

CHANGES IN REPORTING STANDARDS

A) RECENTLY IMPLEMENTED REPORTING STANDARDS

The standards, interpretations and amendments of standards and interpretations mandatorily applicable in the reporting period comprise amendments to IAS 7 “Statement of Cash Flows”, amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses” as well as clarifications to IFRS 12 “Disclosure of Interests in Other Entities”.

The amendments to IAS 7 require disclosures to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including cash and non-cash changes → [see note 23 “Cash and Cash equivalents”](#). The changes to IAS 12 clarify the accounting of deferred tax assets for unrealized losses relating to debt instruments measured at fair value. → [see note 13 “Income taxes”](#)

The initial application of the amendments to standards and interpretations mandatorily applicable in the reporting period did not affect the earnings, financial position and performance of ProSiebenSat.1 Group.

B) REPORTING STANDARDS YET TO BE IMPLEMENTED

The financial reporting standards published by the IASB and described below were not yet effective in the past the financial year and were therefore not adopted early by ProSiebenSat.1 Group.

- In July 2014, the IASB issued the final version of **IFRS 9 “Financial Instruments”**. This version replaces the previous IAS 39 standard “Financial Instruments: Recognition and Measurement” and all previously published versions of IFRS 9 and was adopted into European Law on November 29, 2016. Initial application of IFRS 9 is mandatory for the financial years beginning on or after January 1, 2018. The option to adopt the standard early was not exercised in the financial year 2017. The standard is prospectively applied as of January 1, 2018. The Group exercises the option not to restate comparative information. The transition requirements of IFRS 9.7.2.15 are applied. ProSiebenSat.1 Group does not hold debt instruments that would mandatorily have to be measured at fair value through other comprehensive income. Moreover, the Group did not exercise the option to measure equity instruments at fair value through other comprehensive income. The Group will recognize the effects of the initial application of IFRS 9 as of the date of initial application in consolidated equity generated. The Group has analyzed the impact of the initial application of IFRS 9 on the consolidated financial statements as of December 31, 2018 and on interim quarterly reporting throughout 2018 in a Group-wide project. In this context, the following areas were identified, which are affected by the implementation of IFRS 9:

Classification and Measurement of financial instruments under IFRS 9

On initial recognition, financial assets are classified as either “to be measured at fair value” and “to be measured at amortized cost”, depending on the business model and the contractually agreed cash flows of the relevant financial instruments. The allocation to these categories with respect to the business model takes place on a portfolio level, while the cash flow criterion is assessed at the level of the individual instrument. Subsequently, financial assets are measured either at amortized cost or at fair value, depending on the classification. Changes in fair value are to be reported in the income statement or in other comprehensive income. The requirements for derecognizing financial assets and liabilities and the general accounting for financial liabilities were mainly taken over from IAS 39.

For ProSiebenSat.1 Group, the new measurement requirements result in changes for financial assets classified as “loans and receivables” and financial liabilities classified as “other financial liabilities” under IAS 39. The financial liabilities are expected to be categorized as financial liabilities measured at fair value, financial liabilities under hedge accounting as well as financial liabilities measured at amortized cost. The latter primarily contain loans and borrowings, bonds issued and other financial liabilities, including trade payables and liabilities. The classification takes place at initial recognition.

The shares in investment funds serving to cover pension obligations will continue to be measured at fair value through profit or loss, as they do not meet the cash flow criterion. Based on its evaluation, ProSiebenSat.1 does not believe that the new classification requirements will have a material impact on the accounting. Moreover, taking account of IFRS 9. B5.4.5 and B5.4.6, modifications of financial liabilities will not have material effects. With regard to the measurement of financial assets and liabilities there will not be material transition effects, with the exception of changes to the impairment model for financial assets described below.

Impairment of financial assets

The requirements for recognizing impairments on financial assets, which are now based on an expected loss model, are fundamentally new and contain significant areas of judgement regarding the extent to which expected credit losses are influenced by changes in economic factors. In contrast to IAS 39, financial assets are to be allocated to various risk categories based on the expected probability of default in the past and future. Credit allowances are to be recognized before losses are incurred.

To determine the expected credit losses, ProSiebenSat.1 will uniformly apply the simplified impairment model of IFRS 9 for the recognition of lifetime expected credit losses to trade and license receivables. ProSiebenSat.1 uses specific impairment matrixes differentiating customer groups and companies to calculate the expected credit losses. The impairment factors for overdue receivables are based on historic and forward-looking information. At present, ProSiebenSat.1 Group finalizes the data preparation to analyze the quantitative impacts resulting from the new impairment model. The data preparation relates to established portfolios for the collective determination of impairments for homogenous customer portfolios. Based on current evaluations, no final transition effect can be determined for the entirety of the customer portfolios established. The final determination of impairments under the so-called "Expected-credit-loss Model" will be completed during the first quarter of the financial year 2018 and presented in the first quarter interim report. No material effect from the transition to the impairment model of IFRS 9 will result for cash and cash equivalents.

Hedge accounting

The Group will not apply the hedge accounting provisions of IFRS 9 from January 1, 2018, but will instead avail itself of the choice to continue accounting pursuant to IAS 39.

IFRS 9 requires extensive new disclosures, particularly relating to hedge accounting, credit risk and expected credit losses. The Group is currently finalizing an analysis to identify potential data gaps compared to present procedures. The Group intends to implement changes to systems and controls deemed necessary for the required data collection.

- By issuing **IFRS 15 "Revenue from Contracts with Customers"** in May 2014, the IASB revised the requirements for the timing and amount of revenues to be recognized in the future. The standard replaces previous regulations of IAS 18 "Revenue," IAS 11 "Construction Contracts" and a range of revenue-related interpretations. Leases, financial instruments and insurance contracts do not fall within the scope of IFRS 15.

Under the new standard, the recognition of revenues shall reflect the transfer of the goods or services promised to the customer with the amount equivalent to the consideration that the entity is expected to receive in exchange for these goods or services. Revenues are recognized when the customer obtains control over the goods or services.

In April 2016, the IASB published clarifying amendments to IFRS 15 which must also be applied in the financial years commencing on or after January 1, 2018. These amendments clarify various requirements of the standard and offer some additional transition relief.

IFRS 15 is initially effective for the financial years commencing on or after January 1, 2018. The adoption into European law occurred by announcement by the European Commission on October 31, 2017. The Group has not exercised the option to early-adopt the standard in the financial year 2017. The standard will be initially applied as of January 1, 2018 using the modified retrospective approach. In this context, the quantitative effect resulting from the transition will be recognized at January 1, 2018 in consolidated equity generated.

ProSiebenSat.1 Group has analyzed the developments and impact relating to IFRS 15 including the clarifying

amendments in a group-wide project and has dealt with the analysis of the existing processes, systems and contracts and the modelling of the revenue recognition process.

No material changes are expected in the consolidated financial statements with regard to the recognition of advertising revenues and revenues from commissioned productions. The following business area was identified that will see changes in the recognition of revenues due to the switch to IFRS 15:

License revenues

For revenue recognition, IFRS 15 distinguishes between a right to access and a right to use licenses. Based on the respective allocation procedure, low single-digit million changes in the timing of the recognition of licensing revenue will occur.

ProSiebenSat.1 Group makes use of the relief under IFRS 15.C5 a) and does not reassess completed contracts that commence and are completed in the same the financial year.

- In January 2016, the IASB published the financial reporting standard **IFRS 16 "Leases"** which was adopted into European law on November 9, 2017. The standard replaces the existing requirements relating to leases, including IAS 17 "Leases", IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC-15 "Operating leases - Incentives" and SIC-27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

The standard specifies that all leases and the associated contractual rights and obligations are, as a rule, to be recognized in the statement of financial position of the lessee, with the exception of leases with a contractual term of 12 months or less or low value assets. As a result, lessees are no longer subject to the requirement to classify leases as operating or finance leases under IAS 17. In the case of leases, the lessee recognizes a liability for lease obligations to be incurred in the future. Correspondingly, the right-of-use asset is capitalized, which corresponds to the present value of future lease payments plus directly attributable costs, and is amortized over its useful life.

IFRS 16 is initially effective for the financial years commencing on or after January 1, 2019. ProSiebenSat.1 Group has exercised the option to early-adopt the standard and has initially applied IFRS 16 at January 1, 2018, using the modified retrospective transition approach. At ProSiebenSat.1 Group, the initial application primarily affects those leases classified as operating leases to this date. Using the option of IFRS 16.5, short-term leases with a contractual term of less than 12 months (and which do not contain a purchase option) and leases in which the underlying asset is of low value are not accounted for under IFRS 16. The Group has made use of the relief of IFRS 16.C3(b) and has not reassessed contractual arrangements that were not classified as leases under IAS 17 "Leases" in conjunction with IFRIC 4 "Determining Whether an Arrangement Contains a Lease" using the definition of a lease in IFRS 16.

On initial application of IFRS 16 to operating leases, the right-of-use to the leased asset was generally measured at the amount of the lease liability, using the discount rate at the date of initial application (IFRS 16.C8(b)(i)). Where accrued lease liabilities existed, the right-of-use asset was adjusted by the amount of the accrued lease liability under IFRS 16.C8(b)(ii). Under IFRS 16.C10(d), the measurement of the right-of-use at initial application did not include initial direct costs. In the consolidated financial statements 2018 the comparative information for the financial year 2017 are not restated, as allowed by IFRS 16.C7.

ProSiebenSat.1 Group has analyzed the impacts of the initial application of IFRS 16 in a Group-wide project involving existing processes, systems and contracts. The following categories of leases have been identified whereby agreements previously recognized as operating leases may be accounted for as leases as defined by the new standard as a result of the changeover to IFRS 16: Real estate, technical equipment, vehicles and other leased assets. In the context of initial application, right-of-use-assets of EUR 109 million and lease liabilities of EUR 111 million are recognized in the consolidated statement of financial position at January 1, 2018. The difference of EUR 2 million between these two items results from the adjustment of accrued lease liabilities under IFRS 16.C8(b)(ii). As a result of the change in expense presentation for operating leases as amortization of right-of-use-assets and lease liability interest expense, the Group expects an improved EBITDA for the financial year 2018.

- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” is initially effective for the financial years commencing on or after January 1, 2018. This interpretation clarifies the date for determining the foreign exchange rate for purposes of translating foreign currency transactions containing prepayments received or paid. ProSiebenSat.1 Group expects that the changes resulting from IFRIC 22 will result in a single-digit million euro impact.

- The changes to IFRS 2 “Classification and Measurement of Share-based Payment Transactions” comprises the following issues relating to the accounting for cash-settled share-based payments: the accounting for cash-settled share-based payments containing a performance condition, the classification of share-based payments settled net of tax withholding and the modification of share-based payment transactions from cash-settled to equity-settled. ProSiebenSat.1 currently anticipates that the changes to IFRS 2, effective as of January 1, 2018, will not impact the Group.