SUMMARY OF KEY ACCOUNTING PRINCIPLES

A) BASES

The recognition, measurement and presentation policies as well as the explanatory notes and disclosures for the Consolidated Financial Statements for the financial year 2018 are generally based on the principle of continuity.

The Consolidated Income Statement is prepared using the cost-of-sales method.

The Consolidated Financial Statements are based on the principle of historical acquisition and production costs, with the exception of items that are reported at fair value, in particular certain financial instruments.

Currency Conversion

Transactions in foreign currencies are converted at the relevant foreign exchange rates in effect at the transaction date. In subsequent periods, monetary assets and liabilities are remeasured at the closing date rate and the revaluation differences are recognized in profit or loss. Non-monetary items that are acquired in a foreign currency and are accounted for at historical acquisition or production costs (less impairment), are not remeasured for changes in foreign currency rates and hence reflect the exchange rate in effect at the original date of the transaction.

The financial statements of subsidiaries and of entities outside the Euro zone that are accounted for using the equity method are converted using the functional currency concept. The functional currency of subsidiaries is based on the primary environment where their respective business is conducted. Usually this is the currency in which cash is generated and consumed.

The conversion of financial statements that are not denominated in Euro is based on the modified closing date rate method, where items of the income statement are converted at the annual average exchange rate. Equity is converted at historical rates, and assets and liabilities at the closing date rate at each reporting date. Any differences resulting from converting financial statements in foreign currency are recognized directly in the accumulated other comprehensive income. In case of disposal of the respective subsidiary, such translation differences are recognized in profit or loss.

B) CONSOLIDATION METHODS

The Consolidated Financial Statements of ProSiebenSat.1 Media SE include all material subsidiaries. ProSiebenSat.1 Media SE controls an investee if it has power over the investee. This means that it has existing rights that currently enable it to direct the relevant activities. These are the activities that have a significant impact on the investees' returns. Moreover, through the respective parent company, ProSiebenSat.1 Media SE is directly or indirectly exposed to variable returns from its involvement in the associated company or is entitled to them and is able to exert impact on such returns through its power over the investee.

Profits and losses, revenues, income and expenses arising from transactions within the consolidated group as well as receivables and liabilities among consolidated companies are eliminated. The consolidation procedures take into account deferred income tax effects if such tax effects are likely to reverse in later the financial years. Where required, deferred tax assets and liabilities are offset against one another. Capital is consolidated by eliminating the carrying amount of the investments against the share of equity held in the subsidiary.

Initial consolidation is based on IFRS 3, using the acquisition method by offsetting the acquisition costs against the fair values of the acquired identifiable assets as well as the assumed liabilities and contingent liabilities as of the acquisition date. The assets identified in the context of the purchase price allocation at the acquired companies are valued by external independent experts. Identified goodwill here results from positive differences between the paid purchase prices and the fair values of the acquired assets as well as assumed liabilities, taking into account deferred taxes. Goodwill is shown in the functional currency of the required entity, non-controlling interests are valued at the date of acquisition at their respective share in the acquired company's identifiable net assets. Changes to the Group's interest in a subsidiary that do not result in a loss of control are reported as equity transactions.

Goodwill acquired in a business combination is allocated to the cash-generating unit or group of cash-generating units that is or are expected to profit from the synergies deriving from the business combination as of the acquisition date. This furthermore represents the lowest level at which the goodwill is monitored for internal corporate control. These are the operative reporting segments Entertainment, Commerce as well as Content Production & Global Sales. When selling cash-generating units or parts thereof or in case of an internal reorganization, any goodwill existing at the time of such sale or at the time of the transfer is distributed according to relative values among the leaving or remaining units.

When determining the fair value of any assets identified in the context as part of the purchase price allocation, the following methods are primarily used. Unless specified otherwise, the carrying amount of the respective assets largely corresponds to the fair value.

214 / DETERMINATION OF FAIR VALUE IN THE CONTEXT OF THE PURCHASE PRICE ALLOCATION

Intangible assets	Measurement method
Brand	Relief from Royalty Method
Customer & contracts relationships	Multi-period Excess Earnings Method
Prohibition of competition	Excess profit method
Technologies	Reproduction cost method and Relief from Royalty Method
Order Backlog	Multi-period Excess Earnings Method
Shows in production	Multi-period Excess Earnings Method

If ProSiebenSat.1 Media SE gains control of a company by acquiring additional shares in associated companies or in joint ventures, the entity is to be fully consolidated from the time control is obtained. The fair value of the previously held investment is to be regarded as part of the acquisition cost for the new subsidiary. The difference between the fair value and the carrying amount determined using the equity method is recognized in profit or loss.

Shares in companies, where ProSiebenSat.1 Group exerts or is able to exert significant influence on their business policy ("associated companies") or which are jointly controlled together with other investors ("joint ventures") must be accounted for using the equity method pursuant to IAS 28 "Investments in Associates and Joint Ventures." The equity method is discontinued from the date the significant influence or joint control ceases. In case of relevant indicators, the carrying amount of the investment undergoes an impairment test and if required, an impairment is recognized at the lower realizable amount. There is no price quoted on active market for the entities measured using the equity method.

The financial year of ProSiebenSat.1 Media SE and of all fully consolidated companies is the calendar year.

C) INDIVIDUAL ACCOUNTING AND VALUATION PRINCIPLES

215 / SUMMARY OF SIGNIFICANT MEASUREMENT METHODS

Item	Measurement method
ASSETS	
Goodwill	At cost (subsequent measurement: impairment test)
Other intangible assets with indefinite useful lives	At cost (subsequent measurement: impairment test)
Other intangible assets with finite useful lives	At (amortized) cost
Property, plant and equipment	At (amortized) cost
Programming assets	At (amortized) cost
Investments accounted for using the equity method	Equity method
Financial assets	
Loans and receivables	At (amortized) cost
At fair value through profit or loss	At fair value through profit or loss
Held for trading/derivatives	At fair value through profit or loss
Cash and cash equivalents	At cost
LIABILITIES AND PROVISIONS	
Loans and borrowings	At (amortized) cost
Provision for pensions	Projected unit credit method
Other provisions	At settlement value (discounted if non-current)
Financial liabilities	At (amortized) cost or fair value respectively
Other liabilities	At settlement value (discounted if non-current)

Revenues

ProSiebenSat.1 Group generates the majority of its revenues in the form of advertising revenues from the sale of advertising time. Advertising revenues are net proceeds after deduction of discounts, agency commissions and cash rebates as well as sales tax. TV advertising revenues are considered realized once the underlying commercials have been broadcast.

Advertising revenues also include revenues from marketing digital offers from external providers. To do so, ProSiebenSat.1 Group acquires usage rights to advertising licenses to market digital offers from external providers, such as Internet advertising spaces. Revenues are recognized when the advertising space is sold.

The realization of variable revenue components from revenue sharing ("media-for-revenue") depends on the ability of ProSiebenSat.1 Group to reliably estimate such revenues. In this case, the Group first needs the contracting partner's required target realization documentation to realize the variable component as revenue.

Barter transactions are primarily entered into by ProSiebenSat.1 Group as counter transactions in the context of advertising time marketing. As a rule, revenues from such transactions generally are measured at the fair value of the consideration received, provided that this can be reliably measured. Otherwise, revenues are determined on the basis of the individual selling prices of the goods or services provided, for example, advertising time.

If advertising services are agreed in return for the acquisition of shares in other entities ("media for equity"), the obligation for broadcasting the agreed advertising spots is initially recognized as a credit entry (deferred revenues) to reflect the equity stake capitalized and recognized as revenues when the agreed advertising spots are broadcast. Shares acquired in this context are financial instruments as defined by IFRS 9 "Financial Instruments" and are accounted for at fair value.

Revenues from online brokerage services rendered by the Group in the segment "Commerce" in the areas of rental cars, insurance, events, energy supply, mobile communications, broadband telephony or HD television via "online price comparison portals" are realized pursuant to IFRS 15 once performed, if it is possible to reliably determine the amount of revenue and the associated costs and if it is likely that the Group will receive the economic benefits generated through the transaction. Since the affected Group companies here act as agents within the meaning of IFRS 15, only their commissions are realized as revenues. The relevant transactions are subject to legal and voluntary cancellation or withdrawal regulations. If reliable information is available about cancellation or withdrawal rates, and if it thus is highly probable that there will be no significant future reversal of the cumulative revenue recognized, the Group primarily realizes the relevant commission income upon provision of the customer data to the partner providing the respective primary service, or otherwise upon commencement of performance by the partner or at the beginning of the contract.

As regards the production programming content (segment "Content production & Global Sales"), revenues are determined over time using the percentage-of-completion method if it is possible to reliably estimate the planned sales. The degree of completion follows from the ratio of the incurred contract costs relative to estimated total contract costs. This results in the sales revenues to be recognized according to the planned ratio. If it is not possible to reliably estimate the total anticipated revenues, revenues are realized in the amount of the incurred contract costs. Contract costs are always recognized as expenses in the period in which they have been incurred. If it is foreseeable that the total contract costs will exceed the budgeted sales revenues, the expected losses are immediately recognized as expenses.

In the financial year 2017, revenues were recognized under the requirements of IAS 18 "Revenue" and IAS 11 "Construction Contracts" respectively. For detailed information regarding revenue recognition in the financial year 2017 please refer to Note 5 "Revenues" on p. 196f. of the Annual Report 2017 as well as the section "Summary of key accounting principles" (p. 246f.)

For further information regarding revenue recognition in the financial year 2018 please refer to → note 5 "Revenues". The information on the financial effects of the first-time application of IFRS 15 are shown in → section "Changes in Reporting Standards".

Operating Expenses

Operating expenses by type are generally attributed to the individual functions according to the functional area of the respective cost centers. Depreciation and impairments of intangible assets as well as property, plant and equipment are included in the functional costs according to the use of the assets; impairments of brands from purchase price allocations with an indefinite useful life are recognized as other operating expenses.

Income Taxes

The taxes levied on taxable profits in the individual countries as well as the changes in deferred taxes are recognized as income taxes. Income taxes are recognized on the basis of the terms of law in effect or substantively enacted as of the reporting date, in the amount that will presumably have to be paid. Deferred taxes are recognized pursuant to IAS 12 for tax-deductible or taxable temporary differences between the carrying amounts of assets and liabilities in the IFRS and tax balance sheets as well as for consolidation measures and for tax reduction claims from losses carried forwards, that will probably be realized in subsequent years. Goodwill is not included. The calculation is based on the tax rates expected in the individual countries at the time of realization. These are generally based on the terms of law in effect or substantively enacted as of the reporting date.

Recognition and valuation of deferred tax assets on losses carried forward and temporary differences were based on planned future taxable income. Deferred taxes on temporary differences and tax losses carried forward were recognized only if sufficient taxable income is available in the future to use the deferred tax assets.

For the purpose of assessing the recoverability of deferred tax assets, the effect on earnings of the reversal of taxable temporary differences, the planned results from operating activities and possible tax strategies are taken into account. The planned results are based on internal forecasts on the future earnings situation of the respective Group company with a planning horizon of five years. In case of any doubts about the possibility to realize the losses carried forward, appropriate value adjustments are made on a case-by-case basis of the deferred tax assets. The relevant tax deferrals are subject to ongoing reviews regarding the underlying assumptions. Changed assumptions or changed circumstances may require corrections to be made, which in turn may lead to additional tax deferrals or to the reversal thereof. Any deferred tax assets and liabilities with the same tax authority are netted if the claim to offset current tax refund claims and liabilities can be legally enforced. Deferred tax assets and liabilities are generally reported undiscounted and under non-current assets or liabilities. If the underlying circumstances of temporary differences or tax expenditures and income are directly recognized at equity, the above also applies to the corresponding current taxes or to accrued deferred tax assets and liabilities.

Uncertain tax positions are ongoingly analyzed and appropriate risk provisions are created if deemed necessary. Since estimates may change over time, they may also affect the level of risk provisions considered necessary. The amount of the anticipated tax liability or tax receivable reflects the amount that constitutes a best estimate, taking into account any tax uncertainties.

For further information, we refer to → note 13 "Income taxes" and → note 25 "Equity".

Earnings per Share

The earnings per share corresponds to the consolidated net income attributable to the shareholders of ProSiebenSat.1 Media SE, divided by the weighted average number of shares outstanding during the financial year.

The average number of issued shares is adjusted by the number of all potentially dilutive shares to determine the diluted earnings per share. In ProSiebenSat.1 Group, such dilution effects are caused by the issue of rights to ordinary shares (→ see note 33 "Share-based payment"). The diluted earnings per share is calculated based on the assumption that all potentially dilutive shares and share-based incentive plans that are "in the money" are exercised.

Intangible Assets and Goodwill

The acquired goodwill is shown at acquisition costs minus accumulated impairment costs.

Acquired intangible assets are capitalized in accordance with IAS 38 if the future economic benefits from the asset are expected to flow to the Company and the cost of the asset can be determined reliably. At this time, there are no economic or legal restrictions on the use of acquired intangible assets with an indefinite useful life. Unless an asset has an indefinite useful life, it is amortized, and where applicable, impaired.

Intangible assets include acquired rights to use advertising licenses in order to sell the digital offerings of external providers. These are capitalized in the amount of the fixed purchase price of the acquired advertising inventory. These are subject to amortization over the term of the contract.

Internally generated intangible assets are capitalized under IAS 38 if they are identifiable, it is expected that the future economic benefits will flow to the Company and the cost of the asset can be measured reliably. In determining the production costs, a distinction is made between research and development costs, with the former being expensed as incurred. In addition to the criteria described above, development costs are capitalized solely in cases where the product or process are realizable from a technical and economic perspective. The completion of the development as well as the usage or sale afterwards have to be ensured and intended both technically and financially. The marketability of the product or process also needs to be demonstrated. In the case of program formats developed in-house, this generally occurs only at a very late stage in the process, if the format can be placed successfully with a buyer. Format development expenses thus generally do not fulfill the capitalization requirements of IAS 38.

For further information, please refer to → note 16 "Goodwill" and to → note 17 "Other intangible assets".

Property, Plant and Equipment

Property, plant and equipment are shown at acquisition or production cost, minus use-related scheduled depreciation and possibly, minus necessary impairments. The costs of internally produced property, plant and equipment comprise direct costs as well as any portion of the overheads that are directly attributable to such production. Borrowing costs are capitalized in case of qualifying assets according to IAS 23.

Scheduled depreciation of property, plant and equipment is carried out using the straight-line method.

For further information please refer to → note 18 „Property, plant and equipment".

Leases

Pursuant to IFRS 16, a lease is an agreement, where the lessor against one payment or a series of payments transfers to the lessee the right to use an asset for a stipulated period of time.

Initially, the rights of use to the leased assets are capitalized, and a corresponding lease liability is also recognized. Typically, scheduled depreciation of right-of-use assets is made on a straight-line basis over the anticipated useful life or the shorter contract term. Payment obligations resulting from leases are recognized as financial liabilities and subsequently valued at amortized costs, using the effective interest method.

Lease payments from short-term lease arrangements, lease arrangements for low-value assets as well as variable lease payments are recorded as expenses in the functional costs of the income statement on an accrual basis.

In the financial year 2017, ProSiebenSat.1 Group accounted for existing leases under the requirements of IAS 17 "Leases." Based on a risks-and-rewards-approach, these provisions required the classification of leases in so-called finance leases and operating leases. Under a finance lease, the lessee, as beneficial owner of the leased asset had to capitalize the leased asset and to depreciate it using applicable IFRS guidance (e.g. IAS 16 "Property, Plant and Equipment") as well as to recognize a corresponding liability towards the lessor and to subsequently allocate the contractual payments between interest and principal components. By contrast, under operating leases, the lessor was the beneficial owner of the leased asset, thus the lessee only had to recognize the lease payments as operating expenses. For further information please refer to the section "Summary of key accounting principles" in the Annual Report of ProSiebenSat.1 Group for the financial year 2017 (p.279).

For further information regarding the accounting for leases in the financial year 2018, please refer to → notes 18 "Property, plant and equipment", → 19 "Leasing", → 28 "Financial liabilities" and → 31 "Other financial commitments". The information on the first-time application of IFRS 16 are shown in → section "Changes in Reporting Standards".

Investments accounted for using the equity method

On the date significant influence or joint control is attained, investments in associates or joint ventures accounted for using the equity method are recognized at cost in the consolidated statement of financial position. The carrying amount of the investment includes, where applicable, assets identified within the context of the purchase price allocation in addition to liabilities assumed and contingent liabilities as of the acquisition date and goodwill as a positive difference between these amounts. In subsequent periods, the carrying amount is adjusted to reflect the pro-rata changes in equity of the investee in addition to the subsequent measurement of the assets identified and the liabilities assumed and contingent liabilities within the context of the purchase price allocation. Dividends received from entities accounted for using the equity method reduce their carrying amounts. The proportional comprehensive income of the relevant entities attributable to ProSiebenSat.1 Group is reported in the consolidated income statement as "Income from investments accounted for using the equity method."

For further information please refer to → note 12 "Result from investments reported at equity and other financial results" and → note 20 "Shares valued at equity".

Programming Assets

Feature films and series are capitalized at the start of the contractual license term, commissioned productions are capitalized once accepted as programming assets that can be broadcast. Sports rights are included in the advance payments made until their broadcast. They are initially reported at acquisition or production costs.

Consumption of licenses and commissioned productions intended for multiple broadcasts (runs) commences at the start of the first broadcast, and depends on the number of runs permitted or planned respectively. Broadcasting-related consumption is measured using a declining-balance method according to a standardized Group-wide matrix which reflects the expected audience reach potential relating to the respective broadcast. Commissioned productions intended for only one run and sports rights are fully consumed as of their broadcasting.

Impairments on programming assets are recognized if it is not expected that the costs are recoverable by future revenues. Relevant indicators may include worse recovery opportunities, changes in the advertising environment, adaptation of programming due to changing target group tastes, media law restrictions on the usability of films, expiry of licenses prior to broadcasting, or the discontinuation of commissioned productions.

Programming assets are fully impaired in case of any indications of impairment, if broadcasts no longer meet the requirements of an asset or if their use is restricted. An impairment is also recognized in full or a corresponding provision for onerous contracts is recognized if the Executive Board of ProSiebenSat.1 Media SE decides, as part of a strategic realignment, that programming assets that have already been acquired or will be acquired in the future under a concluded contract will no longer be broadcasted.

Impairment testing of the remaining programming assets takes place at the level of genre-based programming groups. If their carrying amount exceeds the potential revenue, an impairment is recognized in the relevant amount. A genre in this sense is the unit where cash flows are generated independent from other programming assets, since the individual genres are tailored for the target audience groups and since advertising customers make their bookings for promoting their products in the environment of certain genres.

For further information we refer to → note 21 "Programming assets".

Impairments of other non-financial assets

Under IAS 36, a company is required to perform an impairment test for assets with finite useful lives if there are any indications of a potential impairment. In addition, other intangible assets with an indefinite useful life, other intangible assets that are not yet ready for use or relevant advance payments, and acquired goodwill have to undergo an annual impairment test. Tests are also conducted in certain situations if events or circumstances occur that indicate a potential impairment.

In case of impairment, the difference between the carrying amount and the lower recoverable amount is recognized as an expense. Impairments are allocated to the relevant functional costs. Impairments on goodwill resulting from purchase price allocations are recognized as other operating expenses. The same applies to impairments of other intangible assets resulting from purchase price allocations, unless it is not possible to properly allocate them to the functional costs. Once there are indications that the reasons for impairment have ceased, write-ups are made – except in the case of goodwill. They must not exceed the amortized costs.

In principle, the amortized carrying amount of the asset is compared with the recoverable amount, which is the higher of an asset's fair value less costs to sell and its value in use. The value in use is the present value of future cash flows expected to arise from the continuing use of the asset.

The recoverable amount is determined for each individual asset, unless an asset generates cash inflows that are not largely independent of those from other assets or other groups of assets or cash-generating units. In these cases, the impairment test is performed at the relevant level of cash-generating units to which the asset is attributable.

In principle, the company determines the realizable amount using valuation methods based on discounted cash flows. For cash-generating units, ProSiebenSat.1 Group first determines the respective realizable amount as the value in use and compares it with the relevant carrying amounts, in the case of impairment tests for goodwill, including the allocated goodwill, and in the case of impairment tests for trademarks with indefinite useful life, including the allocated trademarks. Such discounted cash flows are based on five-year forecasts which in turn are based on financial plans approved by management. Cash flows outside the planning period are extrapolated using individual growth rates; however, these do not exceed the expected inflation for the respective units. The main assumptions which the change in value in use is based on include assumptions about future cash flows, estimated growth rates, tax rates and weighted average costs of capital.

For further information, please refer to → note 16 "Goodwill", → note 17 "Other intangible assets" und → note 18 "Property, plant and equipment".

Financial Instruments

Standard purchases and sales of non-derivative financial assets are recognized using the settlement date accounting, and derivative transactions using trade date accounting.

Financial assets are derecognized once the contractual rights to the cash flows from the asset expire or the Group transfers the rights to receipt of the cash flows in a transaction, where substantially all the risks and opportunities associated with ownership of such financial asset are transferred as well. Any differences arising on derecognition are recognized in profit or loss.

Financial liabilities are derecognized once the obligation specified in the contract is discharged, canceled or expired. When contract terms are changed or terms renegotiated, the Group examines whether these are substantial modifications within the meaning of IFRS 9. If this is the case, the adjustments or extensions of terms result in the original liability being derecognized and a new liability being recognized. Any difference between the carrying amount of the original liability and the fair value of the new liability as well as any processing and other transaction costs are recognized immediately in profit or loss.

If amendments to the terms of the contract do not result in the derecognition of a financial instrument measured at amortized cost (whether a financial asset or financial debt), the new carrying amount is determined using the original effective interest rate as the present value of the renegotiated or modified cash flows and any difference to the original carrying amount is recognized in profit or loss. Processing or other transaction costs result in an adjustment to the carrying amount and are subsequently amortized.

Financial assets are offset against financial liabilities and recognized as a net value in the balance sheet if the Group has a current legal claim to offset the recognized amounts against each other and if it intends to either settle on a net basis or to use the relevant asset to settle the corresponding liability. → Note 32 "Further notes on financial risk management and financial instruments in accordance with IFRS 7" includes further detailed explanations.

Measurements of Financial Instruments

The initial recognition of financial assets – with the exception of trade receivables – is at fair value. Trade receivables are shown at the transaction price, i.e. generally at their nominal value. Where financial assets subsequently are not recognized at fair value through profit or loss, the transaction costs attributable to the acquisition are also capitalized on initial recognition. Where financial assets subsequently are recognized at fair value through profit or loss, the transaction costs are recognized directly in profit or loss in the period of accrual.

In case of the financial instruments held by ProSiebenSat.1 Group, financial assets subsequently are accounted for at amortized cost or fair value. The type of subsequent accounting is based on the business models used by ProSiebenSat.1 Group to manage financial assets and the characteristics of the contractually stipulated cash flows.

Instruments held by the Group with the aim of collecting the contractual cash flows, where the contractual terms provide solely for payments constituting interest and principal payments, are carried at amortized cost after initial recognition. This currently applies to loans and receivables held by the Group (including trade receivables) and also to cash and cash equivalents.

Subsequent to initial recognition, instruments where cash flows do not solely represent interest and principal payments as a rule are recognized at fair value through profit or loss. This includes primarily shares in other entities where the Group does not exercise control, joint control nor significant influence, and shares in investment funds and derivative financial instruments that do not qualify as hedging transactions within the scope of hedge accounting.

In the previous year, ProSiebenSat.1 Group accounted for its financial assets in accordance with the classification and measurement requirements of IAS 39. Again, only the categories measured at fair value through profit or loss and measured at amortized cost were used. A classification at amortized cost was made only for financial assets with fixed or determinable payments that are not listed in an active market. This primarily concerned cash and cash equivalents and trade receivables.

The fair value of a financial instrument reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value generally corresponds to the market or stock exchange value. In the absence of an active market, the fair value is determined by way of actuarial methods (for example, by discounting the future cash flows at the market interest rate).

The fair values are determined depending on type and on the marketability of the instrument, based on a three-level valuation hierarchy, which is explained in more detail in → note 32 "Further notes on financial risk management and financial instruments in accordance with IFRS 7".

Pursuant to IFRS 9, a provision in the amount of the expected credit losses is recognized for financial assets measured at amortized cost that are subject to the standard's impairment model (in the case of ProSiebenSat.1 Group, primarily trade receivables and contract production assets to be recognized pursuant to IFRS 15). Due to the recognition of expected credit losses, risk provisions are recognized before an actual incurred loss.

Below, further information will be provided on recognition and measurement for the loans and receivables, financial liabilities and derivatives held by ProSiebenSat.1 Group.

LOANS AND RECEIVABLES

Financial assets that have been classified as loans and receivables are valued at amortized cost, using the effective interest method, minus impairments. Impairment losses on trade receivables and contract assets from contract production are recognized in separate allowance accounts.

Impairments of trade receivables and contract assets from commissioned production are recognized using the so-called simplified approach, whereby the expected credit losses are recognized as lifetime expected credit losses. Impairments are made based on historical and forward-looking information on the basis of impairment matrices where customers are grouped according to risk clusters. → Note 32 "Further notes on financial risk management and financial instruments in accordance with IFRS 7" includes further detailed explanations on the approach taken to determine impairments.

For all other financial assets falling within the scope of the impairment provisions of IFRS 9, an impairment in the amount of the twelve-month expected credit losses is initially recognized when the assets are initially recognized. In case of significant deterioration in the credit quality of the assets after initial recognition, the impairment is adjusted and the expected credit losses over the entire contractual term are recognized.

ProSiebenSat.1 Group makes use of the option in IFRS 9 to exclude a significant deterioration in credit quality for counterparties with high credit ratings when calculating expected credit losses if the instrument in question has a low default risk at the reporting date.

Otherwise, an increased default risk is assumed if any amount is overdue by more than 30 days or if ProSiebenSat.1 Group has any other indications that creditworthiness has declined significantly, such as information about a significant downgrade of the credit rating or signs of a significant increase in debt or a sharp decline in operating results.

For risk provisions, including the assessment of whether the default risk has increased significantly, a default is deemed to have occurred if the counterparty is unlikely to receive full payment due to limited solvency or if a receivable is more than 90 days overdue.

In the previous year, ProSiebenSat.1 Group applied the "incurred loss" method of IAS 39 for the recognition of impairments, under which financial assets are not impaired until there is objective evidence of impairment.

In particular, ProSiebenSat.1 Group considers the actual or probable occurrence of insolvency or the obtaining of reliable information about significant financial difficulties of the contractual partner objective indications of impairment.

Estimates and assessments of individual receivables and necessary value adjustments are made taking into account the creditworthiness of the respective contractual partner or – as far as the risk margin for trade receivables or active contract items from contract production is concerned – taking into account the risk characteristics of certain customer groups. If available for the respective counterparty, credit default swap spreads appropriate to the maturity are used to assess the default risk.

Overdue trade receivables with objective indications of defaults or any other breach of contract are individually impaired, taking into account empirical values regarding their collectability.

Impairments are recognized in the income statement and are subject to regular review. If the reasons for impairments no longer apply, a reversal of the impairment takes place accordingly. If there are such indications of a final non-recoverability, the corresponding receivable is derecognized, possibly against previously created provisions.

For further information on impairments of financial assets as required by IFRS 7 "Financial Instruments: Disclosures", we refer to → note 22 "Financial receivables and assets" and → note 32 "Further notes on financial risk management and financial instruments in accordance with IFRS 7".

FINANCIAL LIABILITIES

Financial liabilities are measured at acquisition cost, with the exception of derivative financial instruments with negative market values and contingent acquisition costs in the context of business combinations (liabilities under put options or earn-out clauses), using the effective interest method. Bullet loans are recognized at their nominal volume at acquisition cost less issuing and financing costs. Such costs are distributed over the term of the liability in accordance with the effective interest method. Contingent acquisition costs in the context of business combinations are recognized at their fair value upon initial consolidation. Thereafter, such liabilities are also measured at fair value, with changes recognized in profit or loss.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

ProSiebenSat.1 Group uses derivative financial instruments in the form of interest rate swaps and interest rate option transactions (interest rate caps) as well as forward exchange transactions and currency options to hedge against interest rate and currency risks. While interest rate risks arise from variable-interest liabilities, currency risks arise in particular from license payments for programming assets denominated in US dollars.

Derivative financial instruments are recognized in the Statement of Financial Position as financial assets or financial liabilities at their fair values, regardless of the purpose or intention they were entered into. The fair value of derivative financial instruments is determined by discounting the future cash flows at the market interest rate as well as by using other recognized actuarial methods, such as option price models. The derivative financial instruments are accounted for on the day of trading. The fair value of interest rate swaps and currency forward transactions is generally zero upon initial recognition, and in case of interest rate and currency options it is equal to the value of the option premium paid. The fair values of all derivative financial instruments are reported in the balance sheet as financial assets or other financial debt. Counterparty-specific credit risks are taken into account in the context of the measurement of derivative financial instruments. For additional information, please refer to → note 32 "Further notes on financial risk management and financial instruments in accordance with IFRS 7".

If it is possible to demonstrate and document a clear hedging relationship, it is accounted for pursuant to the provisions regarding hedge accounting. In exercising the option in IFRS 9 "Financial Instruments", the Group continues to apply the provisions of IAS 39 "Financial Instruments: Recognition and Measurement".

In hedge accounting, changes in the market value of derivatives are recognized depending on the type of hedging relationship. ProSiebenSat.1 Group currently uses hedging derivatives exclusively in connection with cash flow hedges to hedge future cash flows. Accordingly, changes in the fair value of the effective portion of the derivative are initially recognized separately in accumulated other equity and only in profit or loss when the underlying transaction affects profit or loss. The ineffective part is recognized immediately in profit or loss.

The hedging of future license payments against currency risks has the further peculiarity that the profits or losses from the hedging instrument that are recognized in equity, are transferred when the license commences, i.e. when the underlying transaction is capitalized, and their acquisition costs – and subsequently the depreciation expenses – increase or reduce accordingly.

ProSiebenSat.1 Group combines and manages identified underlying and hedging transactions in so-called hedge books. The effectiveness of the hedging relationship is measured at regular intervals and the hedging relationship is adjusted, if required. If a hedging relationship does not or no longer meet the requirements of IAS 39, hedge accounting is terminated. After termination of a hedging relationship, the amounts recognized in the other accumulated comprehensive income or as adjustment to acquisition costs are recognized in profit or loss once the underlying transaction is recognized in profit or loss.

Further information on the financial instruments held by the Group and on the determination of fair values and amortized cost can be found in → notes 22 "Financial receivables and assets", → 23 "Other receivables and assets", → 25 "Equity", → 28 "Financial liabilities" and → 32 "Other disclosures under IFRS 7 on financial risk management and financial instruments".

Cash and Cash Equivalents
Cash and cash equivalents are short-term, highly liquid financial investments that can be converted into cash and cash equivalents at any time and that are subject to minor fluctuation risks only. Cash and cash equivalents are measured at acquisition cost, foreign currency balances are translated at the respective closing rate.

Provisions for pensions
Deviations between assumptions made a nd actual developments as well as changes in actuarial assumptions regarding the valuation of defined benefit plans lead to actuarial gains and losses. Such revaluation effects are recognized directly in accumulated other comprehensive income in the period of accrual, taking into account of deferred taxes. The Statement of Financial Position therefore shows the full extent of the obligations, avoiding fluctuations in the results that may arise in particular in case of changes to the calculation parameters. Actuarial gains and losses recognized in the respective reporting period are presented separately in the comprehensive income statement. There is no transfer to the income statement in subsequent periods.

For further information please refer to → note 26 "Provisions for pensions".

Share-based Payments
The share-based payments of ProSiebenSat.1 Group (essentially stock options and rights to shares or to future disbursements based on share values) exclusively constitute compensation plans which include an option for ProSiebenSat.1 Media SE regarding the type of settlement to pay them through shares or cash settlement, which is exercised according to the intended compensation. Equity-settled share-based payment plans are measured at fair value as at the grant date. The fair value of the obligation is recognized as functional cost throughout the vesting period as personnel expense; the counter entry is made in in capital reserves. The fair value of cash-settled compensation plans is recognized as liability throughout the vesting period as a personnel expense. The liability is revalued on each reporting date as well as on the settlement date based on the fair value and the changes are recognized in profit or loss.

For further information, please refer to note → 25 "Equity" and → 33 "Share-based payment".

Other Provisions
In accordance with IAS 37, provisions are recognized if a present legal or constructive obligation to third parties exists as a result of a past event, if outflows of economic resources are expected, and if the amount can be determined reliably. They are recognized at full cost, in the amount of the most probable outcome of the obligation, taking into account experiential values. Non-current provisions are recognized as of the reporting date at the present value of expected settlement amounts, taking estimated increases in prices or costs into account. Discount rates are regularly adjusted to prevailing market interest rates.

The Company recognizes provisions for onerous contracts at the lower amount of the expected costs of performing the contract and the expected costs upon termination of the contract, minus any revenues potentially expected under the contract.

Recognition and valuation of provisions are based on an estimate of amount and probability of the future outflow of resources and also on empirical values and the circumstances known as at the closing date. To assess the amount of the provisions, in addition to the evaluation of the facts and of the asserted claims, the results of similar circumstances are also considered on a case-by-case basis as are assumptions regarding the occurrence probabilities and the range of possible utilizations.

For further information please refer to → note 27 "Other provisions".

Cash Flow Statement
The cash flow statement shows origin and use of the cash flows. Pursuant to IAS 7, a distinction is made between cash flows from operating activities and from investing and financing activities.

The funds covered by the statement of cash flows include all cash and cash equivalents shown in the statement of financial position with terms of not more than three months, subject only to minor risks of fluctuation in value. Cash is not subject to restrictions.

The cash flows from investing and financing activities are determined on the basis of payments. In contrast, the cash flow from operating activities is derived indirectly from the consolidated net profit. As part of the indirect determination, the included changes in balance sheet items in connection with operating activities are adjusted for effects from currency translation and changes in the scope of consolidation. It is therefore not possible to reconcile the changes in the relevant balance sheet items with the corresponding values of the consolidated balance sheet and the segment parameters.

In line with IAS 7.31 and IAS 7.35, payments of taxes and interest as well as receipts of interest are presented in the cash flow from operating activities.