ProSiebenSat.1 Media AG
The power of television

ProSiebenSat.1 Media AG

Financial Statements und Management Report 2007

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Management Report ProSiebenSat.1 Media AG of fiscal year 2007

I. Group & Business Conditions

1.1 The financial year 2007 at a glance

Fiscal 2007 was a success both operationally and strategically. The acquisition of the SBS Broadcasting Group in 2007 was the most important strategic step in corporate history. It turned ProSiebenSat.1 from a national media group into a pan-European one. The ProSiebenSat.1 Group now operates in 13 European countries. As a European group, we can operate with significantly greater independence from the cyclic fluctuations of individual markets.

The acquisition of the SBS Broadcasting Group and the financing measures that this transaction entailed characterized the performance of ProSiebenSat.1 Media AG. The founding of German Free TV Holding GmbH also had a profound effect on the net assets and results of operations.

1.2 The ProSiebenSat.1 Group

1.2.1 ProSiebenSat.1 Media AG acquires SBS Broadcasting Group: Launch of a pan-European TV corporation

In June 2007, ProSiebenSat.1 Media AG acquired all of the SBS Broadcasting Group. The share purchase agreement was signed on June 27 and was consummated on July 3. Since then, the Group has been a presence in 13 European countries. In addition to its previous activities in Germany, Austria and Switzerland, the Corporation now also operates in Belgium, Bulgaria, Denmark, Finland, Greece, the Netherlands, Norway, Romania, Sweden and Hungary. SBS is a perfect fit for ProSiebenSat.1 not just geographically, but also in terms of corporate culture and strategic focus.

1.2.2 Reporting structure adapted to new operations

Since July 2007, the SBS Broadcasting Group have been included in the ProSiebenSat.1 Group's consolidated financial statements. As part of the first consolidation of SBS, the ProSiebenSat.1 Group has also restructured its segments. In addition to segments for Free TV in German-speaking Europe and Free TV International, a Diversification segment has been set up. In simplified terms, the new reporting structure looks as follows:

- The four German stations (Sat.1, ProSieben, kabel eins and N24) have been consolidated into the Free TV in German-Speaking Europe segment. This segment also includes the Sat.1 regional companies, the marketing company SevenOne Media and the Group's subsidiaries in Austria and Switzerland.
- The Free TV International segment includes advertising-financed TV channels in the Netherlands, Belgium, Denmark, Finland, Norway, Sweden, Romania, Bulgaria and Hungary.
- The Diversification segment includes all subsidiaries that rely only indirectly or not at all on conventional TV advertising to generate their revenues. The Group's diversification activities range from pay TV, transaction TV, multimedia, Internet, merchandising and radio to related print products.

1.2.3 Expansion of the Executive Board

After the transaction was consummated, the structure of the Executive Board was expanded to fit the larger Group. On July 23, Patrick Tillieux, formerly acting Chief Executive Officer of the SBS Broadcasting Group, was appointed to the Executive Board of ProSiebenSat.1 Media AG. He joins the formerly four-member board chaired by Guillaume de Posch, and as Chief Operating Officer will be in charge of the new management segment for International TV, Radio, Print and Group Operations. As CEO, Guillaume de Posch will be in charge of the Group Content, German TV and Corporate areas. Lothar Lanz, as Chief Financial Officer, will be in charge of Group Controlling, Finance/Investor Relations, Legal Affairs, Human Resources, Regulatory Affairs and Administration. As the board member in charge of Sales & Marketing, Peter Christmann is responsible for sales in Germany, Austria and Switzerland, and also for International Sales. The board member for New Media, Dr. Marcus Englert, is in charge of New Media & Diversification, Transaction TV and Business Development. This expanded management structure will provide an organizational basis for the rapid integration of the two groups, and for implementing strategic objectives.

1.2.4 Explanations for the ProSiebenSat.1 Media AG

Legal and organizational structure of the Group

The pan-European media group, headquartered in the Munich suburb of Unterföhring, is managed centrally. As the Group's ultimate parent company, ProSiebenSat.1 Media AG centrally manages key functions that affect multiple segments, such as license purchases, accounting, controlling, corporate planning, human resources, finance, investor relations, legal affairs and corporate communications. At the same time, the individual subsidiaries in their various countries have a large degree of autonomy. With this arrangement, decisions can be made quickly, and the subsidiaries can respond flexibly to the needs of their target audiences and markets.

ProSiebenSat.1 Media AG is a German stock corporation, an Aktiengesellschaft. German corporate law prescribes a dual management system, with a clear separation between the managing body and the supervisory body. The managing body of the company is the Executive Board, which is overseen and advised by the Supervisory Board. The basic rules for managing ProSiebenSat.1 Media AG are set forth in its articles of incorporation. In fiscal 2007, the Executive Board had four members initially, and later five. According to the articles of incorporation, the Supervisory Board consisted of 15 members. The business conduct of the ProSiebenSat.1 Group is governed by conscientious corporate governance with a focus on adding value for the long term. At the ProSiebenSat.1 Group, corporate governance stands for openness and transparency, concern for shareholder interests, and efficient cooperation between the Executive Board and Supervisory Board.

Major reorganizational measures in fiscal 2007

As part of the integration process, a holding company was set up during fiscal 2007 for the German-language free TV activities. German Free TV Holding GmbH pools the companies that run free TV activities in Germany, Austria and Switzerland as a parallel to the international holding company. This includes not only the stations ProSieben, Sat.1, kabel eins and N24 in Germany, which were previously held directly by ProSiebenSat.1 Media AG, but also SAT.1 Privatrundfunk und Programmgesellschaft mbH Österreich and SAT.1 Schweiz AG.

1.2.5 The internal management system

Management by objectives: A goal-oriented management system

The staff and management of the ProSiebenSat.1 Group are managed under the principle of management by objectives. It is for this purpose that the TOP Goals system was developed. It puts higher-level corporate objectives into more specific terms for both staff and management by breaking targets down systematically into segment, department and individual goals. Stating, agreeing on and monitoring annual goals is a way of making sure that all employees actively participate in implementing the Group's strategic objectives. It is a way of anchoring goal-oriented action within the various segments and departments. Resources are used as efficiently as possible. At the same time, it provides a channel for specific, continuous feedback. The TOP Goal system ties in with a special performance-based bonus plan. This incentive system ensures performance-oriented compensation based on objective measurement criteria, since the size of the bonus depends on how well the individual achieves the specified goals. Employees' sharing in the Company's profits is based on the achievement of the corporate target, which is calculated on the basis of recurring EBITDA margin. The compensation of the Executive Board members is also based on a results-oriented bonus model, and has both fixed and variable components.

Management by key indicators

Corporate financial management parameters

The ProSiebenSat.1 Group is managed and operated using a management system based on key performance indicators. The **central financial management parameters** in the Group-wide controlling and planning system are EBITDA prior to exceptional effects ("recurring" EBITDA), recurring EBITDA margin, and free cash flow.

- **Recurring EBITDA** stands for EBITDA – earnings before interest, taxes, depreciation and amortization – after adjustment for non-recurring items. The **recurring EBITDA margin** is the ratio between recurring EBITDA and revenues. These key figures make possible a meaningful evaluation of operating performance, and simplify international comparisons of companies' profitability, since they exclude national taxes and the effects of depreciation and amortization.
- The ProSiebenSat.1 Group defines **free cash flow** as the net sum of cash flow from operating activities and cash flow from investing activities. Free cash flow shows the surplus cash generated during a period, and can be interpreted as a financial surplus that is available to service equity and borrowings.

Non-financial performance indicators

Additionally, the ProSiebenSat.1 Group has defined performance indicators that cannot be measured directly in financial terms. These non-financial management parameters include:

- **Leading brands, programming quality and audience loyalty:** Strong, internationally known brands and attractive programming content are critical to the ProSiebenSat.1 Group's success. One of the most important non-financial management parameters in this connection is the TV stations' audience figures. The audience shares and reaches of stations in Germany are determined daily by AGF/GfK-Fernsehforschung, the leading TV research system, by measuring viewing patterns among a representative panel of viewers. At the same time, audience ratings serve to document programs' performance for the advertising industry. The performance of pay TV services, video on demand, and print operations is documented by the number of subscribers or readers.

For the online business, the key parameters are page impressions, unique users, and visits.

- **Good corporate governance** thanks to shared values and goals: As a media corporation, we are subject to special laws, regulations and high journalistic standards, especially in our TV and radio operations. The ProSiebenSat.1 Group has summarized its goals and its own sense of itself in short, pithy principles, taking account not only of laws and regulations, but ethical and social rules as well. The corporate mission statement is taken as a basis to lay down management guidelines that describe the Group's most important shared values and aspects of conduct. Through binding guidelines and management principles, we intend to ensure that staff and management behave ethically and in compliance with the law, both toward one another and toward the public. As part of the process of integrating the ProSiebenSat.1 Group with SBS, plans call for introducing a Group-wide compliance system.
- **Motivated, high-performance employees:** With their innovative imaginations, creativity and commitment, our employees make an indispensable contribution to the ProSiebenSat.1 Group's success. The Group believes it is essential to retain well-qualified employees as long as possible. For that reason, important management parameters in human resources include average time with the Company and staff turnover.
- **Reputation:** The ProSiebenSat.1 Group sets itself high standards for transparency that not only guide its employees' conduct, but influence public opinion and our relations with our customers. A transparent style of communication also strengthens the capital market's confidence in the corporation and in ProSiebenSat.1 stock. The Group's financial reporting and investor relations work won a number of prizes once again in fiscal 2007. All the same, ProSiebenSat.1 stock was unable to escape the effects of the subprime crisis on the capital markets, or the associated uncertainties about the economic outlook for the future.

A coordinated planning and management system

Planning and management are closely interrelated. The ProSiebenSat.1 Group's planning is based on the Group's strategic and operating objectives. Profitability planning includes the long-term corporate plan (five-year plan), operating plans (budgeting) and budget updates during the year (forecasting). Monthly earnings projections present and analyze the expected development of revenues and earnings for the year as a whole in comparison to the budget or forecast, as the case may be. Any potential risks are reported by the decentralized risk managers to the Executive Board as part of the monthly reporting process. These reports provide additional management tools, since they help management take quick action to avert any negative changes. This systematically coordinated and clearly scheduled sequence of steps ensures continuity in the planning process – a matter of fundamental importance for effective management of the defined target figures, but also for the Group-wide detection of risks and opportunities.

1.3 Principles of compensation of the Executive and Supervisory Boards

1.3.1 Compensation of the Executive Board

In addition to their functions as directors and officers of the company, the members of the Executive Board of ProSiebenSat.1 Media AG also have contractual relationships with the company. The Supervisory Board, which is in charge of agreements with members of the Executive Board, has delegated this responsibility to its Presiding Committee. The employment agreements between ProSiebenSat.1 Media AG and the members of its Executive Board have a maximum term of five years. These contracts establish the Board members' rights and duties, including their compensation.

ProSiebenSat.1 Media AG's compensation system for the members of the Executive Board includes both fixed and variable components. It is set up in such a way that the compensation paid to each Board member is appropriate to their own area of work and responsibility, and is also competitive compared to the compensation paid to senior executives of other national or international companies. It is based on the recommendations of the German Corporate Governance Code regarding results-based compensation, and is designed to ensure that the Company will remain competitive, by providing appropriate incentives and motivation for top-quality international executives.

Last fiscal year, the compensation paid by ProSiebenSat.1 Media AG to the members of its Executive Board had the following components:

- Under their employment contracts, all Executive Board members receive a fixed base salary, paid monthly, that is determined with reference to the individual member's area of responsibilities.
- In addition to this base component, each member also receives a performance-based variable component in the form of an annual bonus. The specific terms of this annual bonus vary among the contracts of the individual board members. Its amount is decided in part by the Supervisory Board, and in part depends on the achievement of predefined performance targets.
- Additionally, the members of the Executive Board participate in the ProSiebenSat.1 Media AG stock option plan introduced in 2005 (the "Long-Term Incentive Plan"), which establishes an additional pay component based on the Company's long-term results, as a way of enhancing shareholder value. All stock options issued in 2005, which could not have been exercised until May 2007 (because of the change of control last fiscal year resulting from the advent of a new majority shareholder), were redeemed in advance by the Company in return for payment of the cash value of the option. As of December 31, 2007, the current members of the Executive Board still held a total of 665,000 stock options, all of which were issued in 2006 and entitle the holder to purchase one share of preferred stock. Provided the other prerequisites for their exercise are met, the options still cannot be exercised until August 2008 at the earliest. No new stock options were issued in 2007 under the Long-Term Incentive Plan.
- Additionally, the Company has signed pension agreements with most members of the Executive Board.
- Finally, the members of the Executive Board receive other compensation in the form of noncash perquisites, including company cars, insurance coverage, and coverage of relocation expenses if they must relocate.

The Company has extended neither loans nor guaranties or warranties to the members of the Executive Board. The total compensation paid to members of the Executive Board, broken down by fixed and variable components, is reported in the Notes to the financial statements, along with further details of the ProSiebenSat.1 Media AG stock option plan.

A resolution of the shareholders' meeting on August 2, 2006, exempted the Company for a term of five years from the statutory obligation to disclose the compensation of the individual members of the Executive Board in the parent-company and consolidated financial statements, on the basis of the information specified in Section 285 No. 9 a) Sentences 5 through 9 and Section 314 (1) No. 6 a) Sentences 5 through 9 of the German Commercial Code (HGB).

However, this resolution of the shareholders' meeting poses no obstacle to the voluntary disclosure of individual Board members' compensation otherwise. The Executive Board and Supervisory Board have decided to exercise this option of voluntary disclosure in the compensation report for 2007, which is included in the Corporate Governance Report of the Executive Board and Supervisory Board. That report therefore states figures for the compensation paid to individual members of the Company's Executive Board for the past fiscal year.

1.3.2 Compensation of the Supervisory Board

The compensation of the Supervisory Board of ProSiebenSat.1 Media AG is laid down in the Company's articles of incorporation, and was revised by a resolution of the annual shareholders' meeting on July 17, 2007. Under the new rules, the members of the Supervisory Board will receive only a fixed base compensation, which has been increased over the previous fixed compensation. At the same time, whereas the old rules provided for a variable component that depended on the amount of the dividend, this component has been eliminated. The Chairman and Vice-Chairman of the Supervisory Board each receive twice the amount of the fixed base compensation. As before, members of the Supervisory Board's committees are compensated with a separate meeting honorarium, payable for participating at each committee meeting. Committee chairs receive twice the standard meeting honorarium.

The new compensation rules applied for the first time to the full 2007 fiscal year. The variable component payable under the old rules for the previous fiscal year, 2006, which was linked to the dividend resolved for fiscal 2006 by the shareholders' meeting held on July 17, 2007, was paid for the last time following that shareholders' meeting. A list of the individual compensation paid to current and former members of the Supervisory Board last fiscal year appears in the Notes to the financial statements.

1.4 Legal Environment

1.4.1 Composition of share capital

The share capital of ProSiebenSat.1 Media AG comes to EUR 218,797,200, divided into 109,398,600 no-par registered shares of common stock and 109,398,600 no-par bearer shares of non-voting preferred stock. There are no shares that carry special rights and confer control.

Each no-par share has a notional value of EUR 1.00 of the share capital. Thus all shares of common stock combined, and all shares of preferred stock combined, each total a notional value of EUR 109,398,600.00 of the share capital, or 50 percent of the share capital each. Only shares of common stock carry voting rights. Each share of common stock confers one vote at the shareholders' meeting. Otherwise no special rights are associated with these common shares.

Except as mandatorily prescribed by law, shares of preferred stock do not carry voting rights. Under Article 19 of the articles of incorporation of ProSiebenSat.1 Media AG, these shares are given preferential treatment in the distribution of profits, receiving a priority payment of EUR 0.02 per share more from the annual distributable net profit than do common shares, and no less than EUR 0.02 per share in any case. If the distributable net profit for one or more fiscal years is not sufficient to cover this priority payment, the deficiencies are made up retrospectively, without interest, out of the distributable net profit from the subsequent fiscal year. This make-up payment must be made before other shares of profits are distributed to preferred stock or common stock for the new fiscal year. Preferred shares of ProSiebenSat.1 Media AG are listed for trading in the regulated Prime Standard segment of the Frankfurt Stock Exchange. The Company must meet additional follow-up obligations to maintain this listing. Common shares are not listed.

1.4.2 Restrictions on transfer of stock

Under Article 5 (4) of the articles of incorporation, the registered common shares of ProSiebenSat.1 Media AG stock may be transferred only with the company's consent, which is to be decided upon by the Executive Board. The Board must give that consent unless the transfer would establish a stake in the Company that would exceed the bounds prescribed by media regulations. There are no consent requirements for transfers of the bearer shares of non-voting preferred stock.

1.4.3 Ownership structure

Since March 2007, the majority shareholder of ProSiebenSat.1 Media AG has been Lavena Holding 4 GmbH. Lavena Holding 4 GmbH is a holding company controlled by funds advised by Kohlberg Kravis Roberts & Co. L.P. (KKR) and Permira Beteiligungsberatung GmbH (Permira) respectively. As of December 31, 2007, it held 88.0 percent of the Company's voting common stock and approximately 13.3 percent of the nonvoting preferred stock, after adjustment for other interests. This holding is equivalent to approximately 50.7 percent of the Company's share capital, likewise after adjustment for other equity interests. In addition, again after adjustment for other interests, at December 31, 2007, Axel Springer AG held a significant interest in ProSiebenSat.1 AG, with 12.0 percent of both the common stock and preferred stock. The remaining roughly 74.7 percent of the preferred stock, equivalent to approximately 37.3 percent of the share capital, is in free float.

Change of majority shareholder

Last fiscal year, the Company changed majority shareholders. On March 6, 2007, under a share purchase agreement signed on December 14, 2006, with the former majority shareholder, German Media Partners L.P., Lavena Holding 4 GmbH indirectly acquired an interest of 88.0 percent of the voting common stock and about 13.0 percent of nonvoting preferred stock of ProSiebenSat.1 AG (after adjustment for other interests). This is equivalent to some 50.5 percent of the share capital of ProSiebenSat.1 Media AG, likewise after adjustment for other equity interests.

Under a public tender offer to ProSiebenSat.1 Media AG shareholders that was published on January 30, 2007, and ended upon expiration of the extended acceptance period on April 10, 2007, Lavena Holding 4 GmbH had acquired another roughly 0.3 percent of nonvoting preferred stock. This purchase increased its total holding of the share capital of ProSiebenSat.1 Media AG to 50.7 percent, after adjustment for other equity interests.

Lavena Holding 4 GmbH then restructured the indirect holding it had acquired through the share purchase agreement mentioned above, by replacing the intermediate companies it had taken over from German Media Partners L.P. with Lavena Holding 5 GmbH, a new wholly-owned subsidiary of Lavena Holding 4 GmbH. As of December 31, 2007, Lavena Holding 5 GmbH directly held some 75.1 percent of the common stock and 0.1 percent of the preferred stock of ProSiebenSat.1 Media AG. In addition, after adjustment for other interests, Lavena Holding 5 GmbH indirectly held 12.9 percent of both the common stock and preferred stock through SAT.1 Beteiligungs GmbH, a joint venture in which Axel Springer AG also indirectly held an interest. In December 2007, Axel Springer AG announced that it would sell its stake in ProSiebenSat.1 Media AG. Further information appears in the Report of Subsequent Events.

1.4.4 Report on Relations with Affiliated Companies

In compliance with Section 312 of the German Stock Corporations Act (AktG), ProSiebenSat.1 Media AG has prepared a report on its relationships with affiliated companies in fiscal 2007, which concludes with the following statement by the Executive Board:

In the year under review, ProSiebenSat.1 Media AG did not engage in any legal transactions with third parties at the direction of or in the interest of Lavena 1 S.à r.l. ,which is the indirect owner of Lavena Holding 4 GmbH, or its affiliated companies. No actions subject to reporting under Section 312 AktG were either performed or omitted.

For every legal transaction entered into between ProSiebenSat.1 Media AG and its subsidiaries during the year under review, ProSiebenSat.1 Media AG contractually promised appropriate compensation within the meaning of Section 312 AktG and received performance in return for such compensation insofar as performance was due during the year under review.

1.4.5 Information under Sections 289 (4) of the German Commercial Code and Explanations under Sections 120 (3) and 175 (2) of the German Stock Corporations Act

The voting stock issued by ProSiebenSat.1 Media AG is not traded on an organized market within the meaning of Section 2 (7) of the German Securities Trading Act (WpÜG). Only bearer shares of the Company’s nonvoting preferred stock are listed for trading, in the regulated Prime Standard segment of the Frankfurt Stock Exchange. The Company must meet additional follow-up obligations to maintain this listing. The registered shares of the voting common stock of ProSiebenSat.1 Media AG are not listed for trading on any stock exchange. Therefore there is no requirement for the parent-company or consolidated management reports of ProSiebenSat.1 Media to provide information under Sections 289 (4) and 315 (4) of the German Commercial Code, or for the Executive Board to provide a report explaining this information, pursuant to Sections 120 (3) and 175 (2) of the German Stock Corporations Act.

1.5 Economic Environment & the Industry

1.5.1 Business climate

The economy got off to a robust start. Strained by the global crisis in the financial market, rising prices for oil and an increase in consumer prices, industrialized economies have developed somewhat less dynamically towards the end of 2007. Throughout the enlarged EU (EU27) and the Euro Zone, the economy got off to a robust start. Following a weaker second quarter, GDP rates in the third quarter grew by 0.8 percent in both regions compared to previous year figures. In the last quarter, rates were declining once again. According to estimates from the Statistical Office of the European Communities (Eurostat), growth rates for the fourth quarter will reach 0.5 percent in the EU27 and 0.4 percent in the EU13. Consequently, the estimated growth rates for 2007 are 2.9 percent in the EU27 and 2.7 percent in the Euro Zone (EU13)

According to initial preliminary calculations from Germany's Federal Statistical Office, the German economy grew again vigorously in 2007, with a gain of 2.5 percent in real terms (2006: 2.9 percent). Growth was driven primarily by export markets and capital expenditures. Consumer spending was slack. Despite encouraging growth in the job market and income, spending was down 0.3 percent in real terms against the previous year. The increase in the value-added tax took its toll in the first half, while rising consumer prices in the second half – especially for energy and food – adversely affected consumer sentiment. It was only thanks to increased government expenditures that consumer spending ultimately contributed a total of 0.2 percentpoint to GDP growth.

1.5.2 Advertising market

The most critical factor for the ProSiebenSat.1 Group is the degree to which the growth of the economy as a whole will affect the TV advertising market and the Group's core business in advertising-financed TV. Growth in advertising spends for TV was thoroughly positive in the ProSiebenSat.1 Group's new markets during 2007. It ranged from relatively modest increases in such markets as Denmark, with gains of about 3 percent gross, to explosive growth in markets like Romania, with more than 40 percent net. The Netherlands recorded net growth of about 8 percent. Gross growth in Belgium was 8 percent. Norway also grew dynamically, with just under 9 percent gross.

With gross advertising spends totaling EUR 8.7 billion in 2007, German TV stations' bookings were up 5.2 percent from a year earlier. The main contributors to growth in the TV market were the retail and shipping sector (+17.2 percent), finance (+13.4 percent) and tourism (+11.3 percent). With a share of 43.5 percent of the German TV advertising market, the ProSiebenSat.1 Group again expanded its lead (2006: 43.0 percent). SevenOne Media, the Group's TV advertising time marketer, generated gross revenues of EUR 3,798 million for the Group's stations in 2007. The stations marketed by IP Deutschland – RTL, Vox, Super RTL and n-tv – generated EUR 3,247 million for the period, a decline of 1.1 percentage points in advertising market share, to 37.2 percent. The share of RTL2 marketer El Cartel was also down compared to a year earlier, to 5.4 percent or EUR 475.0 million (2006: 5.5 percent).

II. Business situation

2.2 Net Worth, Financial Position & Earnings Position

2.2.1 Revenue and earnings performance

Revenues at ProSiebenSat.1 Media AG fell by EUR 2.2 million in fiscal 2007 to EUR 5.9 million. Sales revenues consist largely of revenues from the sale of ancillary programming rights.

Other operating income rose over the previous year by EUR 21.0 million to EUR 94.3 million. This rise can be attributed primarily to higher income from the release of provisions and to internal income from office and administration cost allocations.

Operational expenses declined by EUR 8.4 million from fiscal 2006 to EUR 159.5 million. The rise in other operating expenses was compensated by lower personnel expenses.

Net income from financing activities - consisting of **net investment income and net interest income -** fell by EUR 113.2 million to EUR 290.3 million. Net investment income in fiscal 2007 was burdened by one-time expenses resulting from fines imposed by the Federal Cartel Office (*Bundeskartellamt*) against SevenOne Media GmbH, the adtime marketer for ProSiebenSat.1 Media AG. These one-time expenses of EUR 120 million led to a fall of EUR 64.2 million in net investment income to EUR 381.2 million despite the improved earnings situation of the other affiliates with a profit and loss transfer agreement. Higher interest expenses - up EUR 54.8 million to EUR 102.8 million as a result of the financing of the SBS acquisition - also contributed to the decline in the net income from financing activities.

The **extraordinary profit** of EUR 2,849.0 million was high compared to last year's loss (EUR -13.3 million) due to a valuation gain of EUR 2,851.8 million resulting from internal reorganizational measures in which German Free TV Holding GmbH was withdrawn as an interim holding company for the German free TV activities. This includes not only the stations ProSieben, Sat.1, kabel eins and N24 in Germany, which were previously held directly by ProSiebenSat.1 Media AG, but also SAT.1 Privatrundfunk und Programmgesellschaft mbH Österreich and SAT.1 Schweiz AG.

ProSiebenSat.1 Media AG achieved an **annual net income** of EUR 2,953.1 million, up from EUR 192.9 million last year, after deducting expenses for taxes on income and earnings of EUR 127.0 million (2006: EUR 110.8 million). The assessment basis for income tax was not affected by either the valuation gain of EUR 2,851.8 million included in the extraordinary profit, or the fine of EUR 120 million imposed by the German Federal Cartel Office on SevenOne Media AG. Income tax does include the impact of the current tax audit.

2.2.2 Net assets and financial position

Acquisitions and capital expenditures:
ProSiebenSat.1 Media AG acquires SBS Broadcasting Group

On June 27, 2007, ProSiebenSat.1 Media AG signed a share purchase agreement to acquire all of the SBS Broadcasting Group. The agreement was consummated on July 3. The transaction totaled EUR 3.3 billion. The SBS Broadcasting Group represents the biggest acquisition in the Corporation's history.

Principles and objectives of financial management

The primary goals of financial management at the ProSiebenSat.1 Group are safeguarding liquidity and enhancing financial strength. The Group's broad financing leeway is ensured with a revolving syndicated line of credit for a total of EUR 600 million. Additionally, the Group's debt maturity profile includes a large proportion of long-term financing instruments. Managing financial risk is a further important goal of financial management. The tools that the ProSiebenSat.1 Group applies to limit this risk include derivative financial instruments.

Financing measures for the SBS acquisition

New syndicated credit facility agreed

The transaction for the acquisition of the SBS Broadcasting Group totaled EUR 3.3 billion, including the acquired Group's net financial liabilities. The transaction was financed entirely with a new secured syndicated credit facility. The loan funding of EUR 3.6 billion was provided by a banking syndicate and institutional investors. Along with covering purchase price and transaction costs, the loan refinanced financial liabilities of the SBS Broadcasting Group that were outstanding at the time of the acquisition, and an outstanding corporate bond of ProSiebenSat.1 Media AG. The ProSiebenSat.1 Group has hedged some 80 percent of its variable-interest financial liabilities by way of a variety of interest-rate swaps.

The loan agreement covers a number of term loans totaling EUR 1.8 billion, with a term of seven years (Term Loan B) and loans for a total of another EUR 1.8 billion with a term of eight years (Term Loan C). The agreement also includes a new revolving credit facility with a term of seven years and a total limit of EUR 600 million. It may be drawn in variable amounts. The new revolving credit facility replaces a syndicated credit line from 2006 with an amount of EUR 500 million.

EUR 150 million bond issue retired early

A EUR 150 million bond issue from ProSiebenSat.1 Media AG was retired early as of August 1, 2007. The bond, issued in 2004, had a fixed yield of 6.25 percent and was originally due for repayment in 2009. The redemption price was 101.858 percent of par.

Credit rating

ProSiebenSat.1 Media AG retired its outstanding corporate bond early, as of August 1, 2007. ProSiebenSat.1 Media AG now has no corporate bonds outstanding. Consequently, Moody's and Fitch Ratings have upgraded their ratings. Both rating agencies have regularly evaluated ProSiebenSat.1 Media AG's creditworthiness since 2001.

Liquidität und Cash-flow

The **cash flow from operating activities** was down EUR 57 million against the January through December 2006, to EUR 223 million. The decrease resulted primarily from the decrease in the net profit for fiscal 2007 after adjustments for noncash components.

The **cash flow from investing activities** increased significantly, by EUR 1,921 million, to a net outflow of EUR 1,915 million. Most of the change resulted from payments associated with the SBS acquisition.

Because so much cash was used for investing activities, free cash flow decreased from EUR 286 million to a negative EUR –1,692 million.

The **cash flow from financing activities** yielded a net inflow of EUR 1,722 million, compared to an outflow of EUR 382 million in 2006. The inflow came primarily from the new credit agreement signed in connection with financing the SBS transaction. A total of EUR 193 million was paid for dividends, compared to EUR 182 million the year before.

At the end of the period on December 31, 2007, ProSiebenSat.1 Media AG had **cash and cash equivalents o**f EUR 84 million, compared to EUR 54 million a year earlier.

Financial Position and Capital Structure

Total assets increased EUR 4,793.0 million over December 31, 2006 to EUR 6,816.1 million. This increase resulted primarily from the rise in financial assets from the acquisition of the SBS Broadcasting Group and the reorganization of the free TV activities in the German-speaking regions. Shares in the station companies were contributed to German Free TV Holding at their fair value by way of a capital increase through contributions in kind, yielding an extraordinary profit of EUR 2,851.8 million.

Overall **assets** as of December 31, 2007 grew EUR 4,762.6 million to EUR 6,068.8 million. Within the financial assets, the share in affiliates grew from EUR 1,261.3 million to EUR 6,020.1 million due primarily to the integration of the stations ProSieben, Sat.1, kabel eins and N24 into German Free TV Holding GmbH.

Current assets fell by EUR 10.7 million to EUR 705.9 million. This drop is due primarily to a decline of EUR 39.1 million in other assets to EUR 88.4 million.This reduction can be attributed to a lower level of down payments for the acquisition of program assets. These effect were countered by the rise of EUR 30.3 million in bank account balances to EUR 84.4 million.

The rise in **deferred expenses and accrued income** by EUR 41.2 million to EUR 41.3 million is comprised primarily of bank fees from the refinancing of the acquisition of SBS Broadcasting Group, which was deferred over the terms of the loans.

On the liabilities side, the 2007 annual net income increased **equity** by EUR 2,953.1 million to EUR 3,904.7 million. This yielded an equity ratio of 57.3 percent (2006: 56.5 percent).

Total **provisions** increased by EUR 16.2 million over last year to EUR 94.3 million. The largest single provision item is the provisions for taxation, which rose EUR 18.9 million to EUR 47.0 million.

Liabilities are sharply higher than last year at EUR 2,817.1 million. The increase of EUR 2,017.4 can be attributed to the financing measures related to the acquisition of SBS. The transaction was financed entirely out of a new, collateralized, syndicated line of credit totaling EUR 3.6 billion furnished by a banking syndicate and institutional investors. The rise in liabilities owed to banks to EUR 2,064.7 million (2006: EUR 0.0 million) corresponds to the availment of this loan by

ProSiebenSat.1 Media AG. The loan was used to finance the acquisition of SBS and the transaction costs and to retire the EUR 150.0 million in outstanding ProSiebenSat.1 Media AG bonds. Trade accounts payable increased EUR 20.9 million simply as a consequence of the cutoff date for reporting, to EUR 48.4 million.

2.3 Personnel

An average of 357 employees was employed at ProSiebenSat.1 Media AG in fiscal 2007 (average full-time-equivalent positions). This represents a rise of 4 employees over the figure at the end of 2006. Personnel expenses fell by EUR 15.4 million, due primarily to lower expenses from the stock option plan, totaling EUR 41.6 million in 2007.

2.4 Research and development

Because ProSiebenSat.1 Media AG, as a media corporation, does not conduct research and development activities in the strict sense, this information is not included in the Management Report.

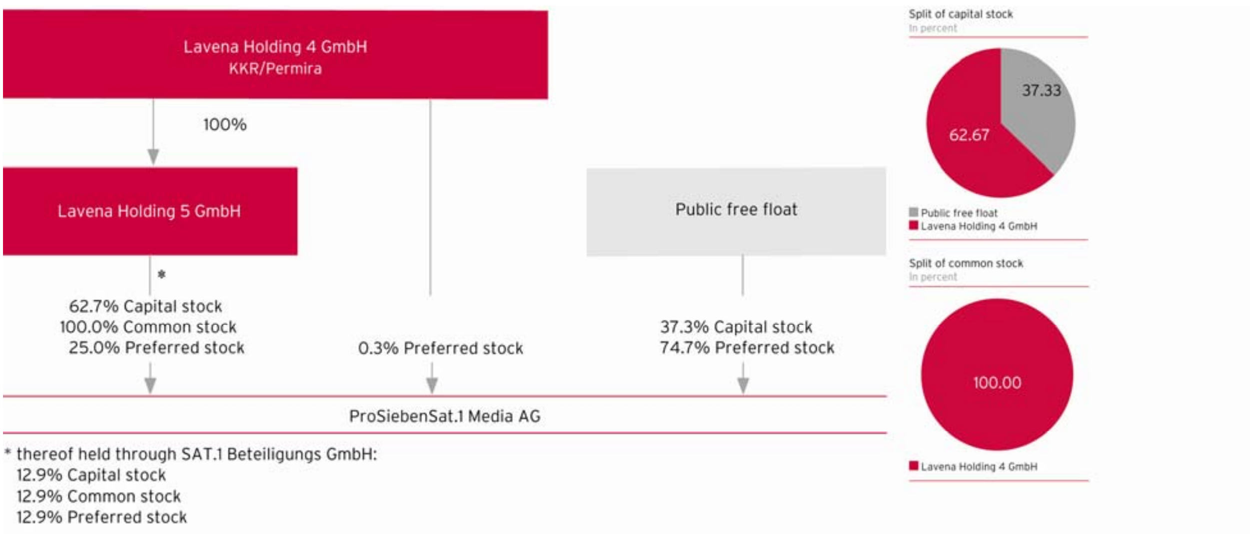
III. Subsequent Events

Changes in the Executive Board: CFO Lothar Lanz to leave ProSiebenSat.1 Group

Lothar Lanz, the Executive Board member in charge of Finances, Legal Affairs & Human Resources at ProSiebenSat.1 Media AG, will be leaving the company soon. The CFO and the appropriate committee of the Supervisory Board arrived at this arrangement by joint agreement in January 2008. Mr. Lanz will remain in office at ProSiebenSat.1 until his successor has been appointed, presumably in the summer of 2008.

New ownership structure: Lavena 5 acquires Axel Springer's holding in ProSiebenSat.1

In December 2007, Axel Springer AG announced that it would sell its stake in ProSiebenSat.1 Media AG. Following the end of the fiscal year, the purchase agreement was consummated on January 15, 2008, transferring to Lavena Holding 5 GmbH all shares of ProSiebenSat.1 previously attributable to Axel Springer AG. The holdings in question were 12.0 percent of the Company's voting common stock and 12.0 percent of the nonvoting preferred stock, both held indirectly through SAT.1 Beteiligungs GmbH. At the same time, Axel Springer AG also withdrew as a shareholder of SAT.1 Beteiligungs GmbH; its interest of some 48.2 percent of the share capital of SAT.1 Beteiligungs GmbH was also acquired. SAT.1 Beteiligungs GmbH is now wholly owned by Lavena holding 5 GmbH. The Lavena companies now hold 100 percent of the voting common stock and approximately 25.3 percent of the nonvoting preferred stock of ProSiebenSat.1, after adjustment for other interests. This is equivalent to approximately 62.7 percent of the share capital, likewise after adjustment for other interests.



In connection with the sale of Axel Springer's holding, both Dr. Matthias Döpfner, the Chairman of the Board of Management of Axel Springer AG, and Christian Nienhaus, then Managing Director of the Bild Publishing Group, resigned from their seats on the Supervisory Board of ProSiebenSat.1 Media AG. They left the Board effective January 15, 2008. New appointments, if any, to the unfilled seats on the Supervisory Board will be decided at the annual shareholders' meeting of ProSiebenSat.1 Media AG on June 10, 2008.

Other events after the end of fiscal 2007

From the end of fiscal 2007 to March 7, 2008, the date when this report was released for publication and forwarded to the Supervisory Board, no other events occurred that are of particular significance for the assets, liabilities, financial position and profit or loss of ProSiebenSat.1 Media AG.

IV. Risk Report

ProSiebenSat.1 Media AG, as the parent company of the ProSiebenSat.1 Group, receives profit transfers from its subsidiaries. This means that the risks and opportunities of the affiliates apply to ProSiebenSat.1 Media AG as well.

Overall risk remains manageable

The ProSiebenSat.1 Group is exposed to material risks from the effects of the economy on its markets. To compensate for these risks, the ProSiebenSat.1 Group pursues a systematic strategy of diversification. The restructuring of the Group's portfolio has also significantly changed the Group's risk structure. The borrowings to finance the SBS acquisition have increased financial risk. But a holistic assessment of risk items shows that the Group's risk position remains within bounds. Additionally, the SBS acquisition actually optimized the Group's overall risk/opportunity profile. Thanks to its highly diversified media portfolio, the new Group is now set up on a significantly broader base, and is less dependent on cyclic fluctuations in single markets.

In regard to the risk developments discussed below, Group management sees no basis for risks that individually or in combination might have jeopardized the survival of the Company during the period. In fact, the Executive Board assumes that with its current portfolio and the products and programming now under development, the Group is well positioned for the future. No events or identifiable risks arose after the reporting period that might materially change this overall risk assessment, whether individually or in combination.

Principles and processes for managing strategic and operating risk

As a pan-European media corporation, the ProSiebenSat.1 Group will continue to take every opportunity to expand its strong market position. But opportunities are linked to risks. Effective risk management is important to secure the competitive position over the long term and achieve sustainable growth of the company's value. Our risk management system allows us to identify, analyze and assess existing and future potential risks early on and support efficient controls. The ProSiebenSat.1 Group also conducts extensive market research in every area in which it does business or in which it sees potential risks or opportunities.

Clear organizational structures and an unambiguous allocation of duties and responsibilities are fundamental to managing risk properly, and to identifying and making the most of opportunities. Uniform guidelines ensure a methodical approach, and are indispensable for Group-wide process control. The risk management system is tailored to the special circumstances of the ProSiebenSat.1 Group, and is based on the principle of including every segment and every subsidiary in the process.

The ProSiebenSat.1 Group's risk management process follows the steps outlined below:

- **Risk identification:** Because conditions and requirements change constantly, identifying risk is a standing assignment, and an integral part of our day-to-day work. Here the risk management system functions as an early warning system, helping take the right steps in time to avert possible damage. Early warning indicators have been defined for all measurable and material areas of risk. These early warning indicators primarily cover the ProSiebenSat.1 Group's performance in terms of audience share and advertising market share, the profitability and appeal of the program inventory, the evolution of available lines of credit, and human resources development. As soon as an indicator reaches a certain tolerance limit, steps are taken to avert trouble. This approach means that the Group's overall risk position is always kept within tolerable bounds, and the opportunity-to-risk ratio is optimized overall.

- **Risk assessment:** Not all risks are of equal importance. For effective risk management, major risks must be assessed systematically: their causes must be analyzed, their probability must be estimated, and their potential effects and interactions with opportunities must be taken into account. Recognized risks are identified and categorized on the basis of specific checklists, as well as planning and controlling data. Qualitative methods of appraisal are also applied for risk assessment, along with quantitative methods and early warning indicators.
- **Risk monitoring and reporting:** Decentralized risk managers at the various corporate units are responsible for detecting and reporting risks. These risk managers are supported by the Corporate Controlling and Planning department. Controlling is also responsible for reporting to the Executive Board each month. When new opportunities or risks arise, or individual indicators change significantly, the Executive Board and Supervisory Board are notified at once, irrespective of the regular reporting intervals. This enables management to recognize adverse developments early, before they can cause harm, and to take appropriate measures to mitigate them. Internal Auditing reviews the efficacy of these processes, on the basis of a risk management manual that summarizes the legal context and basic principles of risk management.

Risk management system established for pan-European Group

As part of the integration of the SBS Broadcasting Group, the Group-wide risk management system was revised to address the specific conditions in which the new subsidiaries operate. Risk categories were expanded, and a reporting system was introduced with six categories: External Risks, Content, Technology Risks, Sales, Organizational and Financial Risks, and Compliance. These are not necessarily the only risks to which the Group is exposed. Risks that are currently unknown, or risks that appear minor at present, might still have adverse effects on business activities. For that reason, keeping a close watch on current developments will remain a top priority at the ProSiebenSat.1 Group.

Evolution of risk groups

The following risk groups describe major factors that might have adversely affected or had an impact on the Group's assets and liabilities, financial position, and profit or loss in fiscal 2007.

1. External Risk

Economic conditions and the advertising market

The ProSiebenSat.1 Group's business operations depend to a large degree on overall economic conditions and developments in the markets where our advertising clients operate. A general weakening of the economy, especially in the core market in Germany, could have a material effect on the ProSiebenSat.1 Group's business performance. Despite the recent turbulence in the financial market, the situation of the German economy has proved to be essentially stable. The first preliminary calculations indicate that Germany closed out 2007 with robust economic growth of 2.5 percent. Corporate capital spending was especially positive, while consumer spending once again contributed less to growth than had been expected. The general consensus is that the economy will slow down somewhat in 2008. Worldwide economic risks will rise appreciably during the year.

Developments in the United States are a particular source of increasing concern. There is considerable worry that the crisis in mortgages and the financial market may push the American economy into recession, with consequent adverse effects on the entire global economy. The ongoing increase in the cost of raw materials and the strong euro likewise offer significant obstacles to growth for Germany's export-oriented economy.

However, the advertising market is driven primarily by domestic demand. Here the experts and the economic research institutes agree that consumer spending will pick up significantly in 2008, becoming one of the pillars for growth in Germany. In particular, the continuing improvement in the job market and rising consumer buying power argue that domestic demand will revive vigorously.

But the economic institutes' expert reports always point out that a substantial portion of their projections is always subject to the risk of misjudgment. For that reason, reviewing and assessing orders on hand will remain an important component of risk management. Total orders are analyzed continuously by extensive methods that extrapolate advertising revenues for the year from the level of advertising bookings. Monthly reports submitted to the Executive Board list actual and projected values, as well as the previous year's advertising revenues, and provide a detailed picture of revenue developments. The Company's analyses also include the position of competitors and developments within the economy and the advertising industry.

2. Content Risk

Own and commissioned productions

Licensed programming is complemented by in-house productions and commissioned productions. For a number of years now, the schedules of the ProSiebenSat.1 Group's TV stations have included a constant percentage of such productions. In fiscal 2007, 59 percent of the German stations' total programming was in-house or commissioned productions (2006: 58 percent; 2005: 59 percent). A well-balanced production profile safeguards schedule variety and reduces the Group's dependence on price uncertainties in the licensing business.

The Group has its own internal approval procedure, with database support, for all TV productions it commissions for its German-language stations. Such productions are conducted in manageable quantities, or as single projects with limited terms. Any commissioning of planned programming is reviewed at an early stage. Major control variables in this context are cost-effectiveness (volume, cost, revenues, potential residual carrying value), anticipated success with audiences, marketing value and value to the Group's image.

The approval procedure for all commissioned TV programming in the former SBS countries is managed and carried out in those countries. The Group is currently reviewing the possibility of a centralized approval procedure for all SBS stations.

License acquisitions

The ProSiebenSat.1 Group acquires many of its feature films, TV films and series as licensed programming from third parties. Although the programming market has stabilized over the past few years, some increase in prices must be expected for the future as well. For U.S. series in particular, these programs may continue to entail higher costs in some cases because of their present success.

Nevertheless, the ProSiebenSat.1 Group can generally keep price risks relatively low because of its strong position as a licensee. The Group is one of the largest, most important licensees in the European market, and has long-standing, close business relationships with every major U.S. studio, and the main independents as well. At the national level too, the Group has long-standing business relationships and contracts in its various territories, both for the former SBS channels and their acquisitions departments, and for the Group's German stations. Apart from stable business relationships, the Group's large purchasing volume also strengthens its negotiating position with the studios. The centralized organization of license purchasing, along with the complementary positioning of its full-service stations, also gives the ProSiebenSat.1 Group synergies in programming use, on top of its advantages in program purchasing.

The ProSiebenSat.1 Group's programming supply was at no time affected by the three-month strike of Hollywood writers. Due to the ProSiebenSat.1 Group purchase of several additional series in the run-up to the strike and new formats and re-runs of successful series, viewers and advertising clients hardly felt an impact.

Programming inventory

The success of a programming policy depends on the programming content's appeal and profitability. To ensure that the ProSiebenSat.1 Group has the largest possible number of attractive, successful films, the number of highlight films acquired by the Group is set in relation to the total number of theatrical film highlights for the same year. The resulting percentage offers an early warning indicator for risk reporting. A further early warning indicator is the total return on programming inventory. As a rule, programming contracts are signed several years ahead of the broadcast date. Programming rights are capitalized in the amount of their contracted purchase price. To reduce inventory risk, the revenue potential of broadcasting rights under contract undergoes regular review. Maintaining an optimized number of suppliers also reduces inventory risks. A broad supplier base ensures independence. But at the same time, maintaining the lowest possible number of core suppliers makes the procurement process less complex. The German stations' programming supplier list for fiscal 2007 included nearly 230 vendors. The value of the SBS stations' broadcasting rights under licenses is tested for impairment in the course of the preparation of the individual companies' annual financial statements. The process of harmonizing approaches continues.

3. Technology Risk

Broadcasting equipment and studio operations

The broadcasting process, computer centers, and all material components of studio equipment at the ProSiebenSat.1 Group's production facilities at its Berlin and Munich sites are protected with backup systems. In IT operations, the Company has several computer centers maintained at separate locations. If a server fails at one center, another takes over automatically, with no loss of either time or data. A certified emergency program, updated constantly, furthermore ensures that the Group's entire IT infrastructure is armored against software attack by outsiders.

4. Sales Risk

Rating

In 2008, the Group's audience share targets will be exposed to particular risks because of the intense competition surrounding the year's upcoming major sports events (the European Soccer Championship and the Olympics).

Sales

Immediately following the conclusion of the investigation by the German Federal Cartel Office, the Group's advertising marketing company, SevenOne Media, presented a new discount and fee model. ProSiebenSat.1 Media AG assumes that this new model will still enable it to achieve its corporate objectives. The new model complies with the antitrust requirements for discounting systems. For example, it will offer "incremental" volume discounts. These will apply only to the volume spent above each discount threshold, and will not be granted for the total volume as before. Thus the discounts formerly accorded under "share of advertising" agreements will also be eliminated. Otherwise, discounts will be limited to "functional" discounts, allowed only where ProSiebenSat.1 Media AG reaps clearly defined cost advantages and efficiencies. Another important criterion that SevenOne Media has built into its new discount model is the principle of equal treatment. This calls for all companies with the same spending practices to get the same discount. By complying with these criteria and more, the SevenOne model also satisfies the transparency and neutrality requirements of the Code of Conduct promulgated by the OWM, a major German advertisers' organization.

5. Organization and Finance Risk

Strategic and organizational risks posed by the integration process

Acquiring new companies and integrating them into a corporation are always associated with risks. Because of the acquired entity's magnitude, integrating the former SBS Broadcasting Group and its subsidiaries represents a major challenge for the ProSiebenSat.1 Group. The ProSiebenSat.1 Group takes account of these risks with extensive steps to support the integration process. It has set up inter-company project teams whose task is to establish structures that will result in a rapid coalescence of the two corporate groups, laying down a basis for organizational coordination in corporate operations like content, sales and marketing, and administration. The performance of the acquired companies to date, and the progress of their integration, show that the ProSiebenSat.1 Group is on the right track toward achieving the operating and strategic goals it has set itself. Successfully integrating the SBS Broadcast Group, and achieving operating and strategic goals, are both essential if the ProSiebenSat.1 Group is to achieve its projected earnings from its capital investments, and concomitantly ensure that its programming assets and its interests in associated companies maintain their value.

Financial risks

The ProSiebenSat.1 Group's operations and its financing needs expose it to various financial risks. Fluctuating interest rates and foreign exchange rates may affect the Group's assets and liabilities, financial position, and profit or loss. The acquisition of the SBS Group has significantly altered the Corporation's risk structure. Interest rate risks in particular have risen. Financial risks are managed and monitored centrally as a part of financial risk management. For the Group's German-speaking regions, the principles, duties and responsibilities of financial risk management are governed by the Group's internal corporate financial guidelines. One of the primary tasks for fiscal 2008 is to fully integrate the SBS Broadcasting Group into the ProSiebenSat.1 Group's financial risk management system, and to incorporate it into Group-wide regulations. The objective of financial risk management is to cushion the adverse effects that fluctuations in financial risk factors may have on the Group's assets and liabilities, financial position and profit or loss. The derivative financial instruments employed for this purpose serve solely to hedge existing risk positions, not for speculation. Risk positions are assessed regularly, and existing risks are quantified using sensitivity analyses. Currency risks are based on an assumed appreciation of 10 percent in the value of the U.S. dollar. The ProSiebenSat.1 Group's interest rate risk is calculated by increasing the relevant interest rates by one percentage point.

Currency risks

ProSiebenSat.1 Media AG signs a substantial number of its license agreements with production studios in the United States. As a rule, the ProSiebenSat.1 Group meets its financial obligations deriving from programming rights purchases in U.S. dollars. Consequently fluctuations in the exchange rate between the euro and the dollar may adversely affect ProSiebenSat.1 Media AG's financial position and results of operations. Additionally, the Company also has dollar-denominated financial liabilities that result from the acquisition of sports rights.

Most future license payments on a hedged dollar-denominated license agreement, together with the associated hedging instruments, are gathered and managed in hedge books if the hedging relationship qualifies as a hedge and hedge accounting can be applied. The hedge books are constantly monitored under a system of limits, and any applicable open items are closed to stop potential losses or take advantage of favorable changes in exchange rates. As of December 31, 2007, there were 14 hedge books covering a total of USD 973 million in pending license payments. These obligations extend into the year 2019. The prior year's obligations came to USD 997 million. Of this figure, USD 698 million is hedged with currency forwards and currency options.

To hedge against fluctuations in exchange rates, ProSiebenSat.1 Media AG enters into forward exchange contracts ("forwards") and currency options. The average hedge ratio at December 31, 2007, allowing for internal limit systems, was 70 percent. A detailed description of hedging instruments, measurements and sensitivity analyses is provided in the Notes to the Financial Statements.

Since its acquisition of SBS, the ProSiebenSat.1 Group now owns some companies located outside the zone where the euro is the currency. Since the Group's functional currency is the euro, the financial statements of these companies are converted to euros for purposes of the consolidated financial statements. ProSiebenSat.1 Media AG fundamentally views its holdings in these companies as a long-term investment, and therefore does not hedge the associated foreign currency translation risk.

Interest rate risks

Through its financial obligations, the ProSiebenSat.1 Group is exposed to an interest rate risk. The acquisition of the SBS Broadcasting Group was financed entirely through a new loan agreement. The loan agreement covers a number of term loans totaling EUR 1.8 billion, with a term of seven years (Term Loan B) and loans for a total of another EUR 1.8 billion with a term of eight years (Term Loan C). Through these variable-interest financial obligations, the ProSiebenSat.1 Group is exposed to an increased interest rate risk. For that reason, the ProSiebenSat.1 Group has hedged more than 80 percent of this liability with interest-rate swaps. These interest rate hedges are used to compensate for uncertain, variable-rate interest rate payments on borrowings by replacing those payments with fixed-rate interest rate payments. The interest rate swaps and the underlying financial liabilities constitute a hedge relationship.

The remaining variable interest rate risk results not only from the unhedged portion of the term loan, but also from any draws the Group may take on its revolving credit facility. As of December 31, 2007, no use had been made of this syndicated credit facility. An interest rate risk in the sense of a change in market value is of no relevance here, since ProSiebenSat.1 Media AG's financial liabilities are reported at cost, and thus any change in market value will have no effect on the balance sheet.

Liquidity risks

As part of its liquidity management, ProSiebenSat.1 Media AG ensures that adequate cash and cash equivalents are available at all times, in spite of the industry's sharp seasonal fluctuations in revenues. Another integral part of the loan agreement to finance the SBS acquisition was a revolving credit facility with a term of seven years and a total credit line of EUR 600 million. As of December 31, 2007, no use had been made of this syndicated credit facility. A portion of EUR 44.2 million of the revolving credit line was used for bank guarantees.

Compliance Risks

General compliance

Corporate governance risks arise from violations of statutory reporting obligations and from insufficient transparency in corporate management and corporate communications. The Corporation limits these risks with a Group-wide compliance structure. The program includes training employees in antitrust matters, as well as internal oversight and sanctioning mechanisms to prevent any violations of the antitrust laws from the outset.

Anti trust laws

Proceedings by the German Federal Cartel Office ("share of advertising" discounts)

Germany's Federal Cartel Office has concluded its proceedings against the ProSiebenSat.1 Group's German advertising marketer, SevenOne Media, in return for payment of a fine. The proceedings were part of an industry-wide investigation against marketers of advertising time and media agencies in Germany. In essence, the Cartel Office regards agreements on the "share of advertising" discounts customary in the industry as a vertical restraint of competition. In setting the amount of the fine, for the first time the Federal Cartel Office applied the new provisions of the seventh amended version of the antitrust laws in conjunction with the Office's own guidelines on fines. The new provisions have significantly increased fines compared to such cases under the old laws. To avert a wearisome court battle and adverse effects on its business activities, the ProSiebenSat.1 Group accepted the fine of EUR 120.0 million. The first of two installments was paid early in 2008. There can be no assurance that third parties will not attempt to bring action against SevenOne Media in the aftermath of these proceedings. However, no such actions have been brought at present.

Market investigation in Hungary

The Hungarian government agency that oversees competition is currently conducting a general investigation of the media market, concentrating on three aspects: television advertising, the sale of television programming, and purchases of film and sports rights. This investigation is not directed against subsidiaries of ProSiebenSat.1 AG. However, the Hungarian government might take the investigation as an occasion for further proceedings that might affect the business of the Group's free TV station TV2.

Media law/Broadcasting Licences

Audiovisual Media Services Directive

After an extensive legislative process in which ProSiebenSat.1 Media AG played an active role, the European Audiovisual Media Services Directive was adopted in December 2007. It will replace the former EU television directive. The new directive, which includes provisions on advertising and on protecting children in both linear and nonlinear services, codifies the European Court of Justice's case law to date on exceptions from the "country of origin" principle. Under the country of origin principle, audiovisual services that extend across borders are always subject only to the laws of the country of origin, and are not required to comply with the laws of the country of reception. The new legal situation increases the risk that proceedings might be initiated by Member States that receive Group programming from another Member State.

The new rules first of all provide for a consultation procedure between the country of reception and the country of origin. Here difficulties with different legal frameworks may be resolved by amicable agreement. In these proceedings, the provider cannot be subject to the rules of the country of reception. The ProSiebenSat.1 Group is in continuous close contact with the licensing agencies, and will support them in the consultation proceedings.

Only in cases of genuine breaches, where a service provider has settled in a Member State other than the country of reception in order to avoid stricter laws in the country of reception, can a country of reception take action against a broadcaster whose services violate the laws of the country of reception. However, the country of reception must first appeal to the EU Commission, which in turn will review whether the prerequisites for such proceedings have indeed be met, thus forestalling any action from being taken on purely protectionist grounds.

There is a risk that countries of reception may attempt on this basis to restrict programming that does not fall under their own legislation. However, there are high barriers against restraints of the basic freedoms of service and location on which the country of origin principle is founded. In this connection, the EU Commission has already announced that it will work to counteract unreasonable restraints of basic freedoms. Additionally, since in essence the new rules simply codify the existing case law, there is no reason to assume that they will hinder the Group's activities. The ProSiebenSat.1 Group is also in constant contact with the Commission, to make sure that the Group's interests will be adequately taken into account even in the event of such proceedings.

Regional windows

With the adoption of the Eighth Amended Interstate Treaty on Broadcasting, the governors of Germany's states tightened the requirements for "windows" of regionally oriented programming. The new treaty requires regional windows to obtain their own licenses. These are to be issued only to companies that are independent from established broadcasters. The North German regional programming windows in Sat.1's schedule are produced by a wholly-owned subsidiary, Sat.1 Norddeutschland GmbH. Applications were filed at the end of 2006 and the beginning of 2007, with a term until mid-2008. In all cases, the Commission on Concentration in Broadcasting has held consultations and advocated granting the license. Accordingly the licenses were then granted by the state media agencies in charge, in Bremen, Hamburg, Lower Saxony and Schleswig-Holstein. ProSiebenSat.1 Media AG and Sat.1 Norddeutschland GmbH have applied for extensions, so as to exclude a reduction of the ownership requirement to less than 25% for 2008 as well. In the draft of the Tenth Amended Interstate Treaty on Broadcasting, Section 53 b permits an extension to at least December 31, 2009. At the end of January 2008, the state media agency for Hamburg and Schleswig-Holstein responded to the application by further extending the permit and channel allotment until 2015.

Section 47 (3) of the Saarland Media Act, as last amended on March 31, 2004, requires that so far as is technically possible, state-wide programming windows must be incorporated at least into the two private nationwide television channels with the greatest technical reach, irrespective of the method by which they are broadcast, and these windows must be financed by the broadcasters of the nationwide channels. ProSiebenSat.1 Media AG and Sat.1 have taken legal action to contest the obligation to provide Saarland window programming. At the end of 2006 they filed suit for a declaratory judgment on the permissibility of the applicable provisions of the interstate broadcasting treaty and state law, and of the associated Ordinance, as well as the administrative action issued on that basis. Given the proceedings still pending before the Saarland Administrative Court, ProSiebenSat.1 Media AG is taking an active, broad-based role in this social, media-policy and legal controversy, to combat these new restrictions. The financing to be provided by Sat.1 or ProSiebenSat.1 Media AG for a new regional window is estimated at roughly EUR 5 million per year.

There is a further risk that in German states that hitherto have had no requirements for programming windows, demands for similar arrangements may also arise, first in debates on media policy and then, potentially, in new legislation. In these discussions as well, the Company is taking an active part to counteract an expansion of further regional TV requirements.

Distribution

For the Company's stations, lasting success in the advertising market depends most significantly on high audience reaches. Apart from programming appeal, this reach depends especially on the technical distribution of the TV stations over as many distribution channels as possible. The Group's stations have high technical reaches. The German market can serve as an example here. The German stations' broad reach was safeguarded further with long-term distribution and cooperation agreements signed in 2006 and 2007 with T-Systems, SES Astra, the "big" broadband operators Kabel Deutschland, Unity Media and Kabel Baden-Württemberg, Primacom, and additional broadband operators from network levels 3 and 4. There are also distribution agreements with Deutsche Telekom AG's T-Online unit, Hansenet, Arcor, and other providers, to carry programming signals over telephone cables. At the end of 2007, ProSiebenSat.1 Media AG also signed a contract for terrestrial distribution of its channels ProSieben, Sat.1 and N24 on mobile terminal devices, such as cell phones, in the territory of Germany, via DVB-H-Plattform Mobile 3.0 GmbH, which is expected to go into operation in mid-2008. In this way, ProSiebenSat.1 Media AG has laid the cornerstone for the distribution of its free TV programming on mobile terminal devices, and also safeguarded reception of its content via this path.

The non-German stations of ProSiebenSat.1 Media AG generally achieve similarly high reaches via various paths – satellite, cable and terrestrial. The reaches in their various countries depend on the distribution model chosen there, such as the "transport" model or "platform" model in which the platform operator generally sends free TV programming into homes in encrypted form, for an equipment fee, and passes on a fee to the programming providers, such as ProSiebenSat.1 Media AG, for the use of their brands or for other reasons.

The changeover from analog to digital broadcasting will again vastly amplify the capacity available for carrying the Company's television programming and other services. It opens up business prospects for all channels and other services provided by the ProSiebenSat.1 Group, especially in new content. Digitization has produced a significant increase in the total number of channels available. Signing long-term distribution agreements has ensured that the reach of the Group's stations in Germany will still be assured as the transition from the analog to the digital age advances. Similar agreements have been signed or are being negotiated for the Group's stations outside Germany.

Irrespective of the distribution agreements it signed in 2007, the ProSiebenSat.1 Group is confident that its stations' appeal, high audience acceptance and contribution to variety will ensure that they will remain available area-wide via analog and digital distribution channels. Even as the television market becomes more and more heavily fragmented, the stations of the ProSiebenSat.1 Group will still be able to maintain their competitive positions in the free TV sector. Quite aside from the high barriers against any new provider's entry into the market, the Group's standing will be particularly ensured by the widespread recognition of its station brands in their various countries, its long-term contracts for broadcasting rights, and its stations' strong position with audiences and in the advertising market.

Other legal risks

Preliminary ruling from the European Court of Justice

The Austrian Federal Communications Board had sought a preliminary ruling from the European Court of Justice (ECJ) on whether call TV services are not in fact broadcasting, but rather teleshopping or possibly advertising. In its decision of October 18, 2007, the ECJ furnished no final criteria on how call TV programs should be categorized under broadcast law, but said the critical circumstances should be evaluated on a case by case basis. To that extent, the ECJ remanded the proceedings to the Austrian Federal Communications Board, which must now make its own decision, taking the criteria defined by the ECJ into account. Therefore the decision will have no direct impact for the moment on the programming produced by 9Live in Germany.

Call TV prohibited in the Netherlands

Invoking the Dutch laws on lotteries and gambling and the code of conduct applicable in the country under those laws, in September 2007 the Netherlands Ministry of Justice prohibited private TV broadcasters from showing conventional call TV programming. The ban also affected Group stations SBS 6 and Net 5, which took their call TV shows off the air on November 30, 2007. Since the court cases on the matter are still pending, and the date of a final decision cannot be foreseen, it is currently unclear whether conventional call TV programming will be able to return to the air in the Netherlands sometime in the future. Furthermore, there can be no guarantee against the possibility that a fine may be imposed in this connection.

Victory in declaratory judgment proceedings

In May 2007, the Munich Higher Regional Court upheld the September 2006 decision of Munich Regional Court I favoring ProSiebenSat.1 Media AG. The lower court's decision had been appealed by several of the petitioners on the losing side. The May 14 decision of the Munich Higher Regional Court cannot be appealed. The proceedings, which dragged on for years, have thus come to an end. The litigation arose out of the merger of ProSieben Media AG and SAT.1 Holding GmbH to form ProSiebenSat.1 Media AG. After the 2000 merger, several former preferred shareholders of ProSieben Media AG applied to the court for a review of the exchange ratio, and to set a figure for an additional cash payment.

V. Outlook Report

5.1 Whole statement for the future development Group and the ProSiebenSat.1 Media AG

ProSiebenSat.1 management believes that the Group will be able to show a positive overall outcome of business operations for the 2008 and 2009 projection period. Revenue growth combined with ongoing rigorous cost management will be the principal driver for rising profits. Apart from careful cost controls, the increasing networking of our activities, in tandem with knowledge transfers within the Group, will generate synergies and further improve the Group's earnings. The Group's earnings growth targets will also yield further growth in operating results at ProSiebenSat.1 Media AG.

5.2 Opportunity Report

To identify business opportunities and make the most of them, the ProSiebenSat.1 Group conducts market research in every relevant field, and constantly monitors new technical developments. Efficient risk management serves as an early warning system for all units. Recognizing risks and opportunities is an integral part of all planning and decision-making processes. The following outlines the major opportunities for the ProSiebenSat.1 Group, which are also of fundamental importance for the future performance of ProSiebenSat.1 Media AG as the parent company.

Future environment and market opportunities

Economic developments in Europe

The economy of the Euro Zone and the European Community will presumably grow somewhat more slowly in 2008 than in 2007. The ongoing turbulence in the financial market, higher prices for oil and energy, and the rising euro will have an impact on economic development in the first quarters of 2008. Consumer spending, the most important engine driving the advertising markets, will profit from the improvement in the job market.

The growth momentum of the past two years will taper off somewhat in Germany as well. Currently the ifo-institute project real growth of 1.6 percent in gross domestic product. High expectations here are tied to the growth of consumer spending. The improvement in the job market and income gains from agreements setting high wages should strengthen buying power. In our most important international markets – the Netherlands, Sweden and Hungary – the respective estimated GDP growth rates for 2008 are 2.6 percent, 3.1 percent and 2.6 percent.

Development of the advertising market in ProSiebenSat.1's main markets

The media industry is especially sensitive to cyclic fluctuations in the economy. Accordingly, the projected growth of gross domestic product and consumer spending is generally reflected in the expected growth of the associated advertising markets. For countries with strong economic growth, like Romania and Bulgaria, advertising spends are therefore expected to be well above average. In Germany, ZenithOptimedia expects the TV business to grow 1.1 percent in 2008. The World Advertising Research Center (WARC) projects that the German television advertising market will grow 1.0 percent in 2008. Projections indicate that all other markets where the ProSiebenSat.1 Group operates will grow faster than Germany.

Strategic opportunities and future strategy of the ProSiebenSat.1 Group

Digital developments pose new challenges for a content provider like the ProSiebenSat.1 Group. At the same time, they offer substantial opportunities for growth. With its attractive content and its strong TV brands, the ProSiebenSat.1 Group has many opportunities to provide innovative services that will support new usage habits, attract new audience groups, and develop new concepts for the advertising industry. The acquisition of the SBS Broadcasting Group has opened up additional opportunities for the ProSiebenSat.1 Group to grow further in Europe. SBS and ProSiebenSat.1 complement one another in terms of geography, content and strategy, to form a leading pan-European media corporation. Both parts of the Group are primarily providers of free TV, while at the same time counting on diversification. As a pan-European television group, ProSiebenSat.1 stands on a broader base, and is better protected against crises than before. The integrated Group has an optimized risk-opportunity profile. It operates in 13 countries of Northern, Central and Eastern Europe. Formerly the Company generated 100 percent of its revenues in Germany, Austria and Switzerland. The merged Group generates some 80 percent of its revenues from its core business in free TV (pro forma combined 2007). In addition to an internally complementary corporate profile, the Group's specific organizational structure also gives it a lead over its competitors, since most of its subsidiaries are wholly owned. A fully integrated Group will be able to make the most of any potential for synergy. At the same time, innovations can be developed faster, and decisions can be put into action more efficiently.

We will continue vigorously pursuing our strategic objectives. A clear focus on programming will strengthen the ProSiebenSat.1 Group's core business in free TV, and at the same time lay the cornerstone for further growth in the Diversification unit.

5.3 Outlook Report

Anticipated assets, liabilities, financial position and profit or loss

The purchase of the SBS Broadcasting Group was the largest acquisition in the history of ProSiebenSat.1 Media AG. The acquisition was financed entirely through borrowings. The higher debt level still leaves enough financial leeway for the Group's further strategic and operational expansion. Our spending will focus mainly on expanding and updating our programming. We will invest some EUR 10 million between 2008 to 2009 in new technology to build N24 into Europe's most up-to-date news station. We will also review our opportunities to expand our business operations through acquisitions. The Group especially sees potential for expansion in the growing Eastern European market, and on the Internet. The ProSiebenSat.1 Group has sufficient financing capabilities for this purpose. However, there are no plans for major corporate acquisitions that would result in an additional need for capital. All possible investment plans pursue the objective of sustainably strengthening the Group's market position as a pan-European media corporation, through a forward-looking programming and marketing strategy. The ProSiebenSat.1 Group aims to reduce its debt level through further growth in profits and reductions in debt.

For financial year 2008, the ProSiebenSat.1 Group continues to expect revenues and profits to grow, especially thanks to the first full-year consolidation of SBS. As in previous years, recurring EBITDA is expected to rise faster than revenues again this year. Revenue growth combined with rigorous cost management will be the principal driver for rising profits. The core business in advertising-financed television will remain the major revenue driver for the future. The dynamism of the international market, and especially the vigorous growth of the European markets of the former SBS Broadcasting Group, will drive the Group's business growth in free TV operations. The

Group's diversified media portfolio will also contribute to grow. In addition to organic growth, strategic acquisitions will further strengthen the Diversification unit.

An increase in Group revenues and EBITDA remains the target for 2009. Efficiency enhancements and synergies associated with integrating SBS's business will make a crucial contribution here. We have set ourselves the ambitious goal of achieving synergies of EUR 80 to 90 million a year through a number of specific initiatives. Two-thirds of these synergies will be in costs, and one-third will be founded on additional revenue potential. Economies of scale in programming production and the multiple reuse of content will offer opportunities to save on costs. The licensing business and programming purchases will also enjoy economies of scale. Group-wide cooperation and a centralization of the process of procuring licensed programming will increase our purchasing volume, and thus strengthen our negotiating position with suppliers. We have also particularly identified potential savings in marketing and sales, administration and IT. One example is to reduce operative costs by utilizing shared administrative services and avoiding redundant corporate functions. We particularly expect to reap revenue synergies in programming production. Setting up joint production sites and networking our market expertise should gain us additional revenues. There are also numerous opportunities for revenue synergy in the Diversification unit. To take advantage of them, we will coordinate our brands more closely, and make the most of opportunities for expansion with cross-media and geographic links. The entire integration process of SBS and ProSiebenSat.1 is running according to plan. We are well on the way toward achieving our target synergy of EUR 80 to 90 million per year by 2010. We expect to achieve synergies of about EUR 40 million as early as 2008.

Against the backdrop of a continued improvement in corporate performance, ProSiebenSat.1 Media AG will also increase its net results. We also expect to continue earning a net profit in future years that will allow our shareholders to enjoy their due share of the Company's success.

Future ownership structure

As a consequence of the 2007 takeover of SBS Broadcasting Group by ProSiebenSat.1 Media AG, in mid-2008 the Company may gain a new strategic shareholder. Telegraaf Media Groep N.B., which formerly held 20 percent of SBS Broadcasting Group, has informed in 2007 the Company that it has an option to acquire 12 percent of the voting common stock of ProSiebenSat.1 Media AG from Lavena holding 5 GmbH. If it exercises that option – which becomes possible in June 2008, according to Telegraaf Media Groep – Telegraaf Media Groep would hold 6 percent of the ProSiebenSat.1 Group's capital stock. If TMG does not exercise its call option, Lavena can exercise a contrary put option by August 15.

ProSiebenSat.1 Media AG
The Executive Board
Unterföhring, March 7, 2008

Financial Statements of ProSiebenSat.1 Media AG

ProSiebenSat.1 Media Aktiengesellschaft, Unterföhring

Income statement for the period from January 1 to December 31, 2007

	2007		2006	
	EUR	EUR	EUR	EUR
1. Revenues		5,858,149.92		8,058,239.28
2. Other operating income		94,346,169.18		73,361,937.48
3. Programming expenses				
a) Cost of licenses, transmission fees and materials	25,067,185.54		21,507,897.80	
b) Cost of purchased services	601,145.31	25,668,330.85	2,751,663.61	24,259,561.41
4. Personnel expenses				
a) Wages and salaries	37,305,352.17		52,554,371.79	
b) Social security contributions and expenses for pensions and other employee benefits	4,269,889.51	41,575,241.68	4,421,700.72	56,976,072.51
--of which of respect of old-age pensions EUR 729.567,04 (prior year EUR 792.264,99)--				
5. Amortization and depreciation of intangible assets and property, plant and equipment		4,110,231.71		3,903,013.14
6. Other operating expenses		88,104,729.26		82,748,805.61
7. Income from profit transfer agreements		487,098,230.45		461,947,552.56
8. Income from loans of financial assets		55,549.43		25,177.65
9. Other interest and similar income		11,908,839.89		6,060,770.66
--of which from subsidiaries EUR 5.866.670,87 (prior year EUR 4.033.958,24)--				
10. Expenses from loss absorption		105,913,969.99		16,559,375.42
11. Interest and similar expenses		102,783,103.35		47,972,400.66
--of which to subsidiaries EUR 17.671.240,70 (prior year EUR 11.110.843,54)--				
12. Income from ordinary business activities		231,111,332.03		317,034,448.88
13. Extraordinary income		2,851,761,044.68		0.00
14. Extraordinary expenses		2,786,938.24		13,266,413.66
15. Extraordinary result		2,848,974,106.44		-13,266,413.66
16. Income taxes		126,965,034.33		110,839,616.85
17. Other taxes		25,934.12		0.00
18. Profit for the year		2,953,094,470.02		192,928,418.37
19. Profit brought forward from the prior year		152,648,330.29		152,261,447.92
20. Retained earnings		3,105,742,800.31		345,189,866.29

Liabilities and shareholders' equity

	12/31/2007	12/31/2006
	EUR	EUR
A. Shareholders' equity		
I. Subscribed capital	218,797,200.00	218,797,200.00
II. Capital reserves	580,187,621.96	580,187,621.96
III. Retained earnings	3,105,742,800.31	345,189,866.29
	3,904,727,622.27	1,144,174,688.25
B. Provisions		
1. Pension provisions and similar obligations	5,194,000.00	3,150,000.00
2. Tax provisions	47,026,166.18	28,079,657.43
3. Other provisions	42,067,800.00	46,836,800.00
	94,287,966.18	78,066,457.43
C. Liabilities		
1. Bonds	0.00	150,000,000.00
2. Liabilities to banks	2,064,717,661.22	0.00
3. Deposits received	236897.96	352,517.55
4. Trade accounts payable	48,354,130.25	27,498,017.50
5. Liabilities to group companies	644,111,833.10	583,736,614.99
6. Other liabilities --thereof for taxes EUR 43.909.475,59 (prior year EUR 36.569.404,57)-- --thereof for social security EUR 1.975,05 (prior year EUR 20.780,18)--	59,651,048.48	38,096,973.54
	2,817,071,571.01	799,684,123.58
D. Deferred income	0.00	1,150,000.00
	6,816,087,159.46	2,023,075,269.26

ProSiebenSat.1 Media Aktiengesellschaft, Unterföhring

Balance sheet as of December 31, 2007

A s s e t s

	12/31/2007		12/31/2006	
	EUR	EUR	EUR	EUR
A. Non-current assets				
I. Intangible assets				
1. Licenses, trademarks and patents as well as licenses to such assets and rights	7,055,196.00		5,720,354.00	
2. Advances paid on intangible assets	947,021.84	8,002,217.84	685,767.00	6,406,121.00
II. Property, plant and equipment				
1. Buildings on land owned by others	24,139,977.51		25,575,484.51	
2. Other equipment, fixtures, furniture and equipment	1,238,679.00		1,406,830.00	
3. Advances paid on tangible assets under construction	0.00	25,378,656.51	36,318.96	27,018,633.47
III. Financial assets				
1. Interests in group companies	6,020,141,700.59		1,261,323,920.57	
2. Interests in associated companies	541,572.01		199,583.90	
3. Long-term investments	5,506,538.91		2,599,620.75	
4. Other loans	9,267,676.59	6,035,457,488.10	8,787,329.77	1,272,910,454.99
		6,068,838,362.45		1,306,335,209.46
B. Current assets				
I. Inventories				
1. Raw materials and supplies	38,135.07		46,267.81	
2. Trade materials	8,733.55	46,868.62	12,466.22	58,734.03
II. Receivables and other current assets				
1. Trade accounts receivable	4,487,944.81		4,918,214.97	
2. Receivables from group companies	528,665,916.96		530,138,124.23	
3. Receivables from companies in which equity investments are held	580.05		11,650.75	
4. Other assets	88,352,289.43	621,506,731.25	127,438,489.65	662,506,479.60
III. Cash, cash at banks		84,387,074.57		54,092,802.52
		705,940,674.44		716,658,016.15
C. Prepaid expenses and deferred items		41,308,122.57		82,043.65
		6,816,087,159.46		2,023,075,269.26

ProSiebenSat.1 Media AG, Unterföhring

Financial Statements as of December 31, 2007

Notes to the Financial Statements

Basis and Methodology

The financial statements of ProSiebenSat.1 Media AG were prepared in compliance with the requirements of the German Commercial Code and the German Stock Corporation Act.

In the income statement, the historically employed cost of production method has been retained.

As a large corporation as defined under Sec. 267 (3) of the German Commercial Code, the Company has prepared a management report in compliance with Sec. 289 of that Code.

Accounting Policies

Acquired intangible assets are capitalized at the acquisition cost less scheduled amortization and, where applicable, unscheduled write-downs. The intangible assets comprise software, intellectual property rights, and advance payments made on intangible assets. Purchased software is amortized as a rule on a straight-line basis over three to five years. Licenses and other intellectual property rights are amortized on a straight-line basis over ten years or over the term of the license agreement.

Property, plant and equipment are valued at cost, less scheduled depreciation based on wear and tear and, if necessary, unscheduled write-downs. Minor-value assets are written off in full in the year of their acquisition and are reported as disposals.

Buildings on land not owned by the Company, as well as fixtures and renovations, are depreciated over their normal useful life or, if shorter, the term of the lease. Office furniture and equipment is depreciated over a term of three to 20 years, depending on the item in question.

Unscheduled write-downs on property, plant and equipment are taken if a permanent impairment of value can be expected. No such unscheduled write-downs were taken during the year under review.

Financial assets are reported at their acquisition cost or the lower fair value.

Affiliated companies are listed at the end of these Notes.

Inventories are valued at acquisition cost or the lower fair value.

In the valuation of receivables and other current assets, adequate allowances have been made to cover known risks through individual valuation adjustments and general provisions for doubtful debts.

Credit balances at banks and liabilities to banks are shown at their nominal value. Credit balances and liabilities in foreign currencies are converted at the rate as of the reporting date.

Deferred asset items pertain to amounts paid prior to the reporting date for expenses extending for a certain time beyond that date.

Pension provisions were measured using the actuarial net present value (“Teilwert”) on the basis of the 2005G guideline tables prepared by Prof. Dr. Klaus Heubeck, with an interest rate of 6 percent.

Provisions were set aside in the amounts deemed necessary in compliance with prudent business practices.

Liabilities are reported at their nominal value, or at the appropriate higher repayment value.

The stock options associated with the stock option program are measured at their intrinsic value, which results from the difference between the trading price of the stock at the reporting date and the strike price.

To hedge risks posed by changes in interest rates and foreign exchange rates, ProSiebenSat.1 Media AG uses derivative financial instruments in the form of interest rate swaps, forward exchange transactions (“forwards”) and currency options. Interest rate risks result from liabilities carrying variable interest rates; foreign exchange risks are incurred primarily through license payments denominated in U.S. dollars.

Market values for forwards and interest rate swaps are measured using the discounted cash flow method. Market values for currency options are measured using the option pricing formula of Black and Scholes.

Purchased currency options are initially capitalized as Other Assets at the amount of their option premium, and subsequently capitalized at market value.

At the inception of a hedge, comprehensive documentation of the hedging relationship is required, including a description of such matters as the associated risk management strategy and objectives in undertaking the hedge. Wherever possible, the underlying transactions and hedges are gathered and managed in what are known as “hedge books.” The effectiveness of the hedging relationship is measured at regular intervals. If a hedging relationship is or has become inappropriate, the hedge is cancelled.

Receivables in foreign currency are converted at the selling rate on the booking date or at the year-end rate, if the latter is higher. Liabilities in foreign currency are converted at the buying rate on the booking date or at the year-end rate, if the latter is lower, or at the hedge rate.

Notes to the Balance Sheet

Non-current Assets

Changes in non-current assets can be found in the appended statement of changes in non-current assets.

Financial Investments

Affiliated companies are listed at the end of these Notes.

On June 27, 2007, ProSiebenSat.1 Media AG, through its subsidiaries P7S1 Erste SBS Holding GmbH, of Unterföhring, and P7S1 Zweite SBS Holding GmbH, of Unterföhring, signed a share purchase agreement to acquire all of the SBS Broadcasting Group. The agreement was consummated on July 3.

During fiscal 2007, a subsidiary of ProSiebenSat.1 Media AG was founded as a station holding company for the Group's German-language free TV operations. To this subsidiary – German Free TV Holding GmbH – the stations formerly held directly by ProSiebenSat.1 Media AG – ProSieben Television GmbH, Sat.1 Satelliten Fernsehen GmbH, Kabel 1 K1 Fernsehen GmbH and N24 Gesellschaft für Nachrichten und Zeitgeschehen GmbH – were contributed at their fair value; undisclosed reserves were found.

Receivables and Other Current Assets

	Remaining term		Total	Total
	1 year or less	**more than 1 year**	**12/31/07**	12/31/06
	EUR k	**EUR k**	**EUR k**	EUR k
Trade accounts receivable	**4,488**	**0**	**4,488**	**4,918**
Receivables from affiliated companies	**528,666**	**0**	**528,666**	**530,138**
Receivables from entities in which the company holds interests of 20% or more	**1**	**0**	**1**	**12**
Other assets	**69,709**	**18,643**	**88,352**	**127,438**
Total	**602,864**	**18,643**	**621,507**	**662,506**

Receivables from affiliated companies primarily refer to receivables under profit and loss transfer agreements with Sat.1 Satelliten Fernsehen GmbH, ProSieben Television GmbH, and Kabel1 K1 Fernsehen GmbH.

Aside from advance payments on the purchase of programming assets, which decreased from EUR 102,457 thousand to EUR 50,753 thousand, the Other Assets include corporate income tax credits in the amount of EUR 22,096 thousand (2006: EUR 20,845 thousands). These credits are capitalized in compliance with the Act on Tax Measures Accompanying the Introduction of the “European Company” and Amending Further Tax Regulations, enacted by the German Bundestag on November 9, 2006. This Act requires corporate income tax credits to be paid out to the applicable corporation in ten equal annual installments over a ten-year disbursement period from 2008 to 2017. The refund entitlement arose upon calculation of the corporate income tax credit as of December 31, 2006. Since a distribution resolution is no longer required for an entitlement to a corporate income tax refund, the general provisions of Sec. 246 et seq. of the German Commercial Code on recognition of an “other current asset” apply. These provisions require the present value of the refund entitlement from the 2006 tax assessment to be capitalized at December 31, 2007.

Prepaid Income

Prepaid income increased from EUR 82 thousand to EUR 41,308 thousand. Bank fees from the financing taken out for the acquisition of the SBS Broadcasting Group are amortized over the life of the loans.

Shareholders’ Equity

Changes in Equity in Fiscal 2007

	Subscribed capital					Total equity
	Common stock EUR k	Preferred stock EUR k	Capital reserves EUR k	Revenue reserve EUR k	Distributable net profit EUR k	EUR k
Dec. 31, 2006	109,398.6	109,398.6	580,187.6	0.0	345,189.9	1,144,174.7
Dividends paid	-	-	-	-	-192,541.6	-192,541.6
Profit for the year	-	-	-	-	2,953,094.5	2,953,094.5
Dec. 31, 2007	109,398.6	109,398.6	580,187.6	0.0	3,105,742.8	3,904,727.6

At year's end, the subscribed capital of ProSiebenSat.1 Media AG was unchanged at EUR 218,797,200. This capital is divided into 109,398,600 registered shares of common stock with no par value, and 109,398,600 nonvoting bearer shares of preferred stock with no par value, each share representing a notional value of EUR 1.00 of the share capital. Thus, as of December 31, 2007, the number of shares outstanding was 218,797,200.

Capital reserves were unchanged at EUR 580,188 thousand. These reserves include premiums from the new stock issue in fiscal 1997 and the capital increase in 2004.

Last fiscal year, under a resolution of the shareholders' meeting of July 17, 2007, a dividend of EUR 192,542 thousand was paid out to holders of preferred and common stock, out of ProSiebenSat.1 Media AG's 2006 distributable net profit of EUR 345,190 thousand. This figure represents a payout of EUR 0.89 per bearer share of preferred stock, and EUR 0.87 per registered share of common stock.

In accordance with the German Stock Corporation Act, the dividend payable to shareholders depends on the distributable net profit shown in the annual financial statements of ProSiebenSat.1 Media AG. The Executive Board of ProSiebenSat.1 Media AG will propose that the distributable net profit of EUR 3,105,743 thousand for fiscal 2007 should be allocated as follows:

Distribution of a dividend of EUR 1.25 per bearer share of preferred stock:	EUR 136,748,250.00
Distribution of a dividend of EUR 1.23 per registered share of common stock:	EUR 134,560,278.00
Balance to be carried forward to the new accounting period	EUR 2,834,434,272.31
Distributable net profit	EUR 3,105,742,800.31

Authorized Capital

By a resolution of the shareholders' meeting on June 16, 2003, the Executive Board was authorized, subject to the approval of the Supervisory Board, to increase the Company's capital stock on one or more occasions on or before June 15, 2008, by a total of not more than EUR 97,243,200.00, by issuing new registered shares of common stock and new bearer shares of preferred stock in return for cash contributions, in the same proportion as existed between the two categories of stock at the time of the new issue in question. The new shares were to carry an entitlement to participate in profits as of the beginning of the fiscal year in which they were issued. After exercising this capital authorization in the capital increase registered on April 6, 2004, the Executive Board was authorized to increase the Company's capital stock on one or more occasions on or before June 15, 2008, subject to approval by the Supervisory Board, by a total of not more than EUR 72,932,400.00, in return for cash contributions, by issuing new stock in accordance with the above shareholder resolution.

In order to meet the needs of the Company and the capital market flexibly in the future as well, the Executive Board was authorized by a unanimous resolution of the shareholders' meeting of ProSiebenSat.1 Media AG on May 7, 2004, after the suspension of the former authorized capital, to increase the Company's share capital on one or more occasions on or before May 6, 2009, subject to the approval of the Supervisory Board, by not more than EUR 97,243,200.00, in return for contributions in cash and/or in kind, by issuing not more than 97.243.200 no-par shares of stock. The new shares will be entitled to participate in profits as of the beginning of the fiscal year in which they are issued. This authorization also includes the authorization to issue new preferred shares that take precedence over or have the same priority as previously issued preferred shares in the distribution of profits or the Company's assets.

Repurchase of Own Stock

At the shareholders' meeting of May 13, 2005, the shareholders of ProSiebenSat.1 Media AG authorized the Company for the first time to buy back its own stock. The Company was authorized to acquire its own common and/or preferred stock on or before November 12, 2006, up to a notional value of 10 percent of the Company's share capital at the time of the authorization. The May 13, 2005, authorization was revoked at the shareholders' meeting of August 2, 2006, and replaced by a new authorization for the Company to acquire its own stock. This authorization for the Company to acquire its own stock was replaced by a new authorization at the shareholders' meeting on July 17, 2007. The Company is authorized to acquire its own common and/or preferred stock on or before January 16, 2009, up to a total notional value of 10 percent of the Company's share capital at the time of the authorization. The July 17 authorization may be exercised by the Executive Board for any legal purpose, especially in pursuit of the objectives stated in the authorization resolution itself. Hitherto this authorization has not been exercised by the Company, nor by any company dependent upon it or in which it holds a majority interest, nor by any other party acting on behalf of the Company or on behalf of a company dependent upon it or in which it holds a majority interest.

Provisions

	12/31/07 EUR k	12/31/06 EUR k
Provisions for pensions and similar obligations	**5,194**	3,150
Tax provisions	**47,026**	28,080
Interest on tax liabilities	**11,729**	8,997
Provisions for outstanding invoices	**11,185**	2,783
Provisions for stock option plan	**1,533**	23,548
Other miscellaneous provisions	**17,621**	11,508
Total	**94,288**	78,066

Pension provisions were formed for obligations to provide future benefits for active and former members of the Executive Board of ProSiebenSat.1 Media AG and their survivors. These obligations were measured using the biometric calculation data provided in the 2005G guideline tables prepared by Prof. Dr. Klaus Heubeck. In calculating pension expenses, ProSiebenSat.1 Media AG takes account of the expected service cost and the accrued interest on the pension obligations. The interest expense for pension obligations is reported as part of the net interest expense. The measurement date for the present value of obligations is December 31. No pension payments were made in fiscal 2007, and none are expected for 2008.

The tax provisions were formed primarily for corporate income tax and local business income taxes. The potential impact of a current tax audit has been taken into account.

The provisions for interest on tax liabilities pertain to future tax payments from external tax audits still in progress.

Because of a higher figure for services not yet billed and paid for, the provision for outstanding invoices increased to EUR 11,185 thousand.

The provisions for the stock option plan were formed for expected payments associated with the Company's stock option plan. These provisions decreased from EUR 23,548 thousand to EUR 1,533 thousand. Because of the change of control concomitant with the acquisition of the ProSiebenSat.1 Group by funds advised in part by KKR and in part by Permira, the first cycle of the stock option plan was exercised by way of a cash settlement that drew on provisions. Additionally, because of the lower trading price of ProSiebenSat.1 stock, remeasurement of the provision at December 31, 2007, resulted in a partial write-back of the remaining amount of EUR 11,820 thousands.

The largest single item among the Other Miscellaneous Provisions was provisions for bonuses and severance payments.

Liabilities

		Remaining term			
	1 year or less	**1 to 5 years**	**over 5 years**	**Total 12/31/07**	Total 12/31/06
	EUR k	**EUR k**	**EUR k**	**EUR k**	EUR k
Bonds	**0**	**0**	**0**	**0**	150,000
Liabilities to banks	**0**	**0**	**2,064,718**	**2,064,718**	0
Advance payments received	**237**	**0**	**0**	**237**	352
Trade accounts payable	**48,354**	**0**	**0**	**48,354**	27,498
Liabilities to affiliated companies	**644,112**	**0**	**0**	**644,112**	583,737
Miscellaneous liabilities	**59,651**	**0**	**0**	**59,651**	38,097
Total	**752,354**	**0**	**2,064,718**	**2,817,072**	799,684
(amounts secured by real estate charges)				(0)	(0)

A EUR 150,000 thousand bond issue from ProSiebenSat.1 Media AG was retired early as of August 1, 2007. The bond, issued in 2004, had a fixed yield of 6.25 percent and was originally due for repayment in 2009. The redemption price was 101.858 percent of par.

Trade accounts payable increased EUR 20,856 thousand, simply as a consequence of the cutoff date for reporting, to EUR 48,354 thousand.

Liabilities to Banks derive from the financing for the SBS acquisition. The transaction was financed entirely out of a new secured syndicated line of credit totaling EUR 3.6 billion, furnished by a banking syndicate and institutional investors. The increase in Liabilities to Banks to EUR 2,064,718 thousand (2006: EUR 0) is equivalent to the amount of this line drawn by ProSiebenSat.1 Media AG. The loan financed not only the SBS acquisition and the associated transaction costs, but the retirement of ProSiebenSat.1 Media AG’s outstanding EUR 150,000 thousand bond issue. ProSiebenSat.1 Media AG has hedged some 80 percent of its variable-interest financial liabilities by way of a variety of interest-rate swaps. Under the loan agreement, ProSiebenSat.1 Media AG has pledged as security equity interests in various subsidiaries categorized as significant. Additionally, various Group companies under ProSiebenSat.1 Media AG also furnished guarantees to the lenders.

Liabilities to Affiliated Companies pertain mainly to Sat.1 Satelliten Fernsehen GmbH, SevenOne Brands GmbH, ProSieben Television GmbH, and Kabel1 K1 Fernsehen GmbH, and result from intra-Group offsets.

The Miscellaneous Liabilities are tax liabilities (the largest item) and interest amortized to December 31, 2007, on the credit agreements recognized under Liabilities to Banks.

Contingent Liabilities

	12/31/07 EUR k	12/31/06 EUR k
Contingent liabilities from guarantees	**41,784**	579
(amounts due to affiliated companies)	**(39,516)**	(579)
Liability for provision of collateral for ouside liabilities	**1,529,417**	0

The liability for provision of collateral for outside liabilities pertains to guarantees and collateral furnished in connection with loans to SBS Broadcasting Group companies under the new loan agreement.

Other Financial Obligations

	Remaining term 1 year or less EUR k	Remaining term 2 to 5 years EUR k	Remaining term over 5 years EUR k	Total EUR k
Programming assets	**412,725**	**793,057**	**152,472**	**1,358,254**
(amounts due to affiliated companies)	**(0)**	**(0)**	**(0)**	**(0)**
Use fees	**21,421**	**82,079**	**84,242**	**187,742**
(amounts due to affiliated companies)	**(0)**	**(0)**	**(0)**	**(0)**
Leasing and rental commitments	**17,219**	**54,858**	**94,224**	**166,301**
(amounts due to affiliated companies)	**(0)**	**(0)**	**(0)**	**(0)**
Other liabilities	**7,042**	**1,097**	**3**	**8,142**
(amounts due to affiliated companies)	**(0)**	**(0)**	**(0)**	**(0)**
Total	**458,407**	**931,091**	**330,941**	**1,720,439**

Other Financial Liabilities exist in addition to provisions, liabilities and contingent liabilities. These derive from contractual agreements entered into before December 31, 2007, and pertain to payment obligations due on or after January 1, 2008. The agreements have remaining terms of between 1 and 15 years.

Other financial liabilities for programming assets pertain to license agreements that take effect on or after January 1, 2008.

Use fees include financial obligations for satellite rental, obligations under contracts for terrestrial transmission facilities, and cable feed charges.

Leasing and Long-Term Rental Obligations comprise obligations under leases for buildings and motor vehicles, along with rent obligations under building leases.

Other Liabilities essentially comprise financial obligations for memberships and for other third-party services purchased.

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Notes to the Income Statement

Revenues

	2007 EUR k	2006 EUR k
Other revenues	**5,858**	8,058

Most revenues are generated in Germany, and derive primarily from the sale of ancillary programming rights.

Consequently no further breakdown of revenues by line of business or specific geographic market has been provided.

Other Operating Income

	2007 EUR k	2006 EUR k
Income relating to other periods	**14,239**	2,266
Other operating income	**80,107**	71,096
Total	**94,346**	73,362

Income Relating to Other Periods is, in particular, income from write-backs of or withdrawals from provisions (EUR 13,219 thousand, vs. EUR 561 thousand for the prior year), which includes EUR 11,820 thousand withdrawals from provisions for the stock option plan.

Other Operating Income particularly includes income from services charged to other Group companies.

Programming and Material Costs

	2007 EUR k	2006 EUR k
Licenses, transmission fees and materials	**25,067**	21,508
Purchased services	**601**	2,752
Total	**25,668**	24,260

Expenses for licenses, transmission fees and materials include transmission fee expenses of EUR 13,089 thousand (vs. EUR 11,592 thousand) and satellite rental of EUR 10,372 thousand (vs. EUR 8,116 thousand). Transmission fee expenses and satellite rent are passed on to other companies within the Group.

Expenses for purchased services are largely expenses for services provided by third parties, in the amount of EUR 553 thousand (vs. EUR 336 thousand).

Personnel Expenses

	2007 EUR k	2006 EUR k
Wages and salaries	**37,305**	52,554
Social security contributions and expenses for pensions and other employee benefits	**4,270**	4,422
Total	**41,575**	56,976

Personnel Expenses include expenses for the stock option plan, in the amount of EUR 4,996 thousand (vs. EUR 23,548 thousand), as well as an allocation of EUR 730 thousand to pension provisions (vs. EUR 792 thousand).

Depreciation and Amortization

	2007 EUR k	2006 EUR k
Scheduled amortization of intangible assets	**1,751**	1,501
Scheduled depreciation of property, plant and equipment	**2,359**	2,402
Total	**4,110**	3,903

No unscheduled depreciation or amortization was taken.

Other Operating Expenses

	2007 EUR k	2006 EUR k
Expenses relating to other periods	**8**	0
Other operating expenses	**88,097**	82,749
Total	**88,105**	82,749

Other Operating Expenses largely comprise charges passed on from Group companies, rental and lease expenses, film promotion, expenses resulting from the measurement of currency hedges, and the costs of legal counsel and other consultants.

Capital Investment Income / Expense

	2007 EUR k	2006 EUR k
Income under profit and loss transfer agreements	**487,098**	461,948
Expenses due to transfers of losses	**-105,914**	-16,559
Total	**381,184**	445,389

Net Interest Loss

	2007 **EUR k**	2006 EUR k
Other interest and similar income	**11,909**	6,061
Interest and similar expenses	**-102,783**	-47,972
Total	**-90,874**	-41,911

Interest and similar expenses comprise interest on an allocation to pension provisions in the amount of EUR 144 thousand (2006: EUR 87 thousand).

Extraordinary Result

The extraordinary profit of EUR 2,849 million (vs. EUR 13.3 million) resulted from the income of EUR 2,851.8 million that derived from the contribution of the stations ProSieben Television GmbH, Sat.1 Satelliten Fernsehen GmbH, Kabel 1 K1 Fernsehen GmbH and N24 Gesellschaft für Nachrichten und Zeitgeschehen mbH to German Free TV Holding GmbH at fair value, with undisclosed reserves found.

Income Taxes

Because of the Company’s improved earnings situation in 2007, income taxes rose EUR 16,125 thousand, to EUR 126,965 thousand. The assessment basis for income tax was not affected by either the valuation gain of EUR 2,851.8 million included in the extraordinary profit, or the fine of EUR 120 million imposed by the German Federal Cartel Office on SevenOne Media GmbH. Income tax includes the impact of the current tax audit.

Other Information

Average Number of Employees during the Year

	2007	2006
Employees	**357**	352
Trainees, volunteers and interns	**39**	43
Total	**396**	395

Professional Fees of the Independent Auditor

The professional fees for the services of the Group's independent auditor, KPMG, totaled EUR 2,027 thousand for fiscal 2007. The figure for 2006 was EUR 407 thousand. Of the total, EUR 463 thousand was for audit fees (vs. EUR 145 thousand in 2006), EUR 368 thousand was for audit-related fees (vs. EUR 214 thousand), EUR 51 thousand was for tax consulting services (vs. EUR 24 thousand), and EUR 1,145 thousand was for other fees (vs. EUR 24 thousand).

Derivative Financial Instruments

The ProSiebenSat.1 Group's operations and its financing needs expose it to various financial risks. Fluctuating interest rates and foreign exchange rates may affect the Group's assets and liabilities, financial position, and profit or loss. The acquisition of the SBS Group has significantly altered the Corporation's risk structure. Interest rate risks in particular have risen. Financial risks are managed and monitored centrally at ProSiebenSat.1 Media AG as a part of financial risk management. For the Group's German-speaking regions, the principles, duties and responsibilities of financial risk management are governed by the Group's internal corporate financial guidelines. One of the primary tasks for fiscal 2008 is to fully integrate the SBS Broadcasting Group into the ProSiebenSat.1 Group's financial risk management system, and to incorporate it into Group-wide regulations. The objective of financial risk management is to cushion the adverse effects that fluctuations in financial risk factors may have on the Group's assets and liabilities, financial position and profit or loss. The derivative financial instruments employed for this purpose serve solely to hedge existing risk positions, not for speculation. Risk positions are assessed regularly, and existing risks are quantified using sensitivity analyses. Currency risks are based on an assumed appreciation of 10 percent in the value of the U.S. dollar. The ProSiebenSat.1 Group's interest rate risk is calculated by increasing the relevant interest rates by one percentage point. The ProSiebenSat.1 Group does not believe it is exposed to any material concentrations of risk.

The ProSiebenSat.1 Group signs a substantial number of its license agreements with production studios in the United States. As a rule, the Group meets its financial obligations deriving from these programming rights purchases in U.S. dollars. Consequently fluctuations in the exchange rate between the euro and the dollar may adversely affect the ProSiebenSat.1 Group's financial position and profit or loss.

To hedge against fluctuations in exchange rates, ProSiebenSat.1 Media AG enters into forward exchange contracts ("forwards") and currency options.

	Year of maturity 2008	2009-2012	2013 and after	Nominal amount as of 12/31/2007	Market value as of 12/31/2007
	USD k	USD k	USD k	USD k	EUR k
Currency forwards	217,477	481,672	52,625	751,774	-39,626
Currency options	60,250	4,500	0	64,750	-2,698

Forwards are unconditional contractual agreements to exchange two currencies. The total par value, exchange rate and maturity date are specified when the contract is entered into. As of December 31, 2007, ProSiebenSat.1 Media AG had forwards worth a par value of USD 752 million in its portfolio. As of the same date, it had options for the purchase of dollars covering a total nominal value of USD 65 million. As the purchaser of a currency option, ProSiebenSat.1 Media AG has the right, but not the obligation, to buy U.S. dollars for euros in return for paying an option premium. As with a forward, in a currency option the total par value, exchange rate and maturity date are also laid down at the time the contract is made. Market values for forwards are measured using the discounted cash flow method. Market values for currency options are measured using the option pricing formula of Black and Scholes.

License payments on a hedged dollar-denominated license agreement, together with the associated hedging instruments, are gathered and managed primarily in what are known as "hedge books" if the hedging relationship qualifies as a hedge and hedge accounting can be applied. As of December 31, 2007, there were 14 hedge books covering a total of USD 973 million in pending license payments. The average hedge ratio at December 31, 2007, allowing for internal limit systems, was 70 percent. A separate hedging strategy is developed for each portfolio on the basis of current market assessments and the overall risk position. The hedge books are constantly monitored under a system of limits, and any applicable open positions are closed to stop potential losses or take advantage of a favorable change in exchange rates.

Interest rate risks

Through its financial obligations, ProSiebenSat.1 Media AG is exposed to an interest rate risk. The acquisition of the SBS Broadcasting Group was financed entirely through a new loan agreement. The loan agreement covers a number of term loans totaling EUR 1.8 billion with a term of seven years (Term Loan B), and loans for a total of another EUR 1.8 billion with a term of eight years (Term Loan C). Through these variable-interest financial obligations, ProSiebenSat.1 Media AG is exposed to an increased interest rate risk. For that reason, ProSiebenSat.1 Media AG has hedged more than 80 percent of this liability with interest-rate swaps. In interest rate swaps, variable-rate interest payments are exchanged for fixed-rate interest payments. Uncertain, variable-rate interest payments on the borrowings described above are compensated and replaced with fixed-rate interest payments. Market values for interest rate swaps are measured using the discounted cash flow method. The interest rate swaps total EUR 3 billion, with an average fixed rate of 4.522 percent. The swaps have terms of 5 years for a total of EUR 1.2 billion and 7 years for a total of another EUR 1.2 billion.

The remaining variable interest rate risk results not only from the unhedged portion of the term loan, but also from any draws the Group may take on its revolving credit facility. As of December 31, 2007, no funds had been drawn on this syndicated credit facility. An interest rate risk in the sense of a change in market value is of no relevance here, since ProSiebenSat.1 Media AG's financial liabilities are reported at cost, and thus any change in market value will have no effect on the balance sheet.

Executive Board and Supervisory Board

The members of the Executive Board and Supervisory Board of ProSiebenSat.1 Media AG are listed at the end of these Notes.

Details of the system of compensation for members of the Executive Board and the Supervisory Board of ProSiebenSat.1 Media AG are explained in the section on “The Group and Its Environment” in the Management Report.

Compensation paid to active members of the Executive Board of ProSiebenSat.1 Media AG came to EUR 5,983 thousand in 2007 (vs. EUR 5,808 thousand in 2006). The Board's compensation included a variable component totaling EUR 2,765 thousand (vs. EUR 2,300 thousand). In past fiscal years, ProSiebenSat.1 Media AG set aside pension provisions totaling EUR 5,194 thousand for pension commitments to members of the Executive Board. Funds have been endowed to safeguard these pension provisions. Members of the Executive Board received EUR 8,999 thousand for buy-backs of stock options.

The Company has not granted loans to members of the Executive Board, nor has it undertaken suretyships or guarantees on their behalf.

A resolution by the shareholders' meeting of August 2, 2006, released the Company from the statutory obligation to disclose the individual compensation of Executive Board members in the annual financial statements for a period of five years. However, this resolution of the shareholders' meeting poses no obstacle to the voluntary disclosure of individual Board members' compensation otherwise. The Executive Board and Supervisory Board have decided to exercise this option of voluntary disclosure in the compensation report for 2007, which is included in the Corporate Governance Report of the Executive Board and Supervisory Board. That report therefore states figures for the compensation paid to individual members of the Company's Executive Board for the past fiscal year.

Expenses for the Supervisory Board of ProSiebenSat.1 Media AG came to EUR 1,859 thousand in the year under review (vs. EUR 3,182 thousand). The shareholders' meeting on July 17, 2007, amended the compensation of the members of the Supervisory Board as set forth in the Company's articles of incorporation. Under the former rules, members of the Supervisory Board were paid both a fixed annual component and a variable component tied to the amount of the Company's dividend. The new rules, which are retroactive to January 1, 2007, replaced the variable component with a higher fixed component. The compensation paid individually to current and former members of the Supervisory Board is as follows:

Current Members of the Supervisory Board	
EUR k	**Fixed components**

Bell-Jones, Robin	94
Döpfner, Dr. Matthias	106
Dyke, Greg	126
Freise, Philipp	94
Hollick, Lord Clive	179
Huth, Johannes	82
Krenz, Thomas	83
Mäuser, Götz	192
Neubürger, Heinz-Joachim	48
Nienhaus, Christian	108
Sloan, Harry	94
Swartjes, Adrianus Johannes	45
van Lent, Marinus Maria Petrus	45
Wehr-Seiter, Katrin	46
Wiedmann, Prof. Dr. Harald	107

Former members of the Supervisory Board	
EUR k	**Fixed components**
Chesnoff, Adam	39
Connaughton, John P.	20
Dobron, Albert J., Jr.	18
Gasse, Ulrich	38
Gorenflos, Reinhard	37
Healy, Patrick J.	18
Kreiz, Ynon	18
Lawry, Seth	20
Neuss, Christian	39
Pagliuca, Stephen G.	18
Powers, Brian M.	18
Saban, Arieh	18
Saban, Haim	36
Scheiber, Silke	37
Sperling, Scott	18
Steiner, Josh	18

Members of the Supervisory Board received no remuneration or other consideration for personal services, especially consulting and mediation services, during fiscal 2007. Altogether, the current members of the Executive Board and Supervisory Board held 10,500 shares of preferred stock in ProSiebenSat.1 Media AG as of December 31, 2007. This is equivalent to 0.0048 percent of the company's share capital.

Corporate Governance

On the basis of the recommendations of the Government Commission on the German Corporate Governance Code and the applicable terms of law under Sec. 161 of the Stock Corporation Act, in March 2007 the Executive Board and Supervisory Board issued a Declaration of Compliance, which has been made permanently available to shareholders on the Internet at www.prosiebensat1.com.

Related Party Transactions

Apart from the subsidiaries included in the consolidated financial statements, in the course of its normal business operations ProSiebenSat.1 Media AG conducts transactions directly or indirectly with affiliated unconsolidated companies and associated companies. In ordinary business activities, all transactions with companies not included in the scope of consolidation were conducted on prevailing market terms and conditions, such as are also customary with third parties unrelated to the Group. All related parties that are controlled by ProSiebenSat.1 Media AG, or over which the Group may exercise a significant influence, are listed among the shareholdings at the end of these Notes.

By a purchase agreement dated June 27, 2007, the ProSiebenSat.1 Media Group acquired 100 percent of the SBS Broadcasting Group from funds advised in part by KKR and in part by Permira, and from the Telegraaf Group.

During the period under review, Buchagentur Intermedien-GmbH, a formerly consolidated, indirectly wholly-owned subsidiary of ProSiebenSat.1 Media AG, was sold to Lavena Holding 1 GmbH for approximately EUR 1 million. The proceeds from the sale of Buchagentur Intermedien-GmbH are consistent with the current market value of the company. Lavena Holding 1 GmbH is indirectly the majority shareholder of ProSiebenSat.1 Media AG, by way of several holding companies.

Effective September 1, 2007, ProSiebenSat.1 Media AG signed a services management agreement for business services with Lavena Holding 1 GmbH, Lavena Holding 2 GmbH, Lavena Holding 3 GmbH, Lavena Holding 4 GmbH and Lavena Holding 5 GmbH jointly. The agreed compensation is consistent with the prevailing market terms for comparable services. Lavena Holding 1 GmbH through Lavena Holding 4 GmbH are indirect majority shareholders of ProSiebenSat.1 Media AG, and Lavena Holding 5 GmbH is the direct majority shareholder of ProSiebenSat.1 Media AG.

During fiscal 2007, the wife of Executive Board member Peter Christmann provided services to various companies in the ProSiebenSat.1 Group for a charge of EUR 155 thousand. These were training and coaching services for on-air personalities. As of December 31, 2007, there was no amount outstanding for these services.
Harry Evans Sloan is a member of the Supervisory Board of ProSiebenSat.1 Media AG, and the Chairman of the Board of Directors and CEO of Metro-Goldwyn-Mayer Holdings, Inc. (MGM). A number of license agreements were signed between MGM Holdings Inc. and ProSiebenSat.1 Media AG during the period, in the normal course of business. The agreements are consistent with prevailing market terms.

Götz Mäuser is a member of the Supervisory Board of ProSiebenSat.1 Media AG, and among other positions is also a co-owner of ADT Telefonservice GmbH & Co. KG. A service agreement exists in the normal course of business between ProSiebenSat.1 Media AG and ADT Telefonservice GmbH & Co. KG. The contract is consistent with prevailing market terms.

There were no other reportable transactions with related parties in fiscal 2007.

Under Sec. 15a of the German Securities Trading Act and Sec. 6.6 of the German Corporate Governance Code, the members of the Executive Board and Supervisory Board of ProSiebenSat.1 Media AG are required to report securities transactions relating to ProSiebenSat.1 stock. They are furthermore required to report securities transactions by family members. In fiscal 2007, a total of four transactions were reported to ProSiebenSat.1 Media AG, in which members of the Executive Board or Supervisory Board and their family members acquired a total of 7,500 shares of ProSiebenSat.1 Media AG and sold a total of EUR 2,450 shares of ProSiebenSat.1 Media AG. In compliance with Sec. 15a of the Securities Trading Act, ProSiebenSat.1 Media AG reported each of these transactions immediately on its Web site, www.prosiebensat1.com.

Group Affiliation

The direct parent company of ProSiebenSat.1 Media AG is Lavena Holding 5 GmbH, of Munich.

Sections 21 et seq. of the German Securities Trading Act require listed companies to provide the public with detailed information about the makeup of their shareholder structure. These disclosure requirements are intended to encourage transparency in securities trading. In accordance with the German Act Implementing the EU Transparency Directive, a notice of voting rights was issued on July 10, 2007, with the following content:

Disclosure in Compliance with Sec. 26 (1) Sentence 1 of the German Securities Trading Act, for Distribution throughout Europe

Notice of Voting Rights

Stichting Administratiekantoor van Aandelen Telegraaf Media Groep N.V., of Amsterdam/Netherlands (address: Postbus 376, 1000 EB Amsterdam, Netherlands), has notified ProSiebenSat.1 Media AG (address: Medienallee 7, 85774 Unterföhring, Germany) as follows in accordance with Section 25 (1) of the German Securities Trading Act:

“Since July 3, 2007, Stichting Administratiekantoor van Aandelen Telegraaf Media Groep N.V. has indirectly held financial instruments that give it the right to acquire already issued stock of ProSiebenSat.1 Media AG representing 12.00 percent of the voting rights in the Company. This percentage is equivalent to 13,127,832 votes. The financial instruments indirectly held by Stichting Administratiekantoor van Aandelen Telegraaf Media Groep N.V. are held through the following company controlled by Stichting Administratiekantoor van Aandelen Telegraaf Media Groep N.V.: Telegraaf Media Groep N.V., Basisweg 30, NL-1043 AP Amsterdam. Therefore as of that date, the share of voting rights that would be held by Stichting Administratiekantoor van Aandelen Telegraaf Media Groep N.V. in ProSiebenSat.1 Media AG, if instead of the financial instruments Telegraaf Media Groep N.V. held the stock that it could acquire under those financial instruments, exceeded the thresholds of 5 percent and 10 percent. The exercise period for the financial instruments runs from June 1, 2008 (inclusive), through June 15, 2008 (inclusive).”

ProSiebenSat.1 Media AG
The Executive Board

Further reports of equity holdings were published by ProSiebenSat.1 Media AG in compliance with Section 26 (1) of the German Securities Trading Act on March 14, May 29, July 3, and July 6, 2007.

Unterföhring, March 7, 2008

The Executive Board

Responsibility Statement of the Executive Board

To the best of our knowledge, we give assurance that in accordance with the applicable accounting laws, the annual financial statements give a true and fair picture of the Group's net assets, financial position and results of operations, and that the management report presents the development of business, including the results of business and the situation of the company, in a manner that gives a true and fair picture of the actual circumstances, and describes the material opportunities and risks of the foreseeable development of the company.

Guillaume de Posch CEO	**Patrick Tillieux** COO	**Lothar Lanz** CFO
Peter Christmann Sales & Marketing	**Dr. Marcus Englert** New Media	

Unterföhring, March 7, 2008

Auditor‘s Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system and the management report of ProSiebenSat.1 Media Aktiengesellschaft, Unterföhring, for the fiscal year from January 1 to December 31, 2007. The maintenance of the books and records and the preparation of the annual financial statements and the management report in accordance with German commercial law are the responsibility of the Company’s executive board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company’s position and suitably presents the opportunities and risks of future development.

Munich, March 10, 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Richardt
Wirtschaftsprüfer

Alt-Scherer
Wirtschaftsprüferin