Sky Deutschland AG
Q2 Report 2014/15

Key Figures H1 2014/15 versus H1 2013/14

	H1 2014/15	H1 2013/14	Change (absolute)	Change (in %)
Subscribers				
Direct subscribers[1] at beginning	3,813	3,453	360	10.4%
Gross additions[2]	464	429	35	8.1%
Churn[3]	-166	-215	49	22.8%
Net growth[4]	310	214	96	45.0%
Direct subscribers at end (in '000)	4,123	3,667	456	12.4%
Sky Welt HD subscribers (in'000)	3,341	2,713	628	23.1%
Premium HD subscribers[5] (in '000)	2,152	1,799	353	19.6%
Premium HD penetration rate[6] (in %)	52.2%	49.1%	3.1	–
Premium HD subscribers including HD free-visions at end of period[7] (in '000)	2,433	2,025	407	20.1%
Premium HD penetration rate including HD free-visions[8] (in %)	59.0%	55.2%	3.8	–
Sky+ subscribers at end[9] (in '000)	1,994	1,480	514	34.8%
Sky+ penetration[10] (in %)	48.4%	40.4%	8.0	–
Second smartcard subscribers at end[11] (in '000)	479	429	50	11.6%
Second smartcard penetration[12] (in %)	11.6%	11.7%	-0.1	–
Subscription ARPU[13] (in €, monthly)	33.62	34.17	-0.55	-1.6%
Churn rate[14] (in %, quarterly annualised)	8.4%	12.1%	-3.7	–
Churn rate[14] (in %, 12 month rolling)	8.2%	11.2%	-3.0	–
Wholesale subscribers at end (in '000)	155	268	-113	-42.1%
Financials (in € million)				
Revenues	882.0	807.0	75.0	9.3%
Operating expenses	824.1	814.9	9.2	1.1%
EBITDA	57.9	-7.8	65.7	>100%
Depreciation and amortisation	52.4	45.1	7.3	16.1%
Amortisation of subscriber base	0.7	0.7	0.0	0.0%
EBIT	4.8	-53.7	58.5	>100%
Financial result	-26.6	-37.6	11.1	29.4%
Income taxes	-21.8	-91.3	69.5	76.2%
Net income	-24.7	-94.6	69.9	73.8%

	31 Dec 2014	31 Dec 2013	Change (absolute)	Change (in %)
Consolidated balance sheet (in € million)				
Total assets	1,352.9	1,386.9	-34.1	-2.5%
Shareholders' equity	413.4	331.2	82.2	24.8%
Net debt	338.8	354.7	-15.9	-4.5%
Employees				
Full-time employees	2.464	2.084	380	18,2%

Key Figures Q2 2014/15 versus Q2 2013/14

	Q2 2014/15	Q2 2013/14	Change (absolute)	Change (in %)
Subscribers				
Direct subscribers[1] at beginning	3,908	3,529	379	10.8%
Gross additions[2]	284	244	41	16.7%
Churn[3]	–83	–106	23	21.9%
Net growth[4]	214	138	76	55.4%
Direct subscribers at end (in '000)	4,123	3,667	456	12.4%
Sky Welt HD subscribers (in'000)	3,341	2,713	628	23.1%
Premium HD subscribers[5] (in '000)	2,152	1,799	353	19.6%
Premium HD penetration rate[6] (in %)	52.2%	49.1%	3.1	–
Premium HD subscribers including HD free-visions at end of period[7] (in '000)	2,433	2,025	407	20.1%
Premium HD penetration rate including HD free-visions[8] (in %)	59.0%	55.2%	3.8	–
Sky+ subscribers at end[9] (in '000)	1,994	1,480	514	34.8%
Sky+ penetration[10] (in %)	48.4%	40.4%	8.0	–
Second smartcard subscribers at end[11] (in '000)	479	429	50	11.6%
Second smartcard penetration[12] (in %)	11.6%	11.7%	–0.1	–
Subscription ARPU[13] (in €, monthly)	33.76	34.56	–0.80	–2.3%
Churn rate[14] (in %, quarterly annualised)	8.2%	11.8%	–3.5	–
Churn rate[14] (in %, 12 month rolling)	8.2%	11.2%	–3.0	–
Wholesale subscribers at end (in '000)	155	268	–113	–42.1%
Financials (in € million)				
Revenues	450.7	414.3	36.4	8.8%
Operating expenses	447.2	451.3	–4.2	–0.9%
EBITDA	3.5	–37.0	40.5	>100%
Depreciation and amortisation	26.8	22.6	4.3	18.9%
Amortisation of subscriber base	0.3	0.3	0.0	0.0%
EBIT	–23.7	–59.9	36.3	60.5%
Financial result	–11.3	–18.8	7.5	39.8%
Income taxes	–2.0	–1.6	–0.5	–30.3%
Net income	–37.1	–80.4	43.3	53.9%

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 as well as stand-alone online and mobile subscriptions. Direct subscribers also include subscribers through cooperative arrangements (e.g., triple-play offers). Transitional periods are reflected in connection with 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, excluding stand-alone online and mobile subscriptions. 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.
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 end of the Company's dunning process, or who have left their contract for other reasons (e.g., deceased), less the number of reconnections from former subscribers (as described in footnote 2). Stand-alone online and mobile subscriptions are not included.
4) Net growth includes net growth of stand-alone online and mobile subscriptions since Q2 2014/15. The respective gross additions and churns are not reported.
5) 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.
6) 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.
7) 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.
8) 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.
9) Sky+ subscribers receive Sky's programming and Sky's video-on-demand service with an HD-capable hard disk receiver.
10) Sky+ penetration is defined as the relation of Sky+ subscribers to the total number of direct subscribers at the end of that period.
11) Second smartcard subscribers comprise subscribers who have subscribed to a second smartcard. The respective revenue contribution of second smartcard subscribers is included in ARPU.
12) 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.
13) 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 recognised 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.
14) 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.

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 Committee (IFRIC). Due to the totalling of individual items, the table may contain rounding differences.

Content

The second quarter of 2014/15 at a glance

With now over four million subscribers, Sky has expanded to a level that many believed would have never been possible and once again demonstrated that customers increasingly appreciate exclusive high-quality programmes, exciting innovations and great customer service. Sky has launched further ground-breaking product innovations such as Sky Online, Sky On Demand, as well as Sky Go on Android, extended agreements with important rights holders, and received various awards for outstanding service. The customers recognised this with the highest loyalty level ever. Record customer growth in the past quarter reinforces the strong underlying trends the Company has seen within the business, which Sky intends to continue supporting during the second half of this fiscal year.

Key metrics

- Total subscribers: 4,123,000, up 456,000 in the last 12 months – new record
- Net growth: 214,000 in the quarter (up 55% yoy) – new record
- Churn rate: 12 month rolling down to 8.2% – new record
- Sky Premium HD customers: 2,433,000, up 407,000 yoy
- Sky+ customers: 1,994,000, up 514,000 yoy
- Sky Go customer sessions: 36.8 million, up 87% yoy
- Q2 revenues: €451 million, up €36 million yoy
- Q2 EBITDA: €3.5 million, up €41 million yoy

Highlights

- Sky Go: now on selected Android smartphones and tablets
- Sky On Demand: Sky's comprehensive on-demand offering available via Sky+
- Sky Online: a new way to enjoy Sky, including dedicated Sky Online TV Box
- Sky Info: a new channel about the entire world of Sky
- 2015 IHF Handball World Championships: live and exclusive on Sky
- UEFA Europa League: live rights secured until 2018
- Sky Thrones HD: the first channel dedicated to a single series in Europe
- Only on Sky – all 2015 Academy Award top nominees and Golden Globe winners
- Multiple customer service awards received
- Sky German Holdings: voluntary takeover offer completed; shareholding at 95.8% as at 7 January 2015

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 its financial year and closed the short financial year 2014 with the reporting period from 1 January 2014 until 30 June 2014. The new financial year is from 1 July until 30 June. In presenting the developments during the first half of the 2014/15 financial year, statements referring to the reporting date of 31 December 2014 are compared with the figures as at 30 June 2014. For statements referring to the reporting period, the first half of the 2014/15 financial year (H1 2014/15) will be compared with the corresponding period of the previous year (1 July to 31 December 2013). This period is referred to as “H1 2013/14”.

Business model

Sky is the leading pay-TV service in Germany and Austria with over four million subscribers. Since the launch of the Sky brand in 2009, the Company has significantly expanded the depth and breadth of its programme offer while introducing a host of innovations and significantly improving customer service. The results can be seen in continued operational and financial progress, higher audience ratings and value-for-money scores, significant increases in overall satisfaction with Sky as well as its programming, significantly higher willingness to recommend and improved customer loyalty.

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

Sky is available on all platforms: satellite, cable, IPTV, the internet and mobile networks. In technical terms, 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 underpenetrated.

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 then 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 94 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 programmes and classic movies. Many programmes 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 at 31 December 2014)
3) As at 31 December 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 features acclaimed productions from HBO, the most successful premium channel from 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 in 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 exclusive broadcasts of the most important international golf tournaments and the Wimbledon tennis tournament. 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 broadcasts of all Austrian football league matches. The premium HD option for the Sport package includes partner channels such as Sport1+ HD, Sport1 US HD and Eurosport 2 HD.

Comprehensive HD offering

TV entertainment on Sky is an exciting and immersive experience with crisp picture quality and brilliant colours, on up to 94 HD channels. To access the HD offer, viewers simply need an HD-capable television set. Sky provides the rest: a 3D-ready HD receiver and unique HD programming.

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 with Sky Welt or the Sky Starter package can access Sky's exclusive high-quality entertainment on a variety of devices – such as the web, the iPad, iPhone, iPod touch, select Android devices and Xbox 360 at no extra charge. 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 programmes for kids.

Snap by Sky – the online video service of Sky

Snap is Sky's online video library, providing an extensive array of additional content to existing Sky customers. It is also available to all those who don't have 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 programmes that is completely unique in the German-speaking market. 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. Snap is available through the internet, iPad, iPhone, iPod touch, select Samsung Galaxy devices, Samsung Smart TVs, Google Chromecast and Xbox One. 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 Online – the new way to enjoy Sky

Sky Online – the new way to watch Sky with the flexibility of a monthly contract – provides access to much of the best and exclusive programming from Sky via the internet and a growing range of end devices. The Sky Starter package, which also includes the complete catalogue from Snap, offers thousands of titles from a top selection of pay-TV channels at a price of €9.99 per month. With the Sky Film package, film fans get a comprehensive catalogue of exclusive programming content, including television premieres of blockbusters soon after their cinema run and twelve months before they air on free-TV and other subscription services at a price of only €19.99 per month. Series fans will be able to watch outstanding hits from Sky Atlantic – some of which are available directly after their US premiere. With either of the two packages, customers can also book the Sky Supersport Tagesticket ("Day Ticket"), which enables access to the complete live Sky Sport and Bundesliga offer from 6 am to 6 am the following day, for €19.99. Sky Online is available on the Sky Online TV Box (powered by Roku), the internet, iOS, Samsung Smart TVs and Xbox One. Other devices will be added soon, including select Android tablets and smartphones.

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 favourite TV programmes 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 favourite 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 programmes on Sky Anytime.

Major expansion of Sky's on-demand catalogue – even more programming on demand

By connecting the Sky+ HD hard disc receiver with the internet, satellite customers gain much greater access to Sky's on-demand catalogue via internet streaming. The expansion of Sky Anytime, the exclusive on-demand service on Sky+, brings the comprehensive range of programming from Sky Go and Snap directly to the television via streaming and will be gradually made available for all Sky+ receivers in the coming months.

Twice as much fun with the second smartcard: Sky Zweitkarte

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

Favourite 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. Programmes 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 Sky Sport News HD data centre. 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 live stream 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 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 want better television entertainment, better technology, more innovation and better service. Therefore, 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 programmes, including live sports, movies, series, documentaries, children's programmes 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 of enjoying programming whenever, wherever and on whatever devices they want.

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 ground-breaking leader in its industry, Sky consistently invests in innovations that make the entertainment experience even better for customers. Ultra HD, which offers outstanding picture quality, even more realistic TV images and innovative features such as the Super-Zoom function is another example of this approach. In April 2014, Sky 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. Sky was honoured with the CSI award (organised by Cable Satellite International Magazine) for the category "Best Ultra HD TV Technology or Project" in September 2014 for the world's first successful live Ultra HD broadcast of a complete football match. Also, as part of its partnership with the popular German band Die Fantastischen Vier (The Fantastic Four), Sky went to air with the first-ever Ultra HD broadcast of a live concert in December.

Report on economic position

Macroeconomic and sector-specific environment

Economic environment

Mixed economic environment

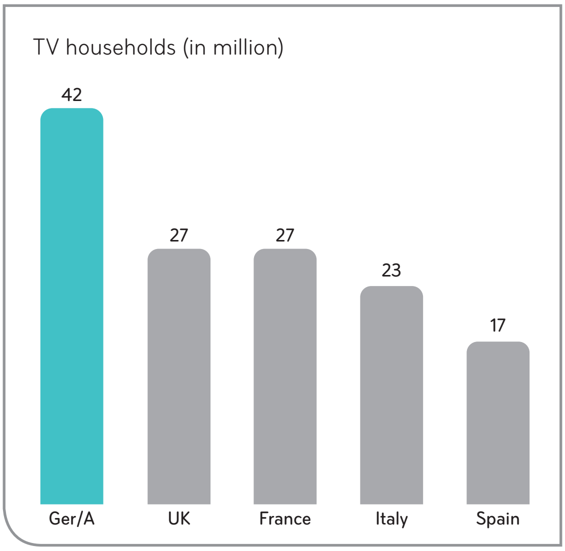
The economic environment in Germany and its prospects show a very mixed picture. Although Germany's economy expanded at 1.5 percent in 2014, its best annual performance in three years according to an announcement of the Federal Statistic Office in January 2015, quarterly figures show momentum in the German economy has been weakening in 2014.[4] In October 2014, the German government reduced its forecast for 2015 to 1.3 percent, highlighting concerns about the impact of stagnation in the Eurozone and a slowdown in emerging markets.[5] On the other hand, economists forecast positive impacts on the German economy due to the weakening euro and lower oil prices.[6]

Strong industry growth

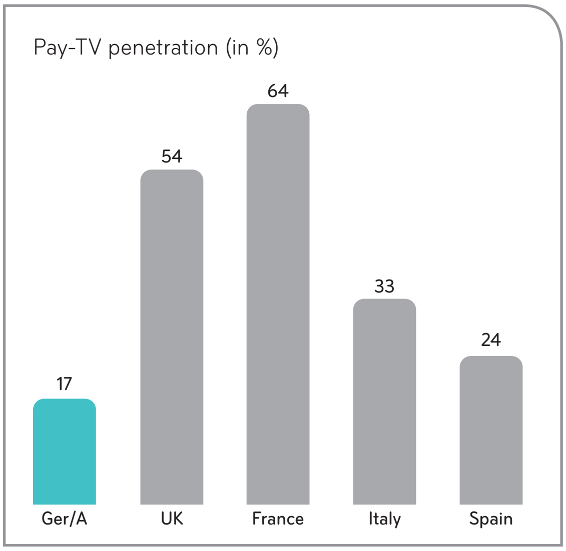
Television continues to be the favourite medium in Germany. In 2014, 99 percent of the population in private TV households watched television and 70 percent of them did so on a daily basis. Average viewing time amounted to 3 hours and 41 minutes per day in this period.[7] The analysis from the Association 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.[8]

Measured by revenue, pay-TV is the fastest-growing segment in the German television market, according to the VPRT. A study by the association in 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 and 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 an annual sales volume of approx. €2.3 billion. According to VPRT, technical advances and significantly larger programme offers are the main drivers of this trend. The increasing demand for video-on-demand and internet-based services is also driving growth.[9]

Together, 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 2013



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

4) Statistisches Bundesamt (Federal Statistics Agency), media release, 15 January 2015: "German economy in solid shape in 2014"
5) Handelsblatt, 14 October 2014: "The Autumn Report to gross domestic product – Federal Government cut growth forecast"
6) http://welt.de, 15 January 2015: "Ten facts on the real situation of our economy"
7) AGF in cooperation with GfK; TV Scope, 1 January 2014–31 December 2014
8) VPRT media release, 11 February 2014: "Radio and TV are the favourite media of Germans"
9) VPRT media release, 21 October 2014: VPRT "Forecast for the German Media Market in 2014 - sustained growth for radio and TV"

Consumer electronics industry optimistic for 2015

The growth of the consumer electronics industry in Germany is expected to continue in 2015 with German companies aiming for revenues of more than €28 billion, according to a forecast from the industry association GFU at the start of 2015. This corresponds to an increase of nearly 2 percent. GFU predicts that mobile phones, tablets and notebooks will remain among the top sellers this year. The association expects sales of 7.8 million tablets (up by 10.3 percent), 25 million smartphones (up by 4.8 percent) and 5.6 million notebooks (up by 3.4 percent). Despite lower growth rates, this would represent new record sales.

For the television segment, the industry anticipates stable but continued high demand. On the whole, sales of televisions are estimated to total around 8.2 million, with the majority – 75 percent – made up of smart-TVs. Another trend is that screens continue to get larger. Two-thirds of all televisions sold have a screen size of more than 37 inches (94 centimetres), representing around 85 percent of total television revenue. The association predicts that the coming television standard, Ultra HD, will drive additional demand for ever-larger televisions.[10]

Streaming becoming more significant

In addition to the increasing internet-capability of televisions, the industry association 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.[11]

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. Apart from 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 development of a modernised copyright law, the net neutrality debate 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 legislative initiative 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. The aim of the amendments is to ensure a fair balance between the interests of end-users and businesses by treating all internet traffic equally, regardless of its content or its provider. Furthermore, the legislative proposal also includes a clause on “specialised services”, which are not clearly defined and which will be exempt from the general rule of the open internet. The legislative initiative was submitted to the European Council followed by a discussion on 27 November 2014. The European Counsel’s opinion was expected by the end of 2014 but is still pending. Against the backdrop of a newly elected European Commission at the end of 2014, the entire legislative initiative will be revised during 2015. In December 2014, the German Federal Government agreed upon a position on net neutrality and developed a proposal for the discussion of the European initiative. The German proposal establishes definitions for “access services”, “specialised services” and “publicly available electronic communication”. Specialised Services shall be possible within a narrow framework as long as the development of the dynamic open internet will be granted.

Sky welcomes the suggested definitions of the Federal Government as they explicitly clarify that “Specialised Services” shall be possible within the open internet enabling IPTV platforms to agree upon terms and conditions for the distribution of content. Sky is distributed on the IPTV platforms of Deutsche Telekom and Vodafone. In addition, Sky’s content is increasingly being delivered online via the open internet without any distribution agreements with any network operator.

10) GFU media release, 2 January 2015: “Consumer Electronics Industry: Continuing positive development in 2015”
11) Bitkom study: “The Future of Consumer Electronics – 2014” (p. 33)

A high-performance open internet must be a prerequisite for the success of so called Over the Top (OTT) services. Against this background, Sky also welcomes the position of the Federal Government regarding the importance of the open internet and the need for its dynamic development.

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

Sky actively supports efforts aimed at modernising 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 are significant for any media operator.

In December 2014, the German Federal Government together with the German States decided 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 government and the states. The appointment of the commission is scheduled for the first quarter of 2015. Sky welcomes a modernisation 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 programme providers.

Sky endorses the efforts by policymakers to strengthen copyright enforcement. Sky also supports the European Commission's intention to modernise the rules on collective rights management and has advocated for transparency for rights users. Sky further closely monitors the far-reaching intentions to amend the copyright law and its potential European harmonisation. For the time being, it is still unclear in which direction the European Commission that took office at the end of 2014 will move with regard to the legislative proposals.

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 licences may be granted, the Hessian administration, which manages the process, has not yet issued any sports betting licences. It was expected that the granting of licences would begin in September 2014 but this process was temporarily halted by a number of successful appeals.

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, Sky plc (formerly British Sky Broadcasting Group plc), 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 licences 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.

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

With over four million subscribers, Sky reached another key milestone at the end of the first six months of the 2014/15 financial year. Over this period, Sky continued its successful development with a steadily-growing subscriber base, increasing revenues, a positive EBITDA, the successful conclusion of long-term agreements with important rights-holders and continued ground-breaking product innovations between July and December 2014.

Sky On Demand: the entire on-demand offer via Sky+

As at December 2014, many satellite customers can enjoy an even greater proportion of Sky's on-demand catalogue through Sky+ on their televisions. After connecting their Sky+ receiver to the internet and with just the push of a button on the remote control, customers will be able to access the programming from Sky Go via internet streaming. This represents an expansion of the programme offer that is available through Sky Anytime on Sky+ and will be gradually made available for all Sky+ satellite receivers in the coming months. Over the course of the 2015 calendar year, this expansion will become available for cable customers as well. Sky is also introducing a new, innovative user interface that enables intuitive navigation, making it possible for users to find the content they're looking for as quickly as possible.

Sky Online – a new way to enjoy Sky

Sky Online – a new, easy and flexible way to get instant access to the Sky offer – has been available since November 2014. It is available on the Sky Online TV Box (powered by Roku), on the internet, iOS devices, Samsung Smart TVs and the Xbox One. More devices are being planned, including select Android tablets and smartphones. Sky Online is made for customers who want to enjoy premium content in a flexible and innovative fashion – with a monthly contract term.

Sky Online offers linear TV programming from several channels as well as a vast array of on demand highlights of more than 10,000 titles throughout 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' programmes. The package also offers diverse programming variety from 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 those with the Starter or Film package who want to follow live sport action can book the Supersport Day Ticket, which offers a day-long unlimited access to the full range of Sky's exclusive Bundesliga and Sky Sport channels.

Launch of the Sky Online TV Box: The Sky streaming box powered by Roku

The introduction of the Sky Online TV Box in December added a flexible, user-friendly and great value option to stream Sky's premium content directly on TV screens. It transforms every TV set with an HDMI port into a Smart TV, offering a comprehensive entertainment selection on the TV from the Sky Online and Snap by Sky programming catalogue, featuring blockbusters, hit series, live sports, children's programming and documentaries. The Sky Online TV Box was developed as part of a strategic partnership with the American streaming leader Roku, based on the Roku platform and its portfolio of award-winning streaming players.

Sky Go now available for Android

Since December 2014, Sky Go – the leading online TV service in Germany and Austria – has also been available on a growing number of Android smartphones and tablets. Only Sky Go enables sport fans to watch all sporting events from the Sky Fußball Bundesliga and Sky Sport channels live even when they are on the go. And with the Film package, Sky Go offers blockbusters like "Frozen", "The Wolf of Wall Street" and "Gravity" shortly after cinema as well as the latest premium series such as "Gomorrha" (season 1), "Boardwalk Empire" (seasons 1–5) and "Silicon Valley" (season 1) – many of them directly after their US premiere and in the original language. The service is rounded out by additional entire series box sets, numerous top-quality documentaries, classic movies and an extensive offer just for kids. Within the Sky Go user interface, customers also gain direct access to the entire programming catalogue from Snap by Sky – the online video service from Sky.

New features for Sky Go and Snap

In August 2014, 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 favourite programme, 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.

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 offer, with up to 94 channels. In the current financial year, the selection of HD channels was expanded to include RTL Crime HD among others. Content from RTL Crime HD is also available via Sky Go and Sky Anytime. In addition, the film channels Sky Cinema+1 HD and Sky Cinema+24 HD were added. Around 92 percent of Sky subscribers[12] own HD televisions – six percentage points[13] more than the average for all households in Germany.

Warner Bros.: long-term extension of exclusive cooperation

In October 2014, Sky and Warner Bros. agreed to an 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, 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.

Exclusive partnership with HBO extended

In September 2014, Sky and HBO, the most successful premium channel in the US, 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 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.

Exclusive HBO premieres on Sky in the first half of 2014/15

- "Boardwalk Empire" (5th season)
- "Jonah from Tonga"
- "Looking" (1st season)
- "Rectify" (2nd season)
- "Silicon Valley" (1st season)
- "The Knick" (1st season)
- "The Leftovers" (1st season)
- "The Normal Heart"
- "Veep" (3rd season)

12) TNS Infratest: Sky Structure Survey 2014
13) IHS, www.ihs.com, July 2014

Sky Star Wars HD: for Star Wars Fans

For Star Wars fans Sky offered a special Christmas gift: From 1 to 14 December 2014 the channel Sky Hits became Sky Star Wars HD, presenting all six Star Wars films around the clock. In addition, the exclusive Sky Star Wars channel showed featurettes, the special "Star Wars Rebels: The Spark of a Rebellion" and two documentaries, offering an exciting glimpse behind the scenes. Sky Star Wars HD thrilled Sky customers and showed strong performance: The six Star Wars films reached 3 million total contacts between 1 December and 14 December. The most-watched episode was "Star Wars: Episode 1 – The Phantom Menace" with 930,000 viewers. On Facebook Sky's Star Wars clips had a reach of around 33 million in less than two weeks.

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. The rights also encompass on-demand broadcasts on Sky Anytime and Sky Go.

In August 2014, 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", "The Butler", "Behind the Candelabra" as well as the Oscar winning film "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 on the German TV market.

Just recently, Sky announced the new crime drama series "The Last Panthers" in partnership with Sky plc and Canal+ in France. With this new project, Sky continues to invest in the area of international productions. "The Last Panthers" will be broadcast on Sky Atlantic HD in Germany, Great Britain and Ireland in 2015. The series will also be available in France on Canal+.

Expansion of Sky Welt

Since 22 September 2014, the US channel A&E has been 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 2014, 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, Sky Welt now includes up to 50 channels.

UEFA Europa League live on Sky until 2018

Sky has secured the live broadcasting rights for the UEFA Europa League from the 2015/16 season up to the end of 2017/18 season. In combination with the rights for the UEFA Champions League, Sky continues to exclusively show all matches of the German and Austrian teams in the European competitions across all platforms including internet, IPTV and mobile in Germany and Austria. With only one match per match day shown parallel on free TV, Sky will show the majority of the UEFA Europa League matches exclusively on German TV. And with also only one match per match day on the Austrian free TV from the 2015/16 season, the new agreement means also a significant increase in exclusivity for Sky Austria.

Exclusive handball rights

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, the largest handball club competition in the world over the next three seasons live.

At the end of December 2014, Sky also secured the exclusive live broadcast rights to the 2015 IHF Handball World Championship in Qatar including exclusive coverage of matches involving the German and Austrian national teams. In total, Sky's live coverage encompassed all 88 matches of this major handball event.

In addition to TV broadcasting rights, both agreements encompass 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 August 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 Austria 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 as well as access for the 24-hour sport news channel Sky Sport News HD.

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 is now known as the "Sky Go Erste Liga".

Customer service

Customer service recognised by TÜV and ServiceValue

After Sky's telephone-based customer service was recognised in August 2014, the in-home service from Sky received the best grade from TÜV Saarland in December. The in-home service supports Sky customers at home – for example, with the installation of the Sky receiver. In addition, the Sky hotline was the test winner among TV & VoD providers in the area of service quality by the IT magazine CHIP and Statista.

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 jointly by ServiceValue GmbH, Goethe University – Frankfurt am Main and Die Welt, is Germany's largest service ranking.

Acquisition of customer service centre in Teltow

Effective 1 October 2014, Sky acquired the customer service centre in Teltow from its prior operator Serco Services GmbH (Serco), thereby establishing a second in-house service centre in addition to Sky Deutschland Service Center GmbH in Schwerin. Serco launched the service centre in October 2012 and has since gradually expanded the operation in cooperation with Sky. Currently, there are approximately 280 employees offering assistance to Sky customers. Together with the service centre in Schwerin, Sky now employs nearly 1,000 people at its own service centres.

Sky Online Community

In early October 2014, 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.

Sky Info – a channel about the entire world of Sky

Sky Info was launched in November 2014 as an original channel that offers an overview of Sky's wide-ranging programming. The channel helps customers and interested viewers to discover the diverse array of content on Sky. It can be received for free via satellite for both Sky customers as well as anyone without a Sky subscription.

Marketing and Sales

Extensive marketing cooperation with Die Fantastischen Vier ("The Fantastic Four")

The year 2014 saw the launch of an extensive media partnership between Sky and the most successful German hip-hop band Die Fantastischen Vier ("The Fantastic Four") as well as their label Sony Music. As part of this cooperation, on 20 December Sky broadcast a Fantastischen Vier concert live from the Hanns-Martin-Schleyer Hall in Stuttgart in Ultra HD – Sky's first-ever live Ultra HD production outside the realm of football.

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 offer Sky Go, which allows customers to watch the league of the world-champions, the Bundesliga, live and on the go using a mobile device or computer.

Ratings record for the start of the Bundesliga season

The first match day 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 match day 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 exclude viewers in Sky sports bars as well as those subscribers who watched the first Bundesliga match day 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 at 1 October 2014, the new company acquired the operating business of the customer service centre in Teltow from the prior operator Serco Services GmbH.

Changes in the Supervisory Board

On 12 November 2014, Chase Carey and Jan Koeppen informed the Company that they no longer intend to stand for re-election as members of the Supervisory Board. Their terms expired at the end of the Annual General Meeting on 19 November 2014.

During the Annual General Meeting on 19 November 2014, Jeremy Darroch, Chief Executive Officer of Sky plc as well as Andrew Griffith, Chief Financial Officer of Sky plc were both elected as new members of Sky Deutschland AG's Supervisory Board. Jeremy Darroch was later elected by Sky's Supervisory Board as Chairman of the Supervisory Board. He succeeds James Murdoch who will remain a member of the Supervisory Board.

Employees

As at 31 December 2014, the Sky Group had 2,464 employees (full-time equivalents; 30 June 2014: 2,182 employees).

Remuneration of the Management Board

As a result of the takeover of a majority of Sky Deutschland AG shares by Sky German Holdings GmbH and the resulting fact that the share of free float has fallen below 10 percent, the share price now potentially correlates less with the underlying performance of the business. The Long-Term Incentive Plans for the 2012 to 2014/15 financial years have therefore been reviewed.

For this reason, the calculation method was changed and the PSUs valuation is now based on a fixed value per PSU, determined for each LTIP, instead of taking into account the virtual shares and the Sky Deutschland share price.

Decisions on the resulting changes for the board members were reached at the supervisory board meeting on 29 January 2015.

As a result of the decoupling from the share price, the Long-Term Incentive Plans 2013 through 2015 are now classified as “other long-term employee benefits” in accordance with IAS 19. For further details see also notes to the interim consolidated financial statements of Sky Deutschland AG under the section “share-based payments and other long-term employee benefits”.

Completion of the tender offer by Sky German Holdings GmbH

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 Sky plc 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 Sky 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 section 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 regarding the takeover offer. In the joint statement the Management Board and Supervisory Board – inter alia – described possible consequences for Sky Deutschland AG in the 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 sent. 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. The transaction was closed on 12 November 2014.

Following the offer period Sky German Holdings GmbH acquired additional Sky Deutschland AG shares which brought its total shareholding to 90.04 percent as at 28 November 2014. Due to this, the free float of Sky Deutschland AG fell below 10 percent and the Company was removed from the MDAX listing as at 4 December 2014. According to a press release of Sky plc, the voting rights of Sky German Holdings GmbH in Sky Deutschland AG amounted to 95.80 percent on 7 January 2015.

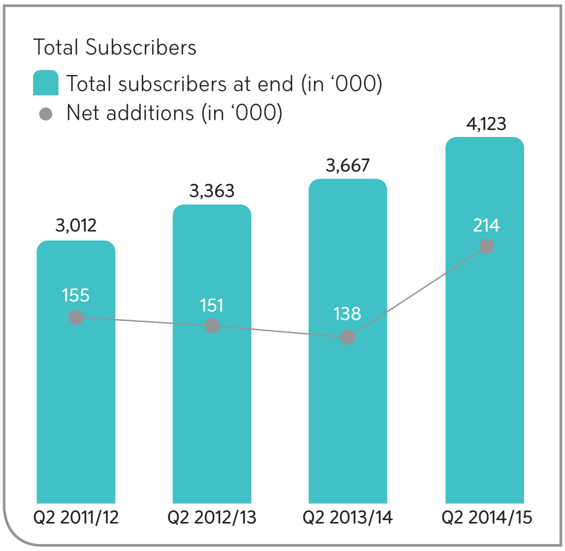
Subscriber metrics and quarterly trends

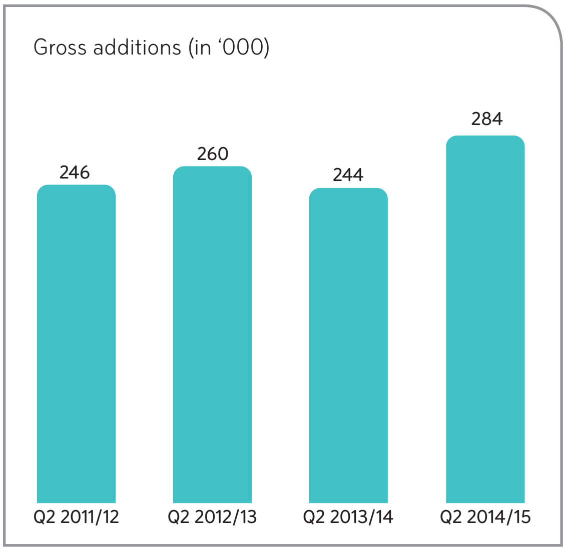
'000	Q2 2014/15	Q1 2014/15	Q4 2013/14	Q3 2013/14	Q2 2013/14
Direct subscribers[1] at beginning	3,908	3,813	3,731	3,667	3,529
Gross additions[2]	284	179	154	145	244
Churn[3]	–83	–83	–72	–81	–106
Net growth[4]	214	96	82	64	138
Direct subscribers at end	**4,123**	**3,908**	**3,813**	**3,731**	**3,667**
Sky Welt HD subscribers (in'000)	3,341	3,106	2,974	2,834	2,713
Premium HD subscribers[5] (in '000)	2,152	2,004	1,900	1,851	1,799
Premium HD penetration rate[6] (in %)	52.2	51.3	49.8	49.6	49.1
Premium HD subscribers including HD free-visions at end of period[7] (in '000)	2,433	2,311	2,236	2,106	2,025
Premium HD penetration rate including HD free-visions[8] (in %)	59.0	59.1	58.6	56.4	55.2
Sky+ subscribers[9] (in '000)	1,994	1,786	1,681	1,576	1,480
Sky+ penetration[10] (in %)	48.4	45.7	44.1	42.2	40.4
Second smartcard subscribers[11] (in '000)	479	461	451	443	429
Second smartcard penetration[12] (in %)	11.6	11.8	11.8	11.9	11.7
Subscription ARPU[13] (in €, monthly)	33.76	34.00	34.59	34.58	34.56
Churn rate[14] (in %, annualized)	8.2	8.6	7.7	8.8	11.8
Churn rate[14] (in %, 12 months rolling)	8.2	9.2	10.1	10.6	11.2
Wholesale subscribers (in '000)	155	155	213	258	268

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 as well as stand-alone online and mobile subscriptions. 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, excluding stand-alone online and mobile subscriptions. 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). Stand-alone online and mobile subscriptions are not included.
4) Net growth includes net growth of stand-alone online and mobile subscriptions since Q2 2014/15. The respective gross additions and churns are not reported.
5) 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.
6) 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.
7) 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.
8) 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.
9) Sky+ subscribers receive Sky's programming and Sky's video-on demand service with an HD-capable hard disk receiver.
10) Sky+ penetration is defined as the relation of Sky+ subscribers to the total number of direct subscribers at the end of that period.
11) Second smartcard subscribers comprise subscribers who have subscribed to a second smartcard. The respective revenue contribution of second smartcard subscribers is included in ARPU.
12) 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.
13) 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 recognised 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.
14) The churn rate for a given period is defined as the number of direct subscribers who churned their subscriptions during the course of a given period, divided by the average number of direct subscribers in that period (calculated by dividing the sum of the number of direct subscribers on the first day of that period and on the last day of that period by two) and multiplied by four when referring to a quarterly period, by two when referring to a half-year period and by one when referring to a full-year period.

In the second quarter of the 2014/15 financial year, Sky delivered new record customer growth. The number of **direct subscribers** grew by 214,232 (Q2 2013/14: 137,878), surpassing the four million level to reach a total of 4,122,647 (31 December 2013: 3,666,851). **Gross additions** were strong at 284,400 (Q2 2013/14: 243,798), reflecting an improved marketing presence as well as the increasing underlying demand for Sky's products.

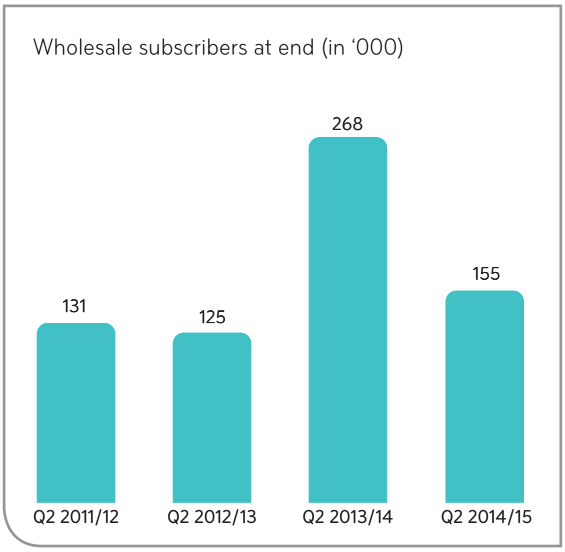
Since Q2 2014/15, direct subscribers net growth includes stand-alone online (e.g., Sky Online, Snap) and mobile subscriptions. These products allow the customer to enjoy the respective service with the flexibility of a monthly contract.

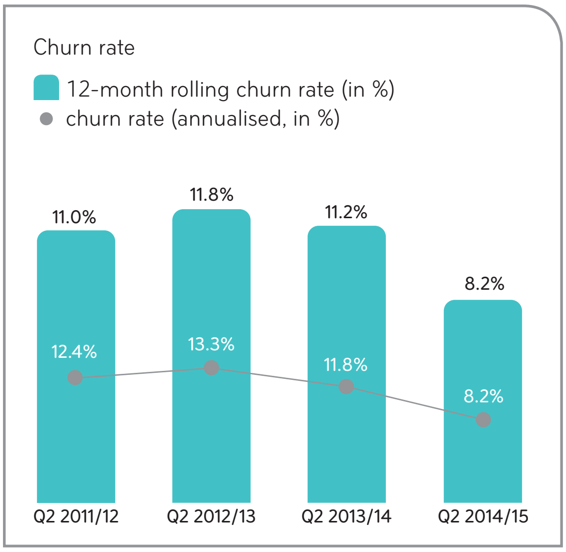




Wholesale customers included the former Liga total! IPTV customers added in Q1 2013/14 in connection with the co-operation with Deutsche Telekom. Due to the expiration of the transition period in which these customers were able to watch Sky Bundesliga under Liga total! terms, wholesale customers decreased to 155,119 at the end of Q2 2014/15.

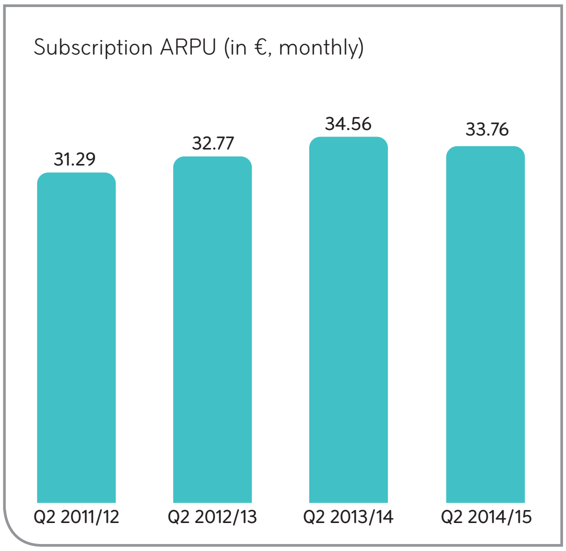
As a result of the actions taken last year to improve the quality of customer growth and the increasing level of two-year contracts, customer loyalty has improved significantly, with the **12-month rolling churn rate** reducing to 8.2 percent (31 December 2013: 11.2 percent). This is the lowest rate in the Company's history and is among the best in the industry.

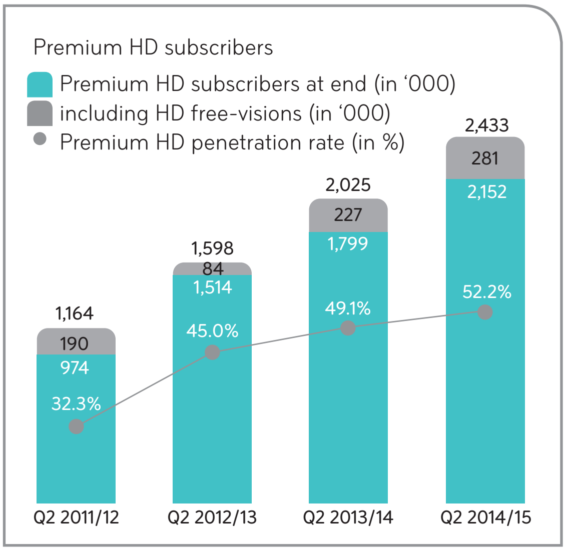




The Average Revenue Per User (**ARPU**) for the second quarter of 2014/15 amounted to €33.76 (Q2 2013/14: €34.56).

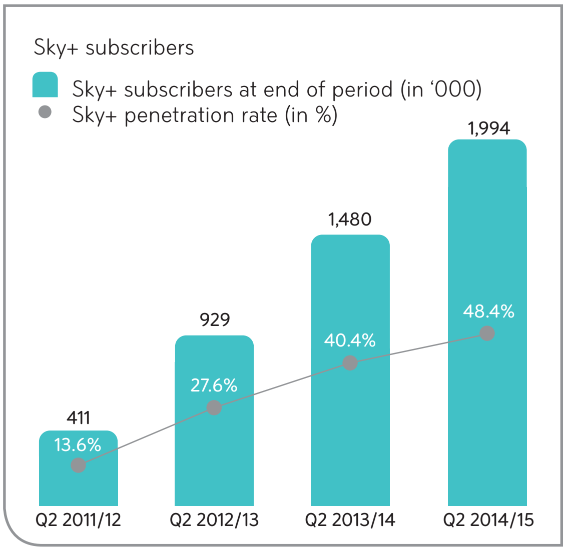
The total number of **Sky Premium HD customers** grew in the second quarter of 2014/15 by 147,766 (Q2 2013/14: 47,109) to 2,151,773 (31 December 2013: 1,798,704). When including customers with free access to this service, such as those with the first year free as part of a two-year contract, the second quarter of 2014/15 saw the number of Premium HD customers increase by an additional 280,969 (Q2 2013/14: 226,781) to a total of 2,432,742 customers (31 December 2013: 2,025,485) receiving Sky's Premium HD channels.

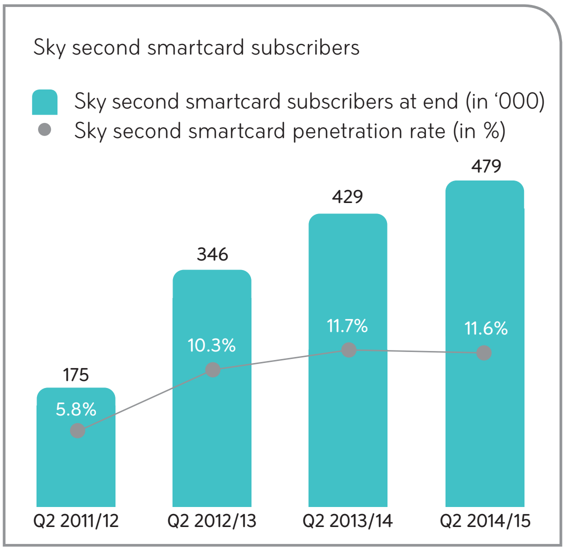




Sky+ continued its strong growth over the course of the reporting period with the number of customers increasing by 208,388 (Q2 2013/14: 183,990) to 1,994,351 (31 December 2013: 1,480,014). This meant that 48.4 percent of Sky subscribers enjoyed the convenience and flexibility of a Sky+ receiver at the end of the reporting period (31 December 2013: 40.4 percent).

A total of 478,562 customers, up from 428,920 (as at 31 December 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 41.4 percent to 36.8 million over the course of the second 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 six-month period (H1) of the respective year, unless indicated otherwise.

Revenues

Total revenues increased to €882.0 million (H1 2013/14: €807.0 million), driven by an increase in subscription revenues of €70.6 million to €800.4 million (H1 2013/14: €729.8 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 as well as stand-alone online and mobile subscriptions. Advertising revenues increased to €29.3 million (H1 2013/14: €23.8 million). Hardware revenues amounted to €16.0 million (H1 2013/14: €15.7 million). Wholesale revenues amounted to €7.1 million (H1 2013/14: €14.6 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 €29.2 million (H1 2013/14: €23.2 million), primarily due to higher revenues from sublicensing sports rights.

Costs

Cost of sales totalled €665.4 million (H1 2013/14: €658.3 million). Programming costs decreased to €462.4 million (H1 2013/14: €474.7 million), driven by the effects in connection with the changes in accounting estimates regarding the pattern in which the future economic benefits of sports and film assets are expected to be consumed (refer to the notes to the interim consolidated financial statements of Sky Deutschland AG under the section "change in accounting estimates"). This was partially offset by higher Bundesliga licence costs as well as higher costs for film licences. The increase in technology costs by €9.2 million to €96.2 million (H1 2013/14: €87.0 million) was primarily the result of higher costs for transponder capacity and cable broadcasting. Customer service and other cost of sales increased to €55.2 million (H1 2013/14: €52.0 million), which is largely attributable to the increase in customer contacts associated with a higher subscriber base and higher advertising cost of sales. Hardware costs increased to €51.5 million (H1 2013/14: €44.6 million). The increase resulted primarily from higher depreciation for receivers recognised under non-current assets and higher logistics costs.

Selling expenses increased by €18.8 million to €150.1 million (H1 2013/14: €131.2 million). The increase was primarily due to higher sales and marketing expenses which were partially offset by lower bad debt allowances. Selling expenses include one-off income in the amount of €2.7 million. General and administrative expenses amounted to €71.8 million (H1 2013/14: €75.7 million). Higher expenses for IT were offset by lower labour costs, particularly relating to the valuation of long-term compensation programs.

The increase in depreciation and amortisation recognised under 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 €10.7 million (H1 2013/14: €5.3 million) and is primarily due to income from damage claims, income from an agreement with a network provider as well as the release of a provision built for a potential legal proceeding.

Operating result

	H1 2014/15	H1 2013/14	Change (absolute)	Change (in %)
Revenues (in € million)	**882.0**	**807.0**	**75.0**	**9.3**
Operating costs (in € million)	824.1	814.8	9.3	1.1
EBITDA (in € million)[1]	**57.9**	**−7.8**	**65.7**	**>100**
EBITDA margin (in %)[3]	6.6	−1.0	7.5	
Depreciation and amortisation (in € million)	52.4	45.2	7.2	15.9
Amortisation of subscriber base (in € million)	0.7	0.7	0.0	0.0
EBIT (in € million)[2]	**4.8**	**−53.7**	**58.5**	**>100**
EBIT margin (in %)[3]	0.5	−6.7	7.2	

1) Earnings before interest, taxes, depreciation and amortisation
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 9.3 percent to €882.0 million (H1 2013/14: €807.0 million), while operating costs only increased by 1.1 percent to €824.1 million (H1 2013/14: €814.8 million).

Financial result

The financial result was negative €26.6 million (H1 2013/14: negative €37.6 million). Interest and similar expenses for the first half of 2014/15 amounted to €35.2 million (H1 2013/14: €35.4 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. and by Sky plc, interest expenses in the amount of €16.5 million (H1 2013/14: €16.9 million) were reflected in profit and loss. In connection with the shareholder financing by 21st Century Fox Adelaide Holdings B.V. and Sky International Operations Limited, interest expenses in the amount of €14.7 million (H1 2013/14: €14.4 million) were incurred, of which €6.4 million (H1 2013/14: €9.4) related to the convertible bond based on an effective interest rate of 12.0 percent per annum and €7.7 million (H1 2013/14: €4.4 million) to the shareholder loans. The year-on-year increase is mainly attributable to interest on a shareholder loan in the amount of €48 million which was drawn in December 2013.

The financial result amounted to €8.2 million. The increase 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 31 December 2014, earnings before taxes amounted to negative €21.8 million (H1 2013/14: negative €91.3 million). Income taxes comprise deferred tax expenses in the amount of €3.0 million (H1 2013/14: €3.3 million). The consolidated net income after taxes amounted to negative €24.7 million (H1 2013/14: negative €94.6 million). Total comprehensive income amounted to negative €20.7 million (H1 2013/14: negative €95.8 million).

Basic/diluted earnings per share amounted to negative €0.03 (H1 2013/14: negative €0.11).

Financial position

Capital development

On 11 November 2014, Sky Deutschland AG, Sky Deutschland Fernsehen GmbH & Co. KG, Twenty-First Century Fox, Inc., 21st Century Fox America, Inc., Sky plc, British Sky Broadcasting Limited, BSkyB Finance UK plc, Sky In-Home Service Limited, Sky Subscribers Services Limited and the existing banking consortium signed an amendment agreement to the existing up to €378.5 million bank credit facilities (including the additional credit line of €78.5 million covering general corporate purposes and investments in production capabilities). As part of this amended agreement Twenty-First Century Fox, Inc. and 21st Century Fox America, Inc. were released as guarantors of the credit facilities and replaced by Sky plc as the new parent guarantor and British Sky Broadcasting Limited, BSkyB Finance UK plc, Sky In-Home Service Limited and Sky Subscribers Services Limited as the new subsidiary guarantors.

On 12 November 2014, Sky Deutschland AG, Sky Deutschland Fernsehen GmbH & Co. KG and Sky plc signed a financial support agreement under which Sky plc will provide a guarantee for the Sky Deutschland bank credit facilities of up to €378.5 million. Under this agreement, the guarantee fee will be at a rate of 4.0 percent per annum. This agreement replaces the financial support agreement dated 14 January 2013 and amended from time to time, between 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. in reference to the credit guarantee.

On 12 November 2014, Sky Deutschland was notified that the existing shareholder loans in the total amount of €106 million (excl. PIK interest) were transferred from 21st Century Fox Adelaide Holdings B.V. to Sky International Operations Limited (100 percent subsidiary of Sky plc) with all rights and obligations (no change in terms and conditions).

Execution of the convertible bond

On 29 October 2014, the convertible bond that 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.

Liquidity

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

Cash flow from operating activities amounted to positive €5.9 million (H1 2013/14: positive €44.3 million) and mainly included cash inflows from the positive EBITDA of €57.9 million (H1 2013/14: negative €7.8 million) adjusted by non-cash expenses of €3.2 million (H1 2013/14: €4.2 million) which were offset by changes in working capital outflows in the amount of €63.7 million (H1 2013/14: inflows €50.3 million).

Cash flow from investing activities was negative €45.2 million (H1 2013/14: negative €46.8 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 €24.4 million (H1 2013/14: positive €19.3 million) and is related to current interest payments as well as repayments of finance lease liabilities. The positive cash flow generated in the comparative period was due to the granting of a shareholder loan in December 2013 in the amount of €48 million.

At the end of the first half of the 2014/15 financial year, Sky had at its disposal liquid funds of €59.6 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 capitalised interest) were utilised in the amount of €331.0 million (30 June 2014: €495.6 million). The decrease is due to the execution of the convertible bond in October 2014.

Net assets

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

Trade receivables increased by €25.1 million to €106.4 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 €22.7 million (2014: €2.1 million). The increase is mainly the result of fair value changes in derivatives. The increase in sport and film assets and advance payments for sports and film rights to €174.0 million (2014: €131.2 million) was mainly due to an increase in sport assets in connection with the abovementioned changes in accounting estimates regarding the pattern in which the future economic benefits of these assets are expected to be consumed and advance payments for sports rights in the amount of €48.7 million. This was offset by a decrease in film assets. Inventories (mainly receivers) amounted to €21.4 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 €732.1 million (2014: €721.6 million). The additions from investments in software and receiver licences were partially compensated by scheduled amortisations. Property, plant and equipment amounted to €25.7 million (2014: €26.1 million). The carrying amount of receivers, recognised under non-current assets, amounted to €188.4 million (2014: €188.8 million) and includes leasing hardware components (receivers, external hard-disks and CI+ modules) in the amount of €28.2 million. Other assets decreased to €22.6 million (2014: €28.6 million), mainly due to lower prepayments.

Shareholders' equity increased by €143.1 million to €415.4 million (2014: €272.3 million), mainly in connection with the execution of the convertible bond in October 2014. The increase was partially offset by the loss for the period. At the end of the first half of the 2014/15 financial year, the ratio of equity to total assets was 30.7 percent (2014: 20.7 percent).

Total liabilities decreased to €937.5 million (2014: €1,045.8 million) and were affected by the following developments: borrowings decreased to €398.3 million (2014: €548.6 million) due to the execution of the convertible bond described above. Borrowings include finance lease liabilities, mainly in connection with the aforementioned leasing of hardware components, in the amount of €37.0 million (2014: €41.1 million). Net financial liabilities (borrowings less cash) amounted to €338.8 million (2014: €425.4 million). Trade payables increased to €321.9 million (2014: €286.0 million). The primary reason was an increase in other liabilities mainly resulting from higher liabilities in connection with receiver purchases. Other financial liabilities amounted to €68.3 million (2014: €56.2 million). The increase was primarily due to higher liabilities to employees and board members in connection with long-term compensation programs and other smaller items. Other provisions decreased to €2.4 million (2014: €13.9 million) due to lower provisions for litigation costs as a result of the conclusion of respective agreements. Other liabilities increased to €67.9 million (2014: €65.0 million) mainly due to a higher amount of deferred income.

Deferred tax liabilities amounted to €66.1 million (2014: €63.6 million) and relate primarily to the different amortisation methods in relation to intangible assets which 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 half of its financial year 2014/15. The continued subscriber growth reflects the rising appeal of the continually expanding Sky offer. 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 offer, deliver new services and extend the availability of its programming. The strategic focus remains on growth and achieving sustainable profitability.

For the 2014/15 financial year, Sky expects an unchanged 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 totalling 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 were finally and absolutely settled upon payment of €14.5 million in instalments. All instalments 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 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. On 25 September 2014, the Company pursued an appeal to the Higher Regional Court Munich against the judgment.

There are no outstanding obligations relating to damage claims as at 31 December 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.

Investigation of the Federal Financial Supervisory Authority

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

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

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

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

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

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

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

Unterföhring, 4 February 2015

The Management Board

Share information

Share price development 1 July 2014 to 31 December 2014

Sky's share price[1] started at €6.83 on 1 July and closed at €6.72 at the end of December as shown in the chart above.

This development represents a decrease of 1.6 percent over the course of the first half of 2014/15. In the same period, the DAX decreased by 1.0 percent and the MDAX increased by 1.2 percent.

Based on the closing price, Sky Deutschland AG's market capitalisation on 31 December 2014 was €6,257 million with a free float market capitalisation of €623 million.

The average daily trading volume in the first half of 2014/15 was 1,736,772 shares.

Inclusion in indices

The Sky Deutschland stock was part of the MDAX since 20 June 2005. Due to the takeover of Sky Deutschland AG through Sky German Holdings GmbH, a wholly owned indirect subsidiary of Sky plc, the free float in Sky Deutschland decreased below 10 percent as at 27 November 2014. Therefore, the Company no longer fulfils the minimum criterion for staying in the index and was withdrawn from the MDAX effective 4 December 2014. Already since 11 November 2014, the Sky Deutschland share is no longer represented in the MSCI Global Standard indices and the FTSE indices due to the reduced free float. Since 22 December 2014, the Sky share has also been excluded from the Stoxx indices.

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

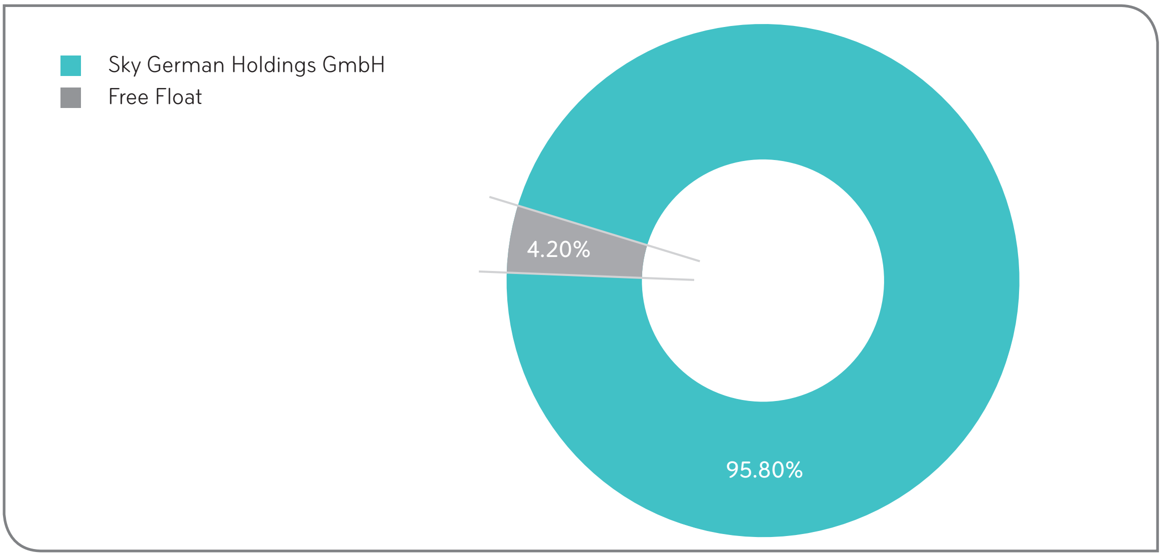
Shareholder structure

Due to the conversion of a convertible bond, that the Company had placed to 21st Century Fox Adelaide Holdings B.V. (formerly News Adelaide Holdings B.V.) on 26 January 2011, Sky Deutschland's share capital currently amounts to €931,114,937 with 931,114,934 issued shares as at 29 October 2014.

Shares held by Sky plc (formerly British Sky Broadcasting Group plc)

At the end of July 2014, 21st Century Fox announced its intention to combine their Sky holdings across Europe. As part of this proposed transaction, Sky plc (formerly British Sky Broadcasting Group plc), the leading pay-TV operator in the UK, agreed to acquire 21st Century Fox's stake in Sky Deutschland and published a voluntary public takeover offer for all Sky Deutschland shares on 3 September 2014 via its wholly owned indirect subsidiary, Sky German Holdings GmbH. On 3 November 2014, the additional acceptance period of Sky plc'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 corresponded 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.).

On 12 November 2014, the voluntary takeover offer from Sky German Holdings GmbH has been completed. As at 12 November 2014, Sky German Holdings GmbH held 89.05 percent (voting rights announcement as at 17 November 2014). According to press releases of Sky plc, Sky German Holdings GmbH acquired additional Sky Deutschland shares following the offer period bringing its total shareholding to 89.71 percent on 12 November 2014, 90.04 percent on 27 November 2014 and 95.80 percent on 7 January 2015.



As at 7 January 2015

Shares held by institutional investors

No institutional investors exceed notifiable thresholds of voting rights in Sky Deutschland AG as at 31 December 2014.

Shares held by Management

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

Shares held by members of the Supervisory Board

Dr. Stefan Jentzsch, member of the Supervisory Board of Sky Deutschland AG, held 120,000 Sky shares of Sky Deutschland AG on 31 December 2014.

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

Interim consolidated financial statements

Consolidated balance sheet

K€	31 Dec 2014	30 Jun 2014
Assets		
Current assets		
Cash and cash equivalents	59,556	123,157
Trade receivables	106,390	81,134
Other financial assets	15,012	1,372
Sport and film assets and advanced payments for sport and film rights	144,100	102,632
Inventories	21,426	15,150
Other assets	18,514	21,828
Total current assets	**364,998**	**345,273**
Non-current assets		
Trade receivables	48	168
Other financial assets	7,689	709
Deferred taxes	26	32
Sport and film assets and advanced payments for sport and film rights	29,865	28,533
Receivers	188,360	188,826
Property, plant and equipment	25,664	26,130
Intangible assets	732,102	721,631
Other assets	4,107	6,785
Total non-current assets	**987,860**	**972,814**
Total assets	**1,352,858**	**1,318,087**
Liabilities and equity		
Current liabilities		
Borrowings	14,559	167,730
Trade payables	311,828	275,116
Other financial liabilities	55,374	46,291
Other provisions	2,439	13,948
Other liabilities	59,795	59,220
Total current liabilities	**443,995**	**562,305**
Non-current liabilities		
Borrowings	383,763	380,838
Trade payables	10,034	10,889
Other financial liabilities	12,919	9,943
Deferred taxes	68,118	63,616
Provisions for pensions and similar obligations	12,513	12,332
Other liabilities	8,102	5,828
Total non-current liabilities	**495,447**	**483,446**
Total liabilities	**939,443**	**1,045,751**
Equity		
Subscribed capital	931,115	877,201
Additional paid-in capital	2,028,720	1,920,850
Reconciling item for shareholder transactions without change in control	–58,245	–58,245
Accumulated other comprehensive income	–2,931	–6,968
Retained deficit	–2,485,245	–2,460,501
Total equity	**413,415**	**272,336**
Total liabilities and equity	**1,352,858**	**1,318,087**

Consolidated statement of total comprehensive loss (H1)

K€	1 Jul–31 Dec 2014	1 Jul–31 Dec 2013
Revenues	882,009	807,047
Cost of sales	**–665,371**	**–658,311**
Program	–462,404	–474,696
Technology	–96,229	–86,964
Hardware	–51,531	–44,644
Customer service and other cost of sales	–55,206	–52,008
Gross profit	216,639	148,735
Selling expenses	–150,062	–131,248
General and administrative expenses	–71,764	–75,746
Other operating income	11,694	6,634
Other operating expenses	–1,014	–1,359
Amortisation of subscriber base	–694	–694
Result from operations	**4,799**	**–53,677**
Interest and similar income	502	519
Other financial result	8,138	–2,723
Interest and similar expenses	–35,212	–35,432
Result before taxes	**–21,774**	**–91,313**
Income taxes	–2,970	–3,285
Result for the period	**–24,743**	**–94,597**
Other comprehensive income	**4,038**	**–1,203**
of which items that may be reclassified subsequently to profit and loss	4,038	–1,320
Changes in fair value of derivatives in cash flow hedges (net of tax)	4,038	–1,320
thereof items that will not be reclassified to profit and loss	–	117
Remeasurements in accordance with IAS 19 (2011 revised) (net of tax)	–	117
Total comprehensive loss	**–20,706**	**–95,800**
Earnings attributable to:		
Stockholders	–24,743	–94,597
Non-controlling interest	–	–
Total comprehensive loss attributable to:		
Stockholders	–20,706	–95,800
Non-controlling interest	–	–
Result per share total (€) basic/diluted	–0.03	–0.11

Consolidated statement of total comprehensive loss (Q2)

K€	1 Oct–31 Dec 2014	1 Oct–31 Dec 2013
Revenues	**450,709**	**414,318**
Cost of sales	**–353,652**	**–364,295**
Program	–250,077	–269,251
Technology	–48,379	–46,168
Hardware	–27,176	–22,585
Customer service and other cost of sales	–28,021	–26,292
Gross profit	**97,057**	**50,022**
Selling expenses	–88,692	–70,113
General and administrative expenses	–38,894	–40,836
Other operating income	7,644	1,698
Other operating expenses	–426	–362
Amortisation of subscriber base	–347	–347
Result from operations	**–23,658**	**–59,938**
Interest and similar income	318	257
Other financial result	3,960	–935
Interest and similar expenses	–15,627	–18,170
Result before taxes	**–35,007**	**–78,785**
Income taxes	–2,048	–1,572
Result for the period	**–37,054**	**–80,357**
Other comprehensive income	**1,247**	**–398**
of which items that may be reclassified subsequently to profit and loss	1,247	–515
Changes in fair value of derivatives in cash flow hedges (net of tax)	1,247	–515
thereof items that will not be reclassified to profit and loss	–	117
Remeasurements in accordance with IAS 19 (2011 revised) (net of tax)	–	117
Total comprehensive loss	**–35,807**	**–80,755**
Earnings attributable to:		
Stockholders	–37,054	–80,357
Non-controlling interest	–	–
Total comprehensive loss attributable to:		
Stockholders	–35,807	–80,755
Non-controlling interest	–	–
Result per share total (€) basic/diluted	–0.04	–0.09

Consolidated statement of cash flows

K€	1 Jul–31 Dec 2014	1 Jul–31 Dec 2013
Result for the period before income tax	–21,774	–91,313
Net interest expense	34,710	34,913
Depreciation, amortisation and impairment losses/reversal of impairment losses on property, plant and equipment, receivers, intangible assets and financial assets	52,401	45,148
Amortisation of Subscriber bases	694	694
Other non-cash income and expenses	3,163	4,166
Changes in other provisions	–11,509	–4,404
Gain (–)/loss (+) on disposal of intangible assets and property, plant and equipment	–7	–102
Changes in inventories, trade receivables and other assets	–111,118	–16,910
Changes in trade payables and other liabilities	58,878	71,568
Interest received	502	510
Net cash used by (-)/provided by (+) operating activities	**5,941**	**44,270**
Proceeds from sale of intangible assets and property, plant and equipment	338	–
Payments for acquisition of entities, net of cash acquired	–900	–5,130
Payments for investments in intangible assets, property, plant and equipment and receivers	–44,593	–41,627
Net cash used by (-)/provided by (+) investing activities	**–45,156**	**–46,757**
Repayment of finance lease liabilities	–5,220	–2,829
Proceeds from the granting of shareholder loans	–	48,000
Payments for transaction costs in connection with financing	–	–641
Interest paid	–19,165	–25,240
Net cash used by (–)/provided by (+) financing activities	**–24,385**	**19,290**
Net decrease/increase in cash and cash equivalents	**–63,600**	**16,803**
Cash and cash equivalents at beginning of period	123,157	180,095
Cash and cash equivalents at end of period	59,556	196,898

Consolidated statement of changes in equity

K€	Subscribed capital	Additional paid-in capital	Retained deficit
Balance as at 1 Jul 2013 (reported)	877,201	1,920,816	–2,310,257
Retroactive adjustment arising from the change to IAS 19R	–	–	242
Balance as at 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	–	–	–94,597
of which items that may be reclassfifed subsequently to profit and loss	–	–	–
of which items that will not be reclassified to profit and loss	–	–	–
Balance as at 31 Dec 2013	877,201	1,920,850	–2,404,612
Balance as at 1 Jul 2014	877,201	1,920,850	–2,460,501
Increase in capital related to the execution of the convertible bond on 29 October 2014	53,914	107,871	–
Total transactions with stockholders	53,914	107,871	–
Total comprehensive profit or loss	–	–	–24,743
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 at 31 Dec 2014	931,115	2,028,720	–2,485,245

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	Total equity attributable to stockholders
–58,245	31	–2,579	–2,548	426,967
–	–	–242	–242	–
–58,245	31	–2,821	–2,791	426,967
–	–	–	–	34
–	–	–	–	34
–	–1,320	117	–1,203	–95,800
–	–1,320	–	–1,320	–1,320
–	–	117	117	117
–58,245	–1,289	–2,704	–3,993	331,200
–58,245	–3,449	–3,519	–6,968	272,336
–	–	–	–	161,785
–	–	–	–	161,785
–	4,038	–	4,038	–20,706
–	4,038	–	4,038	4,038
–	–	–	–	–
–58,245	588	–3,519	–2,931	413,415

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 located 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 at 12 November 2014, the Sky Group is included in the consolidated financial statements of Sky plc (formerly British Sky Broadcasting Group plc), London, United Kingdom.

Basis of preparation of the interim consolidated financial statements

The interim consolidated financial statements of Sky as at 31 December 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 half of 2014/15, statements referring to the reporting date of 31 December 2014 are compared with the previous year's figures as at 30 June 2014 (short financial year). For statements referring to the reporting period, the first half of 2014/15 should have been compared to the comparable interim period of the immediately preceding financial year (1 January to 30 June 2014, as published by Sky in the short financial year 2014 Annual Report). However, due to the seasonality of the Company's business, such comparison would not be relevant. Hence, the first half of 2014/15 will be compared with the corresponding previous year's period (1 July to 31 December 2013). These periods are referred to as "H1 2014/15" and "H1 2013/14" respectively.

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

Changes in the group of consolidated companies

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 centre in Teltow from its prior operator, Serco Services, thereby establishing a second in-house service centre in addition to Sky Deutschland Service Center GmbH in Schwerin. Serco launched the service centre in October 2012 and has since gradually expanded the operation in cooperation with Sky. Currently, approximately 280 employees in the service centre offer assistance to customers of the pay-TV company. Together with Schwerin, Sky now employs nearly 1,000 people in its own service centres. The acquisition of the service centre follows Sky's strategy of integrating core customer service processes and placing even more focus on the customer across the entire company.

The acquisition of the customer service centre in Teltow was settled in cash. The total consideration transferred amounted to €0.9 million. Assets arising from the transaction consist of property, plant and equipment with a carrying amount of €0.3 million. There were no further assets acquired and no liabilities were incurred. As a result of the purchase price allocation, no differences between carrying amounts and fair values of the assets were identified, resulting in goodwill of €0.6 million.

The goodwill recognised mainly relates to the experienced workforce working at the service centre at the time of the acquisition and is expected to be fully deductible for tax purposes.

In addition to the total consideration transferred, additional indemnification payments in the amount of €0.2 million were performed.

In the first half of 2014/15, a loss in the amount of €2.5 million related to the new acquired service centre and incurred since the acquisition date is included in the consolidated total comprehensive loss of Sky Group. The result which would have been included in the consolidated total comprehensive loss of Sky Group if the acquisition would have taken place at the beginning of the 2014/15 financial year cannot be determined since the service centre was not a separate legal entity prior to the acquisition.

This customer service centre has been included in the consolidated financial statements of Sky Group since 1 October 2014.

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.

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

Accounting policies

The accounting policies applied for Sky's interim consolidated financial statements as at 31 December 2014 correspond to the policies described in the Company's IFRS consolidated financial statements as at 30 June 2014, except as described below.

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

IFRIC 21 Levies: IFRIC 21 provides guidance on when a liability for a levy imposed by a government is to be recognised. The interpretation applies both to levies that are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as well as to levies for which the settlement date and amount are known. IFRIC 21 shall apply for financial years beginning on or after 17 June 2014. The EU adopted the standard on 16 June 2014. Sky is not currently subject to significant levies. The adoption of the interpretation has had no significant effect on the financial statements for earlier periods and on the interim financial statements for the period ended 31 December 2014.

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:

Omnibus Standard	Annual Improvements Project 2012–2014
Amendment to IFRS 10 and IAS 28	Sales or Contributions of Assets between an Investor and its Associate/Joint Venture
Amendments to IFRS 10and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendment to IAS 27	Equity Method in Separate Financial Statements
Amendments to IAS 1	Disclosure Initiative

For further information on the accounting policies adopted, please refer to the consolidated financial statements as at 30 June 2014.

Change in accounting estimates

In the second half of 2014, Sky launched several products like Sky Online, Sky On-Demand and Sky Go for Android and now offers a broad range of time-delayed and on-demand TV services which complies with changed customer behaviour. This triggered a review of the amortisation period and the amortisation method of its intangible assets with finite useful life, especially with regard to its film and sport licences. Following this review, Sky reached the conclusion that the former amortisation pattern does not represent the pattern in which the asset's future economic benefits are expected to be consumed anymore. The Company decided to change the amortisation method in accordance with IAS 38.104. This change corresponds to a change in accounting estimate according to IAS 8.34 and is applied starting 1 July 2014.

The change affects the sport and film assets and advanced payments for sport and film rights in the balance sheet, as well as the programming costs in the statement of total comprehensive loss. The film licences will be amortised straight-line over the licence period rather than based on the transmissions. The sport rights will be amortised not only during the on-season (period in which the respective live events take place) based on match days whereas also during the off-season months on a straight-line basis.

The effect of this change in accounting estimates amounted to €50 million as improvement of the net comprehensive loss for the first half of 2014/15, of which €6 million related to the film rights and €44 million to the sport rights (mainly German Bundesliga rights). Of this effect, €17.5 million related to the period Q1 2014/15, of which €16 million in relation to the sport rights and €1.5 million in relation to the film rights.

The effect for the 2014/15 full financial year will amount to approximately €48 million.

Significant influences on the consolidated interim financial statements

Consolidated balance sheet

Cash, cash equivalents and cash flow

Cash and cash equivalents decreased by K€63,600 from K€123,157 as at 30 June 2014 to K€59,556 as at 31 December 2014. As at the balance sheet date 31 December 2014, restricted cash amounted to K€1,345 (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 positive K€5,941 (H1 2013/14: positive K€44,270), which mainly included cash inflows from the positive EBITDA of K€57,894 (H1 2013/14: negative K€7,835) adjusted by non-cash expenses of K€3,163 (H1 2013/14: K€4,166) and offset by changes in working capital outflows in the amount of K€63,749 (H1 2013/14: inflows K€50,254).

Cash flow from investing activities was negative K€45,156 (H1 2013/14: negative K€46,757). 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€24,385 (H1 2013/14: positive K€19,290) and is related to current interest payments as well as repayments of finance lease liabilities. The positive cash flow generated in the comparative period was due to the granting of a shareholder loan in December 2013 in the amount of €48 million.

The existing financing facilities (excluding guarantees and capitalised interest) were utilised in the amount of K€331,015 (30 June 2014: K€495,615). The decrease is due to the conversion into equity of the convertible bond in October 2014. The undrawn credit facilities amounted to K€72,700 as at the balance sheet date (thereof, K€72,700 resulting from bank financing).

Sport and film assets and advanced payments for sport and film rights

The carrying amount of sport and film assets and advanced payments for sport and film rights as at 31 December 2014 was K€173,964 (30 June 2014: K€131,165). This increase was mainly due to the effect of the changes in accounting estimates regarding the consumption of future economic benefits of sports and film rights (in the amount of K€49,570), offset by a decrease in film assets. For further information, please refer to the section “Change in accounting estimates” in these notes.

Intangible assets

Intangible assets amounted to K€732,102 as at 31 December 2014 (30 June 2014: K€721,631). In total, Sky capitalised internal development costs that represent incidental acquisition costs of purchased software in the amount of K€2,086 as additions to intangible assets.

Trade receivables

Trade receivables amounted to K€106,438 as at 31 December 2014 (30 June 2014: K€81,303). The increase of K€25,135 is mainly the result of higher receivables from subscribers, driven by the growth in subscriptions in the first half of 2014/15.

Other financial assets

Other financial assets amounted to K€22,701 as at 31 December 2014 (30 June 2014: K€2,081). The increase is mainly the result of fair value changes in derivatives. As at 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” in these notes.

Inventory
The carrying amount of the inventories was K€21,426 as at 31 December 2014 (30 June 2014: K€15,150), of which K€50 recognised at net realisable value (30 June 2014: K€44). The increase by K€6,276 is mainly the result of receiver additions in the amount of K€40,637, offset by the reclassification from current assets to non-current assets in the amount of K€34,876. In general, receivers are at first capitalised under inventories. Receivers that are leased to subscribers are transferred from inventories to property, plant and equipment upon delivery to the subscriber.

Borrowings
The borrowings decreased by K€150,247 to K€398,322 (30 June 2014: K€548,568), mainly due to the conversion into equity of the convertible bond issued to 21st Century Fox Adelaide Holdings B.V. which took place in October 2014.

On 11 November 2014, Sky Deutschland AG, Sky Deutschland Fernsehen GmbH & Co. KG, Twenty-First Century Fox, Inc., 21st Century Fox America, Inc., Sky plc, British Sky Broadcasting Limited, BSkyB Finance UK plc, Sky In-Home Service Limited, Sky Subscribers Services Limited and the existing banking consortium signed an amendment agreement to the existing up to €378.5 million bank credit facilities (including the additional credit line of €78.5 million covering general corporate purposes and investments in production capabilities). As part of this amended agreement Twenty-First Century Fox, Inc. and 21st Century Fox America, Inc. were released as guarantors of the credit facilities and replaced by Sky plc as the new parent guarantor and British Sky Broadcasting Limited, BSkyB Finance UK plc, Sky In-Home Service Limited and Sky Subscribers Services Limited as the new subsidiary guarantors.

On 12 November 2014, Sky Deutschland AG, Sky Deutschland Fernsehen GmbH & Co. KG and Sky plc signed a financial support agreement under which Sky plc will provide a guarantee for the Sky Deutschland bank credit facilities of up to €378.5 million. Under this agreement, the guarantee fee will be at a rate of 4.0 percent per annum. This agreement replaces the financial support agreement dated 14 January 2013 and amended from time to time, between 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. in reference to the credit guarantee.

On 12 November 2014, Sky Deutschland was notified that the existing shareholder loans in the total amount of €106 million (excl. PIK interests) have been transferred from 21st Century Fox Adelaide Holdings B.V. to Sky International Operations Limited (100% subsidiary of Sky plc) with all rights and obligations (no change in terms and conditions).

Trade payables
Trade payables amounted to K€321,862 as at 31 December 2014 (30 June 2014: K€286,004). The increase of K€35,858 mainly results from higher liabilities in connection with receiver purchases, which increased due to higher subscriptions and therefore higher orders for receivers in the first half of 2014/15.

Other provisions
Other provisions amount to K€2,439 as at 31 December 2014 (30 June 2014: K€13,948). The decrease of K€11,509 is mainly the result of lower costs for litigation as a result of the conclusion of respective agreements. 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" in these notes.

Equity
Sky Deutschland AG's subscribed capital amounts to €931,114,937 (30 June 2014: €877,200,755). It is divided into 931,114,937 (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 that 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, was 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 capital is fully paid in.

As at the balance sheet date, additional paid-in capital amounted to K€2,028,720 (30 June 2014: K€1,920,850) of which K€1,490,902 (30 June 2014: K€1,382,623) is not available for distribution.

The Company has no treasury stock as at 31 December 2014.

On 25 July 2014, Twenty-First Century Fox Inc.'s announced its intention to combine its European satellite television holdings. As part of this proposed transaction Sky plc has agreed to acquire Twenty-First Century Fox's 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 Sky plc (formerly 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 section 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 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. The transaction was closed on 12 November 2014.

Following the offer period Sky German Holdings GmbH acquired additional Sky Deutschland AG shares which brought its total shareholding to 90.04 percent as at 28 November 2014. Due to this, the free float of Sky Deutschland AG fell below 10 percent and the Company was removed from the MDAX listing as at 4 December 2014. According to a press release of Sky plc the voting rights of Sky German Holdings GmbH in Sky Deutschland AG amounted to 95.80 percent on 7 January 2015.

Authorised Capital

At the Annual General Meeting on 18 April 2013, the Management Board was authorised, 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 (Authorised Capital 2013).

At the Annual General Meeting on 3 April 2012, the Management Board was authorised, 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 (Authorised Capital 2012). The Authorised Capital 2012 was partially used in January 2013 and currently amounts to €291,163,888.

The authorisation, included in the Authorised 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 authorisation 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 Authorised Capital 2012 remained unchanged.

At the Annual General Meetings on 10 April and 19 November 2014, no resolutions regarding new capital measures from Authorised Capital were made.

Contingent Capital

With a resolution of the Annual General Meeting on 19 November 2014, the Management Board, with the consent of the Supervisory Board, was authorised, in the period through 18 November 2019 (inclusive), 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 384,684,192 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 €384,684,192 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 (Authorisation 2014).

The Annual General Meeting further resolved that the registered share capital of the Company be contingently increased by up to €384,684,192 by issuing up to 384,684,192 new registered ordinary shares (no-par-value shares) (Contingent Capital 2014). The Contingent Capital 2014 increase serves to grant conversion and option rights under bonds that are issued based on the Authorisation 2014.

The authorisation of the Management Board for the issuance of convertible and/or option bonds pursuant to the resolution of the Annual General Meeting on 3 April 2012 (Authorisation 2012), which has not been used by the Company and the corresponding Contingent Capital 2012 were cancelled with effect as at the date of the entry of the Contingent Capital 2014 into the commercial register of the Company. The Contingent Capital 2014 was entered into the commercial register on 25 November 2014.

With a resolution of the Annual General Meeting on 23 April 2010, the Management Board, with the consent of the Supervisory Board, has been authorised, 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 (Authorisation 2010). Furthermore, by resolution of the Annual General Meeting of 23 April 2010 the registered share capital of the Company was contingently increased by up to €53,916,185 by issuing up to 53,916,185 new registered ordinary shares (no-par-value shares) (Contingent Capital 2010).The Contingent Capital 2010 increase serves to grant conversion and option rights under bonds that are issued based on the Authorisation 2010.

Pursuant to the Authorisation 2010 a convertible bond was issued on January 2011 to 21st Century Fox Adelaide Holdings B.V. (formerly News Adelaide Holdings B.V.) with a nominal value of €164.6 million. After the full conversion of the convertible bond in October 2014 and the corresponding share issuance of 53,914,182 new registered ordinary shares from the Contingent Capital 2010 the remaining Contingent Capital 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 gain/loss

Revenues

Revenues for the first half of 2014/15 amounted to K€882,009 as compared to revenues of K€807,047 in the first half of 2013/14. They primarily consisted of subscription revenues in the amount of K€800,409 (H1 2013/14: K€729,827), which increased by K€70,581, due to a larger number of fixed-term contract subscribers. Advertising revenues amounted to K€29,325 (H1 2013/14: K€23,768) and revenues from hardware amounted to K€16,022 (H1 2013/14: K€15,722). Wholesale revenues amounted to K€7,115 (H1 2013/14: K€14,559). 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 K€29,138 (H1 2013/14: K€23,170), primarily due to higher revenues from sublicensing sports rights.

Costs

Cost of sales for the first half of 2014/15 was K€665,371 (H1 2013/14: K€658,311). Programming costs decreased by K€12,292 to K€462,404 (H1 2013/14: K€474,696), driven by the effect of the changes in accounting estimates regarding the consumption of future economic benefits of sports and film rights (in the amount of K€49,570). This decrease in programming costs was partially offset by higher Bundesliga licence costs as well as higher costs for film licences. For further information, please refer to the section "Change in accounting estimates" in these notes. The increase in technology costs by K€9,265 to K€96,229 (H1 2013/14: K€86,964) was primarily the result of higher costs for transponder capacity and cable broadcasting. Customer service and other cost of sales increased by K€3,198 to K€55,206 (H1 2013/14: K€52,008), which is largely attributable to the increase in customer contacts associated with a higher subscriber base as well as higher advertising cost of sales. Hardware costs increased by K€6,887 to K€51,531 (H1 2013/14: K€44,644). The increase is due to higher depreciation in hardware costs in connection with the higher volume of receivers recognised under non-current assets and higher logistics costs.

Selling expenses increased by K€18,814 to K€150,062 (H1 2013/14: K€131,248), due to higher sales and marketing expenses that were partially offset by lower bad debt allowances. Selling expenses include one-off income in the amount of €2.7 million. General and administrative expenses were slightly below last year's level, totalling K€71,764 (H1 2013/14: K€75,746). Higher expenses for IT were offset by lower labour costs, particularly relating to the valuation of long-term compensation programs.

Other operating income

Other operating income increased by K€5,060 to K€11,694 (H1 2013/14: K€6,634), primarily due to income from damage claims, income from an agreement with a network provider as well as the release of a provision built for a potential legal proceeding.

Interest and similar expenses

Interest and similar expenses for the first half of 2014/15 amounted to K€35,212 (H1 2013/14: K€35,432) 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., and by Sky plc, interest expenses in the amount of K€16,502 (H1 2013/14: K€16,884) were recognised in profit and loss.

In connection with the shareholder financing by 21st Century Fox Adelaide Holdings B.V. and Sky International Operations Limited, interest expenses in the amount of K€14,720 (H1 2013/14: K€14,423) were incurred, of which K€6,432 (H1 2013/14: K€9,359) related to the convertible bond based on an effective interest rate of 12.0 percent per annum and K€7,690 (H1 2013/14: K€4,468) to the shareholder loans. The year-on-year increase is mainly attributable to interest on a shareholder loan 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€1,681 (H1 2013/14: K€1,730).

Other financial result

The other financial result amounted to K€8,138 (H1 2013/14: K€–2,723). The increase is mainly due to gains arising from fair value changes of foreign currency derivatives not designated as cash flow hedges.

Earnings per share

	1 Jul–31 Dec	
	2014	2013
Earnings attributable to shareholders of Sky Deutschland AG (K€)	–24,743	–94,597
Weighted average number of outstanding shares (K)	895,954	877,201
Basic earnings per share (€)	**–0.03**	**–0.11**

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

For the first half of 2014/15, the weighted average number of outstanding shares amounted to 895,953,514 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 from 877,200,755 to 895,953,514.

Financial instruments

The 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:

31 Dec 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	15,706
Hedge derivatives	Current and non-current financial assets	4,848
not measured at fair value		
Cash and cash equivalents	Cash and cash equivalents	59,556
Loans and receivables	Trade receivables, other financial assets	108,490
Receivables accounted for in accordance with IAS 17	Trade receivables	86
Available-for-sale financial assets	Other financial assets	8
Total		188,695
Financial liabilities		
measured at fair value		
Other non-derivative financial liabilities accounted for in accordance with IFRS 2	Other financial liabilities	10,812
Derivatives for which hedge accounting is not applied	Other financial liabilities	1,763
Hedge derivatives	Other financial liabilities	4,038
not measured at fair value		
Financial liabilities at (amortised) cost	Borrowings, trade payables, other financial liabilities	734,855
Financial liabilities accounted for in accordance with IAS 17	Borrowings	37,009
Total		788,477

Category			Fair Value Hierarchy			
At fair value through profit and loss	At fair value through equity	At amortised cost	Level 1	Level 2	Level 3	Fair Value
15,706	–	–	–	15,706	–	**15,706**
–	4,848	–	–	4,848	–	**4,848**
–	–	–	–	–	–	**59,556**
–	–	108,490	–	–	–	**108,490**
–	–	86	–	–	–	**82**
–	–	8	–	–	–	**8**
15,706	**4,848**	**108,585**	**–**	**20,554**	**–**	**188,691**
10,812	–	–	–	10,812	–	**10,812**
1,763	–	–	–	1,763	–	**1,763**
–	4,038	–	–	4,038	–	**4,038**
–	–	734,855	–	–	–	**735,531**
–	–	37,009	–	–	–	**36,993**
12,575	**4,038**	**771,863**	**–**	**16,613**	**–**	**789,137**

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
Derivatives 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 (amortised) 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 amortised 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 does not correspond to a category in IAS 39, and a disclosure of the carrying amount by measurement category is therefore not required.

Loans and receivables generally have short maturities, so that their carrying amounts as at 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 in 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 amortised 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 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 31 Dec 2014	20,554	–	20,554	–5,801	–	14,753
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 31 Dec 2014	–5,801	–	–5,801	20,554	–	14,753
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. On 25 September 2014, the Company pursued an appeal to the Higher Regional Court of Munich against the judgment.

There are no outstanding obligations relating to damage claims recorded as at 31 December 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 at 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 at 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 the end of the 2014/15 financial year.

The complaint is aimed at revising the decision of BaFin insofar as BaFin ruled that the financial statements and consolidated financial statements as at 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 at 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-licence 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 at 30 June 2008, because – according to BaFin – no such goodwill exists due to the lack of a business combination,

(iv) the profit situation was allegedly described too positively by at least €10 million due to improperly calculated acquisition costs regarding resold free-TV rights and (v) the omission of risk reporting relating to a potential covenant breach considered possible by the Company and a potential subsequent termination of the credit facilities resulting in a higher risk for the financial situation of the group.

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

Should the findings of BaFin become legally binding, Sky Deutschland AG may have to 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 utilisation 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. In its 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 2014/15 financial year.

Sky has recognised 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 section 342b, paragraph 2, sentence 3 of the German Commercial Code ("HGB") concerning the consolidated financial statements and group management report as at 31 December 2012, as well as the management report as at 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 labelling 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 counterclaim 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. According to internal investigations only a limited number of customers were affected.

The affected customers were informed about the issue. Furthermore, they received a guideline regarding the protection of their digital identity. Investigations by the police regarding the perpetrators are still ongoing. On 13 August 2014, Sky issued a final internal report and forwarded it to the BLM.

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, NBCUniversal, Paramount Pictures) and the largest European pay-TV broadcasters including but not limited to Sky for a suspected breach of EU rules. The Commission intends to investigate whether provisions of the licensing arrangements prevent broadcasters from providing their services across borders. 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 and other long-term employee benefits

As the result of the takeover of a majority of Sky Deutschland AG shares by Sky German Holdings GmbH and the resulting fact that the share of free float has fallen below 10 percent, the share price now potentially correlates less with the underlying performance of the business. The Long-Term Incentive Plans for the 2012 to 2014/15 financial years have therefore been reviewed.

For this reason, the calculation method was changed and the PSUs valuation is now based on a fixed value per PSU, determined for each LTIP, instead of taking into account the virtual shares and the Sky Deutschland share price.

Decisions on the resulting changes for the board members were reached at the Supervisory Board meeting on 29 January 2015.

As a result of the decoupling from the share price, the Long-Term Incentive Plans 2013 through 2015 are now classified as "other long-term employee benefits" in accordance with IAS 19.

The calculation as at 31 December 2014 was based on the following parameters:

	LTIP 2012	LTIP 2013	LTIP 2014	LTIP 2015
Price of the Performance Share Unit	€6.75	€6.75	€7.91	€6.82
Churn rate employees *	0.00%	1.67%	3.33%	5.00%

*The churn rate for the board amounts to zero percent.

The calculation as at 30 June 2014 was based on the following parameters:

In the previous year the programs were linked to the share price of the Sky share. Accordingly, the parameter risk free interest rate, dividend yield and volatility were also required for the calculation using the Black-Scholes-Model.

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

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

The vesting for the LTIP 2012 was completed on 31 December 2014. It will be paid to the Management Board and Senior Executives in April 2015. The liability for the LTIP 2012 as at 31 December 2014 is K€10,812 (of which K€4,611 relate to the Management Board). The calculation was based on a total of 2,081,050 Performance Share Units, of which 882,353 Performance Share Units were granted to the Management Board. The calculation was based on a target achievement on preliminary actual figures. By the aforementioned decoupling from the share price, a value of €6.75 per Performance Share Unit was determined which is in turn oriented towards the takeover offer to the shareholders.

For the LTIP 2013 the Performance Share Unit valuation was also based on the offer to the shareholders and valued at €6.75.

The LTIP 2014 as well as the LTIP 2015 were evaluated with the share price at the grant date for the respective program. The valuation is therefore based on the amount of the original financial entitlement.

For all long-term incentive plans (LTIP 2012–2015) a total of 5,673,885 Performance Share Units (reported number includes 190,240 Performance Share Units of bad leavers) were granted to members of the Management Board and Senior Management (including 2,857,039 Performance Share Units to the members of the Management Board).

With respect to the accounting treatment of the long-term incentive plans for the LTIP 2013 to 2015, full target achievement has been assumed.

The liability for the LTIP 2012 and the provisions for the LTIPs 2013 to 2015 as at 31 December 2014 amount to K€22,681 (30 June 2014 (LTIP 2012 to 2014): K€18,043) of which K€12,144 relates to members of the Management Board (30 June 2014 (LTIP 2012 to 2014): K€9,803). For the first half of 2014/15, an expense in the amount of K€4,637 (H1 2013/14: K€12,620) was recognised in profit and loss, of which K€2,342 relates to members of the Management Board (H1 2013/14: K€6,980).

In connection with the share-based compensation component that was concluded with Brian Sullivan and which will result in a one-time payment on the basis of 500,000 shares, an income in the amount of K€19 (H1 2013/14: expense K€1,775) has been recognised in profit and loss in the first half of 2014/15. All vesting conditions were met as at the balance sheet date. For purpose of calculating the pay-out amount, a fixed share price of €6.75 based on the offer to the shareholders will be used. The amount will be paid in February 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 at 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 half 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	589	–	–	589
Income from recharging personnel expenses	–	–	–	–
Other income	–	–	–	–
Expense from service received	–64,474	–	–105	–64,579
Personnel expenses	–	–7,952	–	–7,952
Result for the period	–63,885	–7,952	–105	–71,942
Payables	–160,974	–16,429	–2	–177,405
Receivables	347	–	–	347

The expenses incurred for services received from companies with controlling or significant influence over Sky relate in particular to licence payments for film rights and the Sky trademark, 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. Twenty-First Century Fox, Inc. is a major shareholder in Sky plc.

The expenses from service received in the table above includes an interest expense for the shareholder financing with 21st Century Fox Adelaide Holdings B.V. in the amount of K€13,281 (H1 2013/14: K€14,979) and with Sky International Operations Limited in the amount of K€2,073 (H1 2013/14: K€0). They also include an interest expense for the debt financing with Twenty-First Century Fox, Inc. in the amount of K€14,132 (H1 2013/14: K€16,185), including the Bundesliga guarantee, and with Sky plc in the amount of K€1,667 (H1 2013/14: K€0).

In the first half of 2014/15, Sky paid interest in the amount of K€4,539 (H1 2013/14: K€4,539) 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.

Other financial commitments

The Group's other financial commitments to purchase goods or services in the future as at 31 December 2014 are as follows:

(K€)	31 Dec 2014	30 Jun 2014
Film licences	603,016	526,092
Sport licences	1,632,806	1,860,549
Partner channels	403,782	343,493
Purchase commitments for receivers	41,778	45,385
Miscellaneous	248,981	330,474
Total	**2,930,363**	**3,105,992**

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

(K€)	31 Dec 2014	30 Jun 2014
Network operators and transponder rentals	722,800	811,209
Office buildings	82,342	77,572
Motor vehicles	3,420	2,909
Technical office equipment	458	50
Total	**809,020**	**891,741**

The increase of other financial commitments relating to film licences and partner channels is mainly explained by new contracts as well as extension of existing contracts. The declining development of other financial commitments related to sport licences, network operators and transponder rentals is mainly explained by decreasing terms of existing agreements.

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

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

Unterföhring, 4 February 2015

The Management Board

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the material opportunities and risks associated with the expected development of the group.

Unterföhring, 4 February 2015

The Management Board

Review Report

Upon finalising our engagement we issue the following review report:

To Sky Deutschland AG, Unterföhring
We have reviewed the condensed interim consolidated financial statements of the Sky Deutschland AG, Unterföhring - comprising the consolidated balance sheet, the consolidated statements of comprehensive loss, consolidated statement of changes in equity, consolidated statement of cash flows and selected explanatory notes - together with the interim group management report of the Sky Deutschland AG, Unterföhring, for the period from July 1 to December 31, 2014 that are part of the semi annual financial report according to § 37 w WpHG ["Wertpapierhandelsgesetz": "German Securities Trading Act"]. The preparation of the condensed interim consolidated financial statements in accordance with those IFRS applicable to interim financial reporting as adopted by the EU, and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports, is the responsibility of the Company's management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We performed our review of the condensed interim consolidated financial statements and the interim group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, and that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor's report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, or that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Munich, 4 February 2015

KPMG AG
Wirtschaftsprüfungsgesellschaft

Kaltenegger	Kremer
Wirtschaftsprüferin	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Imprint and Financial Calendar

Imprint

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Financial Calendar 2014/15

6 May 2015	Media release of the preliminary 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 2014/15 financial year