Sky Deutschland AG
Q1 Report 2014/15

Key Figures Q1 2014/15 versus Q1 2013/14

	Q1 2014/15	Q1 2013/14*	Change (absolute)	Change (in %)
Subscribers				
Direct subscribers[1)] at beginning	3,813	3,453	360	10.4%
Gross additions[2)]	179	185	–6	–3.1%
Churn[3)]	–83	–109	26	23.6%
Net growth	96	76	20	26.2%
Direct subscribers at end (in ‘000)	3,908	3,529	379	10.8%
HD Welt subscribers at end (in ‘000)	3,106	2,572	533	20.7%
Premium HD subscribers at end[4)] (in ‘000)	2,004	1,752	252	14.4%
Premium HD penetration rate[5)] (in %)	51.3%	49.6%	1.6%	–
Premium HD subscribers including HD free-visions at end of period[6)] (in ‘000)	2,311	1,869	442	23.6%
Premium HD penetration rate including HD free-visions[7)] (in %)	59.1%	53.0%	6.2%	–
Sky+ subscribers at end[8)] (in ‘000)	1,786	1,296	490	37.8%
Sky+ penetration[9)] (in %)	45.7%	36.7%	9.0%	–
Second smartcard subscribers at end[10)] (in '000)	461	410	50	12.3%
Second smartcard penetration[11)] (in %)	11.8%	11.6%	0.2%	–
Subscription ARPU[12)] (in €, monthly)	34.00	34.07	–0.07	–0.2%
Churn rate[13)] (in %, quarterly annualized)	8.6%	12.5%	–3.9%	–
Churn rate[13)] (in %, 12 month rolling)	9.2%	11.8%	–2.6%	–
Wholesale subscribers at end (in ‘000)	155	280	–125	–44.5%
Financials (in € million)				
Revenues	431.3	392.7	38.6	9.8%
Operating expenses	376.9	363.5	13.4	3.7%
EBITDA	54.4	29.2	25.2	86.3%
Depreciation and amortisation	25.6	22.6	3.0	13.2%
Amortisation of subscriber base	0.3	0.3	0.0	0.0%
EBIT	28.5	6.3	22.2	>100%
Financial result	–15.2	–18.8	3.6	19.0%
Income taxes	–0.9	–1.7	0.8	46.2%
Net income	12.3	–14.2	26.6	>100%

	30 Sept 2014	30 Sept 2013	Change (absolut)	Change (in %)
Consolidated balance sheet (in € million)				
Total assets	1,363.0	1,371.5	–8.5	–0.6%
Shareholders' equity	287.4	412.0	–124.5	–30.2%
Net debt	483.5	350.4	133.2	38.0%
Employees				
Full-time employees	2,200	2.037	163	8.0%

1) Direct subscribers include monthly contract subscribers (residential customers and commercial subscriptions (e.g., bars, hotel rooms – including hotel rooms served by distribution partners – and other public venues)) to at least one of Sky's channel packages and/or subscribers who purchased pay-per-view. Direct subscribers also include subscribers through cooperative arrangements (e.g. triple-play offers). Transitional periods are reflected in connection with the activation of new contracts and the termination of existing contracts.
2) Gross additions consist of all new direct subscribers with an activated smartcard in a given period. New direct subscribers who had an active subscription within the last twelve months and were disconnected are not included; these subscribers are classified as reconnections from former subscribers. Q3 2013/14 gross additions include the 5k subscribers due to a one time migration as part of a marketing cooperative arrangement.
3) Churn for a given period is defined as the number of direct subscribers who terminated their subscriptions, or who have not paid their bill and had their subscriptions terminated following the Company's dunning process, or who have left their contract for other reasons (e.g. deceased), less the number of reconnections from former subscribers (as described in footnote 2).
4) Premium HD subscribers are subscribers who have subscribed to Sky's premium HD channels. The respective revenue contribution of premium HD subscribers is included in ARPU.
5) HD penetration is defined as the relation of premium HD subscribers to the total number of direct subscribers at the end of the respective period.
6) Premium HD subscribers including HD free-visions comprise subscribers who have either subscribed or have free access to Sky's Premium HD channels. The respective revenue contribution of Premium HD subscribers is included in ARPU.
7) Premium HD penetration including HD free-visions is defined as the relation of subscribers who have either subscribed or have free access to Sky's Premium HD channels to the total number of direct subscribers at the end of the respective period.
8) Sky+ subscribers receive Sky's programming and Sky's video-on demand service with an HD-capable hard disk receiver.
9) Sky+ penetration is defined as the relation of Sky+ subscribers to the total number of direct subscribers at the end of that period.
10) Second smartcard subscribers comprise subscribers who have subscribed to a second smartcard. The respective revenue contribution of second smartcard subscribers is included in ARPU.
11) Second smartcard penetration is defined as the relation of second smartcard subscribers to the total number of direct subscribers at the end of that period.
12) ARPU is defined as monthly average subscription revenues (including pay-per-view) for a given period divided by the average number of direct subscribers in that period. Sky uses ARPU among other indicators as a measure of its operating performance. Sky believes that ARPU is a useful measure of the extent to which Sky's direct subscribers opt for the full range of its programming. However, ARPU is not recognized as a measure under IFRS and should not be considered a substitute for any income statement data as determined in accordance with IFRS or viewed as a measure of profitability. Because not all companies calculate ARPU in the same way, Sky's presentation of ARPU is not necessarily comparable to similarly titled indicators used by other companies.
13) The churn rate for a given period is defined as the number of direct subscribers who churned their subscriptions during the course of a given period, divided by the average number of direct subscribers in that period (calculated by dividing the sum of the number of direct subscribers on the first day of that period and on the last day of that period by two) and multiplied by four when referring to a quarterly period, by two when referring to a half-year period and by one when referring to a full-year period.

* The first quarter of 2014/15 will be compared with the corresponding period of the previous year (1 July to 30 September 2013). This period is referred to as "Q1 2013/14".

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

Content

The first quarter of 2014/15 at a glance

The first quarter of 2014/15 marks a number of important milestones at Sky. The Company has once again delivered strong customer and EBITDA growth, as well as a positive net income, as more and more customers are enjoying Sky's outstanding offering. High-quality exclusive content, continuous innovation and a great customer experience are the pillars of the sustained success. Sky also just unveiled the next wave of exciting new services, Sky Online and Sky On Demand, which bring a whole new level of choice, flexibility and control to our existing and future customers.

Key metrics

- Net growth: 96,000 (up 26% yoy); direct subscribers now over 3.9m
- Churn rate: quarterly annualized 8.6%; 12 month rolling 9.2%
- EBITDA: €54m, up 86% yoy
- Net income: €12m, up €27m yoy
- Revenues: €431m, up 10% yoy
- Sky Premium HD customers: up 75,000 to 2,311,000
- Sky+ customers: up 105,000 to 1,786,000
- Sky Go customer sessions: up 43% yoy to 26m

Highlights

- Sky Online launched: easy, flexible and instant access to the world of Sky
- Sky On Demand launching soon: extending Sky's vast on-demand offering to the main TV via Sky+
- Snap by Sky: now for only €3.99 per month; new Snap Extra option to download movies and series
- HBO: exclusive partnership extended, Sky remains Home of HBO until the end of the decade
- Warner Bros: early extension of exclusive cooperation, including on-demand rights
- Turner: extension of 5 channel cooperation; including exclusive top first-run series
- Tele München Gruppe: exclusive cooperation extended, including top German box office hits
- "Babylon Berlin": milestone cooperation with ARD, X Filme and Beta Film to launch the German original crime series with Tom Tykwer as showrunner
- "The Last Panthers": joint production of new crime series with BSkyB and Canal+
- EHF Champions League: exclusive live rights to top-class handball
- Formula E: brand new and exclusive to Sky customers

Confirming outlook

For the 2014/15 financial year, Sky expects subscriber net growth of 400,000 to 450,000 and full year EBITDA in the range of €80m to €110m, which will be supported by a continued strong increase in total revenues

Interim Group Management Report

Fundamental information about the Group

Financial year change

As resolved at the Annual General Meeting on 10 April 2014, Sky Deutschland AG and all subsidiaries changed the financial year and closed the short financial year 2014 with the reporting period from 1 January 2014 until 30 June 2014. The new reporting period is from 1 July until 30 June. In presenting the developments during the first quarter of 2014/15, statements referring to the reporting date of 30 September 2014 are compared with the previous year´s figures as of 30 June 2014. For statements referring to the reporting period, the first quarter of 2014/15 will be compared with the corresponding period of the previous year (1 July to 30 September 2013). This period is referred to as “Q1 2013/14”.

Business model

Sky is the leading pay-TV service in Germany and Austria with over 3.9 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 introducing numerous innovations and significantly enhancing customer service. The results can be seen in continuous operational and financial progress, higher audience ratings and value-for-money scores, strong customer satisfaction and improved customer loyalty.

Exclusive live broadcast rights to the Bundesliga, rights to other major football and sporting events as well as exclusive recent movies and top quality television series bring an unparalleled programming portfolio to Sky customers. High-quality programming often broadcast in high definition combined with the growing demand for mobile and on-demand viewing supports Sky’s pay-TV business model.

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

Great value – the Sky offering

Sky subscriptions start at €12.90 per month with the Sky Starter package, which features a wide variety of programming with 21 channels from the Sky Welt package. Customers can then upgrade to the Sky Welt package to add Sky Welt HD channels and access the premium packages: Film, Fußball Bundesliga and Sport. For each of the premium packages, Sky also offers an HD option at an additional fee. Up to 90 HD channels[2] are available, including one 3D channel. All Sky customers with Sky Welt or the Sky Starter package, can access Sky Go, the leading online-TV service in Germany and Austria, at no additional charge.

Sky Welt

Sky Welt provides viewers with a diverse selection of up to 50 channels from all categories, with up to 18 HD channels[3]. Programming includes TV series, comedies, documentaries, music, children’s programs and classic movies. Many programs are German-language TV premieres, which are often available exclusively on Sky. The package also includes Sky Sport News HD, Germany and Austria’s only 24/7 sports news channel.

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

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 acclaimed productions from HBO, the most successful premium channel in the US.

Fußball Bundesliga package

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

Sport package

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

Sky HD

Comprehensive HD offering

TV entertainment on Sky is an exciting and immersive experience with crisp picture quality and brilliant colors, on up to 90 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.

Sky Go

Sky Go – the leading online-TV service

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

Snap by Sky – the perfect extension for Sky customers

Snap is Sky's online video service, providing an extension for Sky and Sky Go customers. It is also available to customers without a fixed-term Sky subscription. It offers users thousands of titles, including complete box sets of prize-winning series, hits from HBO, movies from past decades and a broad assortment of children's programming with highlights from the world of Disney. Close cooperation with Hollywood studios and numerous independent producers ensure a range of programs that is completely unique in the German-speaking market. In many cases customers can also choose to enjoy titles in either German or the original language. The service on a monthly contract costs €3.99 per month for both Sky subscribers and non-subscribers. Snap is available through the internet, iPad, iPhone, iPod touch, select Samsung Galaxy devices as well as Samsung Smart TVs. With the Snap Extra option iPad and iPhone users have the ability to download movies and series and access them simultaneously on two devices, all for a total price of €6.99 per month.

Sky+

Total control of your TV time: Sky+

Sky puts its customers in the driver's seat with Sky+, the 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 programs at the push of a button. They can also record remotely via the Sky Guide on Sky Go. With the "Series link" function, Sky+ makes it easy for fans of TV series to automatically record entire seasons of their favorite shows on Sky. Sky Anytime, the exclusive video-on-demand service on Sky+, presents the best movies and a large selection of entertainment and sports programming, as well as hit series, documentaries and children's programming, at no extra cost. Sky+ is also available with a two-terabyte hard disk option, offering enough storage space for up to 600 hours of programming in SD or 200 hours in HD, across more than 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, irrespective of their subscribed packages. Sky Select is also available via the on-demand service Sky Anytime. Programs can be ordered by telephone, online, or – for Sky receivers with an internet connection – by simply pressing a button on the remote control.

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 stay truly tuned-in to the world of sport 24/7, a live video stream of Sky Sport News HD is available and enhanced by an extensive archive of video clips with continuous updates. The app is available for iOS, as well as on select Samsung Galaxy Android smartphones. The premium features (Sky Sport News HD video and audio livestream as well as access to an extensive selection of sports clips) are available for €4.49 per month offered on a month-to-month 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 selectively in new programming and the development 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 sustained business growth. Sky intends to continue investing in cutting-edge services and products in order to give customers more innovative ways to enjoy Sky, and to deliver an experience that is truly smart, seamless and social.

Outstanding customer service

At Sky, customer satisfaction is a top priority, with staff constantly working to improve the quality of service. This includes high-quality hardware and fast shipping, as well as better 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 Sky's high level of customer satisfaction. Sky will keep investing in people, technology and processes to ensure customers continue to receive the high-quality service they expect.

Research and development

Pioneering Ultra HD in Germany

As a groundbreaking leader in its industry, Sky consistently invests in innovations that make the entertainment experience even better for customers. Among the most recent achievements was the successful broadcast in Ultra HD, which offers outstanding picture quality, even more realistic TV images and innovative features such as the Super-Zoom function. In April 2014, Sky once again made television history in Germany and reached another milestone in the development of Ultra HD as a market-ready format: Under Sky's exclusive broadcast partnership with the Bundesliga, the Company conducted the world's first live end-to-end broadcast of a football match using what will be the full Ultra HD production chain and consumer technology. For the world's first successful live Ultra HD broadcast of a complete football match Sky was honored with the CSI award (organized by Cable Satellite International Magazine) for the category "Best Ultra HD TV Technology or Project" in September 2014.

Report on economic position

Macroeconomic and sector-specific environment

Economic environment

Mixed economic environment

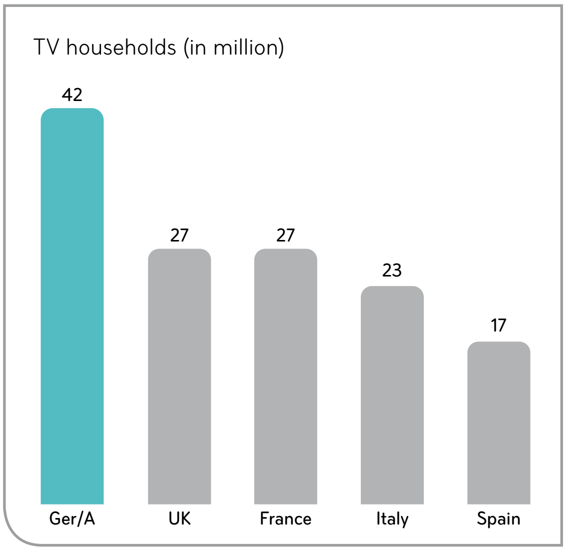
Following an extended period of relatively strong economic performance, recent economic data and forecasts paint a more mixed picture for the outlook of the German economy. GDP for the June quarter was down 0.2 percent with industrial production and factory orders generally being weaker than expected. As a consequence the German government in October revised down its forecasts for GDP growth to 1.2 percent for 2014 and 1.3 percent for 2015 versus forecasts made six months ago of 1.8 percent and 2 percent growth for 2014 and 2015 respectively. However, against a backdrop of stable labour market conditions and real wage growth, GfK data indicates consumer confidence has stabilized following the deterioration seen through late summer and into early autumn.

Strong industry growth

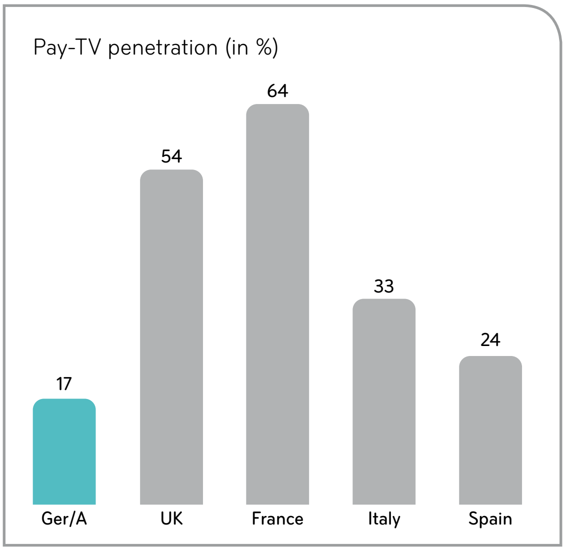
Television was the favorite medium in Germany in 2013. 93 percent of the population watched television and 71 percent of them did so on a daily basis. Germans watched an average of 3 hours and 41 minutes of television per day in this period. The analysis from the Association of Private Broadcasting and 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 the fastest-growing segment in the German television market, according to the VPRT. A study by the association (October 2013) found that an ever increasing number of Germans are willing to pay for television. In 2013, German pay-TV and video-on-demand revenues grew by about 12 percent. For 2014, the association forecasts further growth of about 12 percent for the paid-video-on-demand market of about 18 percent. Thus, the total pay-TV and paid VoD market is set to expand to a volume of €2.3 billion.[4] According to VPRT, technical advances and significantly larger program offerings are the main drivers of this trend. The increasing demand for video-on-demand and internet-based services is also driving growth.

In combination Germany and Austria form the largest market in Western Europe. However, pay-TV market penetration in Germany and Austria is relatively low.



Source: SES, Satellite Monitor, Year End 2012



Source: VPRT; Pay-TV in Germany 2013, Ofcom: International Communications Market Report, December 2013

4) VPRT media release, 21 October 2014: VPRT Forecast for the German Media Market in 2014 – sustained growth for radio and TV

Consumer electronics – smartphones and tablets show strong growth

According to statements from the German technology association Bitkom, tablets and smartphones continue to drive above-average growth to the German consumer electronics market. Bitkom and the consulting company Deloitte predict that around 24 million smartphones and around 9.2 million tablets will be sold in Germany in 2014. This represents increases of 6 percent (smartphones) and 15 percent (tablets). In comparison, the number of traditional TV sets being sold is significantly smaller (7.9 million units, an increase of 1.1 percent).

The trend in televisions is toward ever-larger screens. Over a quarter of all TV sets sold in 2013 had a screen size of at least 46 inches, according to Bitkom estimates. The association predicts that the coming television standard, Ultra HD, will drive additional demand for ever-larger televisions.

Streaming becoming more significant

In addition to the increasing internet-capability of televisions, Bitkom and Deloitte see significant momentum in the expansion of streaming. According to their joint study, consumers of media increasingly prefer to stream videos and music directly.

Competition

Sky competes with a number of media and entertainment companies to secure supply of high-quality programming for its customers. As a provider of TV entertainment, Sky faces competition from free-to-air (FTA) services, among other providers. 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 that provide video-on-demand and subscription video-on-demand entertainment via the internet. Besides its core subscription business, Sky competes with other media and entertainment companies for advertising sales. To set itself apart from the competition, Sky focuses on the promise of delivering a unique entertainment experience through the combination of exclusive high-quality programming, innovation leadership and great customer service.

Political and legal environment

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

Net neutrality – developments on national and EU level

On 11 September 2013, the EC adopted a legislative package entitled “Connected Continent: Building a Telecoms Single Market”. The goals of the package include building a competitive continent by establishing EU-wide rules on transparency, traffic management and net neutrality. On 3 April 2014, the European Parliament (EP) voted on these sweeping changes to internet and mobile laws in the bloc of 28 Member States, targeting fairness for end-users and businesses alike by treating all internet traffic equally, regardless of its content or its provider. However, the legislative proposal also includes a clause on “specialized services”, which are not clearly defined, and which will be exempt from the general rule of the open internet. Leaders from Europe‘s 28 countries will need to approve the draft regulation, a process that could be drawn out through to the end of 2014. The subsequent adoption could also be slowed by the recently elected EP if it does not agree with the changes proposed by the European Council. The new Digital Agenda Commissioner Günther Oettinger has stated his intention to reach an agreement on the final text by early 2015.

At the national level, net neutrality will remain a major topic on the digital agenda. Both the coalition agreement of 2013 and the German digital agenda of August 2014 address this issue. According to the digital agenda new business models for both network operators and content providers will be possible as long as those are not to the detriment of the Best Effort Internet. In general, agreements on so called “specialized services” are allowed as long as they don’t interfere with the Best Effort Internet and as long as network operators don’t privilege either their own or any third party content. It remains to be seen whether net neutrality will become subject to any legislative action on either EU or German level.

Sky is closely monitoring the net neutrality debate in Germany and Europe as a whole, in particular in relation to the definition of specialized services, which is not yet clearly defined. Currently the definition could be interpreted to include IPTV services. Sky is distributed on the IPTV platforms of Deutsche Telekom and Vodafone. In addition, the debate regarding the open internet is of great importance for Sky, as audiovisual content is increasingly being delivered online, creating a number of interesting opportunities for new services.

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

The German government also plans to establish a commission consisting of members of the federal government and representatives from the state governments to negotiate and decide on a new supervisory structure for the media and telecommunications industry. The commission will develop a joint position agreed upon by the states. Sky welcomes a modernization of the current framework and is participating in the process.

In accordance with its digital agenda, the coalition plans to realign copyright laws for the digital age. Concrete recommendations are yet to be announced. Sky is participating in this process with specific proposals and cooperation with other program providers.

Sky endorses the efforts by policymakers to strengthen copyright enforcement. Sky also supports the European Commission's intention to modernize the rules on collective rights management and has advocated for transparency for rights users.

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

The new German interstate gambling treaty took effect in July 2013. A so-called advertising guideline specifies the conditions for advertising on TV and the internet in the sports betting market. Although the treaty provides that 20 sports betting licenses may be granted, the Hessian administration, which manages the process, has not yet issued any sports betting licenses. It was expected that the granting of licenses would begin in September 2014 but this process was halted by a number of successful appeals.

Sky supports efforts aimed at modernizing the framework to reflect media convergence and to better enforce copyright laws. The protection of content as well as the regulatory framework for distribution and exploitation of audiovisual works hold significance for any media operator. To this end, media policy and regulatory issues are monitored at all times with the business interests of Sky in mind.

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

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

Consolidation trends in the German cable market

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

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

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

The extent to which the issues described above could have adverse material effects on the results of operations and the financial condition of Sky is described in the report on opportunities and risks.

Course of business

Business development

The first quarter of the new financial year 2014/15, which ended on 30 September 2014, marks a number of important milestones at Sky. The Company has once again delivered strong customer and EBITDA growth, as well as a positive net income, as more and more customers are enjoying Sky's outstanding offering. High-quality exclusive content, continuous innovation and a great customer experience are the pillars of the Company's sustained success. Sky has also just unveiled the next wave of exciting new services, Sky Online and Sky On Demand, which bring a whole new level of choice, flexibility and control to existing and future customers.

Sky Online

Sky Online – A new way to enjoy Sky

Building on its ever-growing popularity, Sky launched Sky Online, a brand new, easy, and flexible way to get instant access to the world of Sky over the internet in October 2014. It is available via the web and on iOS. More devices will be added soon, such as Samsung and LG Smart TVs, selected Android tablets and smartphones, the Xbox One, as well as the new Sky Online TV Box (powered by Roku). Sky Online is made for people who want to enjoy some of the best content in a flexible and innovative fashion – with a monthly contract duration – and immediate access to movie premieres, the latest top-quality series, as well as the full breadth and depth of Sky's exclusive sport offering.

Two different programming packages are available, which include linear channels as well as a vast variety of on-demand highlights of more than 10,000 titles across the year:

With the Sky Online Starter package customers can enjoy first-run series, entire series box sets, thrilling documentaries, classic movies, and top quality kids' programs. The package also offers a diverse programming variety of nine linear channels, including Sky Sport News HD, Germany and Austria's only 24/7 sport news channel, as well as full access to Snap, Sky's great online video library.

The Sky Online Film package delivers the year's biggest films and series of Sky Cinema, Sky Atlantic – the home of HBO – and Disney Cinemagic. It includes the most recent blockbuster films, including 20 TV premieres per month, all airing up to one year before their debut on free-to-air TV and other online subscription services, and without commercial breaks. And for those with the Starter or Film package who want to follow live sport action, the Supersport Day Ticket offers a day long unlimited access to the full range of Sky's up to 23 exclusive Bundesliga and Sky Sport channels.

Sky On Demand

Sky On Demand launching soon: Sky's entire on-demand offering available via Sky+

Starting later in 2014, Sky+ customers will have access to the entire on-demand world of Sky – at the simple touch of a button on their Sky+ remote control. Sky On Demand will deliver the complete offering already available via Sky Go and Snap by Sky, straight to the main TV. From blockbuster movies and first run series – 12 months before free-TV and other subscription services – as well as documentaries, children's programs and much more, all easily accessible via a brand new, intuitive customer interface.

New features for Sky Go and Snap

In August, Sky introduced two great new features to Sky Go and Snap by Sky. "Bookmarking" ensures that if customers with an iPad, iPhone or iPod touch are interrupted while watching their favorite program, they can continue at the exact point where they left off. The "Recently Watched" list lets customers see the last 50 shows watched at a glance, which, when combined with the youth protection feature already provided, gives even more peace of mind to parents. Since September 2014, users have also been able to watch Snap on the big screen via Google Chromecast.

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, with up to 90 channels. In the first quarter of the current financial year, the selection of HD channels was expanded to include RTL Crime HD (as of 25 September) among others. Content from RTL Crime HD is also available via Sky Go and Sky Anytime. In addition, high definition versions of the film channels Sky Cinema+1 and Sky Cinema+24 were launched on 25 September. Around 88 percent of Sky subscribers[5] own HD televisions – seven percent more than the average for all households in Germany.

Extension of successful cooperations

In October, Sky and Warner Bros. agreed to an early extension of their exclusive cooperation which also includes non-linear services such as Sky Go and Sky Anytime. This means that customers can look forward to the most recent cinema blockbusters from Warner Bros. long before they air on free-TV and online subscription services – at home or on the go, and on-demand whenever they want. Sky also acquired exclusive pay-TV rights to a comprehensive package of high quality library films for all platforms and services.

Also in October, and together with Turner Broadcasting, Sky agreed to continue their successful partnership to present five Turner-channels as well as an expanded selection of exclusive on-demand programming.

Exclusive agreements with independent film providers

In September 2014, Sky signed an exclusive multi platform agreement for a high quality programming package with Tele München Gruppe. In addition to 80 library titles (featuring "Ruby Red", "RED", "Iron Man 1-3", and many more), the deal encompasses numerous television premieres of current cinema releases.

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

Co-productions

In October 2014, X Filme, ARD, Sky and Beta Film announced their joint development of the German-language TV series "Babylon Berlin" with Tom Tykwer as showrunner. This is the first joint project of its kind in the German TV market.

Sky announced the new crime drama series "The Last Panthers" in partnership with BSkyB and Canal+ in France. With this new project, Sky continues to invest in the area of international premium series. Planned for broadcast in 2015, the series was commissioned by BSkyB and the French Canal+.

Back in February 2014, Sky announced that it was collaborating on a series project with Sky Italia and BSkyB, marking the first time that the companies have worked together on the development of a fictional series production. In November 2013, Sky announced that it would be co-producing the thriller series "100 Code".

5) © IHS, www.ihs.com, 3 January 2014

Exclusive partnership with HBO extended

In September 2014, Sky and HBO, the most successful premium channel in the U.S., agreed an early extension of their existing exclusive contract. As a result, Sky ensured that it will continue to supply HBO's top quality programming until the end of the decade. All premium new productions will continue to premiere in Germany and Austria exclusively on Sky. The new contract comprises not only the broadcast of HBO's programming on Sky Atlantic HD, but also availability through the online services Sky Go and Snap by Sky as well as Sky Anytime.

Since the start of the current calendar year, Sky Atlantic HD presented the following exclusive premieres amongst others: "Boardwalk Empire" (fifth season), "The Knick" (first season), "Silicon Valley" (first season), "The Leftovers" (first season), "Looking" (first season), "Veep" (third season) and "True Detective" (first season).

Expansion of Sky Welt

As of 22 September, the U.S. channel A&E is available via satellite to all Sky Welt subscribers. Programming on A&E features a number of successful series, as well as original stories about extraordinary characters and their turbulent lives, such as "Duck Dynasty" and "Wahlburgers".

And on 1 October, the new music television channel Jukebox launched on the Sky Welt package for Sky satellite and IPTV customers. Jukebox shows high quality music television with a mix of new hits and classics. With this addition, the Sky Welt offering includes up to 50 channels.

Exclusive rights to the Handball Champions League

In September 2014, Sky secured the exclusive live broadcasting rights to the world's most important team handball club competition, the Velux EHF Champions League, making it the only German broadcaster of all games featuring German teams as well as the Velux EHF Final4 over the next three seasons. In addition to exclusive TV broadcasting rights, the agreement encompasses internet, IPTV and mobile rights for Germany and Austria.

Formula E exclusively on Sky

Formula E is the start of a new era in motor racing. In September 2014, Sky concluded a multi-platform agreement with the FIA to present all live races of the brand-new Formula E, the world's first fully-electric racing series for single-seater race cars. Commencing in September 2014 to June 2015, the FIA Formula E Championship will compete in some of the world's great cities – including Berlin, London, Beijing and Los Angeles – in races around their iconic landmarks. Sky customers in Germany and Austria will also have exclusive access to all races via Sky Go. In addition to exclusive TV broadcast rights, the agreement includes internet, IPTV and mobile rights.

The most modern sport studio in Austria

In July 2014, Sky Österreich began broadcasting from a new studio in Vienna that was designed and built specifically for sport production. Cutting-edge technology allows a variety of options for live broadcasts, original shows and additional formats.

Austria: "Sky Go Erste Liga" (Sky Go First League)

In July 2014, the Austrian Bundesliga and Sky Austria agreed to a multi-year cooperative arrangement that includes naming rights for the second-highest division, which will be known in the future as the "Sky Go Erste Liga".

Customer service

Customer service recognized by TÜV and ServiceValue

In August 2014, TÜV Saarland awarded Sky's telephone-based customer service with the grade of "good". The "TÜV Service Tested" certification is based on a survey of Sky customers and reflects criteria such as quality of consultation, engagement, competency, friendliness and reliability of the service staff, as well as "likelihood to recommend". The results are indicative of the steady rise in the satisfaction of Sky customers – which is also underscored by a continuous decline in churn rates.

In October 2014, Sky was selected for a third time in a row as the "Service Champion" among premium TV providers. The ranking of "Service Champions", published by the partnership of ServiceValue GmbH, Goethe University – Frankfurt am Main and Die Welt, is Germany's largest service ranking. The wide-ranging customer survey on service experience is based on close to one million customer opinions on more than 1,500 businesses in 189 industries.

Acquisition of customer service center in Teltow

Effective 1 October 2014, Sky acquired the customer service center in Teltow from its prior operator Serco Services GmbH, thereby establishing a second in-house service center in addition to Sky Deutschland Service Center GmbH in Schwerin. Serco launched the service center in October 2012 and has since gradually expanded the operation in cooperation with Sky. Currently, there are approximately 350 employees offering assistance to Sky customers. Together with Schwerin, Sky now employs over 1,000 people in its own service centers.

Sky Online Community

In early October, Sky launched its own online community under the name "Sky & Friends". At community.sky.de, users can register and discuss any topic relating to Sky with other users and a specially trained Sky service team. The community is open to both customers and non-customers alike.

Marketing and Sales

Fanta 4 promote Sky Go

Die Fantastischen Vier ("The Fantastic Four"), also known as Fanta 4, is one of the most famous and successful German music bands. And now they're promoting Sky Go. In different scenes the four band members exchange their experiences and impressions with conventional television compared to Sky Go. The Sky Go campaign began in April 2014 with a dialogue between Franz Beckenbauer and Jürgen Klopp, the coach of Borussia Dortmund. They were followed by moderator Collien Ulmen-Fernandes and her husband, the actor, producer and entertainer Christian Ulmen who continued the campaign with an emphasis on series and movies.

Welcome to the League of Champions

Just in time for the start of the 2014/15 Bundesliga season, Sky launched a new marketing campaign with the title "The League of Champions". The focus of the campaign is the best online television offering Sky Go, which allows customers to watch the league of the world-champions, the Bundesliga, live and on-the-go on a mobile device or computer.

Ratings record for the start of the Bundesliga season

The first matchday of the new Bundesliga season brought a ratings record to Sky: 4.11 million viewers (3+) watched the Bundesliga kick-off weekend (22–24 August 2014) on Sky. In the advertising-relevant target group of men between the ages of 14 and 59 years old, 1.94 million tuned in. Prior to this, the record for a first matchday was in the 2011/2012 season when 3.40 million viewers (3+) and 1.92 million men between the ages of 14 and 59 years old watched. These numbers don't account for guests at Sky Sportsbars as well as those subscribers who watched the first Bundesliga matchday on Sky Go via the internet, iPad, iPhone, iPod touch and Xbox 360.

Corporate functions

Group structure

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

Investments

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

In September 2014, Sky Deutschland Customer Center GmbH was founded as a wholly-owned subsidiary of Sky Deutschland Fernsehen GmbH & Co KG. As of 1 October 2014, the new company acquired the operating business of the customer service center in Teltow from prior operator Serco Services GmbH.

Employees

As of 30 September 2014, the Sky Group had 2,200 employees (full-time equivalents) (30 June 2014: 2,182 employees).

Tender Offer to Sky Deutschland's shareholders

On 25 July 2014, Twenty-First Century Fox, Inc. announced its intention to combine its European satellite television holdings. As part of this proposed transaction BSkyB has agreed to acquire the Twenty-First Century Fox 57.4 percent equity stake (fully diluted) in Sky Deutschland AG.

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

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

Based on a resolution dated 9 October 2014, the works committee of Sky Deutschland AG issued its own statement pursuant to section 27 WpÜG on the offer document for the voluntary public takeover offer.

On 6 November 2014, Sky German Holdings GmbH announced pursuant to section 23 para. 1 no. 3 of the German Securities Acquisition and Takeover Act that its takeover offer was accepted for a total of 814,224,168 shares. This corresponds to approximately 87.45 percent of the total share capital and the voting rights in Sky Deutschland AG. Sky expects the transaction to close on 12 November 2014.

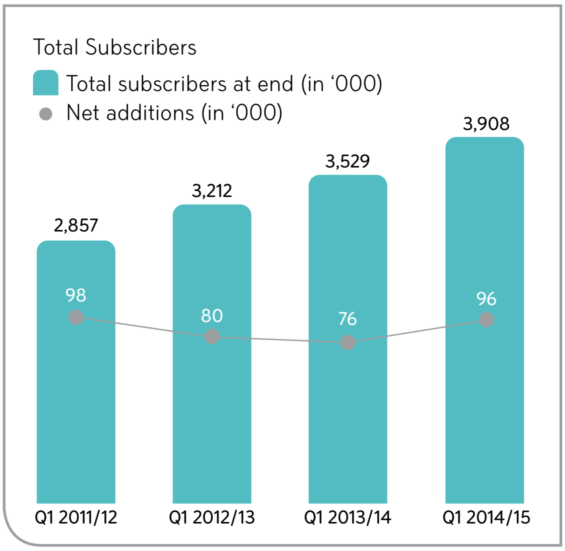
Subscriber metrics and quarterly trends

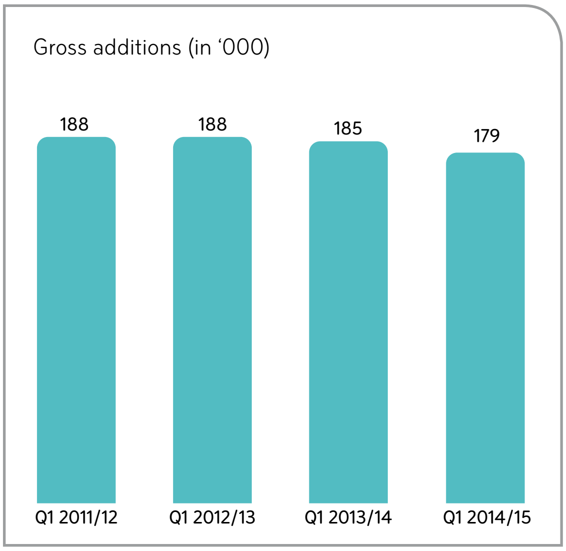
'000	Q1 2014/15	Q4 2013/14*	Q3 2013/14*	Q2 2013/14*	Q1 2013/14*
Direct subscribers[1] at beginning	3,813	3,731	3,667	3,529	3,453
Gross additions[2]	179	154	145	244	185
Churn[3]	–83	–72	–81	–106	–109
Net growth	96	82	64	138	76
Direct subscribers at end	**3,908**	**3,813**	**3,731**	**3,667**	**3,529**
HD Welt subscribers at end (in'000)	3,106	2,974	2,834	2,713	2,572
Premium HD subscribers at end[4] (in '000)	2,004	1,900	1,851	1,799	1,752
Premium HD penetration rate[5] (in %)	51.3	49.8	49.6	49.1	49.6
Premium HD subscribers including HD free-visions at end of period[6] (in '000)	2,311	2,236	2,105	2,025	1,869
Premium HD penetration rate including HD free-visions[7] (in %)	59.1	58.6	56.4	55.2	53.0
Sky+ subscribers at end[8] (in '000)	1,786	1,681	1,576	1,480	1,296
Sky+ penetration[9] (in %)	45.7	44.1	42.2	40.4	36.7
Second smartcard subscribers at end[10] (in '000)	461	451	443	429	410
Second smartcard penetration[11] (in %)	11.8	11.8	11.9	11.7	11.6
Subscription ARPU[12] (in €, monthly)	34.00	34.59	34.58	34.56	34.07
Churn rate[13] (in %, annualized)	8.6	7.7	8.8	11.8	12.5
Churn rate[13] (in %, 12 months rolling)	9.2	10.1	10.6	11.2	11.8
Wholesale subscribers (in '000)	155	213	258	268	280

1) Direct subscribers include monthly contract subscribers (residential customers and commercial subscriptions (e.g., bars, hotel rooms – including hotel rooms served by distribution partners – and other public venues)) to at least one of Sky's channel packages and/or subscribers who purchased pay-per-view. Direct subscribers also include subscribers through cooperative arrangements (e.g. triple-play offers). Transitional periods are reflected in connection with the activation of new contracts and the termination of existing contracts.
2) Gross additions consist of all new direct subscribers with an activated smartcard in a given period. New direct subscribers who had an active subscription within the last twelve months and were disconnected are not included; these subscribers are classified as reconnections from former subscribers. Q3 2013/14 gross additions include the 5k subscribers due to a one time migration as part of a marketing cooperative arrangement.
3) Churn for a given period is defined as the number of direct subscribers who terminated their subscriptions, or who have not paid their bill and had their subscriptions terminated following the Company's dunning process, or who have left their contract for other reasons (e.g. deceased), less the number of reconnections from former subscribers (as described in footnote 2).
4) Premium HD subscribers are subscribers who have subscribed to Sky's premium HD channels. The respective revenue contribution of premium HD subscribers is included in ARPU.
5) HD penetration is defined as the relation of premium HD subscribers to the total number of direct subscribers at the end of the respective period.
6) Premium HD subscribers including HD free-visions comprise subscribers who have either subscribed or have free access to Sky's Premium HD channels. The respective revenue contribution of Premium HD subscribers is included in ARPU.
7) Premium HD penetration including HD free-visions is defined as the relation of subscribers who have either subscribed or have free access to Sky's Premium HD channels to the total number of direct subscribers at the end of the respective period.
8) Sky+ subscribers receive Sky's programming and Sky's video-on demand service with an HD-capable hard disk receiver.
9) Sky+ penetration is defined as the relation of Sky+ subscribers to the total number of direct subscribers at the end of that period.
10) Second smartcard subscribers comprise subscribers who have subscribed to a second smartcard. The respective revenue contribution of second smartcard subscribers is included in ARPU.
11) Second smartcard penetration is defined as the relation of second smartcard subscribers to the total number of direct subscribers at the end of that period.
12) ARPU is defined as monthly average subscription revenues (including pay-per-view) for a given period divided by the average number of direct subscribers in that period. Sky uses ARPU among other indicators as a measure of its operating performance. Sky believes that ARPU is a useful measure of the extent to which Sky's direct subscribers opt for the full range of its programming. However, ARPU is not recognized as a measure under IFRS and should not be considered a substitute for any income statement data as determined in accordance with IFRS or viewed as a measure of profitability. Because not all companies calculate ARPU in the same way, Sky's presentation of ARPU is not necessarily comparable to similarly titled indicators used by other companies.
13) The churn rate for a given period is defined as the number of direct subscribers who churned their subscriptions during the course of a given period, divided by the average number of direct subscribers in that period (calculated by dividing the sum of the number of direct subscribers on the first day of that period and on the last day of that period by two) and multiplied by four when referring to a quarterly period, by two when referring to a half-year period and by one when referring to a full-year period.

* The period from 1 April to 30 June 2014 is referred to as "Q4 2013/14". The period from 1 January to 31 March 2014 is referred to as "Q2 2013/14". The period from 1 October to 31 December 2013 is referred to as "Q2 2013/14". The period from 1 July to 30 September 2013 is referred to as "Q1 2013/14".

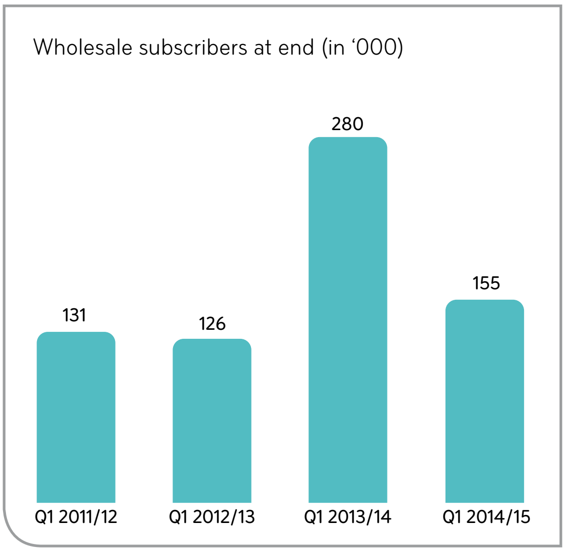
In the first quarter of the new financial year 2014/15, Sky saw strong net growth of direct subscribers supported by an all time low in churn rates. **Direct subscribers** increased by 95,874 (Q1 2013/14: 75,951) to 3,908,415 direct subscribers at the end of the period. **Gross additions** remained stable at 179,316 (Q1 2013/14: 185,130).

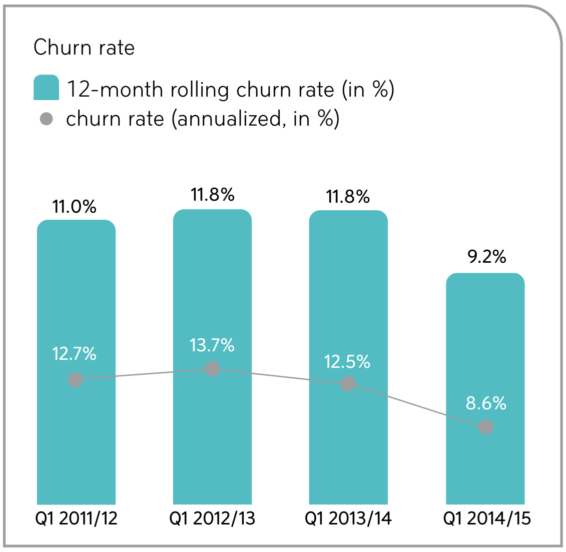




Wholesale customers included the former Liga total! IPTV customers added in Q1 2013/14 in connection with the co-operation with Deutsche Telekom. Due to the expiration of the transition period in which these customers were able to watch Sky Bundesliga under Liga total! terms, wholesale customers decreased to 155,422 at the end of Q1 2014/15.

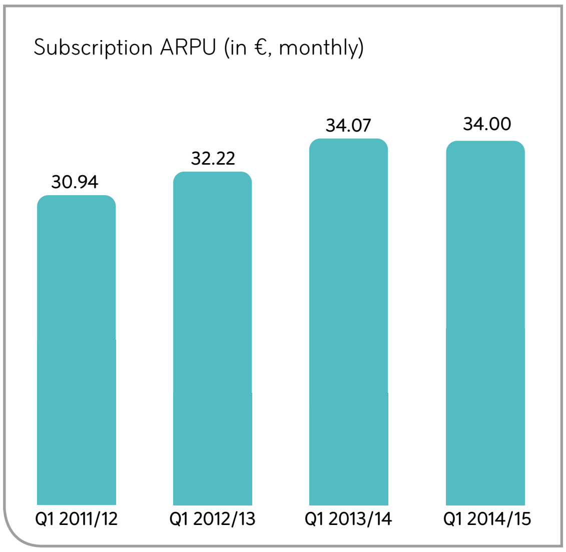
As a result of the actions taken last year to improve the quality of customer growth, and the increasing level of two-year contracts, customer loyalty has improved significantly, with the **quarterly annualized churn rate** decreasing to 8.6 percent (Q1 2013/14: 12.5 percent) and the 12-month rolling churn rate to 9.2 percent (2013: 11.8 percent). Both represent the lowest rates in the Company's history and are among the best in the industry.

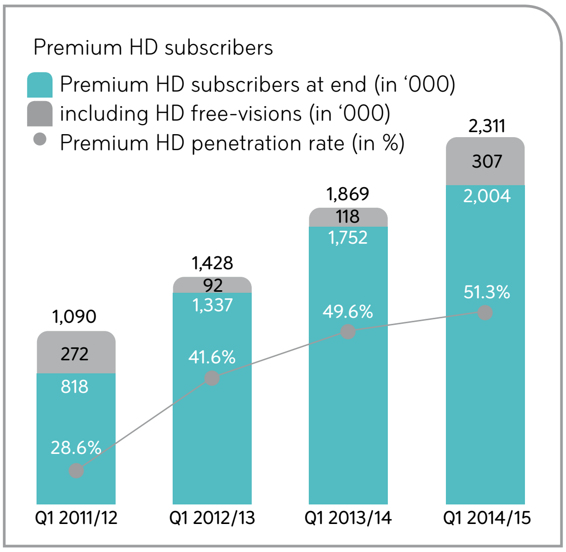




The Average Revenue Per User (**ARPU**) for the first quarter of 2014/15 amounted to €34.00 (Q1 2013/14: €34.07).

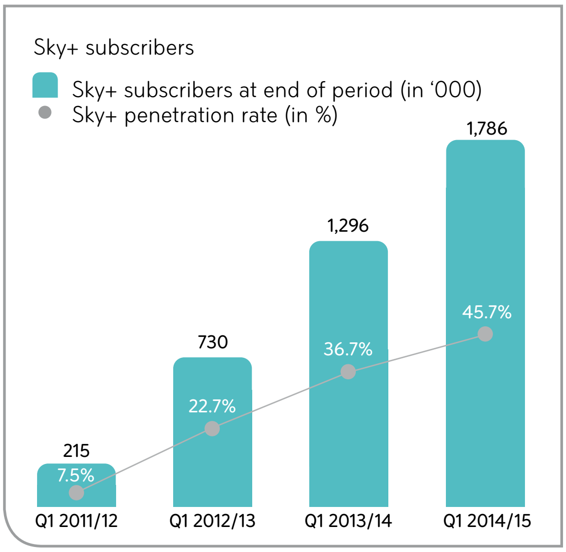
The total number of **Sky Premium HD customers** grew in the first quarter of 2014/15 by 104,149 (Q1 2013/14: 54,608) to 2,004,007 (30 September 2013: 1,751,595). When including customers with free access to this service, such as those with the first year free as part of a two-year contract, the first quarter of 2014/15 saw the number of Premium HD customers increase by 75,387 (Q1 2013/14: 117,852) to a total of 2,311,012 customers (30 September 2013: 1,869,447) receiving Sky's Premium HD channels.

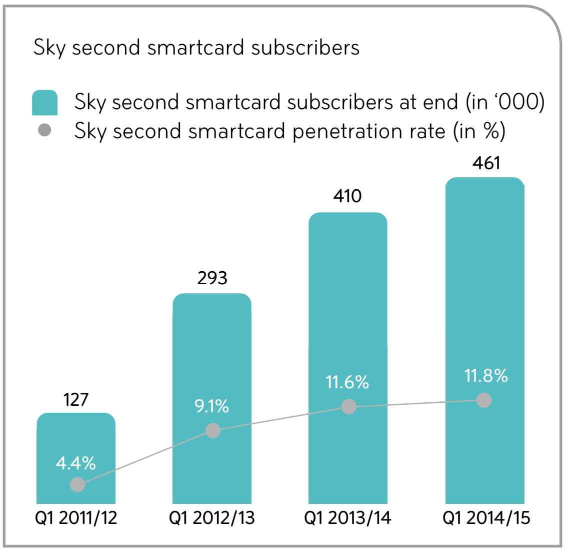




Sky+ continued its strong growth over the course of the reporting period with the number of customers increasing by 104,603 (Q1 2013/14: 125,417) to 1,785,963 (30 September 2013: 1,296,024). At the quarter's end 45.7 percent of Sky subscribers benefit from the convenience and flexibility of a Sky+ receiver (30 September 2013: 36.7 percent).

A total of 460,539 customers, up from 410,044 (as of 30 September 2013) subscribed to the **Sky Zweitkarte** (second smartcard), demonstrating that the number of customers enjoying Sky's great entertainment line-up simultaneously on multiple TV sets in their home is steadily increasing.





With the number of customer sessions growing significantly by 43.3 percent to 26 million over the course of the first quarter of 2014/15, **Sky Go** delivered a new record performance, underscoring the popularity of the leading online-TV service in Germany and Austria.

Net assets, financial position, and results of operations

Results of operations

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

Revenues

Total revenues increased to €431.3 million (Q1 2013/14: €392.7 million), driven by an increase in subscription revenues of €36.9 million to €393.7 million (Q1 2013/14: €356.8 million) due to a larger number of fixed-term contract subscribers. Subscription revenues also include revenues from direct subscribers who have subscribed to Sky via the IPTV platforms of Deutsche Telekom and Vodafone. Advertising revenues increased to €11.3 million (Q1 2013/14: €9.7 million). Hardware revenues amounted to €7.7 million (Q1 2013/14: €7.9 million). Wholesale revenues amounted to €3.5 million (Q1 2013/14: €7.5 million). The decrease is mainly attributed to the cooperation agreement with Deutsche Telekom and reflects the expiration of the transition period for former Liga total! IPTV customers, in which they were able to watch Sky's Bundesliga coverage under Liga total! terms. Other revenues increased to €15.2 million (Q1 2013/14: €10.8 million), primarily from rights granted to Deutsche Telekom and Vodafone to distribute and market Sky services.

Costs

Cost of sales totaled €311.7 million (Q1 2013/14: €294.0 million). Programming costs increased to €212.3 million (Q1 2013/14: €205.4 million), mainly driven by higher costs for film licenses. The increase in programming costs was opposed by one-off effects in the amount of €4.6 million. The increase in technology costs by €7.1 million to €47.9 million (Q1 2013/14: €40.8 million) was primarily the result of higher costs for cable broadcasting and transponder capacity. Customer service and other cost of sales increased to €27.2 million (Q1 2013/14: €25.7 million), mainly due to higher advertising cost of sales. Hardware costs increased to €24.4 million (Q1 2013/14: €22.1 million). The increase resulted primarily from higher depreciation for receivers recognized under non-current assets and higher logistics costs.

Selling expenses were only slightly above prior year's level amounting to €61.4 million (Q1 2013/14: €61.1 million) whereas general and administrative expenses were slightly below, totaling €32.9 million (Q1 2013/14: €34.9 million). Selling expenses include one-off income in the amount of €2.7 million.

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

The other operating result amounted to €3.4 million (Q1 2013/14: €3.9 million) and is primarily due to income from damage claims.

Operating result

	Q1 2014/15	Q1 2013/14	Change (absolute)	Change (in %)
Revenues (in € million)	**431.3**	**392.7**	**38.6**	**9.8**
Operating costs (in € million)	376.9	363.5	13.4	3.7
EBITDA (in € million)[1]	**54.4**	**29.2**	**25.2**	**86.3**
EBITDA margin (in %)[3]	12.6	7.4	5.2	
Depreciation and amortization (in € million)	25.6	22.6	3.0	13.3
Amortization of subscriber base (in € million)	0.3	0.3	0.0	0.0
EBIT (in € million)[2]	**28.5**	**6.3**	**22.2**	**>100**
EBIT margin (in %)[3]	6.6	1.6	5.0	

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

The positive EBITDA development was driven by an increase in revenues of 9.8 percent to €431.3 million (Q1 2013/14: €392.7 million), while operating costs increased by 3.7 percent to €376.9 million (Q1 2013/14: €363.5 million).

Financial result

The financial result was negative €15.2 million (Q1 2013/14: negative €18.8 million). Interest and similar expenses increased by €2.3 million to €19.6 million (Q1 2013/14: €17.3 million) and mainly comprise the following elements: In connection with the guarantees provided by Twenty-First Century Fox, Inc. and its subsidiary 21st Century Fox America, Inc., interest expense in the amount of €8.7 million (Q1 2013/14: €8.5 million) was recognized in profit and loss. In connection with the shareholder financing by 21st Century Fox Adelaide Holdings B.V., interest expense in the amount of €9.1 million

(Q1 2013/14: €7.1 million) was incurred, of which €5.0 million (Q1 2013/14: €4.6 million) related to the convertible bond based on an effective interest rate of 12.0 percent per annum and €3.8 million (Q1 2013/14: €2.1 million) to the shareholder loans. The year-on-year increase is mainly attributable to interest on a shareholder loan with 21st Century Fox Adelaide Holdings B.V. in the amount of €48.0 million that was drawn in December 2013. The interest expenses incurred with banks in connection with the credit financing amounted to €0.9 million (Q1 2013/14: €0.9 million).

The financial result also included income in the amount of € 4.2 million which is mainly due to gains arising from fair value changes of foreign currency derivatives not designated as cash flow hedges.

Consolidated net earnings

For the period ending 30 September 2014, earnings before taxes amounted to €13.2 million (Q1 2013/14: negative €12.5 million). Income taxes comprise deferred tax expenses in the amount of €0.9 million (Q1 2013/14: €1.7 million). The consolidated net income after taxes amounted to €12.3 million (Q1 2013/14: negative €14.2 million). Total comprehensive income amounted to €15.1 million (Q1 2013/14: negative €15.0 million).

Basic/diluted earnings per share amounted to €0.01 (Q1 2013/14: negative €0.02).

Financial position

Capital development

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

Execution of the convertible bond

On 29 October 2014, the convertible bond which was issued in January 2011 to 21st Century Fox Adelaide Holdings B.V. (formerly News Adelaide Holdings B.V.) with a nominal value of €164.6 million, was converted in full into 53,914,182 ordinary registered shares from the contingent capital of Sky Deutschland AG. Following this conversion, the registered share capital of Sky Deutschland AG increased to €931,114,937, with 931,114,937 underlying ordinary registered shares. The transaction only affects the balance sheet values as of 31 October 2014.

Liquidity

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

Cash flow from operating activities amounted to negative €18.6 million (Q1 2013/14: positive K€85). This was driven by cash inflows from the positive EBITDA of €54.4 million (Q1 2013/14: €29.2 million) adjusted by non-cash expenses of €1.8 million (Q1 2013/14: €2.5 million) offset by changes in working capital outflows in the amount of €79.1 million (Q1 2013/14: €30.1 million).

Cash flow from investing activities was negative €18.5 million (Q1 2013/14: negative €22.3 million). Payments for investments in intangible assets and property, plant and equipment primarily reflect receivers delivered to subscribers as well as investments in IT software.

Cash flow from financing activities amounted to negative €7.3 million (Q1 2013/14: negative K€15.6 million) and is related to current interest payments as well as repayments of finance lease liabilities.

At the end of the first quarter 2014/15, Sky had at its disposal liquid funds of €78.7 million (30 June 2014: €123.2 million) and undrawn credit facilities of €72.7 million (due to their specific nature this amount does not include the extension of the existing credit facilities in the amount of €78.5 million mentioned in the section capital development above). The existing financing facilities (excluding guarantees and capitalized interest) were utilized in the amount of €495.6 million (30 June 2014: €495.6 million). Thereof, €31.3 million were classified as equity according to IAS 32 (convertible bond).

Net assets

The following figures refer to the reporting date 30 September 2014 and in relation to the past financial year to the reporting date 30 June 2014 (referred to as "2014").

Trade receivables increased by €13.6 million to €94.9 million (2014: €81.3 million). The increase was mainly due to higher receivables from subscribers associated with the higher subscriber base. Other financial assets amounted to €16.9 million (2014: €2.1 million). The increase is mainly the result of fair value changes in derivatives. The increase in film assets and advance payments for sports and film rights to €183.7 million (2014: €131.2 million) was mainly due to an increase in advance payments for sports and movie rights in the amount of €59.3 million which was offset by a decrease in film assets. Inventories (mainly receivers) amounted to €24.1 million (2014: €15.1 million). Upon delivery to subscribers receivers are reclassified from current to non-current assets. The increase in inventories is mainly due to receiver purchases. Intangible assets amounted to €728.1 million (2014: €721.6 million). The additions from investments in software and receiver licenses were partially compensated by scheduled amortizations. Property, plant and equipment amounted to €26.5 million (2014: €26.1 million). The carrying amount of receivers, recognized under non-current assets, amounted to €183.7 million (2014: €188.8 million) and includes leasing hardware components (receivers, external hard-disks and CI+ modules) in the amount of €29.7 million. Other assets decreased to €26.2 million (2014: €28.6 million), mainly due to lower prepayments.

Shareholders' equity increased by €15.1 million to €287.4 million (2014: €272.3 million), based on the profit for the period. At the end of the first quarter of 2014/15, the ratio of equity to total assets was 21.1 percent (2014: 20.7 percent).

Total liabilities increased to €1,075.6 million (2014: €1,045.8 million) and were affected by the following developments: borrowings increased to €562.2 million (2014: €548.6 million). These include finance lease liabilities, mainly in connection with abovementioned leasing of hardware components, in the amount of €39.6 million (2014: €41.1 million). Net financial liabilities (financial liabilities less cash) amounted to €483.5 million (2014: €425.4 million). Trade payables increased to €307.0 million (2014: €286.0 million). The primary reason was an increase in other liabilities mainly resulting from higher liabilities from receiver purchases. Other financial liabilities amounted to €58.4 million (2014: €56.2 million). Other provisions decreased to €4.5 million (2014: €13.9 million) due to lower provisions for litigation costs as a result of the conclusion of a compromise agreement. Other liabilities were almost unchanged at €65.4 million (2014: €65.0 million).

Deferred tax liabilities amounted to €65.6 million (2014: €63.6 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 delivered strong performance in the first quarter of its new financial year 2014/15. The continued subscriber growth reflects the rising appeal of the continually expanding Sky offering. As a result of the actions taken last year to improve the quality of customer growth, and the increasing take-up of two year contracts, customer loyalty has improved significantly.

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

For the new 2014/15 financial year, Sky expects subscriber net growth of 400,000 to 450,000, and full year EBITDA in the range of €80 million to €110 million, which will be supported by a continued strong increase in total revenues.

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

Report on opportunities and risks

Shareholder Claims

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

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

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

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

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

There are no outstanding obligations relating to damage claims as of 30 September 2014.

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

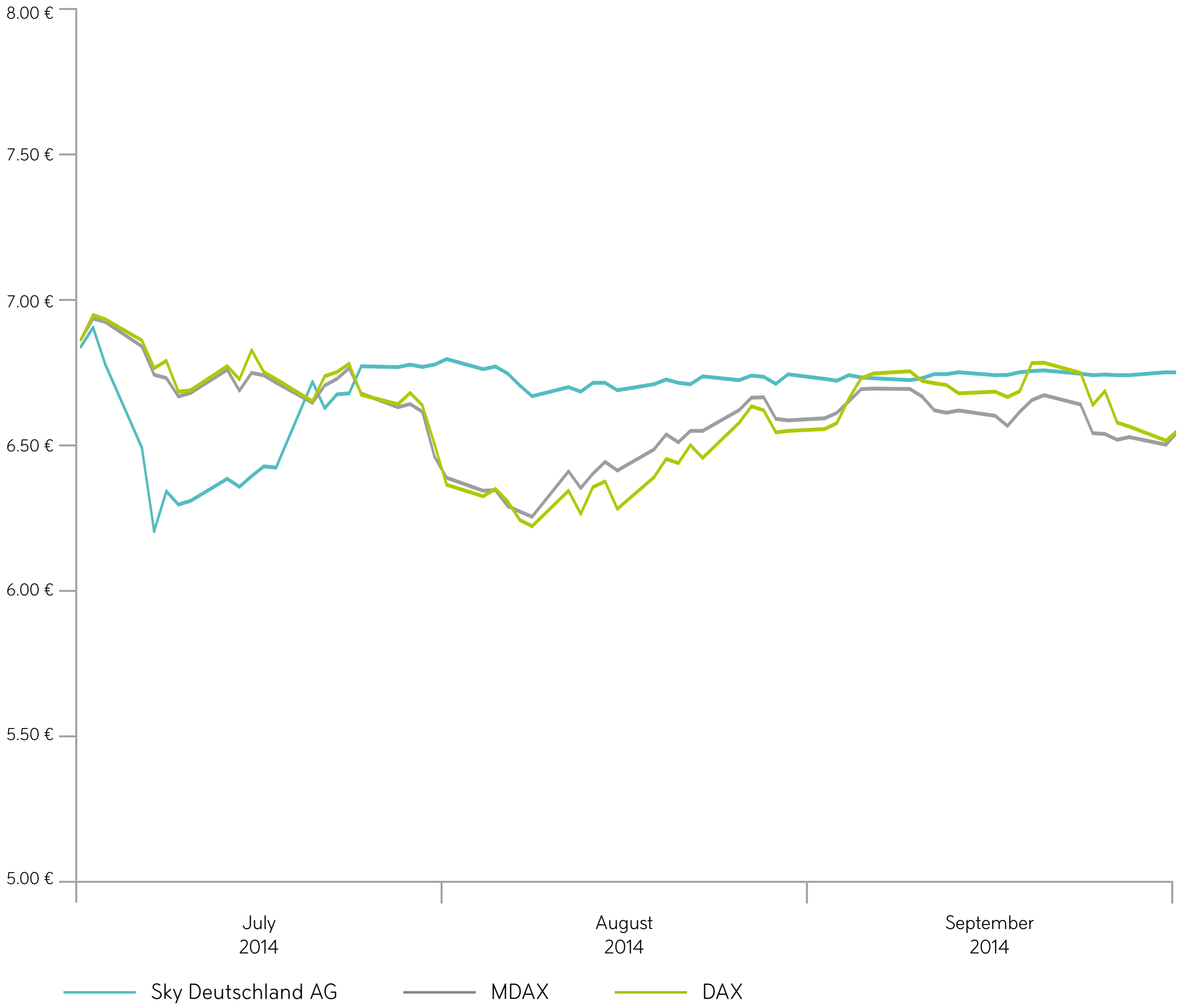
Apart from this, the opportunities and risks have not changed significantly from the statements in the Combined Management Report for the short financial year 2014.

Unterföhring, 10 November 2014

The Management Board

Share information

Share price development 1 July 2014 to 30 September 2014



Sky's share price[1] started at €6.88 on 1 July and closed at €6.73 at the end of September as shown in the chart above.

This development represents a decrease of 1.5 percent over the course of the first quarter of 2014/15. In the same period, the DAX decreased by 4.4 percent and the MDAX by 4.3 percent.

Based on the closing price, Sky Deutschland AG's market capitalization on 30 September 2014 was €5,903 million with a free float market capitalization of €2,668 million.

The average daily trading volume in the first quarter of 2014/15 was 1,814,996 shares.

Inclusion in indices

The Sky stock is part of the MDAX and was ranked 3rd in terms of trading volume and 16th in terms of market capitalization on 30 September 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.

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

Shareholder structure

Sky Deutschland AG's share capital amounted to €877,200,755 with 877,200,755 issued shares as of 30 September 2014. Sky Deutschland AG announced on 26 January 2011 that the Company had placed a convertible bond to 21st Century Fox Adelaide Holdings B.V. (formerly News Adelaide Holdings B.V.). This bond was converted into 53,914,182 ordinary registered shares stemming from contingent capital.

Due to the conversion of the convertible bond, Sky Deutschland's share capital currently amounts to €931,114,937 with 931,114,934 issued shares as of 29 October 2014.

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., increased its stake from 480,988,260 shares (this equates to 54.83 percent based on a share capital of 877,200,755 issued shares) to 534,902,442 shares in Sky Deutschland AG. This equates to 57.4 percent (based on a share capital of 931,114,934 issued shares).

At the end of July, 21st Century Fox, announced its intention to combine their Sky holdings across Europe. As part of this proposed transaction, BSkyB, the leading pay-TV operator in the UK, agreed to acquire the 21st Century Fox stake in Sky Deutschland and published a voluntary public takeover offer for all Sky Deutschland shares on 3 September 2014. The stake of 21st Century Fox Adelaide Holdings B.V. will be transferred to Sky German Holdings GmbH, a fully-owned indirect subsidiary of British Sky Broadcasting Group plc. On 3 November 2014, the additional acceptance period of BSkyB's voluntary takeover offer expired. On 6 November 2014, Sky German Holdings GmbH announced pursuant to section 23 para. 1 no. 3 of the German Securities Acquisition and Takeover Act the results of its voluntary public takeover offer, stating that the takeover offer has been accepted for a total of 814,224,168 shares. This corresponds to approximately 87.45 percent of the total share capital and the voting rights in Sky Deutschland AG (including the shares of Twenty-First Century Fox, Inc.). Sky expects the transaction to close on 12 November 2014.

Shares held by institutional investors

Institutional investors who exceed notifiable thresholds of voting rights in Sky Deutschland AG as of 30 September 2014 are:

Odey Asset Management LLP holds 78,390,358 shares pursuant a notification of 14 January 2014 (this equates to 8.94 percent based on a share capital of 877,200,755 issued shares).

T. Rowe Price Group, Inc. holds 26,396,329 shares pursuant a notification of 10 July 2014 (this equates to 3.01 percent based on a share capital of 877,200,755 issued shares). T. Rowe Price Group, Inc. fell below the threshold of 3 percent on 16 October 2014 and now holds 2.63 percent (based on a share capital of 877,200,755 issued shares).

Sky expects the institutional shareholder structure to adjust after the closing of the transaction (planned for 12 November 2014).

Shares held by Management

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

Shares held by members of the Supervisory Board

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

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

Interim consolidated financial statements

Consolidated balance sheet

K€	30 Sep 2014	30 Jun 2014
Assets		
Current assets		
Cash and cash equivalents	78,707	123,157
Trade receivables	94,797	81,134
Other financial assets	10,386	1,372
Film assets and advanced payments for sport and film rights	157,343	102,632
Inventories	24,141	15,150
Other assets	19,979	21,828
Total current assets	**385,354**	**345,273**
Non-current assets		
Trade receivables	108	168
Other financial assets	6,550	709
Deferred taxes	28	32
Film assets and advanced payments for sport and film rights	26,429	28,533
Receivers	183,677	188,826
Property, plant and equipment	26,546	26,130
Intangible assets	728,083	721,631
Other assets	6,231	6,785
Total non-current assets	**977,652**	**972,814**
Total assets	**1,363,006**	**1,318,087**
Liabilities and equity		
Current liabilities		
Borrowings	179,916	167,730
Trade payables	296,124	275,116
Other financial liabilities	46,620	46,291
Other provisions	4,502	13,948
Other liabilities	59,731	59,220
Total current liabilities	**586,893**	**562,305**
Non-current liabilities		
Borrowings	382,304	380,838
Trade payables	10,891	10,889
Other financial liabilities	11,765	9,943
Deferred taxes	65,599	63,616
Provisions for pensions and similar obligations	12,417	12,332
Other liabilities	5,700	5,828
Total non-current liabilities	**488,675**	**483,446**
Total liabilities	**1,075,568**	**1,045,751**
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	–4,178	–6,968
Retained deficit	–2,448,190	–2,460,501
Total equity	**287,437**	**272,336**
Total liabilities and equity	**1,363,006**	**1,318,087**

Consolidated statement of total comprehensive income (Q1)

K€	1 Jul–30 Sep 2014	1 Jul–30 Sep 2013
Revenues	**431,300**	**392,729**
Cost of sales	**–311,718**	**–294,016**
Program	–212,328	–205,445
Technology	–47,850	–40,796
Hardware	–24,355	–22,059
Customer service and other cost of sales	–27,185	–25,716
Gross profit	**119,582**	**98,713**
Selling expenses	–61,369	–61,134
General and administrative expenses	–32,870	–34,911
Other operating income	4,049	4,936
Other operating expenses	–588	–997
Amortization of subscriber base	–347	–347
Result from operations	**28,457**	**6,260**
Interest and similar income	184	262
Other financial result	4,177	–1,788
Interest and similar expenses	–19,585	–17,262
Result before taxes	**13,233**	**–12,527**
Income taxes	–922	–1,713
Result for the period	**12,311**	**–14,240**
Other comprehensive income	2,791	–805
of which items that may be reclassified subsequently to profit and loss	2,791	–805
Changes in fair value of available-for-sale financial assets	–	–
Changes in fair value of derivatives in cash flow hedges (net of tax)	2,791	–805
Total comprehensive gain/loss	**15,102**	**–15,045**
Earnings attributable to:		
Stockholders	12,311	–14,240
Non-controlling interest	–	–
Total comprehensive gain/loss attributable to:		
Stockholders	15,102	–15,045
Non-controlling interest	–	–
Result per share total (€) basic/diluted	0.01	–0.02

Consolidated statement of cash flows

K€	1 Jul–30 Sep 2014	1 Jul–30 Sep 2013
Result for the period before income tax	13,233	–12,527
Net interest expense	19,401	17,000
Depreciation, amortization and impairment losses/reversal of impairment losses on property, plant and equipment, receivers, intangible assets and financial assets	25,569	22,580
Amortization of subscriber base	347	347
Other non-cash income and expenses	1,756	2,485
Changes in other provisions	–9,446	–4,901
Gain (–)/loss (+) on disposal of intangible assets and property, plant and equipment	7	0
Changes in inventories, trade receivables and other assets	–99,518	–64,920
Changes in trade payables and other liabilities	29,828	39,765
Interest received	184	257
Net cash used by (-)/provided by (+) operating activities	**–18,639**	**85**
Proceeds from sale of intangible assets and property, plant and equipment	338	–162
Payments for acquisition of entities, net of cash acquired	–	–5,130
Payments for investments in intangible assets, property, plant and equipment and receivers	–18,848	–16,999
Net cash used by (-)/provided by (+) investing activities	**–18,510**	**–22,292**
Repayment of finance lease liabilities	–2,171	–680
Payments for transaction costs in connection with financing	–	–641
Interest paid	–5,129	–14,305
Net cash used by (–)/provided by (+) financing activities	**–7,300**	**–15,626**
Net decrease/increase in cash and cash equivalents	**–44,449**	**–37,832**
Cash and cash equivalents at beginning of period	123,157	180,095
Cash and cash equivalents at end of period	78,707	142,263

Consolidated statement of changes in equity

K€	Subscribed capital	Additional paid-in capital	Retained deficit
Balance as of 1 Jul 2013 (reported)	877,201	1,920,816	–2,310,257
Retroactive adjustment arising from the change to IAS 19R	–	–	242
Balance as of 1 Jul 2013 (adjusted)	877,201	1,920,816	–2,310,015
Increase in capital for contribution in cash on 7 February 2013 (less transaction costs)	–	34	–
Total transactions with stockholders	–	34	–
Total comprehensive profit or loss	–	–	–14,240
of which items that may be reclassfifed subsequently to profit and loss	–	–	–
of which items that will not be reclassified to profit and loss	–	–	–
Balance as of 30 Sep 2013	877,201	1,920,850	–2,324,255
Balance as of 1 Jul 2014	877,201	1,920,850	–2,460,501
Total comprehensive profit or loss	–	–	12,311
of which items that may be reclassified subsequently to profit and loss	–	–	–
of which items that will not be reclassified to profit and loss	–	–	–
Balance as of 30 Sep 2014	877,201	1,920,850	–2,448,190

Reconciling item for shareholder transactions without change in control	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	Total
−58,245	31	−2,579	−2,548	426,967	426,967
–	–	– 242	– 242	–	–
−58,245	31	−2,821	−2,791	426,967	426,967
–	–	–	–	34	34
–	–	–	–	34	34
–	−805	–	−805	−15,045	−15,045
–	−805	–	−805	−805	−805
–	–	–	–	–	–
−58,245	−774	−2,821	−3,595	411,955	411,955
−58,245	−3,449	−3,519	−6,968	272,336	272,336
–	2,791	–	2,791	15,102	15,102
–	2,791	–	2,791	2,791	2,791
–	–	–	–	–	–
−58,245	−659	−3,519	−4,178	287,437	287,437

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

General information and basis of preparation

General information about the Group

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

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

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

As of 15 January 2013, the Sky Group is included in the consolidated financial statements of Twenty-First Century Fox, Inc., New York, United States of America. Please refer to the "Events after the balance sheet date" at the end of these notes for information about the acquisition of the Twenty-First Century Fox, Inc. equity stake in Sky Deutschland AG by BSkyB.

Basis of preparation of the interim consolidated financial statements

The interim consolidated financial statements of Sky as of 30 September 2014 were prepared in accordance with IAS 34 "Interim Financial Reporting". 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.

The interim consolidated financial statements are prepared and published in euros (€), as the functional and reporting currency of the Group, and in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU. Amounts are generally reported in these notes to the interim consolidated financial statements in thousands of euros (K€), unless otherwise stated.

At the Annual General Meeting on 10 April 2014, the Group resolved to change the financial year-end date to 30 June. In presenting the developments during the first quarter of 2014/15, statements referring to the reporting date of 30 September 2014 are compared with the previous year´s figures as of 30 June 2014 (short financial year). For statements referring to the reporting period, the first quarter of 2014/15 will be compared with the corresponding previous year´s period (1 July to 30 September 2013). This period is referred to as "Q1 2013/14".

The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements under IFRS as of 30 June 2014 (short financial year), and the associated explanatory notes contained therein, as published by Sky Deutschland AG on 23 September 2014.

Conclusion of new contracts

In September 2014, Sky and HBO, the most successful premium channel in the U.S., agreed on an early extension of their existing exclusive contract. As a result, Sky ensured that it will continue to supply HBO's top quality programming until the end of the decade. All premium new productions will continue to premiere in Germany and Austria exclusively on Sky. The new contract comprises not only broadcasting of HBO's programming on Sky Atlantic HD, but also availability through the online video services Sky Go and Snap by Sky as well as Sky Anytime.

Changes in the group of consolidated companies

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

In September 2014, the Sky Deutschland Customer Center GmbH was founded as a wholly-owned subsidiary of Sky Deutschland Fernsehen GmbH & Co. KG. Effective 1 October 2014, the new company acquired the operating business of the customer service center in Teltow from prior operator Serco Services GmbH.

Apart from the above, no acquisitions of companies have been made so far in the financial year 2014/15.

Accounting policies

The accounting policies applied for Sky's interim consolidated financial statements as of 30 September 2014 correspond to the policies described in the Company's IFRS consolidated financial statements as of 30 June 2014. For further information, please refer to the consolidated financial statements as of 30 June 2014.

The following standards were required to be adopted for the first time in the current fiscal year 2014/15:

IFRIC 21	Levies

Application of the following standards and amendments, which were published by the IASB, is not yet mandatory, 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. Where they have already been adopted by the EU, Sky had not applied them early:

Amendment to IAS 19 (2011 revised)	Employee Contributions
IFRS 9	Financial Instruments
IFRS 14	Regulatory Deferral Accounts
Omnibus Standard	Annual Improvements Project 2010–2012
Omnibus Standard	Annual Improvements Project 2011–2013
Amendment to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization
Amendment to IAS 16 and IAS 41	Bearer Plants
Amendment to IFRS 11	Accounting for Acquisitions of Interest in Joint Operations
IFRS 15	Revenue from Contracts with Customers

With respect to adoptions and amendments that are not yet mandatory, Sky continuously evaluates the potential quantitative effects on its consolidated financial statements. Sky is currently evaluating the effects of the new IFRS 15. At the present time, no statements can be made regarding the potential effects of the standards and amendments that are not yet mandatory.

Significant influences on the consolidated interim financial statements

Consolidated balance sheet

Cash, cash equivalents and cash flow

Cash and cash equivalents decreased by K€44,449 from K€123,157 as of 30 June 2014 to K€78,707 as of 30 September 2014. As of the balance sheet date 30 September 2014, restricted cash amounted to K€1,819 (30 June 2014: K€2,410).

In accordance with IAS 7, the consolidated statement of cash flows shows the cash in- and outflows for 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€18,639 (Q1 2013/14: positive K€85). Cash inflows from the positive EBITDA of K€54,372 (Q1 2013/14: K€29,187) adjusted by non-cash expenses of K€1,756 (Q1 2013/14: K€2,485) were offset by changes in working capital outflows in the amount of K€79,136 (Q1 2013/14: K€30,056).

Cash flow from investing activities was negative K€18,510 (Q1 2013/14: negative K€22,292). Payments for investments in intangible assets and property, plant and equipment primarily reflect receivers delivered to subscribers as well as investments in IT software.

Cash flow from financing activities amounted to negative K€7,300 (Q1 2013/14: negative K€15,626) and is related to current interest payments as well as repayments of finance lease liabilities.

The existing financing facilities (excluding guarantees and capitalized interest) were utilized in the amount of K€495,615 (30 June 2014: K€495,615). Thereof, K€31,275 was classified as equity according to IAS 32. The undrawn credit facilities amounted to K€72,700 as of the balance sheet date (thereof, K€72,700 resulting from 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 30 September 2014 was K€183,772 (30 June 2014: K€131,165). This development was due to a decreased purchase of film licences for film assets in the amount of K€6,565 and due to an increase in advance payments for sports rights in the amount of K€59,172.

Intangible assets

In total, Sky capitalized internal development costs which represent incidental acquisition costs of purchased software in the amount of K€1,024 as additions to intangible assets.

Trade receivables

Trade receivables amounted to K€94,905 as of 30 September 2014 (30 June 2014: K€81,303). The increase of K€13,603 is mainly the result of higher receivables from subscribers, driven by the growth in subscriptions in the first quarter of 2014/15.

Other financial assets

Other financial assets amounted to K€16,936 as of 30 September 2014 (30 June 2014: K€2,081). The increase is mainly the result of fair value changes in derivatives. As of the balance sheet date, derivatives include the positive fair values from foreign exchange forward transactions. For further information, please refer to the section “Financial instruments” of these notes.

Inventory

The carrying amount of the inventories was K€24,141 as of 30 September 2014 (30 June 2014: K€15,150), of which K€49 recognized at net realizable value (30 June 2014: K€44). The increase by K€8,991 is mainly the result of receiver additions in the amount of K€21,072, offset by the reclassification from current assets to non-current assets in the amount of K€12,492. In general, receivers are at first capitalized under inventories. Receivers that are leased to subscribers are transferred from inventories to property, plant and equipment upon delivery to the subscriber.

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 extension of the credit line amounts to €78.5 million. The financial support agreement between Sky Deutschland AG, Sky Deutschland KG, Twenty-First Century Fox, Inc., 21st Century Fox Adelaide Holdings B.V. and 21st Century Fox America, Inc. was amended accordingly. Under this arrangement, the guarantee fee will be at a rate of 6.0 percent per annum.

Trade payables

Trade payables amounted to K€307,015 as of 30 September 2014 (30 June 2014: K€286,004). The increase of K€21,010 is mainly the result of higher liabilities for receivers, which increased due to higher subscriptions and therefore higher orders for receivers in the first quarter of 2014/15.

Other provisions

Other provisions amount to K€4,502 as of 30 September 2014 (30 June 2014: K€13,948). The decrease of K€9,446 is mainly the result of lower costs for litigation as a result of the conclusion of a compromise agreement. Provisions for litigation costs have been established for expected risks from lawsuits and costs for attorney and other court fees on pending legal disputes. For information on additional proceedings, please refer to the section “Other explanatory comments” of these notes.

Equity

Sky Deutschland AG’s subscribed capital amounts to €877,200,755 (30 June 2014: €877,200,755). It is divided into 877,200,755 (30 June 2014: 877,200,755) registered shares with no-par-value. €1.00 of the share capital is apportioned to each no-par-value share.

On 29 October 2014, the convertible bond which was issued in January 2011 to 21st Century Fox Adelaide Holdings B.V. (formerly News Adelaide Holdings B.V.) with a nominal value of €164.6 million pursuant to the resolution of the Annual General Meeting on 23 April 2010, has been converted in full into 53,914,182 ordinary registered shares from the Contingent Capital. Following this conversion and the corresponding share issuance, the registered share capital of Sky Deutschland AG increased to €931,114,937, with 931,114,937 underlying ordinary registered shares. The transaction does not affect the balance sheet values as of 30 September 2014.

The capital is fully paid in.

As of the balance sheet date, additional paid-in capital amounted to K€1,920,850 (30 June 2014: K€1,920,850) of which K€1,382,623 (30 June 2014: K€1,382,623) is not available for distribution.

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

Authorized Capital

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

At the Annual General Meeting on 3 April 2012, the Management Board was authorized, subject to the consent of the Supervisory Board, to increase the Company’s registered share capital in the period through 2 April 2017 by up to €389,454,881 in total by issuing in one or more tranches of new registered no-par-value shares against cash contribution or contribution in kind (Authorized Capital 2012). The Authorized Capital 2012 was partially used in January 2013 and currently 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 not exceeding 10 percent of the registered share capital pursuant to section 186(3) sentence 4 of the German Stock Corporation Act (Articles of Association section 4(3), sentence 4b)) was used in full in January 2013. Therefore, the authorization has become obsolete and was removed from the respective provision in the Articles of Association.

The amendment to the Company's statutes was entered accordingly in the Commercial Register. Since then, the Authorized Capital 2012 remained unchanged.

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

Contingent Capital

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

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

With a resolution of the Annual General Meeting on 23 April 2010, the Management Board, with the consent of the Supervisory Board, has been authorized, in the period through 22 April 2015, to issue once or in instalments registered and/or bearer convertible bonds and/or notes with warrants ("bonds") in an aggregate nominal amount of up to €500,000,000 of a limited or unlimited term and to grant conversion or option rights to subscribe to up to 53,916,185 new registered no-par-value ordinary shares (no-par-value shares) in Sky Deutschland AG with a pro rata amount of the registered share capital of up to €53,916,185 in total to the holders and/or creditors of bonds, subject to the more detailed terms and conditions for the convertible bonds or notes with warrants (Authorization 2010).

Following the conversion of the convertible bond, which was issued in January 2011 to 21st Century Fox Adelaide Holdings B.V. (formerly News Adelaide Holdings B.V.) with a nominal value of €164.6 million, on 29 October 2014 and the corresponding share issuance, the remaining Contingent Capital 2010 with regard to the Authorization 2010 amounts to up to €2,003.

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

Consolidated statement of total comprehensive income

Revenues

Revenues for the first quarter of 2014/15 amounted to K€431,300 as compared to revenues of K€392,729 in the first quarter of 2013/14. This increase primarily resulted from higher subscription revenues. The increase in subscription revenues is mainly due to the growth in direct subscribers.

Revenues primarily consisted of subscription revenues in the amount of K€393,743 (Q1 2013/14: K€356,779) and revenues from hardware of K€7,664 (Q1 2013/14: K€7,943). Wholesale revenues amounted to K€3,464 (Q1 2013/14: K€7,547). Advertising and other revenues amounted to K€26,429 (Q1 2013/14: K€20,460).

Costs

Cost of sales was K€311,718 (Q1 2013/14: K€294,016). Programming costs increased to K€212,328 (Q1 2013/14: K€205,445), mainly driven by higher costs for film licenses. The increase in programming costs was opposed by one-off effects in the amount of €4.6 million. The increase in technology costs by K€7,054 to K€47,850 (Q1 2013/14: K€40,796) was primarily the result of higher costs for cable broadcasting and transponder capacity. Customer service and other cost of sales increased to K€27,185 (Q1 2013/14: K€25,716), mainly due to higher advertising cost of sales. Hardware costs increased to K€24,355 (Q1 2013/14: K€22,059). The increase is due to higher depreciation in hardware costs in connection with the higher volume of receivers recognized under non-current assets.

Selling expenses were only slightly above the prior year's level amounting to K€61,369 (Q1 2013/14: K€61,134) whereas general and administrative expenses were slightly below, totalling K€32,870 (Q1 2013/14: K€34,911). Selling expenses include one-off income in the amount of €2.7 million.

Interest and similar expenses

Interest and similar expenses increased by K€2,323 to K€19,585 (Q1 2013/14: K€17,262) and mainly comprise the following elements. In connection with the guarantees provided by Twenty-First Century Fox, Inc. and its subsidiary 21st Century Fox America, Inc., interest expense in the amount of K€8,686 (Q1 2013/14: K€8,473) was recognized in profit and loss.

In connection with the shareholder financing by 21st Century Fox Adelaide Holdings B.V., interest expense in the amount of K€9,070 (Q1 2013/14: K€7,063) was incurred, of which K€4,954 (Q1 2013/14: K€4,642) related to the convertible bond based on an effective interest rate of 12.0 percent per annum and K€3,817 (Q1 2013/14: K€2,123) to the shareholder loans. The year-on-year increase is mainly attributable to interest on a shareholder loan with 21st Century Fox Adelaide Holdings B.V. in the amount of €48 million that was drawn in December 2013.

The interest expenses incurred with banks in connection with the credit financing amounted to K€863 (Q1 2013/14: K€864).

The financial result also included income in the amount of €4.2 million which is mainly due to gains arising from fair value changes of foreign currency derivatives not designated as cash flow hedges.

Earnings per share

Basic earnings per share

	1 Jul–30 Sep	
	2014	2013
Net income attributable to shareholders of Sky Deutschland AG (K€)	12,311	–14,240
Weighted average number of outstanding shares (K)	877,201	868,724
Basic earnings per share (€)	**0.01**	**–0.02**

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 first quarter of 2014/15, 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. On 29 October 2014, the convertible bond with a nominal value of €164.6 million was converted in full into 53,914,182 ordinary registered shares from the Contingent Capital. Upon conversion of the bond into ordinary registered shares, the weighted average number of outstanding shares has increased to 931,114,937. Please refer to the "Events after the balance sheet date" at the end of these notes for more information about the conversion.

Diluted earnings per share
Due to the consolidated loss incurred in the first quarter of 2013/14, the diluted earnings per share corresponded to the basic earnings per share.

Due to the assumed conversion of the convertible bond, the related interest would need to be added to the earnings used for the diluted earnings per share calculation. However, the earnings would then increase more than the average number of shares. As a consequence, the diluted earnings per share correspond to the basic earnings per share in the first quarter of 2014/15 as well.

Financial instruments

Sky Group´s activities are exposed to a variety of financial risks, such as foreign currency risk, interest rate risk, credit risk and liquidity risk. The Group´s financial risk management strategy and the methods to determine the fair value of certain financial instruments have not changed since the end of the short financial year 2014.

The following table shows the carrying amounts and the fair values by classes of financial assets and financial liabilities:

30 Sep 2014

(K€)	Presented in the statement of financial position as	Carrying amount
Financial assets		
measured at fair value		
Derivatives for which hedge accounting is not applied	Current and non-current financial assets	10,619
Hedge derivatives	Current and non-current financial assets	3,441
not measured at fair value		
Cash and cash equivalents	Cash and cash equivalents	78,707
Loans and receivables	Trade receivables, other financial assets	110,748
Receivables accounted for in accordance with IAS 17	Trade receivables	117
Available-for-sale financial assets	Other financial assets	8
Total		203,641
Financial liabilities		
measured at fair value		
Other non-derivative financial liabilities accounted for in accordance with IFRS 2	Other financial liabilities	24,033
Derivaties for which hedge accounting is not applied	Other financial liabilities	2,688
Hedge derivatives	Other financial liabilities	–
not measured at fair value		
Financial liabilities at (amortized) cost	Borrowings, trade payables, other financial liabilities	888,050
Financial liabilities accounted for in accordance with IAS 17	Borrowings	39,570
Total		954,341

Category			Fair Value Hierarchy			
At fair value through profit and loss	At fair value through equity	At amortized cost	Level 1	Level 2	Level 3	Fair Value
10,619	–	–	–	10,619	–	**10,619**
–	3,441	–	–	3,441	–	**3,441**
–	–	–	–	–	–	**78,707**
–	–	110,748	–	–	–	**110,748**
–	–	117	–	–	–	**102**
–	–	8	–	–	–	**8**
10,619	**3,441**	**110,873**	**–**	**14,060**	**–**	**203,625**
24,033	–	–	–	–	–	**24,033**
2,688	–	–	–	2,688	–	**2,688**
–	–	–	–	–	–	**–**
–	–	888,050	–	–	–	**888,730**
–	–	39,570	–	–	–	**41,976**
26,722	**–**	**927,619**	**–**	**2,688**	**–**	**957,428**

30 Jun 2014

(K€)	Presented in the statement of financial position as	Carrying amount
Financial assets		
measured at fair value		
Derivatives for which hedge accounting is not applied	Current and non-current financial assets	926
Hedge derivatives	Current and non-current financial assets	42
not measured at fair value		
Cash and cash equivalents	Cash and cash equivalents	123,157
Loans and receivables	Trade receivables, other financial assets	82,281
Receivables accounted for in accordance with IAS 17	Trade receivables	127
Available-for-sale financial assets	Other financial assets	8
Total		206,541
Financial liabilities		
measured at fair value		
Other non-derivative financial liabilities accounted for in accordance with IFRS 2	Other financial liabilities	21,047
Derivaties for which hedge accounting is not applied	Other financial liabilities	1,273
Hedge derivatives	Other financial liabilities	4,787
not measured at fair value		
Financial liabilities at (amortized) cost	Borrowings, trade payables, other financial liabilities	852,766
Financial liabilities accounted for in accordance with IAS 17	Borrowings	41,086
Total		920,959

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

Loans and receivables generally have short maturities, so that their carrying amounts as of the balance sheet date correspond to their 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 yield curve. The determination of fair value includes the Group's own default risk and the counterparty´s default risk respectively, which is calculated using both maturity-linked CDS spreads observable on the market and credit risk assessments which are obtained from the market data provider Bloomberg Finance L.P., Frankfurt (head office New York).

The requirements of IFRS 13 regarding the exposure to credit risks were taken into account in the valuations. In accordance with the requirements of IFRS 13 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 yield curve.

Trade payables and other borrowings generally 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, is determined using the discounted expected future cash flows based on the contractual terms.

Category			Fair Value Hierarchy			
At fair value through profit and loss	At fair value through equity	At amortized cost	Level 1	Level 2	Level 3	Fair Value
926	–	–	–	926	–	**926**
–	42	–	–	42	–	**42**
–	–	–	–	–	–	**123,157**
–	–	82,281	–	–	–	**82,281**
–	–	127	–	–	–	**122**
–	–	8	–	–	–	**8**
926	**42**	**82,416**	**–**	**968**	**–**	**206,536**
21,047	–		–	–	–	**21,047**
1,273	–		–	1,273	–	**1,273**
–	4,787	–	–	4,787	–	**4,787**
–	–	852,766	–	–	–	**849,482**
–	–	41,086	–	–	–	**41,056**
22,320	**4,787**	**893,852**	**–**	**6,060**	**–**	**917,645**

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 different fair value-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)

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

(K€)	Financial assets (gross presentation)	Financial liabilities offset in the statement of financial position	Financial assets (net presentation)	Related amounts not set off in the balance sheet		Net amount
				Financial instruments	Cash collateral deposited	
Derivative financial instruments 30 Sep 2014	14,060	–	14,060	–2,688	–	11,371
Derivative financial instruments 30 Jun 2014	968	–	968	–6,060	–	–5,092

(K€)	Financial liabilities (gross presentation)	Financial assets offset in the statement of financial position	Financial liablities (net presentation)	Related amounts not set off in the balance sheet		Net amount
				Financial instruments	Cash collateral deposited	
Derivative financial instruments 30 Sep 2014	–2,688	–	–2,688	14,060	–	11,371
Derivative financial instruments 30 Jun 2014	–6,060	–	–6,060	968	–	–5,092

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

Other explanatory comments

Litigation

The following sections describe current material litigations.

Shareholder Claims

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

13 actions for damages have been filed against Sky. All actions were terminated with legally binding effect, either through dismissal of the claim, withdrawal of the action or settlement agreements. The total settlement payments amounted to K€122.

Furthermore, out-of-court claims 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 since been paid.

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 cases where claims are raised against former board members, is to the Company's knowledge still in the evaluation phase. Extrajudicial claims that have been raised against former board members have been rejected. The Company therefore filed a recourse action for compensation of all damages incurred against the prospectus insurer and former board members with the District Court of Munich. On 26 August 2014, the District Court of Munich predominantly dismissed the Company's claim. The Company is pursuing an appeal to the Higher Regional Court Munich against the judgment.

There are no outstanding obligations relating to damage claims recorded as of 30 September 2014.

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

Investigation by the Federal Financial Supervisory Authority

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

Sky Deutschland AG has filed an objection against the decision of the BaFin. The objection was rejected by the BaFin in September 2013. Sky therefore filed a complaint against the decision with the Higher Regional Court of Frankfurt on 14 October 2013. The Company does not expect a decision before Q2 of the 2014/15 business year.

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

The decisions of BaFin at which the objection is aimed refer to (i) the amount of the consideration paid by Premiere for the Bundesliga sub-license in 2007, (ii) the description of the risks associated with the intended acquisition of the Bundesliga rights for seasons 2009/10 until 2011/12 in 2008, (iii) the goodwill as shown in the 2007 group financial statements which is considered too high by €248.8 million and by €251.9 million with regard to the financial statements as of 30 June 2008, because – according to BaFin – no such goodwill exists due to the lack of a business combination, (iv) the profit situation was allegedly described too positively by at least €10 million due to improperly calculated acquisition costs regarding resold free-TV rights, and, (v) the omission of risk reporting relating to a potential covenant breach considered possible by the company and a potential subsequent termination of the credit facilities resulting in a higher risk for the financial situation of the group.

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

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

Procedure of trade association ZVEI (Central Association for the Electric Engineering and Electronics Industries/Registered Association)

Sky imports devices and storage media that are subject to royalty payments when imported to or distributed in Germany according to German ownership law ("UrhG"). The German collecting society ("ZPÜ") was founded to collect these payments. Under a comprehensive amendment, ZPÜ introduced fees for devices and storage media that are subject to royalty payments when imported to or distributed in Germany starting 1 January 2008 and also publishes them in the German Federal Gazette. The basis for the calculation of the respective royalty payments is the actual utilization of the affected devices and storage media for private reproduction of works that are protected by rights of ownership. Among others, ZPÜ has established the following fees for these particular devices and storage media:

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

The trade association ZVEI (Central Association for the Electric Engineering and Electronics Industries/Registered Association) has initiated proceedings for entering into a master agreement against ZPÜ at the arbitration board of the German Patent and Trademark Office. On 11 October 2010, the arbitration board issued a settlement offer for a master agreement for the time after 1 January 2008. It includes a €12.73 fee per PVR. With a judgment on 11 July 2013, this fee was confirmed by the Higher Regional Court Munich ("OLG München"). This outcome will be reviewed by the Federal Supreme Court ("BGH"). A decision is expected within the financial year 2014/15.

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

Investigation of the Financial Reporting Enforcement Panel (FREP)

With a letter dated 20 September 2013, the FREP announced the initiation of a regular, ongoing random investigation pursuant to Sec. 342b, paragraph 2, sentence 3 of the German Commercial Code ("HGB") concerning the consolidated financial statements and group management report as of 31 December 2012, as well as the management report as of 31 December 2012.

Legal action taken due to potential infringement of a trademark

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

Investigation of a possible data leak

Starting in November 2013, Sky received complaints from customers who were prompted by unknown callers to participate in a sweepstake that was followed by the purchase of magazine subscriptions. The callers had purported to be Sky or said they sourced the contact data from Sky. Upon discovering a potential data leak, Sky immediately initiated countermeasures to clarify the incidents as quickly as possible. The competent data security authority, Bayerische Landesmedienanstalt (BLM), was informed and all measures are closely coordinated. Furthermore, the issue was reported to the police with Sky fully supporting the investigations. Based on the current state of knowledge, only a limited number of customers was affected.

The affected customers were informed about the issue. Furthermore, they received a guideline regarding the protection of their digital identity. Investigations by the police and the authorities are still ongoing.

A general risk exists that the responsible authorities may impose a fine on Sky. As Sky did not infringe data security rules deliberately, informed the affected customers immediately and has established a regular exchange with the regulatory authority, the risk of a fine was classified as marginal.

Formal antitrust procedure European Commission

On 13 January 2014, the European Commission ("Commission") initiated formal antitrust proceedings against major US studios (Twentieth Century Fox, Warner Bros., Sony Pictures, NBC Universal, Paramount Pictures) and the largest European pay-TV broadcasters including but not limited to Sky for a suspected breach of EU rules. The Commission intends to investigate whether provisions of the licensing arrangements prevent broadcasters from providing their services across borders. Since March 2014, Sky has received formal Requests for Information and is cooperating with the Commission in clarifying the issues. 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. The addressees of a Commission decision have the right to appeal. Neither the outcome nor the timing of the proceedings is yet predictable.

Share-based payments

The long-term incentive plan for the financial year 2014 has been resolved by a Supervisory Board circular resolution dated 2 April 2014 (LTIP 2014).

Based on this decision, it is planned to distribute to the Management Board and Senior Management 286,895 virtual shares, of which 72,735 were granted to the members of the Management Board Steven Tomsic, Dr. Holger Enßlin and Carsten Schmidt. Chief Executive Officer Brian Sullivan does not participate in the LTIP 2014.

The terms and conditions for the long-term incentive plan for the financial year 2015 have been resolved in the Supervisory Board meeting on 16 September 2014 (LTIP 2015).

Based on this decision, it is planned to distribute to the Management Board and Senior Management 1,370,886 virtual shares, of which 924,106 were granted to the members of the Management Board Brian Sullivan, Steven Tomsic, Dr. Holger Enßlin and Carsten Schmidt.

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 30 September 2014 was based on the following parameters:

	LTIP 2012	LTIP 2013	LTIP 2014	LTIP 2015
Risk free interest rate *	–0.02%	–0.09%	–0.09%	–0.06%
Dividend yield	–	–	–	–
Volatility	44.88%	44.88%	44.88%	44.88%
Price of the Sky share	€6.73	€6.73	€6.73	€6.73
Churn rate employees *	1.67%	3.33%	5.00%	5.00%

* For the LTIP 2013 respectively LTIP 2015 concluded with Brian Sullivan the risk free interest rate amounts to –0.02 percent respectively –0.095 percent. The churn rate amounts to zero percent.

The calculation as of 30 September 2013 was based on the following parameters:

	LTIP 2011	LTIP 2012	LTIP 2013
Risk free interest rate *	0.02%	0.09%	0.17%
Dividend yield	–	–	–
Volatility	58.60%	58.60%	58.60%
Price of the Sky share	€6.81	€6.81	€6.81
Churn rate employees *	1.67%	3.33%	5.00%

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

For all long-term incentive plans (LTIP 2012–2015) a total of 5,658,364 virtual shares (reported number includes 190,240 virtual shares of bad leavers until 30 September 2014) were granted to members of the Management Board and Senior Management (including 2,857,039 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 the amount of K€9,516 (of which K€4,878 were paid to members of the Management Board) in April 2014. The calculation of the fair value of this plan was based on a total of 1,517,673 virtual shares, of which 759,793 shares were granted to the Management Board and the volume-weighted average price of the Sky share in December 2013.

The fair value of the virtual shares for the LTIPs 2012 to 2015 as of 30 September 2014 amounts to K€36,796 (30 September 2013: K€32,883) of which K€19,225 relates to members of the Management Board (30 September 2013: K€16,160). For the first quarter of 2014/15, an expense in the amount of K€2,626 (Q1 2013/14: K€6,479) was recognized in profit and loss, of which K€1,293 relates to members of the Management Board (Q1 2013/14: K€3,415).

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 expense in the amount of €500 (Q1 2013/14: K€811) has been recognized in profit and loss in the first quarter of 2014/15. All vesting conditions were met as of the balance sheet date. The 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.

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 domestic partners of the affected persons.

The scope of transactions with affiliated companies described in the consolidated financial statements as of 30 June 2014 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 Company carried out transactions with the following groups of related parties during the first quarter of 2014/15:

(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	234	0	0	**234**
Income from recharging personnel expenses	0	0	0	**0**
Other income	0	0	0	**0**
Expense from service received	–34,917	0	–35	**–34,953**
Personnel expenses	0	–1,668	0	**–1,668**
Result for the period	–34,683	–1,668	–35	**–36,386**
Payables	–316,532	–576	–10	**–317,118**
Receivables	167	0	0	**167**

The expenses incurred for services received from companies with controlling or significant influence over Sky relate in particular to license payments for film rights, interests and guarantee fee payments. In this connection, companies with significant influence are those controlled by Twenty-First-Century Fox, Inc., those under joint management of Twenty-First Century Fox, Inc. and its partner companies, and those over which Twenty-First Century Fox, Inc. can exercise significant influence.

The table above includes an interest expense of K€9,374 (Q1 2013/14: K€7,403) for the shareholder financing with 21st Century Fox Adelaide Holdings B.V. and an interest expense in the amount of K€8,335 (Q1 2013/14: K€8,124) 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 2014/15, Sky paid interest in the amount of K€2,257 (Q1 2013/14: K€2,257) 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 early 2014, negotiations of new conditions were concluded. The term of the new contract started on 1 November 2013, retrospectively, and expires on 30 April 2016.

With regard to the credit facilities with external lenders, 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. In April 2014, this financial support agreement was amended to cover general corporate purposes and investments in production capabilities. The additional credit line amounts to €78.5 million. The agreement between Sky Deutschland AG and the members of the existing bank syndicate on the extension of the existing credit facilities, guaranteed by Twenty-First Century Fox, Inc., was amended accordingly. Under this arrangement, the guarantee fee will be at a rate of 6.0 percent per annum.

Other financial commitments

The Group's other financial commitments to purchase goods or services in the future as of 30 September 2014 are as follows:

(K€)	30 Sep 2014	30 Jun 2014
Film licenses	556,584	526,092
Sport licenses	1,700,418	1,860,549
Partner channels	425,725	343,493
Purchase commitments for receivers	40,944	45,385
Miscellaneous	260,479	330,474
Total	**2,984,150**	**3,105,992**

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

(K€)	30 Sep 2014	30 Jun 2014
Network operators and transponder rents	764,566	811,209
Office buildings	75,531	77,572
Motor vehicles	3,194	2,909
Technical office equipment	595	50
Total	**843,886**	**891,741**

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

In September 2014, the Sky Deutschland Customer Center GmbH was founded as a wholly-owned subsidiary of Sky Deutschland Fernsehen GmbH & Co KG. Effective 1 October 2014, the new company acquired the customer service center in Teltow from its prior operator Serco Services, thereby establishing a second in-house service center in addition to Sky Deutschland Service Center GmbH in Schwerin. Serco launched the service center in October 2012 and has since gradually expanded the operation in cooperation with Sky. Currently, approximately 350 employees in the service center offer assistance to customers of the pay-TV company. Together with Schwerin, Sky now employs over 1,000 people in its own service centers.

The acquisition of the customer service center in Teltow was settled in cash and no liabilities were incurred. The total consideration transferred amounted to €0.9 million.

The complete disclosures related to this recent business combination can, at the moment, not be made, due to the initial accounting still being in progress.

With circular resolution of 7 October 2014, the Supervisory Board extended the appointment of Steven Tomsic as member of the Management Board and Chief Financial Officer until 30 June 2017, the appointment of Dr. Holger Enßlin as member of the Management Board and Chief Officer Legal Regulatory & Distribution until 30 June 2018, and the appointment of Carsten Schmidt as member of the Management Board and Chief Officer Sports Advertising, Sales & Internet until 30 June 2019. The respective employment contracts were amended.

On 29 October 2014, the convertible bond which was issued in January 2011 to 21st Century Fox Adelaide Holdings B.V. (formerly News Adelaide Holdings B.V.) with a nominal value of €164.6 million pursuant to the resolution of the Annual General Meeting on 23 April 2010, has been converted in full into 53,914,182 ordinary registered shares from the Contingent Capital of Sky Deutschland AG. Following this conversion and the corresponding share issuance, the registered share capital of Sky Deutschland AG increased to €931,114,937, with 931,114,937 underlying ordinary registered shares. The transaction does not affect the balance sheet values as of 30 September 2014.

On 25 July 2014, Twenty-First Century Fox, Inc. announced its intention to combine its European satellite television holdings. As part of this proposed transaction, BSkyB has agreed to acquire the Twenty-First Century Fox 57.4 percent equity stake (fully diluted) in Sky Deutschland AG.

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

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

Based on a resolution dated 9 October 2014, the works committee of Sky Deutschland AG issued its own statement pursuant to section 27 WpÜG on the offer document for the voluntary public takeover offer.

On 6 November 2014, Sky German Holdings GmbH announced pursuant to section 23 para. 1 no. 3 of the German Securities Acquisition and Takeover Act that its takeover offer was accepted for a total of 814,224,168 shares. This corresponds to approximately 87.45 percent of the total share capital and the voting rights in Sky Deutschland AG. Sky expects the transaction to be closed on 12 November 2014.

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

Unterföhring, 10 November 2014

The Management Board

Further information

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Financial Calendar 2014/15

19 November 2014	Annual General Meeting (short financial year 2014)
4 February 2015	Media release of the Q2 2014/15 results
11 February 2015	Publication of the Q2 2014/15 report
6 May 2015	Media release of the Q3 2014/15 results
13 May 2015	Publication of the Q3 2014/15 report
5 August 2015	Media release of the preliminary Q4/FY 2014/15 results
24 September 2015	Publication of the Annual Report for the financial year 2014/15

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.