

A dramatic action movie poster. In the center, a man with a bloody forehead and a woman are shown in a state of intense action. The man is holding a handgun high in the air, shouting with his mouth wide open. The woman stands beside him, looking forward with a determined expression. They are surrounded by the wreckage of a car, with a prominent Union Jack flag visible on the side. In the background, a large fire rages, illuminating the scene with a bright orange glow. The overall atmosphere is one of high-stakes conflict and chaos.

sky

Sky Deutschland AG
Q1 Report 2014

Key Figures Q1 2014 versus Q1 2013

	Q1 2014	Q1 2013	Change (absolute)	Change (%)
Subscribers				
Direct subscribers ¹ at beginning	3,667	3,363	304	9.0
Gross additions ²	145	137	8	5.5
Churn ³	-81	-95	14	14.9
Net growth	64	42	22	51.9
Direct subscribers at end	3,731	3,405	326	9.6
Sky Welt HD subscribers (in '000)	2,834	2,403	430	17.9
Premium HD subscribers ⁴ (in '000)	1,851	1,613	237	14.7
Premium HD penetration rate ⁵ (in %)	49.6	47.4	2.2	-
Premium HD subscribers including HD free-visions ⁶ (in '000)	2,106	1,680	426	25.3
Premium HD penetration rate including HD free-visions ⁷ (in %)	56.4	49.3	7.1	-
Sky+ subscribers ⁸ (in '000)	1,576	1,065	511	48.0
Sky+ penetration ⁹ (in %)	42.2	31.3	11.0	-
Second smartcard subscribers ¹⁰ (in '000)	443	375	68	18.3
Second smartcard penetration ¹¹ (in %)	11.9	11.0	0.9	-
Subscription ARPU¹² (in €, monthly)	34.58	33.15	1.43	4.3
Churn rate ¹³ (in %, annualized)	8.8	11.3	-2.5	-
Churn rate ¹³ (in %, 12 months rolling)	10.6	12.0	-1.4	-
Wholesale subscribers (in '000)	258	125	133	>100
Financials (in € million)				
Revenues	420.7	364.0	56.7	15.6
Operating expenses	429.3	358.2	71.1	19.8
EBITDA	-8.6	5.8	-14.4	>-100
Depreciation and amortization	25.0	20.1	4.9	24.3
Amortization of subscriber base	0.3	0.3	0.0	0.0
EBIT	-34.0	-14.7	-19.3	>-100
Financial result	-17.8	-21.8	4.0	18.4
Income taxes	-1.7	-1.1	-0.6	-49.3
Net income	-53.4	-37.6	-15.8	-42.2
	31 Mar 2014	31 Dec 2013	Change (absolute)	Change (%)
Consolidated balance sheet (in € million)				
Total assets	1,328.2	1,386.9	-58.7	-4.2
Shareholders' equity	277	331.2	-54.2	-16.4
Net debt	403.8	354.7	49.1	13.8
Employees				
Full-time employees	2,146	2,084	62	3.0

- 1) Direct subscribers comprise 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 in the context of cooperation arrangements (e.g., triple-play offers). In the context of the activation of new contracts and the termination of existing contracts transitional periods exist.
- 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 have been disconnected are not included; these subscribers are classified as reconnections from former subscribers. Q1 2014 gross additions include the migration of 5k subscribers due to a one-off migration action within a marketing cooperation.
- 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 after the end of 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 comprise 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 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 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 such period. Among others, Sky uses ARPU 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 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 measures 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.

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The first quarter of 2014 at a glance

Sky had a strong start to 2014. Never before has Sky seen higher levels of customer loyalty. With solid gross additions, churn rates at record lows and a steadily growing number of customers across all product categories, the Company has clearly shown the increasing appeal of its outstanding entertainment offering. And with the fantastic response Sky has seen since making its market leading Sky Go over-the-top service free for all Sky customers, the Company expects this trend to continue. Whether blockbusters a year before they air on free-TV or other online services, premieres of the world's finest drama series, or of course the best in live football, Formula 1, golf and tennis, Sky is the clear market leader across all platforms and genres. No other provider in Germany and Austria comes even close to the exclusivity and quality of the Sky service.

Substantial revenue growth

- Revenues: €421m (+€57m; +16% yoy)
- ARPU: €34.58 (+€1.43 yoy)
- EBITDA: negative €8.6m (-€14m yoy)

All key metrics improved

- Direct subscribers: 3,731,000, up 64,000 (Q1 2013: 42,000)
- Quarterly annualized churn rate: improving to 8.8% (Q1 2013: 11.3%)
- 12 month rolling churn rate: improving to 10.6% (Q1 2013: 12.0%)
- Sky+ customers: up 96,000 to 1,576,000
- Sky Premium HD customers: up 80,000 to 2,106,000
- Second smartcard customers: up 14,000 to 443,000
- Sky Go customer sessions: up 58% to 24 million year-on-year

Highlights

- Sky Go now free for all Sky customers
- Snap by Sky now also available on Android; comprehensive kids' zone introduced
- Sky HD expanded to up to 88 channels
- More than 100 series premieres in 2014, representing over 1,200 episodes, many simultaneous with their US broadcasts and exclusive to Sky, including "24: Live Another Day"
- Expanded exclusive rights for Wimbledon tennis
- Expanded exclusive rights for the US Masters golf
- Sky Sport News HD: new ratings record, most quoted private TV broadcaster in Germany
- Change of fiscal year to run from 1 July to 30 June

Outlook

For the 2014 calendar year, Sky confirms that it expects subscriber net growth of 400k to 450k, and full year EBITDA in the range of €70m to €90m, which will be supported by a continued strong increase in total revenues.

Interim Group Management Report

Fundamental information about the Group

Business model

Sky is the leading pay-TV service in Germany and Austria with over 3.7 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 lower churn.

With exclusive live broadcasting rights for the Bundesliga and other major football events, plus a high-quality exclusive selection of top blockbuster movies, Sky customers enjoy an unparalleled program 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 percent¹ 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. 88 HD channels² are available, including one 3D channel.

Sky Welt

Sky Welt provides viewers with a diverse selection of more than 50 channels from all categories, with up to 20 HD channels³. The program offering includes popular movies, comedy, TV series, documentaries, music and programs for children. 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 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.



Iron Man 3: © 2013 Concorde Filmverleih GmbH; Suits: © 2012 Universal Cable Productions. All Rights Reserved.

1) SES Satellite Monitor, 2013
2) Including pay-TV, free-to-air and HD+ channels (as of 30 April 2014)
3) As of 30 April 2014

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 the home of live sports with an extensive portfolio beyond football. Sky offers exclusive programming for fans with diverse interests, including all major golf tournaments, tennis, Formula 1 racing, and beach volleyball. The Sport package also offers HD live broadcasts of all DFB-Pokal matches. It includes all matches of the UEFA Champions League, live and in HD, as well as all UEFA Europa League matches involving German and Austrian teams – also live and in HD. This unique offering is complemented by selected English Premier League matches. The Sky Sport Austria channel is also part of this package, offering live HD broadcasts of all Austrian football league matches. Additionally, the 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 88 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 subscribers⁴ own HD television sets, seven percent more than the country-wide average in Germany.



Sky Go – the leading OTT pay-TV service

Sky Go, the leading over-the-top (OTT) pay-TV service in Germany and Austria, is another great success, as all customers have the possibility to access Sky's exclusive high-quality entertainment on a variety of devices whenever and wherever they want. 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 via the web, on an iPad, iPhone, iPod touch and Xbox 360.



Snap by Sky – the perfect extension for Sky customers

Snap is an online media library, providing an extension for Sky and Sky Go customers. It is also available to customers without a fixed-term Sky subscription.

Snap by Sky offers thousands of titles, from complete season box-sets of award-winning series, to big hits from the HBO library, great movies of the last decades, and a large selection of children's programs, including exclusive program highlights from the world of Disney.



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 while at home or away 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. In 2013, Sky Select added one-touch ordering, making access to programming 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 sport 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 the 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 its customers continue to receive the high-quality service they expect.

Research and development

Pioneering Ultra HD in Germany

As HD technology evolves, Sky continues to invest in innovation leadership. In December 2012, the Company made German TV history, filming the country’s first ever football match in Ultra HD. This was followed by additional test recordings and presentations to the public in September 2013 at both the IFA (Internationale Funkausstellung) and IBC (International Broadcasting Convention) trade fairs. 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. 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

Upturn in German economy

In March 2014, the German Council of Economic Experts (“Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung”) increased its estimate for growth in Germany and now expects gross domestic product (GDP) to increase by 1.9 percent for the current year, up from their previous forecast of 1.6 percent growth. The reason for the increase is the stronger performance seen at the start of the year, as well as further improvements to business climate indicators. A majority of the growth is expected to come domestically – from private consumer spending and production investment. A slight economic gain is also expected from exports.

According to consumer research institute GfK, robust employment conditions will continue to support the contribution of private consumption to overall economic development in 2014. The study “GfK Purchasing Power in Germany 2014” shows that Germans will have an additional 1.1 percent, in nominal terms available for private consumption in 2014 versus 2013.

Consumer electronics – smartphones and tablets show strong growth

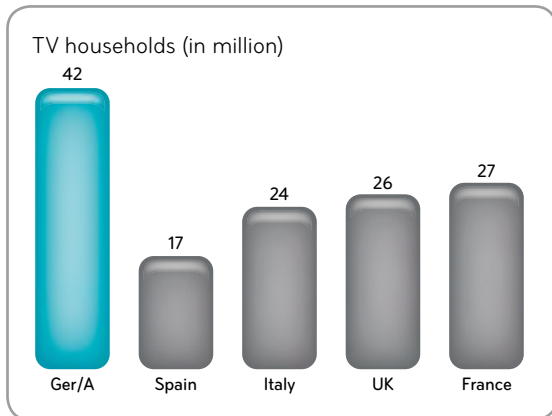
TV sets still make up the largest share of the total market for consumer electronics. After peaking in the past few years, according to estimates from the industry association Bitkom, sales declined from €5.9bn to around €5bn in 2013. The trend in TV sets is moving towards ever larger screens. According to Bitkom, more than every fourth TV set sold in 2013 features at least a 46-inch. 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 smartphones and tablets remain strong, with 26 million smartphones sold in 2013, up from 22 million in the previous year – a new record. Tablet computer growth is even stronger in 2013. 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.

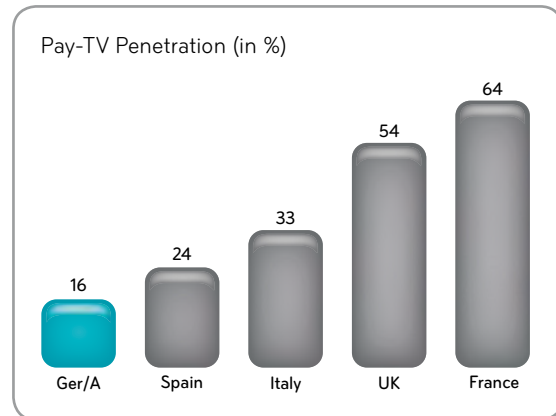
Strong industry growth

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, pay-TV revenues grew by about 12 percent, to more than €2 billion. 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 are 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. The VPRT also anticipates continued positive market development for pay-TV and paid-video-on-demand services in 2014.



Source: SES, Satellite Monitor, Year End 2012



Source: Pay-TV in Deutschland 2013, Ofcom: International Communications Market Report, Dec 2013

Competition

Sky competes with a number of media and entertainment companies to secure the 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 in Germany and at the European level, as far as its business is affected. The main areas of interest are currently the net neutrality debate, and the development of a modernized copyright law. Further issues of importance are the cable consolidation trends in the German market and the EC investigation into cross-border provision of pay-TV services.

In spring 2013, the European Council requested the European Commission (EC) to make a proposal for achieving a single market in telecommunications. On 11 September, the EC adopted a legislative package for a “Connected Continent: Building a Telecoms Single Market” which, among other things, aims at 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 fairer treatment to end-users and businesses alike by treating all internet traffic equally, regardless of its content or provider. However, the legislative proposal also includes a clause on “specialized services”, which are not clearly defined and subject to very vague conditions, and will be exempt from the general rule of the open internet. Leaders from Europe’s 28 countries will have to approve the bill, but that could drag on until the end of the year. The adoption could also be affected by the EP elections.

Following the debate in Germany on throttling, which was initiated by Deutsche Telekom’s later discarded plans to change its rates for end-customers and limit data traffic while its own IPTV service Entertain would be exempted from any traffic limits, the new government is committed to the principle of net neutrality in accordance with the governing coalition agreement and it has proposed new provisions for the German Telecommunications Act in this context. 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 outlines that providers’ own offerings or partner content should not be favored. However, the draft also opens the possibility of so-called “managed services”. Net neutrality will remain one of the major topics on the digital agenda, although it is still unclear whether the new government will continue in the direction of the previous government.

Sky is actively monitoring the net neutrality debate in Germany and Europe as a whole, as audiovisual content is distributed more and more over the open internet.

The coalition plans to establish a commission consisting of members of the German government and representatives of 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 monitoring 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 enforcement towards the platforms.

There are similar intentions on the European level. On 5 December 2013, the EC launched a public consultation on copyright as part of its on-going efforts to review and modernize EU copyright rules. Sky endorses the efforts by policy-makers 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 probable that German courts will proceed to require internet providers to block access to websites such as kino.to, as is already done in other EU countries.

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 a request for information and will support the EC in the fact-finding process. The outcome and timing of the proceeding is not yet predictable.

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 Bundeskartellamt 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 consolidation remains to be seen.

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 is in charge of the procedure, has not yet provided any sports betting licenses.

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

Sky saw a strong start to 2014 with improved key operational metrics. Continued growth in customer numbers and increasing revenues have led to this positive result and reflect the growing appeal of Sky, as well as the rising demand for its expanded range of products and services. The total number of direct subscribers grew by 63,885 to reach 3,730,736 at the end of the quarter. Sky premium HD, Sky+, Sky Anytime, Sky Go and Sky Zweitkarte built on their earlier success and also recorded further strong growth in customer numbers.

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 88 channels. The additions in 2014 include TNT Glitz HD, Spiegel Geschichte HD, Disney Junior HD, MTV Germany HD and ProSieben Fun HD.

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 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.

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 source for live broadcast of the four major championships of golf. 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.

PMG ranking: Sky is the most-quoted 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 5,800 hours of live sports per year, Sky is the leading provider of sports programming throughout Germany and Austria.

Extended agreement with Paramount

In February 2014, Sky extended its existing licensing agreement with Paramount Pictures, which 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".

Academy Awards 2014: 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”



Initial steps towards the production of original content

As announced in February 2014, Sky is collaborating with Sky Italia and BSkyB on a 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 series co-producer for the thriller series “100 Code” from Red Arrow Entertainment. Sky already secured all exclusive pay-TV and free-TV rights, including the SVOD rights for all platforms before the start of production.

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 already 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 successful real-time series “24: Live Another Day”. “Game of Thrones” and “House of Cards” are made available in the original language immediately after the US premiere – available with complete flexibility on demand via Sky Go and Sky Anytime. To accompany the new season of “24”, Sky is offering 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 100 series premieres in 2014

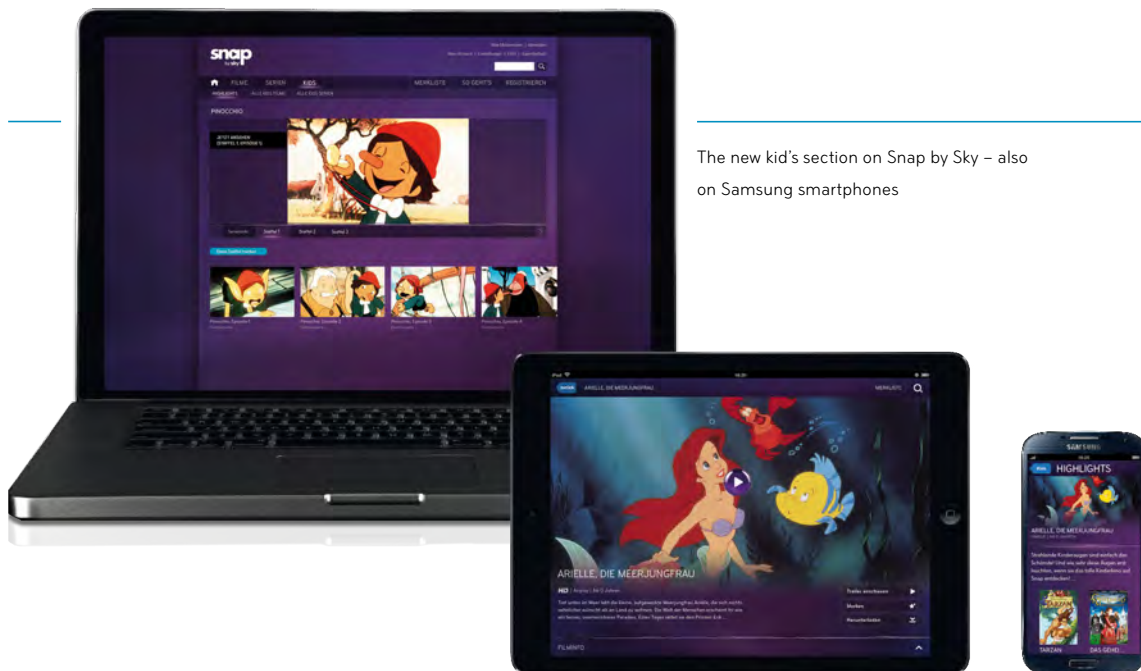
Over the course of 2014, more than 100 series premieres are included in the Sky schedule. This is an important milestone for Sky, underscoring its leadership position in high-quality exclusive content. Every one of the over 100 series premieres is broadcasted before its free TV premiere, and many of them are simultaneous with the US premiere.

Free for all subscribers: Sky Go

Sky Go became available to all Sky customers – at no additional cost. All customers can now enjoy Sky’s programming from their subscribed packages, whenever and wherever they want.

Snap by Sky – the new Sky online media library

As of February 2014, Snap features a special section with extensive children’s programming. Subscribers in Germany and Austria now have access to a range of entertainment for families and children for viewing at home or on the go. The selection includes around 1,500 titles. Add to that exclusive content from Disney such as “Tron: Uprising”, “The Avengers: Earth’s Mightiest Heroes”, “Jimmy Two-Shoes”, “Imagination Movers” and “Handy Manny” as well as movies from Disney/Pixar such as “Up” and “Toy Story 3”.



The new kid's section on Snap by Sky – also on Samsung smartphones

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 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. 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.

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 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 now 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 is 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.



Distribution

Sky's offering now available on IPTV and mobile

Since July 2013, customers of Deutsche Telekom's Entertain platform can access the range of Sky packages and the comprehensive premium HD offering, as well as the flexibility of Sky Go. All customers of Deutsche Telekom's former Liga total! package have the option of switching to a direct Sky subscription at any time, or viewing Sky Bundesliga under their existing terms until the end of the 2013/2014 season (30 June 2014). Mobile customers have the option to watch Sky Bundesliga live via Deutsche Telekom's mobile TV offering. Sky also became available to Vodafone's IPTV customers in August 2013, including the Sky HD channels and Vodafone mobile subscribers can watch Sky Bundesliga live on the Vodafone mobile TV application.

Corporate functions

Investments

On 5 December 2013, Sky entered into an agreement with Constantin Sport Holding GmbH to acquire 100 percent of the production company Plazamedia GmbH TV- und Film-Produktion as well as a 25.1 percent equity stake in Sport1 GmbH and Constantin Sport Marketing GmbH. The total purchase price will amount to around €57.5 million on a cash and debt-free basis. The transaction, which is expected to be concluded in the first half of 2014, is subject to certain conditions, as well as approval by the competition and media regulatory authorities - which have now been received. To finance the acquisition Sky and its existing bank consortium agreed on an extension of the existing credit facilities at

the same terms and conditions. The funding agreement will be used only upon fulfillment of the contractual terms of the purchase agreement and the subsequent completion of the transaction.

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 31 March 2014, the Sky Group had 2,146 full-time employees. In comparison to year-end 2013, the number of employees rose by 3.0 percent (31 December 2013: 2,084 employees).

Share-based compensation

In accordance with the circular resolution dated 2 April 2014, the terms and conditions for the long-term incentive plan for the financial year 2014 have been resolved in the Supervisory Board meeting on 10 April 2014 (LTIP 2014). The plan term for the LTIP 2014 is 3 years and starts on 1 January 2014. The plan conditions and respective company key performance indicators, compared to the long-term incentive plan 2013 (LTIP 2013) remain unchanged. The allocation within the LTIP 2014 has not yet been resolved.

Change of fiscal year

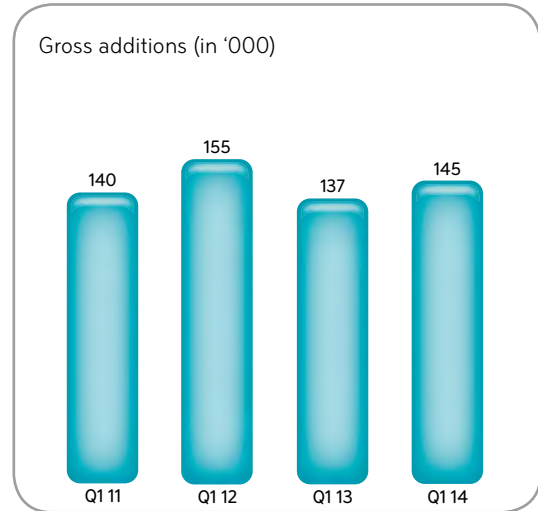
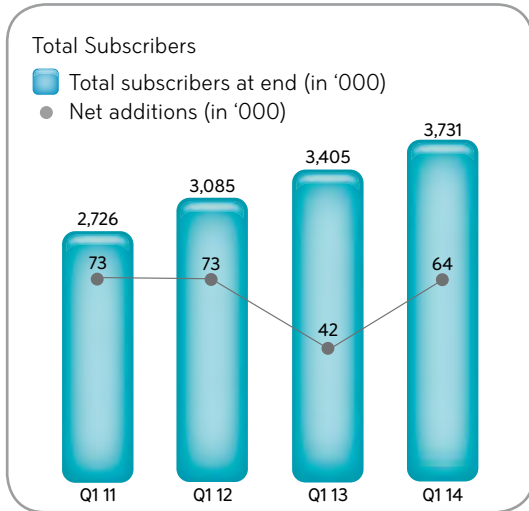
At the Annual General Meeting on 10 April 2014, it was resolved to change the fiscal year. Sky Deutschland AG and all subsidiaries will close their abbreviated financial year 2014 as of 30 June 2014, with the reporting period from 1 January 2014 until 30 June 2014. Upon changing the financial year to the new reporting period 1 July until 30 June, the financial year will no longer correspond to the calendar year. The registration of the amendment of Sky Deutschland AG's statutes into the Commercial Register has been effected in the meantime.

Subscriber metrics and quarterly trends

('000)	Q1 14	Q4 13	Q3 13	Q2 13	Q1 13
Direct subscribers ¹ at beginning	3,667	3,529	3,453	3,405	3,363
Gross additions ²	145	244	185	131	137
Churn ³	-81	-106	-109	-84	-95
Net growth	64	138	76	48	42
Direct subscribers at end	3,731	3,667	3,529	3,453	3,405
Sky Welt HD subscribers (in '000)	2,834	2,713	2,572	2,477	2,403
Premium HD subscribers ⁴ (in '000)	1,851	1,799	1,752	1,697	1,613
Premium HD penetration rate ⁵ (in %)	49.6	49.1	49.6	49.1	47.4
Premium HD subscribers including HD free-visions at end ⁶ (in '000)	2,106	2,025	1,869	1,760	1,680
Premium HD penetration rate including HD free-visions at end ⁷ (in %)	56.4	55.2	53.0	51.0	49.3
Sky+ subscribers ⁸ (in '000)	1,576	1,480	1,296	1,171	1,065
Sky+ penetration ⁹ (in %)	42.2	40.4	36.7	33.9	31.3
Second smartcard subscribers ¹⁰ (in '000)	443	429	410	393	375
Second smartcard penetration ¹¹ (in %)	11.9	11.7	11.6	11.4	11.0
Subscription ARPU ¹² (in €, monthly)	34.58	34.56	34.07	33.74	33.15
Churn rate ¹³ (in %, annualized)	8.8	11.8	12.5	9.7	11.3
Churn rate ¹³ (in %, 12 months rolling)	10.6	11.2	11.8	12.0	12.0
Wholesale subscribers (in '000)	258	268	280	124	125

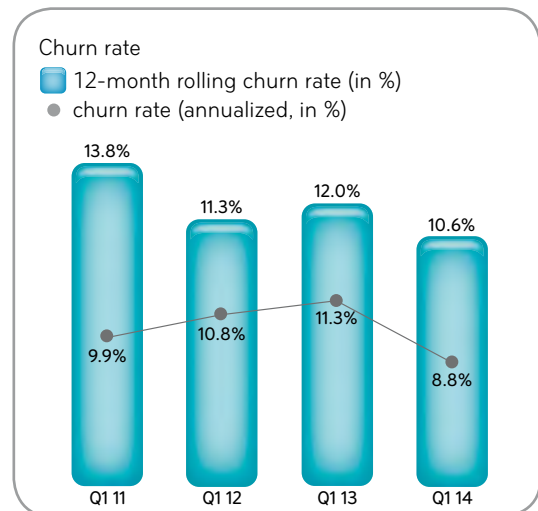
- 1) Direct subscribers comprise monthly contract subscribers (residential customers and commercial subscriptions (e.g., bars, hotel rooms – including hotel rooms served by distribution partners – and other public venues)) to at least one of Sky's channel packages and/or subscribers who purchased pay-per-view. Direct subscribers also include subscribers in the context of cooperation arrangements (e.g., triple-play offers). In the context of the activation of new contracts and the termination of existing contracts, transitional periods exist.
- 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 have been disconnected are not included; these subscribers are classified as reconnections from former subscribers. Q1 2014 gross additions include the migration of 5k subscribers due to a one-off migration action within a marketing cooperation.
- 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 after the end of 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 comprise 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 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 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 such period. Among others, Sky uses ARPU 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 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 measures 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.

Sky saw a strong start to 2014 and improved all key operational metrics. The number of direct subscribers grew by 63,885 (Q1 2013: 42,054) to 3,730,736 customers at the end of March (Q1 2013: 3,405,105). Gross additions amounted to 144,954 (Q1 2013: 137,347) and reflect strong underlying demand when considering the initiatives to improve the quality of customer growth, which were introduced at the beginning of 2013.



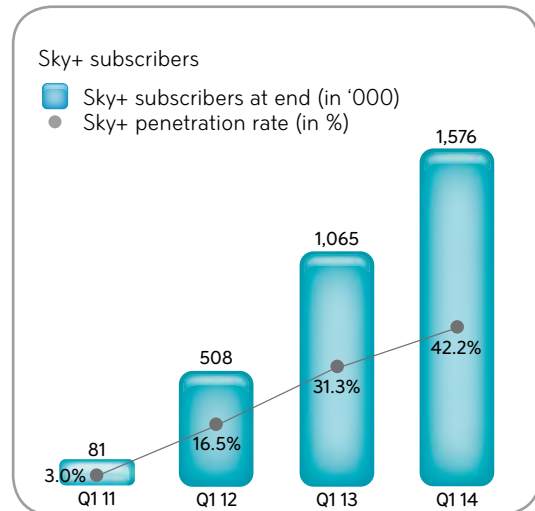
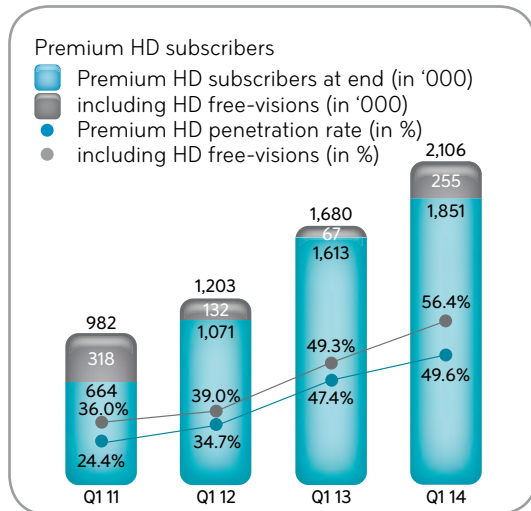
In addition, the number of wholesale subscribers increased to 257,629 (Q1 2013: 124,995) as a consequence of the inclusion of Deutsche Telekom's former Liga total! IPTV and mobile customers. All customers of Deutsche Telekom's former IPTV Liga total! package have the option of choosing a Sky direct package at any time, or to view the Sky Fußball Bundesliga as a stand-alone product on their existing terms up until 30 June 2014. After that date, they will need a direct Sky subscription to continue watching live Bundesliga matches.

Customer retention improved further with the quarterly annualized churn rate reducing to 8.8% from 11.3% in Q1 2013. The 12-month rolling churn rate also decreased reaching 10.6% from 12.0% in Q1 2013.



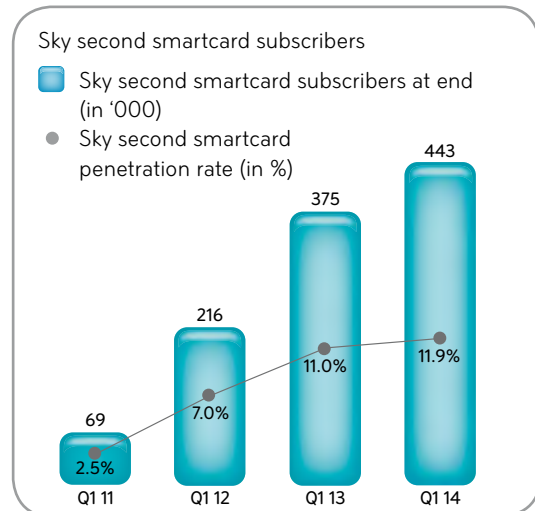
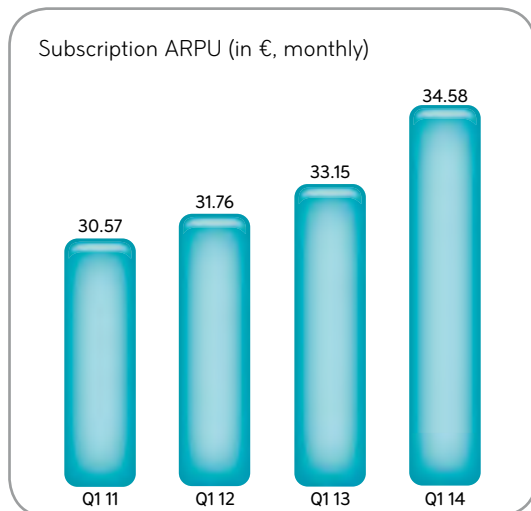
Sky's Premium HD subscribers grew by 51,817 (Q1 2013: 99,339) to 1,850,521 (Q1 2013: 1,613,375), meaning that almost half of Sky customers (49.6 percent; Q1 2013: 47.4 percent) now enjoy Premium HD. When including those customers with free access to this offering, Q1 2014 saw the number of Premium HD customers increase by an additional 28,444, with a total of 2,552,250 customers receiving Sky's Premium HD channels.

Sky+ continued its strong growth with the number of Sky+ customers increasing by 95,579 (Q1 2013: 136,028) to 1,575,593 (Q1 2013: 1,064,770). This means that 42.2 percent of Sky customers benefit from the great convenience of a Sky+ receiver in their home (Q1 2013: 31.3 percent).



Sky Zweitkarte (second smartcard) customers increased by 14,169 (Q1 2013: 28,388) to 443,089 (Q1 2013: 374,648), demonstrating that a growing number of customers want to enjoy Sky's great entertainment line-up simultaneously on multiple TV sets in their home.

Sky Go, the leading over-the-top (OTT) pay-TV service in Germany and Austria, delivered a new record performance. The number of customer sessions amounted to 24.0 million in Q1 2014 compared to 15.2 million in the same period last year, an increase of 57.8 percent year-on-year.



Net assets, financial position and results of operations

Results of operations

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

Revenues

Total revenues increased to €420.7 million (2013: €364.0 million), driven by an increase in subscription revenues of €47.2 million to €383.7 million (2013: €336.5 million) due to both a larger number of fixed-term contract subscribers and 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, particularly due to higher advertising revenues associated with broadcasting the Fußball Bundesliga, to €11.4 million (2013: €8.8 million). Hardware revenues decreased to €8.1 million (2013: €8.9 million), mainly due to lower income from activation fees. Wholesale revenues amounted to €6.9 million (2013: €3.1 million). The increase was mainly due to the cooperation agreement with Deutsche Telekom, and comprises partly 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 €10.6 million (2013: €6.8 million), mainly from granting rights to Deutsche Telekom and Vodafone to distribute and market Sky services, as well as higher revenues from sublicensing sports and movie rights. Other revenues also include revenues from Vodafone mobile customers.

Costs

Cost of sales totaled €371.0 million (2013: €299.4 million). Programming costs increased to €276.7 million (2013: €213.0 million), mainly driven by higher Bundesliga license costs, one Bundesliga match day more, as well as higher costs for film licenses. Technology amounted to €47.3 million (2013: €43.5 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 €24.2 million (2013: €21.8 million), mainly due to the increased customer contacts associated with a higher subscriber base. Hardware costs increased to €22.9 million (2013: €21.1 million). The increase mainly resulted from higher depreciation for receivers recognized under non-current assets and higher logistics costs

Selling expenses increased by €6.8 million to €57.6 million (2013: €50.8 million). The increase is mainly a result of higher marketing expenses in connection with marketing campaigns. General and administrative expenses decreased to €28.6 million (2013: €31.0 million), primarily as a result of lower personnel expenses, particularly relating to the share-based compensation programs.

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

As in the prior year period, the other operating result amounted to €2.8 million (2013: €2.8 million).

Operating Result

	Q1 2014	Q1 2013	Change (absolute)	Change (%)
Revenues (in € million)	420.7	364.0	56.7	15.6
Operating costs (in € million)	-429.3	-358.2	-71.1	19.8
EBITDA (in € million) ¹⁾	-8.6	5.8	-14.4	>100
EBITDA margin (in %) ³⁾	-2.0	1.6	-3.6	
Depreciation and amortization (in € million)	25.0	20.1	4.9	24.4
Amortization of subscriber base (in € million)	0.3	0.3	0.0	0.0
EBIT (in € million) ²⁾	-34.0	-14.7	-19.3	>100
EBIT margin (in %) ³⁾	-8.1	-4.0	-4.0	

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 operating result was driven by operating costs increasing 19.8 percent to €429.3 million (2013: €358.2 million), while revenues only increased by 15.6 percent to €420.7 million (2013: €364.0 million).

Financial result

The financial result was negative €17.8 million (2013: negative €21.8 million), including interest expenses in the amount of €0.9 million (2013: €9.4 million) relating to the debt financing arrangement concluded with the banking syndicate. With regard to the shareholder financing by 21st Century Fox Adelaide Holdings B.V. and Twenty-First Century Fox, Inc., total interest and similar expenses were incurred in the amount of €16.4 million (2013: €11.1 million). The year-on-year increase in interest expenses is mainly due to guarantee fees payable to Twenty-First Century Fox, Inc. in the amount of €7.6 million (2013: €4.2 million).

Consolidated net earnings

For the period ending 31 March 2014, earnings before taxes were negative €51.7 million (2013: negative €36.4 million). Income taxes comprise deferred tax expenses in the amount of €1.7 million (2013: €1.1 million). The consolidated net income after taxes was negative €53.4 million (2013: negative €37.6 million). Total comprehensive income was negative €54.2 million (2013: negative €36.8 million).

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

Financial position

Liquidity

Cash flow from operating activities amounted to negative €2.3 million (2013: positive €17.6 million). Cash inflows resulted from the negative EBITDA in the amount of €8.6 million (2013: positive €5.8 million) adjusted by non-cash expenses in the amount of €1.2 million (2013: €2.5 million) and cash inflows due to changes in working capital in the amount of €4.5 million (2013: €9.7 million).

Cash flow from investing activities was negative €28.9 million (2013: negative €52.4 million). Payments for investments in intangible assets and property, plant and equipment primarily related to receivers delivered to subscribers, licenses for receiver, as well as investments in software.

Cash flow from financing activities amounted to negative €18.2 million (2013: €228.6 million) and relates to current interest payments as well as repayments of financial lease liabilities. In 2013, the inflow of funds resulted from the capital increases and the drawdown under the new credit agreement which exceeded the outflow of funds for repayment of the previous credit facilities.

At the end of the first quarter 2014, Sky had at its disposal liquid funds of €147.5 million (year-end 2013: €196.9 million) and undrawn credit facilities of €72.7 million (thereof €72.7 million resulting from bank financing). The existing financing facilities (excluding guarantees and capitalized interest) were utilized in the amount of €495.6 million (31 December 2013: €495.6 million). Thereof, €31.3 million were classified as equity according to IAS 32. Regarding the financing of the purchases of 100 percent of the production company Plazamedia GmbH TV- und Filmproduktion as well as 25.1 percent in each case of Sport1 GmbH and Constantin Sport Marketing GmbH we refer to the chapter Corporate functions (Investments).

Net assets

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

Trade receivables increased by €3.8 million to €80.2 million (2013: €76.4 million). The increase was mainly due to higher receivables from cooperation partners, mainly Deutsche Telekom and Vodafone. Other financial assets increased to €4.0 million (2013: €2.3 million). The decrease in film assets and advance payments for sports and film rights to €94.9 million (2013: €112.0 million) was mainly due to a decrease in advance payments for sports rights in the amount of €28.4 million partly compensated by an increase in film assets in the amount of €9.3 million. Inventories (mainly receivers) remained almost flat at €26.2 million (2013: €26.3 million). Intangible assets amounted to €719.6 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 €26.6 million (2013: €26.5 million). The carrying amount of receivers, recognized under non-current assets, amounted to €192.9 million (2013: €196.3 million) and includes leasing hardware components (receivers, external hard-disks and CI+ modules) in the amount of €32.6 million. Other assets increased to €36.1 million (2013: €33.4 million), mainly due to higher prepayments.

Shareholders' equity decreased by €54.2 million to €277.0 million (2013: €331.2 million), due to the loss for the period. At the end of the first quarter 2013, the ratio of equity to total assets was 20.9 percent (2013: 23.9 percent).

Total liabilities decreased to €1,051.1 million (2013: €1,055.7 million) and were affected by the following developments: borrowings were almost unchanged at €551.3 million (2013: €551.6 million). They include finance lease liabilities, mainly in connection with abovementioned leasing of hardware components, in the amount of €43.3 million (2013: €47.5 million). Net financial liabilities (financial liabilities less cash) amounted to €403.8 million (2013: €354.7 million). Trade payables increased slightly to €292.1 million (2013: €289.0 million). The main reason was an increase in liabilities for film licenses which was partly offset by a decline in other liabilities from trade payables mainly resulting from lower liabilities from receiver purchases. Other financial liabilities amounted to €59.9 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 €13.8 million (2013: €13.3 million). Other liabilities remained almost unchanged at €60.7 million (2013: €61.0 million).

Deferred tax liabilities amounted to €62.2 million (2013: €60.8 million) and relate primarily to the different amortization methods in relation to intangible assets that are applied for tax purposes.

Report on expected developments and on opportunities and risks

Report on expected developments

Sky saw a strong start to 2014 with improved key operational metrics. Continued growth in customer numbers and increasing revenues have led to this result and reflect the growing appeal of Sky as well as the rising demand for its expanding range of products and services.

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.

Sky expects the positive operational and financial trends to continue in calendar year 2014. Primarily, management expects a net subscriber growth of 400k to 450k, and full year EBITDA in a range of €70m to €90m, supported by a continued strong increase in total revenues.

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

Risk report

[Reputational, legal and compliance risks](#)

Shareholder Claims

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

In this regard 13 actions for damages had been filed against Sky from 2008 to 2010. All actions were terminated legally binding, either by way of dismissal of the claim, withdrawal of the action or settlement agreements. The total settlement payments amounted to K€122. The last payments were made in 2011.

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 been paid in the meantime.

The Company 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 13 March 2012 the prospectus insurer 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. According to current assessments, Sky expects a decision in Q2/Q3 2014.

There are no outstanding obligations relating to damage claims in the consolidated interim financial statements recorded as of 31 March 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 on the Company's Management Board are continuing.

[Other legal risks](#)

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 authorities BLM were 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 were 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.

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. On 21 March 2014, Sky received a formal Request for Information. 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 up to 10% of the annual turnover of the company. The addressees of a Commission decision have the right to appeal. Neither the outcome nor the timing of the proceedings are yet predictable.

Accounting risks

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, 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 expects a decision during the second quarter of 2014.

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"), 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 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 €248.8 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 allegedly has been described too positively by at least €10 million due to incorrectly 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 might 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. It might also have to describe and correct the findings regarding the reporting within 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.

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 and other fundamental changes, sales and other dispositions 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 accelerate the repayment of the credit facilities in the event of a change of control.

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.

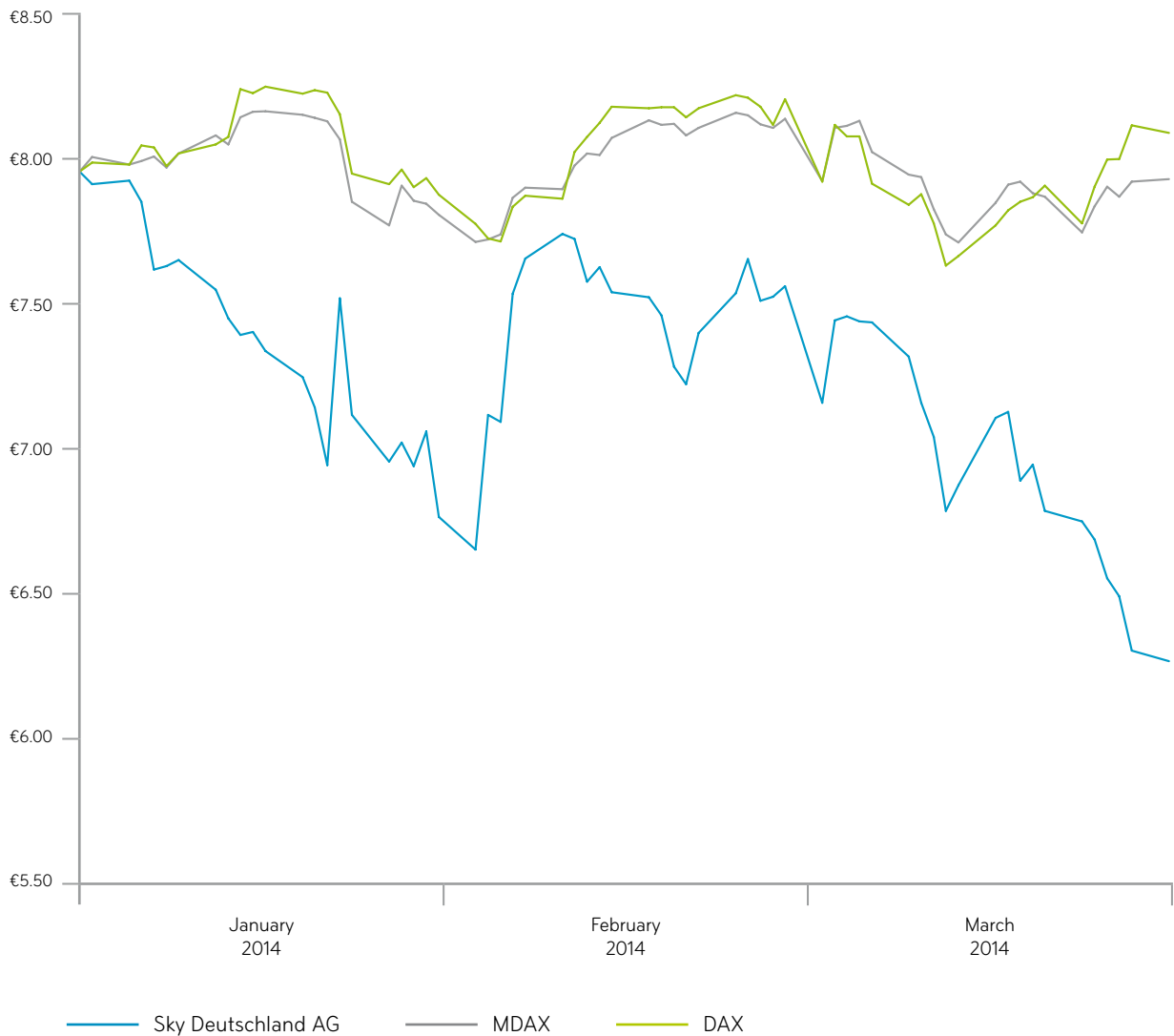
Apart from this, the opportunities and risks have not changed significantly from the statements in the 2013 Combined Management Report.

Unterföhring, 6 May 2014

The Management Board

Share information

Share price development 1 January 2014 to 31 March 2014



Sky's share price¹ started at €7.94 on 2 January and closed at €6.27 at the end of March as shown in the chart above.

This development represents a decrease of 21.1 percent over the course of the first quarter of 2014. In the same period, the DAX increased by 1.6 percent and the MDAX decreased by 0.3 percent.

Based on the closing price, Sky Deutschland AG's market capitalization on 31 March 2014 was €5,495 million with a free float market capitalization of €2,484 million.

The average daily trading volume in the first quarter of 2014 was 2,526,110 shares.

Inclusion in indices

The Sky stock is part of the MDAX and was ranked 4th in terms of trading volume and 15th in terms of market capitalization on 31 March 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 has been added to the FTSE Europe Mid Cap Index in March 2014.

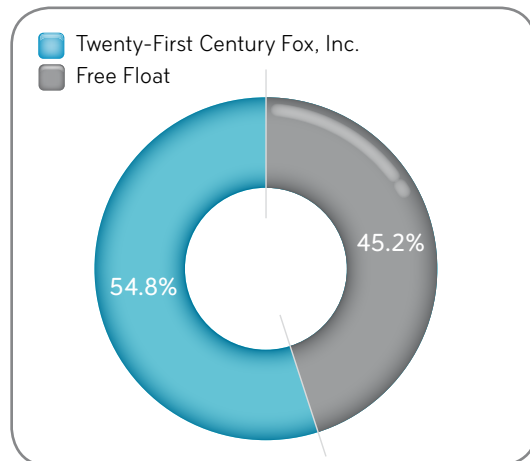
Shareholder structure

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 31 December 2013 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.

Shares held by Management

Brian Sullivan, CEO, held 30,000 shares of Sky Deutschland AG on 31 March 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 31 March 2014.

Harald Rösch, member of the Supervisory Board of Sky Deutschland AG, held 29,750 Sky shares of Sky Deutschland AG on 31 March 2014.

Contributing to the German economy

Over the past four years, Sky has delivered substantial growth. Through high-quality exclusive programming, continual innovation and outstanding customer service, the company contributed significantly to the German viewers' television experience, and also to the German economy as a whole.

This has been confirmed by an independent study which was commissioned in 2013. According to the study

- Sky added or created more than 1,000 new jobs – now employing around 2,200 people,
- an additional 24,000 jobs depend on Sky (this means that for every person employed by Sky, on average ten additional jobs are created),
- a significant economic effect can also be witnessed in the Sky sports bars (with an extra 1.3 million people visiting every week just to watch Sky's great sport coverage, additional net revenues of one billion euros were generated for Sky's partners over the course of the year).

The study further shows that Sky has significantly stimulated competition and innovation in the German television industry and driven major development in this market.

Innovation

Sky is the innovation leader in the German TV industry, particularly with regard to HDTV, 3DTV, non-linear, and mobile TV.

Customer service

925 jobs in external customer service companies are financed by Sky.

Logistics industry

With 1.8 million package deliveries per year, 120 jobs in the logistics industry are financed by Sky.

Entertainment

In 2012, 3.4 million households had access to more than 70 additional channels – linear, non-linear, on-demand, at home and on the go.

Advertising industry

With €183m in gross advertising spending, Sky is one of the largest advertisers in Germany.



Electronics industry

The electronics industry generates several hundred million euros per year with set-top-boxes and other hardware.

Licensed sports

Sky generates over 10 percent of the total revenues in professional football in Germany. More than 1,700 jobs related to the Bundesliga can be attributed to Sky.

Gastronomy

17,850 jobs are financed with €1bn additional revenues generated in Sky sports bars.

TV production industry

Around 1,000 jobs in TV production companies are financed by Sky's production expenditures, which total around €90m.

Sky

2,196 employees generated €1.3bn in revenues in 2012. Sky is growing five times faster than the TV market as a whole. The productivity of Sky employees is more than twice as high as the market average.

Interim consolidated financial statements

Consolidated balance sheet

'000	31 Mar 2014	31 Dec 2013
Assets		
Current assets		
Cash and cash equivalents	147,526	196,898
Trade receivables	80,188	76,324
Other financial assets	3,766	2,260
Film assets and advanced payments for sport and film rights	67,705	87,045
Inventories	26,238	26,329
Other assets	27,276	24,461
Total current assets	352,698	413,317
Non-current assets		
Trade receivables	52	70
Other financial assets	236	11
Deferred taxes	43	50
Film assets and advanced payments for sport and film rights	27,178	24,939
Receivers	192,908	196,276
Property, plant and equipment	26,628	26,549
Intangible assets	719,601	716,762
Other assets	8,830	8,944
Total non-current assets	975,476	973,601
Total assets	1,328,174	1,386,917
Liabilities and equity		
Current liabilities		
Borrowings	14,616	18,707
Trade payables	279,507	277,254
Other financial liabilities	40,201	46,648
Other provisions	13,804	13,338
Other liabilities	53,754	54,439
Total current liabilities	401,882	410,386
Non-current liabilities		
Borrowings	536,700	532,906
Trade payables	12,585	11,721
Other financial liabilities	19,710	22,304
Deferred taxes	62,217	60,814
Provisions for pensions and similar obligations	11,091	11,000
Other liabilities	6,949	6,586
Total non-current liabilities	649,252	645,331
Total liabilities	1,051,133	1,055,718
Equity		
Subscribed capital	877,201	877,201
Additional paid-in capital	1,920,850	1,920,850
Reconciling item for shareholder transactions without change in control	-58,245	-58,245
Accumulated other comprehensive income	-4,728	-3,993
Retained deficit	-2,458,036	-2,404,612
Equity attributable to stockholders	277,041	331,200
Non-controlling interest	-	-
Total equity	277,041	331,200
Total liabilities and equity	1,328,174	1,386,917

Consolidated statement of total comprehensive loss (Q1)

'000	1 Jan–31 Mar 2014	1 Jan–31 Mar 2013
Revenues	420,742	364,047
Cost of sales	-370,987	-299,358
Program	-276,652	-212,982
Technology	-47,260	-43,530
Hardware	-22,859	-21,090
Customer service and other cost of sales	-24,215	-21,756
Gross profit	49,756	64,688
Selling expenses	-57,603	-50,808
General and administrative expenses	-28,599	-30,984
Other operating income	3,518	2,708
Other operating expenses	-709	54
Amortization of subscriber base	-347	-347
Result from operations	-33,984	-14,689
Interest and similar income	282	307
Other financial result	308	-712
Interest and similar expenses	-18,343	-21,355
Result before taxes	-51,738	-36,448
Income taxes	-1,686	-1,129
Result for the period	-53,424	-37,578
Other comprehensive income	-735	744
of which items that may be reclassified subsequently to profit and loss	-735	744
Changes in fair value of available-for-sale financial assets	-	-
Changes in fair value of derivatives in cash flow hedges (net of tax)	-735	744
Total comprehensive loss	-54,159	-36,833
Earnings attributable to:		
Stockholders	-53,424	-37,585
Non-controlling interest	-	8
Total comprehensive loss attributable to:		
Stockholders	-54,159	-36,841
Non-controlling interest	-	8
Result per share total (€) basic/diluted	-0.06	-0.04

Consolidated statement of cash flows

'000	1 Jan–31 Mar 2014	1 Jan–31 Mar 2013
Result for the period before income tax	-51,738	-36,448
Net interest expense	18,062	21,047
Depreciation, amortization and impairment losses/reversal of impairment losses on property, plant and equipment, receivers, intangible assets and financial assets	25,033	20,147
Amortization of subscriber bases	347	347
Other non-cash income and expenses	1,219	2,496
Changes in other provisions	466	374
Losses/gains on disposal of intangible assets and property, plant and equipment	11	-
Changes in inventories, trade receivables and other assets	5,385	-20,125
Changes in trade payables and other liabilities	-1,330	29,410
Interest received	277	303
Net cash used/provided by operating activities	-2,269	17,550
Payments for acquisition of entities, net of cash acquired	-	-19,592
Payments for investments in intangible assets, property, plant and equipment and receivers	-28,865	-32,759
Net cash used by investing activities	-28,865	-52,351
Proceeds from increase in capital by stockholders	-	438,378
Proceeds from the granting of borrowings	-	225,030
Repayment of finance lease liabilities	-5,234	-2,222
Repayment of borrowings	-	-391,157
Payments for transaction costs in connection with financing	-1,577	-30,109
Interest paid	-11,428	-11,322
Net cash used/provided by financing activities	-18,239	228,598
Net decrease/increase in cash and cash equivalents	-49,373	193,798
Cash and cash equivalents at beginning of period	196,898	4,294
Cash and cash equivalents at end of period	147,526	198,092



Consolidated statement of changes in equity

'000	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	-	-	2,579	-
Balance as of 31 Mar 2013 (adjusted)	778,910	1,595,944	-2,271,689	-58,245
Increase in capital for contribution in cash on 15 January 2013 (less transaction costs)	77,891	259,364	-	-
Increase in capital for contribution in cash on 8 February 2013 (less transaction costs)	20,400	65,485	-	-
Total transactions with stockholders	98,291	324,849	-	-
Total comprehensive loss	-	-	-37,585	-
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 31 Mar 2013	877,201	1,920,793	-2,309,275	-58,245
Balance as of 1 Jan 2014	877,201	1,920,850	-2,404,612	-58,245
Total comprehensive loss	-	-	-53,424	-
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 31 Mar 2014	877,201	1,920,850	-2,458,036	-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
-	-2,579	-2,579	-	-	-
-266	-2,579	-2,845	42,075	-61	42,014
-	-	-	337,255	-	337,255
-	-	-	85,885	-	85,885
-	-	-	423,140	-	423,140
744	-	744	-36,841	8	-36,833
744	-	744	744	-	744
-	-	-	-	-	-
478	-2,579	-2,101	428,374	-53	428,321
-1,289	-2,704	-3,993	331,200	-	331,200
-735	-	-735	-54,159	-	-54,159
-735	-	-735	-735	-	-735
-	-	-	-	-	-
-2,024	-2,704	-4,728	277,041	-	277,041

Notes to the interim consolidated financial statements (selected explanatory notes)

General information and basis of preparation

General information about the Group

Sky Deutschland AG (also referred to as “Company” or “Sky”) has prepared its interim consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as they are to be applied within the EU. The accompanying interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (IAS 34). In accordance with IAS 34.10, Sky publishes condensed explanatory notes in its interim consolidated financial statements. Due to the totalling of individual items, rounding differences may occur in the tables provided.

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.

At the Annual General Meeting on 10 April 2014, it was resolved to change the fiscal year 2014; as a result, it deviates from the previous fiscal year. Sky Deutschland AG and all subsidiaries will close their abbreviated financial year 2014 as of 30 June 2014, with the reporting period from 1 January 2014 until 30 June 2014. Upon changing the financial year to the new reporting period 1 July until 30 June, the financial year will no longer correspond to the calendar year. The registration of the amendment of Sky Deutschland AG’s statutes into the Commercial Register has been effected in the meantime.

Conclusion of new contracts

The existing contract with Fox International Channels Germany GmbH, Unterföhring (Fox) regarding the provision of a partner channel expired in October 2013. At that time, the extension option was not exercised by Fox. In the first quarter of 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.

Extension of contracts with 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.

Changes in the group of consolidated companies

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

On 5 December 2013, Sky Deutschland Fernsehen GmbH & Co. KG agreed with Constantin Sport Holding GmbH, Ismaning to acquire 100 percent of its production company Plazamedia GmbH TV- und Film-Produktion, Ismaning as well as a 25.1 percent equity stake in Sport1 GmbH, Ismaning and Constantin Sport Marketing GmbH, Ismaning. The total purchase price will amount to around €57.5 million on a cash and debt-free basis.

The transaction, which is expected to be closed in the first half of 2014, is subject to certain conditions as well as regulatory authority approvals. The approval by the competition and media regulatory authorities has now been received.

The acquisition of Plazamedia will significantly enhance Sky’s production capacities, enabling greater flexibility and system continuity. The acquisition of a minority stake in Sport1 and Constantin Sport Marketing allows for an investment in what will be an important business partner of Plazamedia. Besides its television channel business, Sport1 and Constantin Sport Marketing also operate the German online sports portal SPORT1.de, as well as an advertising sales business.

Borrowings

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. The funding agreement will be used only upon fulfillment of the contractual terms of the purchase agreement and the subsequent completion of the transaction.

Accounting policies

The accounting policies applied for Sky's interim consolidated financial statements as of 31 March 2014 correspond with the policies described in the Company's IFRS consolidated financial statements as of 31 December 2013. For further information, we refer to the consolidated financial statements as of 31 December 2013.

The following standards are adopted with obligatory effect for the first time in the ongoing fiscal year:

IAS 27 (2011 revised)	Separate Financial Statements
IAS 28 (2011 revised)	Investments in Associates and Joint Ventures
Amendment to IAS 27 (Investment Entities)	Separate Financial Statements
Amendment to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendment to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendment to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interest in Other Entities
IFRS 10–12	Transitional Guidance
Amendment to IFRS 10 (Investment Entities)	Consolidated Financial Statements
Amendment to IFRS 12 (Investment Entities)	Disclosure of Interest in Other Entities

The following standards and amendments issued by the IASB do not have to be applied by Sky with obligatory effect as of 31 March 2014 either because they have not yet been adopted by the EU or because the date of first-time application in the EU has not yet been reached:

Amendment to IAS 19 (2011 revised)	Employee Contributions
IFRS 9	Financial Instruments
IFRS 14	Regulatory Deferral Accounts
IFRIC 21	Levies
Omnibus Standard	Annual Improvements Project 2010–2012
Omnibus Standard	Annual Improvements Project 2011–2013

With respect to the adoption of, and/or amendment to, standards that do not, as of yet, have to be applied, Sky is constantly in the process of evaluating potential quantitative effects on the consolidated financial statements.

Sky has appraised both the service contract for running the business of a call center concluded in 2012 and the impending purchase of the production company Plazamedia GmbH TV- und Film-Produktion GmbH, Ismaning under the new regulations of IFRS 10. At the current time, no statements can be made regarding the potential effects of other standards.

Significant influences on the consolidated interim financial statements

Changes in the balance sheet

Cash, cash equivalents and cash flow

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. Restricted cash is shown under other assets. This primarily consists of accounts pledged to suppliers, rental guarantees and guarantees for payment obligations lodged with banks and other accounts.

Cash and cash equivalents decreased by K€49,373 from K€196,898 as of 31 December 2013 to K€147,526 as of 31 March 2014. As of the balance sheet date of 31 March 2014, restricted cash amounted to K€2,410 (31 December 2013: K€2,410).

In accordance with IAS 7, the consolidated statement of cash flows shows the cash in and outflows of the reporting period. Both the source and use of funding are presented. Based on the nature of the cash flows, a distinction is made between operating activities, investing activities and 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.

Cash flow from operating activities amounted to negative K€2,269 (2013: positive K€17,550). Cash outflows resulted from the negative EBITDA in the amount of K€8,604 (2013: positive K€5,805) adjusted by non-cash expenses in the amount of K€1,219 (2013: K€2,496) as well as cash inflows due to changes in working capital in the amount of K€4,520 (2013: cash inflows in the amount of K€9,660).

Cash flow from investing activities was negative K€28,865 (2013: negative K€52,351). Payments for investments in intangible assets and property, plant and equipment primarily related to receivers delivered to subscribers, licenses as well as investments in software.

Cash flow from financing activities amounted to negative K€18,239 (2013: K€228,598) and relates to current interest payments as well as repayments of finance lease liabilities. In 2013, the inflow of funds as a result of the capital increases and the drawdown under the new credit agreement exceeded the outflow of funds for repayment of the existing credit facilities, interest payments and payments for transaction costs in connection with the financing measures implemented.

The existing financing facilities (excluding guarantees and capitalized interest) were utilized in the amount of K€495,615 (31 December 2013: K€495,615). Thereof, K€31,275 were 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 bank financing).

Film assets and advanced payments for sport and film rights

The carrying amount of film assets and advanced payments for sport and film rights as of 31 March 2014 amounts to K€94,883 (31 December 2013: K€111,984). This development was mainly due to a decrease in advance payments for sports rights in the amount of K€28,385 and an increased purchase of film licenses for film assets in the amount of K€9,255.

Intangible assets

In accordance with the requirements of IAS 38, Sky has capitalized internal development costs for the first time in the interim consolidated financial statements as of 31 March 2014. These entirely represent incidental acquisition cost of purchased software.

In total, Sky capitalized internal development costs in the amount of K€937 as additions to 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. Directly attributable costs also contain internal development costs according to production costs linked to the purchase of software.

Other financial liabilities

Other financial liabilities amount to K€59,911 as of 31 March 2014 (31 December 2013: K€68,951). The decrease is mainly the result of lower liabilities to employees, which decreased by K€9,323 from K€44,640 as of 31 December 2013 to K€35,316 as of 31 March 2014. Liabilities to employees comprise obligations under share-based compensation programs, outstanding bonus payments and the variable compensation of the Management Board.

Equity

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 until 2 April 2017, once or in partial amounts, to issue registered and/or bearer convertible bonds and/or notes with warrants ("bonds") in an aggregate nominal amount of up to €1,500,000,000 with a limited or unlimited term. The Management Board has also been authorized to grant conversion or option rights to subscribe up to 335,538,696 new registered no-par value ordinary shares (no-par shares) in Sky Deutschland AG with a pro rata amount of the registered share capital of up to €335,538,696 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 (Authorization 2012). The Annual General Meeting further resolved that the registered share capital of the company is 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 in the Annual General Meeting on 3 April 2012 remains unchanged.

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

The Authorized Capital 2012 which initially amounted to €389,454,881 therefore amounts to €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 4 lit. (b) of the Articles of Association) was used entirely. Therefore, the authorization has become obsolete and was removed from the respective provision in the Articles of Association.

The corresponding registration of the amendment of the Company's statutes into the Commercial Register has been effected.

At the Annual General Meeting on 10 April 2014 no resolutions regarding new capital measures were passed.

Consolidated statement of total comprehensive loss

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

Revenues

Revenues for the first quarter of 2014 amounted to K€420,742 as compared to revenues in the amount of K€414,317 for the fourth quarter of 2013. This increase primarily resulted from higher subscription revenues. The increase in subscription revenues is due to both a growth in direct subscribers and to a higher ARPU.

Revenues primarily consisted of subscription revenues in the amount of K€383,677 (2013: K€336,524) and revenues from hardware of K€8,109 (2013: K€8,866). Wholesale revenues amount to K€6,949 (2013: K€3,082). Advertising and other revenues amounted to K€22,006 (2013: K€15,574).

Cost of sales

Cost of sales totalled K€370,987 (2013: K€299,358). Programming costs increased to K€276,652 (2013: K€212,982), mainly driven by higher Bundesliga license costs, one Bundesliga match day more as well as higher costs for film licenses. The increase in technology costs by K€3,730 to K€47,260 (2013: K€43,530) was primarily the result of an increase in costs for cable broadcasting, additional transponder capacity and playout services, mainly driven by an increased number of HD channels. Customer service and other cost of sales increased to K€24,215 (2013: K€21,756), mainly due to the increased customer contacts associated with the higher subscriber base. Hardware costs increased to K€22,859 (2013: K€21,090). The increase is due to higher depreciation in connection with increased volumes of receivers recognized under non-current assets.

Cost of sales for the first quarter of 2014 amounted to K€370,987 as compared to cost of sales in the amount of K€364,295 for the fourth quarter of 2013. License costs for sport events, which are utilized based on the allocation of events during the relevant license period, were the main reason for the increase in programming costs.

Selling expenses

Selling expenses increased by K€6,795 to K€57,603 (2013: K€50,808). This increase is mainly a result of higher marketing expenses in connection with marketing campaigns.

General and administrative expenses

General and administrative expenses decreased by K€2,385 to K€28,599 (2013: K€30,984). This decrease was primarily the result of lower personnel expenses, particularly related to the share-based compensation programs.

Interest and similar expenses

Interest and similar expenses decreased by K€3,011 to K€18,343 (2013: K€21,355). 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€8,827 was incurred in 2014 (2013: K€13,921) in connection with bank financing and was recognized in profit and loss. In connection with replacing the previous credit financing, deferred transaction costs in the amount of K€4,127 were released and recognized in interest expenses in the reporting period 2013.

In connection with the shareholder financing by 21st Century Fox Adelaide Holdings B.V., an interest expense in the amount of K€8,552 (2013: K€6,592) was incurred. The year-on-year increase is mainly due to the interest on a shareholder loan with 21st Century Fox Adelaide Holdings B.V. in the amount of K€48,000 that was drawn in December 2013.

Earnings per share

	1 Jan–31 Mar	
	2014	2013
Net income attributable to stockholders of Sky Deutschland AG (K€)	-53,424	-37,585
Weighted average number of outstanding shares (K)	877,201	856,698
Basic earnings per share (€)	-0.06	-0.04

Basic earnings per share are calculated as the ratio of the Group net income attributable to the Company's shareholders and the weighted average number of shares outstanding during the applicable period.

For the three-month period of 2014, the weighted average number of outstanding shares amounted to 877,200,755 registered shares.

In 2011, Sky issued a convertible bond to 21st Century Fox 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.

Upon conversion of the bond into ordinary registered shares, the weighted average number of outstanding shares would have increased to 931,114,937.

Due to the consolidated loss incurred in the three-month period of 2014, the diluted earnings per share correspond to the basic earnings per share.

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.

(K€)	Valuation	Disclosed in the balance sheet under	31 Mar 2014		31 Dec 2013	
			Fair value	Carrying amount	Fair value	Carrying amount
Assets						
Cash and cash equivalents	n/a	Cash and cash equivalents	147,526	147,526	196,898	196,898
Loans and receivables	Amortized cost	Trade receivables, other financial assets	83,542	83,542	78,026	78,026
Receivables accounted for in accordance with IAS 17	Amortized cost	Trade receivables	156	163	201	212
Available-for-sale financial assets	Amortized cost	Other financial assets	8	8	8	8
Derivative financial assets	Fair value	Other financial assets	528	528	418	418
- Derivatives in connection with cash flow hedges	Fair value through equity	Other financial assets	172	172	128	128
- Derivatives without hedge relation	Fair value through profit and loss	Other financial assets	356	356	290	290
Liabilities						
Financial liabilities at amortized cost	Amortized cost	Borrowings, trade payables, other financial liabilities	827,520	827,725	828,881	829,091
Financial liabilities accounted for in accordance with IAS 17	Amortized cost	Borrowings	43,245	43,283	47,455	47,502
Other non-derivative financial liabilities accounted for in accordance with IFRS 2	Fair value	Other financial liabilities	26,625	26,625	27,784	27,784
Derivative financial liabilities	Fair value	Other financial assets	5,685	5,685	5,164	5,164
- Derivatives in connection with cash flow hedges	Fair value through equity	Other financial liabilities	2,959	2,959	1,903	1,903
- Derivatives without hedge relation	Fair value through profit and loss	Other financial liabilities	2,727	2,727	3,261	3,261

Loans and receivables primarily have short maturities, so that their carrying amounts as of the balance sheet date correspond to the fair values. The fair values of the receivables accounted for in accordance with IAS 17, which do not constitute financial instruments in accordance with IFRS 7, are determined with reference to the discounted expected future cash flows on the basis of the contractual terms.

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 structure trend.

The fair values of the financial liabilities are determined as the present values of the payments associated with the liabilities, applying the respective applicable interest structure trend.

Trade payables and other borrowings mainly have short maturities, so that their carrying amounts approximate the fair values. The fair values of the financial liabilities accounted for in accordance with IAS 17, which do not constitute financial instruments in accordance with IFRS 7 are determined with reference to the discounted expected future cash flows on the basis of the contractual terms.

The carrying amount of the other non-derivative financial liabilities comprises the obligations for 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 analyzes 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)

31 Mar 2014 (K€)	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial assets	-	528	-	528
- Derivatives in connection with cash flow hedges	-	172	-	172
- Derivatives without hedge relation	-	356	-	356
Available-for-sale financial assets	-	-	-	-
Liabilities				
Derivative financial liabilities	-	5,685	-	5,685
- Derivatives in connection with cash flow hedges	-	2,959	-	2,959
- Derivatives without hedge relation	-	2,727	-	2,727
31 Dec 2013 (K€)				
Assets				
Derivative financial assets	-	418	-	418
- Derivatives in connection with cash flow hedges	-	128	-	128
- Derivatives without hedge relation	-	290	-	290
Available-for-sale financial assets	-	-	-	-
Liabilities				
Derivative financial liabilities	-	5,164	-	5,164
- Derivatives in connection with cash flow hedges	-	1,903	-	1,903
- Derivatives without hedge relation	-	3,261	-	3,261

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

31 Mar 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	145	-	145	-681	-	-535
- concluded with Bayerische Landesbank	383	-	383	-2,165	-	-1,782
- concluded with Bank of America Merrill Lynch	-	-	-	-932	-	-932
- concluded with UniCredit Bank	-	-	-	-932	-	-932
- concluded with J.P. Morgan Securities plc.	-	-	-	-975	-	-975
Total	528	-	528	-5,685	-	-5,157

31 Mar 2014 (K€)	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the balance sheet	Net amounts of financial liabilities 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	-681	-	-681	145	-	-535
- concluded with Bayerische Landesbank	-2,165	-	-2,165	383	-	-1,782
- concluded with Bank of America Merrill Lynch	-932	-	-932	-	-	-932
- concluded with UniCredit Bank	-932	-	-932	-	-	-932
- concluded with J.P. Morgan Securities plc.	-975	-	-975	-	-	-975
Total	-5,685	-	-5,685	528	-	-5,157

Other explanatory comments

The following sections refer to the current material litigations.

Shareholder Claims

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

In that regard 13 actions for damages had been filed against Sky between 2008 and 2010. All actions were terminated legally binding, either by way of dismissal of the claim, withdrawal of the action or settlement agreements. The total settlement payments amounted to K€122. The last payments were made in 2011.

Furthermore, out-of-court claims totalling 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 instalments. All instalments have been paid in the meantime.

The Company 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. According to current assessments, Sky expects a decision in Q2/Q3 2014.

There are no outstanding obligations relating to damage claims in the consolidated interim financial statements recorded as of 31 March 2014.

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

The findings of BaFin have no direct effects on the financial reporting at this time.

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 expects a decision during the second quarter of 2014.

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 paragraph 1 of the 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 €248.8 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 allegedly has been described too positively by at least €10 million due to incorrectly 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 the 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 might 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. It might also have to describe and correct the findings regarding the reporting within 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 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. After a comprehensive amendment, ZPÜ has introduced fees for devices and storage media that are subject to royalty payments when imported to or distributed in Germany since 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.
- The 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.
- The 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 next two years.

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 from 11 July 2013 as a liability.

Investigation of the Financial Reporting Enforcement Panel (FREP)

With a letter dated 20 September 2013, the FREP has 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 in 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 and is of the opinion that the admittance of the claim will not have a significant impact on the financial position, financial performance and cash flows of the Group. The parties are in the process of filing a compromise agreement which eliminates the risk described above.

Legal action taken due to potential infringement of a trademark

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 omission of labeling 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 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 the 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 authorities BLM were 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 were 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 the 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. On 21 March 2014, Sky received a formal Request for Information. However, 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 up to 10% of the annual turnover of the company. The addressees of a Commission decision have the right to appeal. Neither the outcome nor the timing of the proceedings are yet predictable.

Share-based payments

In accordance with the circular resolution dated 2 April 2014, the terms and conditions for the long-term incentive plan for the financial year 2014 have been resolved in the Supervisory Board meeting on 10 April 2014 (LTIP 2014).

The plan term for the LTIP 2014 is 3 years and starts on 1 January 2014. The plan conditions and respective company key performance indicators, compared to the long-term incentive plan 2013 (LTIP 2013), remain unchanged. The allocation within the LTIP 2014 has not yet been resolved.

In light of the business development the Supervisory Board decided by resolution of 4 October 2012 to increase the target values concerning the agreed Company performance indicators for the LTIPs 2011 and 2012, which compared to the previous assumptions corresponds to lower payments to the eligible persons in case of target achievement.

With respect to the accounting treatment of the share-based payments, full target achievement has been assumed.

The calculation as of 31 March 2014 was based on the following parameters:

	LTIP 2012	LTIP 2013
Risk-free interest rate*	0.10%	0.14%
Dividend yield	-	-
Volatility	50.65%	50.65%
Price of the Sky share	€6.26	€6.26
Churn rate employees*	5.00%	5.00%

* For the LTIP 2013 concluded with Brian Sullivan the risk-free interest rate amounts to 0.03 percent. The churn rate amounts to zero percent.

The calculation as of 31 March 2013 was based on the following parameters:

	LTIP 2011	LTIP 2012	LTIP 2013
Risk-free interest rate*	-0.02%	-0.06%	-0.10%
Dividend yield	-	-	-
Volatility	63.88%	63.88%	63.88%
Price of the Sky share	€4.30	€4.30	€4.30
Churn rate employees*	5.00%	5.00%	5.00%

* For the LTIP 2013 concluded with Brian Sullivan the risk-free interest rate amounts to a negative 0.05 percent. The churn rate amounts to zero percent.

On the basis of the long-term incentive plans concluded in 2011, 2012 and 2013, a total of 5,328,016 virtual shares were granted to members of the Management Board and Senior Executives (thereof 2,619,991 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 Executives to receive payments 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 the virtual shares as of 31 March 2014 amounts to K€31,643 (31 March 2013: K€20,983) of which K€15,695 relates to members of the Management Board (31 March 2013: K€10,207). For the three-month period of 2014, an income in the amount of K€1,101 (31 March 2013: expense in the amount of K€2,195) was recognized in profit and loss, of which K€517 relates to members of the Management Board (31 March 2013: K€1,192). This development is mainly driven by a decrease in the underlying price of the Sky share from €8.00 as of 31 December 2013 to €6.26 as of 31 March 2014.

In connection with the share-based compensation component that was concluded with Brian Sullivan and which will result in a one-time payment on the basis of 500,000 shares, an income in the amount of K€58 (31 March 2013: expense in the amount of K€358) has been recognized in profit and loss in the three-month period 2014. This payment will be determined by the volume-weighted average market price of the Sky share for December 2014 and will be due on 2 January 2015 if the vesting conditions are met.

Brian Sullivan will receive payments in January 2015 and April 2015 on the basis of the volume-weighted average market price of the Sky share for December 2014 for the long-term incentive plans 2013 (with shorter maturity) and 2012 as concluded with the Chief Executive Officer.

The contract with Brian Sullivan expires on 31 December 2014. Negotiations regarding a contract extension are currently ongoing.

Related party transactions

Related parties are persons or companies on which the Company can exert significant influence or which can exercise significant influence on the Company. In addition to the members of the Company's Management and Supervisory Board, they also include family members and the partners of the affected persons.

The scope of transactions with affiliated companies described in the consolidated financial statements as of 31 December 2013 remains unchanged. In the course of normal business activities, all delivery and service transactions with non-consolidated related entities and persons are carried out under market-standard terms and conditions which are also customary with non-related third parties.

The expenses incurred for services received from companies with controlling or significant influence over Sky relate, in particular, to license payments for film rights and interests. In this connection, companies with significant influence are those that are controlled by Twenty-First Century Fox, Inc., those that are 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.

The Company carried out transactions with the following Groups of related parties during the first quarter of 2014:

(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	218	-	-	218
Income from recharging personnel expenses	-	-	-	-
Other income	38	-	-	38
Expenses from services received	-31,881	-	-101	-31,982
Personnel expenses	-	-1,087	-	-1,087
Result for the period	-31,625	-1,087	-101	-32,814
Payables	-309,492	-15,931	-23	-325,446
Receivables	367	2	-	369

For share-based compensation programs granted to members of the Management Board, an income in the amount of K€589 was recognized in the three-month period of 2014 (31 March 2013: expense in the amount of K€2,168) in addition to other remuneration.

The table above includes an interest expense in the amount of K€8,552 (31 March 2013: K€6,592) for the shareholder financing with 21st Century Fox Adelaide Holdings B.V. and an interest expense in the amount of K€7,252 (31 March 2013: K€4,243) for the debt financing, including the Bundesliga guarantee with Twenty-First Century Fox, Inc. shown under expenses from services received.

In the first quarter of 2014, Sky paid interest in the amount of K€2,282 (2013: K€2,277) on the convertible bond to 21st Century Fox Adelaide Holdings B.V.

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 the first quarter of 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 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 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. A change of control entitles the lenders to cancel the credit facilities.

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, in Sport1 GmbH and Constantin Sport Marketing GmbH. Sky Deutschland AG has entered into an extension of the existing credit facilities with members of the existing bank syndicate to finance the agreed purchase guaranteed by Twenty-First Century Fox. The guarantee interest rate amounts to 6.0 percent per annum. The funding agreement will be used only upon fulfillment of the contractual terms of the purchase agreement and the subsequent completion of the transaction.

Other financial commitments

Other financial commitments as of the reporting date are as follows:

(K€)	31 Mar 2014	31 Dec 2013
Film licenses	559,957	576,138
Sport licenses	1,983,874	2,114,348
Partner channels	357,851	332,440
Purchase commitments for receivers	30,617	27,190
Miscellaneous	350,306	371,712
Total	3,282,604	3,421,828

Future commitments for network operators and transponder rents as well as under non-cancellable operating leases are as follows:

(K€)	31 Mar 2014	31 Dec 2013
Network operators and transponder rents	861,271	918,665
Office buildings	77,953	78,343
Motor vehicles	3,127	3,308
Technical office equipment	55	61
Total	942,406	1,000,377

The declining development of other financial commitments is mainly explained by decreasing terms of existing agreements, in particular sport licenses as well as agreements with network operators and transponder rents.

Segment reporting

The business activities of the Sky Group focus 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. Therefore, Sky does not have different operating segments in accordance with IFRS 8.

Events after the balance sheet date

On 8 April 2014, Sky extended its exclusive rights to broadcast all matches of the world's most prestigious tennis tournament, Wimbledon. Sky Deutschland and the All England Lawn Tennis Club, Wimbledon, have agreed a multi-year extension of their coverage of The Championships.

Apart from the transactions disclosed under the individual captions of these notes, no other significant transactions have occurred since the balance sheet date.

Unterföhring, 6 May 2014

The Management Board

Further Information

Imprint

Published by

Sky Deutschland AG
Medienallee 26
85774 Unterföhring
info.sky.de

Contact and further information:

Communications

Phone: +49 89 9958 5000
E-mail: info@sky.de

Investor Relations

Phone: +49 89 9958 1010
E-mail: ir@sky.de

Financial Calendar 2014

6 Aug 2014 Media release of the preliminary results for the short fiscal year 2014
23 Sep 2014 Publication of the Annual Report for the short fiscal year 2014
5 Nov 2014 Media release of the Q1 2014/2015 results
12 Nov 2014 Publication of the Q1 2014/2015 report

Disclaimer

This report contains forward-looking statements based on the currently held assessments and assumptions of the management of Sky Deutschland AG, which are expressed in good faith and given to the best of knowledge of the Company. This document contains statements on future developments based on currently available information and also includes risks and uncertainties that could lead to actual results deviating from these forward-looking statements. Considering these risks, uncertainties and other factors, recipients shall not rely on these forward-looking statements in an unreasonable way. Sky Deutschland AG assumes no obligation to update, modify or amend any forward-looking statements