec 2013
Gross investment in the leases (minimum lease payments receivable)	134	223
less: unearned finance income	–7	–11
Net investment in the leases (present value of minimum lease payments receivable)	127	212

The gross and net investments in the leases are due as follows:

(K€)	30 Jun 2014	31 Dec 2013
Gross investment in the leases	134	223
< 1 year	93	150
1–5 years	41	72
Net investment in the leases	127	212
< 1 year	87	143
1–5 years	40	69

2.4 Other financial assets

Other financial assets comprise the following:

(K€)	Total 30 Jun 2014	of which non-current	Total 31 Dec 2013	of which non-current
Creditor accounts with debit balances	872	–	1,256	–
Derivatives	968	701	418	2
Available-for-sale financial assets	8	8	8	8
Miscellaneous	233	–	588	–
Total	2,081	709	2,270	11

As of the balance sheet date, the derivatives include the positive fair values from foreign exchange forward transactions. For further information, please refer to 1.6.1.7 Derivative financial instruments and 4.1.2 Disclosures on derivatives.

2.5 Other assets

Other assets are made up as follows:

(K€)	Total 30 Jun 2014	of which non-current	Total 31 Dec 2013	of which non-current
Playout costs and Transmission fees	5,538	523	11,015	1
Financing costs	6,005	4,088	6,943	5,042
Advance payments for IT support	3,607	356	2,201	215
Tax receivables	2,465	–	1,893	–
Restricted cash	2,410	–	2,410	–
Advance payments on service operations	1,823	–	1,572	–
Advance payments on playout services	1,554	1,554	3,388	3,388
Advance payments to creditors	1,381	–	1,181	–
Advance payments on advertising services	1,103	–	2,384	–
Salary advances	4	–	8	–
Miscellaneous	2,723	264	409	298
Total	28,613	6,785	33,405	8,944

Lower advanced payments on additional transponder capacities and playout service costs led to a decrease in the line item ”Playout costs and transmission fees”.

The line item “Financing costs” comprises deferred transaction costs in connection with debt financing measures. To the extent the Company has already drawn amounts under the new facilities, a portion of the transaction costs is deducted from the carrying amount of the financial liability and amortized over the term of the liability using the effective interest method. For undrawn facilities, the allocated transaction costs are reported under other assets and amortized to profit and loss over the term of the facility using the effective interest method.

Restricted cash mainly comprises accounts pledged to suppliers, rental guarantees and guarantees for payment obligations lodged with banks as well as other accounts and was credited with an average interest of 0.07 percent per annum in the short financial year 2014 (2013: 0.13 percent per annum) (please refer to 2.1 Cash and cash equivalents).

Miscellaneous other assets primarily comprise guarantee commissions paid, fees, insurance premiums, film promotion contributions and flat-rate fees.

2.6 Property, plant and equipment including receivers

(K€)	Land and buildings	Own technical equipment	Technical equipment and receivers under finance leases	Own receivers	Other operational and office equipment	Advance payments	Total
Cost							
Balance as of 1 Jan 2014	**15,183**	**5,716**	**41,532**	**299,987**	**33,371**	**1**	**395,791**
Additions for the year	726	1,025	–	25,476	3,785	–	31,012
Disposals for the year	–	2,273	–	18,210	547	–	21,030
Reclassifications	–	–	–	–	–	–	–
Balance as of 30 Jun 2014	**15,909**	**4,468**	**41,532**	**307,253**	**36,610**	**1**	**405,773**
Depreciation							
Balance as of 1 Jan 2014	**4,511**	**2,425**	**4,648**	**137,380**	**24,003**	**–**	**172,966**
Depreciation for the year	798	768	3,290	28,873	3,500	–	37,229
Disposals for the year	–	2,239	–	16,603	536	–	19,378
Impairment losses	–	–	–	70	–	–	70
Reversal of impairment losses	–	–	–	69	–	–	69
Balance as of 30 Jun 2014	**5,309**	**953**	**7,937**	**149,651**	**26,967**	**–**	**190,818**
Carrying amount as of 30 Jun 2014	**10,600**	**3,514**	**33,595**	**157,602**	**9,642**	**1**	**214,955**
Cost							
Balance as of 1 Jan 2013	**15,071**	**10,080**	**5,860**	**275,910**	**30,212**	**217**	**337,350**
Additions for the year	330	131	35,720	55,414	4,124	–	95,720
Disposals for the year	219	4,495	47	31,337	1,180	–	37,279
Reclassifications	–	–	–	–	216	–216	–
Balance as of 31 Dec 2013	**15,183**	**5,716**	**41,532**	**299,987**	**33,371**	**1**	**395,791**
Depreciation							
Balance as of 1 Jan 2013	**3,239**	**5,696**	**1,572**	**110,592**	**20,067**	**–**	**141,165**
Depreciation for the year	1,490	1,291	3,123	48,991	5,088	–	59,983
Disposals for the year	219	4,561	47	23,510	1,159	–	29,497
Impairment losses	–	–	–	1,307	7	–	1,315
Balance as of 31 Dec 2013	**4,511**	**2,425**	**4,648**	**137,380**	**24,003**	**–**	**172,966**
Carrying amount as of 31 Dec 2013	**10,672**	**3,291**	**36,885**	**162,607**	**9,369**	**1**	**222,825**

Purchases of receivers are recognized initially in inventories. Receivers from inventories leased to subscribers are transferred to property, plant and equipment and amortized on a straight-line basis over their expected useful lives.

The additions of K€25,476 (2013: K€55,414) to own receivers mainly related to HD-receivers and external hard disks.

The carrying amount of own leasing-stock receivers that have not been leased amounts to K€13,301 (2013: K€13,430). The carrying amount of own receivers leased to subscribers amounts to K€144,301 (2013: K€149,177).

The carrying amount of non-leased leasing stock receivers amounts to K€4,551 (2013: K€14,402). The carrying amount of leasing stock receivers leased to subscribers amounts to K€26,672 (2013: K€19,267).

The impairment loss of K€70 (12M 2013: K€1,307) on HD-receivers without Sky EPG was included in cost of sales (hardware). These receivers were written-down to fair value less cost to sell as a future economic benefit from marketing these receivers to subscribers is no longer expected. The reversal of impairment losses of K€69 (12M 2013: K€0) related to the HD-receivers without Sky EPG and was recognized in cost of sales (hardware). Information regarding a higher recoverable amount expected for the HD-receivers was available.

Expected minimum lease payments from operating leases for receivers existing as of the balance sheet date amount to K€1,387 (2013: K€1,695). The remaining weighted average contractual term of these leases is approximately seven months (2013: approximately seven months).

Property, plant and equipment includes technical equipment (pay-TV equipment) which is integrated into hotel operations. As of 30 June 2014, the total carrying amount of this equipment amounts to K€149 (2013: K€245). Only those receivers used for this purpose are amortized over a period of seven years.

The carrying amount of technical equipment and receivers under finance leases comprises the following:

(K€)	30 Jun 2014	30 Jun 2013
Receivers	31,224	33,669
Production equipment	1,582	1,910
Hardware for subscriber management system	298	600
Hardware for call center system	491	706
Total	33,595	36,885

2.7 Intangible assets

2.7.1 Film assets and advance payments for sport and film rights

The carrying amounts for the film assets and advance payments for sport and film rights developed as follows:

(K€)	Ending balance as of 30 Jun 2014	of which non-current	Ending balance as of 31 Dec 2013	of which non-current
Film assets	89,573	28,437	71,782	24,843
Advance payments for sport rights	41,592	96	40,201	96
Total	131,165	28,533	111,984	24,939

The film assets reported in this item mainly comprise broadcasting rights purchased from film studios and TV program providers and a program library acquired in 2006.

The film assets and advance payments for film rights developed as follows:

(K€)	Film licenses and advance payments for film rights	Program library	Total
Cost			
Balance as of 1 Jan 2014	180,021	4,900	184,921
Additions for the year	90,980	–	90,980
Disposals	61,310	–	61,310
Balance as of 30 Jun 2014	209,691	4,900	214,591
Utilization/amortization			
Balance as of 1 Jan 2014	109,790	3,349	113,138
Utilization/amortization for the year	72,995	163	73,158
Disposals	61,310	–	61,310
Impairment losses	31	–	31
Balance as of 30 Jun 2014	121,506	3,512	125,018
Ending balance as of 30 Jun 2014	88,185	1,388	89,573
of which non-current	27,049	1,388	28,437

The cost of the purchased film rights was decreased by K€1,289 (2013: increased by K€1,004) in conjunction with the contractually agreed determination of the actual number of subscribers.

The film assets and advance payments for film rights developed as follows in the previous year:

(K€)	Film licenses and advance payments for film rights	Program library	Total
Cost			
Balance as of 1 Jan 2013	151,801	4,900	**156,701**
Additions for the year	152,442	–	**152,442**
Disposals	124,222	–	**124,222**
Balance as of 31 Dec 2013	180,021	4,900	**184,921**
Utilization/Amortization			
Balance as of 1 Jan 2013	96,923	3,022	**99,946**
Utilization/amortization for the year	137,052	327	**137,378**
Disposals	124,222	–	**124,222**
Impairment losses	37	–	**37**
Balance as of 31 Dec 2013	109,790	3,349	**113,138**
Ending balance as of 31 Dec 2013	**70,231**	**1,551**	**71,782**
of which non-current	23,292	1,551	**24,843**

The impairment losses resulted from derecognizing unused transmission slots. Utilization and amortization are recorded in cost of sales.

The advance payments for sport rights developed as follows:

(K€)	1 Jan 2014	Additions	Utilization	30 Jun 2014
Advance payments for sport rights	40,201	253,796	252,406	41,592
of which non-current	96	–	–	96

(K€)	1 Jan 2013	Additions	Utilization	31 Dec 2013
Advance payments for sport rights	28,027	454,521	442,347	40,201
of which non-current	–	96	–	96

2.7.2 Goodwill

(K€)	2014	2013
Cost		
Balance as of 1 Jan	640,650	640,650
Disposals for the year	–	–
Balance as of 30 Jun/31 Dec	**640,650**	**640,650**
Impairment		
Balance as of 1 Jan	1,296	1,296
Disposals for the year	–	–
Balance as of 30 Jun/31 Dec	**1,296**	**1,296**
Carrying amount as of 30 Jun/31 Dec	**639,353**	**639,353**

The goodwill in the cash generating unit “pay-TV business” was subject to an impairment test as of 31 March 2014. The recoverable amount was derived by calculating the fair value less cost to sell and the value in use approach. The fair value less cost to sell was derived from the quoted price of the Sky share as of 31 March 2014. The value in use was calculated on the basis of the cash flows defined in the business plan. The key assumptions with respect to the cash flows used relate to the number of subscribers and the ARPU for the next five years based on past experience, actual operating results, market assumptions and management’s best estimate about future developments. The business plan was extended by a mid-term planning in order to reflect a sustainable level of the business and continued with a growth factor after the planning period of 1.0 percent per annum (30 September 2013: 0.5 percent per annum). As of 31 March 2014 a post-tax discount rate of 8.2 percent (pre-tax 10.4 percent) per annum was applied in the calculations for the cash-generating unit (30 September 2013: post-tax 9.0 percent and pre-tax 11.7 percent per annum).

The impairment test revealed no need for any write-downs.

2.7.3 Other intangible assets

(K€)	Trademarks	Subscriber bases	Other intangible assets	Other intangible assets under finance lease	Internally generated intangible assets	Advance payments	Total
Cost							
Balance as of 1 Jan 2014	331,629	397,326	189,180	5,193	2,645	4,981	930,955
Additions for the year	–	–	14,411	–	–	5,924	20,335
Disposals for the year	–	–	3,188	–	–	10	3,198
Reclassifications	–	–	2,743	–	–	–2,743	–
Balance as of 30 Jun 2014	331,629	397,326	203,146	5,193	2,645	8,152	948,092
Amortization							
Balance as of 1 Jan 2014	331,629	392,498	124,434	2,340	2,645	–	853,546
Amortization for the year	–	694	13,496	776	–	–	14,966
Disposals for the year	–	–	2,697	–	–	–	2,697
Balance as of 30 Jun 2014	331,629	393,191	135,233	3,116	2,645	–	865,814
Carrying amount as of 30 Jun 2014	–	4,135	67,913	2,078	–	8,152	82,278

(K€)	Trademarks	Subscriber bases	Other intangible assets	Other intangible assets under finance lease	Internally generated intangible assets	Advance payments	Total
Cost							
Balance as of 1 Jan 2013	333,429	397,326	165,771	4,759	2,645	4,057	907,988
Additions for the year	–	–	32,463	434	–	4,733	37,630
Disposals for the year	1,800	–	12,863	–	–	–	14,663
Reclassifications	–	–	3,809	–	–	–3,809	–
Balance as of 31 Dec 2013	331,629	397,326	189,180	5,193	2,645	4,981	930,955
Amortization							
Balance as of 1 Jan 2013	333,429	391,110	112,158	1,193	2,645	–	840,535
Amortization for the year	–	1,388	24,085	1,147	–	–	26,620
Disposals for the year	1,800	–	11,809	–	–	–	13,609
Balance as of 31 Dec 2013	331,629	392,498	124,434	2,340	2,645	–	853,546
Carrying amount as of 31 Dec 2013	–	4,828	64,746	2,854	–	4,981	77,409

The subscriber base is amortized on a straight-line basis over the useful life based on historical experience. It was not necessary to recognize any impairment loss. Other intangible assets mainly comprise purchased software, software licenses and the costs for the rights to use names. Amortization expense is recognized in various line items of the consolidated statement of total comprehensive loss.

For further information on the development of other intangible assets under finance leases, please refer to 1.6.7.1 Company as lessee.

2.8 Liabilities

Liabilities are made up as follows:

(K€)	30 Jun 2014 < 1 year	30 Jun 2014 1–5 years	30 Jun 2014 > 5 years	Total 30 Jun 2014	31 Dec 2013 < 1 year	31 Dec 2013 1–5 years	31 Dec 2013 > 5 years	Total 31 Dec 2013
Borrowings	167,730	380,838	–	548,568	18,707	532,906	–	551,613
Trade payables	275,116	8,401	2,488	286,004	277,254	9,054	2,668	288,976
Other financial liabilities	46,291	8,970	973	56,235	46,648	21,357	946	68,951
Other liabilities	59,220	5,828	–	65,048	54,439	6,586	–	61,025
Deferred taxes	–	63,616	–	63,616	–	60,814	–	60,814
Provisions for pensions and similar obligations	–	–	12,332	12,332	–	–	11,000	11,000
Other provisions	13,948	–	–	13,948	13,338	–	–	13,338
Total	**562,305**	**467,653**	**15,793**	**1,045,751**	**410,386**	**630,717**	**14,614**	**1,055,718**

2.8.1 Borrowings

The Company reports the following borrowings, broken down by maturities:

(K€)	30 Jun 2014 < 1 year	30 Jun 2014 1–5 years	Total 30 Jun 2014	31 Dec 2013 < 1 year	31 Dec 2013 1–5 years	Total 31 Dec 2013
Loans	158,263	349,219	507,482	8,272	495,840	504,111
Finance lease liabilities	9,467	31,620	41,086	10,435	37,067	47,502
Total	**167,730**	**380,838**	**548,568**	**18,707**	**532,906**	**551,613**

The carrying amount of the borrowings broadly corresponds to their fair value.

Loans

The increase in short-term loans from K€8,272 as of 31 December 2013 to K€158,263 as of 30 June 2014, as well as the decrease in longterm loans from K€495,840 as of 31 December 2013 to K€349,219 as of 30 June 2014 is mainly due to the reclassification of the convertible bond issued to 21st Century Fox Adelaide Holdings B.V. (formerly, News Adelaide Holdings B.V.) in 2011 from non-current to current liabilities. The bond can be converted into 53,914,182 ordinary registered shares sourced from Contingent Capital. The convertible bond will mature on 27 January 2015. It is unsecured and subordinated to the existing credit facilities. With the exception of certain periods, holders can exercise their conversion rights until the business day preceding the 25th trading day prior to the maturity.

The credit facilities of €300 million provided in 2013 by the new bank syndicate are fully guaranteed by Twenty-First Century Fox, Inc. (formerly, News Corporation) and its subsidiary 21st Century Fox America, Inc. (formerly, News America Incorporated). They mature on 20 February 2018. Interest on the credit facilities is based on the Euribor plus an annual credit margin in the range of 0.875 percent to 1.5 percent, depending on the credit rating of the new guarantor 21st Century Fox America, Inc. Sky also pays an additional 6.0 percent per annum to Twenty-First Century Fox, Inc. for the credit guarantee.

In 2013, Twenty-First Century Fox, Inc. has also undertaken to act as guarantor to the German Football League (DFL) for the new Bundesliga broadcasting license for the 2013/14 to 2016/17 seasons in an amount of up to 50.0 percent of the annual license fee for each season, which reflected the guarantee requirement for the 2013/14 season. According to the agreement with the DFL, the level of guarantee required from Sky for subsequent seasons will be set at the latest prior to the start of each season. By arrangement dated 4 October 2013 the guarantee requirement for the seasons 2014/15 and 2015/16 was likewise set at 50.0 percent of the annual license fee as well. Sky pays a fee of 6.0 percent per annum to Twenty-First Century Fox, Inc. for the Bundesliga guarantee.

The credit facilities obtained in 2013 do not provide for any financial covenants for Sky. However, they contain a number of operational undertakings that restrict Sky's ability to, among other things, conduct any mergers, dispose of essential assets, obtain additional debt and grant certain liens. Moreover, the lenders under the credit facility agreement will be entitled to terminate the agreement in the event of any infringement of the credit terms by the guarantors Twenty-First Century Fox, Inc. and 21st Century Fox America, Inc. The lenders are also entitled to terminate the Agreement in the event of a change of control. With regard to the credit facilities Sky is subject to various obligations and conditions. Under the credit facilities a change of control is defined as the direct or indirect ownership, beneficially or of record, by any person or group of persons acting in concert, other than Twenty-First Century Fox, Inc. and its affiliates, of voting stock representing more than the greater of 30 percent of the aggregate outstanding voting stock of Sky and the percentage of the aggregate outstanding voting stock of Sky owned directly or indirectly, beneficially or of record, by Twenty-First Century Fox, Inc. and its affiliates.

The provision of the guarantees and support provided by Twenty-First Century Fox, Inc. are subject to certain customary conditions such as the absence of material adverse changes in Sky's business.

To finance the acquisition of the production company Plazamedia GmbH TV- und Film-Produktion, Ismaning as well as a minority stake in Sport1 GmbH, Ismaning and Constantin Sport Marketing GmbH, Ismaning. Sky and its existing bank consortium agreed on an extension of the existing credit facilities at the same terms and conditions. In Q2 2014 this financial support agreement was amended to cover general corporate purposes and investments in production capabilities. The credit line amounts to €78.5 million. The agreement between Sky Deutschland AG and the members of the existing bank syndicate on the extension of the existing credit facilities, guaranteed by Twenty-First Century Fox, Inc., was amended accordingly. Under this arrangement, the guarantee fee will be at a rate of 6.0 percent per annum.

In 2013, 21st Century Fox Adelaide Holdings B.V. extended the term of the €106 million of existing shareholder loans, plus accrued interest, to at least six months after the maturity date of the credit facilities. The interest rates for the extended shareholder loans remain unchanged at 12.0 percent per annum and will remain payable until the maturity date.

Finance lease liabilities

The following minimum lease payments are due under the finance leases:

(K€)	< 1 year	1–5 years	Total 30 Jun 2014
Minimum lease payments	12,402	33,764	46,165
Discount amounts	–2,935	–2,144	–5,079
Present values	**9,467**	**31,620**	**41,086**

(K€)	< 1 year	1–5 years	Total 31 Dec 2013
Minimum lease payments	12,786	40,270	53,056
Discount amounts	–2,350	–3,204	–5,554
Present values	**10,435**	**37,067**	**47,502**

The weighted average interest rate for finance lease liabilities with fixed lease payments was 7.04 percent per annum (2013: 7.04 percent per annum). For further details please refer to 1.6.7.1 Company as lessee.

2.8.2 Trade payables

Trade payables are made up as follows:

	30 Jun 2014			Total	31 Dec 2013			Total
(K€)	< 1 year	1–5 years	> 5 years	30 Jun 2014	< 1 year	1–5 years	> 5 years	31 Dec 2013
Liabilities to film studios for the purchase of film licenses	170,266	982	–	171,248	145,813	820	–	146,633
Liabilities to subscribers for security deposits	1,941	3,317	2,488	7,746	2,081	3,557	2,668	8,306
Other trade payables	102,908	4,102	–	107,010	129,360	4,677	–	134,036
Total	**275,116**	**8,401**	**2,488**	**286,004**	**277,254**	**9,054**	**2,668**	**288,976**

The carrying amounts correspond to the fair values. A variety of individual items is accumulated under the item "Other trade payables".

2.8.3 Other financial liabilities

	30 Jun 2014			Total	31 Dec 2013			Total
(K€)	< 1 year	1–5 years	> 5 years	30 Jun 2014	< 1 year	1–5 years	> 5 years	31 Dec 2013
Liabilities to employees (including Management bonuses)	28,085	4,276	–	32,361	25,842	18,798	–	44,640
Debtor accounts with credit balances	15,499	–	–	15,499	16,700	–	–	16,700
Derivatives	1,839	4,225	–	6,064	2,985	2,179	–	5,164
Severance payments	166	319	–	485	378	380	–	758
Miscellaneous	702	150	973	1,825	744	0	946	1,690
Total	**46,291**	**8,970**	**973**	**56,235**	**46,648**	**21,357**	**946**	**68,951**

Liabilities to employees comprise obligations under share-based compensation programs, outstanding bonus payments and the variable compensation of the Management Board.

Regarding the negative fair value of derivative financial instruments we refer to 1.6.1.7 Derivative financial instruments and 4.1.2 Disclosures on derivatives.

Liabilities to employees	30 Jun 2014			Total	31 Dec 2013			Total
(K€)	< 1 year	1–5 years	> 5 years	30 Jun 2014	< 1 year	1–5 years	> 5 years	31 Dec 2013
LTIP 2011	–	–	–	–	9,490	–	–	9,490
LTIP 2012	9,723	–	–	9,723	–	9,262	–	9,262
LTIP 2013	4,658	3,372	–	8,030	–	6,366	–	6,366
LTIP 2014	–	291	–	291	–	–	–	0
Share based compensation	3,364	–	–	3,364	–	2,666	–	2,666
Short-term performance related compensation	8,403	–	–	8,403	15,373	–	–	15,373
Other liabilities employees	1,937	614	–	2,551	979	504		1,483
Total	**28,085**	**4,276**	**–**	**32,361**	**25,842**	**18,798**	**–**	**44,640**

The decrease of liabilities to employees as of 30 June 2014 primarily results from the payment of the LTIP 2011 in the amount of K€9,516 in April 2014, and the decline of the share price from €8.0 to €6.73.

On 19 December 2012, Sky concluded a share-based compensation component with Brian Sullivan, which will result in a one-off payment on the basis of 500,000 shares. This payment will be determined by the volume-weighted average market price of the Sky share for December 2014 and will become due on 2 January 2015. The vesting period ended with end of June 2014. The fair value as of 30 June 2014 was determined by means of the Black-Scholes-model and amounts to K€3,364 (2013: K€4,000).

In the short financial year 2014, an expense in the amount of K€698 (12M 2013: K€2,666) has been incurred. The accrued liability as of the balance sheet date amounts to K€3,364 (2013: K€2,666). The volatility was calculated on the basis of the monthly closing price of the share in accordance with the residual term of the options.

The calculation was based on the following parameters:

	30 Jun 2014	31 Dec 2013
Risk free interest rate	0.00%	0.06%
Dividend yield	–	–
Volatility	50.00%	54.65%
Price of the Sky share	€6.73	€8.00

The members of the Management Board and Members of the Senior Management receive a longterm variable compensation based on the company share price in the form of so-called Performance Share Units, which are distributed within the context of the so-called Longterm Incentive Plan.

For the three-year period from 1 January 2014 another Longterm-Incentive-Plan (LTIP 2014) was resolved by Supervisory Board circular resolution on 2 April 2014.

Based on this decision, it is planned to distribute to the Management Board and Senior Management 269,018 virtual shares. These include 72,735 virtual shares which were granted to the members of the Management Board Steven Tomsic, Dr. Holger Enßlin and Carsten Schmidt. Chief Executive Officer Brian Sullivan does not participate in the LTIP 2014.

For all longterm incentive plans (LTIP 2012–2014) a total of 4,269,601 virtual shares (reported number includes 190,240 virtual shares of bad leavers until 30 June 2014) were granted to members of the Management Board and Senior Management (including 1,932,933 shares to the members of the Management Board). The LTIP 2011 expired on 31 December 2013 and entitled members of the Management Board and Senior Management to receive payments in the amount of K€9,516 (of which K€4,878 were paid to members of the Management Board) in April 2014. The calculation of the fair value of this plan was based on a total of 1,517,673 virtual shares, of which 759,793 shares were granted to the Management Board, and the volume-weighted average price of the Sky share in December 2013.

The fair value of all virtual shares for the LTIPs 2012 – 2014 as of 30 June 2014 amounts to K€27,446 (2013 (LTIPs 2011 – 2013): K€37,472) of which K€13,005 relate to members of the Board (2013: K€18,686). The accrued liability (pro rata value) for the LTIPs 2012 – 2014 amounts to K€18,043 (2013 (LTIPs 2011 – 2013): K€25,117) as of the balance sheet date.

For the short financial year 2014, an expense in the amount of K€3,139 was recognized for all longterm performance-related compensation components, of which K€2,153 related to members of the Board, thereof Brian Sullivan K€1,783, Steven Tomsic K€134, Dr. Holger Enßlin K€112, Carsten Schmidt K€124. In the previous year (6M 2013) this expense amounted to K€7,909, of which K€5,007 related to members of the Management Board, thereof Brian Sullivan K€3,867, Steven Tomsic K€443, Dr. Holger Enßlin K€343, Carsten Schmidt K€354.

The volatility was calculated on the basis of the monthly closing price of the share in accordance with the residual term of the options.

At 30 June 2014, the calculation was based on the following parameters:

	LTIP 2012	LTIP 2013	LTIP 2014
Risk free interest rate*	0.00%	0.01%	0.05%
Dividend yield	–	–	–
Volatility	50.00%	50.00%	50.00%
Price of the Sky share	€6.73	€6.73	€6.73
Churn rate employees*, **	1.67%	3.33%	5.00%

* For the LTIP 2013 concluded with Brian Sullivan the risk free interest rate amounts to zero percent. The churn rate amounts to zero percent.
**For the LTIP 2014 the churn rate for the members of the management board amounts to zero percent.

At 31 December 2013, the following parameters were applied:

	LTIP 2011	LTIP 2012	LTIP 2013
Risk free interest rate	–	0.13%	0.24%
Dividend yield	–	–	–
Volatility	–	54.65%	54.65%
Price of the Sky share	€7.91	€8.00	€8.00
Churn rate employees	–	1.67%	3.33%

* For the LTIP 2013 concluded with Brian Sullivan the risk free interest rate amounts to 0.06 percent. The churn rate amounts to zero percent.

2.8.4 Other liabilities

Other liabilities are made up as follows:

	30 Jun 2014			31 Dec 2013		
(K€)	< 1 year	1–5 years	Total 30 Jun 2014	< 1 year	1–5 years	Total 31 Dec 2013
Advance payments from subscribers	21,962	3,784	**25,747**	22,382	4,740	**27,123**
Liabilities to tax authorities	16,849	–	**16,849**	11,540	–	**11,540**
Advance payments on orders	3,680	–	**3,680**	3,760	–	**3,760**
Social security liabilities	5,039	–	**5,039**	4,846	–	**4,846**
Fees for encryption systems	175	482	**657**	175	570	**745**
Reimbursement of costs	–	–	**–**	2,080	–	**2,080**
Miscellaneous	11,514	1,562	**13,076**	9,656	1,276	**10,932**
Total	**59,220**	**5,828**	**65,048**	**54,439**	**6,586**	**61,025**

Advance payments from subscribers relate to the deferral of revenues from subscription components sold with terms going beyond the balance sheet date.

The increase in liabilities to tax authorities is the result of lower current tax assets (from input VAT) for deliveries and other services received as of 30 June 2014 compared to 31 December 2013 due to seasonality.

2.8.5 Other provisions

(K€)	Receivers	Other taxes	Litigation costs	Onerous contracts	Warranties	Total
Balance as of 1 Jan 2014	–	17	13,320	0	1	**13,338**
Additions	–	–	732	–	–	**732**
Utilization	–	–	–37	–	–	**–37**
Reversals	–	–	–85	0	–	**–85**
Balance as of 30 Jun 2014	**–**	**17**	**13,930**	**0**	**1**	**13,948**
of which current	–	17	13,930	0	1	**13,948**
of which non-current	–	–	–	–	–	**–**

(K€)	Receivers	Other taxes	Litigation costs	Onerous contracts	Warranties	Total
Balance as of 1 Jan 2013	437	6	10,420	4,742	7	**15,612**
Additions	–	17	4,006	0	–	**4,023**
Utilization	–	–	–707	0	–6	**–713**
Reversals	–437	–6	–399	–4,742	–	**–5,584**
Balance as of 31 Dec 2013	**–**	**17**	**13,320**	**0**	**1**	**13,338**
of which current	–	17	13,320	0	1	**13,338**
of which non-current	–	–	–	–	–	**–**

The provisions have been recognized on the basis of the expected cash outflows.

Provisions for litigation costs have been set up for expected risks from lawsuits and costs for lawyers' and other court fees on pending legal disputes. With regard to disclosures on further proceedings, please refer to 4.6 Litigations.

2.8.6 Provisions for pensions

Defined benefit plans

The Group operates unfunded final salary defined benefit pension plans issued in the past that are not covered by plan assets. The amount of the pension entitlement depends primarily on the salary of the respective employee at the time of retirement. In addition to retirement pensions, the pension liability also covers an entitlement to widows', orphans' and disability pensions. The defined benefit pension plans are closed to new employees.

The total obligation is distributed to the beneficiary groups as follows:

(K€)	30 Jun 2014	31 Dec 2013
Current employees	3,104	2,708
Vested pension rights of former employees	6,810	6,132
Pensioners	2,419	2,160
Total defined benefit obligation	**12,332**	**11,000**

The valuation of the pension obligations is based on the projected unit credit method using actuarial principles in accordance with the modified guidance tables 2005 G from Heubeck as adjusted in full in 2010. The calculation of the pension liability was based on the following assumptions:

	30 Jun 2014	31 Dec 2013
Discount rate	2.99%	3.51%
Pension growth rate	2.00%	2.00%
Salary growth rate	2.50%	for 2014: 3.50% for subsequent years: 2.50%

The DBO and the corresponding pension obligations recognized on the balance sheet developed as follows:

(K€)	2014	2013
Defined benefit obligation as of 1 Jan	**11,000**	**10,861**
Current service cost	–55	–122
Interest cost	–192	–377
Pension expense	**–247**	**–499**
Remeasurement losses (-)/gains (+)	–1,154	228
thereof relating to experience adjustments	38	207
thereof relating to changes in financial assumptions	–1,192	25
thereof relating to changes in demographic assumptions	–	–4
Other comprehensive income	**–1,154**	**228**
Pension expense	**–1,400**	**–271**
Pension payments	**–68**	**–131**
Defined benefit obligation as of 30 Jun/31 Dec	**12,332**	**11,000**

Of the total pension expense in the amount of K€1,400 (12M 2013: K€271), K€247 (12M 2013: K€499) was recognized in profit and loss with current service cost reported under general and administrative expenses and interest cost from pension obligations under interest and other expenses. In addition, losses from remeasurements of the net obligation in the amount of K€1,154 (2013: gains in the amount of K€228) are included in other comprehensive income.

Since there are no plan assets as defined by IAS 19 (revised 2011) and all actuarial gains and losses are recognized when incurred, the present value of the defined benefit obligation (DBO) in the pension obligations and the obligations similar to pensions is equivalent to the provision recognized on the balance sheet.

Assuming all other assumptions remain unchanged, an increase or decrease of the material actuarial parameters would impact the DBO as follows:

(K€) 30 Jun 2014	Base scenario	Scenario I*	Scenario II**
Discount rate (–/+ 0.5 percent)	12,332	13,653	11,183
Salary growth rate (+/– 0.5 percent)	12,332	12,423	12,246
Pension growth rate (+/– 0.25 percent)	12,332	12,762	11,924
Life expectancy (+/– 1 year)	12,332	12,764	11,892

* Decrease of discount rate and increase of other assumptions respectively
** Increase of discount rate and decrease of other assumptions respectively

(K€) 31 Dec 2013	Base scenario	Scenario I*	Scenario II**
Discount rate (-/+ 0.5 percent)	11,000	12,144	10,002
Salary growth rate (+/- 0.5 percent)	11,000	11,067	10,937
Pension growth rate (+/- 0.25 percent)	11,000	11,384	10,635
Life expectancy (+/- 1 year)	11,000	11,355	10,636

*Decrease of discount rate and increase of other assumptions respectively
**Increase of discount rate and decrease of other assumptions respectively

When calculating the sensitivity of the DBO to significant actuarial assumptions, the same method (projected unit credit method) was applied as when calculating the DBO itself. Increases and decreases in the discount rate, salary and pension growth rate as well as life expectancy, which are used in determining the DBO, do not have a symmetrical effect on the DBO primarily due to the compound interest effect created when determining the net present value of the future benefit. If more than one of the assumptions are changed simultaneously, the combined impact due to the changes would not necessarily be the same as the sum of the individual effects due to the changes in assumptions.

The weighted average maturity of the defined benefit obligation ("duration") is 20.56 years as of the balance sheet date (2013: 20.01 years).

Expected pension payments in 2014/15 amount to K€168 (2014: K€153).

Termination indemnity obligations (defined benefit plan)

The measurement of the contributions payable resulting from termination indemnity obligations to employees of the Austrian subsidiaries resulted in an expense of K€33 (2013: K€36). In addition, actuarial gains in accordance with IAS 19 (revised 2011) in the amount of K€32 were recognized in other comprehensive income. In the previous year, losses in the amount of K€67 were recognized. These contributions payable are included in the other financial liabilities in the consolidated balance sheet.

Defined contribution plans

Due to a commitment made to members of the Management Board K€167 was paid into a pension fund in the short financial year 2014 (12M 2013: K€167).

Contributions to the statutory pension insurance scheme in the past short financial year amounted to K€8,827 (2013: K€16,182).

2.9 Additional disclosures on financial instruments

The following table shows the carrying amounts by measurement categories in accordance with IAS 39 and the fair values by classes of financial assets and financial liabilities.

			30 Jun 2014		31 Dec 2013	
(K€)	**Valuation**	**Disclosed in the balance sheet under**	Fair value	Carrying amount	Fair value	Carrying amount
Assets						
Cash and cash equivalents	n/a	Cash and cash equivalents	123,157	123,157	196,898	196,898
Loans and receivables	Amortized cost	Trade receivables, other financial assets	82,281	82,281	78,026	78,026
Receivables accounted for in accordance with IAS 17	Amortized cost	Trade receivables	122	127	201	212
Available-for-sale financial assets	Amortized cost	Other financial assets	8	8	8	8
Derivative financial assets	Fair value	Other financial assets	968	968	418	418
Derivatives in connection with cash flow hedges	Fair value through equity	Other financial assets	42	42	128	128
Derivatives without hedge relation	Fair value through profit and loss	Other financial assets	926	926	290	290
Liabilities						
Financial liabilities at amortised cost	Amortized cost	Borrowings, trade payables, other financial liabilities	849,482	852,766	828,881	829,091
Financial liabilities accounted for in accordance with IAS 17	Amortized cost	Borrowings	41,056	41,086	47,455	47,502
Other non-derivative financial liabilities accounted for in accordance with IFRS 2	Fair value	Other financial liabilities	21,407	21,407	27,784	27,784
Derivative financial liabilities	Fair value	Other financial liabilities	6,060	6,060	5,164	5,164
Derivatives in connection with cash flow hedges	Fair value through equity	Other financial liabilities	4,787	4,787	1,903	1,903
Derivatives without hedge relation	Fair value through profit and loss	Other financial liabilities	1,273	1,273	3,261	3,261

A separate class must be established for cash and cash equivalents. An allocation to financial instruments measured at amortized cost or to financial instruments measured at fair value is not appropriate, since they are reported at nominal value, whereby foreign currency balances are converted at the average exchange rate. The measurement of cash and cash equivalents is therefore not connected with a category in IAS 39, and therefore a disclosure of the carrying amount by measurement category is not required.

Loans and receivables primarily have short maturities thus their carrying amounts as of the balance sheet date correspond to fair value. The fair value of receivables accounted for in accordance with IAS 17, but which do not constitute financial instruments as defined by IFRS 7, is determined using discounted expected future cash flows based on the contractual terms. Please refer to 1.6.1.3 Loans and receivables for further information on the measurement of fair value.

In the case of available-for-sale financial assets, the market value in an active market, if one exists, is applied as fair value.

The market values of the foreign exchange forward contracts are determined based on the forward rates. The market values of interest swaps are determined by discounting the expected future cash flows over the residual term of the contracts on the basis of current market interest rates and the interest yield curve. The determination of the fair value includes own default risk and the counterparty's default risk respectively, which is calculated using both maturity-linked CDS spreads observable on the market and credit risk assessments which are obtained from the market data provider Bloomberg Finance L.P., Frankfurt (head office New York).

The requirements of IFRS 13 regarding the exposure to credit risks were taken into account in the valuations. For further details please refer to 4.1.2 Disclosures on derivatives.

In accordance with the requirements of IFRS 13 the fair value of the financial liabilities is determined as the present values of the payments associated with the liabilities, applying the respective applicable interest yield curve.

Trade payables and other financial liabilities generally have short maturities. Therefore their carrying amounts approximate fair value. The fair value of financial liabilities accounted for in accordance with IAS 17 which do not constitute financial instruments in accordance with IFRS 7, is determined using the discounted expected future cash flows based on the contractual terms. Please refer to 1.6.1.3 Loans and receivables for further information on the measurement of fair value.

The carrying amount of the other non-derivative financial liabilities comprises the obligations arising from share-based payments, which are accounted for pursuant to IFRS 2 and as such do not constitute financial instruments according to IFRS 7.

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

30 Jun 2014 (K€)	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial assets	–	968	–	**968**
thereof Derivatives in connection with cash flow hedges	–	42	–	**42**
thereof Derivatives without hedge relation	–	926	–	**926**
Liabilities				
Derivative financial liabilities	–	6,060	–	**6,060**
thereof Derivatives in connection with cash flow hedges	–	4,787	–	**4,787**
thereof Derivatives without hedge relation	–	1,273	–	**1,273**

31 Dec 2013 (K€)	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial assets	–	418	–	**418**
thereof Derivatives in connection with cash flow hedges	–	128	–	**128**
thereof Derivatives without hedge relation	–	290	–	**290**
Liabilities				
Derivative financial liabilities	–	5,164	–	**5,164**
thereof Derivatives in connection with cash flow hedges	–	1,903	–	**1,903**
thereof Derivatives without hedge relation	–	3,261	–	**3,261**

The following tables show the potential effects of existing netting arrangements on Sky's financial position.

30 Jun 2014 (K€)	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related amounts not set off in the balance sheet		Net amount
				Financial instruments	Cash collateral deposited	
Derivative financial instruments						
concluded with HypoVereinsbank	524	–	524	–1,073	–	–549
concluded with Bayerische Landesbank	444	–	444	–1,000	–	–556
concluded with Bank of America Merrill Lynch	–	–	–	–1,315	–	–1,315
concluded with UniCredit Bank	–	–	–	–1,314	–	–1,314
concluded with J.P. Morgan Securities plc	–	–	–	–1,357	–	–1,357
Total	968	–	968	–6,060	–	–5,092

31 Dec 2013 (K€)	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related amounts not set off in the balance sheet		Net amount
				Financial instruments	Cash collateral deposited	
Derivative financial instruments						
concluded with HypoVereinsbank	32	–	32	–714	–	–681
concluded with Bayerische Landesbank	386	–	386	–2,797	–	–2,411
concluded with Bank of America Merrill Lynch	–	–	–	–537	–	–537
concluded with UniCredit Bank	–	–	–	–536	–	–536
concluded with J.P. Morgan Securities plc	–	–	–	–580	–	–580
Total	418	–	418	–5,164	–	–4,745

The application of IFRS 13 has not led to further requirements for the presentation of assets and liabilities in accordance with the fair value hierarchy.

2.10 Equity

2.10.1 General comments

Sky Deutschland AG's subscribed capital amounts to €877,200,755 (2013: €877,200,755). It is divided into 877,200,755 (2013: 877,200,755) registered shares with no par value. €1.00 of the share capital is apportionable to each no-par-value share.

The capital has been fully paid in.

As of the balance sheet date additional paid-in capital amounted to K€1,920,850 (2013: K€1,920,850) of which K€1,382,623 (2013: K€1,382,623) is not available for distribution.

On 14 January 2013, Sky, its new bank syndicate, 21st Century Fox Adelaide Holdings B.V. and Twenty-First Century Fox, Inc. agreed on a new comprehensive longterm financing structure for Sky. Among other components, it comprises the issue of new equity in the amount of €438.4 million (gross proceeds) via a combination of private placement and a rights issue. The convertible bond remains unchanged.

Sky raised gross proceeds of €347.4 million through a private share placement without subscription rights, which was entered in the commercial register on 15 January 2013, by issuing 77,890,976 new registered shares from Authorized Capital to 21st Century Fox Adelaide Holdings B.V. at €4.46 per share. The share price represented a 3.0 percent discount to the Xetra closing price of €4.60 per Sky share on the Frankfurt Stock Exchange on 11 January 2013. As a result, Sky's total number of shares outstanding increased to 856,800,738 with 21st Century Fox Adelaide Holdings B.V. holding 54.45 percent. Less transaction costs in the amount of K€10,135, the additional paid-in capital increased by K€259,368, from K€1,595,944 to K€1,855,312.

To raise the remaining balance of €90.6 million after registration of the private share placement without subscription rights on 15 January 2013, Sky successfully issued 20,400,017 new registered shares from Authorized Capital with subscription rights in its rights offering launched on 21 January 2013. The subscription price per share was set at €4.46, which was equal to the share price on which the private placement of shares to 21st Century Fox Adelaide Holdings B.V. on 15 January 2013 was based. As a result, the total number of shares issued by Sky increased from 856,800,738 to 877,200,755. Gross proceeds according to this measure amounted to €91.0 million. Less the transaction costs in the amount of K€5,047, the additional paid-in capital increased by K€65,538, from K€1,855,312 to K€1,920,850. The capital increase was registered on 7 February 2013. Public shareholders and other investors exercised subscription rights for approximately six million new shares. 21st Century Fox Adelaide Holdings B.V. exercised subscription rights for approximately 11.1 million new shares and additionally acquired at the subscription price approximately 3.3 million new shares not subscribed by other shareholders. As a result, the shareholding of 21st Century Fox Adelaide Holdings B.V. increased from 54.45 percent to 54.83 percent.

The Company has no treasury stock as of 30 June 2014.

2.10.2 Authorized Capital

At the Annual General Meeting on 18 April 2013, the Management Board was authorized, subject to the consent of the Supervisory Board, to increase the Company's registered share capital in the period through 17 April 2018 by up to €147,436,489 in total by issuing in one or more tranches of new registered no-par-value shares against cash contribution (Authorized Capital 2013). The Authorized Capital 2012 granted to the Management Board at the Annual General Meeting on 3 April 2012 remains unchanged.

The Authorized Capital 2012 which initially amounted to €389,454,881 is currently still €291,163,888.

The authorization, included in the Authorized Capital 2012, for the exclusion of subscription rights with respect to capital increases against cash contributions with an amount of not more than 10.0 percent of the registered share capital pursuant to section 186(3) sentence 4 of the German Stock Corporation Act (section 4(3) sentence 4b) of the Articles of Association) was used in full. Therefore, the authorization has become obsolete and was removed from the respective provision in the Articles of Association.

The amendment to the Company's statutes was entered accordingly in the Commercial Register.

At the Annual General Meeting on 10 April 2014 no resolutions regarding new capital measures from Authorized Capital were made.

2.10.3 Contingent Capital

With resolution of the Annual General Meeting on 3 April 2012, the Management Board, with the consent of the Supervisory Board, has been authorized, in the period through 2 April 2017, to issue once or in installments registered and/or bearer convertible bonds and/or notes with warrants ("bonds") in an aggregate nominal amount of up to €1,500,000,000 of limited or unlimited term and to grant conversion or option rights to subscribe up to 335,538,696 new registered no-par-value ordinary shares (no-par-value shares) in Sky Deutschland AG with a pro rata amount of the registered share capital of up to €335,538,696 in total to the holders and/or creditors of bonds as more closely defined in the terms and conditions for the convertible bonds or notes with warrants (2012 Authorization).

The Annual General Meeting further resolved that the registered share capital of the company be contingently increased by up to €335,538,696 by issuing up to 335,538,696 new registered ordinary shares (no-par-value shares) (Contingent Capital 2012).

The Contingent Capital 2012 granted at the Annual General Meeting on 3 April 2012 remains unchanged.

At the Annual General Meeting on 10 April 2014 no resolutions regarding new capital measures from Contingent Capital were made.

2.10.4 Accumulated other comprehensive income

Available-for-sale financial securities are measured at fair value. Changes in fair value are recognized directly in other comprehensive income. In the cases in which fair value is significant and other than temporarily below cost, the impairment in the amount of the difference is recognized in profit or loss. If fair value adjustments were previously made and recognized directly in equity and the written-down fair value is lower than the original cost of the asset, the portion of the impairment loss corresponding to the fair value gain and previously recognized in equity is reversed through equity. Any further decrease in value is recognized in profit or loss as an expense for the period.

In accordance with IAS 39, the foreign currency forwards and interest rate swaps are measured at each balance sheet date at their fair value by using the forward rate for the remaining term. The effective portion of the gain or loss resulting from the changes in the fair value of these derivatives is recognized directly in accumulated other comprehensive income, net of any tax effect. In accordance with IFRS 13, credit risk adjustments have been reflected in determining the fair values.

The amendments to IAS 19 (2011 revised) were adopted for the first time in the consolidated financial statements as of 31 December 2013. The amendments to IAS 19 (2011 revised) resulted in the recognition of actuarial gains and losses in connection with the valuation of pensions and similar obligations directly in equity in accumulated other comprehensive income. In this context, the comparative information relating to accumulated other comprehensive income and retained deficit as of 1 January 2013 was adjusted by a total of K€2,821 net of tax. Consistent with these reclassifications, any future effects from the valuation will not be cycled through profit and loss in subsequent periods. Both current service cost and interest cost will continue to be recognized in general administrative expenses and financial result as part of profit and loss respectively.

3. Notes to the consolidated statement of comprehensive loss

In the following notes to the consolidated statement of comprehensive loss, the figures for the short financial year 2014 (six-months period from 1 January to 30 June 2014) are compared to the figures of the same period 2013 (six-month period from 1 January to 30 June 2013 – referred to as "6M 2013"), unless indicated otherwise, in order to ensure a relevant comparison of periods. The 6M 2013 figures are unaudited. The figures for the calendar financial year 2013 are presented for information purpose (referred to as "12M 2013").

3.1 Revenues

(K€)	6M 2014	6M 2013	12M 2013
Subscriptions	775,069	683,565	1,413,393
Hardware	16,706	17,227	32,950
Advertising revenues	21,808	17,486	41,254
Wholesale	13,424	6,195	20,754
Other revenues	21,276	14,930	38,100
Total	**848,283**	**739,403**	**1,546,450**

Revenues increased by K€108,880 from K€739,403 in the first six months of 2013 to K€848,283 in the short financial year 2014.

The increase in subscription revenues (2014: K€775,069, 6M 2013: K€683,565) mainly resulted from both the growth in the number of direct subscribers and growth in ARPU. Subscription revenues also comprise revenues from direct subscribers, who subscribed to Sky programs via the IPTV platforms of Deutsche Telekom and Vodafone.

Hardware revenues amounted to K€16,706 in the short financial year 2014 (6M 2013: K€17,227). The decrease was mainly driven by lower revenues from activation fees for receivers, which is a consequence of the transition in the subscription terms from 12 to 24 months in 2013.

Advertising revenues amounted to K€21,808 in the short financial year 2014 (6M 2013: K€17,486). This increase was mainly due to higher advertising revenues associated with broadcasting the Bundesliga as well as broadcasting UEFA Champions League.

Wholesale revenues increased by K€7,229 from K€6,195 in the first six months of 2013 to K€13,424 in the short financial year 2014. The increase was mainly due to the cooperation agreement with Deutsche Telekom, which started in the second half of 2013, and partly comprises former Liga total! IPTV customers and partly Deutsche Telekom mobile customers who ordered the Bundesliga service via the mobile TV offering of Deutsche Telekom.

The increase in other revenues (2014: K€21,276, 6M 2013: K€14,930) is mainly related to revenues generated through the grant of rights to distribute and market Sky services through Deutsche Telekom and Vodafone, starting in the second half of 2013. Other revenues also comprise revenues with Vodafone mobile customers.

In total, sales revenues from the Austrian business in the amount of K€73,958 (6M 2013: K€67,098) are included.

3.2 Cost of sales

(K€)	6M 2014	6M 2013	12M 2013
Program	–491,077	–407,912	–882,609
Technology	–94,410	–83,165	–170,128
Customer service and other cost of sales	–48,896	–43,343	–95,350
Hardware	–46,808	–40,947	–85,591
Total	**–681,191**	**–575,367**	**–1,233,678**

Cost of sales for the short financial year 2014 amounted to K€681,191 compared to K€575,367 in the first six months of 2013.

Programming costs increased by K€83,165, mainly driven by higher license costs for sport events and third-party channels.

The increase in technology costs by K€11,245 was primarily the result of the increase in cost for cable broadcasting, additional transponder capacity as well as playout and other services.

Customer service and other costs of sales increased to K€48,896 (6M 2013: K€43,343), mainly due to the increased customer contracts associated with the higher subscriber base.

The increase in hardware costs by K€5,861 mainly resulted from higher depreciation for receivers recognized under non-current assets and higher logistics costs.

3.3 Selling and general and administrative expenses

The selling and general and administrative expenses are made up as follows:

(K€)	6M 2014	6M 2013	12M 2013
Marketing	–54,952	–47,907	–103,855
Sales	–32,036	–24,389	–55,309
Dealer commissions	–12,677	–11,119	–28,774
Bad debts	–7,199	–7,440	–20,336
Other selling expenses	–14,604	–12,425	–26,253
Selling expenses	**–121,468**	**–103,280**	**–234,528**
IT	–29,280	–26,456	–54,101
Personnel, incl, termination benefits	–23,015	–25,585	–60,718
Legal, consulting and administrative expenses	–7,334	–5,491	–12,341
Facilities	–3,859	–3,792	–8,065
Other	–2,110	–1,531	–3,375
General and administrative expenses	**–65,598**	**–62,854**	**–138,601**

Selling expenses for the short financial year 2014 amounted to K€121,468 (6M 2013: K€103,280). The increase is primarily due to higher marketing expenses and expenses for sales.

General administrative expenses for the short financial year 2014 amounted to K€65,598 (6M 2013: K€62,854). This increase was primarily a result of higher IT costs as well as higher legal and consulting charges.

3.4 Other operating income

(K€)	6M 2014	6M 2013	12M 2013
Income from damage claims	4,091	4,390	7,500
Income due to an agreement with a network provider	–	–	2,500
Miscellaneous	1,922	837	1,861
Total	**6,013**	**5,228**	**11,862**

A variety of individually immaterial items is accumulated under the item “Miscellaneous”.

3.5 Other operating expenses

Other operating expenses are made up as follows:

(K€)	6M 2014	6M 2013	12M 2013
Loss on sale of property and equipment	–48	0	–58
Allocation to allowances for doubtful receivables	–197	244	258
Expense prior years	–	–	–1,016
Damage claims	–	–2,077	–2,239
Miscellaneous	–799	–452	–589
Total	**–1,043**	**–2,286**	**–3,645**

A variety of individually immaterial items is accumulated under the item “Miscellaneous”.

3.6 Personnel expenses and depreciation and amortization on intangible assets and property, plant and equipment

Personnel expenses and depreciation and amortization of fixed assets were charged to operating profit.

(K€)	6M 2014	6M 2013	12M 2013
Wages and salaries	–70,180	–66,325	–143,844
Social security	–11,857	–10,090	–21,895
Other personnel expenses (incl. anniversary expense)	–3,512	–2,783	–7,583
Termination benefits	–607	–501	–1,271
Pension expense and similar expense	–145	–154	–302
Personnel expenses	**–86,300**	**–79,853**	**–174,895**
Amortization of subscriber bases	–694	–694	–1,388
Depreciation of property, plant and equipment, including impairment losses	–37,230	–29,388	–61,298
Amortization of other intangible assets	–14,293	–12,178	–25,253
Amortization of program library	–163	–163	–327
Depreciation and amortization	**–52,380**	**–42,423**	**–88,265**

The expenses in connection with shared-based compensation programs decreased compared to the first six months of 2013 (2014: K€3,139, 6M 2013: K€7,909). The year-on-year increase in personnel expenses is primarily driven by higher personnel expenses associated with the expansion of the business.

The increase in scheduled and unscheduled amortization and impairments on property, plant and equipment recognized as cost of sales is mainly driven by the higher volume of rented receivers and the corresponding amortization of the receivers over their useful lives of five to seven years.

In the past short financial year, an amortization expense in the amount of K€21 (6M 2013: K€21) was recognized on financial assets.

3.7 Financial result

(K€)	6M 2014	6M 2013	12M 2013
Other interest income	510	556	1,076
Financial income	**510**	**556**	**1,076**
Interest expenses from interest rate swaps	–118	–	–
Other interest expense	–37,645	–37,265	–72,697
Financial expenses	**–37,764**	**–37,265**	**–72,697**
Other financial result	1,033	760	–1,963
Total	**–36,221**	**–35,949**	**–73,584**

Other interest income mainly comprises current account interests and interests on the collection of receivables.

Other interest expenses comprises primarily interest for corporate financing.

In connection with the shareholder financing by 21st Century Fox Adelaide Holdings B.V., an interest expense in the amount of K€17,204 (6M 2013: K€13,263) was incurred, of which K€9,666 (6M 2013: K€9,069) related to the convertible bond based on an effective interest rate of 12.0 percent per annum and K€7,538 (6M 2013: K€4,194) to the share-holder loans.

Including interest on the guarantees provided by Twenty-First Century Fox, Inc. and its subsidiary 21st Century Fox America, Inc. for the credit financing, interest in the amount of K€18,564 was incurred in 2014 (6M 2013: K€22,418) in connection with the bank financing and was recognized in profit and loss. In the short financial year 2014 an amount of K€25,368 interest was paid (6M 2013: K€6,931). As of the balance sheet date, K€15 (2013: K€8,352) was recognized as accrued interest payable. The decrease is explained by the timing of a guarantee fee payment to Twenty-First Century Fox, Inc. which took place before 30 June 2014.

The interest expense for the past short financial year includes interest expenses of K€12,811 (6M 2013: K€16,529) calculated in accordance with the effective interest method.

3.8 Net gains/losses by measurement categories

	Net gains/losses		
(K€)	6M 2014	6M 2013	12M 2013
Loans and receivables	–7,517	–6,993	–19,736
Financial assets or liabilities held for trading			
Gains or losses on changes in fair value recognized in equity	–2,160	297	–1,023
Gains or losses on disposal and measurement recognized in profit or loss	2,290	1,189	–3,078
Available-for-sale financial assets			
Gains or losses on disposal and measurement recognized in profit or loss	–31	–31	–40
Financial liabilities measured at amortized cost	–1,228	–291	1,363
Total	**–8,647**	**–5,829**	**–22,515**

Net gains or losses by measurement categories of financial instruments are influenced by changes in fair value, impairments, fluctuations in exchange rates and derecognizing.

The net gains or losses on financial assets and liabilities held for trading relate to the gains or losses on the disposal and the subsequent measurement of these financial instruments (2014: gains of K€2,290; 6M 2013: gains of K€1,189). Interest effects are reported in the interest result (please refer to 3.7 Financial result), whereas the valuation of certain foreign exchange forward contracts that have not been designated for hedge accounting is shown in the other financial result (please refer to 1.6.1.7 Derivative financial instruments).

3.9 Income taxes

Contrary to the general approach described under 1.2 Basis of preparation of the consolidated financial statements, this section includes a comparison of current amounts with the amounts as of 31 December 2013. A comparison with the six-month period in 2013 is not considered appropriate since the period relevant for income taxes calculation is the calendar year 2013.

Income tax expense comprises the following:

(K€)	6M 2014	12M 2013
Current tax income (+)/expense (–)	–29	–13
Deferred tax expense	–3,940	–5,980
Total	**–3,969**	**–5,992**

Deferred tax expense within income taxes substantially results from changes in temporary differences. Deferred tax liabilities recognized as of the balance sheet date indicate commitments which will lead to current tax expenses in future periods.

Deferred taxes are measured based on a tax rate of 27.38 percent (2013: 27.38 percent), taking into account, in addition to corporate income tax of 15.0 percent (2013: 15.0 percent), the solidarity surcharge at 5.5 percent (2013: 5.5 percent) on corporate income tax and the trade tax on income of 11.55 percent (2013: 11.55 percent).

Differences in recognition and measurement result in the following recognized deferred tax assets and liabilities:

	30 Jun 2014		31 Dec 2013	
(K€)	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Finance lease receivables	1	6	–	16
Finance leases	–	317	–	236
Intangible assets	–	64,062	32	60,839
Other assets and other financial assets	190	326	75	191
Borrowings	–	345	–	432
Trade payables	7	31	39	5
Provisions for pensions	617	–	366	–
Other provisions	–	31	–	31
Other liabilities and other financial liabilities	720	–	474	–
Total	**1,534**	**65,117**	**986**	**61,750**
of which current	427	306	380	307
of which non-current	1,107	64,812	606	61,443
Offset	–1,502	–1,502	–937	–937
Per balance sheet	**32**	**63,616**	**50**	**60,814**

Recognition of deferred tax liabilities primarily results from the difference in subsequent valuation of goodwill in the consolidated statements and its tax base.

Deductible temporary differences in the amount of K€10,690 (2013: K€10,903) as well as related deferred tax assets in the amount of K€2,926 (2013: K€2,985) were not recognized as of the balance sheet date mainly because of the history of losses of the Company. This also applies to corporate and trade tax loss carry-forwards as well as interest carry-forward described in more detail below.

As of the balance sheet date deferred tax assets recognized directly in other comprehensive income amount to K€2,627 (2013: K€1,505). This results from both the valuation of foreign exchange forward contracts and interest rate swaps designated for hedge accounting in the amount of K€1,300 (2013: K€486) and the recognition of remeasurements in accordance with IAS 19 (2011 revised) in the amount of K€1,326 (2013: K€1,019).

Deferred tax assets and liabilities are offset provided they are with the same tax authority and current taxes are offset.

The reported tax expense differs from the expected tax expense that would have arisen if the nominal tax rate of 27.38 percent (2013: 27.38 percent) had been applied to the IFRS pre-tax earnings.

The reconciliation of the differences is shown below:

(K€)	6M 2014	12M 2013
Loss before taxes	–51,920	–127,112
Expected tax benefit	**14,213**	**34,797**
Reconciliation		
Change in non-recognition of deferred taxes	–17,111	–38,468
Non-deductible expenses	–1,124	–2,011
Other	53	–310
Tax expense	**–3,969**	**–5,992**

The line item Change in non-recognition of deferred taxes consists of changes in tax loss carry-forwards, the interest carry-forward and deductible temporary differences of the short financial year 2014.

As of the balance sheet date, the Company has accumulated corporate tax losses of K€2,637,766 (2013: K€2,573,090), of which K€246,183 (2013: K€248,742) relate to the Austrian subsidiaries. Sky has also accumulated trade tax losses in the amount of K€2,489,611 (2013: K€2,428,533). In addition, there is an interest carry-forward of K€199,363 (2013: K€189,864).

On the basis of the existing law in 2008, the Company lost corporate tax loss carry forwards in the amount of K€225,917 and trade tax loss carry forwards in the amount of K€16,461 due to the acquisition of 25.01 percent of the share capital of Sky Deutschland AG by Twenty-First Century Fox, Inc.

In 2009, the German Parliament passed a “turnaround clause” (Sanierungsklausel) regarding tax loss and interest carry forwards (Section 8c of the Corporate Income Tax Act) with retrospective effect for the tax assessment period 2008. Based on an examination, the EU Commission determined on 26 January 2011 that the turnaround clause entails state aid. In defense of its own legal position, Sky lodged a complaint in due time on 2 December 2011 with the European Court against the EU Commission for the annulment of the above-mentioned determination.

In November 2012, Sky received an advanced ruling from the Munich tax authorities granting approval on the general technical approach regarding application of the hidden reserve clause of the German Corporate Tax Act (Körperschaftsteuergesetz) to protect German tax losses and tax loss carry-forwards in the event of certain changes to the Company’s shareholder structure (such as an increase in the shareholding of 21st Century Fox Adelaide Holdings B.V. to 54.45 percent on 15 January 2013). With letters received in August 2014, the Munich tax authorities confirmed the application of the principles to the proposed acquisition by BSkyB of the shares in Sky Deutschland AG held by 21st Century Fox Adelaide Holdings B.V. While the Munich tax authorities issued comments only on the methodology for the determination of hidden reserves and not on valuation results, management believes that, pursuant to this ruling, the Company should be able to retain a significant part of its current German tax losses and tax loss carry-forwards in the event of relevant changes to the Company’s shareholder structure. The valuation will be checked for the first time by the relevant tax authorities in the course of the tax assessment for financial year 2013 with respect to the increase in the shareholding of 21st Century Fox Adelaide Holdings B.V. to 54.45 percent on January 2013.

3.10 Earnings per share

Basic earnings per share is calculated as the ratio of the Group earnings and the weighted average number of ordinary shares outstanding during the year.

	1 Jan–30 Jun 2014	1 Jan–30 Jun 2013
Earnings attributable to stockholders of Sky Deutschland AG (K€)	–55,889	–38,507
Weighted average number of outstanding shares (thousand)	877,201	867,006
Basic earnings per share total (€)	**–0.06**	**–0.04**

In 2011, a convertible bond was issued to 21st Century Fox Adelaide Holdings B.V. (formerly, News Adelaide Holdings B.V.) through a private placement. The bond can be converted into 53,914,182 ordinary registered shares sourced from the Contingent Capital.

With conversion of the bond into ordinary registered shares, the weighted average number of outstanding shares would have increased to 926,059,391.

Based on the consolidated loss incurred in the short financial year 2014, the diluted earnings per share correspond to the basic earnings per share.

4. Other explanatory comments

In the following other explanatory comments, the figures as of 30 June 2014 or for the short financial year 2014 are compared to the figures as of 31 December 2013 (referred to as "2013") or for the calendar financial year 2013 (referred to as "12M 2013"), unless indicated otherwise.

4.1 Financial risk management

4.1.1 Financial risk factors

The Group is exposed in particular to interest rate and foreign currency risks in connection with its operating activities. It is the Group's policy to avert or reduce these risks through hedging transactions. All hedging measures are coordinated, carried out and monitored on a centralized basis by the Group's Treasury & Corporate Finance department.

4.1.1.1 Foreign currency risk

Fluctuations in exchange rates could result in unforeseeable volatility in earnings and cash flows. Sky enters into foreign currency forward contracts to hedge the foreign currency risk. These transactions are for hedging cash flows in foreign currencies in connection with the purchase of film and other licenses.

Fair value gains or losses from the remeasurement of foreign currency forward contracts as of the balance sheet date are recognized in profit or loss only if they had not been included in hedge accounting pursuant to IAS 39. The requirements of IFRS 13 regarding the exposure to credit risks were taken into account in the valuation of the foreign currency forward contracts. For further details please refer to 4.1.2 Disclosures on derivatives.

Of the total payments in US dollars and pound sterling, K€36,667 were hedged during the past short financial year (2013: K€83,545) using foreign currency forward contracts.

The total trade payables of K€286,004 (2013: K€288,976) include K€50,094 (2013: K€35,808) in foreign currency.

Foreign currency sensitivity is determined firstly by aggregating both the net positions of the operating business denominated in foreign currency and all foreign currency forward contracts which are not included in hedge accounting. The foreign currency risk is arrived at by multiplying the non-hedged foreign currency position by a 10.0 percent mark-up or devaluation of the US dollar and the pound sterling respectively compared with the euro.

A 10.0 percent depreciation of the US dollar or the pound sterling compared with the euro would result in a negative effect from the foreign currency forward contracts at the same time as a positive effect from financial liabilities denominated in the US dollar and pound sterling, so that a total net negative effect of K€7,360 on the earnings for the past short financial year would result (2013: a net negative effect in the amount of K€4,578). A 10.0 percent appreciation of the US dollar or the pound sterling compared with the euro would have a total positive effect in the amount of K€7,360 on earnings for the short financial year (2013: a positive effect in the amount of K€4,578).

	30 Jun 2014			31 Dec 2013		
(K€)	Carrying amount	Impact from depreciation of 10%	Impact from appreciation of 10%	Carrying amount	Impact from depreciation of 10%	Impact from appreciation of 10%
Financial liabilities in foreign currencies	50,094	5,002	–5,002	35,808	3,580	–3,580
Foreign currency forward contracts not designated for hedge accounting	–347	–12,361	12,361	–2,970	–8,158	8,158
Effect on earnings		**–7,360**	**7,360**		**–4,578**	**4,578**

A 10.0 percent depreciation of the US dollar or the pound sterling against the euro would result in a negative effect from foreign currency forward contracts included in hedge accounting under due consideration of deferred taxes in the amount of K€5,681 (2013: a negative effect in the amount of K€3,333) on other comprehensive income for the short financial year.
A 10.0 percent appreciation of the US dollar or the pound sterling against the euro would have a total positive effect in the amount of K€5,681 on other comprehensive income for the short financial year (2013: a positive effect in the amount of K€3,333).

	30 Jun 2014			31 Dec 2013		
(K€)	Carrying amount	Impact from depreciation of 10%	Impact from appreciation of 10%	Carrying amount	Impact from depreciation of 10%	Impact from appreciation of 10%
Accumulated other comprehensive income (foreign currency forward contracts designated for hedge accounting)	–759	–7,823	7,823	–122	–4,589	4,589
Deferred taxes	208	2,141	–2,141	33	1,256	–1,256
Effect on other comprehensve income		**–5,681**	**5,681**		**–3,333**	**3,333**

4.1.1.2 Interest rate risk

The Company is exposed to interest rate risks as a result of its variable interest rate liabilities. Sky entered into interest rate swap agreements with several banks in July 2013 to fully hedge the potential interest rate risk for a loan with variable interest rates.

The total borrowings of K€548,568 (2013: K€551,613) include K€225,000 (2013: K€225,000) with variable interest rates. Risks arising due the change of interest rates are hedged with interest rate swaps.

In particular, changes in market interest rates of non-derivative variable interest rate financial instruments have an effect on earnings for the short financial year.

On an assumed increase of 0.5 percentage points in the market interest rate, the total comprehensive loss for the period would have decreased by K€3,563 (2013: K€238). On an assumed decrease of a maximum 0.5 percentage points in the market interest rate, the total comprehensive loss for the period would have increased by K€964 (2013: K€2,569). The calculation for the non-derivative variable interest rate financial instruments is based on the balances as of 30 June 2014.

(K€)	Interest rate	30 Jun 2014	31 Dec 2013
Interest rate risk – Profit & Loss			
Cash and cash equivalents	variable	123,157	196,898
Liabilities to banks	variable	–225,000	–225,000
Gross Exposure (liability)	variable	**–101,843**	**–28,102**
Liabilities from interest rate swaps		225,000	–[1]
Net Exposure (asset/liability)	variable	**123,157**	**–28,102**
Period effect on an assumed increase of 50 basis points (0.5 percentage point) in the market interest rate Positive effect (–)/Negative effect (+) [3]		–616	141
Period effect on an assumed decrease of max. 50 basis points (0.5 percentage point) in the market interest rate[2] Positive effect (–)/Negative effect (+) [3]		99	–507
Interest rate risk – Other comprehensive loss			
Liabilities from interest rate swaps (Fair value)	variable	3,987	1,653
Exposure	variable	**3,987**	**1,653**
Period effect on an assumed increase of 50 basis points (0.5 percentage point) in the market interest rate Positive effect (–)/Negative effect (+) [4]		–2,947	–378
Period effect on an assumed decrease of max. 50 basis points (0.5 percentage point) in the market interest rate [2] Positive effect (–)/Negative effect (+) [4]		865	3.076
Total period effect on an assumed increase of 50 basis points (0.5 percentage point) in the market interest rate on the OCL Positive effect (–)/Negative effect (+) [4]		–3,563	–238
Total period effect on an assumed decrease of max. 50 basis points (0.5 percentage point) in the market interest rate on the OCL [2] Positive effect (–)/Negative effect (+) [4]		964	2.569

1) Hedging effect as of May 2014, therefore still full interest risk in 2013.
2) With respect to cash and cash-equivalents as well as to liabilities from interest rate swaps, the absolute values of the sensitivities differ in that lowering the interest rate or the yield curve was suspended at the level of zero percent.
3) Effect relates to the changes in net loss.
4) Effect relates to the changes in net comprehensive loss.

4.1.1.3 Price risk

Some of the longterm contracts concluded with major American film studios include price-change clauses. These price-change clauses cover the average price increases relating to the general cost of living.

Significant portions of Sky's film licensing are linked to the actual number of subscribers ("overages"). Some of the contracts with owners of program rights also include guaranteed minimum subscriber numbers ("minimum guarantees"). If the minimum subscriber numbers are not achieved, a higher portion of Sky' revenues is necessary to cover this cost basis.

Price increases, minimum guarantees and the mitigation of expected inflation-related increases over the terms are partially taken into account when concluding longterm license and service agreements in the areas of technology and administration.

4.1.1.4 Liquidity risk

The liquidity risk is the risk that the Company could encounter difficulties in meeting its financial obligations, such as interest payments redemption of borrowings or payment of trade payables.

Financial planning instruments are utilized in order to identify liquidity shortages on a timely basis. In this connection, the liquidity requirement is updated on a regular basis. The Company's planning horizon for the operational cash planning is one year. The Company hedges future cash flows through derivatives based on a planning horizon up to 29 months for foreign exchange forward contracts (2013: 22 months).

The following tables show all contractually defined interest and principal payments as of 30 June 2014 and 31 December 2013 on recognized financial liabilities, including derivatives with a negative market value. The market values are disclosed for the foreign currency forward, while the undiscounted cash flows for the following financial years are shown for the remaining liabilities.

All financial instruments held as of the balance sheet date and for which payments have already been contractually agreed are included. Forecasted figures for future new liabilities are not incorporated. Variable interest payments are calculated on the basis of the interest rates fixed in each case as of the balance sheet date. Financial liabilities that are repayable at any time on the request of the lender are always allocated to the earliest period.

As of 30 Jun 2014 (K€)	2014/15	2015/16	2016/2017 to 2018/19	2019/20 and later
Non-derivative financial liabilities				
Loans	174,204	2,763	436,632	–
Trade payables	275,116	5,914	2,488	2,488
Other financial liabilities	44,452	4,745	–	973
Derivative financial liabilities				
Currency derivatives in connection with cash flow hedges	749	15	37	–
Currency derivatives without a hedging relationship	1,090	146	37	–
Interest rate swaps in connection with cash flow hedges	1,593	1,593	1,060	–

The following is the corresponding presentation for 2013:

As of 31 Dec 2013 (K€)	2014	2015	2016 to 2018	2019 and later
Non-derivative financial liabilities				
Loans	18,982	166,882	432,090	–
Trade payables	277,270	6,430	2,668	2,668
Other financial liabilities	34,209	72	180	2,176
Derivative financial liabilities				
Currency derivatives in connection with cash flow hedges	250	–	–	–
Currency derivatives without a hedging relationship	2,734	526	–	–

Sky does not provide disclosures on contractually fixed payments relating to financial assets including derivative financial instruments with positive fair values, as these assets are not held for the purpose of managing liquidity risks.

4.1.1.5 Credit risk

The default risk on financial assets is the risk of the default of a contractual partner and is therefore limited to the carrying amounts of the respective assets.

In accordance with IFRS 13, credit risk adjustments were reflected in the valuation of derivative financial instruments for the first time in financial year 2013.

In order to avoid payment defaults, credit reports are obtained on the contractual partners or historical data is used from earlier business relationships, particularly on payment behavior. Adequate allowances are set up against the receivables for identified risks. In addition, the Company utilizes the direct debit procedure to ensure the receipt of payments from subscribers.

Financial transactions are only entered into with contracting parties with solid credit standing, so that the actual default risks are low. There is currently no indication that the Sky Group is threatened by such a risk.

4.1.2 Disclosures on derivatives

Other financial assets and other financial liabilities include the following derivatives:

(K€)	30 Jun 2014	31 Dec 2013
Positive fair values		
Market value interest swap contracts	–	–
Credit risk interest swap contracts	–	–
Total interest swap contracts	–	–
Market value foreign exchange forward contracts	994	427
Credit risk foreign exchange forward contracts	–26	–8
Total foreign exchange forward contracts	**968**	**418**
Total positive fair values	**968**	**418**
Negative fair values		
Market value interest swap contracts	4,053	1,709
Credit risk interest swap contracts	–67	–56
Total interest swap contracts	**3,987**	**1,653**
Market value foreign exchange forward contracts	2,137	3,619
Credit risk foreign exchange forward contracts	–64	–108
Total foreign exchange forward contracts	**2,073**	**3,511**
Total negative fair values	**6,060**	**5,164**

The notional amounts of the derivatives outstanding as of the balance sheet date are as follows:

(K€)	Maturities < 1 year	Maturities 1–5 years	Total 30 Jun 2014	Maturities < 1 year	Maturities 1–5 years	Total 31 Dec 2013
Foreign exchange forward contracts	72,117	94,164	166,281	72,057	58,509	130,566
thereof Currency derivatives in connection with cash flow hedges	45,428	10,912	56,340	46,014	–	46,014
thereof Currency derivatives without hedging relationship	26,689	83,252	109,941	26,044	58,509	84,552
Interest swaps	–	225,000	225,000	–	225,000	225,000
Total	72,117	319,164	391,281	72,057	283,509	355,566

In the short financial year, losses on US dollar foreign exchange forward contracts in the amount of K€536 (12M 2013: losses in the amount of K€382) and losses on pound sterling foreign exchange forward contracts in the amount of K€119 (12M 2013: gains in the amount of K€128) were recognized in other comprehensive income.

In addition, losses on US dollar foreign exchange forward contracts in the amount of K€19 (12M 2013: losses in the amount of K€373) were reclassified from other comprehensive income to advance payments for sport and film rights as a reduction of acquisition costs, of which a negative K€242 (12M 2013: positive in the amount of K€295) is shown as utilization in cost of sales and a negative K€4 (12M 2013: negative in the amount of K€10) in other operating result. There were no valuation effects on pound sterling foreign exchange forward contracts as a hedge of payments for usage rights to the Sky brand reclassified directly from other comprehensive income to marketing expenses (12M 2013: losses in the amount of K€125 shown as increase of selling expenses).

The remaining amounts in OCI at 30 June 2014 are expected to mature in the following financial years, until 2016/17. They will affect the statement of total comprehensive loss as of the financial year 2014/15 and in the following years, depending on the duration of the film, sport and trademark licenses.

4.2 Capital management

The following table shows the Group's capital structure as of the balance sheet date:

(K€)	30 Jun 2014	31 Dec 2013
Total assets	1,318,087	1,386,917
Equity	272,336	331,200
Share of total assets (in %)	20.7	23.9
Current borrowings	167,730	18,707
Non-current borrowings	380,838	532,906
Total borrowings	548,568	551,613
Share of total assets (in%)	41.62	39.77
Cash and cash equivalents	123,157	196,898
Net debt	425,412	354,715

Sky's statutes do not subject it to any capital requirements. In particular, the Company has no obligations to sell or otherwise issue shares in connection with existing share-based compensation plans or convertible bonds.

The existing credit facilities do not contain any financial covenants for the Group. As such, there are no external or internal target values for the Company's capitalization that would impact the capital management structure of the Company. The credit facilities also do not contain any financial covenants for Sky. However, they contain a number of operational requirements that restrict Sky's ability to conduct any mergers and make other fundamental changes, restrict the sale or other disposition by Sky of all or all substantial assets, and restrict Sky's ability to assume additional debt or grant certain liens. Moreover, the lenders under the credit facility agreement are entitled to terminate the existing credit facility agreement upon occurrence of certain events of default caused by the guarantors Twenty-First Century Fox, Inc. and 21st Century Fox America, Inc. The lenders are also entitled to terminate the agreement in the event of certain types of change of control. With regard to the credit facilities, Sky is subject to various obligations and conditions. Under the credit facilities a change of control is defined as the direct or indirect ownership, beneficially or of record, by any person or group of persons acting in concert, other than Twenty-First Century Fox, Inc. and its affiliates, of voting stock representing more than the greater of 30 percent of the aggregate outstanding voting stock of Sky and the percentage of the aggregate outstanding voting stock of Sky owned directly or indirectly, beneficially or of record, by Twenty-First Century Fox, Inc. and its affiliates.

With regard to the authorized capital and the Contingent Capital we refer to item 2.10 Equity.

4.3 Cash flow statement

In the following note to the consolidated statement of cash flows, the figures for the short financial year 2014 (six-month period from 1 January to 30 June 2014) are compared to the figures of the same period 2013 (six-month period from 1 January to 30 June 2013 – referred to as “6M 2013”) in order to ensure a relevant comparison of periods.

The consolidated statement of cash flows shows the cash in and outflows of the reporting period in accordance with IAS 7. Both the source and use of funds are presented. A distinction is made based on the nature of the cash flow between cash flows from operating activities, cash flows from investing activities and cash flows from financing activities.

At Sky, cash flows from financing and investing activities are determined on the basis of cash payments, whereas the cash flows from operating activities are derived indirectly.

The presentation of the comparative periods corresponds to the presentation in the consolidated statement of comprehensive loss. We therefore refer to the explanations provided under 2.10 Notes to the consolidated statement of comprehensive loss.

Cash flows from operating activities amounted to K€27,053 (6M 2013: K€47,755). Cash inflows from the positive EBITDA in the amount of K€36,682 (6M 2013: inflows K€42,573), adjusted by non-cash expenses in the amount of K€3,366 (6M 2013: expenses K€4,447) were accompanied by changes in working capital outflows in the amount of K€13,949 (6M 2013: outflows K€571). Cash flows from operating activities also include cash flows in connection with the acquisition of film assets and advance payments for sport and film rights.

The cash flow from investing activities amounted to negative K€60,967 (6M 2013: negative K€95,463). This comprised payments for investments in intangible assets and property, plant and equipment primarily related to the acquisition of receivers and associated licenses as well as investments in software.

Cash flow from financing activities amounted to negative K€39,828 (6M 2013: positive K€223,509). The outflow of funds is the result of interest payments, the repayment of finance lease liabilities as well as payments for transaction costs in connection with financing.

The existing financing facilities (excluding guarantees and capitalized interest) were utilized in the amount of K€495,615 (2013: K€495,615). Thereof, K€31,275 was classified as equity according to IAS 32. The undrawn credit facilities amounted to K€72,700 as of the balance sheet date (thereof K€72,700 resulting from the bank financing). Due to their specific nature, this amount does not include the extension of the existing credit facilities in the amount of €78.5 million mentioned under 2.8.1 Borrowings.

In the short financial year 2014 no non-cash transactions resulted from new finance lease contracts (6M 2013: K€28,743).

There were no inflows and outflows of income taxes neither in the past short financial year nor in the previous year.

4.4 Related party transactions

Related parties are persons or companies on which the Group can exercise significant influence or which can exercise significant influence on the Group. In addition to the members of the Company’s Management Board and Supervisory Board, these also include family members and the domestic partners of the persons affected.

In the course of the normal business activities, all delivery and service transactions with non-consolidated related entities and persons are carried out under market-standard terms and conditions that are also customary for non-related third parties.

The Company carried out transactions with the following groups of related parties during the past short financial year:

(K€)	Total of companies with controlling or significant influence above the company	Total remuneration of Management Board	Total of other related parties	Total
Revenues from sales and services	501	–	–	**501**
Other income	38	–	–	**38**
Expense from service received	–64,605	–	–176	**–64,781**
Personnel expenses	–29	–5,586	–	**–5,615**
Result for the period	–64,095	–5,586	–176	**–69,857**
Payables	–309,961	–14,392	–2	**–324,354**
Receivables	147	–	–	**147**

The expenses incurred for services received from companies with controlling or significant influence over Sky relate in particular to license payments for film rights, interests and guarantee fee payments. In this connection, companies with significant influence are those that are controlled by Twenty-First Century Fox, Inc., those under joint management of Twenty-First Century Fox, Inc. and its partner companies, and those over which Twenty-First Century Fox, Inc. can exercise significant influence.

In the short financial year 2014, Sky paid interest in the amount of K€4,514 (2013: K€9.049) on the convertible bond to 21st Century Fox Adelaide Holdings B.V.

In connection with financing measures carried out in 2012 and 2013, transaction costs in the amount of K€1,577 were paid to 21st Century Fox Adelaide Holdings B.V. and Twenty-First Century Fox, Inc. in the short financial year 2014 (2013: K€26,285).

The table provided above includes an interest expense in the amount of K€18,408 (2013: K€29,122) for the shareholder financing and other guarantees provided by 21st Century Fox Adelaide Holdings B.V. and an interest expense in the amount of K€15,372 (2013: K€27,402) for the debt financing including the Bundesliga guarantee with Twenty-First Century Fox, Inc. shown under expenses from services received.

The existing contract with Fox International Channels Germany GmbH, Unterföhring (Fox) regarding the provision of a partner channel expired in October 2013. The extension option was not exercised by Fox. In 2013, this resulted in the release of accruals of the current contract in the amount of K€3,342. In the first quarter 2014, negotiations of new conditions have been concluded. The term of the new contract started on 1 November 2013, retrospectively, and expires on 30 April 2016.

With regard to the credit facilities Sky is subject to various obligations and conditions. Under the credit facilities a change of control is defined as the direct or indirect ownership, beneficially or of record, by any person or group of persons acting in concert, other than Twenty-First Century Fox, Inc. and its affiliates, of voting stock representing more than the greater of 30 percent of the aggregate outstanding voting stock of Sky and the percentage of the aggregate outstanding voting stock of Sky owned directly or indirectly, beneficially or of record, by Twenty-First Century Fox, Inc. and its affiliates. The lenders are entitled to terminate the agreement in the event of certain types of change of control.

On 5 December 2013, Sky Deutschland AG, Sky Deutschland KG, 21st Century Fox Adelaide Holdings B.V., Twenty-First Century Fox, Inc. and 21st Century Fox America, Inc. signed a financial support agreement regarding the purchase of company shares in Plazamedia GmbH TV- und Filmproduktion, Sport1 GmbH and Constantin Sport Marketing GmbH. In the second quarter 2014, this financial support agreement was amended to cover general corporate purposes and investments in production capabilities. The credit line amounts to €78.5 million. The agreement between Sky Deutschland AG and the members of the existing bank syndicate on the extension of the existing credit facilities, guaranteed by Twenty-First Century Fox, Inc., was amended accordingly. Under this arrangement, the guarantee fee will be at a rate of 6.0 percent per annum.

Sky Deutschland AG has not entered into other agreements that are subject to the modification or termination upon a change of control. However, subsidiaries of Sky Deutschland AG have entered into agreements with major Hollywood studios, the UEFA, the DFL and several third party channels that entitle the relevant counterparties to terminate the agreements under certain conditions if a change of control occurs at Sky Deutschland AG. Furthermore, Sky Deutschland KG has entered into a trademark license agreement with a company of the BSkyB Group that entitles the company to terminate the agreement under certain conditions if a change of control occurs at Sky Deutschland AG.

BSkyB and Sky Deutschland KG entered into a trademark license agreement in 2009, which allows Sky to use the Sky brand name. The contract has a license period from 1 July 2009 to 30 June 2016 (initial term) and is automatically extended for a further period of seven years (extended term). Thereafter, Sky has the option of a single subsequent extension of three years. The agreement comprises license fees at arm's-length, which are based on the stipulated revenues and are capped in the first seven years. In the financial year 2012, the agreement was transferred to Sky International AG, Zug, Switzerland. A total of K€2,137 (2013: K€3,948) in selling expenses were recognized.

Sky Italia S.r.l. and Sky Deutschland KG entered into a service agreement in 2009. Under the agreement, Sky Italia supplies IT facilities, management, maintenance and consultancy services with regard to the start-up of the IT infrastructure operations for new subscriber management system ("SMS"). This contract including its amendments ran until June 2012 with total payments of K€18,044. In July and December 2012, new agreements amended the contract duration to June 2013 including new payments of K€11,382. In August 2013, another agreement amended the contract duration through December 2013 including new payments of K€2,373. On 6 February 2014, another agreement amended the contract duration through June 2014. Currently, the extension of the contract duration is still in negotiation. For further information please refer to 1.6.7.1 Company as lessee.

For detailed information regarding the compensation of the Management Board and the Supervisory Board, please refer to point 4.8 Compensation of the Management Board and the Supervisory Board.

The Sky Group is included in the consolidated financial statements of Twenty-First Century Fox, Inc., New York, United States of America.

4.5 Contingent liabilities and assets pledged as security

The existing debt financing is not secured by assets of the Sky group. The credit facilities of €300 million provided are fully guaranteed by Twenty-First Century Fox, Inc. and its subsidiary 21st Century Fox America, Inc. The credit facilities do not contain financial covenants but contain a number of operational requirements that restrict Sky's ability to conduct mergers and make other fundamental changes, restrict the sale or other disposition by Sky of all or all substantial assets, and restrict Sky's ability to assume additional debt or grant certain liens. Moreover, the lenders under the credit facility agreement will be entitled to terminate the agreement upon the occurrence of certain events of default caused by the guarantors Twenty-First Century Fox, Inc. and 21st Century Fox America, Inc. The lenders are also entitled to terminate the agreement in the event of certain types of change of control.

4.6 Litigation

The following sections refer to the current material litigations.

Shareholder Claims

Sky Deutschland AG is facing damage claims by shareholders with respect to public information on its subscriber numbers.

13 actions for damages have been filed against Sky. All actions were terminated with legally binding effect, either through dismissal of the claim, withdrawal of the action or settlement agreements. The total settlement payments amounted to K€122.

Furthermore, out-of-court claims totaling K€60 have been served on the Company, partially through a mediation proceeding. The Company has rejected the claims and declined to enter into the mediation proceeding.

In the past further claims for damages had been asserted out of court, mostly by institutional investors ("the Funds") by way of mediation proceedings. The Company entered into a settlement agreement in October 2010 according to which the Funds' claims are finally and absolutely settled upon payment of €14.5 million in installments. All installments have since been paid.

The Company still believes that the total amount of the settlements as well as any associated cost – in particular legal costs – will be covered by existing insurance policies (prospectus insurance for the 2007 Prospectus and D&O insurance). However, on March 2012, the prospectus insurer declined to cover. The provider of the D&O insurance, which applies in cases where claims are raised against former board members, is to the Company's knowledge still in the evaluation phase. Extrajudicial claims that have been raised against former board members have been rejected. The Company therefore filed a recourse action for compensation of all damages incurred against the prospectus insurer and former board members with the District Court of Munich. On 26 August 2014, the District Court of Munich predominantly dismissed the Company's claim. The Company is currently assessing further proceedings.

There are no outstanding obligations relating to damage claims recorded for the short financial year that ended 30 June 3014.

In connection with the public information on subscriber numbers and according to the Company's knowledge, criminal investigations against the persons who served at that time on the Company's Management Board are continuing.

Investigation of the Federal Financial Supervisory Authority

In connection with an audit according to Sections 37n ff. of the German Securities Trading Act (WpHG), the Federal Financial Supervisory Authority ("BaFin") determined that the financial statements and consolidated financial statements as of 31 December 2007 and the management report and group management report for 2007 of former Premiere AG (now Sky Deutschland AG) as well as the condensed interim consolidated financial statements as of 30 June 2008 and the interim report for the first six months of 2008 were allegedly incorrect.

Sky Deutschland AG has filed an objection against the decision of the BaFin. The objection was rejected by the BaFin in September 2013. Sky therefore filed a complaint against the decision with the Higher Regional Court of Frankfurt on 14 October 2013. The Company does not expect a decision before Q2 of the 2014/15 business year.

The complaint is aimed at revising the decision of BaFin insofar as BaFin ruled that the financial statements and consolidated financial statements as of 31 December 2007 of Premiere AG, Unterföhring, (now Sky Deutschland AG) and the management report and group management report for 2007 as well as the condensed interim consolidated financial statements as of 30 June 2008 are considered incorrect pursuant to Sec. 37q para. 1 of the German Securities Trading Act (WpHG).

The decisions of BaFin at which the objection is aimed refer to (i) the amount of the consideration paid by Premiere for the Bundesliga sub-license in 2007, (ii) the description of the risks associated with the intended acquisition of the Bundesliga rights for seasons 2009/2010 until 2011/2012 in 2008, (iii) the goodwill as shown in the 2007 group financial statements which is considered too high by €248.8 million and by €251.9 million with regard to the financial statements as of 30 June 2008, because – according to BaFin – no such goodwill exists due to the lack of a business combination (iv) the profit situation was allegedly described too positively by at least €10 million due to improperly calculated acquisition costs regarding resold free-TV rights, and, (v) the omission of risk reporting relating to a potential covenant breach considered possible by the company and a potential subsequent termination of the credit facilities resulting in a higher risk for the financial situation of the group.

The objections aim at the alleged findings under aforementioned (i) to (v). The objection therefore does not aim at the alleged finding regarding subscriber classification in the financial statements of the company or the rejected objection in that regard.

Should the findings of BaFin become legally binding, Sky Deutschland AG may have to correct the findings regarding the balance sheet (goodwill, free-TV rights) within the ongoing reporting period of the group with no effect on the income statement, and may have to describe and correct the findings with respect to reporting in the ongoing reporting period of the group and Sky Deutschland AG. In addition, fines could be imposed and claims for damages could be asserted by third parties.

Procedure of trade association ZVEI (Central Association for the Electric Engineering and Electronics Industries/Registered Association)

Sky imports devices and storage media that are subject to royalty payments when imported to or distributed in Germany according to German ownership law ("UrhG"). The German collecting society ("ZPÜ") was founded to collect these payments. Under a comprehensive amendment, ZPÜ introduced fees for devices and storage media that are subject to royalty payments when imported to or distributed in Germany starting 1 January 2008 and also publishes them in the German Federal Gazette. The basis for the calculation of the respective royalty payments is the actual utilization of the affected devices and storage media for private reproduction of works that are protected by rights of ownership. Among others, ZPÜ has established the following fees for these particular devices and storage media:

- Fee for set top boxes with integrated hard disks/TV receivers with integrated hard disks ("PVR") amounting to €34 per device.
- Fee for set top boxes without integrated hard disks/TV receivers without integrated hard disks but with a recording function for external hard disks has been set at €13.
- Fee for external hard disks with a storage capacity of up to 1TB has been set at €7 per device and at €9 per device for devices with storage capacities above 1TB.

The trade association ZVEI (Central Association for the Electric Engineering and Electronics Industries/Registered Association) has initiated proceedings for entering into a master agreement against ZPÜ at the arbitration board of the German Patent and Trademark Office. On 11 October 2010, the arbitration board issued a settlement offer for a master agreement for the time after 1 January 2008. It includes a €12.73 fee per PVR. With a judgment on 11 July 2013, this fee was confirmed by the Higher Regional Court Munich ("OLG München"). This outcome will be reviewed by the Federal Supreme Court ("BGH"). A decision is expected within the financial year 2014/15.

Sky recognized the legal requirements resulting from the right of ownership on the basis of the settlement offer presented to the arbitration board of the German Patent and Trademark Office dated 11 October 2010 and the affirmative OLG Munich judgment of 11 July 2013 as a liability.

Investigation of the Financial Reporting Enforcement Panel (FREP)

With a letter dated 20 September 2013, the FREP announced the initiation of a regular, ongoing random investigation pursuant to Sec. 342b paragraph 2 sentence 3 of the German Commercial Code ("HGB") concerning the consolidated financial statements and group management report as of 31 December 2012, as well as the management report as of 31 December 2012.

Claim by telecommunications provider

With its decision on 8 September 2011, the Regional Court of Hamburg admitted the first instance claim of a telecommunications provider which required Sky to supply Sky programming on the provider's network until at least 30 September 2011 and to determine compensating claims on its own merits. Sky has filed an appeal against the decision. By the end of June the parties agreed to close the pending proceedings which eliminated the risk above.

Legal action taken due to potential infringement of a trademark

At the end of June 2012, Sky received a claim based on the potential infringement of a trademark. The subject of the claim is the omission of labeling digital receivers with “Sky” and/or “Sky+” in the German territory. The Düsseldorf District Court has since dismissed the claim and fully granted Sky’s counter-claim with a ruling dated 20 March 2013. The plaintiff has appealed the decision. Due to the fact that the prospects of success are considered high for the Company, Sky does not expect a significant impact on its net assets, financial position and results of operations. Therefore the risk was classified as minor.

Investigation of a possible data leak

Starting in November 2013, Sky received complaints from customers who were prompted by unknown callers to participate in a sweepstake that was followed by the purchase of magazine subscriptions. The callers had purported to be Sky or said they sourced the contact data from Sky. Upon discovering a potential data leak, Sky immediately initiated countermeasures to clarify the incidents as quickly as possible. The competent data security authority, Bayerische Landesmedienanstalt (BLM), was informed and all measures are closely coordinated. Furthermore, the issue was reported to the police with Sky fully supporting the investigations. Based on the current state of knowledge, only a limited number of customers was affected.

The affected customers were informed about the issue. Furthermore, they received a guideline regarding the protection of their digital identity. Investigations by the police and the authorities are still ongoing.

A general risk exists that the competent authority might impose a fine against Sky. As Sky did not infringe data security rules deliberately, informed the affected customers immediately and has established a regular exchange with the regulatory authority, the risk of a fine was classified as marginal.

Formal antitrust procedure European Commission

On 13 January 2014, the European Commission (“Commission”) initiated formal antitrust proceedings against major US studios (Twentieth Century Fox, Warner Bros., Sony Pictures, NBC Universal, Paramount Pictures) and the largest European pay-TV broadcasters including but not limited to Sky for a suspected breach of EU rules. The Commission intends to investigate whether provisions of the licensing arrangements prevent broadcasters from providing their services across borders. Beginning in March 2014, Sky received formal requests for information and supported the Commission in the fact-finding process. If the Commission identifies any of these clauses as infringing EU antitrust laws and the cases cannot be solved by commitment decisions, the Commission could issue prohibition decisions making the respective clauses null and void. Any company that has participated in an anti-competitive agreement may be subject to fines. The addressees of a Commission decision have the right to appeal. Neither the outcome nor the timing of the proceedings are yet predictable.

4.7 Other financial commitments

The Group’s other financial commitments to purchase goods or services in the future as of 30 June 2014 are as follows:

(K€)	due in 2014/15	due in 2015/16–2018/19	due from 2019/20	Total 30 Jun 2014
Film licenses	163,916	362,175	–	526,092
Sport licenses	578,004	1,282,544	–	1,860,549
Partner channels	117,236	226,257	–	343,493
Purchase commitments for receivers	45,310	75	–	45,385
Miscellaneous	128,898	201,576	–	330,474
Total	**1,033,364**	**2,072,628**	**–**	**3,105,992**

The following is the corresponding presentation for the financial year 2013.

(K€)	due in 2014	due in 2015–2018	due from 2019	Total 31 Dec 2013
Film licenses	156,465	414,476	5,197	576,138
Sport licenses	548,865	1,565,483	–	2,114,348
Partner channels	95,075	234,644	2,721	332,440
Purchase commitments for receivers	27,065	125	–	27,190
Miscellaneous	122,248	249,464	–	371,712
Total	**949,717**	**2,464,192**	**7,918**	**3,421,828**

The financial commitments for the purchases of sport and film licenses and for the partner channels result from medium and longterm contracts. The reduction in commitments is mainly explained by declining terms of existing agreements, in particular sport licenses.

Miscellaneous other financial commitments comprise future selling and administration costs and obligations for sport fees and sport productions.

Future commitments for network operators and transponder rents and under non-cancellable operating leases are as follows:

(K€)	due in 2014/15	due in 2015/16–2018/19	due from 2019/20	Total 30 Jun 2014
Network operators and transponder rents	184,485	491,966	134,759	811,209
Office buildings	7,517	24,635	45,420	77,572
Motor vehicles	1,886	1,024	–	2,909
Technical office equipment	21	29	–	50
Total	**193,908**	**517,654**	**180,178**	**891,741**

Future commitments for network operators and transponder rents as well as under non-cancellable operating leases as of 31 December 2013 were as follows:

(K€)	due in 2014	due in 2015–2018	due from 2019	Total 31 Dec 2013
Network operators and transponder rents	187,637	567,782	163,246	918,665
Office buildings	7,484	23,341	47,517	78,343
Motor vehicles	2,185	1,123	–	3,308
Technical office equipment	21	40	–	61
Total	**197,327**	**592,286**	**210,764**	**1,000,377**

The commitments for network operators and transponder rentals reflect the future payments for transmission costs. Transmission costs comprise fees paid to cable operators for broadcasting Sky's programming, transponder costs, encrypted access and satellite uplink costs, as well as all other transmission costs. Satellite transponder costs are generally fixed and payable in monthly installments. Transmission fees paid to cable operators are generally fixed and in some cases also have variable elements that vary with the revenues generated from subscribers. Encrypted access costs are based on the number of subscribers.

The expenses recognized in the consolidated statement of comprehensive loss for network operators and transponder rents amount to K€90,550 (2013: K€162,997) and for operating leases to K€7,036 (2012: K€12,595).

4.8 Compensation of the Management Board and the Supervisory Board

4.8.1 Management Board remuneration 2014 according to GAS 17

The following table shows the compensation of the Management Board in accordance with § 314 German Commercial Code in conjunction with German Accounting Standard 17 (GAS 17) as granted as of the balance sheet date and compared to the previous balance sheet date.

Management Board renumeration according to GAS 17	Brian Sullivan Chief Executive Officer		Steven Tomsic Chief Financial Officer		Carsten Schmidt Chief Officer Sports, Advertising Sales &Internet		Dr. Holger Enßlin Chief Officer Legal, Regulatory & Distribution		Total	
(K€)	12M 2013	6M 2014	12M 2013	6M 2014	12M 2013	6M 2014	12M 2013	6M 2014	12M 2013	6M 2014
Fixed compensation*	1,300	650	700	350	850	425	600	300	3,450	1,725
Other compensation*	550	223	333	162	211	6	22	8	1,116	399
Total	**1,850**	**873**	**1,033**	**512**	**1,061**	**431**	**622**	**308**	**4,566**	**2,124**
One-year variable compensation**	1,499	750	350	175	300	150	300	150	2,448	1,225
Multi-year variable compensation										
LTIP 2011 (1 Jan 2011 to 31 Dec 2013)	–	–	–	–	–	–	–	–	–	–
LTIP 2012 (1 Jan 2012 to 31 Dec 2014)	–	–	–	–	–	–	–	–	–	–
LTIP 2013 (1 Jan 2013 to 31 Dec 2015)	2,788	–	400	–	400	–	350	–	3,938	–
LTIP 2014 (1 Jan 2014 to 31 Dec 2016)***	–	–	–	200	–	200	–	175	–	575
Share based compensation	–	–	–	–	–	–	–	–	–	–
Phantom Shares Tranche II	–	–	–	–	–	–	–	–	–	–
Total compensation	**6,137**	**1,623**	**1,783**	**887**	**1,761**	**781**	**1,272**	**633**	**10,952**	**3,924**

* These terms are the same as expensed in the respective reporting period.
** The information on the one-year variable compensation for 2014 in accordance to GAS 17 corresponds to the expenses.
*** This term shows the total grant of the LTIP 2014. Please note the pro rata representation of the multi-year compensation is shown in the following tables.

Under the GAS 17 standard, share-based payments are included in the remuneration report with the fair value at the grant date, notwithstanding these share-based payments only become eligible for payment over the course of the next two to three years. Therefore, the above table includes all 72,735 Performance Share Units (PSU) granted to the Management Board in connection with the LTIP 2014 (LTIP 2013 in 2013: 977,845 PSU) with a grant date fair value of K€575 (2013: K€3,938). Taking into consideration the fair value of all performance share units at the date of issuance, the total remuneration of the Management Board in the accordance with GAS 17 in the short financial year 2014 amounts to K€3,924 (2013: K€10,952).

The target achievement with respect to the variable compensation components of the members of the Management Board for the short financial year 2014 was resolved by a circular resolution dated 11 September 2014.

Following the Supervisory Board meeting on 11 June 2014, with circular resolution on 18 June 2014, the Supervisory Board extended the appointment of the Chief Executive Officer, Brian Sullivan, to 30 June 2016 and amended his employment contract. The Extension and Amendment Agreement includes an early termination option at the earliest as of 30 June 2015. The new regulation includes an increased fixed monthly basic salary as well as an increase of the short-term performance-oriented salary component and an extension of other remuneration components already defined in the employment contract from 19 December 2012 (relocation cost, health insurance). In addition a share-based compensation was granted in the form of a participation in the future LTIP 2015. As already included in the Extension and Amendment Agreement from 19 December 2012, Brian Sullivan will not participate in the LTIP 2014. The share-based compensation component granted to Brian Sullivan on 19 December 2012, which will result in a one-off payment on the basis of 500,000 shares remains unchanged.

Effective with the resolution of the LTIP 2015 by the Supervisory Board, Brian Sullivan shall be entitled to participate in such LTIP 2015 with a value of €4 million, reflected by the respective number of Performance Share Units. For the calculation of the number of Performance Share Units to be granted, the Volume Weighted Average Share Price in June 2014 shall be determinative. The terms and conditions of the not-yet resolved LTIP 2015 shall apply subject to the following: the target achievements shall be calculated based on target values defined for the period 1 July 2014 until 30 June 2016 and the cash payment will be effective by 31 July 2016. The Performance Share Units of the LTIP 2015 shall vest on 30 June 2016, if Brian Sullivan serves the company as its CEO at least until 30 June 2015; otherwise, all claims under the LTIP 2015, will forfeit. An agreed termination, as further specified in the Extension and Amendment Agreement, before the end of 30 June 2016 leads to a pro-rata payment entitlement to be calculated on a two years vesting period. Instead of the payment under the LTIP 2015, Brian Sullivan has an option to receive a compensation to be bound by a post-contractual non-competition covenant for one year against receiving a compensation of €1 million gross plus 66.67 percent of the annual bonus paid for the fiscal year 2015. The LTIP 2015 is not yet resolved.

Since the LTIP 2015 has not yet been resolved at the time of preparation of the financial reports, this agreement is considered as not yet granted and is therefore not included in the presentation of total compensation in accordance with GAS 17.

4.8.2 Management Board remuneration 2014 according to the German Corporate Governance Code

Pursuant to the recommendations of the German Corporate Governance Code (GCGC) dated 13 May 2013, both the granted benefits and the allocations (payments) in form of the proposed reference tables are disclosed for the reporting year 2014, a short financial year over 6 months.

Granted Benefits according to GCGC	**Brian Sullivan** Chief Executive Officer since 1 April 2010			**Steven Tomsic** Chief Financial Officer since 1 February 2011			**Carsten Schmidt** Chief Officer Sports, Advertising Sales &Internet since 1 March 2006			**Dr. Holger Enßlin** Chief Officer Legal, Regulatory & Distribution since 1 December 2008			Total	
(K€)	12M 2013	6M 2014	2014 (Min)	12M 2013	6M 2014	2014 (Min)	12M 2013	6M 2014	2014 (Min)	12M 2013	6M 2014	2014 (Min)	12M 2013	6M 2014
Fixed compensation	1,300	650	650	700	350	350	850	425	425	600	300	300	3,450	1,725
Other compensation	550	223	223	333	162	162	211	6	6	22	8	8	1,116	399
Total	**1,850**	**873**	**873**	**1,033**	**512**	**512**	**1,061**	**431**	**431**	**622**	**308**	**308**	**4,566**	**2,124**
One-year variable compensation*	1,499	750	–	350	175	–	300	150	–	300	150	–	2,448	1,225
Multi-year variable compensation														
LTIP 2011 (1 Jan 2011 to 31 Dec 2013)	–	–	–	–	–	–	–	–	–	–	–	–	–	–
LTIP 2012 (1 Jan 2012 to 31 Dec 2014)	–	–	–	–	–	–	–	–	–	–	–	–	–	–
LTIP 2013 (1 Jan 2013 to 31 Dec 2015)	2,788	–	–	400	–	–	400	–	–	350	–	–	3,938	–
LTIP 2014 (1 Jan 2014 to 31 Dec 2016)**	–	–	–	–	200	–	–	200	–	–	175	–	–	575
Share based compensation	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Phantom Shares Tranche II	–	–	–		–	–	–	–	–	–	–	–	–	–
Total	**6,137**	**1,623**	**873**	**1,783**	**887**	**512**	**1,761**	**781**	**431**	**1,272**	**633**	**308**	**10,952**	**3,924**
Pension commitments (Service cost)***	104	52	52	63	32	32		–	–		–	–	167	84
Total compensation	**6,241**	**1,675**	**925**	**1,846**	**919**	**544**	**1,761**	**781**	**431**	**1,272**	**633**	**308**	**11,119**	**4,008**

* In accordance to GCGC the information shows the contracted target value of the one-year variable compensation for 2014.
** This term shows the total grant of the LTIP 2014. Please note the pro rata representation of the multi-year compensation is shown in the following tables.
*** This term corresponds in accordance to GCGC to the service cost in accordance with IAS 19.

The following table shows the payments made to each member of the Management Board in the short financial year from January to June 2014 compared with the previous full calendar year:

Allocations (payments) according to GCGC	Brian Sullivan Chief Executive Officer since 1 April 2010		Steven Tomsic Chief Financial Officer since 1 February 2011		Carsten Schmidt Chief Officer Sports, Advertising Sales &Internet since 1 March 2006		Dr. Holger Enßlin Chief Officer Legal, Regulatory & Distribution since 1 December 2008		Total	
(K€)	6M 2014	12M 2013	6M 2014	12M 2013	6M 2014	12M 2013	6M 2014	12M 2013	6M 2014	6M 2013
Fixed compensation*	650	1,300	350	700	425	850	300	600	1,725	3,450
Other compensation*	223	1,090	162	333	6	211	8	22	399	1,656
Total	**873**	**2,390**	**512**	**1,033**	**431**	**1,061**	**308**	**622**	**2,124**	**5,106**
One-year variable compensation**	1,499	795	350	154	300	116	300	116	2,448	1,181
Multi-year variable compensation	2,710	–	867	–	650	–	650	–	4,878	–
LTIP 2011 (1 Jan 2011 to 31 Dec 2013)***	–	–	–	–	–	–	–	–	–	–
LTIP 2012 (1 Jan 2012 to 31 Dec 2014)	–	–	–	–	–	–	–	–	–	–
LTIP 2013 (1 Jan 2013 to 31 Dec 2015)	–	–	–	–	–	–	–	–	–	–
LTIP 2014 (1 Jan 2014 to 31 Dec 2016)**	–	–	–	–	–	–	–	–		–
Share based compensation	–	–	–	–	–	–	–	–	–	–
Phantom Shares Tranche II***	–	3,957	–	–	–	–	–	–	–	3,957
Other	–	–	–	–	–	–	–	–	–	–
Total	**5,082**	**7,143**	**1,729**	**1,188**	**1,381**	**1,177**	**1,259**	**738**	**9,450**	**10,245**
Pension commitments (Service cost)***	104	104	63	63	–	–	–	–	167	167
Total compensation	**5,186**	**7,247**	**1,792**	**1,251**	**1,381**	**1,177**	**1,259**	**738**	**9,617**	**10,412**

* These terms are the same as expensed in the respective reporting period. With respect to the statement under "other compensation 12M 2013" a one-off payment for the year 2012 is reported.
** This term shows the payment of the one-year variable compensation for the previous periods, paid in the respective reporting period.
*** This term shows the payment in the respective reporting period.

Fixed compensation includes the monthly paid salaries, the one-year variable compensation is a short-term performance-related remuneration and the other compensation includes benefits such as medical insurance, cost reimbursement of housing and schooling, paid in the short financial year 2014. The other compensation is not performance-related. Pension commitments (service cost) are insurance premiums paid by the Company and are not performance-related.

The expense for the short financial year 2014 of the fixed compensation amounted to K€1,725 (12M 2013: K€3,450), the one-year variable compensation to K€1,225 (12M 2013: K€2,448), other compensation to K€399 (12M 2013: K€1,116) and multi-year variable compensation amount to K€2,153 (12M 2013: K€13,762). In addition, commitments to pensions (service cost) were incurred in the amount of K€84 (12M 2013: K€167). The expensed amounts differ from the paid remuneration of the year due to valuation effects, linearization of costs and payment terms. For further information please refer to 2.8.3 Other financial liabilities.

The following tables show the individualized Performance Share Units (PSU) as granted and as accrued/expensed:

	Grant Date	PSU granted	Vesting Date	Number of PSU accrued/expensed as of 30 Jun 2014*
Brian Sullivan				
LTIP 2012	16 Feb 2012	490,196	31 Dec 2014	347,222
LTIP 2013	27 Feb 2013	692,308	30 Jun 2014	692,308
LTIP 2014		–		–
Share based compensation	19 Dec 2012	500,000	30 Jun 2014	500,000
Total		**1,682,504**		**1,539,530**
Steven Tomsic				
LTIP 2012	16 Feb 2012	156,863	31 Dec 2014	111,111
LTIP 2013	27 Feb 2013	99,317	31 Dec 2015	49,659
LTIP 2014	10 Apr 2014	25,299	31 Dec 2016	4,217
Total		**281,479**		**164,986**
Carsten Schmidt				
LTIP 2012	16 Feb 2012	117,647	31 Dec 2014	83,333
LTIP 2013	27 Feb 2013	99,317	31 Dec 2015	49,659
LTIP 2014	10 Apr 2014	25,299	31 Dec 2016	4,217
Total		**242,263**		**137,208**
Dr. Holger Enßlin				
LTIP 2012	16 Feb 2012	117,647	31 Dec 2014	83,333
LTIP 2013	27 Feb 2013	86,903	31 Dec 2015	43,452
LTIP 2014	10 Apr 2014	22,137	31 Dec 2016	3,690
Total		**226,687**		**130,474**

* LTIP 2012 vested at 85% of grant level. All other LTIP units are presented pro-rata based on the time lapsed between granting and vesting and under consideration of target achievements.

For further information regarding the share-based compensation, please refer to the remuneration report as part of the combined management report.

The fixed compensation of the Supervisory Board comprises fixed elements and a compensation component for the work in the specific committees. The other Supervisory Board compensation comprises travel expenses relating to the meetings of the Supervisory Board.

For members of the Supervisory Board, the following compensation was incurred and expensed for the short financial year in accordance with IFRS:

Supervisory Board compensation 2014 (K€)	Fixed compensation	Other compensation	Total 6M 2014
Supervisory Board			
Markus Tellenbach	50	40	90
James Murdoch	50	40	90
Jan Koeppen	40	40	80
Mark Kaner	38	30	68
Chase Carey	35	30	65
Dr. Stefan Jentzsch	43	10	53
Katrin Wehr-Seiter	38	10	48
Miriam Kraus	38	10	48
Harald Rösch	35	10	45
Total Supervisory Board	**365**	**220**	**585**

The compensation in the previous year was as follows:

Supervisory Board compensation 2013 (K€)	Fixed compensation	Other compensation	Total 12M 2013
Supervisory Board			
Chase Carey	100	40	140
Markus Tellenbach	100	40	140
Jan Koeppen	80	40	120
Mark Kaner	75	40	115
Dr. Stefan Jentzsch	85	10	95
Katrin Wehr-Seiter	75	10	85
Miriam Kraus	75	10	85
James Murdoch	64	20	84
Harald Rösch	70	10	80
Thomas Mockridge	16	–	16
Total Supervisory Board	**741**	**220**	**961**

By resolution of the Annual General Meeting on 10 April 2014, Dr. Stefan Jentzsch, Mark Kaner, James Murdoch, Harald Rösch and Markus Tellenbach, whose terms of office ended with the conclusion of the ordinary General Meeting, were re-elected as members of the Supervisory Board.

Supervisory Board	Function
James Murdoch	Chairman of the Supervisory Board Chairman of the Presidential Committee Member of the Sports Rights Committee
Chase Carey	Member of the Supervisory Board
Markus Tellenbach	Deputy Chairman of the Supervisory Board Member of the Presidential Committee Member of Sport Rights Committee
Dr. Stefan Jentzsch	Chairman of the Audit Committee
Mark Kaner	Member of the Audit Committee
Katrin Wehr-Seiter	Member of the Presidential Committee
Miriam Kraus	Member of the Audit Committee
Jan Koeppen	Member of the Audit Committee Member of Sport Rights Committee
Harald Rösch	Member of the Supervisory Board

4.9 Number of employees

The average number of employees broken down by functional areas is as follows:

	6M 2014	12M 2013
Sales/Marketing/Communications	755	720
Service Center	533	502
Program/Sport production	355	327
Management/Administration	291	265
IT	95	84
Technology	133	125
Other	2	1
Total	**2,163**	**2,024**

On average, the Group had 2,163 full-time employees in 2014 (2013: 2,024). In comparison to the previous year, the average number of employees rose by 139 (2013: 179).

4.10 Fees for external auditors

Fees of K€794 (2013: K€1,090), which were made up as follows, were incurred and recorded as expense in the short financial year:

(K€)	6M 2014	12M 2013
Audit of financial statements	358	401
Other certifying and valuation services	369	385
Tax consultancy services	40	207
Review of quarterly financial statements	27	94
Other services	–	3
Total	794	1,090

Additional to the fees for the annual audit, the item "Audit of the financial statements" also includes out-of-pocket expenses.

The item "Review of the quarterly financial statements" contains in the short financial year only the cost of one quarter instead of three quarters in the previous year.

4.11 Declaration of compliance with the German Corporate Governance Code in accordance with section 161 AktG (German Stock Corporation Act)

Pursuant to section 161 of German Stock Corporation Act, the Management Board and Supervisory Board of a company listed on the stock exchange are obliged to declare once a year whether and to what extent the German Corporate Governance Code has been and is complied with and which of the recommendations were not and are not being applied.

The declaration of compliance according to section 161 of the German Stock Corporation Act was issued by the Management Board and the Supervisory Board on 11 June 2014 and is made available permanently to all stockholders on Sky Deutschland AG's website (www.info.sky.de).

4.12 Events after the balance sheet date

On 25 July Twenty-First Century Fox Inc. announced its intention to combine its European satellite television holdings. As part of this proposed transaction, BSkyB has agreed to acquire the Twenty-First Century Fox 57.4 percent equity stake (fully diluted) in Sky Deutschland AG.

On 3 September 2014, Sky German Holdings GmbH, an indirect wholly owned subsidiary of British Sky Broadcasting Group plc, published, in accordance with sections 34, 14 paras. 2 and 3 of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz, WpÜG), the offer document pursuant to sec. 11 WpÜG for its voluntary public takeover offer to all shareholders of Sky Deutschland AG for the purchase of all no-par value registered shares of Sky Deutschland AG that are not already held by the Bidder against payment of a cash consideration in the amount of €6.75 per Sky Deutschland AG share.

On 16 September 2014, the Management Board and the Supervisory Board issued the joint statement pursuant to section 27 WpÜG in relation to the takeover offer. In the joint statement, the Management Board and Supervisory Board - inter alia - described possible consequences for Sky Deutschland AG in case a transaction takes place. In terms of the change of control clauses described under the individual sections of these notes above and under the risk report section of the combined management report, Sky's management has sought and obtained waivers with regards to such termination rights from the relevant counterparties to several material agreements which are of particular importance to the Company. In the remaining cases the Management Board and Supervisory Board consider the exercise of termination rights in connection with the takeover offer to be unlikely or of limited economic or commercial consequence for the company if they were to be exercised.

Apart from the above and apart from transactions disclosed under the individual sections of these notes, no other post-balance sheet date events occurred.

The Management Board

Unterföhring, 16 September 2014

Brian Sullivan

Carsten Schmidt

Steven Tomsic

Dr. Holger Enßlin

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the material opportunities and risks associated with the expected development of the group.

Unterföhring, 16 September 2014

The Management Board

Auditor's Report

We have audited the consolidated financial statements prepared by Sky Deutschland AG, Unterföhring, comprising the consolidated statement of comprehensive loss, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the short financial year from January 1 to June 30, 2014. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the Management Board of the Company. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code [HGB] and the generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors [IDW]. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with German principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, September 16, 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Kreher	Kaltenegger
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]


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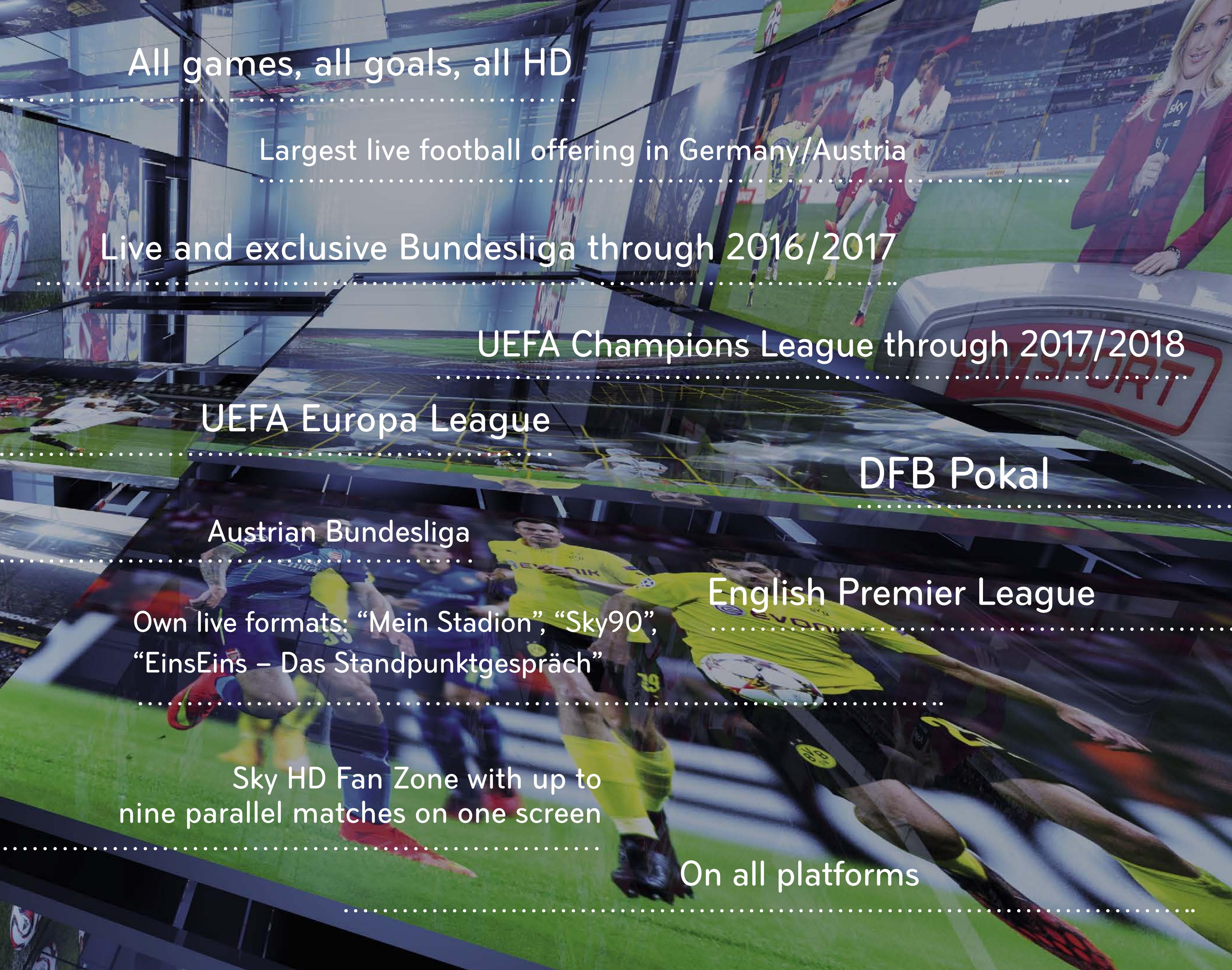
All games, all goals, all HD
Largest live football offering in Germany/Austria
Live and exclusive Bundesliga through 2016/2017
UEFA Champions League through 2017/2018
UEFA Europa League
DFB Pokal
Austrian Bundesliga
English Premier League
Own live formats: “Mein Stadion”, “Sky90”,
“EinsEins – Das Standpunktgespräch”
Sky HD Fan Zone with up to
nine parallel matches on one screen
On all platforms

Report by the Supervisory Board of Sky Deutschland AG for the Short Financial Year from 1 January to 30 June 2014

Dear shareholders,

Below we describe the composition of the Supervisory Board of Sky Deutschland AG. Furthermore, we report on the activities of the Supervisory Board and its committees. We subsequently address the review of the annual financial statements and the consolidated financial statements for the short financial year from 1 January to 30 June 2014 as well as any conflicts of interest that arose. Furthermore, we provide our view of the short financial year from 1 January to 30 June 2014 and give an outlook for the financial year from 1 July 2014 to 30 June 2015.

I. Composition of the Supervisory Board

Pursuant to Articles of Association, the Supervisory Board of Sky Deutschland AG consists of nine members.

As of 30 June 2014, James Murdoch (Chairman), Markus Tellenbach (Deputy Chairman), Chase Carey, Dr. Stefan Jentzsch, Mark Kaner, Jan Koeppen, Miriam Kraus, Harald Rösch and Katrin Wehr-Seiter were members of the Supervisory Board.

With resolution of the Annual General Meeting ("AGM") on 10 April 2014 Dr. Stefan Jentzsch, Mark Kaner, James Murdoch, Harald Rösch and Markus Tellenbach were again elected as member of the Supervisory Board. With the resolution of 17 April 2014, the Supervisory Board re-elected James Murdoch as chairman and Markus Tellenbach as deputy chairman of the Supervisory Board, respectively.

The term of office for Supervisory Board members Chase Carey, Jan Koeppen, Miriam Kraus and Katrin Wehr-Seiter expires at the end of the AGM that resolves on the discharge of the respective Supervisory Board members for the short financial year 2014. The term of office for Supervisory Board members Dr. Stefan Jentzsch, Mark Kaner, James Murdoch, Harald Rösch and Markus Tellenbach expires at the end of the AGM that resolves on the discharge of the respective Supervisory Board members for the financial year 2017/2018.

The Supervisory Board is composed in such a way that its members as a whole possess the essential knowledge, skills and professional experiences for the proper fulfilment of the position's duties. Each Supervisory Board member supports, respectively, the work of the full Supervisory Board through his or her individual experiences.

II. Activities of the Supervisory Board

Also in the short financial year 2014, the Supervisory Board and its Committees observed its duties according to the law, the Articles of Association, and the Rules of Procedure and also took into account the recommendations of the German Corporate Governance Code. The Supervisory Board carefully and regularly supervised and also provided advice to the Management Board.

The Management Board has regularly, in due time and comprehensively reported to the Supervisory Board, in and outside of meetings, about the strategy, the planning, the business development, the risk situation, risk management and compliance issues. The above-mentioned periodic reports were accompanied by the legally-required quarterly reports. Furthermore, in particular, the chairmen of both the Management Board and the Supervisory Board are also in contact on a regular basis. With respect to important events that are material for assessing the Company's situation, and the performance and management of the Company, the chairman of the Supervisory Board is informed by the Management Board without undue delay. Deviations of the course of business from the specified plans and targets are explained by also stating the reasons. In this way, the Supervisory Board constantly had a meaningful picture of the earnings situation, net asset position and financial situation of Sky Deutschland AG.

In the Rules of Procedure for the Management Board, the Supervisory Board established the obligation of the Management Board to provide information and reports. According to the Rules of Procedure, certain business operations can only be carried out with the approval of the Supervisory Board. With this, it is ensured that the Supervisory Board is involved with decisions of fundamental significance for the Company and informed at all times about the dealings and business transactions of Sky Deutschland which have – or can have – a significant influence on the earnings situation, profitability or liquidity of the Company. An inspection of the books and written documents of the Company by the Supervisory Board which exceeded the scope of the documents that were submitted by the Management Board in the context of its regular reporting was not necessary in the reporting period.

During the short financial year 2014, the Supervisory Board came together for four meetings, namely on 30 January, 25 February, 10 April and on 11 June. Besides the meetings in person, the Supervisory Board also passed circular resolutions if necessary, namely on 2 April, on 17 April and on 18 June.

The above-mentioned periodic reports were always an agenda item of the Supervisory Board and committee meetings. In addition, the Supervisory Board covered the following topics in its meetings and circular resolutions, among others.

1. Meeting on 30 January 2014

In addition to reporting on the Company's business developments, at the meeting on 30 January, inter alia, the 2014 budget was discussed.

2. Meeting on 25 February 2014

On 25 February, the Supervisory Board, in particular, approved the annual financial statements and the consolidated financial statements for the financial year 2013, the final budget for financial year 2014 as well as the agenda for the AGM on 10 April 2014.

3. Circular resolution of 2 April 2014

Per circular resolution of 2 April, the Supervisory Board approved the annual bonus targets for the Management Board for the financial year 2014 and the Long Term Incentive Plan 2014 (the Company established a longterm share based remuneration program for the first time in 2011 - for this reference is made to the Remuneration Report).

4. Meeting on 10 April 2014

On 10 April, the Supervisory Board elected the chairman and his deputy for the AGM which was held later on the same day. Furthermore, on 10 April, the Supervisory Board at this meeting approved an additional financing of EUR 10m and a corresponding amendment of the Financial Support Agreement signed between Sky Deutschland and 21st Century Fox regarding the purchase of company shares in Plazamedia GmbH TV- und Filmproduktion, in Sport1 GmbH and in Constantin Sport Marketing GmbH of 5 December 2013.

5. Circular resolution of 17 April 2014

After the elections to the Supervisory Board by the AGM on 10 April the Supervisory Board per circular resolution of 17 April confirmed James Murdoch as Chairman and Markus Tellenbach as Deputy Chairman of the Supervisory Board. Furthermore, the Supervisory Board confirmed Dr. Stefan Jentzsch and Mark Kaner as members of the Audit Committee.

6. Meeting on 11 June 2014

In addition to reporting on the Company's business developments the primary subject of the meeting on 11 June was the discussion of the provisional budget for financial year 2014/2015. Furthermore, the Supervisory Board resolved on the declaration of conformity for the short financial year 2014. Finally, the Supervisory Board dealt with the extension of Brian Sullivan's term of office as Chairman of the Company's Management Board until 30 June 2016 and with a corresponding extension of his employment contract.

7. Circular resolution of 18 June 2014

Per circular resolution of 18 June, the Supervisory Board extended Brian Sullivan's term of office as Chairman of the Company's Management Board until 30 June 2016 and approved a corresponding extension of his employment contract.

8. Material consultation matters after expiration of the reporting period

Besides the dealing with the annual financial statements in its balance sheet meeting on 16 September 2014 (see item IV. below), the Supervisory Board approved the final budget for financial year 2014/2015 after expiration of the reporting period on 23 July 2014. Furthermore, after expiration of the reporting period the Supervisory Board dealt with the acquisition of the 21st Century Fox 57.4 equity stake (fully diluted) in the Company by BskyB and the corresponding announcement by BskyB to launch a public voluntary cash offer for 100% of the outstanding share capital of Sky Deutschland at a price of €6.75 per share. In this connection, due to the complexity of the matter and in order to increase the efficiency of its work, the Supervisory Board set up an independent committee, consisting of the Supervisory Board members Dr. Stefan Jentzsch, Markus Tellenbach and Katrin Wehr-Seiter.

9. Participation in the meetings

The Supervisory Board members took part in the meetings with the following exceptions:

Markus Tellenbach was unable to participate at the meeting on 30 January 2014. Chase Carey was unable to participate at the meeting on 10 April 2014. Mark Kaner was unable to participate at the meeting on 11 June 2014. However, after receiving information about the content of each meeting or conference call, respectively, Markus Tellenbach (with regard to the resolutions passed on 30 January 2014) as well as Chase Carey (with regard to the resolutions passed at the meeting on 10 April 2014) submitted their vote via email.

III. Activities of the committees

In order to increase the efficiency of the Supervisory Board's activities and the handling of complex matters, the Supervisory Board has set up three committees which consist of members of the supervisory board. The plenum of the Supervisory Board was informed about the activities of the committees in every meeting.

1. The Audit Committee

The Supervisory Board established an Audit Committee among its members in order to account for the ever-increasing demands with regard to accounting, internal control and risk management as well as the need for more efficient cooperation between the auditor and the Supervisory Board.

The Audit Committee has been assigned with the following tasks: preparatory review of the annual financial statements of Sky Deutschland AG, the consolidated financial statements and the combined management report in cooperation with the auditor; supervision of the accounting processes, of the effectiveness of the internal control systems, the risk management system and the internal revision systems; supervision of the audit, in particular, of the required independence of the auditor and the additional services rendered by the auditor; retaining the auditor for the audit, the determination of the audit focal points and entering into a fee-agreement with the auditor; preparation of the resolution of the Supervisory Board regarding the Supervisory Board's proposal to the AGM for the election of the auditor and provision of a recommendation to the Supervisory Board; supervision of the implementation and application of a functioning compliance system.

In the short financial year 2014, the Audit Committee consisted of the Supervisory Board members Dr. Stefan Jentzsch (Chairman), Mark Kaner, Jan Koeppen and Miriam Kraus.

During the short financial year 2014, the Audit Committee met on 24 February and on 11 June. In addition, in the past short financial year the Audit Committee held a telephone conference on 18 February.

In the telephone conference on 18 February, the Audit Committee reviewed the annual audited financial statements as well as the consolidated financial statements and the combined management report of Sky Deutschland AG for the financial year 2013 and discussed them with the auditor ahead of the full meeting of the Supervisory Board.

At the meeting on 11 June, the Audit Committee was informed by the auditor on the status of the implementation of the recommendations of the Management Letter 2013. Furthermore, the Audit Committee was informed about the schedule for the establishment, evaluation and adoption of the annual financial statements and the consolidated annual financial statements of Sky Deutschland AG as of 30 June 2014 as well as the intended approach with respect to the audit focal points specified by the Audit Committee before at the same meeting.

2. Presidential Committee

The Supervisory Board also established the Presidential Committee as another permanent committee; it is entrusted with preparing the Supervisory Board meetings and monitoring the implementation of the resolutions passed by the Supervisory Board or its committees. Furthermore, the Supervisory Board prepares for resolution by the plenum on personnel matters to be addressed by the Supervisory Board (in particular, appointment and removal of members of the Management Board and their remuneration).

Under the Rules of Procedure of the Supervisory Board, the Presidential Committee is composed of the Chairman of the Supervisory Board and the Deputy Chairman as well as a third elected member. Accordingly, in the short financial year 2014, the Presidential Committee was comprised of James Murdoch (Chairman), Markus Tellenbach (Deputy Chairman) and Katrin Wehr-Seiter.

In the short financial year 2014, the Presidential Committee did not hold any meetings.

3. Sport Rights Committee

The Sport Rights Committee in short financial year 2014 was comprised of the Supervisory Board members James Murdoch, Markus Tellenbach and Jan Koeppen. This committee consults, monitors and supervises the Company's involvement in tender procedures concerning audiovisual distribution of sports rights, for example, the German Football League (Bundesliga) and UEFA Champions League. In the short financial year 2014, the Sport Rights Committee did not hold any meetings.

IV. Audit of the annual financial statements and consolidated financial statements

At the AGM on 10 April 2014, the shareholders elected Munich-based KPMG AG Wirtschaftsprüfungsgesellschaft (hereinafter referred to as "KPMG" or "auditor") as statutory auditor of the annual financial statements, statutory auditor of the consolidated financial statements, auditor for the review of the half-year financial statement and the quarterly financial statements for short financial year 2014 and auditor for the review of the half-year financial statement and the quarterly financial statements for the following financial year 2014 which will be prepared prior to the AGM in financial year 2014/2015. KPMG audited the annual financial statements and consolidated financial statements of Sky Deutschland AG for short financial year 2014 including the combined management report. The audit did not result in any objections. The auditor granted a certificate without restrictions both for the annual financial statements and the consolidated financial statements.

Draft copies of the consolidated financial statements and annual financial statements for Sky Deutschland AG and the combined management report for the short financial year 2014 were sent to the Audit Committee on 3 September 2014 and discussed by the Management Board during a conference call on 8 September 2014 which was also attended by KPMG, the Company's auditor. The final documents to be audited (annual financial statements, consolidated financial statements, combined management report, including the auditor's audit reports) were sent to the members of the Supervisory Board on 12 September 2014.

During the balance sheet meeting on 16 September 2014, which dealt with auditing the annual financial statements and consolidated financial statements for the short financial year 2014 from 1 January to 30 June 2014 in particular, the Supervisory Board extensively examined the documents to be audited. The auditor participated in the meeting and reported on the essential results of the audit. Weaknesses of the internal control and risk management with regard to the accounting process were not found. Furthermore, during the balance-sheet meeting, the auditor explained the audit reports in detail and responded to questions posed by the members of the Supervisory Board. Circumstances which might cause the auditor to be biased did not exist. Furthermore, the auditor did not provide additional services apart from the auditing. This was confirmed by the auditor pursuant to an independence statement pursuant to section 321 paragraph 4a German Commercial Code (HGB) and number 7.2.1 of the German Corporate Governance Code.

The Supervisory Board approved of the reports of the auditor. There is no doubt as to the independence of the auditor. The Supervisory Board completely agreed with the results provided by the auditor. After extensive examination, the Supervisory Board declared that there are no objections to be raised against the annual financial statements and consolidated financial statements as well as the combined management report each for the short financial year 2014 prepared by the Management Board.

Therefore, based on the recommendation of the Audit Committee, the Supervisory Board approved the annual financial statements and the consolidated financial statements of Sky Deutschland AG as well as the combined management report for the company and the group each for the short financial year 2014 at its meeting on 16 September 2014. In this way, the annual financial statements for Sky Deutschland AG for the short financial year 2014 are established.

In addition and in accordance with section 312 of the AktG, the Management Board prepared a report on relations with affiliated companies for the short financial year 2014. The auditor reviewed this report and reported in writing to the Supervisory Board as to the outcome of the audit, as well as orally during the meeting of the Supervisory Board on 16 September 2014, and issued the following unrestricted opinion:

“On the basis of our diligent examination and judgement we hereby confirm that

1. the factual statements in the report are accurate,
2. the consideration given by the Company for the transactions specified in the report was not unreasonably high,
3. no circumstances for a substantially different assessment than the one made by the Management Board exist for the measures specified in the report.”

The Supervisory Board has examined the report on the relations with affiliated companies regarding its completeness and accuracy and discussed the findings of the auditor. The examination by the Supervisory Board showed that there was no reason for any objections. The Supervisory Board therefore declared that after the concluding review there are no objections to be raised against the final declaration of the Management Board in its report in accordance with section 312 of the AktG and has – at the recommendation of the Audit Committee – agreed with the findings of the auditor.

V. Conflicts of interest

Markus Tellenbach abstained from voting when he was elected chairman for the AGM on 10 April 2014 and Dr. Stefan Jentzsch abstained from voting when he was elected deputy chairman of the AGM.

In order to avoid conflicts of interest, James Murdoch and Chase Carey, due to their respective position as a legal representative of 21st Century Fox, both refrained from voting when the Supervisory Board resolved on the approval of the conclusion of the resolution regarding the amendment of the Financial Support Agreement on 10 April 2014.

No other conflicts of interest were recorded in short financial year 2014 and in the context of the aforementioned subject matters of consultation during the current fiscal year 2014/2015.

VI. Corporate Governance

The Management Board and Supervisory Board have prepared a separate report on the subject of corporate governance, which has been printed in the annual report for the short financial year 2014 and which is referred to here.

VII. Composition of the Management Board

Also in the short financial year 2014, the Management Board of Sky Deutschland AG had the following four members: Brian Sullivan (Chief Executive Officer), Steven Tomsic (Chief Financial Officer), Dr. Holger Enßlin (Chief Officer Legal, Regulatory & Distribution) and Carsten Schmidt (Chief Officer Sports, Advertising Sales & Internet). There were no changes in the Management Board in short financial year 2014.

VIII. Appraisal of the short financial year 2014 and the prospects for financial year 2014/2015

In view of Sky's strong growth, the Supervisory Board considers the short financial year 2014 to be a successful one. The Company is on the right track with its constant focus on high-quality exclusive content, cutting-edge innovation and outstanding customer service. The Supervisory Board believes that the strong subscriber net growth and record retention levels confirm that an increasing number of customers in Germany and Austria recognize the quality and value of Sky's product and service offering.

Given Sky's intention to increase the future market penetration of its Sky+ receiver, expand its HD offering, deliver new services such as Sky Go and Snap by Sky and extend the availability of its quality programming, we think Sky has a good chance of realizing its strategic focus on growth and achieving sustainable profitability.

For the new 2014/2015 financial year, the management expects subscriber net growth of 400k to 450k, and full year EBITDA in the range of €80m to €110m, supported by a continued strong increase in total revenues. We are confident that, given the above-mentioned conditions, Sky can achieve its goals set for 2014/2015 to continue to see positive operational and financial trends.

Unterföhring, 16 September 2014
The Supervisory Board of Sky Deutschland AG

James Murdoch
(Chairman of the Supervisory Board)

Corporate Governance Report of Sky Deutschland AG for the Short Financial Year from 1 January 2014 to 30 June 2014

Corporate Governance at Sky Deutschland AG

The Management Board and Supervisory Board of Sky Deutschland AG are committed to sustainable profitability and to ensuring continuance of the business through responsible, transparent and longterm-oriented corporate management. In doing so, Sky Deutschland AG adheres to nationally and internationally recognized standards for proper and responsible corporate management. Sky Deutschland AG acknowledges the trust that its national and international investors, customers, business partners, staff and the public have shown and will to continue to practice and promote corporate governance throughout the enterprise. At Sky Deutschland AG, corporate governance standards extend to every division of the company.

In the 2014 short financial year (1 January until 30 June 2014), the Management Board and Supervisory Board of Sky Deutschland AG have thoroughly reviewed and analyzed the recommendations of the German Corporate Governance Code in its current version, dated 13 May 2013. Based on this process, the following current declaration of conformity was resolved on 11 June 2014, according to which Sky Deutschland AG, subject to the exceptions noted below, has complied with all recommendations of the German Corporate Governance Code.

“The Management Board and the Supervisory Board herewith declare that, with respect to the time period since the last declaration of conformity dated 20 November 2013, the recommendations of the Government Commission German Corporate Governance Code in the version dated of 13 May 2013 published by the Federal Ministry of Justice in the official section of the Federal Gazette on 10 June 2013 (Code) have been complied with and will be complied with in the future, both subject to the following deviations:

1. The remuneration of the Management Board does not provide for a hard pre-defined cap amount with respect to the variable, stock price related remuneration components and with respect to ancillary payments; therefore, it does also not provide for a cap amount for the overall remuneration of the Management Board (deviation from number 4.2.3 sentence 7 of the Code). The Company will, therefore, also not indicate maximum amounts in the model tables (deviation from number 4.2.5 sentence 5 and sentence 6 of the Code). The Supervisory Board has the view that, with respect to stock price related remuneration components, a fixed pre-defined cap amount, in compliance with statutory requirements, is not necessary. With respect to ancillary payments, a limitation of the value of fringe benefits, even though there is no fixed cap amount, is achieved by the determination of the items of fringe benefits.

2. In deviation from number 4.2.3 sentence 9 of the Code, the terms and conditions of the Longterm Incentive Plan 2011 and the Longterm Incentive Plan 2012 of the Company both provide for the possibility of adjusting the performance targets retroactively. This had the purpose, when these plans were introduced, to ensure flexibility to address extraordinary developments during the respective term of the plan. Implementing the afore-mentioned recommendation, already the terms and conditions of the Longterm Incentive Plan 2013 and the Longterm Incentive Plan 2014 I, however, do not provide for such a possibility any more; also in the future, the Company intends to comply with the recommendation of number 4.2.3 sentence 9 of the Code. The above mentioned plans are stock price related, variable remuneration instruments for members of the Management Board and selected employees of the Sky Group; the respective performance targets are tied to the development of stipulated corporate key figures during the three-year term of each plan.

3. A nomination committee pursuant to number 5.3.3 of the Code has not been established. As no co-determination rules apply and the Supervisory Board is exclusively constituted with shareholder representatives, and taking into account efficiency considerations, the implementation of a nomination committee seems not to be appropriate.

4. In deviation from the recommendation of number 5.4.1 sentence 2 of the Code, the Supervisory Board abstains from determining a specific number of independent members of the Supervisory Board as target number with regard to the composition of the Supervisory Board. The Supervisory Board does not consider such a formalized target with respect to the number of independent members of the Supervisory Board as necessary since, also absent such a target, its proposals with respect to the election or appointment of Supervisory Board members has been and will be in accordance with the interest of the Company; insofar, the Supervisory Board does not want to restrict its discretion by any concrete target numbers.

This declaration is available at info.sky.de.“

Information concerning compliance with each of the individual recommendations and/or suggestions is provided on Sky Deutschland AG’s website at: info.sky.de/corporategovernance. The current declaration of conformity as well as previous declarations of conformity are also available there.

I. Shareholders and the Annual General Meeting

Sky Deutschland AG's shareholders can exercise their rights and in particular cast their votes at the Annual General Meeting ("AGM"). Each share in Sky Deutschland AG confers one vote. There are no shares with multiple voting rights, no preferred stock ("golden shares") and no maximum voting rights.

The AGM is chaired by the chairman of the Supervisory Board, unless the Supervisory Board elects another member of the Supervisory Board as chairman of the AGM (section 17 paragraph 1 of the Articles of Association). Since James Murdoch, who was the chairman of the Supervisory Board at the time of the AGM on 10 April 2014, did not have a sufficient command of the German language, this AGM was chaired by the vice chairman of the Supervisory Board, Markus Tellenbach with the approval of the Supervisory Board. The Chair of the AGM ensures the expeditious conduct of the general meeting and is guided thereby by the suggestion in the German Corporate Governance Code that an ordinary general meeting be concluded after four to six hours at the latest.

AGMs of Sky Deutschland AG are organized and conducted with the stipulation that all shareholders are provided with up-to-date and extensive information before and during the meeting to facilitate registration for the AGM and the exercise of shareholder's rights. The annual financial report provides AGM shareholders with comprehensive information on the past financial year in due time prior to the AGM. The invitation to each AGM specifies the individual items on the agenda as well as the conditions for participation.

To make it easier for shareholders to exercise their rights and to enable them to prepare for the AGM, all reports and documents which are to be made available related to the AGM – prior to the AGM – are made available on Sky Deutschland AG's website. Admission tickets can be ordered, proxies issued (including to the proxy holders of the Company) and instructions for the exercise of voting rights at the AGM obtained on the website of Sky Deutschland AG. A list of the participants as well as the voting results will be published on the Internet after the AGM to facilitate and support the exchange of information between Sky Deutschland AG and its shareholders.

At the AGM, shareholders have the opportunity to exercise their voting rights themselves or through a proxy of their choice or by a proxy holder designated by the Company who must vote in accordance with the respective shareholder's instructions. These proxy holders may also be contacted during the AGM. Furthermore, pursuant to the Articles of Association, the Management Board is authorized to grant the shareholders the possibility of casting their votes in writing or by electronic communication without personally attending the AGM or attending through a representative (postal voting, section 16 paragraph 3 of the Articles of Association). Any use of this procedure as well as the related provisions must be announced as part of convening the general meeting.

In addition, the Company's Articles of Association permit the Management Board to make the AGM available via electronic audio and video media. The AGM held on 10 April 2014 was broadcast live on the internet up to the beginning of the general debate. The statements of shareholders were not broadcast in order to protect the personal privacy of the speakers.

II. Cooperation between the Management Board and the Supervisory Board

Sky Deutschland AG's Management Board and Supervisory Board work closely together for the benefit of the Company. Their common objective is to ensure the continuance of the Company together with sustainable profitability and business development.

In accordance with legal regulations, there is a dual management system at Sky Deutschland AG, characterized by the fact that the Management Board and the Supervisory Board have different members. The Management Board conducts the business of the Company under its own responsibility and in the interest of the Company. It develops the strategy of the Company and coordinates it with the Supervisory Board while ensuring that it is properly implemented. The Management Board manages the Company's business in accordance with the law, the Articles of Association and its Rules of Procedure. It also takes into account the recommendations of the German Corporate Governance Code. The Supervisory Board reviews and advises the Management Board and is directly involved in decisions that are of fundamental importance for the Company.

To this end, the Management Board has regularly, closely and comprehensively reported to the Supervisory Board, in and outside of meetings, about the strategy, the planning, the business development, the risk situation, risk management and about compliance issues of the Company. Deviations in the course of business from prepared plans and targets are explained and justified, and the Management Board also confers and the Supervisory Board on Sky Deutschland AG's strategic focus.

Documents for the meeting are sent to the Supervisory Board in due time prior to every meeting. Reports by the Management Board to the Supervisory Board are rendered verbally or in text format. For further details please refer to the report of the Supervisory Board for the short financial year 2014.

The specific tasks and obligations of the Management Board in relation to the Supervisory Board are regulated in Rules of Procedure adopted by the Supervisory Board for the Management Board. These Rules of Procedure establish, in particular, the Management Board's information and reporting obligations. They also define transactions of fundamental importance, such as larger acquisitions, disinvestments and financial measures, which are subject to approval by the Supervisory Board.

Members of the Management Board and the Supervisory Board respectively observe the duty of a diligent and careful manager or supervisory board member. They would be liable to pay damages to the Company in the event of culpable violation of their incumbent duty of care. In order to protect its management and for the benefit of the Company, which would have a solvent debtor in the event of culpable violation of duties by the management, Sky Deutschland AG has taken out a Directors' and Officers' (D&O) liability insurance for the Management Board as well as for the Supervisory Board. Each member of the Management Board is subject to a deductible of at least 10 percent of the loss up to a maximum of one and a half times the respective board member's fixed annual compensation. The D&O insurance taken out by the Company for the members of the Supervisory Board in accordance with the recommendation in number 3.8 of the German Corporate Governance Code also includes a corresponding deductible.

The Company did not grant any loans to members of the Supervisory Board or the Management Board during the short financial year 2014.

III. The Management Board

1. Duties and responsibilities

The Management Board of Sky Deutschland AG conducts the business activities of the Company under its own responsibility with the objectives of achieving sustainable profitability and business development and acting in the best interests of the Company. It takes into consideration the interests of the Company's shareholders, its employees and of any other groups associated with the Company ("stakeholders").

Every member of the Management Board is fully responsible for their division at the Company as laid out in the respective organizational chart, within the framework of the Rules of Procedure for the Management Board of Sky Deutschland AG and the resolutions of the Management Board. The organizational chart, subject to the approval of the Supervisory Board, is adopted by the Management Board. The members of the Management Board are jointly responsible for the overall management of the Company.

When filling management positions in the Company, the Management Board takes diversity into account and, in particular, aims for an appropriate consideration of women at managerial levels in the Company. In pursuit of this objective, for example, the Company, offers a mentoring program for women in leadership positions through which the Management Board hopes to successively fill key positions in the Company.

2. Composition of the Management Board

In the short financial year 2014, the Management Board of Sky Deutschland AG continued with the following four members: Brian Sullivan (Chief Executive Officer), Steven Tomsic (Chief Financial Officer), Dr. Holger Enßlin (Chief Officer Legal, Regulatory & Distribution) and Carsten Schmidt (Chief Officer Sports, Advertising Sales & Internet). There were no changes in the Management Board in the short financial year 2014.

The functions of the Chief Executive Officer, as well as the responsibilities of the remaining members of the Management Board have been defined in the Rules of Procedure for the Management Board of Sky Deutschland AG and in the organizational chart. The Rules of Procedure also define those decisions and measures of a fundamental nature or significant financial importance for Sky Deutschland AG and its group companies that require a decision of the full Management Board. They also stipulate when a majority is required for decisions made by the Management Board. Further explanations with regard to the activities of the Management Board are contained in the declaration of company management.

3. Remuneration

The remuneration system for the Management Board is explained in the Remuneration Report, which is part of the combined management report. The individual Management Board remuneration, divided into fixed and variable remuneration components, is set out in the Notes.

4. Conflict of Interest

Members of the Management Board must disclose conflicts of interest to the Supervisory Board without delay and must inform the other members of the Management Board as well. The Management Board members are subject to a broad non-competition clause for the time they are active for Sky Deutschland. Furthermore, members of the Management Board may only accept secondary positions, particularly on supervisory boards, in non-group companies with the approval of the Supervisory Board. Contracts concluded with the Company by a related party (spouse, registered life-partner, relative in the first degree) of a member of the Management Board or by a business entity, on which the member of the Management Board or a related party can exercise significant control, must be approved by the Supervisory Board. Such contracts did not exist in the reporting period.

No member of the Management Board holds more than three supervisory board mandates in non-group listed companies or in supervisory board bodies of non-group companies which make similar requirements. In the reporting period, there were no conflicts of interest of the Management Board members.

IV. The Supervisory Board

1. Duties and responsibilities

The Supervisory Board advises the Management Board and reviews its conduct of the Company's business activities. In doing so, the Supervisory Board, inter alia, uses the annual budget as approved for the respective financial year as a basis. At regular intervals, the Supervisory Board examines business developments and planning as well as the Company's strategy and its implementation. In this context, the Supervisory Board regularly receives reports from the Management Board, in particular on significant individual measures implemented by the Company. Furthermore, the chairmen of both the Management Board and the Supervisory Board are also in contact on a regular basis outside of meetings. With respect to important events that are material to assessing the Company's situation, and the performance and management of the Company, the chairman of the Supervisory Board is informed by the Management Board without undue delay. Moreover, throughout the financial year, the Supervisory Board discusses the half-year financial reports and the quarterly reports with the Management Board. Additionally, it reviews and approves the annual financial statements of Sky Deutschland AG for the respective (short) financial year as well as the consolidated financial statements, taking into consideration the reports of the external auditor and the findings of the Audit Committee.

The Supervisory Board decides on appointing and removing members of the Management Board. The Supervisory Board takes diversity into account when determining the composition of the Management Board and, in particular, seeks for an appropriate consideration of women. In addition, the Supervisory Board has set an age limit of 65 years for members of the Management Board. In cases of a first appointment, the Supervisory Board considers the suggestion of the German Corporate Governance Code, which states that the maximum possible appointment period of five years should not be the norm. Together with the Management Board, the Supervisory Board prepares a longterm succession plan for the members of the Management Board.

The Supervisory Board has put in place Rules of Procedure that define the duties, obligations and procedures of the Supervisory Board and its committees. Such Rules of Procedure include further details on non-disclosure requirements and dealing with conflicts of interests. Further explanations on the activities of the Supervisory Board are contained in the declaration of company management included in the annual financial report.

2. Composition

According to the Company's Articles of Association, the Supervisory Board of Sky Deutschland AG consists of nine members.

As of 30 June 2014, James Murdoch (Chairman), Markus Tellenbach (Deputy Chairman), Chase Carey, Dr. Stefan Jentzsch, Mark Kaner, Jan Koeppen, Miriam Kraus, Harald Rösch and Katrin Wehr-Seiter were members of the Supervisory Board.

With resolution of the AGM on 10 April 2014, Dr. Stefan Jentzsch, Mark Kaner, James Murdoch, Harald Rösch and Markus Tellenbach were elected as members of the Supervisory Board. With resolution of 17 April 2014, the Supervisory Board re-elected James Murdoch as chairman and Markus Tellenbach as deputy chairman of the Supervisory Board, respectively.

The term of office for Supervisory Board members Chase Carey, Jan Koeppen, Miriam Kraus and Katrin Wehr-Seiter concludes at the end of the AGM that resolves the discharge of the respective Supervisory Boards member for the short financial year 2014. The term of office for Supervisory Board members Dr. Stefan Jentzsch, Mark Kaner, James Murdoch, Harald Rösch and Markus Tellenbach expires at the end of the AGM that resolves the discharge of the respective Supervisory Board members for the financial year 2017/2018.

None of the Supervisory Board members is a former member of the Management Board of the Company in its present or former legal form. No Supervisory Board member exercises an executive function, supervisory function or consultative function at a significant competitor of the Company. No Supervisory Board member has concluded any consulting agreements or contracts for work and services with the Company.

Furthermore, current Supervisory Board members Dr. Stefan Jentzsch, Miriam Kraus, Markus Tellenbach, Harald Rösch and Katrin Wehr-Seiter are independent within the meaning of number 5.4.2 of the German Corporate Governance Code. They have no business or personal relationship with the Company, its corporate bodies, a controlling shareholder or a company affiliated with such controlling shareholder. The Supervisory Board, therefore, includes a number of independent members which, according to the Supervisory Board's assessment, is appropriate.

The Supervisory Board has specified concrete objectives regarding its composition: with respect to the proposals for the election of members of the Supervisory Board, care is taken that the Supervisory Board only includes members who possess the knowledge, ability and expert experience required to properly fulfill the duties. Furthermore, attention is also given to the international activities of the Company and to potential conflicts of interest. All members of the Supervisory Board are either experienced foreign nationals or have experience in management abroad. Furthermore, diversity and an appropriate degree of female representation is an area of focus. Taking into account the specifics of the enterprise and the expiration of the terms of office of the current Supervisory Board members, the Supervisory Boards intention was to see women comprising at least 30 percent of its membership by 2014. Presumably, this objective will not be met in the calendar year 2014, however, for the rest, the Supervisory Board confirms the aforementioned objective. Currently, women already constitute 22 percent of the membership of the Supervisory Board. Finally, a person who would complete 69 years of age during the intended term of office will not be proposed to the AGM for election as member of the Supervisory Board.

In deviation from the recommendation of number 5.4.1 sentence 1 of the German Corporate Governance Code, the Supervisory Board has abstained from defining a specific number of independent members of the Supervisory Board as a target number for the composition of the Supervisory Board. The Supervisory Board does not consider it necessary to define a formal target for the number of independent members. The Supervisory Board will ensure that its proposals with respect to the election or appointment of Supervisory Board members will be in accordance with the interest of the Company, even in the absence of such a target. Furthermore, in its election proposals to the AGM, the Supervisory Board will disclose the personal and business relations of each individual candidate to the Company, the corporate bodies of the Company and any shareholder with a material interest in the Company.

Since the Codetermination Act is not applicable to Sky Deutschland AG, only persons elected by the shareholders can serve on the Supervisory Board.

3. Formation of Committees

The Supervisory Board, in accordance with its Rules of Procedure, has set up the Presidential Committee and the Audit Committee as permanent committees. A committee which deals with sports rights was established in 2011. The Supervisory Board forms additional committees if and to the extent they serve to increase the efficiency of the Supervisory Board's work and the handling of complex issues.

The Presidential Committee prepares the meetings of the Supervisory Board and monitors the implementation of resolutions passed by the Supervisory Board or its committees. It also prepares resolutions of the plenum on personnel matters to be addressed by the Supervisory Board (in particular, appointment and removal of members of the Management Board and determination of their remuneration). The respective chairman of the Supervisory Board is also chairman of the Presidential Committee.

As recommended by the German Corporate Governance Code and in accordance with the law, the Audit Committee oversees questions of accounting, risk management, the internal control and audit system and compliance, and oversees the required independence of the auditors, the engagement of the external auditor, the definition of the focus areas of the audits as well as the agreement on the auditor's fees. Together with the external auditor, the Audit Committee reviews the Company's annual financial statements for the respective (short) financial year as prepared by the Management Board. Based on the external auditor's report on the annual financial statements, the Audit Committee makes proposals to the Supervisory Board on adopting the annual financial statements. The internal auditors and the Compliance Officer report to the Audit Committee with regard to the effectiveness of the internal risk management, the internal control system as well as the internal audit and compliance systems. Together with the Audit Committee, the scope and focal points of the audits for the respective following fiscal year are determined. In this regard, risk management, internal audit and the compliance system are continually developed and modified on an ongoing basis to align with the changing framework conditions. For essential features of Sky Deutschland AG's control and risk management system, reference is made to the management report.

As former executive director of several banks and currently as partner at Perella Weinberg Partners LP, the Chairman of the Audit Committee, Dr. Stefan Jentzsch, is distinguished by his particular experience in the financial field and has special expertise in the fields of accounting and auditing. He can also be considered independent as he has, in particular, no business or personal relationship to the Company, its corporate bodies, a controlling shareholder or a company affiliated with such a controlling shareholder. He thus meets all requirements of an independent financial expert in accordance with section 100 paragraph 5 German Stock Corporation Act (AktG) and number 5.3.2 of the German Corporate Governance Code.

The Sport Rights Committee advises and monitors the Management Board with respect to tender procedures concerning distribution rights, for example, of the UEFA Champions League, DFB-Pokal, the Formula One and the Fussball Bundesliga.

As regards the composition and the activities of the committees in the short financial year 2014, reference is made to the report of the Supervisory Board.

Against the background that all members of the Supervisory Board are shareholder representatives, the Company, in deviation from the recommendation in number 5.3.3 of the German Corporate Governance Code, did not form a nomination committee.

4. Compensation

The remuneration system for the Supervisory Board is explained in the Remuneration Report which is part of the combined management report. The individual Supervisory Board remuneration, divided into its components, is set out in the Notes.

5. Conflict of interest

All members of the Supervisory Board must disclose conflicts of interest to the Supervisory Board, particularly those that could arise due to a position as consultant for or member of any corporate body of clients, suppliers, creditors or any other third parties. With regard to conflicts of interest in the reporting period and how they were addressed, reference is made to the report of the Supervisory Board.

6. Efficiency

The Supervisory Board last reviewed the efficiency of its activities with regard to the financial year 2013 at its meeting on 20 November 2013, and the result was positive. The review was performed using a evaluation sheet, which was completed by the members of the Supervisory Board before the meeting. The Chairman of the Supervisory Board compiled the evaluation in a presentation, which was then discussed by the full Supervisory Board at the meeting.

V. Transparency

To ensure the greatest possible level of transparency, Sky Deutschland AG's Management Board pursues an information policy which aims for open and timely information to shareholders, financial analysts, investors, the media and the interested general public with regard to the general situation and significant business-related changes in the Company.

Sky Deutschland AG's investor relations activities include publication of all periodical information which must be published, such as the interim and annual reports, as well as telephone conferences and a large number of events with journalists, financial analysts and national and international investors. It is Sky Deutschland AG's intent to inform all capital market participants comprehensively, equally and in due time.

A financial calendar informs shareholders about all significant recurring dates, including the date of the AGM and the dates of publication for annual reports and interim reports. The financial calendar is published in the annual report and is also available on the Company's website.

Pursuant to Section 15a of the German Securities Trading Act (WpHG), persons with managerial responsibilities within the Company are legally obliged to disclose their own dealings in shares of Sky Deutschland AG or financial instruments pertaining thereto and to notify the Company and the Federal Financial Supervisory Authority except in the case that the total sum of the transactions made by a person with managerial responsibilities and persons closely related to him/her does not reach the sum of €5,000 within a calendar year. Sky Deutschland AG discloses relevant notifications (directors' dealings) upon receipt without undue delay. This information can also be found in accordance with legal provisions on the Company's website.

The legal provisions in section 15a of the German Securities Trading Act (WpHG) have been supplemented by an internal guideline with respect to preventing insider trading and defines, for example, clear trading windows in which trading in the Company's own shares is permitted.

Shares in the Company owned by members of the Management and Supervisory Boards are regularly updated on the Company's website and are stated on the reporting dates in the annual and interim reports. The information is presented in individualized form.

As of 30 June 2014, Management Board member Brian Sullivan held a total of 30,000 shares.

Furthermore, on 30 June 2014, Dr. Stefan Jentzsch, member of the Supervisory Board, held 120,000 shares and Harald Rösch, member of the Supervisory Board, held 29,750 shares in Sky Deutschland AG.

VI. Accounting and Auditing

The consolidated financial statements and the group financial review of the Sky Deutschland Group are prepared in accordance with International Financial Reporting Standards (IFRS), as applied in the European Union. The statutory, and for dividend payments relevant, individual financial statements of Sky Deutschland AG are prepared in accordance with the German Commercial Code (HGB) and the supplementary provisions in the Articles of Association.

Shareholders and third parties are kept informed, in particular, through the annual report and the group management report, as well as by means of the half-year financial report and quarterly financial reports. The latter are discussed – prior to publication – among the Audit Committee and the Management Board. In accordance with the recommendation of the German Corporate Governance Code, the Company publishes the consolidated financial statements within 90 days after the end of the financial year and the interim financial reports within 45 days after the end of the reporting period.

At the AGM on 10 April 2014, the shareholders – based on a corresponding recommendation of the Audit Committee – elected Munich based KPMG AG Wirtschaftsprüfungsgesellschaft as statutory auditor of the annual financial statements, as auditor of the consolidated financial statements, as auditor for the review of the half-year financial statement and the quarterly financial statements for the (short) financial year 2014 and as auditor for the review of the half-year financial statement and the quarterly financial statements for the following financial year which will be prepared prior to the AGM in financial year 2014/2015. The Audit Committee took note of the declaration of independence that was submitted. The external auditors participated in the consultations of the Audit Committee and the Supervisory Board on the annual and consolidated financial statements for the short financial year from 1 January to 30 June 2014 on 16 September 2014 and reported to the Supervisory Board on the results of the audit of the annual financial statements and management report of Sky Deutschland AG as of 30 June 2014

(German Commercial Code – HGB) and the consolidated financial statements and group management report for the Sky Deutschland Group as of 30 June 2014 (IFRS).

It has been agreed with the external auditor of Sky Deutschland AG that the chairman of the Supervisory Board or of the Audit Committee will be informed immediately about possible reasons for exclusion and partiality, so far as these cannot be remedied immediately. It has furthermore been agreed that the external auditors will immediately report all findings and occurrences of significance for the work of the Supervisory Board that come to light during the audit. The external auditors must notify the Supervisory Board or comment in the audit report if they discover any facts during the performance of the audit of the financial statements that indicate that the declaration of conformity with respect to the German Corporate Governance Code according to Article 161 of the German Stock Corporation Act (AktG) made by the Management Board and the Supervisory Board is not correct.

Unterföhring, 16 September 2014

The Management Board

Brian Sullivan
(Chief Executive Officer)

The Supervisory Board

James Murdoch
(Chairman of the Supervisory Board)

Corporate Responsibility

Credibility, transparency and business sustainability are the central values of Sky's corporate culture. This is why social responsibility stands alongside financial growth as an essential part of Sky's identity. As a media company with a broad public presence, we are actively engaged at various levels on behalf of employees, children, media professionals and the environment.

Employee and youth development

Professional opportunities for women

Sky is actively involved in supporting women in business. One of our main initiatives is our women's mentoring program, Women@Sky, which was introduced in 2011. The program focuses on female managers and aims to promote their professional development individually and according to their needs. Participating women work closely with mentors from the top levels of management who assist them in their day-to-day professional duties and career planning. The program also includes networking events and training seminars that focus on specific topics.

In order to raise the level of interest in the media industry among young, talented females, Sky once again took part in "Girls' Day", the nationwide professional orientation day for girls in the fifth grade and up. A total of 30 female students took advantage of the opportunity and were given a close look at the world of Sky.

Founding of Sky Academy

Sky has underscored its commitment to longterm personnel development with the founding of Sky Academy, an internal division with the principal objective of using workshops and training sessions to prepare employees for current and future challenges faced by the Company. The training sessions also aim to address the cultural changes within the Company. Sky Academy celebrated the first anniversary of its founding in June 2014.

Entry opportunities for young talent

Sky is also active in promoting young talent in the media industry. Partnering with AFK GmbH, which deals with training and continuing education in electronic media, Sky supports the training of future journalists, directors and producers. The Munich-based institution gives practical instruction about the fundamentals of the television craft. And since December 2012, Sky has been a member of the MedienCampus Bayern e.V., an association devoted to promoting media education and training in Bavaria.

In 2014, Sky continued its trainee program for qualified college graduates. The "Talents@Sky" program is focused on young leaders in the media industry and provides broad, interdepartmental training over a span of 12 months. All participants who completed the program in 2013 were hired as permanent employees.

Content and cooperations

Programming

Since September 2012, Sky has served viewers with hearing impairments by offering an up-to-date selection of subtitled films from its Film package through Sky Anytime and Sky Go. Each month, up to ten films with subtitles are available on-demand in weekly rotation on Sky Anytime. On Sky Go, at least 20 films for the hearing impaired are provided at any one time.

For the second half of the Bundesliga season 2013/14, Sky continued its accessible offering of Bundesliga coverage: for the first time on German television, Sky has been making live broadcasts available from the Bundesliga with subtitles for the hearing impaired since 10 August, 2013. The live subtitles can be viewed every Saturday during the original Sky Conference from 3:30 pm, and also during the "Bwin Top Match of the Week" from 6:30 pm, including half-time coverage.

In June 2014, Sky Sport News HD received the media award from the Behinderten- und Rehabilitations-Sportverband Bayern (BVS Bayern – Bavarian disabled and rehabilitation sports association) for its coverage of the Special Olympics 2013. The BVS Bayern media award is the second time Sky Sport News HD has been honored for its coverage of sports for the disabled. In December 2013, the 24-hour sports news channel received the "German Paralympic Media Award" for a report on deaf referee Ricardo Scheuerer and his extraordinary career path.

Protection of Minors

As a modern television provider, Sky relies on technical protections for minors in conjunction with broadcast time regulation in order to provide optimal media-literacy support for parents. The minor protection team at Sky consists of six experts who check all programs that are broadcast on air or via the internet. Every program is then allocated a reliable age recommendation which is shown in the online EPG, and recently also in the on-air EPG. These age recommendations, which are intended to help parents find suitable programs for their children, are therefore easily accessible using the remote control. Shows that are not suitable for children or young people are provided with blocking technology that disables the playback of video and sound from the channel. The show can be unlocked immediately by entering a four-digit individual PIN code. Because it uses the blocking technology, Sky is legally allowed to show movies and series with an FSK 18 rating beginning at 8 pm, while content with an FSK 16 rating can be shown at any time. Sky has also developed its own area for kids using its Sky Go service with over 100 selected shows. This allows children to watch their favorite shows on the iPad, iPhone, iPod Touch, Xbox 360 or online whenever they want, on-demand and commercial-free. The Sky Go kids' zone is a secure and closed environment in which parents can allow their children to discover the abundant content and explore the unique user interface without any risk or extra costs via their iPhone, iPad, and iPod Touch.

As a part of its commitment to protecting minors, Sky is a charter partner of the initiative "Online safety – minor protection on the internet" which began in 2012. The initiative brings the federal and state governments together with the business community to create better minor protection standards to aid parents with media literacy and to support them by creating a safe place for children to surf the internet. As a part of the partnership, all websites belonging to Sky, including sky.de, skysnap.de, and skygo.de, were provided with the certified age identification technology which is automatically recognized by the minor protection system in order to show or block individual websites according to the user's age. In addition, with the cross-platform broadcasting of TV spots supporting the initiative, Sky is committed to the broad distribution of the campaign's message. The spot was used both on air and online during the short financial year 2014. Comprehensive information on minor protection can be found at sky.de/jugendschutz.

Sponsorships and cooperations

In Schwerin and Munich, Sky's corporate responsibility also manifests itself in the form of cooperative events. At the start of May 2014, Sky supported the "Filmkunstfest Mecklenburg-Vorpommern" film festival. As part of the "Children of Reunification" series, Sky organised a talk on football with Axel Kruse, Uwe Reinders, and football manager Reiner Calmund. In addition, Sky endowed the prize for best acting and Sky presenter Aline von Drateln hosted the award ceremony. Sky also supported the DOK.fest in Munich as Presenting Sponsor from 7–14 May 2014 and awarded the main €10,000 prize for the DOK.international competition. Sky was also part of the festival catalog with the new "Best of Oscars" series. Sky presented the Oscar-winning documentaries "Bowling for Columbine", "When we were Kings" and "Woodstock" on three evenings in the Arri cinema in Munich.

In summer 2014, Sky was the main sponsor of the Munich Film Festival for the second time. As a part of the cooperation, Sky had a branding presence as well as ads and spots in the Filmfest magazine, cinemas, and the media and guest center. In cooperation with the Munich Film Festival, Sky presented the new edition of the successful "series specials" and showed new series highlights from the USA and Europe on four evenings. The Sky cinema magazine "Kinopolis" and "Sky Magazin" filmed on location, presenting the top-class festival guests, as well as the wide range of films and events in the program, over the course of several episodes.

In March 2014, Sky was the presenting partner of the "Krimifestival München" (Munich crime story festival). As part of this, Sky organised a crime story event at BMW Welt for Sky's own crime format "Im Leben von..." (The life of...), in which TV detectives come together with real investigators.

Environmental protection

Efficient allocation of resources in all business activities

Sky places a great value on contributing to the protection of the environment. In the planning and construction of Sky's company headquarters in Unterföhring near Munich, special attention was paid to energy efficiency and environmental awareness. For example, Sky relies on geothermal energy for temperature regulation, and thus generates no carbon dioxide emissions through fossil fuels such as oil or gas. The building is cooled through concrete core activation. Water that has cooled down in concrete during the night due to lower outside temperatures is circulated through pipes in the ceiling, contributing to a pleasant room temperature during the day. In addition, the building is equipped with a heat-insulating composite facade as well as exterior blinds, which significantly reduce the heat during the summer and support the existing passive cooling system.

Lighting throughout the entire building is connected to motion sensors, which significantly reduce energy consumption. The building is also equipped with a "green roof", which has a positive effect on the local climate. The Sky building is cleaned with biodegradable products. In 2014, the 24 small kitchens in the building were modernized. The set-up of small kitchens is now standardized, creating additional efficiency with regard to maintenance and repair.

Furthermore, employees are asked to use valuable resources such as paper sparingly and to conduct communication and business correspondence electronically whenever possible. Accordingly, after moving to the new, modern company headquarters, shared office devices were centralized. In July and August 2014, Sky replaced the previously used multi-function printers with new faster and quieter models with reduced warm-up time. Some of the new devices have the "Blauer Engel" environment certificate and are also capable of printing on recycled paper, if required.

For the acquisition of new company cars, the Company has set an upper limit on the emissions of eligible vehicles.

In 2012, Sky introduced new receiver packaging with a practical inlay. In addition to its usability, it is also manufactured to provide greater environmental benefit. In 2013, Sky received the environment certification "Grüner Punkt" for the climate-friendly recycling of its receiver packaging. The certificate considers the positive impact of package recycling on the climate and the environment on the basis of the five categories of greenhouse effect, fossil resources, over-fertilization, acidification, and primary energy consumption. In 2013, the company saved approximately 120 tons of CO_2 equivalents. Working with DHL and DPD, Sky uses carbon-neutral shipping of receivers and letters. The CO_2 emission calculation from DHL is carried out according to a certified process. Carbon management was verified and is evaluated each year by the independent certification company SGS. With DPD, Sky has another partner who is actively committed to environmental protection and is sustainably improving the CO_2 balance through the "Total Zero" initiative.

"Green" partnerships

Sky also emphasizes sustainability and environmental consciousness when selecting business partners and service providers. The receiver manufacturer PACE is a member of the EICC (Electronic Industry Citizenship Coalition), which has developed a code of conduct for improved working and environmental conditions in electronics logistics services across the world. The receiver manufacturer HUMAX is certified under ISO 9001 and ISO 14001 along the complete supply chain. For its considerable CO_2 saving measures during the past year, Humax received the CO_2 Saver Certificate, which is awarded annually by the ALBA Group.

Logistics and fulfillment partner Loxxess, as well as mailing houses Swiss Post Solutions and Comcard, are also certified under ISO 9001 and ISO 14001. Sky's repair service provider Teleplan is certified under ISO 9001 and OHSAS 18001. Fulfillment service provider DVG, which is responsible for shirt logistics for the Sky Shop, is also ISO 9001 certified.

The recycling of receivers and accessories (e.g. scart cables) that are no longer in use, as well as spent batteries (such as those used in remote controls), is carried out by a certified disposal company.

Social commitment

The Sky Foundation

Like no other German TV broadcaster, Sky stands for top quality sports coverage and high sports competency. Sky also embodies this extensive expertise and passion for sports in its commitment to social issues. The Company established the Sky Foundation in 2008 as a way of using sport to open up new perspectives for kids and teenagers from different social and cultural backgrounds. With the support of prominent athletes and artists such as Franziska van Almsick, Amelie Kober, Jonas Reckermann, Carl-Uwe Steeb, and Guildo Horn, as well as notable scientists, the Sky Foundation promotes charitable sports projects that encourage boys and girls to get involved with sporting activities.

For calendar year 2014, the Sky Foundation has approved the doubling of its financial support for the "Neue Wege" (new paths) initiative thanks to increased donations received in 2013. The socio-educational climbing project is committed to helping boys and girls in difficult life situations and teaches them social values such as solidarity, trust, and responsibility. The Kinderbewegungsabzeichen (KIBAZ - children's movement badge) from the North Rhine-Westphalia Athletics Association, financed by the Sky Foundation and supported by the Foundation's ambassador Jonas Reckermann, was launched officially in April 2014 and is to be adopted by around 400 organizations in North Rhine-Westphalia during the calendar year. Following its positive experience with the children's aid funds in Schleswig-Holstein and Berlin, the Sky Foundation has also been supporting the children's aid funds in Hesse since 2013. An expansion of the commitment is under consideration.

In addition, financial support for the projects "buntkicktgut", "Clean Winners", "Special Olympics", "Gelbe Villa", and "Kids auf Schwimmkurs" has already been approved by the Foundation Board for the 2014 calendar year. The funding will be paid out during the second half of the year.

Charity auctions

Sky has held various fundraising auctions since the beginning of the year – for example, at the end of the Bundesliga 2013/14 season and during the FIFA football World Cup. In conjunction with the charity auction portal United Charity, exclusive collector's items were auctioned off that are not usually available for purchase. Overall, the auctions generated a low five-figure amount.

Corporate Volunteering

In short, during financial year 2014, Sky's "helping hands" volunteer program supported Special Olympics Bavaria in holding the regional Bavarian winter games, as well as starting a cycling workshop at the SOS Children and Youth Club. Sky provided 43 working days for this good cause between January and June 2014, and sent employees to act as volunteers.

Miscellaneous

As part of a joint blood donation drive among media companies in Unterföhring in 2014, Sky employees donated almost 100 liters of blood. Under the slogan "doing good together", employees from Sky Deutschland took part in this campaign by the Bavarian Red Cross alongside those from ProSiebenSat.1 Media AG, Bayerischer Rundfunk, ZDF, and Kabel Deutschland.

Imprint and Financial Calendar

Imprint

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Financial Calendar 2014/2015

4 November 2014	Media release of the Q1 2014/2015 results
11 November 2014	Publication of the Q1 2014/2015 report
19 November 2014	Annual General Meeting (short financial year 2014)
4 February 2015	Media release of the Q2 2014/2015 results
11 February 2015	Publication of the Q2 2014/2015 report
6 May 2015	Media release of the Q3 2014/2015 results
13 May 2015	Publication of the Q3 2014/2015 report
5 August 2015	Media release of the preliminary Q4/FY 2014/2015 results
24 September 2015	Publication of the Annual Report for the financial year 2014/2015

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